

# The cost of housing in diverse Indigenous communities in Australia

**BOTH STATE OWNED AND MANAGED INDIGENOUS HOUSING ORGANISATIONS (SOMIH) AND INDIGENOUS COMMUNITY HOUSING ORGANISATIONS (ICHOS) EXPERIENCE OPERATING DEFICITS GREATER THAN THOSE OF MAINSTREAM PUBLIC HOUSING AGENCIES. THIS DEFICIT IS DUE TO POOR QUALITY AND HIGH MAINTENANCE HOUSING STOCK, LOW RENTAL STREAMS, POOR DWELLING MAINTENANCE, POOR MANAGEMENT PRACTICES, AND REMOTE LOCATIONS.**

## KEY POINTS

- The average annual operating deficit was \$2,415 per dwelling for State owned and managed Indigenous housing organisations (SOMIH) in 2003-04, compared to \$269 for mainstream public housing, with variations between jurisdictions. The national shortfall of revenue to costs is estimated to be \$44 million per year. For Indigenous community housing organisations (ICHOs), the total operating deficit in remote and very remote Australia is estimated to be \$52.6 million annually, or an average of \$2,400 and \$3,800 per dwelling per annum respectively.
- Amongst SOMIHs, there are higher recurrent cost pressures in Western Australia than in other states because of a higher concentration of dwellings located in remote and very remote areas, and significant difference in the maintenance costs of dwellings in remote locations.
- On average, the current operating revenues for SOMIHs are insufficient to meet their normal operating expenses, even before provision for debt servicing, dwelling depreciation and upgrades. This has led to a progressive backlog in replacing and upgrading existing dwellings in poor condition.
- Insufficient rent revenue is the main driver of the operating deficits of ICHOs. The small-scale nature of the sector (nearly 95 per cent of all ICHOs managing 70 per cent of the total stock have less than 100 dwellings) means that most providers do not generate enough rent revenue to support adequate maintenance and effective housing management practices, and even less to grow the sector.

*This study by **Dr Jon Hall** and **Professor Mike Berry** of the AHURI RMIT-NATSEM Research Centre, analyses the real costs for governments and non-government organisations providing long term Indigenous housing.*



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## KEY POINTS

- For ICHOs, revenues have not been sufficient to provide for adequate levels of maintenance expenditure and as a consequence stock deterioration has been occurring. As a consequence, the backlog expenditure that would be required to bring all ICHO dwellings in very remote and remote areas up to an appropriate standard is as high as \$705 million.
- The serious gap in the quality of the financial information on the ICHO sector does not allow policy makers to better gauge the resource needs and performance of ICHOs. Currently, ICHOs managing almost 50 per cent of this sector's stock do not report to government on their incomes and expenditure.

## CONTEXT

In 2001, Housing Ministers adopted the statement, *Building a Better Future: Indigenous Housing to 2010*, which is a coordinated national approach to improving Indigenous housing. However, knowing how to improve housing outcomes is limited by the availability of reliable and robust data on the real costs of providing housing for different jurisdictions, settlement types and regions.

Two-thirds of the 34,442 dwellings nationally rented to Indigenous households (2003-04) are managed by Indigenous community housing organisations (ICHOs), and are mainly in rural and remote areas. The remainder are managed by State owned and managed Indigenous organisations (SOMIH) - concentrated in major cities and other urban areas.

This study analyses the real costs of providing long term Indigenous housing to Indigenous communities located in metropolitan, rural and remote areas. The research examined the cost differentiation between the provision of Indigenous specific public and community housing and mainstream public and community housing; and provided information that will assist the development of future formulae for capital and recurrent funding applications in the Indigenous housing sector.

## METHODOLOGY

Data on costs and revenues were collected and analysed from SOMIHs in six states (Queensland, New South Wales, Victoria, South Australia, Tasmania and Western Australia)<sup>1</sup> and a sample of ICHOs that provides for the geographic distribution of dwellings, national coverage, and small and large ICHOs. The cost and revenue categories were developed in two discussion papers. Once general agreement was secured from State housing authorities (SHA) and the Federal Department of Family and Community Services and Indigenous Affairs (FaCSIA) about the cost and revenue categories<sup>2</sup>, each SHA received detailed questionnaires about the nature of their stock allocated to Indigenous households, the costs associated with that stock, rent policies and levels. To facilitate responses by ICHOs, each SHA was also asked to administer the questionnaire targeted at the sampled state-sponsored ICHOs in its jurisdiction. FaCSIA administered the questionnaire to Australian Government sponsored ICHOs.

The intention was to survey 61 out of 616 ICHOs nationally, but this was not achieved with many ICHOs not having the financial data or the resources to complete the relevant questionnaire. Surveys were mainly received from remote and very remote areas, with a total number of 37 responses. No returns were received from major city locations. Acknowledging that many ICHOs are not in a position to supply the required level of financial data for the survey, a workshop was held in Brisbane with five representatives of ICHOs located in remote areas and provincial towns (in Queensland, Northern Territory and New South Wales) to explore the cost of provision and maintenance of adequate and appropriate standards specific to these communities. Information was also sought about the financial reporting requirements of ICHOs for grants received from governments and from the Australian Government Registrar of Aboriginal Corporations.

<sup>1</sup> In Northern Territory and ACT, Indigenous households are accommodated directly through mainstream public housing.

<sup>2</sup> This built on the methodology developed in the earlier study by Hall and Berry on the operating results of the SHAs. See: Hall, J. and Berry, M. (2004) *Operating Deficits and Public Housing: Policies for Reversing the Trend, Final Report, AHURI, Melbourne.*

## FINDINGS

### The State Owned and Managed Indigenous Housing Sector

The operating deficit for SOMIH organisations varied significantly from one jurisdiction to another (see Figure 1).

The average operating deficit was \$2,415 per dwelling in 2003-04, compared to \$269 for public housing. Higher recurrent cost pressures are evident for those States with a higher concentration of dwellings located in remote and very remote areas, and a significant difference in the maintenance costs of dwellings in remote locations. In terms of revenue, the normal operating revenues of SOMIH providers nationally are, on average, insufficient to meet their normal operating expenses, before provision is made to service any debt and cover dwelling depreciation and upgrades. As a result, this sector has experienced the build up of a progressive backlog in replacing and upgrading existing dwellings in poor condition. This backlog in SOMIH is estimated to be \$58.1 million, as at 2003-04.

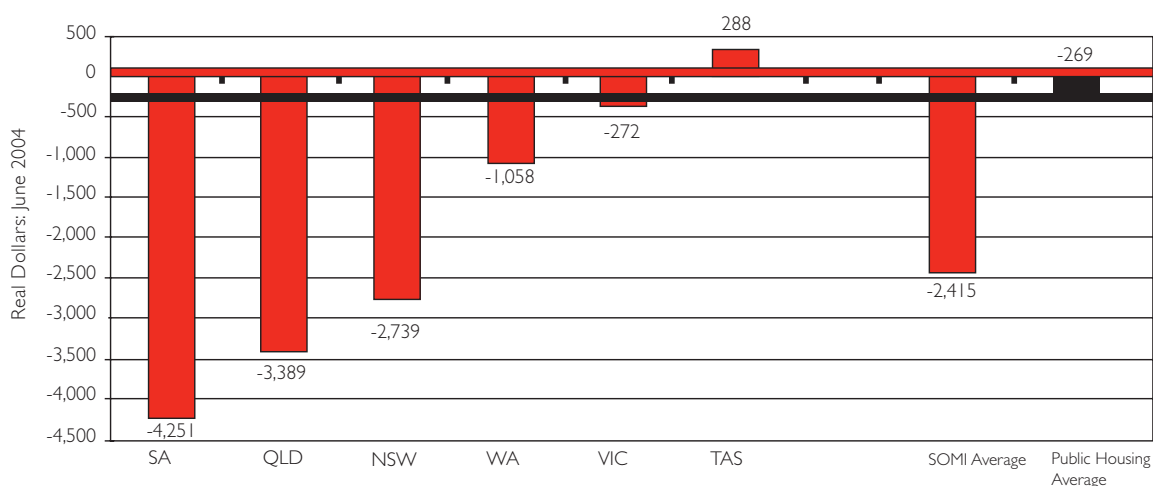
The study found that the States with the highest proportion of SOMIH located in remote and very remote areas tended to have the highest rental defaults. It is also the case that Indigenous tenants in remote locations have fewer employment opportunities and are heavily reliant on social security payments, a fact that also reduces the

average rental streams on dwellings in these areas. In many remote locations there are no 'deep' rental markets and, hence, market rents are difficult to ascertain or may be lower than equivalent income related rents. In such cases, in the absence of clear market benchmarks, the rent charged may be set at very low levels, which further undermines the financial viability of Indigenous housing providers.

Tasmania's SOMIH is currently well placed financially, with rents covering total costs and generating a small surplus per dwelling. With a relatively small proportion of dwellings in remote locations, a diverse client mix, and a very small maintenance backlog there appears little which could be considered a barrier to the elimination of any remaining backlog, and the continued generation of small surpluses. Any significant growth in the number of stock will, however, require additional capital expenditure as there is little capacity to service debt arising out of borrowings. Similar conclusions apply to the situation in Victoria (although Victoria currently generates a small financial deficit, rather than surplus).

In New South Wales, total costs have risen much faster than revenue over the 2001-2003 period, especially in the case of maintenance (up by 50 per cent) and overhead (up 20 per cent). On the positive side, net rents are high in relation to New South Wales public housing, arrears are low and a major backlog investment program is underway to lift housing standards.

**FIGURE 1: STATE OWNED AND MANAGED INDIGENOUS HOUSING: OPERATING DEFICIT PER DWELLING (EXCLUDING NET INTEREST AND DEPRECIATION), 2003-04**



Of all the SOMIHs, Western Australia has the highest concentrations of remote and very remotely located dwellings in its portfolio. These concentrations create particular financial issues for Western Australia. Whilst expenditure growth has been modest, revenues per dwelling actually fell over the study period (2001-2003), which resulted in the operating deficit doubling. Furthermore, with arrears at 16 per cent and defaults at nearly 6 per cent of gross rents after rebates, non-payment is further eroding the revenue base. Homeswest is also subject to higher recurrent cost pressures than that applying to other states because of significant differentials applying to the maintenance of dwellings in remote locations.

### **Indigenous Community Housing Organisations (ICHOs)**

ICHOs, especially those managing small numbers of dwellings, face a financially ruinous cycle. Insufficient revenue leads to inadequate maintenance and housing management, which ensures poorer quality stock and lower proportions of potential rents (on current charging practices). This in turn promotes the further deterioration of the stock, lower housing management expenditures and even lower revenues.

The small-scale nature of the sector (nearly 95 per cent of all Indigenous organisations managing 70 per cent of the stock have less than 100 dwellings) means that most providers do not have sufficient resources and expertise to efficiently and effectively maintain the stock, and even less to grow it. Existing revenue streams are too small to support either the costs of, or the training and ongoing staff costs associated with, continuous professional housing management. Serious gaps have emerged in the quality of the financial information on sector performance that would allow policy makers to better gauge the resource needs and performance of ICHOs. Currently, ICHOs managing almost 50 per cent of this sector's stock do not report to government on their incomes and expenditure.

On the basis of the limited data available, the annual total revenue shortfall for ICHOs in remote and very remote areas is estimated to be \$52.6 million. Further detailed data is required in order to be more precise about the full scale of the problem. At this stage it is not possible to make any estimates about ICHO financial sustainability in areas

within or near urban centres. It was further estimated that 20 per cent of remote area ICHOs housing stock require significant upgrade and a further 18 per cent complete replacement. At conservative valuations, this would require a commitment of \$705 million or \$141 million annually for 5 years.

The absence of both appropriate management information and professional housing management is due to the absence of a national prudential regime which has detailed reporting requirements irrespective of the source and/or provision or absence of funding support. A further factor is a paucity of funds for the development and maintenance of appropriate management techniques. A paucity of funds is primarily a function of inadequate revenue arising from a combination of current rent charging policies; diseconomies of scale; and a lack of clear, consistent, and longstanding management funding support aimed also at developing scale in ICHO housing management.

Other factors that appear to affect the ICHOs sector include the inheritance of existing Indigenous housing management models and funding regimes that have contributed to under-staffing, low wages, high staff turnover and stress and chronic revenue short-falls. This makes ICHOs more at risk of requiring government 'bail-outs'.

Under-maintenance and overcrowding of dwellings is a prevalent though variable issue. The prevalence of transient but often long-term visitors is pervasive and can contribute to problems of overcrowding and also to dwelling damage, and increasing repair and maintenance costs. Community expectations about housing tenure, rent levels and support services limits revenues to and imposes costs on Indigenous housing providers. The increasing number of Indigenous people over 60 years of age will place increasing housing and other service demands on ICHOs. There are also costs associated with compliance with government rules on quality assurance, accountability and transparency to ICHOs is also a contributing factor.

Whilst it is not possible to be definitive about backlog requirements, doubt must be raised about previous estimates and there needs to be a proper quantity surveyed assessment of current ICHO stock condition including:

dwellings requiring major upgrade; the anticipated average cost per dwelling; dwellings requiring replacement and the anticipated average cost per dwelling; and whether or not any funding program should provide weightings on capital support per dwelling for upgrading and replacement, by geography, and the extent of such weightings.

## **POLICY IMPLICATIONS**

### **State Owned and Managed Indigenous Housing Sector (SOMIHs)**

The operating deficits of SOMIHs are in part caused by the higher recurrent costs of administering housing stock in remote and very remote locations. Weighting of the funding provided by governments to recognise these cost differentials is one option for policy change, but it would need to be supported by a concerted effort from SOMIH's to reduce their operating costs as there appears to be a degree of variation in management expenditures across jurisdictions.

To address the need to increase the maintenance and upgrading of existing dwellings managed by SOMIHs warrants both increased funding by the Australian Government and the targeting of assistance to those jurisdictions whose SOMIH portfolios contain a high proportion of dwellings in remote and very remote locations, as this is where significant cost differentials for dwelling maintenance occur. A program of financial assistance targeted at cyclical maintenance could also identify and support a successful maintenance program.

### **Indigenous Community Housing Organisations (ICHOs)**

The small-scale nature of the ICHO sector (95 per cent of all ICHOs managing 70 per cent of the total stock have less than 100 dwellings), results in small revenue streams and insufficient resources to build up management capacity. One option is to introduce financial incentives to Indigenous communities to move towards financially sustainable scales of operation. This need not imply any diminution in the autonomy of particular communities to control their own settlements.

The move towards more financially sustainable scales of operation would benefit from steps to increase rent revenues for ICHOs. One option is for the recurrent

funding formulae to include clear criteria accounting for revenue and cost differences due to geography and other factors as revealed by subsequent more geographically comprehensive analysis. The Australian Government, in consultation with the jurisdictions, could lead this national approach of consistent rent setting principles based on income rather than a flat amount.

An increase in maintenance expenditure and the targeting of such assistance would help address the current under-maintenance of dwellings. One option is for the Australian Government to consider introducing separate capital funding for dwelling upgrading and replacement, with clear incentives that recognise Indigenous communities' efforts to manage and maintain the existing stock.

The research finds gaps in the quality of financial information on the performance of ICHOs. The quality of financial information and management skills overall could be enhanced by the provision of training and support, including database and records keeping management. One option is to adopt a national approach through the establishment of a National Indigenous Housing Training and Development Centre.

As with SOMIHs, weighting of the funding provided by governments for ICHOs would recognise the higher recurrent cost in remote and very remote areas. One option is for the recurrent funding formulae to include clear criteria accounting for cost differences due to remoteness and other factors as determined by further analysis of the ICHOs.

## **FURTHER INFORMATION**

This bulletin is based on AHURI Project 30282, *Indigenous Housing – Assessing the long-term costs and the optimal balance between recurrent and capital expenditure*.

Reports from this project can be found on the AHURI website: [www.ahuri.edu.au](http://www.ahuri.edu.au)

The following documents are available:

- Positioning Paper
- Final Report

Or contact the AHURI National Office on +61 3 9660 2300.



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ACKNOWLEDGMENTS This material was produced with funding from Australian Government and the Australian States and Territories, AHURI Ltd acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

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