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EXECUTIVE SUMMARY

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

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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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Related reports and documents

Lawson, J., Legacy, C. and Parkinson, S. (2016) *Transforming public housing in a federal context*, AHURI Final Report No. 264, Australian Housing and Urban Research Institute Limited, Melbourne, http://www.ahuri.edu.au/research/final-reports/264, doi:10.18408/ahuri-5308201.

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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 Slockee (Meeting 2)	South Eastern Aboriginal Regional Management Service
Panel facilitator: Brian Elton	Elton Consulting

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 of 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.

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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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