

How are leading not-for-profit housing providers adapting their organisations to new challenges?

AUSTRALIA'S FOREMOST HOUSING NOT-FOR-PROFIT (NFP) ORGANISATIONS HAVE AN EXPANDING ROLE IN THE DELIVERY OF HOUSING ASSISTANCE. THEY ARE SCALING UP, DIVERSIFYING THEIR BUSINESS SCOPE AND FUNCTIONS AND APPLYING COMMERCIAL DISCIPLINE IN ORDER TO ACHIEVE THEIR SOCIAL PURPOSE.

KEY POINTS

- Not-for-profit (NFP) housing organisations are changing in corporate structure, business scope and geographic reach to sustain, and in some cases expand, their core social mission.
- Organisations can be described as becoming more hybrid in nature as they strive to strike a balance between a business and a social ethos.
- In response to an uncertain and changing environment, leading Australian NFP housing organisations are diversifying their businesses, pursuing cross-subsidy opportunities and economies of scale, and obtaining private finance.
- While housing policy and national regulation has impacted on organisational business practices and improved private funding prospects, a robust policy and funding framework which provides clarity and certainty for investors and has the support of all Australian governments is critical to support the development of an innovative, larger and more sustainable NFP housing sector.

This bulletin is based on research conducted by A/Prof Vivienne Milligan, Prof Hal Pawson and Dr Edgar Liu at the AHURI Research Centre—The University of New South Wales, Prof Kath Hulse at the AHURI Research Centre—Swinburne University of Technology, and Prof Paul Flatau at the AHURI Research Centre—The University of Western Australia. The research sought to understand new decision-making and business models in the not-for-profit housing sector in the face of new policy frameworks and market challenges.

CONTEXT

Not-for-profit organisations are of growing importance in the delivery of housing assistance for lower income households in Australia. In 2014 the community housing sector provided 65 000 dwellings, around 16 per cent of all social housing. This represents an increase of 19 000 dwellings since 2009–10.

Not-for-profit housing organisations in Australia are facing reduced government capital funding, revenue risks (associated, e.g., with welfare reform) and increased scrutiny of financial performance via regulation. Market challenges, including the shortage of affordable private rental housing, rising land and construction costs and more cautious lending practices following the global financial crisis (GFC) have also imposed pressures. This study sought to understand how these organisations are adapting to such challenges.

RESEARCH METHOD

Chief executive officers (CEOs) from 20 of the largest NFP housing providers in Australia were recruited to form a panel of experts. Organisations were chosen on the basis of size, and experience with development and private financing. Fourteen of the organisations had participated in a previous study (Milligan et al. 2013); a further six were selected to reflect the sector's growing diversity. The sample organisations collectively owned and/or managed over 38 000 dwellings, representing nearly 60 per cent of the total NFP housing sector in Australia and around 9 per cent of all social housing provision.

Using both survey and interview methods, panel members were asked about the values, drivers of change, strategic positioning, business models, organisational development and operating environment of their organisation over the last three years and into the future. The study reapplied the survey instruments used by Milligan, Hulse and Davison (2013) to see how the 14 organisations which participated in the original study had developed or adapted their business models and practice in response to shifts in the

policy, regulatory and funding environment in the intervening years. Through collaboration with researchers in England and the Netherlands, surveys were conducted simultaneously with a sample of NFP housing organisations in England and the Netherlands, to enable a comparison of Australian and international trends. Although not reported here the details of this comparison can be found in the Final Report for this project.

KEY FINDINGS

Organisational mission, governance and scope

The typical mission of Australia's leading NFP housing organisations is to provide high quality, well managed, affordable and secure housing for people on lower incomes and, through this, to help alleviate social, economic and community disadvantage. This social purpose remains at the forefront of endeavours for the organisations surveyed, with other commitments often closely related: for example, community development and place-making.

The leading organisations included:

- Well-established community housing providers that had grown from local service provision into larger-scale businesses encompassing, for example, housing procurement, asset management, and tenancy and support services.
- Special purpose organisations founded to operate at arms-length from government.
- Broad-based welfare agencies that had entered into housing services provision to extend their social or faith-based mission.

While most organisations operated in only one state jurisdiction, six were now operating in multiple jurisdictions.

Organisations were found to be strengthening their governance in various ways:

- Eighteen of the 20 surveyed had the legal status of companies, with wider regulatory requirements beyond specific-purpose housing regulation, such as Directors'

fiduciary responsibilities.

- Thirteen had already structured, or were contemplating structuring, as a group of two or more entities, in part to manage risk across their operations, particularly in respect of housing development.
- Skills-based Boards were driving change and an increasing number of organisations had introduced limited Director remuneration.

Perceptions of organisational values

There was a high degree of convergence of views among the panel about organisational values.

Most CEOs regarded their organisations as: professional (rather than voluntarist) in outlook, entrepreneurial (rather than welfare oriented) in the ways of operating, oriented to setting their own priorities (rather than implementing government priorities) and identified more with having a private sector (as opposed to public sector) ethos.

However, there was some division within the panel in respect to their identification with a 'business' or 'social' ethos. While nine regarded their organisation as 'socially oriented', six identified as 'business oriented' and five saw these values as needing to be in balance.

These perceptions reveal that by adopting elements of a business mindset ('professionalism', 'entrepreneurialism', 'self-direction'), but retaining a strong commitment to the organisation's social mission, a 'hybrid' model of operation had developed; organisations had to make continuous trade-offs between the competing rules and cultural norms of market, public and civil society realms.

How are these new housing enterprises responding to challenges in their external environment?

Not-for-profit housing organisations in Australia are shaped by state and federal policy environments, and community demand. Sectoral growth in recent years has been influenced strongly by the federally funded National Rental Affordability Scheme and Social Housing Initiative. Future growth is forecast to come from transfers of tenancy management

from the public sector or, in some jurisdictions, asset transfers to enable modernisation and redevelopment, as well as funding associated with the National Disability Insurance Scheme (NDIS). Organisations were positioning for future growth through the development of organisational governance and capacity, and investment in IT and business systems.

National regulation of NFP housing providers and uncertainty about regulatory change in respect of charities had influenced organisational structuring and governance. Increased competition within the sector and new private sector partnerships had also contributed to changes in organisational structure, culture and behaviour. Faced with uncertainty in government policy and challenging market and financing conditions, organisations were driving a wide range of strategies including:

- Diversifying their business activities towards a wider range of clients (e.g. older people and people with a disability) to grow their revenue.
- Offering a wider range of housing products and developing mixed tenure models of housing to enable a redistribution of profits from developing and selling market housing, while simultaneously promoting social sustainability.
- Embracing a wider range of commercial business methods including project management and housing development, and building internal capacity and in-house specialist areas to respond to other commercial opportunities (e.g. fee for service).
- More actively managing assets (e.g. sale of poor stock, reinvestment in more suitable stock and managing stock on behalf of others) and generating efficiencies by restructuring maintenance services.
- Increasing economies of scale by expanding into new locations (intra- and interstate), and undertaking joint ventures and partnerships.
- Seeking out new sources of public and private finance (e.g. private equity, loans or retained surpluses).

POLICY IMPLICATIONS

The *modus operandi* of leading housing NFPs needs to be more clearly understood. Policy-makers and regulators should be mindful that government focus on assisting those with the highest need must take into account the imperative for NFP housing companies to have a sustainable business model over the longer term. This includes considering the benefits of innovative approaches to housing assistance within a more nuanced risk-based assessment.

Beyond their pursuit of uniform national regulation, Australian governments have made little progress in establishing a robust policy and funding framework for the development of a larger and more sustainable NFP housing sector positioned to support government policy objectives.

NFPs require further government support to optimise their potential. Possible models of support include:

- Designing a fit-for-purpose rent regime whereby rent setting and rent subsidies (including rent assistance) achieve affordability and quality objectives, while covering reasonable provider operating and financial costs.
- Development of viable models for public housing asset transfers to NFPs.
- Integrating financial and planning incentives to support increased affordable housing development by large and well-performing NFP housing providers.

- Facilitating, at a national level, larger scale private investment in affordable housing through investor incentives and a specialised fundraising mechanism.

A dedicated public policy and funding strategy will be required to promote greater certainty and clarity for the future of the Australian NFP housing sector and to optimise public policy goals. Cooperation between federal and state and territory governments will be critical to its success.

FURTHER INFORMATION

This bulletin is based on AHURI project 71006, *Understanding decision-making in the not-for-profit housing sector: longitudinal and comparative components*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting AHURI Limited on +61 3 9660 2300.

REFERENCES

Milligan, V., Hulse, K. and Davison, G. (2013) *Understanding leadership, strategy and organisational dynamics in the not-for-profit housing sector*. AHURI Final Report No.204. Australian Housing and Urban Research Institute, Melbourne.

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