



Developing the scale and capacity of Australia's affordable housing industry

Inquiry into affordable housing industry capacity

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AUTHORED BY

Vivienne Milligan

The University of New South Wales

Hal Pawson

The University of New South Wales

Rhonda Phillips

The University of Queensland

Chris Martin

The University of New South Wales

with Elton Consulting

Title	Developing the scale and capacity of Australia's affordable housing industry				
Authors	Vivienne Milligan	The University of New South Wales			
	Hal Pawson	The University of New South Wales			
	Rhonda Phillips	The University of Queensland			
	Chris Martin	The University of New South Wales			
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Inquiry panel members

Each AHURI Inquiry is supported by a panel of experts drawn from the research, policy and practice communities. Panel members for this Inquiry:

Khalid Ahmed	Formerly ACT Treasury, now in private practice
Hal Bisset	Private practice
David Cant	Brisbane Housing Company
Annette Gallard	Private practice
Cameron Gifford (Meeting 2)	Department of Social Services
Rebecca Pinkstone	Bridge Housing and Australasian Housing Institute
Phil Fagan-Schmidt (Meeting 1)	Housing SA
Iain Scott (Meeting 1)	Department of Social Services
Peter White (Meeting 2)	Department of Health and Human Services, Tasmania
Jenny Samms (Meeting 2)	Aboriginal Housing Victoria Limited
Tom Slookee (Meeting 2)	South Eastern Aboriginal Regional Management Service
Panel facilitator: Brian Elton	Elton Consulting

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Acronyms and abbreviations used in this report

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AHI	Australasian Housing Institute
AHO	Aboriginal Housing Office (NSW)
AIHW	Australian Institute of Health and Welfare
AHIC	Affordable Housing Industry Council (proposed)
AHURI	Australian Housing and Urban Research Institute Limited
ALMO	Arms-length management organisation
APONT	Aboriginal Peak Organisations Northern Territory
APRA	Australian Prudential Regulation Authority
ARENA	Australian Renewable Energy Agency
ASFA	Association of Superannuation Funds of Australia
ASIC	Australian Securities and Investments Commission
CDEP	Community Development Employment Program
CEO	Chief Executive Officer
CEC	Clean Energy Council
CEFC	Clean Energy Finance Corporation
CFFR	Council on Federal Financial Relations
CFO	Chief Finance Officer
CHP	community housing provider
CHFA	Community Housing Federation of Australia
CHIA	Community Housing Industry Association
COAG	Council of Australian Governments
CRA	Commonwealth Rent Assistance
CSHA	Commonwealth State Housing Agreement
DSS	Department of Social Services (Australian Government)
FACS	Department of Family and Community Services (NSW)
IDF	Industry Development Fund
IH	Indigenous housing

IHO	Indigenous housing organisation
ICT	information and communications technology
IPART	Independent Pricing and Regulatory Tribunal (NSW)
NAHA	National Affordable Housing Agreement
NCHS	National Community Housing Standards
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
NFP	not-for-profit
NHSC	National Housing Supply Council
NPARIH	National Partnership Agreement Remote Indigenous Housing
NRAS	National Rental Affordability Scheme
NRSCH	National Regulatory System for Community Housing
NSW	New South Wales
NSWFHA	New South Wales Federation of Housing Associations
NT	Northern Territory
PPP	Public private partnership
QDHPW	Queensland Department of Housing and Public Works
RET	Renewable Energy Target
SA	South Australia
SAHF	Social and Affordable Housing Fund (NSW)
SCRGSP	Steering Committee for the Report on Government Service Provision
SDF	Sector Development Fund (NDIS)
SHI	Social Housing Initiative
SMSF	Self-managed superannuation fund
SOMIH	State-owned and managed Indigenous housing
UDIA	Urban Development Institute of Australia
UK	United Kingdom
US	United States of America
WA	Western Australia

Executive summary

Key points

- **The key to the affordable housing industry's future is that governments, in consultation with affordable housing providers, establish a clear industry vision with defined policy objectives, and specify medium-term growth strategies and targets to realise that vision.**
 - Whether involving new finance or the redirection of existing housing subsidies, government financial support is essential to complement private financing of additional affordable housing supply. Inadequate government co-funding is the primary capacity constraint that providers currently face in their efforts to expand affordable housing. Affordable housing targets mandated through the planning system are a highly desirable complementary reform.
 - Continuity of policy and funding settings is crucial to build confidence in the industry, maintain momentum for reform, and attract private investment at scale. In this regard recent volatility has damaged industry capacity and wasted resources.
 - Governments need to embrace responsibility for leadership on affordable housing, and restore their policy-making capacity. Designating a dedicated **Minster and agency for this purpose is recommended. The 'affordable housing policy' remit needs to extend** beyond the human services realm.
 - The provider part of industry needs to strengthen its leadership and profile, invest in professional development and continue to build capacity in its supporting institutions and networks.
 - A complete overhaul of the existing provider regulation system is required.
 - Specific policy-maker attention to securing a viable future for Indigenous housing organisations is pressing.
 - **To steer the industry's future and promote collaboration, establishing a joint government-industry Affordable Housing Industry Council is recommended.**
-

Key findings

This is the Final Report of an AHURI Inquiry into the capacity of Australia's affordable housing industry. Earlier reports from the Inquiry have focussed on the current state of the industry, the capacity impacts of transfers of public housing to non-government providers, and international experience of capacity issues pertaining to provision of affordable housing. Informed by these reports, and by an in-depth study of industry stakeholders' views, this report considers capacity constraints that need to be addressed in order to realise the industry's potential to help expand the nation's affordable housing supply and transform Australia's neglected public housing.

Australia's affordable housing industry is a nascent but growing sector, largely involving not-for-profit providers subject to government regulation. With the nation's public housing system lacking the means to properly maintain its portfolio, let alone to expand provision, the affordable housing industry's future is critical to address the rising housing need experienced by low-income Australians. An estimated minimum of 200,000 additional affordable housing dwellings will be required over the next 20 years.

Over three decades, the provider part of the industry has built a strong reputation for effective affordable housing management and, more recently, development, and has potential for further expansion. While a pre-eminent cohort of large, professionalised providers has emerged over the past decade, the industry retains considerable diversity including many providers serving specialist groups or rural and remote locations. An Inquiry research report (Milligan, Martin et al. 2016) provides a profile of registered providers.

The following key findings draw on the informed perspectives of a wide range of stakeholders about perceived capacity issues within the industry and their ideas of possible ways to address these.

- *The existing policy and public subsidy framework is not fit-for-purpose.* Stakeholders representing all main constituencies see the lack of an appropriate policy and resourcing framework for affordable housing as the single biggest constraint on the industry's capacity to supply more affordable housing.
- *A stable and supportive policy context is essential.* Organisational scale and capacity has developed strongly during periods of growth, but retention of provider capacity has been undermined by volatile policy settings, and piecemeal and stop-start patterns of growth opportunities, experienced in recent years.
- *The industry is committed to, and ready for, expansion.* Having invested heavily in their organisational capabilities, many existing large providers have under-utilised capacity. Further capacity building among providers can be stimulated via a planned and predictable approach to growth.
- *Governments should help providers achieve a stable financial footing.* The goal to increase private financing of affordable housing calls for provider organisations to have larger balance sheets, and predictable and secure cash flows. Thus, governments have a key role in ensuring that providers have effective control over their assets and resources (many of which currently remain government owned) and that tenant rent subsidies (mainly paid via Commonwealth Rent Assistance) are secure and continuous.
- *There is scope to generate further provider economies of scale.* Lenders and other industry experts argue that building the business scale of providers is crucial to enable them to shoulder greater financial risk and deliver larger-scale projects. However, this impetus must be balanced with preservation of industry diversity and the contribution of specialist providers.
- *Supporting institutions and frameworks lack necessary capacity.* A web of supporting institutions and frameworks is crucial in maximising industry effectiveness. Industry-wide, there is general agreement about the following key capacity shortcomings:
 - Industry regulation needs a major overhaul to complete national coverage, refine the regulatory framework, enhance regulatory capacity, curb regulatory burden (e.g. duplicate contractual regulation) and align regulatory effort with a new policy direction.
 - A lack of political leadership and dismantling of housing policy-making capacity in government agencies in recent years has hindered industry development. This has contributed to a lack of mutual understanding about affordable housing operations

between key government and industry players. Governments must invest in their capacity to fulfil their leadership, policy-making and regulatory roles.

- A major overhaul of industry data and analytical capacity is required to identify the costs of affordable housing provision, improve accountability for tenant outcomes, inform resource allocations and improve services. Optimising publicly available information about the industry (e.g. publishing more regulator-collected data) will raise the industry's profile, facilitate identification of capacity deficiencies and help secure public and private financing.
- *Professional development requirements need to be enhanced.* Employee development within the industry needs more attention. Industry-specific competencies required include: specialist property development and development finance ability; long-term asset management and asset-management planning; complex tenancy management; culturally-adapted housing services; and contract management. Priorities also include safeguarding the industry's ethos and core social values, and embedding in future leaders a balance of commercial skills and dedication to affordable housing and community development.
- *Industry leadership representing provider interests must be strengthened.* To foster its development and represent its interests, the provider part of the industry will need to fortify its leadership and network more effectively with governments and other stakeholders. Presently, affordable housing providers have a low profile and peak bodies and peer networks are small and under-resourced. The recent absence of an effective national industry peak combined with diverse state-level approaches to industry development has contributed to fragmentation and duplication of effort and resources.
- *Industry development frameworks need to be explicitly linked to growth plans and targets.* Past funding for capacity-building activities by governments and the industry has had mixed results (Milligan, Martin et al. 2016: Chapter 4). State and territory government efforts have been inhibited by the absence of a national framework for industry growth to which their capacity-building strategies could be aligned.
- *Industry re-engagement with the National Community Housing Standards (NCHS) is desirable.* Review and revision of the existing 2010 standards could be a useful vehicle for reinvigoration of industry values and aspirations. Application of revised standards could help reinforce organisational missions and reputations, drive service improvements and help identify areas for training and industry development.
- *The future of the Indigenous housing sector is precarious.* Indigenous housing providers have an important and culturally unique role in housing Indigenous tenants and supporting their diverse needs. Partly because recent policy reforms have dealt major blows to their viability, their place within the industry has diminished and the future for many is uncertain. Indigenous housing leaders participating in this study were deeply concerned about the recent lack of policy attention to their part of the industry in most jurisdictions.

Commensurate with the findings from our extensive stakeholder consultations, our investigations into the development pathways of other industries undergoing growth and reform and national affordable housing systems elsewhere showed:

- the paramount importance of policy continuity and directional clarity
- industry stability and growth relies on government subsidies being adequate, appropriate and assured
- the potential contribution of specialist institutions that can support key industry requirements—for example a custom-designed financial intermediary to facilitate provider access to low-cost funds (i.e. under consideration by the Australian Government and the Council of Federal Financial Relations)

- the significance of fit-for-purpose and responsive regulatory frameworks
- the critical role for agencies within government to steward and champion the industry in its emerging phase.

Policy development implications: a road map for the industry

Industry vision

The vision for the future of Australia's affordable housing system is one of a vibrant and sustainable industry that:

- Mobilises efforts across the policy, financing, development and management fields of housing to create innovative ways to meet the housing needs of low and middle income Australians.
- Can address relevant government priorities, including attracting cost-effective private financing, supporting successful city renewal, and creating economic opportunity and socially diverse communities.
- Offers a continuum of affordable rental and ownership products that complement market-provided housing.
- Sets best practice in tenant support and referral, responsive service provision, responsible asset management, socially integrated housing development and place-making.
- Comprises diverse providers and appropriate supporting organisations:
 - with appropriate and sustainable financial provisions
 - with effective, motivated boards, executives and employees working to clear missions, plans and regulatory codes
 - that constructively network with each other, industry and government partners and local communities.
- Recognises the cultural significance of home and is responsive to and resources cultural needs.

Depending on the policy path chosen, there are different scenarios for industry growth and restructuring. The choice depends primarily on determining the future for public housing—whether management of this system is retained by state agencies or devolved to existing and new alternative providers—as well as the mix of specialist and generalist housing services needed.

Overarching framework for affordable housing industry development

As established by the Inquiry panel and research findings, industry transformation and future development must be founded on a set of core directions:

- 1 Council of Australian Governments' (COAG) recognition of affordable housing as a policy priority with economic productivity as well as social wellbeing implications.
- 2 Generation of an integrated and consistently regulated national market for the provision of affordable housing at scale as a joint industry/government goal.
- 3 A national approach to industry leadership steered by an Affordable Housing Industry Council.

- 4 A national approach to transforming the public housing system through investment in portfolio restructuring and modernisation, also enhancing management responsiveness and provider contestability.
- 5 Substantially increased affordable housing supply through attracting publicly-enabled private investment at scale.
- 6 Growth and resource allocation across the industry becoming transparently needs driven.
- 7 Strategic co-planning of industry development, that is involving both governments and industry players.
- 8 A COAG commitment to addressing Indigenous needs for affordable housing that acknowledges the importance of Indigenous-controlled and culturally appropriate service models.

Core priority 1: A new policy and resourcing framework

Under any future scenario governments will play a critical role in determining the development pathway for the affordable housing industry. An integrated whole-of-government enduring policy for affordable housing should be developed via fundamental reform of the National Affordable Housing Agreement (NAHA) and negotiated through COAG in consultation with affordable housing provider interests. Ideally, national legislation defining affordable housing and setting out the economic and social purpose of the industry will build the bi-partisan political support needed to maximise future policy continuity.

Public financial support is essential for the provision of affordable housing. As recently acknowledged by Australia's national, state and territory Treasurers (Australian Government 2016b), any professed commitment to affordable housing growth and industry development is only meaningful if supported by explicit government funding and policy pledges. Development of a robust pricing and subsidy regime for affordable housing products requires expert consideration (e.g. by the Productivity Commission).

National consideration of the future of public housing would also help to adequately address endemic financial viability problems faced by state and territory public housing entities, and build a more consensual (bi-partisan) strategy for large scale transfers of assets and tenancies to alternative providers.

To promote coordination and consistency across the industry, a new state/territory managed affordable housing planning process is needed. Developed under a common methodology, affordable housing plans would incorporate targets for supply growth, public housing transfers, asset renewal and replacement, and other appropriate housing assistance measures. Coordination of housing supply plans with tenant support programs should also be tackled. Plans could be developed in each jurisdiction over (say) a three-year cycle.

Core priority 2: Enhanced leadership and policy-making capacity

Stronger leadership is needed both from governments and from the provider component of the affordable housing industry. Australian Government leadership is critical to aligning the operation of policy levers across levels of government; ensuring that policy directions are enduring; facilitating private investment at scale; building system capacity and safeguarding service user outcomes.

Reinstatement of a Cabinet level Ministry of Housing with broad responsibility for the strategic development and oversight of the housing system is highly desirable at both national and state/territory levels. Similarly, in part to restore degraded policy-making capacity, there is a strong case for the creation of dedicated affordable housing agencies within government. In championing the affordable housing industry, these entities would report to designated Housing

Ministers and link with a new Affordable Housing Industry Council. Meanwhile, provider interests must come together to restore a broadly supported and authoritative national voice for industry concerns.

Core priority 3: Revitalisation of industry regulation and standards

National regulation has so far failed to achieve Australia-wide coverage, lost all momentum, and become isolated from policy developments. A thorough review of the system is therefore timely. This should encompass the system's governance arrangements and its proper remit, as well as performance standards, compliance guidance, and 'tiers' framework. Also relevant is the growing administrative burden experienced by some providers due to contractual requirements being overlaid on formal regulation. Perceived organisational capacity limitations within housing registrar offices need to be addressed.

Specific directions and priorities for the next phase of industry development

Institution-building. Firstly, to help channel low-cost private finance into affordable housing, the Australian Government should establish the Treasury proposed *specialist financial intermediary* to aggregate the financial demands of individual affordable housing suppliers so as to match these to the scale and credit requirements of the institutional investment market. Secondly, to guide the industry's strategic development and accountability, a joint industry-government *Affordable Housing Industry Council* (AHIC) should be established. A suitably qualified eminent person should be appointed AHIC chairperson and industry champion.

Capacity-building activities and funding. Future industry development frameworks should be directly linked to specified policy outcomes and industry growth plans and targets. A priority area for capacity building is pooling funds from industry and government sources to promote the long-term development of the industry in areas such as the application of digital technologies and research and evaluation.

Specific attention should be given to supporting Indigenous Housing Organisations (IHOs) to reconfigure their governance and business models to suit new funding regimes and to achieve (appropriately adapted) mainstream regulatory standards.

Enhancement of housing performance and finance data. Available data on the industry is manifestly inadequate for policy development, benchmarking and accountability. Critical gaps include data on subsidy levels, unit costs of provision, financial performance, management effectiveness and development activity. Therefore, perhaps also under the auspices of the AHIC, there should be an overhaul of the present housing data collection system (managed on behalf of governments by the Australian Institute of Health and Welfare). A new industry information system should integrate with data from the public housing system and key industry information being collected through the National Regulatory System for Community Housing (NRSCH).

Balancing provider scale and diversity. Retention of diversity within the provider part of the industry and openness to new entrants that meet regulatory requirements and national standards are important to promote choice and competition. This should be balanced with the need for larger provider organisations than at present, and the potential for more partnering and alliancing, which has been under-explored to date. Shared service frameworks and other industry infrastructure (e.g. the proposed financial intermediary) can also contribute. Expanded use of specialist developer organisations may also be appropriate if growth opportunities are sufficient. Governments must ensure that their procurement processes do not restrain collaborative approaches.

Indigenous housing requires special attention. There is an urgent need to place IHOs on a viable financial footing, and invest in organisational capacity-building. Indigenous engagement

in the wider industry should also be elevated to inform future policy directions and encourage provider alliancing and culturally-adapted service models.

The study

The 'affordable housing industry' is defined as a system which includes both 'housing provider' organisations (primarily community housing providers (CHPs) and Indigenous housing organisations (IHOs)) and the various supporting services and institutional frameworks that also make up that system. This includes government policy and resourcing arrangements enabling the provision of affordable (including social) housing—defined as below market rate rental and home ownership products—and industry regulation.

For the purposes of the Inquiry, capacity is defined as the ability of the industry to perform the work and achieve the goals that governments and industry stakeholders envisage for it. In Inquiry projects, capacity has been examined and assessed via a number of dimensions: the resource capacity of the industry, the organisational capacity of industry players (particularly providers), the specific skills and capabilities of the industry's workforce, institutional and networking capacity and the political capacity of provider interests.

Preceding Inquiry research reports:

- Described the Australian affordable housing industry's profile and structure, assessed government and industry-led approaches to the development of capacity and reported on provider perceptions of capacity constraints (Milligan, Martin et al. 2016).
- Analysed the implications for industry development of recent housing transfer experience in Australia (Pawson, Martin et al. 2016).
- Reviewed public housing transfers and affordable housing system development in selected other national contexts (Lawson, Legacy et al. 2016).
- Examined how UK governments developed capacities for supporting the transition of public housing to third sector control were developed in the UK (MacLennan and Miao 2017).

Primary research findings and recommendations outlined in this report were developed from:

- Structured interviews and focus groups with players from all parts of the industry including providers, policy-makers, regulators, business partners, lenders, industry consultants, specialists and professional support agencies.
- A roundtable convened with Indigenous housing leaders to focus on capacity issues facing the Indigenous providers' part of the industry.
- Documentary records of industry development strategies and activities in selected other industries that have been subject to significant growth and structural reform—namely disability services, the renewable energy industry, the superannuation industry and the NSW 'out-of-home care' sector.
- Findings on capacity-building approaches in affordable housing systems elsewhere that were produced by other studies within the Inquiry.
- Deliberations of the Inquiry panel on the research team's draft findings and recommended actions.

1 Introduction

Australian governments have sought evidence of what capacity issues might impede **the affordable housing industry's ability to expand, and the capacity of non-government entities** to take on the management of more ex-public housing to better meet the housing needs of lower income households.

In this AHURI Inquiry, four interconnected research projects (Table 1) investigated capacity issues in differing contexts using a multi-dimensional framework to assess organisational and industry capacity. Under this framework capacity includes:

- resource capacity
- organisational capacity
- industry-specific capacity
- networking capacity
- political capacity.

A previous Inquiry report (Milligan, Martin et al. 2016) profiled Australia's existing affordable housing industry, defined as comprising registered provider organisations and an array of supporting institutions which enable, regulate or partner in their work.

That report also outlined current capacity constraints in the industry, especially as perceived by providers. The major constraints identified were external to providers—especially shortcomings in policies and resources to enable steady growth, and underdeveloped government regulation.

Another Inquiry report (Pawson, Martin et al. 2016) found that additional large scale transfers of former public housing could assist in overcoming the intractable problems of the public housing system and facilitate a major expansion in operational scale for recipient providers. Currently, however, there is no settled approach to achieving this reform.

In the post-2012 context of uncertain growth opportunities, the effectiveness of industry development strategies was found to be limited and there was evidence of wasted investment in capacity-building, especially duplication due to weaknesses in both government and industry leadership and coordination.

The research aimed to deepen understanding of capacity issues facing the industry and, in response to those—and, factoring in public policy objectives—to recommend an industry development pathway.

1.1 Why this Inquiry was conducted

This AHURI-commissioned Inquiry aimed to enhance understanding of Australia's affordable housing industry and what capacity constraints might limit its ability to substantially expand its role in:

- Generating affordable housing supply and product diversity.
- Effecting stock modernisation and neighbourhood renewal in former public housing areas transferred to new landlords.
- Innovating in housing services delivery to improve service quality, develop more effective housing tenure pathways, and promote client wellbeing and economic participation.

Through a set of four interconnected research projects, the Inquiry critically assessed relevant government and industry-led capacity-building strategies and initiatives and developed recommendations to guide the industry's future development path. An overview of the subject, methods and geographic scope of each of the Inquiry's constituent projects is shown in Table 1. Findings from the Inquiry research projects have informed the directions for industry development contained in this report. The Inquiry has been guided by a high level group of policy-makers and industry experts (the 'Inquiry panel'), convened to advise on the policy implications of the key findings from each constituent project.

1.1.1 The focus of this report

Building on the already-published outputs from the Inquiry—see Table 1—this report addresses two key questions:

- 1** What are stakeholder/expert views on desirable directions and priority areas for the development of organisational and industry capacity?
- 2** What industry adjustment and institution-building is recommended to support the preferred industry development path and public policy goals?

Table 1: Inquiry research projects, methods and outputs

Project topic	Final Reports	Methods	Geographic scope
The Final Report of the Inquiry	Milligan, V., Pawson, H. Phillips, R and Martin, C with Elton Consulting (2017) <i>Developing the scale and capacity of Australia's affordable housing industry</i> , Final Report No. 278, AHURI, Melbourne.	In depth interviews and focus groups with wide array of industry actors. Roundtable with Indigenous housing leaders. Desk-based review of cognate industry developments. Panel deliberations.	Australian jurisdictions
Building Australia's affordable housing industry capacity: a review and pointers for a road-map.	Milligan, V., Martin, C., Phillips, R., Liu, E., Pawson, H. and Spinney, A. (2016) <i>Profiling Australia's affordable housing industry</i> , Final Report No. 268, AHURI, Melbourne.	Industry document stocktake and review. Registered provider survey of capacity issues.	Australian jurisdictions
Recent housing transfer experience in Australia: implications for industry development.	Pawson, H., Martin, C., Flanagan, K. and Phillips, R. (2016) <i>Recent housing transfer experience in Australia: implications for industry development</i> , Final Report No. 273, AHURI, Melbourne.	Investigation of recent transfer models with focus on capacity issues. Modelling of transfer financial costs and benefits. Panel deliberations.	Tasmania, Queensland and South Australia
Public housing stock transfers and affordable housing system development in a federal context.	Lawson, J., Legacy, C. and Parkinson, S. (2016) <i>Transforming public housing in a federal context</i> , Final Report No. 264, AHURI, Melbourne.	National expert-led case studies of public housing system transformation. Includes investigation of outcomes in eight cities. ¹ Panel deliberations.	Canada, US, Austria and Germany
Creating capacities for supporting the transition of public housing to third sector control.	MacLennan, D. and Miao, J. (2017) <i>Transformative transfers: growing capacities in UK social housing</i> , Final Report No 276, AHURI, Melbourne.	Author-informed review of 1990s UK experience of building an affordable housing sector. Key informant interviews. Panel deliberations.	England, Scotland and Northern Ireland

¹ with Suttor, Garshick-Kleit, Knorr-Siedow, Amann and Mundt.

1.2 Policy context

Most governments across Australia have recently pursued modest expansion of the affordable housing industry through public housing transfers to community housing providers, development of an industry regulatory regime, and offering a variety of financial incentives to private investors in affordable housing. Both governments and the industry itself have actively invested in capacity-building to varying extents in different jurisdictions.

Much larger scale investment in affordable housing is, however, called for to meet the growing level of unmet need in Australia. Additionally, the nation's increasingly cash-strapped and run-down public housing system is a major problem for which no comprehensive solution has yet been proposed (Pawson, Martin et al. 2016; Jacobs, Atkinson et al. 2010). This has led to calls for adopting a government-regulated but market-like ('quasi-market') approach to affordable housing that could, through enhanced competition, leveraging non-government resources and provider innovation, improve supply and service quality (Dykes 2016; Productivity Commission 2016).

In an analysis updating data published by the now defunct National Housing Supply Council (NHSC 2010), Yates (2016) has estimated that 140,000 additional dwellings were still required by 2016 to re-establish the proportion of social housing at its (close to peak) 1996 share of the national housing stock.¹

Additionally, the need for more affordable housing arises from the unaffordability of the private rental market for lower income households. Estimates of the current national shortfall of rental dwellings affordable to such households vary from around 200,000 (Hulse, Reynolds et al. 2014, using 2011 census data) to around 550,000, depending on how rental stress and affordable supply are measured. Taking the lower estimate (and assuming rental stress levels do not worsen) means a minimum of an additional 10,000 dwellings will be needed each year for the next 20 years to meet the increased need for affordable housing (i.e. in addition to what is needed to overcome the existing shortage of social housing). By applying a different methodology, Rowley (2016) estimates that, of the projected 1.7 million newly forming households over the next decade, 203,000 (12%) are likely to face housing stress in current market conditions.

Present rates of supply, while difficult to estimate accurately from current data sources, fall well short of these requirements. For example, in an analysis of current policy documents, Milligan, Martin et al. (2016: 12 and Appendix 1) could only identify commitments for approximately 32,000 additional social and affordable dwellings (net of demolitions and sales) to be provided across all jurisdictions between 2015 and 2020.² Offsetting this additional supply, however, will be progressive losses from the 37,000 dwelling portfolio of homes currently rented at below-market rates, as the 10-year National Rental Affordability Scheme (NRAS) subsidies that these dwellings attract expire between 2019 and 2026.

Past attempts to up-scale affordable housing investment in Australia, and their benefits and shortcomings, are well documented—recent accounts include Rowley, James et al. (2016),

¹ This estimate is not a measure of housing need but of system capacity to meet housing need to the same extent as in the past. The addition of 140,000 social housing dwellings to the national housing stock would restore the share to 6 per cent, based on the assumption of medium projections of household growth from 1996–2016. This estimate, provided to the authors by Judith Yates, is based on unit record data from the 2013/14 ABS Survey of Income and Households.

² The estimate excluded planned NDIS supported accommodation. At the time of the previous estimate, several states and territories had pending housing policy announcements. Subsequent announcements have increased our estimate by around 1,300 dwellings (Appendix 1).

Milligan, Martin et al. (2016), and The Senate Economics References Committee (2015). Following a period of decline in public expenditure on social and affordable housing since the 2012 expiry of the Social Housing Initiative (SHI) and the 2014 abolition of NRAS, there is at the time of writing growing pressure on governments to commit to a reinvigorated and long-term approach to tackling this issue.

1.2.1 Three policy levers for reform

Reform proposals are centred on applying three main policy levers to the problem.

Public-private co-funding

The first involves adopting a blended financing model comprising forms of public subsidies underpinning large-scale private financing, especially via institutional investment (Australian Government 2016a). A key enabling mechanism for this approach, which has been widely canvassed, would be the establishment of an independent specialist financial intermediary to aggregate the financial demands of diverse individual affordable housing suppliers and to meet these financing needs by issuing regular tranches of bonds packaged to match the scale and credit requirements of the institutional investment market (Australian Government 2016a; Frost and Hamilton 2016; Lawson, Berry et al. 2014; Lawson, Milligan et al. 2012). In December 2016, the Council of Federal Financial Relations (comprising Australian Government Treasurers) agreed to establish a task force of government officials and industry and finance experts to 'design a proof of concept for a bond aggregator model to provide for greater private and institutional investment in affordable housing' (Australian Government 2016b: 3). The task force's proposal is due by mid-2017 (Morrison 2016).

Planning policies for affordable housing

A second policy lever is using the planning system to obtain sites for affordable housing. Emulating international practice (Calavita and Mallach 2010), several Australian jurisdictions have experimented with 'inclusionary' planning models that aim to secure affordable housing in designated residential development and redevelopment areas (for a recent account of local practice see Davison, Gurran et al. 2012). This entails rezoning and/or development approval being conditional on inclusion of a voluntary (negotiated) or mandated affordable housing component in the proposed development. Encouraging development of more diverse forms of housing, especially lower cost types, such as 'new-generation' boarding houses and secondary dwellings has also been attempted (e.g. the NSW State Environmental Planning Policy (Affordable Rental Housing) 2009).

Provision of both publicly and privately-owned land at below-market cost is a crucial element, along with fiscal instruments, of successful market-based affordable housing models both locally and internationally, especially in strong housing markets (Milligan, Gurran et al. 2009; Whitehead 2007). As yet however, securing affordable housing through the planning system is not widely or consistently achieved across Australia and, while a more far-reaching approach is under active consideration in some jurisdictions (e.g. NSW and Victoria—Appendix 1), it remains a highly contested policy and political issue.

Public housing transfers to CHPs

The third policy lever that could enable the scaling-up of the affordable housing industry is the anticipated transfer of a sizeable component of government-owned and managed public housing into the control of community housing providers (CHPs), which are Australia's main non-government providers of affordable housing. In 2009 Housing Ministers agreed an aspiration for 'up to 35 per cent' of all social housing to be managed by CHPs by 2014. This implied a major program of transfers to be undertaken over the following five years (Milligan and Pawson 2010) which has not eventuated in most jurisdictions. While this 2014 target has been outperformed by Tasmania, the 2015 CHP share of all social housing across Australia was only

18 per cent (Milligan, Martin et al. 2016: Figure 1). Current approaches to transfers and their impacts within the industry are examined in detail in a separate Inquiry report (Pawson, Martin et al. 2016—see Table 1).

1.3 Key concepts³

1.3.1 Defining capacity

The key question of this Inquiry concerns the capacity of the nascent affordable housing industry to up-scale and grow. We have defined capacity as ‘the ability of the *industry* to perform the work and achieve the goals that governments and industry stakeholders, in collaboration, have envisaged for it’ (Milligan, Martin et al. 2016: 23). Using a framework developed by Glickman and Servon (1998) to analyse the capacity of a comparable industry in the US, five dimensions of capacity that are directly relevant to current policy and practice in the Australian affordable housing industry have been used to analyse the industry and present our findings:

- The *resources* available to the industry to provide and expand affordable housing services.
- The quality and extent of the *organisational* capabilities of all institutions that operate within the industry.
- The level and quality of *industry-specific* skillsets integral to the procurement and management of affordable housing (and all related tasks).
- The *networks* through which industry entities interrelate to enhance their effective operation.
- The *political* capacity of the industry to represent its interests, influence key stakeholders and shape government policy.

1.3.2 Defining affordable housing and the affordable housing industry

The Inquiry has defined *affordable housing* as housing provided subject to access and affordability requirements (the rules) set by government. This includes:

- Rental housing priced at below market rents and earmarked for eligible low to moderate income households.⁴
- Owner-occupied housing for eligible households that is provided under a subsidised loan or shared equity arrangement and/or is legally encumbered with covenants that impose an affordability requirement.

The *affordable housing industry* comprises a dynamic set of interrelationships between the diverse actors and institutions involved in the production, consumption and regulation of affordable housing (after Bourne 1981). Such relationships are shaped not only by the intrinsic characteristics of housing provision but critically by the economic, social, cultural, political and demographic contexts within which they operate and evolve (Hulchanski 2016).

³ An expanded discussion of these concepts is found in Milligan, Martin et al. (2016: Chapters 1 and 2).

⁴ Traditional public housing (owned and managed by state or territory governments in Australia) is included in this definition. However, as the context established for the Inquiry concerned the capacity of alternative providers (to government) to provide high quality housing services and to expand the supply of affordable housing, we have not investigated existing capacities within that system.

The affordable housing industry thus includes:

- Non-government organisations that produce and manage housing subject to government affordability requirements (i.e. registered community housing providers (CHPs), Indigenous Housing Organisations (IHOs) and other affordable housing providers).
- Agencies/institutions working with housing providers (e.g. government funders and regulators, industry and consumer groups, professional associations, finance partners, developers, consultants, training providers, and joint venture partners) and the relationships and networks that they adopt and use.

1.4 Research methods

The research methods used in each Inquiry supporting project are summarised in Table 1. The primary research findings included in the present report were based on a mix of methods summarised below. Appendix 2 gives more details on these research components.

- Thirty-seven structured interviews and five focus groups were conducted with stakeholders across the industry to obtain their views on capacity issues and capacity-building priorities.
- A two-day roundtable with seven Indigenous housing leaders was convened to focus on capacity issues facing the Indigenous providers' part of the industry.
- Four other service industries undergoing growth and reform—disability services, the renewable energy industry, the superannuation industry and the NSW 'out-of-home care' sector—were researched (via a desk-based review) for their potential to offer lessons for the development of the affordable housing industry.
- Possible directions for industry development were drawn from three other studies within the Inquiry concerned with capacity-building approaches in affordable housing systems in other countries, and findings about capacity-building from recent public housing transfer programs.
- Two two-day Inquiry panel meetings were convened to consider the research findings and the vision and road map for the industry's future development.

1.5 Current state of the industry

Drawing on two other Inquiry research reports (Pawson, Martin et al. 2017; Milligan, Martin et al. 2016), this section summarises findings about the:

- characteristics and capacities of provider organisations
- coverage and adequacy of the institutions and actors which support them
- scope and impacts of recent capacity-building efforts within the industry
- role of transfers of public housing to CHPs in the growth and development of the industry.

1.5.1 Affordable housing providers

Outside of government itself, affordable housing provider organisations include not-for-profit (NFP) organisations and a small number of for-profit companies and local governments. The primary suppliers are mission-driven, officially registered CHPs. This is a diverse group numbering 323 entities in March 2016.

Heading the group is a cohort of around 40 companies (registered as Tier 1 organisations under the National Regulatory System for Community Housing (NRSCH) or its equivalent in Victoria and Western Australia) that have increased their service scale and diversity and adopted a commercial business model. While mainly originating as tenancy management organisations,

many in this cohort have over the past decade diversified their housing service offerings, broadened their operating locations, and acquired experience in raising private finance and partnering with the development industry. This cohort has grown significantly in number and organisational scale over the last decade. Growth was driven mainly via participation in the two major 2008 national affordable housing supply initiatives, NRAS and the SHI, as well as state government housing investment programs operated in certain jurisdictions.

The remaining 283 registered organisations (registered as NRSCH Tiers 2 and 3 or equivalent) are generally smaller organisations⁵ that have more specialised roles in tenancy management, supported housing services, innovative housing models or service provision in single localities. While many may have potential and aspirations to grow, they have lacked the opportunity and their capacity is, therefore, unproven.

While a number of private development firms have initiated affordable housing projects using NRAS and/or state or local government incentives (e.g. planning obligations, Public Private Partnerships (PPPs)), none has yet registered as a housing provider under the NRSCH.

Indigenous housing organisations

There is compelling evidence of the importance of Indigenous-controlled organisations to redressing Indigenous disadvantage. Milligan, Martin et al. (2016: Chapter 3) identified a critical concern that policy disruption over the past decade, associated with states and territories taking over responsibility for Indigenous housing and the management of remote Indigenous housing, has weakened this sector in several jurisdictions. Lack of operating scale, viability concerns and imposition of mainstream competitive funding and regulatory regimes were identified as key factors contributing to extreme vulnerability for many of these organisations. Of the several hundred Indigenous-controlled organisations that were providing (mostly small-scale) housing services, by the end of 2016 only ten had registered under the mainstream regulatory systems.

Provider capacities for growth

While the community housing registrars do not publish disaggregated performance information, previous research and other data indicate that the Tier 1 registered group of CHPs have the industry-specific skills and organisational capacities to manage and absorb substantial growth. Our survey results indicated these organisations are generally self-driven, continuing to invest in their organisational capacity and to avidly seek growth opportunities—for example through pursuit of new funding sources, private sector partnerships and mergers within the industry. Most collaborate through a peer network and/or peak bodies engaged in knowledge exchange, professional and industry development and shared service initiatives.

Despite their efforts, most have found steady and planned growth difficult to achieve because of policy volatility, and a lack of forward industry plans and fit-for-purpose subsidy arrangements. For many, intensive investment in internal systems and human resources in the period 2008–14 has created capacity that is underutilised in the post-2014 context of scaled-back programs and the failure of government housing plans—such as large-scale public housing transfers—to materialise. Thus, many of our CHP survey respondents felt that governments had been restraining their growth, and that more durable policy infrastructure and resourcing was needed to fully utilise their organisational capacity.

Many Tier 2 CHPs have also invested in their capacity, particularly their core social housing business capabilities, but they typically have more modest growth aspirations. Especially with some state governments specifying ‘Tier 1 designation’ as an eligibility requirement for tender

⁵ Although also including a few large welfare service provider organisations with a small presence in the affordable housing space.

exercises, Tier 2 providers enjoy fewer opportunities to prove their capacity to grow and diversify. This suggests that it is not the organisational capacity of provider entities that is the key limiting factor restraining the industry, but lack of opportunities for growth.

Among Tier 3 CHPs recent capacity-building has mostly been driven by the necessity to meet new regulatory registration requirements rather than to enable service expansion. The small scale of most such organisations has required state governments to directly resource capacity-building. Survey findings showed that organisations in this tier were less likely to be planning for growth.

1.5.2 Supporting institutions

Alongside the work of the delivery agencies, the strength and quality of an industry's wider support services and networks (as defined in Section 1.3.2) are crucial factors influencing its capacity to perform, adapt and grow.

While the industry-supporting infrastructure for affordable housing appears extensive, the research identified a number of critical issues and gaps:

- Lack of clear and consistent national and state-level government leadership.
- Erosion of housing policy-making capacity in the recent past in almost all jurisdictions as well as at the Commonwealth level.
- Inadequate and under-resourced leadership within the industry.
- The absence of mechanisms necessary to foster coordination between government spheres and entities responsible for developing and administering different housing policy levers.
- No established processes for government-industry co-planning or service co-design.
- No core industry data set or well-defined and transparent affordable housing cost benchmarks.
- No institutional arrangements to help harness private investment more cost effectively.
- No structured participatory arrangements for Indigenous stakeholders within the industry (Milligan, Martin et al. 2016).

1.5.3 Industry assistance and resourcing

From its antecedents in the 1980s, but especially since 2007, Australia's affordable housing industry has progressively developed despite fluctuating opportunities for expansion (Milligan and Hulse forthcoming). However, capacities that have been built have been underutilised and aspirations for greater organisational scale have recently been difficult to achieve in an unstable policy and resourcing environment.

Nationally, and in most states and territories, recent government approaches to industry capacity-building have been fragmented and lacking a clear purpose. A 2014 high-level national industry development framework (NRSCH 2014) has had only limited impact because it lacked a champion and a resourced implementation plan. There is evidence of duplication of effort across government agencies, individual organisations and jurisdictions.

Industry development frameworks, as applied in NSW and Queensland in recent years, have improved the diagnosis and mutual understanding of capacity needs and assisted joint government and industry decision-making on resource allocation for capacity-building. However, such frameworks are absent in most jurisdictions, and are in any case more likely to be useful if linked to an explicit national strategy for industry evolution (Milligan, Martin et al. 2016: 48).

Larger CHPs now tend to manage their own capacity-building internally and through their membership of industry networks. However, medium-sized and smaller organisations, including many IHOs, lack the scope to do so, and require assistance to build their capacity.

1.5.4 The impacts of public housing transfers

Transfer of former public housing to CHP control has contributed substantially to recent industry growth. Including announced transactions not yet completed, since 2012 nearly 24,000 homes have been transferred (Pawson, Martin et al. 2016). This is in addition to the 21,000 already conveyed to CHPs before the latest phase of activity began in 2013 (Pawson, Milligan et al. 2013). When these programs are completed, however, 300,000 homes will remain in the public housing system, constituting around 75 per cent of all social housing.

Additional large scale transfers of former public housing could assist state and territory governments to tackle the intractable problems of the public housing system and facilitate a major expansion in operational scale for recipient providers. Further, noting conclusions drawn from financial modelling undertaken for the Inquiry (Pawson, Martin et al. 2016), such a program could make a modest contribution to addressing the national affordable housing shortage.

Scope for such a reform is presently limited by a lack of political consensus. Industry capacity restrictions to date have included:

- the absence of well-developed community housing provider entities in certain jurisdictions
- limited housing strategy and reform implementation capabilities within government
- scepticism about the capacity of alternative providers from controlling public housing agencies (Pawson, Martin et al. 2016).

1.5.5 Implications for capacity-building

The Australian housing policy environment has created a paradox for the affordable housing industry's development pathway and organisational capacity-building. On the one hand, recent national and state/ territory government investment strategies—such as the SHI and NRAS—along with public housing transfers, resourcing of industry development (by both government and industry entities), and the introduction of specialist regulation, have been conducive to the emergence of a cohort of larger affordable housing providers that have strong governance and commercial know-how and demonstrated ability to up-scale and to partner successfully with private developers and lenders.

On the other hand, successful providers have in many cases struggled to maintain and protect new found capacities in the face of government policy instability, such as the early termination of the NRAS (Milligan, Hulse et al. 2015). A recent example of industry disruption (from July 2016) involved the Queensland Government's abrupt withdrawal from a large-scale transfer of public housing (the Logan Renewal Initiative) to a consortium of two leading CHPs, planned and fully negotiated through a four-year process. Extensive capacity-building and other investment by the participating providers—\$8–10 million according to press reports (Templeton 2016)—was consequently misspent. The substantial resources committed by the Queensland Government to the tendering and commissioning process have likewise been squandered.

The impacts of a volatile policy environment on the industry led to a key initial finding that developing and sustaining adequate capacity in the affordable housing industry requires enduring public policy, a fit-for-purpose subsidy framework and a quantified plan for industry growth (Milligan, Martin et al. 2016).

Building on the Inquiry findings outlined above, the remainder of this report presents further evidence of the capacity issues facing the industry and, in the light of that evidence and a review of development approaches in other relevant industries and places, draws conclusions

about how best governments and the industry itself can nurture future growth and further development.

2 Stakeholder perspectives on industry development and capacity-building priorities

We met with 88 stakeholders from housing provider organisations, government agencies and other institutions to gain their perspectives on industry capacity and development.

The lack of an integrated housing policy at national and state levels is the foremost perceived barrier to industry development.

Providers need greater access to capital funds and recurrent subsidies that are fit-for-purpose.

Providers have invested in their own organisational capacity—particularly in their boards, managers, staff development and business systems—and look to increased **scale for further benefits. If they don't use this capacity, they may** lose it.

Industry-specific training resources are needed to maintain traditional skills in tenancy management and community development, and to enhance emerging skills in property development and management.

Among the industry's supporting institutions, the erosion of expertise in government agencies is perceived as a primary factor inhibiting policy development and implementation and undermining collaboration. The regulatory system also needs to be revitalised and become properly national.

Provider peaks provide useful services, but the industry as a whole lacks the political capacity to resist sub-optimal, ad hoc opportunities and to instead set the agenda.

This chapter and Chapter 3, which is specifically concerned with capacity in the Indigenous housing sector, analyse the evidence collected from our extensive engagement with stakeholders about the 'capacity' status of the affordable housing industry's provider organisations, supporting institutions and networks. The findings are based on the informed perspectives of a wide range of stakeholders regarding perceived capacity issues within the industry and their views of possible ways to address these.

Following a brief discussion below of findings concerned with the overall policy context framing the industry's operation, the other highlighted findings are loosely grouped into the five dimensions of capacity around which the research inquiry has been framed (Section 1.3). While these components are discussed separately, they are interconnected. For instance, having resource capacity is necessary to optimise use of organisational capacity. Having greater political capacity may enhance access to resources, and so forth (Glickman and Servon 1998).

To introduce each section we provide a brief overview of the context for the findings being discussed. Verbatim quotes drawn from the rich body of evidence collected have been included to illustrate the basis of some key findings. Ways for policy-makers, regulators and industry players to respond to the findings are considered in detail in Chapter 5.

2.1 The affordable housing industry public policy framework

2.1.1 The public policy context

The last significant national reform of the public policy framework for affordable housing in Australia dates from 2009 when the National Affordable Housing Agreement (NAHA) replaced the long-established Commonwealth State Housing Agreement (CSHA) and the Supported Accommodation Assistance Program with a single intergovernmental funding and performance framework to guide the provision of housing assistance and homelessness services by Australian governments. The NAHA's guiding objective is that Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation (COAG 2008).

One of a set of reforms to federal-state financial relations in different sectors, the NAHA was intended as a broad, inclusive and enduring framework that upheld Commonwealth leadership in the housing field but gave state governments greater flexibility for delivering housing assistance in return for improved accountability and transparency around the outcomes of their endeavours. Reforms at the time centred on increasing supply-side effort and recognition of the significance of housing to wider economic and social outcomes (Milligan and Pinnegar 2010).

To drive improved housing outcomes, the Australian Government offered additional funding to the states and territories via special purpose allocations (national partnership agreements) in the priority areas of social housing, homelessness services and remote Indigenous housing with durations of between two years (social housing) and ten years (remote Indigenous housing). Outside the NAHA framework, there was also a raft of new Australian Government expenditures in housing, headlined by the large-scale NRAS program (Milligan and Pinnegar 2010: Table 1). At the time of the NAHA's introduction, an agenda of priorities for scrutiny and prospective reform around existing program, operational and monitoring arrangements was also foreshadowed with recommended changes to be determined by COAG.

Seven years on from these much-heralded changes, there is widespread dissatisfaction with their implementation. National government leadership of housing reform fell away after the political upheaval of 2010 and following years⁶ and many proposed reforms subsequently lapsed.⁷ By the end of 2018 all additional Australian Government housing funding initiatives introduced from 2009 will have been expended, abandoned or fully committed.

Ongoing lack of Australian Government leadership has contributed to a disintegration of housing policy consistency and continuity across jurisdictions as, in a national policy vacuum, state and territory governments have developed diverse policy agendas (see Appendix 1). Another consequence has been waning transparency and accountability for the outcomes of housing expenditures, especially following the 2014 abolition of the COAG Reform Council (which was responsible for, among other things, developing independent and nationally consistent measures of housing outcomes).

Of growing significance to the industry is the anticipated demand for affordable housing from National Disability Insurance Scheme (NDIS) recipients that is over and above the provision of

⁶ The period from 2010 was politically volatile. Between 2010 and 2016 there were nine different ministers with responsibility for housing and homelessness. Under the post-2013 Coalition Government 'housing and homelessness' is not a discrete Ministerial portfolio area, but incorporated within the social services portfolio.

⁷ The last major report to COAG on these issues was tabled by Housing Ministers at the end of 2009 but not acted upon by that body (Housing Ministers' Conference 2009).

specialist accommodation funded directly through the NDIS.⁸ An assessment of the capacity of the current housing system to accommodate the housing needs of NDIS recipients has estimated that between 35,000 and 55,000 eligible NDIS participants may have their housing needs unmet over the next ten years under prevailing supply and affordability conditions (Disability Housing Futures Working Group 2016).

After heightened public and media attention to a range of housing affordability issues throughout 2016, political and policy-maker attention to housing policy and service delivery reform has intensified. At the time of writing three key national reform processes relevant to this research are proceeding:

- 1 As discussed previously, a government-led expert task force will propose a way forward for the public and private co-financing of affordable housing. This is the main outcome of an officials' working group that determined that 'the establishment of a financial intermediary to aggregate the borrowing requirements of affordable housing providers and issue bonds on their behalf ('the bond aggregator model') offers the best chance of facilitating institutional investment into affordable housing at scale, subject to the provision of additional government funding' (Australian Government 2016b:1).
- 2 Emerging from an Australian Government-commissioned 'Inquiry into Introducing Competition and Informed User Choice into Human Services', the Productivity Commission has identified social housing as an area in which reforms could offer significant improvements in user services and community benefits more broadly. Recommendations, to be published by October 2017, will advise governments on how they can promote greater competition, contestability and user choice in the social housing service system (Productivity Commission 2016).
- 3 During 2016 national, state and territory ministers with responsibility for housing began a new process for considering the future of partnership agreements under the NAHA and related reforms to guide long-term funding of housing and homelessness services (Housing and Homelessness Ministers 2016). At its December 2016 meeting COAG agreed to consider reform proposals in 2017 (COAG 2016). These are anticipated to incorporate housing financing arrangements (see above) alongside other complementary reforms, such as to national regulation of housing providers and planning policies for affordable housing (Australian Government 2016b).

2.1.2 Primary research findings

Our provider survey found that lack of an integrated national and state housing policy was perceived as the major external barrier to growth especially by Tier 1 and Tier 2 respondents (Milligan, Martin et al. 2016: Figure 20). Subsequent fieldwork has confirmed that stakeholders from all parts of the industry are perturbed by the lack of a durable statutory and policy framework (i.e. one that is sustained across political cycles) to shape the industry's growth and development path. Many stakeholders nominated the absence of a cohesive and enduring national strategic policy framework governing affordable housing as the single biggest constraint on the development of an Australian affordable housing industry at scale.

The core requirements for industry growth were summed up by the CEO of a specialist industry institution:

⁸ The NDIS is being implemented across Australia between 2013 and 2020. For more information on accommodation provision under the NDIS see National Disability Insurance Agency (2016). General information on the scheme is included in Section 4.2 of this report.

The industry is strongly committed to independent growth but to achieve this requires governments fixing in place: explicitly stated 'rules of the game' [especially concerning access, rent-setting and required affordability outcomes]; enduring fit-for-purpose subsidy arrangements aligned with specified growth targets; and effective national regulation.

Other perspectives on the key elements of a strategic framework that would drive growth and hence capacity included:

Without the vision of what government wants from them, it's really difficult for the sector to meet government's expectations. (State government official)

The underlying issue is clarity about what you are trying to achieve not who does what. (Australian Government official)

There is a need to bite the bullet and get a 10-year plan specifically designed to support the affordable housing industry [as opposed to the piecemeal, diverse and stop-start state approaches currently]. An incremental strategy won't work. (Specialist industry consultant)

Government should be more clearly setting overall housing supply targets and, within that, affordable housing supply targets. Setting such targets for development on government-owned sites would be a start. Beyond this, affordable housing targets on private sites would be acceptable provided these are not applied to sites a developer has already purchased. (Development partner)

The ad hoc, limited and stop-start nature of growth opportunities that have characterised public funding for the industry in recent years was widely perceived as inefficient and wasteful—undermining organisational capacity-building and hindering the development of an affordable housing sub-market and the formation of strategic alliances, for example with lending institutions. Rates of growth have also been inadequate to address the demand for affordable housing being experienced by providers.

Having built development capacity in response to the Social Housing Initiative this was damagingly run down when the hoped-for follow-on funding failed to materialise. We have to get away from boom and bust. (Director, supporting institution)

In the words of a Tier 2 provider CEO:

There is no strategy to support the growth of an affordable housing sector. Depending on the government of the day that may form, there is no Australian commitment to and appreciation of the importance of affordable housing programs.

Tier 1 provider CEOs in two different jurisdictions summed up their organisation's situation:

There is effectively a limbo in terms of growth pathways in [state] at present.

Trouble is when the music stops you lose capacity. Up-front costs, retaining financial capacity and lag times are key problems.

This view was echoed by an industry leader.

Not knowing where we are going is the fundamental problem.

Without an effective growth management framework, emerging jurisdictional and cross-jurisdictional plans for further expansion (emanating from multiple agencies and programs) are in danger of being uncoordinated and unachievable.

Governments are doing all these things—NDIS, SAHF [Social and Affordable Housing Fund NSW], Communities Plus, etc.—that never join up ... that present certain opportunities to the industry but with no idea as to what the whole of it should look like. (Tier 2 provider CEO)

We support [the NSW Government's] Communities Plus and other innovations but they are piecemeal ... how do you enable long-term investment in housing? (CEO specialist intermediary)

There is a need for broader recognition of what the industry is about and the priorities for growth—such as public housing transfers, affordable housing supply, Communities Plus, NDIS, other ... all cannot be achieved at once and they will require different supporting capabilities. (Industry peak body)

Alignment of Commonwealth and state approaches is the key. (Finance partner)

We need to grasp the bigger picture ... find the framework that supports industry development ... this is more than transfers and CRA. (State government official).

2.2 Resource capacity

2.2.1 Current resourcing

At the centre of concerns about resource capacity in the affordable housing industry is the inadequacy of public financing arrangements to enable the expanded production and long-term upkeep of affordable housing. Adequate funding requires a subsidy system calibrated to meet the gap between the costs of (efficient) service provision (under different housing market cycles and locations) and the achievement of designated and enduring affordability outcomes for the range of identified needs groups (Milligan, Gurran et al. 2009). Approaches tried so far and their impacts are reviewed briefly below.

Supply-side subsidies

Over the last 30 years, different Australian jurisdictions have experimented with various models of housing subsidy provision to stimulate affordable market-based supply (i.e. as an alternative to public housing) but no single approach has been enduring. On the supply side, state governments have offered (usually small-scale) capital investment programs in return for providers' borrowing a component of project costs. With government typically covering 60–75 per cent of procurement costs, demonstration programs of this type operated in Victoria, South Australia and NSW in the 2000s (Milligan, Gurran et al. 2009) but were not continued, largely due to budget austerity measures. Better outcomes have been seen in Western Australia and the ACT over the last decade where governments have activated a variety of levers (including enabling access to land for affordable housing developers) and have committed their resources on a longer-term basis (Milligan, Martin et al. 2016: Appendix 1).

The largest program for subsidising private investment in affordable rental housing was the 2008 NRAS which offers an annual tax offset for 10 years (or annual cash grants to not-for-profit charitable providers) to suppliers providing new rental housing for eligible households at below-market rent (DSS 2008). Despite being heavily oversubscribed, this scheme was discontinued in 2014 (Milligan, Pawson et al. 2015).

In October 2016 the NSW Government legislated to establish the Social and Affordable Housing Fund (SAHF) which will provide a long-term revenue stream to encourage private and non-government organisations to develop social and affordable housing projects (Social and Affordable Housing NSW Fund Bill 2016). Government is seeding the fund with \$1.1 billion to be invested by their investment arm, the Treasury Corporation (TCorp). Returns to the fund 'will

pay for a package of services for up to 25 years that provides access to accommodation, asset management and tenancy management services, coordination of support services tailored to each tenant, and performance and data monitoring ... this long-term revenue stream is intended to plug the funding gap between the rental stream that providers receive from tenants and existing subsidies and the revenue required to sustain a commercially viable project' (Berejiklian 2016). As acknowledged by the (then) NSW Treasurer the fund will 'provide much needed investment certainty to the sector ... and by enshrining the fund in legislation the Government is sending a strong signal to the market of permanency' (Berejiklian 2016). Successful bidders under SAHF Phase 1 have offered 2,200 social and affordable homes. A further phase is proposed (Goward 2017).

Demand-side subsidies

Since the mid-2000s, a longstanding demand-side subsidy, Commonwealth Rent Assistance (CRA)—a transfer payment to eligible renter households receiving social security benefits—is the other main way private financing of affordable housing has been supported. Under this arrangement, tenants pay their CRA entitlement to their CHP landlord in addition to their income-based rent, which gives the CHP enhanced resource capacity for debt servicing. While providing a valuable indirect subsidy to providers for each new eligible household housed in the industry,⁹ this subsidisation arrangement has important limitations—it was not designed to support private financing of affordable housing, and adverse changes to CRA entitlements may undermine provider revenues (and thereby reduce their debt servicing capacity) or, alternatively, affect rental affordability for tenants negatively impacted by either policy or consequential rent-setting changes. Revenue collection under the prevailing CHP rent-setting model is administratively cumbersome and thus incurs significant avoidable transaction costs for providers.

Asset recycling and place-based opportunities

Asset-based leveraging of additional affordable housing supply has also been tried to a limited extent, especially as a component of the 2008–12 SHI, a large stimulus program of social housing supply triggered to help offset the risks of the Global Financial Crisis to employment and economic growth (KPMG 2012). The expansionary potential of this model has, however, been limited by the balance sheets of Australian housing providers, which are small relative to international comparators (e.g. providers in the UK and the Netherlands) (Milligan, Hulse et al. 2015). Similarly, organisational scale factors have curtailed the potential for cross-subsidy models (also seen overseas) whereby CHPs undertake additional activities, such as market renting and market sales, so as to reinvest the profits in affordable housing (Rowley, James et al. 2016; Milligan, Hulse et al. 2015).

Commencing with some high profile urban renewal PPPs on two large public housing estates in Kensington (Melbourne) and Bonnyrigg (Sydney) (Milligan and Randolph 2009), there has been a growing trend for state governments to call for privately-led place-based renewal of public housing areas with the aim of leveraging replacement and additional social and affordable housing supply in mixed tenure communities through residential densification. Announced in 2016, the biggest program of this kind is Communities Plus in NSW (<http://www.communitiesplus.com.au/>). So far CHP participation has involved private developer-led consortia with community housing players contracted as managers (but not owners) of the social and affordable housing produced and, through their ongoing local presence, as community builders and place-makers.

⁹ Modelling for other research in this Inquiry estimated the average per tenancy value of this subsidy to be around \$3,000 per annum in 2016 (Pawson, Martin et al. 2016: Appendix 1).

Private financing

Private lending into the affordable housing industry has been steadily expanding mainly via short-term (three to five years) loans from several of Australia's banks (Lawson, Berry et al. 2014).¹⁰ This form of lending has facilitated recent CHP construction of modest-scale affordable housing projects and their initial operation. It is, however, far from ideal for long-term provision of affordable housing as bank loans have to be regularly renegotiated. As well as generating additional transaction costs, this leaves the underlying refinancing risk with CHPs. Anticipated lending from capital markets has yet to materialise because the barriers to institutional investment, especially the need for much greater scale and certainty of investment opportunities, have yet to be addressed by governments (Frost and Hamilton 2016; Milligan, Pawson et al. 2015; Milligan, Yates et al. 2013).

One new private financing option, indirectly resulting from an Australian Government initiative, is the entry of the Clean Energy Finance Corporation (CEFC) as a housing lender. In 2016 the CEFC announced a \$250 million initial pool of finance to be offered to CHPs as 10-year affordable housing construction loans—a longer loan term than banks can offer under current regulatory rules and market conditions (CEFC 2016a). A condition of a CEFC loan is the provision of 'market leading' energy efficient dwellings. In CEFC's view, the long-term nature of the affordable housing developer business model supports a demonstration of the cost-benefit of building energy efficient homes. Further lending from CEFC could therefore be forthcoming if there is sufficient demand. The CEFC also hopes to encourage other investors interested in longer term deals to follow their lead (interview CEFC officials; CEFC 2016b).

2.2.2 Primary research findings

A clear conclusion from our primary fieldwork is that the absence of an integrated national investment strategy and subsidy framework has impeded industry growth and the development of organisational scale and capacity across Australia.

The core resourcing issues identified by stakeholders included:

- Available recurrent subsidies, such as CRA, are not fit-for-purpose. Provider reliance on this revenue source and on income-related rents (that fluctuate with changing levels and kinds of welfare benefits) contributes to revenue volatility and consequential financial risk. This in turn has led to higher borrowing charges and restrictive lending covenants in the industry as lenders seek to ensure their risks are covered.

Present arrangements are too costly: 'the cost of finance' is just exorbitant. (Tier 1 provider CEO)

- The general absence of capital subsidies for generating supply necessitates reliance on limited and patchy growth opportunities, such as through one-off partnerships, asset recycling or cross-subsidy prospects, which in turn make retention of development capacity more difficult.

The bulk of the industry has just been treading water and watching established capacity ebb away. (Industry peak body)

We're not big enough to attract super funds and we've got to get that institutional investment and aggregated bond vehicle happening. The sector won't be able to grow without that. (Tier 1 provider CEO)

¹⁰ For example, Westpac Institutional Bank and the Commonwealth Bank have announced deals with leading CHPs.

If they're limited to 'organic growth' it may be 10 or 20 years before CHPs have sufficient scale and assets to be major bank-financed developers. Achieving this status more quickly will happen only if there is a circuit breaker—large-scale stock transfer would likely be an element of this although the returns on social housing are so low that CHPs must also grow more diverse businesses. (Private developer partner)

- Affordable housing providers generally lack control of their assets and the quantum of cash flows required to underpin large-scale borrowing for investment. Cash flow-based lending (which is more suited to the requirements of institutional investors) is impaired by the prevailing rent subsidy regime.

When we [the finance industry] think about the capacity of the sector it's very much constrained by the cash flow characteristics ... notwithstanding that they [some CHPs] might have a billion dollars of assets, it doesn't mean you go and lend them half a billion dollars ... The bottom line is that you can only lend against what the known cash flow is, therefore, that is the constraint. (Finance partner)

A credible financial model is a fundamental requirement. The longer the timeframe the better—the UK practice of 30-year business plans is an ideal although this duration is not a rigid requirement. (Finance partner)

- With little help from governments in accessing land—for example via the planning system or other means (e.g. land supply agencies)—affordable housing developers have been left to compete with private suppliers for development sites, which are generally beyond their reach in high cost markets.

You would at least expect them (state governments) to put land, undercapitalised land, into the mix in some form. (Tier 1 provider CEO)

Currently, few registered providers have the balance sheets and cash flows sufficient to enable them to expand by undertaking regular development activity utilising private finance.¹¹ Moreover, the situation varies across jurisdictions.

So Victoria's [housing associations] have got a tremendous asset base¹² but limited cash flow and in other states there tend to be organisations, especially in Tier 1, they've got cash flow but not the assets ... a national system needs to bring that all together. (Tier 1 provider senior officer)

While messaging about the foremost need for financial resources in the industry was loud and clear, there was also recognition that governments ought to be getting better results from the money they already spend in the housing arena.

The government does spend a lot of money on housing without ever achieving the goals that it sets out to ... these huge budgets that were meant to achieve all sorts of things, none of which were achieved. None of them brought housing [prices] down, rents down, none of them increased social housing stock, even though year after year governments keep flogging away because we haven't given them a better model. So I

¹¹ In the course of this research, however, the first credit-rated Australian CHP, Brisbane Housing Company, achieved a AA- score, a ranking comparable (following the Brexit referendum) with the most highly-rated UK housing associations (Cross 2016).

¹² Unlike for most Australian jurisdictions, former Victorian Governments have directly enabled CHP asset ownership in various ways. However, most of the larger Victorian CHPs are also fully leveraged as a result of past borrowings.

don't think it's about more money, it's about getting some results. (Non-executive CHP Director)

We also heard views that innovation to enable large-scale private financing should be readily achievable.

I have a vision for what the industry could look like and it's very much informed by the UK and my transactions that we do for UK-based clients. So we've done a transaction recently for [organisation] in the US market, where we raised long-term funding for them and I see very much that the local ecosystem has the capacity to develop into an ecosystem which can produce those sorts of borrowers. It just needs to be given the right sort of encouragement, knowledge and skill base and that's what we would seek to do. (Finance partner)

Regarding key resourcing needs, two other recurrent cost issues highlighted by providers should be mentioned. The first concerns the long-term operational viability of CHPs.

Long-term maintenance liabilities are not able to be fully funded. A more strategic use of assets will be called for. Costs are rising. NRAS will drop off. In fifteen years nation building [SHI] property costs will rise. CHPs like [name of organisation] face a cliff [in liabilities] in the next decade. (Tier 1 provider CEO)

Added to this strain on rental revenue streams has been the growing government focus on social landlords achieving broader outcomes for tenants, such as training and employment. In a breakthrough model here, the incoming NSW SAHF will allow for a specific component of operating subsidy to be calibrated for such 'housing plus' activities required of social landlords.

The second issue is that funding for personal support services essential to sustain tenancies for clients with complex needs does not necessarily align well with that for housing services provision. The lack of capacity of support partners to meet the support needs of housing clients is an ongoing predicament and risk for housing providers and their tenants. Support partners are themselves experiencing increasing demand for their limited resources as the emphasis on housing high needs clients, especially the mental health cohort, intensifies (Support partners focus group). The continuity and the lack of mobility of funding for support services (i.e. where funding is tied to localities or programs rather than to clients) were nominated as specific limitations.

All of these views highlight the need for scalable, planned and integrated investment opportunities backed by adequate and enduring public subsidies as primary prerequisites for achieving additional affordable housing supply and other public policy objectives.

In what forms a postscript to stakeholder views and also represents a major breakthrough in government recognition of resourcing requirements for affordable housing, the Treasury officials' 2016 Affordable Housing Working Group has clearly stated that a 'sustained increase in the investment by governments will be required to stimulate affordable housing production and attract private and institutional investment' (Australian Government 2016b: 2).

2.3 Organisational capacity¹³

2.3.1 Current context

In our adaption of Glickman and Servon's framework, 'organisational capacity' lies in the personnel and internal systems of an organisation: in particular, the capabilities of corporate directors, executives and staff, and the governance, business management and ICT systems of their organisations.

Our profile showed the affordable housing industry currently comprises housing providers of diverse organisational size and complexity (Section 1.5.1; Milligan, Martin et al. 2016: Chapter 3). The largest provider organisations, which control most of the industry's service and development activities, have experienced substantial growth over the last decade, largely driven by national and state government programs. The revenues generated from their expansion have enabled them to enhance their internal capacity. A number of developer providers have also received significant *pro bono* support from the private sector, particularly in the areas of legal services, financing and staff training (Milligan, Gurran et al. 2009: 113).

Significant organisational developments among the largest providers identified in previous research were:

- enhancements to board skills and remuneration, especially to enable effective oversight of a housing development function
- establishment of a new layer of executive management below the CEO, typically comprising a Chief Finance Officer (CFO), a Chief Operating Officer, a business development manager and a senior asset manager
- major investment in information technology systems (Milligan, Hulse et al. 2015: 24–26).

From 2010, the pending establishment of the NRSCH also drove widespread internal reviews of CHP governance and organisational structures (Milligan, Hulse et al. 2015: 28–33).

Industry development frameworks, as applied in NSW and Queensland in recent years, have improved the diagnosis of capacity needs and assisted joint government and industry decision-making on resource allocation for capacity-building. A particular focus in Queensland has been on assisting smaller organisations, including IHOs, to comply with regulatory standards (Milligan, Martin et al. 2016: 48).

2.3.2 Primary research findings

Benefitting from past government investment, leading CHPs have evolved successfully to become small businesses with strong governance and growing internal capacities (Section 1.5.1). The scale of recent and ongoing work to build organisational capacity was indicated in our CHP surveys. Most respondents reported major reforms to their governance and/or senior management arrangements; their organisational ethos, mission or culture; their asset management planning systems; and their housing development or project management capacity (Milligan, Martin et al. 2016: 65). For the Tier 1 and 2 registered CHPs, this organisational capacity-building was largely self-directed—especially in the former group, most of which were planning for high levels of growth in their businesses. With new growth opportunities from governments relatively scarce since 2012, many of these CHPs were looking to make their own growth through economies of scale, to be achieved by mergers and partnerships and/or through undertaking new business activities.

¹³ This section considers capacity issues within provider organisations. The internal capacity of supporting institutions is discussed in Section 2.5.

Particularly among the large Tier 1 CHPs, previous business growth has enabled the building of organisational capacity sufficient to accommodate further growth. In our interviews, this was the strong message not only of CHP representatives but other industry stakeholders.

It's not 'what capacity development needs to happen'; it's 'can we start using that capacity'. It exists and it's time to put it to use. (Tier 1 provider senior officer)

The largest CHPs have sophisticated governance, HR [human resource] and ICT systems easily capable of absorbing substantial additional operational scale. (Supporting institution CEO)

With regard to governance and human resources ... They're not things that really come to the fore [as risks] ... The organisations we deal with are very professional and there is a sufficient cohort of larger organisations now to do business with. (Finance partner)

A key question for the industry is whether the recent stalling of government-led growth opportunities has led to a loss of organisational capacity within providers. A Tier 1 CHP CEO indicated the effect:

We have now twice wound up and wound down [development activity]. When we were building three hundred units a year more, we had a construction team and a specialist in multi-story residential. We had four architects. We had project managers ... we've still got a property team but it's like a quarter of the size it was.

Another senior CHP officer expressed dismay at the prospect of talent recently brought into the industry 'leaking' for want of opportunities. However, it appears that most CHP CEOs we spoke to are confident in their organisations' internal capabilities and their ability to engage other parties—particularly developers, planners and other property professionals—for specific projects where required. One Tier 1 CHP CEO regarded the organisation's capacity for engaging in development as 'a fluid resource', with two dedicated internal positions that can be expanded as required by contracting. Another CEO considered that organisational capacity had been proven in the flexible way in which his company had adapted to changing opportunities:

There's the kind of basic fixed cost around these organisations, around certain skills and capabilities which I think we've got absolutely solidly. We can move up and down and we can adapt as things change. (Tier 1 provider CEO)

Generally, the relatively small scale of most provider organisations is hindering the development and retention of specialist skill sets—organic growth has been too slow and uncertain to justify more organisations investing in or maintaining in-house development capacity and project management skills.

There is also capacity in the Tier 2 and Tier 3 CHPs. In some cases, this is because the CHP is a business unit of a larger multi-functional organisation with substantial back office support; but there is also capacity in the smaller standalone organisations, though this is obscured by the structure of the regulatory system and the absence of opportunities for full utilisation. A number of Tier 2 CHP CEOs highlighted the demonstrated capacity of their organisations—for example in taking leadership roles in industry peaks and networks, and in managing some development—but were frustrated by their exclusion from opportunities reserved for Tier 1 CHPs. One considered that, because of the specific clientele served by the CHP, its rental housing business—though capably delivered and serving a specific need—was not sustainable, and it needed other business opportunities. A regulator also observed that:

Tier 2 organisations cannot get over the line in tender processes because they cannot demonstrate proven capacity.

Governance and executives

Among larger providers, there has been significant enhancement to governance in recent years stimulated particularly by organisational growth and regulatory requirements.

Community housing has gone from being well-intentioned hippies to very highly professionalised organisations with boards like Qantas or Westpac. (Supporting institution CEO)

Skills-based boards have been embraced by the industry generally. A number of CHP CEOs identified the building of a skilled board as key to the development of organisational capacity. Interviewees from both finance and regulatory agencies mentioned the importance of board member credentials and Director-level involvement in negotiations for accessing finance.

Interviewees also observed, however, that regionally-based CHPs often face challenges in recruiting skilled board members, and that IHOs especially struggle in this respect.

Executive capacity has also been strengthened, especially in the Tier 1 provider cohort. The industry's CFOs in particular were seen to have become increasingly skilled. There was some concern, however, that specialist financial capacity may be limited to one senior manager—a situation perceived detrimental to a contest of ideas within the organisation, as well as raising issues of replacement and succession. Regulators had observed turnover of CFOs resulting in a loss of corporate memory.

A finance sector viewpoint of governance and executive capacity was that:

At present, risk awareness and risk management is a 'nascent capability' among CHPs ... capacity in this area is slowly accumulating among the larger providers through their exposure to financiers and associated negotiations. (Finance partner)

Another finance partner stated that they thought CHPs needed, 'at a minimum, a senior development finance person in house'. In this regard, entities within the industry that are part of a conglomerate (e.g. some faith-based and welfare organisations registered under the NRSCH) were seen to have an advantage at present through being part of a larger organisation with its own highly capable and experienced senior executives (interview, finance partner).

While governance training services and best practice guides are generally available, there will be a continuing need for industry-specific attention to maintaining and promoting good governance principles and practice across the industry.

Staff

As we observed in our profile of the industry, the past decade has seen a substantial increase, particularly among Tier 1 and Tier 2 CHPs, in the average size of providers' staff and broadening of functions and skillsets (Milligan, Martin et al. 2016: 35). Interviewees indicated some challenges in sourcing staff for their businesses.

One key issue for the future is the quality of leadership and where the next generation of leaders will come from—not just senior managers but middle managers. (Tier 1 provider CEO)

This CEO indicated that transfers of personnel from the public sector would not be sufficient, but pointed to other sources: other countries with larger and longer-established industries (e.g. the UK), and smaller local CHPs—these are 'valuable entry points where talent develops'.

Recruitment of frontline CHP staff was also a challenge. One Tier 1 CHP CEO with a culturally and linguistically diverse clientele had recruited staff that broadly reflected this diversity. As a result some staff did not have very high competence in letter-writing and other desirable skills; however, their communication and community engagement skills compensated.

We'll engage people who potentially other [organisations] wouldn't because of their skillset. We prioritise the softer stuff that is harder to train on.

A Tier 2 CEO stated that ex-public housing staff are 'on the whole, very valuable additions, with lots of experience and skills that do well outside the inhibitory management structures of public housing'. Another Tier 1 CHP CEO said most new frontline staff had come from the real estate sector, without experience in social housing or social service.

These challenges arise because housing workers are not a recognised professional group. Although some limited specialist qualifications and professional development programs are available, these are not mandatory, and workforce education and professional development approaches are mostly fragmented and ad hoc (Milligan, Martin et al. 2016: 45–46). There is a tendency to rely on short courses rather than to encourage deeper, ongoing training and the achievement of specialised educational qualifications.

The great challenge is that there is still no housing profession ... I'd like to recommend to my staff that they gain qualifications, but I really cannot, because realistic prospects of professional development remain poor for most people. (Tier 2 provider CEO)

Housing workers have come a long way in terms of their professional standards but these tend not to be housing-specific. (Educator)

Another factor affecting the future is that it is not just the housing industry that is going through big changes but also the education system. (Educator)

Business systems and information technology

Tier 1 CHP CEOs indicated the increased sophistication of business planning by providers, pointing to the recent development of 20+ year asset management plans and associated 20-year cash flow models. These were key tools for successful engagement with finance partners. In a recent industry-led survey of NSW CHPs' approach to strategic risk management, almost all CHPs indicated that they had risk management plans and risk registers in operation, and that risk management was embedded in their strategic planning, business planning and performance reporting processes (NSWFHA and Elton Consulting 2015: 34–40).

There has been significant ICT and business systems investment by large providers in recent years, which is underutilised (Milligan, Hulse et al. 2015). Numerous CHP interviewees also observed that the small size of the Australian market has hindered the development of a purpose-designed industry ICT product.

The problem of having a fit-for-purpose ICT system for this industry has not been solved and a lot of money has been spent on assessing options and adapting systems that are not robust or fully appropriate. (Tier 1 provider CEO)

A number of CHP CEOs suggested that useful work could be done by the industry's peaks and support agencies to arrange joint procurement of specifically developed ICT products.

Organisational scale

In industry stakeholders' perspectives on organisational capacity, 'scale' is a recurrent theme, as it was in 2009 (Milligan, Gurrin et al. 2009: 47). Many CHP stakeholders addressed the relationship between scale and capacity, and noted that benefits were realised by past increases in organisational scale and capacity:

When you are a certain size, you can handle growth okay because you have in place all of those basic elements that are applied We are now at a size where we can, we feel, easily double in size because we have everything in place to do that. (Non-executive CHP Director)

What we see is organisations that have merged or grown through whatever mechanism ... that scale enables sufficient back office functions that propel those organisations further forward. For example: two years ago we didn't have the resources to be able to do any community development work. We're now big enough to have several staff doing that work. So your capacity naturally increases with scale, and I think organisations increasingly are saying if we haven't got the scale, we haven't got those add on services that make us an attractive proposition to government. (Tier 1 provider senior officer)

Increased scale is important because it is needed to facilitate professionalisation. Growth enhances the ability to fund specialist managerial posts and to pay the rates needed to attract high-powered recruits. (Finance partner)

Small organisations can't all carry the overheads for development and finance. (Tier 1 provider CEO)

Where other stakeholders, particularly in the finance sector, identified thinness in provider organisational capacity—specifically, risk management, property development and complex procurement knowledge—it was argued that these issues would be resolved through increased organisational scale.

There is a strong sense within providers that increased organisational scale is not merely desirable, but necessary. The question is then how this is effected—particularly with an eye to maintaining provider diversity, specific organisational missions and industry 'ethos'. One Tier 1 CHP CEO argued for industry consolidation to be more strongly encouraged by government, although potentially achieved through alliances rather than full mergers, which are complex to execute. Consolidation could be encouraged through tender processes in which the contract would be entered into with a single entity, thereby forcing CHPs to combine or establish a jointly-sponsored Special Purpose Vehicle. It could also be pushed by the regulatory system, for example by a requirement to demonstrate the achievement of value for money that drives joint procurement arrangements. For this CEO, group structures were preferable to full mergers as potentially yielding economies of scale while preserving local autonomy.

A Tier 2 CHP CEO frustrated by the lack of opportunities was actively investigating a merger with a Tier 1 CHP. Another, similarly frustrated, noted however their organisation could not easily merge or partner, because of its specific mission (serving a specific clientele). This CEO considered that more entities, not fewer, would be needed to achieve sufficient geographic coverage and diversity of providers as the industry grew.

In their recent discussion of CHP capacity, Treasury officials reported on stakeholder concerns with the sub-optimal scale of CHP operations including capacity to deliver large scale projects. They also acknowledged the considerable strengths of the sector and that any consolidation 'should not be at the expense of specialist providers who have a role to play' (Australian Government 2016b: 44–45).

Overall, our research has shown that while the provider part of the affordable housing industry has been steadily building its capacity over many years and especially since the 2000s, this is presently underutilised. Recently, retention of capacity has been adversely affected by housing policy volatility nationally and in several (though not all) states and territories. Another important observation was the direct relationship between organisational scale and capacity.

2.4 Industry-specific capacity

2.4.1 Current context

Providers of affordable housing require a variety of industry-specific skills which relate broadly to developing and managing housing. There is also a strong focus on supporting tenants to sustain their tenancies, which typically involves housing providers in negotiating support service partnerships, assessing client needs and making client referrals. Providers may also undertake community development roles, such as linking their tenants to training and employment opportunities or other personal development services, or promoting social inclusion through initiating community participation activities.

In the Australian context, the professional skill base of the social and affordable housing workforce has traditionally been in tenancy and property management, community development and back office functions. Over the past decade this has changed, with Tier 1 providers in particular developing in-house asset management, development feasibility and project management capacities (Milligan, Martin et al. 2016; Milligan, Hulse et al. 2015).

However, the intermittency of development opportunities post-2012 has meant that many providers rely on specialist external consultants or private sector partnering to fulfil key housing procurement functions. On the one hand, this has stimulated more specialist consultancies to establish and helped build familiarity in the private (for-profit) sector with affordable housing organisations and models—especially among lenders, development companies and planning consultants (Milligan, Martin et al. 2016). On the other hand, it has tended to stymie the autonomy of providers and development of in-house expertise. In their efforts to be entrepreneurial and self-directed, some providers have also embarked on new business ventures such as strata management and other real estate services for which they have installed in-house capacity (Milligan, Hulse et al. 2015).

Institutional arrangements associated with development of the industry's specialist functions include an embryonic professional accreditation system run by the Australasian Housing Institute (AHI) which also offers a professional development program; a Certificate IV vocational training program for social housing workers offered by a range of registered providers both within the industry and outside (but recently in decline); and a distance-learning graduate certificate course in housing management and policy (Milligan, Martin et al. 2016: 45–46). These programs and activities are demand-driven rather than systematically and strategically developed. No specialised training or qualification in newer fields of activity, such as housing financing and strategic asset management, is being offered.

2.4.2 Primary research findings

Affordable housing industry expansion via public housing management transfers (on long terms) and new housing development call for the enhancement of skills across the industry, both in the traditional areas of tenancy management and tenant support, and in newer activities such as housing procurement, long-term fiscal and asset management, and developing housing tenure pathways.

Priority areas for industry skills development identified in our stakeholder interviews include:

- specialist property development and development finance knowledge, especially on the part of Board Directors, CEOs and senior executive teams
- long-term asset management and asset-management planning
- complex tenancy management
- culturally adapted housing management skills and services for Indigenous clients (see also Chapter 3)

- contract management.

Tenant participation, business resilience, leadership, mixed tenure development and management, and working with the NDIS were also nominated as areas with unmet demand for professional training.

Addressing large-scale growth in tenancy and property services will require enhancements to specialist training services.

There is plenty of generic training but training on specific industry skills is more difficult to access—such as asset management, residential tenancies management and legal responsibilities. (Tier 1 provider CEO)

With regard to meeting these workforce needs, there was general support for employing former public housing authority staff with appropriate skills and experience. One CEO noted the high performance of former public housing employees when liberated from the more rigid and hierarchical public sector management structure. Otherwise, as noted by another CEO, there isn't a pool of potential recruits with prior experience with social housing or human services more generally.

A leading recruiter commented on the appeal of the industry to senior staff because of its combination of social and commercial purposes:

Housing is an attractive area and a magnet for innovative leaders because it is succeeding in marrying commercial and community skills.

The challenges of complex tenancy management were specifically commented on from the perspective of support partners with experience of increasing demand from CHPs and their clients because of the growing pressures from state governments to house high need clients. Participants in our Brisbane-based focus group identified numerous stresses in the service system that was already working to full capacity and in some areas, overstretched. This underlined the need for the resourcing of support services and housing growth to be closely aligned (Section 2.2).

Another industry-specific capacity issue stated by several stakeholders was how the industry, as it expanded, would maintain its social ethos and core values. Several interviewees referred to a core 'ethos' of the industry, which encompassed values of social justice and social service, as an industry strength that needed to be maintained.

There is also a growing recognition of a need to refresh on the values and core mission of community housing which is in danger of being eroded through organisational expansion and growing commercial orientation. (Director, supporting institution)

In response to concerns about the industry's ethos, a long-term educator commented on the importance of both broad-based educational qualifications and specific training programs.

We need to retain the distinction between education [taking a broad based, systems approach] and training [addressing a specific skill or gap in knowledge].

It was also suggested by a professional support agency that ethical issues may be an area requiring more regulatory guidance.

[There is] a perception that there isn't enough regulatory attention on governance and ethics.

As shown, specialised professional development of the industry's governing bodies and workforce will need to be enhanced to support industry expansion and to manage key risk areas. Activities that are new to many organisations, such as strategic asset planning and

housing development and financing, require priority attention. As growth proceeds and organisations expand, maintaining a focus on core values and missions is also important. Over time these priorities will change as the sector evolves and new challenges arise. Given scarce resources and the small scale of the current industry, a strategic and well-coordinated approach to meet specialised training needs across the industry is required. This raises the question of how the industry as a whole can best lead and manage its continuous professional advancement.

2.5 Network capacity and the capacity of supporting institutions

As MacLennan and Miao (2017) highlighted, quoting Glickman and Servon (1998: 502), ‘capacity is built from within and without’. Thus networking capacities of housing providers—the nature and quality of their relationships with their peers, regulators, funders, service providers and peaks, and the industry-supporting institutions and infrastructure need to be considered, as well as the ability of supporting parties to fulfil their roles.

Our research included interviews and focus groups held with all main types of supporting institutions and key network members (Appendix 2). Some of the foremost capacity barriers and constraints within these institutions and networks that are compromising optimal system and organisational performance are summarised below.

2.5.1 Institutional capacities

Several types of institutional support are central to the industry’s functioning (Milligan, Martin et al. 2016: Chapter 4 and Appendix 3):

- Governments, particularly state/territory governments, through which funding and service contracts are procured.
- The regulatory systems and organisations to which registered housing providers are accountable for their performance.
- Peak bodies which represent the provider element of the industry and advocate on its behalf.
- Professional associations and specialist trainers and educators, and consultants that support workforce and organisational development.
- Financial institutions which provide loans for housing development and renewal.

2.5.2 Primary research findings

Capacity of governments

Many stakeholders endorsed our earlier conclusion that among the most significant issues facing the industry were risks relating to government, stemming especially from inconsistent political leadership and limited bi-partisanship on housing, and ongoing erosion of capacities and institutional memory within government (Milligan, Martin et al.: 41–43). This is part of a larger phenomenon noted by Tingle (2015), among others, in which government is being increasingly emasculated by loss of policy-making capacity and institutional memory. Jacobs (2015), for example, cites the view of a senior Treasury official that, thanks to a ‘hollowing out’ process ongoing since the Howard era, the Australian Government has lost the capability to initiate major reform.

In relation to affordable housing policy, previous research has also shown that governments at both Commonwealth and state/territory levels have progressively lost the capacity and expertise to steer development of the industry and, in particular, to understand the requirements of private finance and other potential partners (Milligan, Hulse et al. 2013; Milligan and Tiernan 2011). Stakeholders corroborated this:

[Name of organisation's] board rates government as the highest area of risk when it comes to their risk register. Their concerns are especially inconsistency, follow through and lack of certainty. (Tier 1 provider CEO)

This is an issue across the board with government changing course and leaving the industry stranded in terms of forward planning. (Industry consultant)

It is very difficult dealing with government. There is often goodwill but they [officials] don't stay long enough. (Tier 2 provider CEO)

There's hardly anyone now in [state] government who knows what community housing is or the policy that helped to build the sector. (Industry peak body)

One of the fundamental problems is that the state department of housing are the competitors ... we put fantastic propositions to the government and they get cruelled by bureaucrats who resent our existence. (Tier 1 provider CEO)

Senior bureaucrats lack commercial savvy. (Tier 1 provider CEO)

We and our partners effectively spent over \$1 million and had to go through what were effectively three tender processes due to changes in the tender over time ... there are real lessons about having clarity on the policy outcomes being sought and how they will be assessed. (Specialist agency CEO)

The underlying issues that the industry faces with government are:

- The general tendency observable over the past decade towards increasingly weak and fragmented political and policy leadership on affordable housing at the national level and in most states and territories.
- Unreliable and under-skilled policy-maker and implementation capacities.
- A lack of effective mechanisms for coordinating policy responses both within and between levels of government.

Particularly over the last few years, a loss of capacity and motivation in the industry has arisen from the perceived lack of government interest and the associated scarcity of growth opportunities.

It's quite depressing and demoralising to sit in an area in a state where you know that you have all the capabilities and the drive and that you actually do something [and when I say we, it's the organisation and the sector] ... extremely well but you're not being allowed that opportunity. (Tier 1 provider senior officer)

Policy volatility and delays in decision-making have a real cost for the industry that it cannot control. For example, CHPs pay fees on finance which they raise to fulfil agreed supply objectives but then face lengthy delays getting government sign-off on projects.

The recent trajectory of the much-heralded NRSCH is emblematic of ineffective administration as discussed next.

The system of regulation

A system of national regulation of community housing providers (the NRSCH) was earmarked for introduction in Australia in 2010. This was seen at the time as a prerequisite for attracting private lending into the industry and as a catalyst for the development of a larger and more competitive national market in affordable housing development (Australian Government 2010a). However, the Australian Government's failure to continue to lead this strategic initiative has

resulted in delayed and incomplete implementation of the system (Milligan, Martin et al. 2016:14–15).

At least in principle, the development of specialised industry regulation has been seen by policy-makers, lenders, providers and other key stakeholders as an industry strength:

Regulation has been great ... it has strengthened the sector, certainly the commercial entities' view of the sector. (Tier 1 provider CEO)

The initial work around national regulation was very positive and a widely agreed necessary plank for industry development. Putting this in place was therefore a major advance. (Industry consultant)

A key benefit of the current framework [NRSCH] is that it helps to give governments confidence in the role that CHPs play in delivering housing services. This would become more important as CHPs seek larger tranches of investment, such as from institutional investors, especially if there is some form of government backing for this. (Australian Government official)

Nevertheless, our research also found widespread dissatisfaction among providers and peak bodies regarding NRSCH implementation and operation. Two core issues emerged: the failure of governments to achieve a consistent approach (in terms of the continued absence of Victoria and Western Australia as NRSCH participants, but also relating to those jurisdictions currently participating); and the disappointment that the regulatory system had proven unable to add value so far through industry information and profiling, or through well-informed operational advice:

The regulatory system is in a dreadful state. The failure of Commonwealth leadership means there is no national system. The registry in NSW has lost profile. Potential industry benefits have not been forthcoming—especially data and performance information to drive industry improvement and assisting in the 'promotion' of the industry's role and profile. (Tier 1 provider CEO)

Another weakness is the failure to establish a joint industry–policy-maker governance framework. As a result, there is no clear and transparent mechanism for either policy oversight or an industry voice on the future of regulation:

Regulation is now 'hugely problematic for the longer term' because ... there is no governance structure. In the end, no one was willing to fund the infrastructure ... necessary to support the national model. However, the statutes are in place, the regulators are doing their job but they are not getting policy direction and there is nowhere that any needed changes / developments in the system can be adjudicated [in the absence of a National Regulatory Council or similar]. It is not for the regulators to set the rules; there is no policy oversight, policy-makers have no coordinating mechanism and the industry has no voice on this issue ... Regulators [as well as providers] also need to know what the plan is. (Industry consultant)

Registrars were perceived to have devoted a disproportionate share of their scarce resources to managing the registration of numerous small organisations which has precluded concentrated attention to other parts of the industry and other functions of regulation. As seen by major providers, regulatory staff generally lacked the competencies needed to assess risks associated with large business ventures and complex financial deals.

[The NRSCH] is not fit-for-purpose for the largest organisations—especially those entering into more complex governance and financing structures. The system needs to evolve to address the risks as the sector expands and diversifies. (Registrar)

In this respect, registrars have found building appropriate capacity within their offices to scrutinise larger, more complex organisations to be challenging, especially attracting staff with the required mix of business acumen, and financial and negotiation skills. This reflects the organisational structures established within registrar business units, and registrar recruitment priorities. Another restraining factor has been that public sector salary rates are low compared to market rates for business analysts (Registrars' focus group).

Our provider survey (see Appendix 2) found that the impact of regulation on providers was related to their stage of development. Tier 2 and 3 providers were more likely to have improved their business processes and financial management in response to regulatory requirements than Tier 1 providers who had greater established internal capacity to drive organisational improvements (Milligan, Martin et al. 2016: 67–69). Key weaknesses in the current regulatory system identified by providers included whether there was enough attention to risk and to driving 'value for money':

When I came here ... [from overseas] there was no ethos about efficiency or value for money. And I was absolutely astounded, [because] I had come from a regulatory environment where you had to demonstrate that you'd achieved value for money on an annual basis as an organisation. (Tier 1 provider CEO)

Regulation should be more focussed on risk not day-to-day management. (Industry peak body)

Providers were also concerned that regulatory burden has been compounded by the introduction of statutory regulation via NRSCH—because state governments have continued to place reliance on 'parallel' contractual regulation and other compliance requirements at a growing cost to the industry:

[A priority would be a] review of end-to-end processes—contract management, compliance and regulation to improve efficiency and usefulness. (Tier 2 provider CEO)

Compared to my international experience, there is excessive red tape and micromanagement of the affordable housing sector. This has stifled the innovation of businesses of good standing. (Tier 2 provider CEO)

Our research also identified a possibly unintended consequence of the emphasis on statutory regulation. An important early 'provider-led' initiative was the development of the National Community Housing Standards (NCHS) in 1999 (Milligan, Martin et al. 2016: 15). The case for such standards is that, in contrast to the regulatory focus on compliance with a minimum prescribed level of service, they constitute 'good practice' aspirations for organisations wishing to excel. Rather than benchmarks an organisation must meet to qualify as 'adequate', they demonstrate what a social landlord should achieve to be considered a good performer.

The standards have fallen into neglect, perhaps having been overshadowed by formal regulation. They have not been updated since 2010 and currently lack a sponsor either in government or in the industry (Milligan, Martin et al. 2016: 15; NCHS 2010). The agency providing accreditation services to participating CHPs, Global Mark, perceived this as a failure to recognise that NCHS accreditation, by driving service improvements (not just compliance with regulatory guidelines), is an important complement to regulation (interview Global Mark personnel).

Overall, the regulatory system was considered not ready to play its part in industry expansion by stakeholders. How to remedy this situation is discussed in Chapter 5.

Industry information

The other major system-wide capacity issue highlighted by Milligan, Martin et al. (2016: 46–47) and underscored by our stakeholder discussions is the quality and scope of information about the industry.

As reported, industry composition, activity and performance data collected by governments and by the industry itself is inadequate or, in the case of statistics held by regulators, publicly unavailable. There is no clear responsibility for capturing and disseminating industry knowledge and no single repository of industry information (Milligan, Martin et al. 16–17; 46–47). There is a lack of well-defined and publicly available industry cost benchmarks and pricing—covering property development and construction, maintenance, housing management, service enhancements etc. These data are necessary to demonstrate value for money, drive efficiency, attract new investment at scale and make outcomes-based approaches achievable.

A huge gap in knowledge of the sector/industry by those outside it and those joining in. (Industry consultant)

Recent [official] data seems to be shallower and less useful because it hasn't kept pace with changes in the sector. (Industry consultant)

Having high quality reliable industry information is very important from an investor perspective. Having information on matters that enable investors to assess risk is critical as well as giving them broader confidence in the CHP sector. (Australian Government official)

2.5.3 Network capacity

Affordable housing providers are networked in diverse ways, including through:

- Service partnerships—in the affordable housing industry these typically deliver tenant support services and for some organisations, community development services.
- Housing procurement joint ventures involving NFP providers and private developers.
- Knowledge exchange and sharing good practice through peer forums, expert panels, conferences, newsletters etc.—many of these being peak body-convened or managed.
- Policy development, advocacy and political influence via membership-based peak bodies (discussed separately in Section 2.6).
- Alliances—whereby groups of organisations share services or offer other forms of mutual support.
- Research and information sharing (e.g. benchmarking clubs) usually via member peaks or trade bodies.
- Building tenant relationships and tenant engagement (Section 2.6).

In this research we have not systematically examined networking capacity in all these realms. What follows is a selection of observations drawn from previous research and informed by our stakeholder consultations on networking strengths and weaknesses.

The most proximate (internal) networks are peer groups. The industry's peak bodies and peer networks are organised by jurisdiction and other affiliations, such as being a faith-based provider or a large-scale provider (Milligan, Martin et al. 2016: Chapter 4 and Appendix 3). Since the 2013 defunding of the Community Housing Federation of Australia (CHFA), the industry has struggled to re-establish an inclusive national peak body. This, and the historic diversity of member groups, has reduced the political effectiveness of the industry, as discussed in the next section.

A long-established and acknowledged strength of CHPs is networking with support partners—primarily at local and regional levels—and often supported by interagency fora or other coordinating mechanisms. For example, ‘Under 1 Roof’ is a 10-year established consortium of 12 homelessness, housing and support service providers in inner Brisbane that promotes a coordinated service system and multi-agency response to homelessness. It also works in partnership with a number of local businesses to provide legal, health, social and specialist support to homeless people.

Because of their traditional local base and long-term role, CHPs also typically have well-established networks with a wider range of government (state government district or regional entities, and local governments) and non-government human service and employment agencies, many of which have clients in common. Organisational mergers and service networks pursued by CHPs in several regions have been aimed at strengthening the integration of services in a regional context. A cited example was a CHP-led, regionally-based joint venture (unincorporated) with various support service providers which had, inter alia, produced a collaborative methodology for case management and referrals.

Formal alliances are less common so far, as one industry consultant observed:

Other industries (e.g. the utilities sector) have explored alliances much more, including alliances with government as the asset owner that go beyond old models of funder provider, PPP etc. to share goals and the sharing the risk and reward that goes with that ... There seems to be a gap in the industry’s effort and (possibly) expertise in getting the right sorts of vehicles together.

Another industry consultant observed that specialist second tier structures¹⁴ or joint commissioning of expertise could play greater roles in the industry.

Engagement with the wider housing industry, such as through membership of housing industry trade bodies and peaks, has generally not been well-developed, although this is changing as the larger CHPs grow their role in housing development and seek to raise their profile as business enterprises (Milligan, Hulse at al. 2015: 21–23).

Affordable housing providers predominantly comprise third sector organisations but their connections to the wider third sector, such as welfare, philanthropic and civil society groups, are not perceived as strong or well-developed. Arguably, this at least partly results from the separate development under government stewardship of the community housing sector and their strong reliance on government funding (Milligan and Hulse forthcoming).

Attempts to access philanthropic resources are being made, however:

We’ve also been quite active in developing and fostering relationships outside the housing sector, so especially in the last two years working with some philanthropic foundations to continue discussions about how do we leverage their funds and their access to land and what innovative models they’re competing in. (Tier 1 provider senior officer)

Effective networking with governments was considered to be particularly problematic by stakeholders. This may be a consequence of the failure of policy leadership and capacity shortcomings within government but it also reflects a perceived lack of trust in the provider component of the industry and lack of clarity about its role.

¹⁴ The example of a specialist entity cited by this participant was BlueCHP Ltd which is a specialist NFP development organisation formed in 2008 by five NSW-based CHPs to undertake affordable housing development on their behalf (Gilmour and Milligan 2012).

There is no common understanding of the business approach or trust in the autonomy of the CHPs ... CHPs are expected to respond to whatever 'policy platform du jour' that bureaucrats and Ministers dream up. (Tier 1 provider CEO)

There is still a parent-child relationship between governments and community housing and an assumption [mistaken] that capacity is lacking. Parts of government find this convenient. (Director, supporting institution)

There is still a 'big brother' approach. 'You aren't delivering—we need to tighten the leash' ... The new buzz words [of concern] are capacity and lack of commercial acumen. (Industry peak body)

Government presents that the sector needs capacity-building ... it's always been used as a reason why there's no investment in the sector because we don't have the capacity for it ... There's many organisations that have the capability and the capacity to grow But grouped together as a sector we don't have the capacity. (Tier 2 provider CEO)

Taking a system-wide view of the affordable housing industry shows the capacity of supporting institutions and the abilities of industry players to interrelate and collaborate to achieve their goals. In the realm of local service provision this has traditionally been a well-networked industry, but in terms of broader influence, such as across the wider housing industry, networks are in their infancy. Peer-to-peer networking is fragmented, reflecting the diversity of organisational types and service models, and the influence of different policy frameworks and priorities across jurisdictions. Some critical weaknesses in system capacity and in the quality of relationships with providers stem from government itself—especially inadequate political leadership, volatile policies, erosion of specialist policy and administrative capacity, and a lack of trust in industry partners. For its part, the industry's provider component has lacked the ability to influence governments to redress the present barriers to growth, and to steer their industry destiny to any great extent.

2.6 Political capacity

2.6.1 Current context

Conceptual considerations

We see the notion of political capacity as primarily relevant to provider organisations—both as individual entities and collectively as the 'provider part of the industry'. It involves the community connections, alliances and influence that organisations need to educate stakeholders, manage conflict and shape agendas.

Central to an individual social landlord's 'political capacity' is its ability to interact positively and productively with communities (including tenant groups) and other local stakeholders, as well as with direct interlocutors in government and its agencies. In local level interactions, a provider's 'political capacity' and its 'networking capacity' will be closely related. For provider organisations *collectively*, political capacity refers primarily to the ability of representative bodies to exert influence on government agendas and hence exert leverage over policy directions and decisions.

The political capacity of affordable housing industry providers is therefore related to the shrewdness of individual industry players and their representative bodies in (a) understanding their policy environment, and the perspectives and interests of other players, and (b) (inter)acting accordingly. It is about the formulation and presentation of organisational and collective goals, as well as positioning within broader competitive and collaborative milieu.

Given their charitable and legal status, CHPs differ from public housing providers in that they are 'non-political' entities. Governing body members are accountable to the organisation's members¹⁵ rather than to the tenant body or to the wider community. While usually 'elected' by this membership, their terms of office are rarely linked with an electoral cycle of the kind familiar to democratically accountable government entities.

Compared to a state government housing provider, a CHP is at least partially insulated from party politics and from the policy volatility associated with electoral cycles and the changes in ministerial designations, which are often more frequent than elections. However, as richly illustrated by UK experience (Pawson and Mullins 2010: Chapter 4) none of this means that NFP provision 'takes the politics out of housing'. On the contrary, political capacity remains a vital attribute for affordable housing providers and their industry representatives.

Political capacity at the organisational level

An important political capacity for individual provider organisations is their ability to facilitate a 'user voice' in the running of housing services. Tenant participation good practice guidance for Australian social landlords is well established—as incorporated in the National Community Housing Standards (NCHS 2010). This important contribution of an earlier industry-led capacity-building push has largely slipped from view, having been overlooked in the creation of NRSCH performance standards and compliance guidelines.

As noted in another report for this Inquiry, despite a putative objective to engage tenants, public housing transfer programs enacted to date have had only a moderate impact in stimulating such engagement (Pawson, Martin et al. 2016). However, the recently growing emphasis on 'place management' as a specified component of the successor landlord role (e.g. in Tasmania and South Australia) is likely to have placed more attention on local connectedness on the part of the CHPs concerned.

An individual CHP's political capacity is not only about the capability of its paid staff—especially its CEO and senior managers—but also about its governing body directors. A governance model incorporating 'constituency representation'—such as designated places for community or tenant members—is more likely to contribute to a CHP's 'local connectedness' which could enhance political capacity at this level. Recently, with the growing dominance of the 'skills-based board' model, associated scope for local influence may have waned. Notably, there is no regulatory guidance in this regard. At the same time, a number of larger providers have been recruiting high profile figures as board directors, some of whom are likely to be well integrated in wider circles of influence.

Industry-wide representation

Affordable housing is largely administered at the state/territory level in Australia and it is therefore this level of government the collective representation of housing providers have traditionally focused on to wield political influence.

Milligan, Martin et al. (2016: 43–44, Appendix 3) noted that a network of CHP-representative state/territory peak bodies operates across Australia, albeit that these organisations vary greatly in size, capacity, resources and core purpose. Existing state/territory-level peak bodies have little reserve capacity to support what has been a rapidly expanding industry, as they have been constrained by small budgets and heavy reliance on government funding. Especially in some

¹⁵ The member base of CHPs is established by rules laid out in their organisational constitution. Membership varies considerably: for example, comprising the Board of Directors, a small number of stakeholders or a large number of residents (Milligan, Hulse et al. 2015: 16–17).

jurisdictions, this situation reflects the existing small scale of the industry, providing insufficient capacity to self-fund larger peak bodies.

At the national level, the influence of affordable housing provider interests is even weaker. One explanation for this is the operation of private sector housing and property industry advocates—such as the Property Council of Australia and the Housing Industry Association—whose policy development and lobbying activities have been highly effective (Jacobs 2015). As government policy capacity has diminished, these interests have ‘filled the void in policy expertise’ (ex-Treasury official, cited in Jacobs 2015: 706), capturing the attention of Ministers, advisors and other policy-makers, and ‘crowding out’ representations from the NFP sector. Another aspect of this, according to a business lobbyist, is that ‘businesses are viewed [by Australian Government players] as active agents working in collaboration with government, while welfare lobbyists are often framed as dependent clients’ (Jacobs 2015: 699). Furthermore, the affordable housing industry’s own national institutions are undeveloped. Failure to overcome the 2013 de-funding and 2014 demise of CHFA meant that industry leadership nationally became more fragmented and ineffective. After protracted negotiations, however, plans for an Australia-wide peak body to represent provider interests—the Community Housing Industry Association (CHIA)—were materialising at the end of 2016 (CHIA 2016).

2.6.2 Primary research findings

In the Australian context, although engagement with key stakeholders such as lenders and development partners has recently increased under the stimulus of growth opportunities in certain states, the industry generally has a low profile in both the public and private sectors.

Political capacity of provider entities

One aspect of individual provider political capacity is the capability to engage with the tenant body. Many larger CHPs pay some regard to the ‘user voice’ principle through structures such as Tenant Advisory Groups, as well as through tenant feedback mechanisms. However, with governments and the NRSCH placing little emphasis on such issues, research has yet to establish their substantive role and contribution.

The following assessments of CHP capacity in this area were made by long standing industry participants:

Larger organisations do tenancy management well and some do development well. They do have good [inter] sector relationships. What they don’t do well is tenant engagement.

The advance in professionalism [of CHPs] is a big plus in terms of competent management and efficient use of resources, but there is a question about whether there is enough effort to resist complete detachment from the tenant world.

Individual consumer safeguards, such as a complaints system or a right to review of administrative decisions, and tenant advice services operate at the discretion of state governments, functioning in some jurisdictions but not others. Similarly there is no unifying network for tenants across the industry with a CHP tenant network only identified in NSW (Milligan, Martin et al. 2016: 44).

If the future industry is to place more importance on informed user choice (as envisaged in the recent Productivity Commission report on human services reform) more consideration must be given to building the capacity of provider organisations in working with tenants, and the participatory capacity of tenants themselves, as is occurring in the disability industry in the context of the NDIS (Chapter 4).

Industry-wide political capacity

The training, networking and other practical services provided by state-level peak bodies and by PowerHousing (Milligan, Martin et al. 2016: 43 and Appendix 3) were generally seen by CHP spokespersons and others as valuable. Few, however, commented on the effectiveness of their political influence. Reflecting on the situation where a former peak body had been de-funded, one interviewee noted that:

CHPs could achieve more if they worked together ... I can't identify a body that has any overarching coordination role (peak body) ... In the private sector you have the UDIA [Urban Development Institute of Australia], Property Council etc. but community housing providers in [state] do not have a strong voice in policy or advocacy. (Development partner)

In exploring the industry's collective political capacity in our research, the prime focus—and anxiety—was around national representation. Many stakeholders saw this as of central importance.

A Treasury official or somebody in the Prime Minister's office wants somebody that they can actually pick up the phone to and who will take the call. (Tier 1 provider CEO)

We would have a stronger voice if, with some things, maybe we actually do come together. (Tier 1 provider senior officer)

A national [industry] body is necessary to include all players and to ensure the industry remains open and vibrant with new entrants and innovation. (Tier 1 provider CEO)

Compounding the stress resulting from CHFA de-funding, there has been intense competition for industry-sourced funds since state/territory level peaks are themselves under pressure of rising demand for their services. This situation has prompted calls for consolidation of industry bodies at both state and national level—as in the provocatively titled contribution 'If two's company and three's a crowd, what is ten?' (Budworth 2015).

Since 2014 PowerHousing—a national, industry-financed, membership network for some larger providers—has continued to function alongside the embryonic CHIA. Because of this, some stakeholders are concerned that the absence of national co-ordination mechanisms has resulted in duplication:

I was at the [PowerHousing] NDIS workshop community of practice today, and we were pulling together our response to the [recent] paper ... but then so is the [NSW] Federation [of Housing Associations] and ... we need to make sure that we're not contradicting each other. (Tier 1 provider senior officer)

Concerns were also expressed about the scope for confusion among government policy-makers on who speaks for the sector:

[The process of seeking to replace CHFA with a single industry association has illustrated] a lack of strong leadership and self-confidence. There didn't seem to be enough drive in the industry to own and drive their own destiny. (Consultant)

If I were a policy-maker in Canberra I'd say they can't even organise themselves [to voice a unified message] ... PowerHousing isn't a representative organisation and doesn't have the [consultative] processes in place. It can't be the voice of the sector. (Industry peak body)

They [peak and industry bodies] all provide a service ... some of them overlap ... but they're all competing for business. I think there's a better way we can manage that. They're all asking for membership. (Tier 1 provider CEO)

The industry is perceived by some stakeholders as still being parochial—wanting to protect its own territory and existing funding rather than driving its own destiny:

The [sector's] mantra—'give us the assets and we'll do a better job [than housing authorities]' hasn't really gained traction As an industry we are not measuring effectively what we can do yet ... we do it better by ... and this is the quantum of that. (Tier 1 provider CEO)

[Another factor militating against a single voice has been the industry's] lack of coherence and parochialism, fragmentation by jurisdiction ... Therefore it does not present as an industry ... CHPs have tended to take a passive approach to their future—e.g. a focus on 'how can we get government to give us assets? ... This is the old funder-provider world, lobbying government instead of [pushing government to answer the question] 'what is your plan?' (Consultant)

Overall, the industry's low profile and recently fragmented national representation has inhibited its ability to organise and represent itself strongly and, thereby, to exert political influence. As well, post-2013 retraction of Australian Government support for the industry has made this more challenging.

Conversations about industry leadership and direction drew out comparisons with other government-supported industries (see also Chapter 4). The National Disability Insurance Scheme was widely viewed as a model to emulate:

Sitting behind NDIS is a commitment to a well-funded insurance system. There is no comparable unifying narrative for affordable housing and no co-ownership within government. (State government official)

2.7 Policy development implications

Our assessment of capacity issues across the industry points clearly to several priorities for both government and industry players to address so that the industry can utilise existing capacities and fulfil its potential:

- Manifold deficiencies in the resource and policy framework necessary to realise the industry's purpose, growth and desired policy outcomes.
- Degrading of provider capacity and waste of capacity-building investment due to winding down and cancellation of affordable housing development funding programs.
- Under-utilisation of large provider internal capacity resulting from limited and intermittent growth opportunities.
- A half-completed regulatory system left in stasis.
- Consequences of weak political and bureaucratic leadership both within government and in relation to the provider part of the industry.

These and other policy implications and accompanying recommendations are elaborated in Chapter 5.

3 Capacity issues in the Indigenous housing sector

The importance of Indigenous housing (IH) is shown by the high levels of housing need within the Indigenous community; the disproportionate reliance of Indigenous households on affordable housing; and the critical role of affordable housing in **‘Closing the Gap’ on Indigenous disadvantage**.

Indigenous housing organisations (IHOs) are responsible for an estimated quarter of all social housing provision for disadvantaged Aboriginal and Torres Strait Islander people.

The growth of IHOs has been constrained by:

- The absence of needs-based data and a well-defined and holistic policy and planning framework for Indigenous housing, nationally and in most states and territories.
- Poorly implemented past policies and abandonment of the sector which has left many organisations disrupted and vulnerable.

Many capacity considerations applicable to the broader affordable housing industry also apply to the IH sector. However, specific issues arise from the precarious situation of the sector and the distinct Indigenous historical, cultural and political context in which IH services operate, including:

- For most IHOs, organisational scales, operating subsidies and access to growth funds are inadequate to address the needs of their tenants and applicants, and to cover their service provision costs.
- Historic underinvestment in provider capacity-building has contributed to organisational governance, workforces and business systems being less developed than for mainstream providers.
- Limited recognition in housing policy and regulatory frameworks of the obligations for culturally-adapted service models.
- An almost complete lack of representative forums to enable policy and political engagement by Indigenous stakeholders.

As emphasised by Indigenous stakeholders, capacity-building priorities include achieving enduring and effective Indigenous engagement in the industry, and more viable Indigenous housing organisations in both remote and urban contexts.

Indigenous housing policy needs to take into account the critical role of affordable housing in addressing Indigenous disadvantage and housing responses must be **better integrated with other ‘Closing the Gap’ strategies**.

Any transformation of the affordable housing system has to be especially mindful of the housing situation of Australia's Indigenous peoples and the critical role of affordable housing in addressing Indigenous disadvantage. Social and affordable housing providers collectively house one third of the Indigenous population, and reliance on the affordable housing system is escalating for this group (AIHW 2016; 2014).

Unique challenges of managing Indigenous tenancies include responding to the complexity and diversity of tenant needs as well as the aspirations, lifestyles, cultural practices and geography of Australia's first people (Milligan, Martin et al. 2016:76).

IHOs have played a critical role in housing provision since the 1970s (Milligan, Martin et al. 2016: 76) and, despite attrition over the past decade, continue to represent a distinctive and essential part of the industry being responsible for about one quarter of all Indigenous social housing (AIHW 2016: Table 4 supplementary data). IHOs act as gateways to the broader housing system for Indigenous clients, as well as providing culturally appropriate housing for those who find it difficult to engage with mainstream services and those who live in remote and discrete communities.

An estimated 200 funded IHOs remain with much reduced numbers in remote communities. While many are small standalone providers, for others housing is one of a range of human services offered. Some are becoming significant players in the industry, managing several hundred dwellings. By March 2016, nine IHOs had achieved mainstream registration (under the NRSCH or equivalent)¹⁶ and a further 42 in NSW were registered in an Indigenous-specific housing registration system. The remainder have a variety of contractual relationships with governments and some (not included in our estimate) own their housing and operate independent of government support or regulation (Milligan, Martin et al. 2016: 78–81).

3.1 Current policy context

Indigenous housing policy and provision has seen massive and disruptive change over the past decade including:

- The 2009 transfer of responsibility for Indigenous housing from the Australian Government to states and territories, which also took over control and management of remote housing under the National Partnership Agreement on Remote Indigenous Housing (NPAIH).
- The dismantling of dedicated Indigenous housing funding programs in urban areas and imposition of mainstream regulation, funding and policy regimes.
- Weakening of most Indigenous housing representative, governance and policy institutions and mechanisms.

While the recent policy agenda has increased expectations on mainstream affordable housing providers to address Indigenous housing needs, the greatest impact has been on the Indigenous housing sector. Many IHOs have seen viability undermined by policy uncertainty and withdrawal of resources. Many organisations—especially those in remote community settings—have been forced to wind up or cease housing provision. Given this situation, it is perhaps remarkable that many IHOs have survived and that a small but growing number have adapted and achieved success under mainstream funding, contracting and regulatory regimes.

The shift of focus away from Indigenous-specific services in several jurisdictions has also contributed to a decline in reliable information about Indigenous housing needs and service

¹⁶ Within the Victorian registration system, Aboriginal Housing Victoria's class of registration was upgraded from 'housing provider' to 'housing association' in 2016.

provision, less engagement of Indigenous stakeholders in the policy process and reduced investment in organisational capacity-building.

Evidence is also growing that imposition of mainstream operational policies and service delivery rules and methods—such as on allocations, rent-setting and collection, and tenant support—have proved inappropriate and/or ineffective for many Indigenous tenants, and have also constrained or burdened service providers (Habibis, Phillips et al. 2016; Milligan, Phillips et al. 2011). Mainstream regulatory and contractual regimes in areas such as procurement assessment processes and benchmarking have also failed to acknowledge the unique contribution of IHOs or the specific challenges they face.

As the 2018 end of NPARIH approaches, Indigenous housing policies are under official re-consideration, in response to advocacy by the Indigenous community and research evidence demonstrating the essential role played by Indigenous services (Habibis, Phillips et al. 2016; Moran, Memmott et al. 2016; Royal Commission into Family Violence 2016; Milligan, Phillips et al. 2011). As part of the review process, the national Minister for Indigenous Affairs has commissioned an independent 'Remote Housing Review' to consult and report in 2017 on the outcomes of NPARIH and recommend next steps for remote housing.¹⁷

It is, therefore, timely to consider the findings of this research on capacity-building sector strategies for achieving enduring and more effective Indigenous engagement in the industry and stronger and more viable IHOs.

3.2 Resource capacity

The Indigenous housing sector faces a range of challenges additional to the resource capacity issues facing the broader industry (Section 2.2). Many of these challenges emanate from the forced transition to mainstream funding and government policy changes, such as a shift from property-based to income-based rents, and the loss of predictable capital funding streams and recurrent operating subsidies. Others, such as inadequately maintained housing assets, are legacy issues. The sector has also experienced a decline in opportunities for cross-subsidy, such as previously generated through social enterprise activities, and the loss of subsidised labour for construction and maintenance, previously sourced via the discontinued Community Development Employment Program (CDEP). It is noteworthy that, while significant funding has been allocated to states and territories under NPARIH to subsidise operational costs and service delivery, these subsidies have been withdrawn from IHOs. Consistent with previous research findings showing financial viability pressures in the sector (Eringa, Spring et al. 2009), stakeholders reported how all these changes have radically altered business models and undermined IHO viability.

Financial viability is crucial. It's a very marginal business. (CEO, IHO)

[Policy-makers need to recognise] the extra resources needed to deal with the deep disadvantage of Indigenous tenants. (Indigenous housing leader)

We've inherited poor policy and a multitude of small organisations [which] need to rationalise and regionalise or they'll wither and die; they need an incentive, a clear strategy to make that happen. (Indigenous housing leader)

Informants argued forcefully that funding, subsidy and contracting regimes applying to IHOs are not fit-for-purpose and do not cover the costs of service delivery for many organisations.

¹⁷ See <https://www.dpmc.gov.au/indigenous-affairs/housing/remote-housing-review>.

Specific challenges faced by IHOs arise from their relatively small scale, low (per dwelling) rental revenue and the high costs involved in providing culturally appropriate services, often in rural or remote locations, and with high-liability property assets.

Stakeholders proposed that financial modelling be undertaken to determine and set benchmarks for the costs of service provision in different locations and for different client groups. This would enable the true level of subsidy required to ensure operational viability to be determined.

Another factor affecting future viability was that IHOs are being disadvantaged in mainstream competitive procurement processes by larger more cost-efficient providers. Stakeholders identified a variety of mechanisms that could be used to support the sector to grow and achieve economies of scale. These include targeted information and assistance with tendering, controlled-competitive procurement, selective tendering or weighting selection criteria to preference IHOs and Indigenous employment and businesses (especially in remote communities).

There are over 30,000 Indigenous-identified social and affordable dwellings nationally, including at least half that are state-owned or managed (SCRGSP 2016). This represents a significant asset base that could be used to increase IHO scale and viability. Transfer of state-owned and managed Indigenous housing to IHOs that achieve agreed standards (as has occurred in Victoria and is being planned in NSW) was strongly supported by Indigenous stakeholders as an important strategy for improving the scale and viability of IHOs. In those remote communities where the sector has almost been wiped out by state and territory takeovers under NPARIH, hand-back or transfer of state-managed housing will require establishment of new entities and/or support for existing Indigenous organisations to rebuild necessary housing delivery capacity.

The transfer of both management and property titles, as is occurring in Victoria (ABC 2016), is strongly preferred, to give IHOs full control over their assets and scope to re-configure their housing portfolios to achieve contemporary standards and better meet tenant needs. Long-term (20-year) leases, such as those under discussion in NSW, may be an acceptable option if they provide reasonable control over assets.

[name of organisation] is not viable without title transfer ... [this is because of] the counterparty risks, especially in relation to asset management and disposal, and being hamstrung in attempting to reconfigure dwelling mix (especially to increase the number of smaller units) (CEO, IHO).

In addition to more appropriate funding and policy settings, other options to improve financial viability identified by stakeholders included: more flexible approaches to rent-setting; diversification of housing products;¹⁸ and enhancing organisational business planning and financial management capabilities.

3.3 Organisational capacity

In common with all Indigenous organisations, IHOs encounter significant inter-cultural challenges in establishing governance and management models that allow them to participate successfully in a mainstream system while also maintaining fidelity with cultural imperatives and community accountability (Bauman, Smith et al. 2015: xiii).

¹⁸ Mixed tenure developments in particular were seen as a means of enabling cross-subsidy for social housing development and increasing Indigenous home ownership opportunities.

The available evidence supports our finding that IHOs aspire to, and some are well-positioned to, play a larger role in the industry. A small but growing number of IHOs are achieving mainstream registration and actively participating in the broader system, primarily in non-remote settings across WA, NT, Queensland, NSW and Victoria. Mainly due to their small scale and a history of limited investment in capacity-building, other IHOs have not developed their governance and organisational capacities to the same extent as many mainstream providers. This situation has been exacerbated by a lack of policy attention and funding to the sector over the past decade.

Informants from larger, more established IHOs reported on the commitment of their organisations to building organisational capacity.

We were determined to be better than anyone. We are very transparent and committed to good service delivery. We aimed for 'gold star' and staff professionalism. We also need to retain flexible service delivery focussed on individual needs and circumstances. (CEO, IHO)

Sector structure and organisational models

Some of the ways by which the IH sector could be restructured include consolidation, the creation of new organisational models and/or adoption of hybrid approaches to governance and service delivery.

Potential approaches identified through our research that could improve organisational efficiency and viability and also promote Indigenous employment and business opportunities included:

- Larger-scale regional or state-wide organisations. For example, Victoria has achieved viability for its leading Indigenous provider, Aboriginal Housing Victoria, through a staged ownership transfer of most of its former state-owned and managed Indigenous housing (SOMIH)—approximately 1,500 dwellings which are located in cities and towns throughout Victoria.
- State-wide or regional umbrella bodies that centralise backroom functions and harness expertise while local organisations retain ownership and housing management functions. An example elsewhere in the industry is Common Equity Housing Ltd, which is the umbrella body for small housing co-operatives in Victoria, with centralised responsibility for long-term asset management and new housing developments.
- Indigenous-controlled real estate and housing management service franchises that undertake housing management functions under negotiated agreements with local communities/owner organisations. A form of these operates in NSW, for example the Murdi Paaki Regional Housing Corporation works across a large remote area of Western NSW managing over 1,100 houses that are owned by 23 local IHOs and Aboriginal Land Councils and the Aboriginal Housing Office (AHO).
- Negotiated partnerships or alliances with larger Indigenous organisations or mainstream housing providers that share specific expertise, such as CHPs managing housing development or maintenance for IHOs and IHOs providing tenant support/engagement for mainstream providers.

While supportive of positive organisational reforms, Indigenous stakeholders stressed that retaining the vast diversity across Indigenous communities is important; governments should not impose models on communities; and change should not be rushed. Stakeholders expect governments to set clear guidelines and expectations about acceptable parameters and outcomes required under funding, procurement and regulatory regimes. Organisations and communities then need to be resourced to understand possible options and to assess the

model best suited to their circumstances. Building in evaluation of new approaches is also important for further improvements.¹⁹

With a clear understanding of the 'rules of the game', IHOs and their communities will be empowered to choose their preferred option.

Consolidation is difficult given how dispersed the IHO sector is and organisations are reluctant to give up autonomy. (CEO, IHO)

Specifically regarding remote areas in [state]—there are no mainstream providers with any scale; action research could look at what really works on the ground rather than inventing models that could be expensive to deliver ... it's critical to understand what will work. (Indigenous housing leader)

We need to educate people about the land and how it can be used for the community and how it can be structured to keep decision-making powers locally. (Indigenous housing leader)

Governance

Indigenous governance has received considerable policy-maker and research attention internationally and in Australia in recent years. This recognises the significant role governance plays, not only in organisational performance and compliance, but in 'promoting sustainable economic activity, self-determination and cultural resilience' for Indigenous communities (Bauman, Smith et al. 2015: xi).

In parallel, governance across Indigenous sectors is undergoing transformation (Australian Indigenous Governance Institute 2016). Traditional 'community control' models (e.g. registered Indigenous Corporations with boards that are Indigenous and member-elected) are being adapted or replaced with models that accommodate merit-based boards and/or which allow a minority of non-Indigenous directors (who bring expertise not otherwise available). These models may also involve non-Indigenous members or shareholders. Examples of housing organisations that have some or all of these governance features are Aboriginal Housing Victoria, Yumba Meta (Townsville) and the Central Australian Affordable Housing Company (Alice Springs).

There was a widespread view among Indigenous and non-Indigenous stakeholders that the skills of boards and senior management in the IHO sector need to be enhanced and broadened. Indigenous informants reported on innovations in governance models being adopted within the sector and underlined the critical importance of strong governance and management.

We've reformed our organisation after massive internal problems; we've invested to improve staffing management and governance ... the key thing is getting the management and governance right. (Indigenous housing leader)

IHOs need skills—especially in Boards. They need separation of powers between board and management ... [and] skilled managers that can drive the organisation. You need a lot of skills and Indigenous people may not have the necessary skills or experience. (CEO, IHO)

I see the future is in ... merit-based boards. (Indigenous housing leader)

¹⁹ Bauman, Smith et al. (2015) discuss these issues in more detail.

A seven member Board now governs—four Indigenous and three non-Indigenous members. This is working well. Thus [name of organisation] has transitioned from being a member-based organisation to a corporation. (CEO, IHO)

Communicating the need for and benefit of such changes and gaining community stakeholder endorsement were identified as key factors to successfully transition to new governance models while retaining community trust and confidence.

Staff

Attracting and building professional and technical skills within the Indigenous housing workforce is vital to ensure quality service delivery, enable expansion of their part of the industry and promote Indigenous employment. In addition to fostering the industry-specific skills discussed in Chapter 2, informants to our study emphasised the need to equip and support Indigenous staff for the inherent challenges and pressures of tenancy management within their own communities, where their tenants may be elders or family members—situations that may present housing managers with conflicts of interest or divided loyalties.

Sometimes our Indigenous staff do not want to deal with issues—especially if they know tenants or they are family or tenants feel shamed. (Indigenous housing leader)

It can also be difficult for staff—they are on display 24/7 and need to be respected in community and be supported by management. (CEO, IHO)

Other specific workforce issues identified included building cultural competency within mainstream housing services and strengthening the capacity of Indigenous workers to participate in mainstream networks that may be unfamiliar or uncomfortable.

3.4 Industry-specific capacity

IHOs have a long history of small-scale housing management and construction, and proven strengths as specialist providers of holistic, family-focussed, culturally responsive and place-based housing services. In order to meet regulatory and funding requirements and manage growth and business diversification, IHOs need to retain, upskill and broaden the skills of existing staff and to attract new Indigenous workers. Asset management and managing housing development were identified as high priority areas for skills development.

Many IHOs see their role to continue as ‘niche’ providers working, where necessary, in partnership with other mainstream providers or Indigenous service organisations with complementary capabilities.

We want to be a ‘boutique provider’ and focus on quality, integrated services. We can’t get too big and [need to] keep our focus on high need Indigenous tenants, including tenants from remote areas. (CEO, IHO)

Sustaining tenancies and cultural development are seen as core roles for IHOs.

Sustaining tenancies is crucial to the IHO sector ... IHOs must be wrap-around service providers. (Indigenous housing leader)

Sustainability ... should encompass culture—cultural sustainability or continuity. (Indigenous housing leader)

While recognising the need to professionalise and strengthen industry-specific skills such as in asset management, stakeholders identified community connection and cultural fidelity as continuing priorities.

Building and strengthening service delivery relationships with mainstream providers was seen as a high priority, particularly as a vehicle for mutual sharing of expertise and offering provider choice for tenants.

Because we know that white people don't know how to relate to Aboriginal people, and don't understand how much work is required to maintain an Aboriginal person in their tenancy ... we provide that interchange with Aboriginal people ... to make sure they have a place called home. Mainstream agencies need our expertise to deal with Aboriginal people. (Indigenous housing leader)

There's a clear place for Indigenous-specific service providers as well as a culturally appropriate mainstream. So we need tolerance for a diversity of housing provider types, and recognition of the massive degree of disadvantage of Aboriginal people; capacity-building would be different if we celebrated diversity of providers rather than forcing them all into one model. (CEO, IHO)

3.5 Capacity of supporting institutions and networks

In their local areas, IHOs are usually well-networked with both Indigenous and non-Indigenous organisations (Milligan, Phillips et al. 2011). However, the sector's strategic connections with the broader industry and its main institutions are much less developed. This has been exacerbated by the recent dismantling of most Indigenous-specific housing institutions and officer networks, leaving the NSW Aboriginal Housing Office as the only remaining dedicated Indigenous housing (government) entity in Australia. However, some mainstream agencies, such as registrars and industry peaks, have renewed their efforts to re-engage with the sector (Milligan, Martin et al. 2016: Table 9). In order for the sector to grow, stronger sector-specific institutional arrangements will be needed, as well as reform of mainstream institutions and networks so they become inclusive and responsive to the Indigenous community and their organisations.

The absence of Indigenous voices in policy formulation is a major concern to Indigenous stakeholders. Unlike sectors such as health and children's services, the Indigenous housing sector has not founded state or national peak bodies.²⁰ The formation of national and state/territory Indigenous housing sector peaks and development of advocacy capacity is seen as critical to informing:

- future policy development
- organisational pathways for IHOs
- capacity-building in the sector
- Indigenous housing provision in the mainstream industry.

There was widespread agreement among informants that greater participation by IHOs in institutions, networks and partnerships (especially those addressing operational issues and good practice) within the mainstream affordable housing industry would assist.

We had lots of encouragement and help ... Without that support from mainstream people we would not be where we are. We need to reach out and we have encountered good will. (CEO, IHO)

²⁰ As we write, moves are afoot in NSW and the Northern Territory to establish Indigenous housing peak body organisations.

Such partnerships have implications for mainstream organisations and institutions as well as for IHOs with regard to building trust, mutual understanding and inter-cultural capacity. There must also continue to be respect for and promotion of Indigenous self-determination and empowerment.

My vision is that we have strong partnerships with mainstream CHPs ... Indigenous housing organisations cannot stand alone. (Indigenous housing leader)

We need outside help but the confidence and drive has to come from us ... Industry bodies have been very useful—we get recognition and resources by being involved ... [Mainstream state peak] is a voice for [the] sector and they make sure we have all the information. (CEO, IHO)

Government

Echoing the litany of concerns expressed by stakeholders in the mainstream industry, Indigenous participants were vocal about the lack of capacity within government bureaucracies.

The biggest difficulty is change of government and policy. We put so much work, money and resources into one policy direction and then it is wasted. You think you have negotiated something and then that person leaves and you have to start all over again. There is often goodwill but they don't stay long enough. (CEO, IHO)

Changes in the allocation of responsibility for Indigenous housing, as under NPARIH, can also result in a lack of specialised knowledge in successor administering agencies, when not accompanied by capacity-building. After NPARIH was introduced, the lack of understanding in one jurisdiction of the particular requirements for procuring and managing housing in remote areas was described by one stakeholder as 'calamitous.' Recently published research has found that, following the mainstreaming of Indigenous housing services under NPARIH, staff expertise in several jurisdictions had to be virtually built from scratch (Habibis, Phillips et al. 2016: 104).

Regulation

Participation in regulatory processes was recognised among Indigenous research participants as an important element of securing a stronger future for IHOs. However, the history, scale and operating position of most IHOs are so different to those of mainstream providers, there are concerns about how mainstream regulation is applied and its effects on the future of the IH sector.

The benefits of regulation and of participating in the NRSCH were acknowledged.

I felt we needed to be part of the mainstream system. Registration is also a pre-requisite for growth. (CEO, IHO)

Regulation provides a discipline within the organisation. (Indigenous housing leader)

Concerns were expressed, however, that mainstream regulatory practices were not adapted for Indigenous organisations and their clients. There was also a perception that regulators are currently unable to appropriately assess IHOs, because they do not adequately understand the sector.

Registration forces Indigenous organisations into the mainstream model: there's no recognition of special Indigenous status or sensitive areas like rent arrears. (CEO, IHO)

Registration requirements look only at whether the standard is met, not whether an organisation has improved from a very bad position. A focus on trend data may be more appropriate than snapshots or industry benchmarks. (CEO, IHO)

As in the broader community housing sector, there is an issue about the remit of regulation and the consequences of regulatory effort and the use of scarce resources. In our discussions questions were raised about the costs and benefits of the current approach to registering very small IHOs, although it was noted that the introduction of specifically-adapted regulation in NSW had assisted with provider consolidation.²¹

Ultimately, questions about IHO regulation cannot be settled without first determining the future strategic directions for that part of the industry, and the opportunities for growth that will be provided to IHOs that meet regulatory requirements. The current regulatory approach will require careful adaptation. Reform must allow adequate time and be effected through consultation with Indigenous stakeholders.

Information collection and dissemination

Similar to within the broader industry, our research found that data collection and reporting for Indigenous housing was poor, and had not been adapted to national and state/territory changes in administration and service delivery. Analysis of national data reports (AIHW 2016, SCRGSP 2016) shows that data definitions are obsolete and do not represent the current status of the sector, and that critical data is missing or of questionable quality. Addressing this issue is a prerequisite for better policy-making and fairer resource allocations and is a high priority, as recommended for the whole industry.

3.6 Political capacity

The political influence of the Indigenous housing sector, along with other Indigenous service sectors, was substantially weakened by the 2005 abolition of the Aboriginal and Torres Strait Islander Commission and the imposition of mainstreaming agendas by subsequent governments. As discussed above, the IH sector is small and dispersed and has few state or national institutions. Without any means of organising, it is therefore impossible for the sector to represent its interests. Public and media attention to the sector is also largely absent except in relation to remote housing.

However, in NSW the long-term operation of a statutory authority, the Aboriginal Housing Office (with an Aboriginal Board of Directors), with support from the mainstream provider peak body in that state had provided some opportunities for political influence. More recently, the Northern Territory sector has been successful in lobbying and gaining public attention for housing issues, with support from Indigenous peak and advocacy bodies in other sectors (NT Government 2016c; APONT 2015).

Stakeholders were also concerned about the ongoing capacity of IHOs to maintain and build confidence and trust within their communities and with their members and tenants as they adapt to meet mainstream policy and regulatory expectations.

3.7 Policy development implications

Consideration of the special characteristics of Indigenous housing is critical to government objectives to redress Indigenous disadvantage, and housing services play a central role. This study has been only able to give limited attention to capacity issues facing IHOs, however the findings, and those of previous research, make a powerful and urgent case for building capacity in this part of the industry.

²¹ In NSW the Provider Assessment and Registration System (PARS) operates under the Aboriginal Housing Act (1998) (Milligan, Martin et al. 2016: 92).

To successfully meet Indigenous housing needs in both urban and remote areas, future policy needs to recommit to Indigenous-controlled and culturally appropriate service models. A clear vision, holistic (urban, regional and remote) strategy and intentional policies for Indigenous housing are required to drive necessary change. Under this overarching framework, state and territory-specific strategies will be required to allow for the great diversity of Indigenous communities.²²

Sector-specific resourcing and capacity-building strategies in mainstream organisations will also be critical to improve Indigenous housing outcomes.

The strategic objectives for IH sector are:

- 1 Developing IH provider capacities.
- 2 Developing the relationships between IHOs and the wider affordable housing industry.
- 3 Improving the capacity of mainstream providers to provide culturally appropriate services in partnership with Indigenous communities and their institutions.

Housing responses also need to be integrated with other 'Closing the Gap' strategies and to recognise the importance of land and the special meaning of 'home' for Indigenous Australians (COAG 2009).

Arising from our consultations and analysis, key reforms needed include:

- Explicit recognition of the unique context, strengths and challenges faced by the Indigenous housing sector in policy settings and regulatory regimes.
- A national strategic framework for Indigenous housing and state/territory strategies that set clear goals and targets that have been informed by robust and transparent needs-based assessments.
- Sensitising funding models and service procurement processes to the specific Indigenous objectives and circumstances of service provision.
- Capital investment for portfolio renewal and expansion, including transfer of 'identified' state-owned assets to Indigenous organisations to boost their scale.
- Reform of land governance models and legal instruments to enable IHOs to utilise their resources and fully participate in funding and financing opportunities.
- Improved opportunities for Indigenous participation in policy formulation, such as through national forums and state peak bodies.
- Tailored strategies to support IHOs to transition to new organisational governance models that meet regulatory requirements but retain community engagement and trust.
- Workforce strategies to expand and upskill the Indigenous housing workforce (Directors and staff) and to build cultural proficiency in the non-Indigenous workforce.
- Facilitating relationships between mainstream industry players and the Indigenous sector in ways that promote Indigenous self-determination and cross-cultural capacity.

²² We understand that this work has commenced in some jurisdictions.

4 Review of industry development elsewhere

Comparisons with capacity-building approaches in affordable housing systems in relevant overseas jurisdictions showed the importance of:

- A funding framework that provides adequate resource capacity commensurate with stated policy objectives and operational circumstances.
- Policy stability and continuity.
- Agencies within government tasked as champions of an affordable housing industry at an emergent phase of its development.
- Industry regulation which clarifies policy directions and codifies their implications for housing provider operation.

By examining developments in other service industries undergoing growth and reform, further insights on approaches to capacity-building can be gained.

Comparisons of capacity-building in the Australian disability services, renewable energy, superannuation and (NSW) out-of-home care sectors demonstrate the roles of governments and industry in securing effective industry development.

Although the development needs of each industry vary, general insights that emerged included the importance of:

- Government-driven momentum for reform, by instituting a clear industry vision, setting targets, undertaking policy reform and, where needed, expanding funding.
- Having regulatory and legislative and policy settings that establish confidence and certainty about an emerging industry's **future, facilitate enhanced private** investment and catalyse self-directed industry development.
- Building institutional capacities to steer reform and fostering alliances between government and industry participants to manage and guide transition and implementation.
- Devising well-designed and targeted sector developmental activities, funded by government and/or industry, to meet identified needs for additional service capacity.
- Giving weight to consumer capacity issues.

The development of affordable housing sector capacity from relevant overseas jurisdictions and of capacity-building activities in four comparison sectors in Australia was reviewed for insights.

The evidence relating to affordable housing industry development internationally is drawn from the international research projects in North America and Europe (Table 1). Lawson, Legacy et al. (2016) focused on the transformation of former public housing systems in federal states—Austria, Canada, Germany and the US. MacLennan and Miao (2017) explored the way that not-for-profit housing sector capacity in the UK was built through council housing and other state

landlord transfer programs, especially during the early part of this process when the NFP cohort was embryonic.

Within Australia, four current or recent exercises in sector development were researched to explore similarities and differences in approach and to generate insights into potential approaches for the Australian affordable housing industry.^{23, 24}

The far-reaching reforms to *disability services* through the introduction of the NDIS provide an obvious point of comparison, as that sector delivers a suite of services, co-funded by government, to people in need; and affordable housing tenants and current or prospective NDIS participants partially overlap. The NDIS substantial reshaping of the service delivery system, including in some jurisdictions the devolution of services previously delivered by the public sector, has led to the funding of a range of sector development initiatives. The Australian Government is leading this reform, albeit after a period of client, sector and community debate and awareness-raising. Key differences from the affordable housing industry include the high level of support for reform among clients and the general public, and the radical shift in the funding model from grant funding of service providers to insurance-based individualised funding of clients.

The *renewable energy* sector has been the focus of government investment at national and state levels, which has led to the emergence of new providers and market participants. A key focus, as for the affordable housing sector, is the need to leverage government subsidies to attract private finance to drive growth. The sector has also been subject to policy uncertainty, which has affected sector growth and private investment confidence. A further parallel with affordable housing is that the renewable energy sector is positioned in competition with the traditional energy sector, which enjoys strong government support and, in some cases, government ownership. Key differences include the largely for-profit character of the sector, and the financial scale of many providers which enables industry funding of substantial peak bodies.

The *superannuation* sector has undergone substantial growth since the introduction of compulsory superannuation in the early 1990s, which saw the onus of funding retirement incomes shift from the public sector to individuals via employer contributions. The sector operates in an increasingly complex environment, subject to periodic legislative and regulatory change. Increasing regulatory requirements and heightened consumer expectations about fund performance and efficiency have led to a trend of industry consolidation. While there are some parallels with the affordable housing industry, the superannuation sector provides a clear point of contrast. Australian Government policy reform triggered the emergence of the sector and the government plays a role in the sector through regulatory powers; however, superannuation funds have largely shaped their own market.

Following the NSW Government 2012 decision to outsource the *out-of-home care* service in NSW, it has embarked on a sector development program governed by a joint framework of government, non-government service providers and peaks. Paralleling some aspects of recent affordable housing industry development (Milligan, Martin et al. 2016: Chapter 5), this shared approach to reform was coupled with funding for capacity-building projects, against an audit of sector capacity.

²³ The authors are indebted to Dr Lucy Burgmann, Poppy Dowsett, Matt McDevitt and Will Roden at Elton Consulting Ltd for the analysis of cognate industries presented in this chapter.

²⁴ Other sectors which may provide relevant insights were not included as insufficient published material was available for meaningful analysis. These include the various reforms to the Technical and Further Education (TAFE) sector and the associated expansion of non-government Registered Training Organisations (RTOs), as well as the establishment of the non-government job seeker support network and associated reduction in the functions of Centrelink.

Research for the Australian cognate industry case studies was desk-based and confined to evidence available through published documentation.

4.1 Affordable housing in comparator countries

The international research studies undertaken as part of this overall Inquiry Program (Lawson, Legacy et al. 2016; MacLennan and Miao 2017) play into several of our five 'capacity dimensions' as defined in Chapter 1.

Resource capacity

The study of public housing system reform in overseas federal states yielded evidence especially relevant to the Australian industry's resource capacity. It found that public funding or equivalent support (e.g. land or guarantees) mandated by governments and policy robustness and stability are both vital.

Austria and the USA exemplified the capacity-building benefits of stable and enduring policy to enable affordable housing investment. While the mechanisms employed in the two countries over recent decades were markedly different (Lawson, Legacy et al. 2016), both national industries have gained from a framework of instruments and incentives that channelled cost-effective private investment in a predictable and enduring way.

To determine the cost components of providing affordable housing, Australia can learn from the US Harvard University Cost Study (Harvard University Graduate School of Design 2003), and the US Government's Housing and Urban Development Ministry's Area Median Rent index, which sets standards and benchmarks for subsidy and rent levels. Also relevant is Austria's legally defined cost-capped, cost-rent regime, which establishes benchmarks for project finance, construction and operating costs, including long-term maintenance. In the UK, the longstanding bipartisan commitment to property-related rents and housing benefit support for low-income tenants has been critical to affordable housing industry expansion.

Organisational capacity

A key lesson from the UK's council housing transfers experience is the way that NFP housing sector organisational capacity was substantially built through 'corporatisation'—the divestment of formerly state-owned housing into NFP landlord ownership, whereby former council housing departments were effectively 'floated off' as newly created NFP entities. A variation was the transformation of former council housing departments into 'arms-length management organisations' (ALMOs), set up to manage and upgrade council-owned housing portfolios under 5–10 year contracts. Some of these organisations later transitioned to NFP non-government status, taking on full ownership of their managed housing stock.

Through corporatisation, NFP capacity was effectively created through the 'enacted hybrid' route (Billis 2010). The result was a ready-made workforce possessing appropriate industry-specific skills (Pawson and Mullins 2010).

Industry-specific capacity

Two lessons from the UK experience of building an affordable housing industry during the 1990s and 2000s stand out:

- The value added by industry regulation in codifying policy directions for housing provider operation.
- The benefits of national government/industry bodies developing guidance on good operational practice—including in relation to housing transfers (e.g. valuation methods; tenant and community engagement).

Institutional capacity

In many countries comparable to Australia, municipal government contributes to the affordable housing industry to a much greater extent. This may include a direct 'provider entity' role such as in Vienna, Berlin, Munich, San Diego, Portland and Toronto. Instead of, or alongside such a function, councils and equivalent bodies in some cities in federal states played a key enabling role in land banking, strategic planning and the mandating of inclusionary zoning.

Political capacity

The UK (non-government) affordable housing industry also demonstrates the major contribution to the industry's political capacity through the creation of 'sector champion' agencies within government. Especially through the 1990s when the sector was in its formative stage, the Housing Corporation and Scottish Homes each played a vital 'nursemaid' role in expanding capabilities among housing association providers.

The council housing transfer process and its requirements for demonstrated 'community consent' also built political capacity. This was both in relation to the disposing local authorities—which needed to develop and prosecute a convincing case for change—and the housing association successor landlords, which had to establish their legitimacy as the new custodians of council portfolios. Transfer consultation processes gave credibility in the community (and for staff) to new managerial arrangements and set up the new landlords as legitimate.

4.2 Disability services in Australia

4.2.1 Context

The NDIS, which commenced in trial sites in 2013 and will be fully operational by 2020 (NDIA 2015a), signifies a shift from considering disability services as welfare to a system of insurance. It is a client-centred scheme which provides flexible, individualised funding to people with disability to pay for reasonable and necessary care and support, departing from the previous service-funded approach. The scheme is expected to increase the flow of funding to people with disability, and to transform the service delivery sector.

The reform was partly driven by the 2009 formation of an alliance between people with disability, support services and families and carers. There was also political support and backing from internal government agencies. The Productivity Commission's Report into Disability Care and Support, which described the previous system as 'underfunded, unfair, fragmented and inefficient' (Productivity Commission 2011:2), strengthened the case for reform.

Disability service providers are currently reviewing their business models in response to the new funding arrangements—considering the range of services they need to offer, and how they will market their services to individuals rather than relying on government block funding. Roll-out of the new market-based system means significant risks and capacity challenges for providers and their staff (Gilchrist 2016). A planned independent review of cost pressures and jurisdictional capacity issues (among other matters) facing NDIS implementation, has been brought forward (Morrison and Porter 2017).

4.2.2 Industry development

The primary purpose of the NDIS is to transform the lives of people with disability by ensuring that sufficient funding is available to enable them to pay for reasonable and necessary support. As the scheme relies on effective delivery of support services desired by participants, government has a strong interest in supporting capacity development. The non-government disability services sector also needs to develop its capacity to respond to the growth opportunities provided. To exploit industry development funding, the service delivery sector (including industry peak bodies and individual service providers) has taken an active role in

preparing for growth and reshaping business models; including increasing the scale and range of services offered, mergers to achieve economies of scale, and investment in growth.

There are four key government-led approaches to capacity-building under the NDIS: financial resourcing, industry development, institution-building, and client empowerment.

Of foremost importance, the provision of significant additional government funding for disability support is driving demand for services, which will increase the scale and viability of the service sector. Where state governments opt to cease direct provision of disability support services, further increases in funding will occur.²⁵

The second main capacity-building approach is investment in specific initiatives by the Australian Government and some state and territory governments, such as the Australian Government's Sector Development Fund (SDF), which can be accessed by peak bodies, service providers, other organisations and individuals. Acknowledging that the development of 'an efficient, effective market is essential to the success of the NDIS', this six-year (2012–18) \$146 million fund aims to ensure that people with disability, the disability services sector and its workforce are assisted with the transition to the NDIS (Department of Social Services 2015: 5–6). Development is focused on:

- workforce expansion and diversification
- corporate governance training
- strategic and business planning
- developing shared service models that can achieve economies of scale
- supporting innovative approaches to disability support (Department of Social Services 2015: 9–10).

In line with its decision to cease delivery of disability support services by June 2018, the NSW Government (as one example) established the NSW Industry Development Strategy to support non-government service providers to work in partnership 'to achieve an integrated, efficient, innovative and responsive disability service system in NSW' (FACS 2013). The strategy is supported by a range of initiatives, including a \$22 million Industry Development Fund (IDF), a Workforce Recruitment Strategy, and Good Governance Program. The sector peak body, National Disability Services, partnered with the NSW Government to administer the IDF. Funding was available for projects which provided planning support and guidance, developed tools or resources to guide organisational development, and offered courses and seminars to provide advice about becoming 'NDIS ready.'

A third key strategy is the establishment of the National Disability Insurance Agency (NDIA) to administer and implement the NDIS. The NDIA's remit includes building a vibrant and competitive NDIS marketplace and sub-markets (NDIA 2015b:16). Thus, in addition to its administrative role, NDIA has a market-shaping role. This includes significantly growing the market for disability supports as well as building market capacity through SDF activities and other sector development projects, such as development and implementation of the Workforce and Market Strategies (NDIA 2014).

A fourth government-endorsed sector development strategy is consumer capacity-building. To fulfil the NDIS objective of empowering consumers to have choice and control, the NDIA

²⁵ The role of state government agencies in providing disability services under the NDIS will vary. For example, the Queensland and NSW Governments are preparing to transition government provision of disability services to the NDIS. By contrast, the WA Government is currently trialling a local alternative to the NDIS, the WA NDIS or My Way.

identifies informed, active consumers as the core focus—to drive the market effectively and to contribute more broadly as citizens in their communities. Accordingly, the NDIA has a role to build the capacity of consumers so that they can ‘vote with their feet’ (NDIA 2015b: 17). Multi-pronged consumer capacity-building strategies that strengthen the potential for self-advocacy are being considered. One possibility to support consumer capacity-building is greater use of specialist intermediaries, independent of service providers and preferably user-led (NDIA 2015c).

4.3 Australia’s renewable energy industry

4.3.1 Context

With the availability of low-cost fossil fuels in Australia, renewable energy currently remains more expensive than energy from traditional sources. Other barriers to investment in clean energy include the risk of investing in new and uncertain technologies, known as ‘technology risk’, and ‘early-mover disadvantages’ such as the costs of developing and testing the new technology and convincing the community and the finance sector about the benefits of the technology (CEFC 2012: 5–6).

For these reasons, the development of the renewable energy sector requires government intervention to reduce the price difference between renewables and traditional energy sources in the short term (Lund 2009), either by pricing the negative environmental impacts of fossil fuel energy, or direct investment in the renewable energy sector.

4.3.2 Industry development

There have been two main Australian Government initiatives to support renewable energy: a legislative target, and establishment of sector-based supporting institutions to fund innovative initiatives.

In 2009 as part of its national clean energy policy, the Australian Government legislated an electricity generation Renewable Energy Target (RET) of 20 per cent by 2020. A period of policy uncertainty followed, and subsequent loss of investor confidence, not dissimilar to the affordable housing industry’s experience with NRAS (Milligan, Pawson et al. 2015). In 2014/15 uncertainty regarding carbon pricing and the future of the RET, as well as Australian Government-funded financing bodies, essentially halted investment in large scale renewable energy projects (Clean Energy Council 2014). The resolution of the RET review in mid-2015 somewhat restored domestic and international investor confidence.

At the state level there has been more policy certainty; most jurisdictions have developed strategies and action plans to support the development of the renewable energy sector (ACT Government 2015; Department of Industry, Skills and Regional Development 2015; Department of Economic Development, Jobs, Transport and Resources 2015).

The second approach to building capacity has been to develop a market for private investment. Funding bodies have been established as ‘institutional investors’ to support the creation of a new market and to attract private finance.

The Australian Renewable Energy Agency (ARENA) was established in 2012 to improve the competitiveness of renewable energy technologies and increase the supply of renewable energy, with the mission of catalysing the development and deployment of renewable energy (ARENA 2015), by:

- Building investor confidence and knowledge of renewable energy by providing assistance to de-risk activities.

- Supporting emerging and next generation technologies to move through the research, demonstration and pre-commercial deployment stages.
- Informing regulatory decisions and standards development by other agencies. (ARENA 2015)

ARENA is largely focused on the early stages of sector growth, by advancing the development of new technologies and minimising 'technology risk' and 'early-mover disadvantages' for new investors.

The advantage of this type of government intervention is the ability to fund novel ideas and approaches, which are often high risk, driven by recognition of the wider public advantages.

In contrast to the technology development focus of ARENA, the Clean Energy Finance Corporation (CEFC), also established by the Australian Government in 2012, aims to develop market capacity and facilitate increased flows of private finance into the renewable energy sector.

The CEFC's objective is to 'apply capital through a commercial filter to facilitate increased flows of finance into the clean energy sector thus preparing and positioning the Australian economy and industry for a cleaner energy future' (CEFC 2012: ix). While the CEFC aims to invest responsibly and manage risk, it acknowledges that its 'commercial filter' is not as stringent as that of a private investor, as it has a public policy mandate and values the generation of positive externalities and broader economic benefits (see CEFC 2012). This gives it the capacity to influence investment barriers. In this regard affordable housing has emerged as an investment category for the CEFC (Section 2.2).

The CEFC builds sector capacity by:

- Investment in projects—boosting the number of projects within the sector helps to achieve economies of scale and drive down costs and risks for investors.
- Developing a business case—investing in new projects helps to develop a business case to attract new investors to the clean energy sector.
- Developing finance sector capacity—investing in the sector and working with finance partners helps familiarise co-financing institutions with the industry and the potential benefits of renewable energy investment, enhancing the flow and diversification of funds into the sector.
- Developing industry capacity—working with industry bodies to build knowledge of the sector and growth opportunities.

The success of the CEFC's role in bringing private investment into the sector is demonstrated by the investment of \$1.80 from the private sector for every \$1 from the CEFC, and shows the potential of government investment to contribute to the development of a new market for an emerging sector.

The renewable energy sector has a number of active industry-based associations such as the Australian Geothermal Energy Association, Australian Photovoltaic Institute and Bioenergy Australia, which have engaged in capacity-building activities including research and development and lobbying.

The renewable energy industry-wide peak body, the Clean Energy Council, represents over 5,000 diverse businesses operating in solar, wind, energy efficiency, hydro, bioenergy, energy storage, geothermal and marine energy (Clean Energy Council 2014). It is an incorporated not-for-profit association funded principally by membership fees, which vary depending on the size of the member organisation.

The Council supports industry capacity-building, including advocating for sector development, developing and promoting policies to support the uptake of clean energy technologies, and by driving industry professionalisation (e.g. by overseeing industry accreditation programs) (Clean Energy Council 2015).

4.4 Australia's superannuation industry

4.4.1 Context

The superannuation industry in Australia is large and growing. It holds 24 per cent of total Australian financial institution assets (KPMG 2015). Total superannuation assets have risen from \$0.65 trillion in 2004 to \$2 trillion in 2015 (APRA 2004, ASFA 2016) and are projected to grow to \$9.5 trillion by 2035 (Deloitte 2015). The Super System Review (2010), however, found the system was immature for its size and the Financial System Inquiry (2014) found that it was inefficient. Both reviews recommended improvements to efficiency, transparency and governance within the industry.

4.4.2 Industry development

Following the Super System Review, the Australian Government implemented its Stronger Super reforms from 2011, designed to strengthen the system and improve efficiency:

- MySuper—requiring super funds to develop a simple and cost-effective superannuation product to replace existing default products.
- SuperStream—superannuation 'back office' enhancement, including: data and e-commerce standards; facilitating account consolidation; and establishing an advisory governance body to oversee the implementation of the standards.
- Governance and integrity—reforms aimed at heightening the obligations of trustees to manage their funds' assets prudently and in the best interests of members.
- Self-managed superannuation fund (SMSF) sector—reforms to ensure appropriate oversight of SMSF service providers (Australian Government 2010b).

In 2015 the Australian Government announced it would implement key recommendations of the Financial System Review by:

- enshrining the objective of the superannuation system in legislation
- tasking the Productivity Commission with developing efficiency and competitiveness criteria for the system
- making further improvements to the governance of superannuation funds (Australian Government 2015).

The Australian Government's approach to capacity-building in this industry has been largely confined to legislative and regulatory reforms. Market development was a particular focus of MySuper and SuperStream, designed to drive greater efficiency in the superannuation system by reducing industry costs, but it is not yet clear whether those reforms will have a long-term impact on fees and member returns (Australian Government 2014).

The Australian Prudential Regulatory Authority (APRA) has developed standards and Prudential Practice Guides for the superannuation industry in key areas, including board governance, risk management, investment and operational risks (APRA 2013). Registrable superannuation entities must operate in accordance with the prudential standards set by APRA, and the practice guides aim to help funds comply with these requirements, and provide guidance around prudent practices generally. Recent reforms have resulted in an enhanced role for APRA.

Legislation was also introduced to strengthen the Australian Tax Office powers in relation to SMSFs. The Australian Government has sought to develop this sector through articulating government objectives for the superannuation system in legislation. Clarifying the vision and purpose of the system has been influential in helping align government policy settings, industry development and member expectations (Australian Government 2015).

Organisational capacity has been developed through consolidation of the market, with the number of large super funds falling from 1,900 in 2004 to 261 in 2015 (APRA 2004; 2015). Funds have responded to increased regulatory requirements by consolidating, which has generated scale efficiencies through lower operating and investment expenses and better returns from wider investment opportunities (APRA 2012).

The Association of Superannuation Funds of Australia (ASFA), the peak body for Australia's superannuation industry, has developed organisational capacity in the industry through its continuing professional development program and compliance training, as well as industry policy briefing and training events. It supports the strategic growth and development of the sector through research geared to inform public policy and promote industry best practice, and by stimulating debate within the industry and government on key superannuation issues (ASFA 2016).

4.5 NSW out-of-home care

4.5.1 Context

In 2012 the NSW Government commenced the transfer of out-of-home care to the non-government sector after the recommendation of the 2008 Special Commission of Inquiry into Child Protection Services in NSW, which was consistent with the findings of previous inquiries into the out-of-home care system.²⁶ There was evidence that the number of children entering out-of-home care was increasing significantly, and that they were in care for longer periods and at a higher cost per child. The rationale for the transfer was that NFPs with lower casework ratios and better links to the community would provide higher quality services (NSW Audit Office 2015).

The size and capacity of the non-government sector has grown significantly since then. The number of NFPs providing out-of-home care has more than doubled from 22 in 2012 to 54 in 2015, while the number of children in their care increased from 2,946 in June 2011 to 7,268 in March 2015 (NSW Audit Office 2015).

The changes to out-of-home care service delivery in NSW provide an opportunity to identify success factors that contributed to service transformation in that industry.

4.5.2 Industry development

The NSW Government's commitment to transition out-of-home care to the non-government sector was backed by clear objectives and targets that helped to build capacity within the non-government sector by creating certainty about the reform pathway and timeframe.

A governance framework was set up, involving the Department of Family and Community Services (FACS), non-government organisations and their peak bodies (The Aboriginal Child, Family & Community Care State Secretariat NSW and Association of Children's Welfare Agencies). The three-tier framework included a ministerial advisory group, a state-wide

²⁶ Both the Usher Report (1992) and the Fitzgerald Review (2000) documented weaknesses in the system and noted the need to separate the provision of services to children in out-of-home care from the statutory function of child protection.

transition program office and regional implementation groups. While at times problematic, this structure enabled the government, non-government organisations and industry peak bodies to identify and seek to resolve capacity issues collaboratively (NSW Audit Office 2015).

Other success factors in the transformation process included:

- Strategic growth and development—in addition to a government commitment and governance framework, FACS and industry peak bodies reviewed the capacity of the industry to expand services. Reviews were undertaken by location and by service need/group to understand where gaps lay and where non-government capacity needed to grow (NSW Audit Office 2015).
- Organisational capacity—the existence of an established accreditation and monitoring system operated by the NSW Office of the Children’s Guardian and the provision by FACS of policies and procedures on service delivery helped to maintain service standards through the transition. Also important were training and capacity-building projects delivered by industry-funded peak bodies and monthly contract and placement meetings between FACS and non-government organisations to discuss case management and contract issues (NSW Audit Office 2015).
- Workforce development—FACS and non-government organisations established secondment opportunities for departmental staff to enable the expansion of the sector. FACS developed a partnership model to enhance the capacity of the Aboriginal sector whereby Aboriginal organisations work with a non-government partner organisation to become accredited to provide out-of-home care services (NSW Audit Office 2015).
- Market development—the NSW Government and the non-government sector have developed two social benefit bonds for out-of-home care services in NSW. The Newpin Social Benefit Bond and the Benevolent Society Social Benefit Bond, marketed in 2013, have raised \$17 million to fund the expansion of programs to reduce entries into out-of-home care and increase the number of children who are returned from out-of-home care to their families (Benevolent Society 2013; Social Ventures Australia 2013).

4.6 Implications for building capacity in Australia’s affordable housing industry

Research into comparable sectors indicates the critical role for government in building the capacity of a new industry. This need not take the form of providing funding for industry development activities per se; more important is encouraging sector development, as this cannot be achieved entirely from within the sector itself. Impetus can be created through establishing an industry vision, setting targets, policy reform or expanded funding. The reforms to the Australian disability sector, for example, involve a vision, policy reform and a major expansion of financial support. The emergence of the Australian superannuation industry rested largely on policy reform, while the development of the domestic renewable energy industry has been galvanised by government commitment to targets.

Setting the vision and targets, and policy and funding reforms, however, may not be sufficient. Sector development activities may also be required to ensure that a market or service system exists to provide the services required. These can take place in advance, or at an early stage of the implementation of detailed policy or funding reforms, when the transformation of the sector requires significant support or lead time to build capacity to respond. Both the disability sector and the NSW out-of-home care sector cases illustrate the value of early investment in sector development activities. Alternatively, the superannuation sector demonstrated that a sector can emerge to take up a financial opportunity, without initial capacity-building.

Where lack of funding is an identified barrier to sector growth, a key component of capacity may be establishing or improving access to private finance. Research into comparable sectors shows that governments can play a key role in creating, or hampering, the conditions for this to take place. Private investment is more likely in stable policy environments, where subsidies and other funding arrangements and regulatory requirements are predictable for the medium to long term. The renewable energy sector's variable growth showed a high degree of sensitivity to changing government policy. In contrast, the superannuation industry has grown in a stable policy setting and legislated vision and purpose, giving confidence to industry players.

Policy and funding certainty are highly valued by an emergent industry, both existing and new providers, as well as other industry partners. The development of the NSW out-of-home care sector rested on a clear government decision to shift service delivery from government to the NFP sector. The NDIA has established a clear direction for disability services reform, and specified the details of new policy and funding requirements as soon as possible following its inception. This has allowed the sector to make the changes necessary to respond to the new environment, with sufficient confidence that the 'rules of the game' will not be changed in the short term.

Finally, the creation of broad industry alliances is an important success factor. This may be a collaborative working arrangement between government and the provider system, as with the NSW out-of-home care sector, or an alliance between providers and consumers, as in creating the public support which triggered governments to act on disability reform. Alliances across diverse industry players, such as the Clean Energy Council, also help build capacity even where governments are not directly involved.

These cases of industry development and transformation clearly demonstrate the paramount importance of policy continuity and directional clarity, as well as the value added through the development of strong institutions and appropriate regulatory frameworks.

5 Industry development and capacity-building: a road map

The overall finding that has emerged from our research is that the existing cohort of affordable housing organisations has capacity to deliver and manage expanded portfolios. A substantial and diverse group of registered housing providers has proven competence to manage tenancies and properties and to link tenants to necessary supports and services. Significant numbers within this group are experienced in developing housing by utilising private finance. Many of these providers have been doggedly pursuing further housing options and building tenure pathways. Capacity in the existing provider system is, therefore, manifestly underutilised, and some jurisdictions have seen prior capacity-building investment by both providers and governments progressively dissipated post-2012, through a combination of policy volatility and low growth.

Systemic factors have limited utilisation of industry potential. Recent years have seen:

- weak and/or inappropriate policy settings for affordable housing, especially at the national level
- inadequate public funding to support steady growth of affordable housing
- absence of government leadership on housing matters at the political level
- capacity shortcomings in supporting institutions within national and state/territory bureaucracies, especially policy-making, data monitoring and regulatory capabilities.

The (provider part of the) industry lacks a sufficient profile to attract political and community support, and providers are yet to achieve the operational scales and balance sheets necessary to propel expansion of affordable housing supply via private investment models.

The vision for the future of Australia's affordable housing system as a vibrant and sustainable industry could be achieved by various scenarios, each of which calls for different roles for government and industry players and will require different industry capabilities and capability-building actions.

This chapter addresses the industry adjustment and institution-building that is recommended to support an industry development pathway and public policy goals.

5.1 The affordable housing industry's future

5.1.1 Industry vision

Reflecting awareness of government ambivalence on affordable housing, a question repeatedly asked during this research was 'capacity for what?' An industry capacity-building strategy can only be fully effective when there is a clearly defined role and purpose for the industry. Examination of analogous experience (Chapter 4) has shown the importance of championing a vision for an industry's future contribution, which raises public and political support for the industry, generates momentum for reform and investment, and provides guidance for planning and decision-making by industry players.

Box 1 presents a proposed vision statement for the industry developed in consultation with the Inquiry panel and the Indigenous housing leaders' roundtable.

Box 1: Affordable housing industry vision

The vision for the future of Australia's affordable housing system is one of a vibrant and sustainable industry that:

- Mobilises efforts across the policy, financing, development and management fields of housing to create innovative ways of meeting the housing needs of low and middle income Australians.
- Can address relevant government priorities including attracting cost-effective private financing, supporting successful city renewal, and creating economic opportunity and socially diverse communities.
- Offers a continuum of affordable rental and ownership products that complement market-provided housing.
- Sets best practice in tenant support and referral, responsive service provision, responsible asset management, socially integrated housing development and place-making.
- Comprises diverse providers and appropriate supporting organisations:
 - with appropriate and sustainable financial provisions
 - with effective, motivated boards, executives and employees working to clear missions, plans and regulatory codes
 - that constructively network with each other, industry and government partners and local communities.
- Recognises the cultural significance of home and is responsive to and resources cultural needs.

There are various scenarios for how industry transformation towards a vision such as this could be progressed. While not all elements of these are mutually exclusive, each 'alternative future' presages a distinctive role for government and industry players, which will respectively be broader or narrower in scope and will call for different industry capabilities—and, hence, different capacity-building activities.

5.1.2 Growth and transformation scenarios

We discussed with Inquiry panel members four potential scenarios for the future of the affordable housing industry in Australia.

Scenario 1: Maximum service diversification and private provision

The boldest scenario would involve assignment of all public housing provision to registered non-government service providers under a nationally agreed and consistent approach, with full implementation to occur by a prescribed date. This would entail the sequential transfer (under negotiated terms and conditions) of around 333,000 public housing and state-owned Indigenous housing dwellings (SCRGSP 2016) and the allocation of all future incentives for affordable housing expansion to the industry. Under this scenario governments would not (after a transition period) be involved in housing service provision but would retain ongoing responsibility for:

- strategic housing policy settings
- the provision of subsidies necessary to meet the public policy objectives of social and affordable housing provision by alternative providers
- measuring housing needs and monitoring market conditions
- monitoring housing service provision and resident outcomes
- industry regulation

- planning and capacity-building, jointly with the industry.

Many panellists strongly supported this scenario because it offers the prospect of achieving the fundamental changes considered necessary for reforming Australia's affordable housing industry and setting it on a sustainable footing. It was also considered attractive in terms of its capacity to separate the roles of government and non-government players in line with 'New Public Management' orthodoxy (Lyons 2006; Steane 2008). However, panellists were wary that without enduring political and legislative commitment (say over 20 years) at the national level this scenario would be unachievable. The Australian Government's track record on involvement in strategic housing policy setting and its capacity to lead such reforms were seen as key risk factors for this scenario.

Scenario 2: Mixed public private service provision

A second, less far-reaching scenario would entail retention and enhancement of the present mixed model of social and affordable housing provision, where the public housing system operates alongside a regulated non-government sector delivering social and affordable housing products. Key improvements on present arrangements could involve:

- a system-wide approach to regulation (i.e. including public housing)
- a managed upscaling of non-government responsibility (e.g. to encompass 50% of provision) and, through that, improved organisational scales—this might entail transfer of around 80,000 public housing dwellings plus a new program of privately-financed (publicly-subsidised) affordable housing supply
- instigating a level playing field for rent subsidies across government and non-government providers
- directing opportunities for expansion of all affordable housing services to those providers best able to deliver them (as demonstrated through competitive bidding processes or via outcomes-based performance regimes), including specific support for Indigenous housing providers.

Key means of industry expansion would include selective public housing transfers and providing specialised affordable housing developers with direct access to government land and urban renewal sites. As this approach would be state and territory driven, it would be likely to result in varied jurisdictional arrangements. The full separation of administrative responsibilities for service provision (via public housing) and industry stewardship (as listed under the first scenario) would be essential. In this scenario the retained public housing sector would be treated as an integral part of the affordable housing industry and subject to its overall rules and development plans.

Panellists saw Scenario 2 as a possible means to test whether Scenario 1 is realistic as a long-term aspiration. In the short to medium term they viewed Scenario 2 as offering substantial growth opportunities within the industry, consistent with emerging organisational capacity. However, they underlined the necessity to integrate provision by public authorities and non-government providers under a common policy, subsidy and regulatory framework (i.e. a level playing field) and to put in place the reforms necessary to enable private financing of affordable housing, including clarity about the future of rent subsidies (currently CRA) and establishing fit-for-purpose industry-wide financing and fund-raising mechanisms.

Scenario 3: Increased service specialisation

A variation of Scenario 2 would involve encouraging greater specialisation in different parts of the industry. Under this model, public housing would continue to meet the housing needs of very low-income groups (and state clients) and be complemented by regulated non-government providers offering a range of affordable—and possibly market—housing options. Specialist non-

government housing provision would focus primarily or exclusively on specialist housing models—such as supported housing or housing cooperatives—and homelessness services. This model currently operates at a small scale in the ACT. Under such a partitioned approach, industry integration would need to be vigorously pursued via joint planning and coordinating mechanisms.

Panellists saw the main benefit of Scenario 3 to be its potential to promote service specialisation around the distinctive needs of different client groups such as Indigenous clients, young people, older people and people with a disability. However, panellists argued that *any* future scenario needed to recognise the importance of retaining and valuing a diversity of provider types and scales. The critical role for Indigenous housing organisations was cited as a primary case in point. Scenario 3 would necessitate major changes to current policy and funding arrangements, especially to secure the future viability of public housing and to build an adequate continuum of affordable housing options nationwide. Re-establishing highly eroded political and community support for public housing would also pose a major challenge.

Scenario 4: Government-directed housing reform

A far-reaching ‘ideal’ scenario involves government re-asserting a central role in housing strategy—including catalysing innovation across the housing industry and being a significant investor or equity partner in social and affordable housing procurement. This scenario extends government’s role beyond oversight of a diversified affordable housing delivery system to one of addressing the underlying causes of Australia’s housing affordability problem (Yates and Milligan 2007). Execution would require a dedicated housing administration with control over key policy levers (including land supply, planning provisions and subsidy support) and with strong capability in negotiating commercial deals and public private partnerships. Industry stewardship would be one part of government’s wide responsibilities that could also include continuing service delivery via a well-funded public housing model. A scenario along these lines has applied in WA in recent years.

Panellists agreed that a whole-of-industry government perspective on housing was essential to address the major challenges facing Australia’s housing system, including the housing market’s inability to provide sufficient secure and affordable housing. However, political receptiveness to this more profound strategic approach was seen as lacking in most jurisdictions and, given the core influence of Commonwealth fiscal policy settings in the housing system, it would clearly need Australian Government ‘buy in’ to succeed.

5.2 Expanding industry capacity via scaled-up public housing transfers

In Scenarios 1 and 2 above it is envisaged that scaled-up housing transfers from state governments would facilitate major industry growth. Relevant here are our previous findings on the industry capacity implications emerging from recent housing transfers (Pawson, Martin et al. 2016).

Since 2012 in programs in Queensland, South Australia and Tasmania it was found that associated activity had proven a stimulus to industry development—impacting not only on the participating CHPs but also on the state governments. However, a stark contrast was apparent between the approaches adopted by the South Australia and Tasmanian governments, and in Queensland. Recognising the complexity of the enterprise and the need to build the relevant technical and managerial capacity within government, the former two states wisely opted for a phased approach. This involved a main stage being preceded by a small-scale pilot project to build experience and expertise.

By contrast, the then Queensland Government chose to press ahead at full speed with its Logan transfer project as its first-ever significant housing transfer, apparently without proper recognition of its own limited capacity to carry it through. No trial project was considered necessary, despite the fact that the Logan plan was by far the largest and most ambitious such transfer yet attempted in Australia.

The failure to recognise government capacity limitations was arguably a contributory factor in the ultimate demise of the Logan project (Pawson, Martin et al. 2016). In a classic case of 'more haste, less speed', serious flaws in the initial tender framework resulted in a protracted bidding process, which delayed the project to such an extent that it remained incomplete when the commissioning government was replaced by an incoming administration with no commitment to it.

In its relatively modest scale and aspirations, South Australia's initial pilot transfer program launched in 2013 took into account the limited operating scale, technical sophistication and financial weight of locally-based CHPs. The program was formulated to foster their enhanced capacity (rather than being pitched beyond the reach of any contenders other than large interstate players). As in Tasmania, the capacity built within government through an initial pilot phase helped to inform the development of the tendering framework for the larger phase that followed.

Only in the ill-fated Logan plan, however, did a 'transfer commissioning' state government look to build organisational capacity in the chosen CHPs by facilitating the transfer of relevant public housing employees to the new landlord. Across the three states this was the closest to the 'corporatisation' approach to transfer, which was standard practice for housing transfers in the UK (Section 4.1; MacLennan and Miao 2017)—transitioning a public service into non-government control by establishing an autonomous entity from, for example, a local housing office—similar to a 'management buy-out'. This approach creates 'instant' non-government provider capacity, and given government concerns about 'inadequate capacity' among existing provider organisations, it might have been expected to trial this approach by now.

A road map for ongoing affordable housing industry expansion in which further large scale transfers of public housing play a major role will require a clear position on the financial regime for the entire social housing system. Australian Government commitments on the future of Commonwealth Rent Assistance and on National Affordable Housing Agreement funding are integral components.

5.3 Implications for industry development and capacity building

5.3.1 Overarching framework for industry development

Whichever scenario develops from housing policy deliberations across Australia, action will be required to give direction to the evolution of the industry and to underpin its future growth.

As established, in conjunction with the Inquiry panel and following from the research findings, industry transformation and its future development needs to be founded on a set of core directions:

- COAG recognition of affordable housing as a policy priority with economic productivity as well as social wellbeing implications.
- Generation of an integrated and consistently regulated national market for the provision of affordable housing at scale as a joint industry/government goal.
- A national approach to industry leadership steered by a joint industry-government 'Affordable Housing Industry Council'.

- A national approach to transforming the public housing system through investment in portfolio restructuring and modernisation, also enhancing management responsiveness and provider contestability
- Substantially increased affordable housing supply through attracting publicly-enabled private investment at scale.
- Growth and resource allocation across the industry becoming transparently needs driven.
- Strategic co-planning of industry development, involving both governments and provider interests.
- A COAG commitment to addressing Indigenous housing needs that acknowledges the importance of Indigenous-controlled and culturally appropriate service models to successfully address those needs in both urban and remote areas.

Below we set out in more detail a set of capacity-building steps and priorities appropriate to the industry's present status. Grouped in five broad categories, the recommended actions are designed to strengthen one or more dimensions of system capacity in the context of significant upscaling of the affordable housing industry's role under any of the scenarios outlined above.

5.3.2 Policy and resourcing framework

Development of an integrated whole-of-government enduring policy for affordable housing is essential to underpin growth and give direction to industry evolution. Emergent policy review processes (Section 2.1) provide a crucial opportunity for fundamental reform of the NAHA (and associated housing policy settings) to be negotiated through COAG in consultation with affordable housing industry interests.

Continuity of supportive policy settings is critical to sustain the industry and effectively utilise institutional capacity accumulated through historic investment. Ideally, national legislation defining affordable housing and setting out the economic and social purpose of the industry and the desired outcomes of growth will establish a platform for building bipartisan political support, aligning policy actions at different levels of government, generating market responsiveness and providing a foundation for long-term investment—including by private developers and the institutional finance sector.

As demonstrated by AHURI-funded research and fully backed by Treasury officials (Australian Government 2016b), public financial support in some form is essential to substantially increase the supply of affordable housing. This support may take the form of capital grants or revenue subsidies to providers, including resources leveraged through the planning system. Alternatively, costs of provision might be met through higher rates of rent subsidy payable to low-income housing consumers through the benefits system.

Development of a robust pricing and subsidy regime for the affordable housing industry requires specialised consideration. This could be achieved via a Productivity Commission referral to follow on from the 2017 affordable housing task force deliberations (Section 1.2).²⁷ The findings would be used to develop a new subsidy regime for the provision of different levels and types of affordable housing (supported/non-supported; deep/shallow subsidy etc.).

Governments must ensure that affordable housing providers have secure and predictable financial arrangements suited to a private financing regime, but must be mindful to not

²⁷ The calibration of subsidy levels for the NSW Social and Affordable Housing Fund (Section 2.2) and the 2016/17 review of rent models for social and affordable housing being conducted by the NSW Independent Pricing and Regulatory Tribunal (IPART 2016) will also be informative.

undermine current CHP business models. Any proposed changes to subsidy arrangements need to be carefully modelled and, where necessary, transition arrangements put in place.

Particular attention should be paid to identifying cost differentials for assisting households with different levels and types of need and in different locations. A pricing and payments model similar to that developed for specialist residential developments under the NDIS may be appropriate (NDIA 2016).

Financing vehicles and subsidy arrangements should also be designed to enable affordable housing providers to innovate with products and services that bridge tenures and create housing pathways on a continuum from deep-subsidy rental products to low cost home ownership.

Alongside having appropriately calibrated public subsidies, offering land for affordable housing development should be a core commitment of all governments, as well as:

- defining affordable housing (including social housing) as essential infrastructure
- ensuring the proceeds of value capture mechanisms benefit affordable housing
- incorporating specific affordable housing targets in 'City Deals'²⁸ and other urban development and renewal plans
- designating a share of (suitably located) surplus government land disposals for affordable housing (at below market price)
- resolving impediments to affordable housing development on Indigenous lands.

The resourcing of affordable housing development is relevant to industry capacity, not only in regard to the scale and form of associated government support, but also in terms of its predictability. The building and efficient utilisation of industry capacity is most likely under conditions of policy stability where there is reasonable certainty about the flow of funding from one year to the next.

5.3.3 Enhanced leadership

Our research found that enhanced leadership in the affordable housing sphere, both in government policy direction, and representation of industry provider interests, is imperative.

Government leadership and supporting institutions

Reinstatement of a Cabinet level Ministry of Housing with broad responsibility for the strategic development and oversight of the whole housing system is highly desirable at both national and state/territory levels to address the complexity of issues facing the industry.²⁹

The Australian Government's leadership role is key to the industry's future. Under Australia's federated system, planning and implementation of future strategies for affordable housing growth will continue to sit with state and territory governments. However, to maximise their

²⁸ Recently imported from the UK, the 'city deal' concept is a framework to facilitate infrastructure planning for specially designated areas. Through 'City Deals' governments, industries and communities will develop collective action plans for growth and commit to the actions, investments, reforms and governance needed to implement them ... a City Deal may include ... housing supply and planning changes to ensure higher density housing, affordable housing and to activate value capture (Australian Government 2016d: 21–22). The first three City Deals being progressed in Australia are in Launceston, Townsville and Western Sydney.

²⁹ The designation 'Minister for Social Housing'—as recently seen in various states—may be beneficial in focusing government attention on an important part of the system. However, the remit of such portfolios may problematically cast 'housing policy' as largely a 'welfare' matter and damagingly split responsibilities for 'social housing' and 'affordable housing'.

effectiveness, an enduring national framework that enshrines the national interest, establishes common policy objectives and the regulatory framework, and clearly defines the roles and responsibilities of different levels of government needs to be set up. As the Australian system of affordable housing provision is relatively small, a national approach is critical to achieve institutional investment at scale (Milligan, Yates et al. 2013), build system capacity and ensure equitable outcomes for those in housing need.

Within the bureaucratic structure, there needs to be a well-identified and empowered agency responsible for affordable housing policy and strategy at the centre of government in all jurisdictions. In state and territory governments, the accountabilities of this agency should be clearly separated from those of the entity responsible for public housing service delivery. The lead entity should have responsibility for overseeing public housing transfers.

To steer a phase of industry reform and development, a COAG-appointed intergovernmental mechanism, such as a standing Housing Ministers Council³⁰ (with appropriate senior officer level support) is essential.

To oversee specific reforms to Indigenous housing, a specialist national Indigenous housing officials group should also be convened.

Industry leadership and supporting institutions

To enhance capacity for collaboration and self-development, industry provider interests should expeditiously conclude the current restructuring of community housing sector peak body arrangements to create a national leadership group that is supported across the entire industry. Key priorities of the industry leadership group should be to ensure a stronger focus on communicating the identity, purpose and profile of the industry as a whole; and to strengthen links with the broader housing industry.

Following the recent lead of NSW and the NT (Chapter 3), institutional arrangements to support the effective participation of Indigenous providers, stakeholders and networks should be actively pursued by industry leaders and their enabling institutions nationwide. Establishment of a national peak body of Indigenous housing organisations (government funded) would also facilitate greater levels of Indigenous engagement in the industry.

Joint government-industry working

Shared oversight of future directions between government and industry is highly desirable to guide the industry's strategic development and accountability over a period of reform and growth, in the form of a *joint industry-government Affordable Housing Industry Council* (AHIC) or similar entity. Such a co-governance entity would steer the design and implementation of priority actions such as an affordable housing planning process, regulatory reform, institutional capacity-building, enhanced data collection and analysis, and mechanisms for increasing private financing. A suitably qualified eminent person should be appointed to chair the AHIC and to act as a champion for the industry at the national level. Participation of Indigenous housing representatives in the Council is essential.

5.3.4 Industry regulation

A major industry capacity shortcoming relates to provider regulation. The NRSCH (planned in 2010, launched in 2014) has fallen well short of expectations, especially with regard to its

³⁰ Streamlining of COAG Ministerial Councils in 2013 resulted in the abolition of a separate Housing Ministers Council. At the time housing was not identified as an area of national significance (https://www.coag.gov.au/coag_councils). Housing and Homelessness Ministers have met since on an ad hoc basis but have no higher authority to report to.

governance, jurisdictional scope, consistency of operation and value-adding functions—such as the production of industry data, communication about industry capacity and performance, and stewardship of provider effectiveness.

Hence, key priorities include NRSCH expansion to achieve national coverage, especially to promote confidence among prospective investors (Australian Government 2016b: 44). Post-2014 experience strongly suggests that this requires Australian Government leadership. A joint government-industry regulatory governance model is also essential to ensure the regulatory system remains effective and responsive. Additionally, such an arrangement would establish a degree of autonomy from government potentially beneficial in terms of regulatory independence.³¹ This could be a responsibility of the proposed industry council, or otherwise separately constituted.

A reallocation of resources may be required to increase organisational capacity within housing registrar offices, to ensure that registrar staff have the requisite skills and capacities to meet their regulatory duties (Section 2.5.1) and that registrar teams are appropriately structured.

With the initial ‘provider registration focused’ phase of NRSCH implementation now largely complete, a thorough review is warranted to streamline the system and to minimise duplicate regulatory practices. Among other things, the review will need to encompass the proper remit of the system (e.g. the appropriateness of including specialised homelessness service provider entities), the performance standards, the compliance guidance, and the ‘tiers’ framework.

The industry should also review and replace the 2010 National Community Housing Standards with a new set of *Affordable Housing Industry Standards*, and re-engage with and promote its accreditation system.

5.3.5 Industry development directions and priorities

Affordable housing plans and strategic commissioning

There is a strong case for a new affordable housing planning process incorporating targets for supply growth, public housing transfers, asset renewal and replacement, and other appropriate housing assistance measures. Under a national framework, states and territories could be responsible for developing state-level and sub-regional affordable housing plans over (say) a three-year cycle. To overcome problems with program-based approaches to resource allocation, a suitable methodology will ensure that:

- industry responses adequately address the full diversity and continuum of housing needs, as defined in policy specifications
- specific (locally responsive) and changing government priorities continue to be addressed in each jurisdiction
- regional and local responses across multiple providers and investment opportunities are well-coordinated.

Affordable housing plans should give specific attention to strategies for meeting Indigenous housing needs via culturally appropriate models of service provision. Other priority areas where the need for better coordinated service responses is anticipated include housing for NDIS clients and an ageing population.

³¹ Strong ‘in principle’ justifications for independent regulation include that, in insulating regulatory judgements from political considerations and from the executive branch of government, such rulings are likely to command greater credibility (Bundred 2006)—a regulator must be seen to act on behalf of *all* key stakeholders (including both taxpayers and service users), rather than being beholden to one (i.e. government).

To adequately support the tenancies of households with complex needs, co-planning the provision of housing and support services should be incorporated within affordable housing planning processes.

A related issue is how governments commission the planned level of service supply in a multi-provider or market-based system. Relevant here is a current investigation by the NSW Federation of Housing Associations (NSWFHA) into how a 'strategic commissioning' approach could be applied to the procurement of social and affordable housing (NSWFHA 2016). Strategic commissioning refers to a collaborative and evidence-based process (involving government agencies, service providers and end users) for determining the best approach to allocating resources to meet identified needs and achieve desired policy objectives and client outcomes.

Institution-building

As widely advocated by the research community and the industry (and emulating successful international practice), the key enabling institution to help procure and allocate cost effective private funding for affordable housing would be a national housing finance intermediary. Market development of a special purpose bond or similar mechanism would be expected to follow the establishment of a long-term investment framework by government.

Capacity-building activities and funding

Future industry development frameworks should be directly linked to specified policy outcomes and affordable housing plans and targets, and concern initiatives for the benefit of the sector as a whole, rather than individual providers.

Target areas for investment could include:

- Continuing enhancement of governance practices across the provider system.
- Workforce strategies to grow the pool of skilled employees and to facilitate transition from government to non-government employment.
- New professional training standards for housing workers and strengthening the housing worker accreditation system (currently managed by the Australasian Housing Institute).
- A consumer capacity-building strategy designed to actively engage housing residents with the industry and to enhance their knowledge as housing consumers.
- An industry-wide residential asset management knowledge and training facility.³²

Future development of the Indigenous housing sector requires governments supporting IHOs to reconfigure their governance and business models to suit new funding regimes and to achieve (appropriately adapted) mainstream regulatory standards, and the development of new organisational models to suit different community contexts.

Consideration should be given to whether the industry and government should jointly contribute funds to assist the medium and long-term development of the industry, for example to enable industry-wide development of appropriate digital technologies, or to promote industry-specific research and evaluation on a collaborative basis. The Australian Housing and Urban Research Institute is well placed to manage the latter activity alongside its research program for governments.

³² There is a long history of failure to adequately fund and execute asset management in the Australian public housing system. Against that backdrop, this facility is proposed to help ensure future asset management planning is well founded and remains state-of-the-art.

Housing performance and finance data

An overhaul of the present housing data collection system (managed on behalf of governments by the Australian Institute of Health and Welfare) and publication of key industry information from the NRSCH registry, especially organisational financial performance, are key priorities. Transparency of agency performance will help identify future capacity issues.

5.3.6 The future shape of the provider system

What adjustments to the provider system might be appropriate will depend on the policy determined for future industry growth. For example, in terms of the four alternative futures outlined in Section 5.1.2, scenarios 1 and 2 call for a major social housing system restructure in the balance between public housing providers and non-government landlords. Under scenario 3 (increased service specialisation) the provider system might evolve towards a more diverse sector brought about by managerial choices to pursue funding opportunities—such as in disability housing or affordable housing for low to moderate-income workers.

Some potential implications of industry expansion for different components of the provider system are explored briefly below.

The community housing sector

The widely-shared view that even the largest players within the community housing sector have yet to reach an optimal operational scale could justify more active government and regulatory encouragement of further sector consolidation. For instance, government-initiated growth opportunities that have minimum bid-size thresholds, such as transfers of public housing management or investment incentives for additional housing supply, are likely to be a spur to alliances or mergers. Similarly, interstate operators may see their best chance of bidding for proposed public housing transfers through partnering with a locally-based organisation perhaps lacking the scale for a credible bid on their own.

Another way to promote capacity while preserving diversity is the proposal for a national financial intermediary to pool the funding needs of different providers to raise funds more cost effectively at scale. In the UK, under the Housing Finance Corporation (Lawson, Berry et al. 2014) such a mechanism has been a significant factor in the retention of a diversified provider network.

As has occurred to some extent already, CHPs themselves could also fuel industry consolidation (whether through mergers, strategic partnerships or alliances) to enhance collective industry capacity. Strategic alliances could promote more specialisation within the industry without damaging industry diversity. Desirable alliances could include:

- urban or regional locality-based consortia of housing managers, support service providers and developers
- partnerships between IHOs and mainstream housing providers
- partnerships between regional housing providers and specialist developer organisations
- alliances between IHOs for the provision of specialist functions (e.g. housing development).

Evolution of the provider system might also involve a changing sector profile in the distribution of specialist competencies, such as for new housing procurement. There are currently around 20 registered providers with significant housing development experience.³³ Some other

³³ Access Housing Australia Ltd, BlueCHP Ltd, Bridge Housing Ltd, Brisbane Housing Company Ltd, Community Housing Canberra Ltd, City West Housing, Common Equity Housing Ltd, Community Housing Ltd, Evolve Housing (Affordable Community Housing Ltd), Foundation Housing Ltd, Loddon Mallee Housing Services Ltd,

registered providers whose current competence is limited to property and tenancy management no doubt aspire to join this cohort, and may expect to do so in any expansion of development opportunities. However, this is not necessarily optimal, or feasible. An alternative future involving expanded affordable housing development opportunities could see a small cohort of larger NFPs specialising in housing development, and providing project management services for smaller counterparts on a fee-for-service basis.

A possible role for 'state-enacted' housing companies

Whether the ultimate aim is an eventual phasing out of public housing (scenario 1) or progression towards a dual system (scenario 2), associated transitioning might be facilitated through the establishment of independently governed and registered NFP housing companies that are formed from existing public service housing services groups (Section 4.1). Such entities would potentially have the industry-specific capacity necessary to manage former state housing, and could incorporate a more tenant-focused cooperative governance model similar to the Community Gateway and Community Mutual frameworks employed in some UK council housing transfers (Pawson and Mullins 2010: Chapter 5).

The possible role(s) of for-profit providers

There could be scope for greater involvement of private (for-profit) organisations in the affordable housing industry of the future.³⁴ The NRAS program stimulated a modest influx of for-profit entities into the affordable housing sector (Milligan, Martin et al. 2016: 34). Any new stimulus to affordable housing (e.g. through an NRAS successor program) would be expected to generate further interest.

The growing experience with marketised public services shows, however, that any such development will need to be approached with caution (Productivity Commission 2016). Safeguards are required to ensure that all providers meet service quality standards and cost benchmarks, can assist all specified needs groups as appropriate, and can offer the less tangible benefits of community development. This has implications for the capacity of governments in stewarding the industry's evolution and ensuring that regulation is fit-for-purpose and implemented effectively. Also a well-designed strategic commissioning model (see above) could be a potential means of addressing some of these issues.

Indigenous housing organisations

As discussed in Chapter 3 the future of the IH sector needs to be urgently addressed. This must involve governments and the Indigenous community working closely together to forge a more viable and sustainable future for IHOs, and would necessitate having larger entities and, potentially, hybrid organisational models (Section 3.3).

5.4 Roles and responsibilities of industry parties

Depending on the industry transformation scenario pursued, governments and industry institutions and players (providers, peaks and other supporting institutions) will have different roles and responsibilities. The principles for the allocation of specific roles and responsibilities should be that:

Horizon Housing Company Ltd, Housing Choices Australia Ltd, Mission Australia Housing Ltd, SGCH - St George Community Housing Ltd, Uniting, Junction and Women's Housing Ltd, Port Phillip Housing Association Ltd, Unity Housing Ltd and Yarra Community Housing Ltd.

³⁴ For-profit providers can register under the NRSCH, though none have.

- Governments, preferably with Australian Government leadership, develop the enabling strategic framework for the future operation of the industry—the policy, legislative, public subsidy and regulatory arrangements must apply across the industry and form the basis for future resource allocations.
- Following a government-assisted transition period, the industry (and individual organisations within it) must drive and resource capacity-building within provider organisations and supporting institutions.
- To ensure their continuing engagement, retention of expertise and appropriate capacity within the field, governments must invest in capacity-building within their agencies.
- Governments and industry are jointly responsible for planning for growth (including effective coordination of growth strategies), strategic development of industry capacity and monitoring service outcomes.

Table 2 sets out a proposed allocation of roles and responsibilities for the set of key strategic actions recommended above.

As a further step towards achieving a more progressed industry model, governments and the industry could establish a time-limited joint Working Party to establish a detailed implementation plan and timeframe for industry transformation. The Working Party could advise on the establishment of the AHIC to oversee industry development on a permanent basis, and report to Housing Ministers via the Chief Executives Housing and Homelessness Network.

Table 2: High-level industry development roles and responsibilities

Broad strategic reform areas	Primary responsibility	Supporting role
Reformed affordable housing policy and funding framework, enabling legislation and investment in policy-maker capacity-building	Australian Government and all state/territory governments reporting to COAG	Fixed-term government/industry Working Party
National leadership on industry development and growth	AHIC (or similar entity with government and industry membership)	All governments (via dedicated Housing Ministers and specialised affordable housing offices) Industry peak bodies
Calibration of affordable housing subsidies	AHIC	Specialist advisors (e.g. Productivity Commission) Policy-makers
Land supply for affordable housing	State/territory governments (with Australian Government oversight)	Local governments
Affordable housing plans and targets (three-year)	Methodology: AHIC State and sub regional plan production: state/territory governments and local housing providers	All industry players as participants Local governments for sub-regional planning Support service policy-makers and support service providers for state and sub-regional planning.

Broad strategic reform areas	Primary responsibility	Supporting role
Achieving national regulation and establishing joint government-industry regulatory governance model	Australian Government and all state/territory governments	Industry peaks
Regulatory review	Policy-makers	Specialist consultants AHIC or specific regulatory oversight body once established
Establishing a financial intermediary (or similar)	Housing and Treasury policy-makers	Industry peaks and AHIC once established
Standards and accreditation review and upkeep	Industry peaks	Specialist consultants
Industry core data set	Australian Government and all state/territory governments	Industry peaks and AHIC once established Registrars AIHW
Public housing transfer strategy	State/territory governments (with Australian Government oversight)	Industry peaks
Organisational capacity-building; mergers and alliancing	Individual provider organisations and other supporting entities	Governments especially to support further market development and to strengthen the IHO sector
Maintaining good governance practice	Industry peaks	Regulatory guidance Specialist consultants Individual provider organisations
Workforce / professional development and training standards	Industry peaks Education and training entities Australasian Housing Institute	Individual provider organisations and supporting institutions
Capacity-building for Indigenous housing (including capacity-building resources and institutional support)	Australian Government and all state/territory governments	Indigenous housing peak bodies (once established) Regulatory guidance Specialist consultants
Consumer capacity-building	Housing consumer organisations or a new tenant participation body established with industry assistance	Regulatory guidance Individual provider organisations

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Appendix 1: Key national and state level policies shaping affordable housing industry growth, 2015–16

Jurisdiction	Policy direction	Status
Australian Government	<p>The Australian Government provides assistance to the affordable housing industry through the <i>National Rental Affordability Scheme</i> (NRAS) and the <i>National Affordable Housing Agreement</i> (NAHA) in partnership with states and territories. Specific purpose payments for remote Indigenous housing have also been made to states and territories since 2008 under a 10-year <i>National Partnership Agreement on Remote Indigenous Housing</i> (NPARIH).</p> <p>States and territories use NAHA and NAPARIH for a variety of housing programs. For details see Australian Government (2014).</p> <p>A 2016 officials' report to Treasurers, recommended a task force to develop an implementation plan for a financial intermediary and a bond financing model to facilitate increased supply of affordable housing (Australian Government 2016b).</p> <p>Under the National Disability Insurance Scheme (NDIS), specific funding (estimated at \$700 million per annum) to subsidise the financing and upkeep of specialist accommodation for people with disabilities will be provided via the National Disability Insurance Agency from 2017 onwards.</p>	<p>By September 2016 87 per cent (32,328) of planned NRAS dwellings (37,142) were completed and occupied by eligible households, with the remainder under development (Australian Government 2016c).</p> <p>Housing funding arrangements will be reviewed in 2017.</p> <p>The task force was appointed in March 2017.</p> <p>NDIS has a target of 16,000 specialist accommodation units over 10 years.</p>
New South Wales	<p><i>Future Directions for Social Housing in NSW</i> released January 2016 (NSW Government 2016).</p> <p><i>Communities Plus</i>. Sale (via tender) of specific public housing sites for redevelopment as mixed social, affordable and market rate housing by private and NFP consortia. Quantum of additional social and affordable housing (beyond replacement of existing public housing) will be subject to bid process.</p> <p><i>Social Housing Management Transfers</i>: former public housing to be managed by NRSCH registered or prospectively registered housing providers with 20-year leases to commence in 2017 (FACS 2016a).</p> <p><i>The Social and Affordable Fund</i> (SAHF) established in 2016 offers 25-year service contracts with private consortia (involving registered CHPs) to deliver a</p>	<p>Targets set to increase social and affordable housing supply by respectively 6,000 and 500 dwellings and to replace 17,000 public housing dwellings over 10 years (to 2026) through private procurement. 3,300 of new dwellings to be managed by CHPs.</p> <p>Management transfers of nearly 15,000 public housing dwellings to CHPs on 20-year leases commencing 2017. Transfer terms will not require additional housing supply by CHPs (FACS 2016a).</p> <p>In a separate procurement process over four years from 2016 around 4,500 AHO-owned dwellings will be tendered for management by registered Aboriginal CHPs (FACS 2016b).</p> <p>The first five successful proponents under the SAHF will deliver 2,200 dwellings mostly on</p>

Jurisdiction	Policy direction	Status
	<p>range of social outcomes linked to new social (70%) and affordable (30%) housing supply. Under the SAHF, the NSW Government is investing a capital sum in revenue-generating assets, with resulting returns underpinning annual operating subsidy payments to approved consortia. Phase 1 was tendered in 2016 with further phases foreshadowed.</p> <p><i>NSW Community Housing Asset-vesting Program</i> (2012–15). Delivery of 10-year targets for 'leveraged' new supply of affordable and social housing through vesting of ownership by successful CHP bidders of around 6,000 CHP-managed social housing dwellings.</p> <p>The 2014 Metropolitan Strategy, <i>A Plan for Growing Sydney</i>, includes a housing affordability goal that is linked in a general way to measures to accelerate housing supply, urban renewal and infill, and local housing strategies that plan for a range of housing types.</p>	<p>their own land (Goward 2017).</p> <p>Following asset vesting, participating CHPs have committed to delivering 1,225 additional social and affordable housing dwellings over 10–years commencing 2012.</p> <p>Draft district plans released by the Greater Sydney Commission in November 2016 included a target of 5–10 per cent of additional floor area resulting from up-zoning to be provided as rental housing affordable by 'very low' and 'low-income' households. Final plans will be released in 2017.</p>
Victoria	<p>Investment in social housing response to homelessness 2016</p> <p>New policy directions to support development of a multi-provider affordable housing industry announced in 2017. Key industry components:</p> <ul style="list-style-type: none"> • \$1 billion <i>Social Housing Growth Fund</i> to support private provision of social housing—estimated 2,200 new and existing dwellings (Victorian Government 2017a). • \$1 billion loan guarantee program and \$100 million revolving loan facility for housing associations to increase their financial capacity (Victorian Government 2017b). • Management transfer of 4,000 public housing properties to CHPs to improve service provision and support their growth (Victorian Government 2017c). <p>Discussion paper for 'Melbourne metropolitan planning strategy refresh' indicated greater emphasis on affordable housing supply, including a requirement for affordable housing in the sale of government land (Ministerial Advisory Committee 2015).</p>	<p>As one part of a series of homelessness rapid response initiatives announced in 2016, 1,400 new social housing units to be targeted at reducing homelessness including for people who have experienced domestic and family violence (Foley 2016).</p> <p>Renewal of 2,500 public housing dwellings</p> <p>Further detail on new measures to be released later in 2017. Estimated 3,500 total additional social and affordable dwellings from 2016 (Pallas and Foley 2017).</p> <p><i>Plan Melbourne</i> 2017–30 includes an objective to use government land and planning measures to contribute to an increased supply of social and affordable housing. Foreshadowed directions include</p>

Jurisdiction	Policy direction	Status
	Victoria's 2016 30-year <i>Infrastructure Strategy</i> proposed development of a state-wide affordable housing plan to include targets for new dwellings for at-risk Victorians, possible planning mechanisms and fast track affordable housing approvals. Need for 30,000 additional dwellings identified (Infrastructure Victoria 2016).	investigating value capture options; streamlined social housing planning approvals and clearer legislative and policy provisions to promote affordable housing. (Victorian Government 2017d) <i>Infrastructure Strategy</i> subject to Victorian Government consideration in 2017.
Queensland	<i>Housing 2020</i> released July 2013 (QDHPW 2013). Proposed transfer of management of 90 per cent of public housing to non-government providers by 2020 and to build 12,000 additional social and affordable housing dwellings. Proposed 8–10 large housing providers and committed to national regulation. 'Working together for better housing and sustainable communities: Discussion Paper'—released March 2016 (QDHPW 2016)—sought community feedback on strategic directions. Canvassed options for expanding supply, financing and subsidising housing assistance and growth of non-government social and affordable housing. Broad scope of issues including private market supply and regulation, use of planning mechanisms, homelessness responses and co-ordinating support options for vulnerable tenants.	Proposed transfer of management for 5,000 public housing dwellings in Logan aborted in July 2016. (Pawson, Martin et al. 2016). Future of transfers not specified. Community consultations concluded and housing strategy expected in 2017.
Western Australia	The 2010–20 Affordable Housing Strategy, <i>Opening Doors to Affordable Housing</i> (Government of Western Australia 2010) was extended in 2015 by 10,000 affordable homes along the housing continuum for low and moderate-income earners to be delivered through partnerships with government agencies, private sector and NFPs.	The strategy achieved its initial target of 20,000 additional dwellings in June 2015, five years early. A revised Action Plan outlines strategies and targets for the next five years (Government of WA 2015).
South Australia	The Housing Strategy for SA 2013–18 (Government of SA 2013) includes a target to increase community housing's share of social housing from 13 per cent to 27 per cent through new supply 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. Homes affordable to lower income home buyers are also generated under planning agreements.	Under 'Better Places, Stronger Communities', transfer of 1,080 public housing dwellings to two local CHPs completed 2015. Under 'Rebuilding our Streets and Suburbs' a further 4,000 dwellings to be transferred to three local and two interstate CHPs in 2017 on 20-year leases. This will support leveraging of some new supply by the participating CHPs (Pawson, Martin et al. 2016: Table 1).
Tasmania	Tasmania's Affordable Housing Strategy 2015–25 encompasses a continuum of housing responses (from home ownership to crisis housing) to be delivered via NFP and private partners. It includes target additional supply of 941 social, affordable	Completed in 2014, the Better Housing Futures (BHF) strategy (2012) resulted in management transfer of 3,915 public housing dwellings to four local and

Jurisdiction	Policy direction	Status
	housing and crisis dwellings over the first four years Tasmanian Government (2015).	interstate CHPs. Transfer of 500 land titles to CHPs to support redevelopment and leverage of 150 additional dwellings was announced in 2016 (Pawson, Martin et al. 2016).
Northern Territory	The NT Government's four-year Real Housing for Growth Plan 2013–17 supported development of 2,000 affordable housing dwellings for rental and sale through private sector partnerships. In June 2016, the NT Government announced a new housing strategy, <i>HousingActionNT</i> , comprising two components, a Remote Housing Strategy and an Urban and Regional Housing Strategy (NT Government 2016a; 2016b).	Following a change of government in 2016 housing policy directions have not been confirmed.
Australian Capital Territory	The ACT Government continues to implement its 2007 Affordable Housing Action Plan (ACT Government 2012; 2007) which addresses housing affordability via a wide range of market interventions, direct supply incentives and other actions. The third phase of the Plan was released in 2012 for implementation by 2018. This emphasised increasing both affordable rentals and the mix of affordable purchase options.	Twenty per cent of homes built in greenfield estates required to meet affordable housing price thresholds—from July 2016 these ranged between \$296,000 and \$382,000 depending on dwelling size (ACT Government 2016).

Source Milligan, Martin et al. 2016: Appendix 1, updated by the authors.

Appendix 2: Research methods

Table 1 included an overview of the research methods used in each Inquiry project. Below we provide more detail on the specific methods used for the project 'Building Australia's affordable housing industry capacity: a review and pointers for a road-map'. Table A1, which follows, provides a list of research participants in that project by type and stage of engagement. University ethics approvals for the conduct of the research via the methods outlined were granted by the University of New South Wales in June and October 2015 (Built Environment Human Research Ethics Advisory Panel approval nos. 155063 and 155112). More details on the research methods of other Inquiry projects are contained within the respective project reports—Table 1).

Project methods

- Analysis of over 60 documents (mainly in the 'grey literature') related to the Australian affordable housing industry. These assisted us to trace the evolution of the industry's development and to ascertain the main characteristics of prevailing policy settings, institutional arrangements and industry development strategies and activities—see Milligan, Martin et al. (2016: Chapters 3, 4, 5 and 7 and Appendices 1–3).
- Two online surveys (for Tier 1 and 2, and Tier 3 registered CHPs respectively)³⁵ of capacity issues and capacity-building activities as identified by affordable housing providers. Detailed results were reported in Milligan, Martin et al. (2016: Chapter 6).
- Key informant interviews and meetings with policy-makers, registrars, industry leaders and Indigenous housing experts across NSW, Queensland, Victoria, South Australia and Western Australia. Held early in the research program, this round of interviews and meetings was used to gather additional information on the latest developments in the industry and to gauge stakeholder views of the effectiveness of support recently provided to the industry by governments, peak bodies and other supporting agencies. The findings on industry resourcing frameworks and their effectiveness were reported in Milligan, Martin et al. (2016: Chapter 5).
- Thirty-seven in-depth structured interviews with leading industry players from provider organisations and supporting institutions across Australia. Interviews with provider organisations were kept to a sample of CEOs of larger (Tier 1 and Tier 2) entities that collectively are responsible for the bulk of the industry's current housing activities. Other stakeholders were chosen because of their seniority, tenure or position within the industry (see Table A1 for more details). Taking into account the results of the provider surveys (see above), interviews were designed to probe stakeholder perspectives on capacity needs across the industry and to elicit respondents' views on priority areas and strategies for industry development. Topic guides were customised to match the role and expertise of each stakeholder group each within the industry.³⁶ Where possible interviews were conducted face-to-face (in Sydney, Melbourne and Brisbane); three were held by telephone. Interviews were recorded, written up (129 pages) and analysed thematically via the elements of capacity adopted for the research (see Section 1.3.1). Individual research team members

³⁵ A tier refers to the classification of organisations registered under the National Regulatory System for Community Housing (or its equivalent in Victoria and Western Australia).

³⁶ A selected set of topic guides used for interviewing industry participants can be viewed at <https://cityfutures.be.unsw.edu.au/research/projects/inquiry-intoaffordable-housing-industry-capacity/>.

selected utilised quotes from the collective notes of the interviews and focus groups (see below). Selections were validated by a second team member.

- Five focus groups, as detailed in Table A1. These were structured and analysed similarly to the interviews. Findings from the interviews and focus groups are presented in Chapters 2 and 3.
- A roundtable convened with seven Indigenous housing leaders: Stacey Broadbent (NSW), Cheryl Jacobs (Queensland), Daniel Morrison (Western Australia), Theresa Roe (NT), Jenny Samms (Victoria), Walter Shaw (NT) and Tom Slockee (NSW). Following a round of information gathering specific to Indigenous housing, this two-day meeting aimed to crystallise high level principles to apply to the provision of social and affordable housing to Indigenous households and to identify ways to develop and strengthen IHOs as an integral part of Australia's affordable housing industry (see also Milligan, Martin et al. 2016: Chapter 7). Discussion about Indigenous-specific issues was also incorporated into other forums and interviews, and a dedicated Indigenous housing session was held at the second Inquiry Panel meeting, which included two roundtable participants.
- A desk-based review of recent industry development pathways in four cognate fields that have been subject to significant growth and structural reform and thus have potential to offer lessons and insights that could be applied to the development of the affordable housing industry. As presented in Chapter 4, the following industry sectors were examined:
 - disability services sector
 - renewable energy industry
 - superannuation industry
 - NSW 'out-of-home care' sector.

Table A1: Research participants

Stakeholder group by type and stage of participation	Number of participants¹
<i>Stage 1 Research (August 2015–April 2016)</i>	
Provider survey	95
Key informant interview	
• Industry peak bodies	4
• Policy-makers	10
• Indigenous-specific	6
Stakeholder meeting	
• Policy-makers and registrars	12
• Industry peak bodies	12
• Housing and Homelessness Chief Executives Network	8
<i>Total number of participants stage 1</i>	<i>147</i>
<i>Stage 2 Research (April 2016–October 2016)</i>	
Interview	
• Tier 1 and Tier 2 registered CHP CEOs ²	13
• Industry peak bodies	3
• Finance partners	5
• Trainers and educators	4
• Development partners	2
• Consultants and other professional support	6
• Former policy-maker	1
• Housing registrars	2
• Commonwealth official	1
Focus group	
• Non-executive Directors, PowerHousing member organisations	13
• Tenancy support partner organisations	7
• Housing registrars	7
• Australasian Housing Institute, Directors and members	8
• Australian Government officials	9
Indigenous roundtable	7
<i>Total number of participants stage 2</i>	<i>88</i>

¹ A small number of people were interviewed in both research stages or participated in both interviews and focus groups.

² Due to last minute unavailability of their CEO at the scheduled time, one organisation was represented by senior officers.

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Australian Housing and Urban Research Institute

Level 1

114 Flinders Street

Melbourne Victoria 3000

T +61 3 9660 2300

E information@ahuri.edu.au

ahuri.edu.au

ACN 090 448 918



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