Australian Housing and Urban Research Institute

INCREASING SOCIAL HOUSING SUPPLY
REQUEST FOR INFORMATION

Recent trends in public housing supply

Public housing stock numbers have fallen from a recent high of over 400,000 in 1997 to just over 341,000 in 2006. Annual construction of new public housing dwellings has fallen from 6,000 in 1997 to 3,200 in 2006 (ABS 2007).

A snapshot from the 2006 Census shows that public renters represented 15 per cent of all rented dwellings in 2006. This figure is down from 19% at the 1996 Census.

Increasing social housing supply

Research findings from AHURI are directly relevant to two aspects of increasing social housing supply:

1. *Identification and mitigation of threats to the existing supply of social housing*. Logically, unless the current 340,000 units are retained any new measures will face greater difficulty in increasing supply. The relevant research findings address the financial viability of current social housing providers and document opportunities to retain supply within the existing Independent Living Units sector – 'the forgotten social housing sector'.
2. *More cost effective ways to increase the supply of social housing*. The relevant research findings address:
   - Use of government funds to leverage private investment in social housing and thereby increase supply;
   - Use of government funds to provide incentives for land-use planning measures to be used to leverage increased social housing supply;
   - Systematic mixing and matching of housing subsidy provisions to prevailing housing market conditions resulting in more households being assisted for the same amount of money.

From these research findings arise a series of policy questions associated with the development of a multi-provider social housing system in Australia. These questions are detailed in a third section:

3. *Questions arising from the development of a multi-provider social housing system in Australia*. Current housing assistance policy settings in Australia lead logically to a series of questions about the 'downstream' consequences of moving to a multi-providers social housing system.

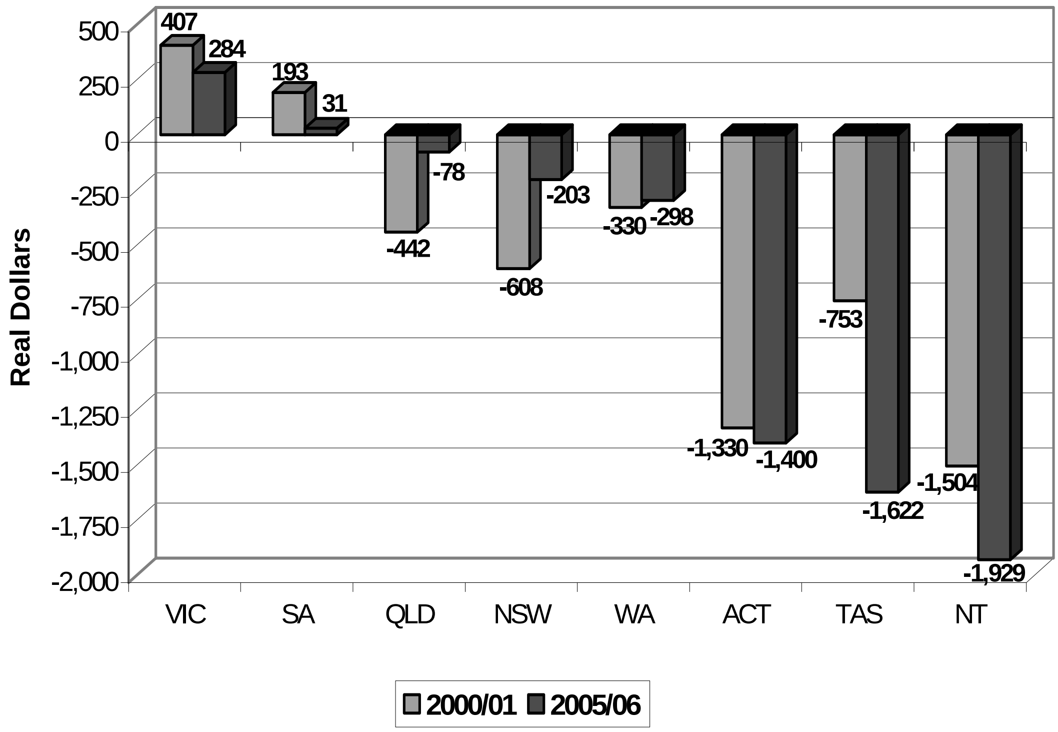
Research findings from the AHURI research program relevant to issues of increasing social housing supply are briefly summaries below. More detailed and properly contextualised statements of the findings can be found in the relevant Final Reports on the AHURI website, as referenced in the attached Bibliography.

1 Identification and mitigation of threats to the existing supply of social housing

A Final Report by AHURI, *Operating deficits and public housing: policy options for reversing the trend*, authored by Hall and Berry (2004), calculated the operating deficits of each State and Territory public housing authority. From 1990-91 to 2000-01 the operating result for all housing authorities, on average, moved from a surplus of $621 per dwelling in 1990-91 to a deficit of $-269 per dwelling in 2000-01. 'In 1990-91 all housing authorities had operating surpluses. By 2000-01 only South Australia and Victoria were in surplus' (AHURI 2004a: 4).

In an update of this analysis, *Operating deficits and public housing: policy options for reversing the trend: 2005/06 update*, Hall and Berry (2007 forthcoming: 52) find that the operating result for all housing authorities, on average, improved from $-269 per dwelling to $-78 per dwelling from 2000-01 to 2005-06. Operating surpluses per dwelling in South Australia and Victoria fell. The operating deficits in WA, NSW and Queensland reduced over this period. The operating deficits per dwelling increased in the ACT, Tasmania and the Northern Territory (see Figure 1) (Hall and Berry, 2007 forthcoming: 3)

Figure 1: Real operating surpluses/deficits per dwelling, 2000/01 and 2005/06 (excluding interest and depreciation), all state and territory housing authorities (June 2006 dollars)



* Leasing expenses are excluded from the analysis to enable the 2005/06 comparisons across states and territories, and comparison with the 2000/01 analysis. In Victoria this excludes $12.9 million of leasing expenses from the total annual operating surplus/deficit. For the same reason (i.e. to enable comparisons), provisioning for bad debts has been excluded, though bad debts actually incurred have been included.

Sources: Hall J and Berry M, 2004, *Operating Deficits and Public Housing, Policy Options For Reversing The Trend*, AHURI; returned spreadsheets of STHAs to the 2005/06 Operating Deficits Project

Hall and Berry (2007 forthcoming) identify a range of drivers of these operating results including falling real levels of funding under the CSHA, reduced rent revenues due to an increased percentage of tenants receiving rent rebates, increased administrative costs due to an increased percentage of tenants with complex needs, and increased maintenance costs due to the ageing of the housing stock.

These operating results potentially jeopardise increased social housing supply, as one way of reducing an operating deficit is to reduce stock numbers. Logically, to increase social housing supply existing stock numbers must be retained.

The AHURI Final Report by Hall and Berry (2004) concluded that if governments funded the implied community service obligation (the difference between market rent on public dwellings and the rebated rent paid by eligible public tenants), as currently happens in New Zealand, then all housing authorities bar one would be returned to operating surpluses. The forthcoming 2007 report applies the same logic but due to deteriorating circumstances, by 2005-06 two housing authorities would not be returned to operating surpluses.

A further threat to the existing supply of social housing lies with stock losses in the Independent Living Units (ILUs) sector. An AHURI Final Report by McNelis (2004) concluded that ILUs are Australia's 'forgotten social housing sector' (AHURI, 2004b: 1).

‘ILU organisations received generous financial assistance through the Australian Government Aged Persons Housing Act from 1954 to 1986 but this source of funding has stopped and they are now reliant mainly on private financing for renewing or refurbishing stock’ (AHURI 2004b: 1)

‘ILUs remain an important social housing option for older people with relatively low assets and incomes. At around 34,700 units Australia-wide, they provide up to 27 per cent of social housing for older people’ (AHURI 2004b: 1). ‘New South Wales is estimated to have the largest number of ILUs at 13,600, followed by Western Australia (6,400), Victoria (6,200), Queensland (4,200), South Australia (3,200) and Tasmania (1100)’ (AHURI 2004b: 2)

The changing financial, social and regulatory context in which ILUs operate poses the risk that many ILU organisations will withdraw from the sector rather than meet these challenges, eroding current levels of social housing supply (AHURI 2004b: 1).

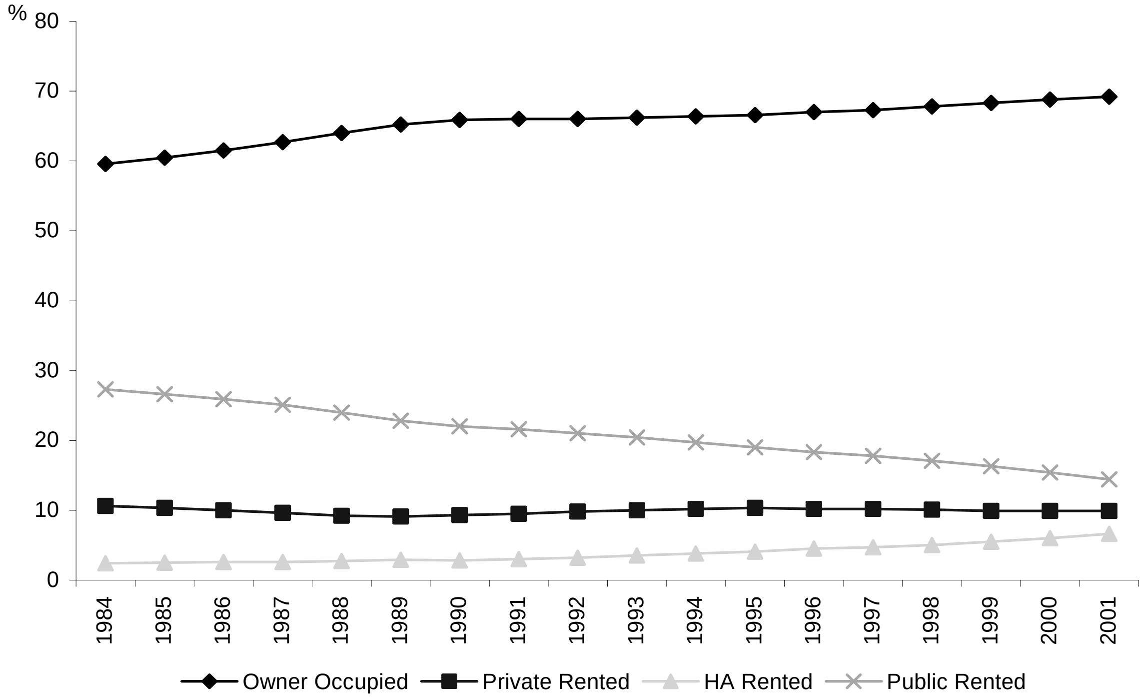
Low interest loans from government for capital investment by ILU organisations would help address problems of financial viability and reduce the risk of withdrawal or a move ‘upmarket’ to house households on higher incomes (AHURI 2004b: 3). Encouraging mergers with other social housing organisations is another policy option to retain this important supply of social housing (AHURI 2004b: 4).

2 More cost effective ways to increase the supply of social housing

Leverage private investment in social housing supply

Use of government funds to leverage private investment in social housing has increased significantly in the United Kingdom (UK) over the past thirty years. The reverse is true for Australia (AHURI 2006b: 1). This leveraging of private investment in social housing has increased supply amongst non-government providers of social housing, though there has been a continuing decline of social housing supply amongst government providers (see Figure 2)

Figure 2: Stock of dwellings by tenure, Great Britain



Source: Office of the Deputy Prime Minister, Housing and Construction Statistics, in Berry, Whitehead, Williams and Yates (2004: 23).

An AHURI Final Report, *Financing affordable housing: a critical comparative review of the United Kingdom and Australia*, by Berry, Whitehead, Williams and Yates (2004) assessed the use of government funds to leverage private sector funds into social and affordable housing supply. The authors found that 'over the past thirty, private investment in the provision of social and affordable housing had increased in the UK to $92.7 billion in 2003' (AHURI 2006b: 1).

'The market for private finance has grown, in large part due to the robust financial regulatory structure put in place by the UK central government in a generally benign economic and policy environment. There were in 2003 around 150 lenders, mainly large banks and building societies, which lend to not-for-profit housing associations.'

'The dual roles of the (central government created) Housing Corporation as both regulator and capital grant provider to housing associations has reassured private lenders, while cementing political support for this policy direction' (AHURI 2006b: 1). 'Significant levels of upfront capital grants to enable associations to provide social housing at below-market rents…' have also been fundamental (Saw and Whitehead 1997: 424). These Housing Association Grants were '…initially at levels covering up to 75 per cent of the capital costs of new schemes' (Saw and Whitehead 1997: 423).

A Final Report for AHURI, *A practical framework for expanding affordable housing services in Australia: learning from experience*, by Milligan, Phibbs, Fagan and Gurran (2004) studied eight Australian not for profit housing organisations and found that the sector can leverage government investments in affordable housing more effectively than public housing, can provide high quality housing, and can also contribute to other objectives such as social mix (AHURI, 2005: 3).

'Not for profit housing providers are able to leverage finance for affordable housing from several sources. These include: savings on developer margins, Goods and

Services Tax (GST) exemptions on the supply of housing, cross-subsidies from allocating higher-income tenants into developments, capacity for tenants to receive Commonwealth Rent Assistance (CRA), and some limited developer contributions and gains through the land-use planning system' (AHURI 2005: 1).

'Not for profit housing providers need to be large enough to achieve economies of scale in housing development and to be able to generate sufficient revenue to sustain their operations and contribute to their own growth. However, the objectives for affordable housing projects are unclear and there is a lack of any overarching policy framework, which contributes to uncertainty for potential players and makes innovation more risky' (AHURI 2005: 1).

'If Australian governments wish to see an expansion of the non-profit affordable housing sector, they might: support private providers to achieve scale economies by underwriting their development and financing risks through a mix of capital and recurrent subsidies; develop their organisational capacity and skills; and assist them to obtain finance and realise planning and development approval for innovative projects' (AHURI 2005: 1).

Moreover, Yates and Milligan cum al (2007: 44) in a Final Report for AHURI, *Housing affordability: a 21st century problem*, conclude that a policy framework for long-term renting, of which social housing is one component, will require two interrelated policy reforms. 'The first reform required is to put in place the institutional and subsidy arrangements that will attract institutional investors, especially superannuation funds, to invest in larger amounts of well located good quality rental housing' (Yates and Milligan cum al 2007: 44). 'The second key reform is to boost the capacity of the not-for-profit sector and other regulated landlords. Their role is to allocate and manage housing that can be funded through institutional investment and other potential public and private sources in order to meet public policy requirements for the provision of adequately maintained and secure housing for those groups whose needs are not being met in the existing, lightly regulated private rental market' (Yates and Milligan cum al 2007: 44).

'These two reforms go hand-in-hand. With institutional investors interested in long term investment in a housing asset class (without wanting responsibility for managing the assets) and with dedicated rental managers acting in a complementary role to manage the housing assets, new opportunities are available to provide long-term rental options. Through accreditation and public regulation, housing managers can also fulfil specific public policy objectives such as assisting allocation of the housing produced to nominated groups, ensuring that any subsidies provided achieve the housing outcomes that are intended, supporting community building functions and helping to broker appropriate personal support or other services as needed' (Yates and Milligan cum al 2007: 44-45).

Land-use planning to leverage social housing supply

A second means of leveraging increased social housing supply is by providing financial or other incentives for State/Territory governments to employ land-use planning.

A Positioning Paper for AHURI, *International practice in planning for affordable housing*, by Gurran et al (2007: 5) finds that 'Planning mechanisms for affordable housing have proved crucial for securing land for affordable housing development and achieving the broader goal of socially mixed communities. While the evidence shows that these mechanisms do not replace the need for dedicated funding for affordable housing supply, planning levers can maximise the outcomes of this expenditure and complement other financial incentives or subsidies to support affordable housing development.'

A summary of these approaches to planning for social and affordable housing follows.

'*System level approaches*

- Planning system enhancements to promote an efficient supply of residential land for development (responsive to surges and falls in demand), and initiatives to reduce any production costs associated with complex planning controls, uncertainty, lengthy approvals processes or inappropriate charges.
- Strategies to remove regulatory barriers to the development of affordable housing from unnecessarily restrictive development standards, and intervention to ensure that a greater diversity of dwelling types is permissible within statutory controls…

New methodologies / frameworks

- Comprehensive methodologies for identifying housing need, and for determining corresponding targets for new affordable housing supply...
- Strong methodologies for determining the viability of different affordable housing contribution requirements on particular sites, under different market conditions and drawing on different planning based cost offsets, or other subsidies.

Planning mechanisms or tools

- Planning mechanisms or levers to protect existing sources of affordable housing, through social impact analysis frameworks and demolition or change of use controls...
- Planning levers or incentives to encourage preferred residential development types likely to be accessible to lower income earners – for instance, additional floor space incentives for shop top or mixed commercial/residential development within town centres; or student housing in areas well located to transport.
- Voluntary incentives for private developers to achieve additional development potential or to offset costs, in return for contributing to a local affordable housing fund…
- Voluntary incentives for affordable housing developers building new social or affordable housing stock (meeting defined criteria), to offset development costs…
- Mandatory requirements for private developers to contribute to affordable housing (in cash or kind)…
- Mandatory requirements for private developers to contribute to affordable housing, in cash or kind, but with the amount and form of the contribution determined through a negotiated agreement…
- A negotiated agreement for private developers to contribute to affordable housing within a particular site…' Gurran et al (2007: 3-5).

Systematic mixing and matching of housing subsidy provisions

A third means of more cost effectively leveraging an increased supply of social housing is '(B)y systematically mixing and matching housing subsidy provisions to the housing market conditions that prevail in different capital cities'. With this approach 'more households can be assisted with their housing for the same amount of money' (AHURI 2004c: 1).

In a Final Report for AHURI, *Risk management and efficient housing assistance provision: a new methodology*, Hall and Berry (2003) compare alternative housing assistance policies, and mixes of policies, aimed at maximising the number of households assisted by programs relative to differing capital city housing market conditions.

The analysis '…suggests that there is a high probability of reducing housing assistance costs per assisted household if governments tailored policies to deliver assistance in each city by focussing on the two most efficient options in each case: bonds and public housing in Sydney, Melbourne, Perth, Brisbane, Canberra and Darwin; rent assistance and bonds in Adelaide; rent assistance and home loans in Hobart' (AHURI 2004c: 3).

Table 1 ranks the relative efficiency of various housing assistance options and packages for the eight capital cities.

Table 1: Ranking of housing assistance policy options by real mean annual subsidy cost per resident: individual options and 'all options mixed' option, eight Australian capital cities

Option	Adelaide	Melbourne	Sydney	Canberra	Hobart	Perth	Darwin	Brisbane
RA	1	5	6	5	1	5	6	5
Public Housing	5	2	2	1	5	2	1	2
Bonds	6	1	1	2	6	1	2	1
Home loans	3	6	5	6	3	6	3	6
Shared Equity	4	4	4	4	4	4	5	4
'All options'	2	3	3	3	2	3	4	3

Source: AHURI 2004c: 3.

Housing market conditions in the capital cities have changed since this analysis was undertaken. Nonetheless, the principle of applying different forms of assistance in different housing market contexts remains sound and '(T)he model developed in the study can be readily adapted to explore the relative subsidy efficiencies of different policy options under different sets of assumptions about future risks (AHURI 2004c: 4).

3 *Questions arising from the development of a multi-provider social housing system in Australia*

A policy framework that supports multiple providers of social housing is a characteristic of English housing policy reform. The 2007 Green Paper *Homes for the Future: More Affordable, More Sustainable*, will open up Social Housing Grant (capital subsidies) to local authority-sponsored 'arms length management organisations (ALMOs), alongside housing associations and private developers. In the English context neither the capital subsidy (Social Housing Grant) nor the recurrent subsidy (Housing Benefit) is tied to a particular provider or particular tenure form.

However, current housing assistance policy settings in Australia see particular subsidy streams tied to particular social housing providers. Commonwealth State Housing Agreement (CSHA) funds are tied to State and Territory housing agencies: CRA funds, in a social housing context, are only available to tenants in community housing organisations and housing associations.

If ‘CSHA’ funds were made available to a range of social housing providers, this logically raises questions about which tenants have access to CRA and on what grounds.

A move towards a multi-provider social housing system in Australia raises the following questions:

1. Would tenants of the new providers of social housing be eligible for CRA?
2. Who will manage the tenancies of the new social housing providers?
3. Will there be common waiting lists between the State/Territory housing departments and the new social housing providers?
4. If the answer to 3 is ‘yes’, who will have responsibility for allocating tenants to vacant properties amongst new and existing social housing providers?
5. If eligibility for CRA depends upon the status of your landlord, what implications does this have for the transparency of income support eligibility?
6. If tenants of new social housing providers can access CRA, but State/Territory housing department tenants cannot, will this encourage current tenants to seek a better financial outcome with a new social housing provider and therefore increase the ‘churn’ of tenants, and thereby the costs of administering social housing?
7. If tenants of new social housing providers can access CRA, but State/Territory housing department tenants cannot, will providers of social housing transfer their stock and tenants to the new providers to increase the level of recurrent subsidy available to the social housing system?

This paper has provided a brief summary of research findings from the AHURI research program relevant to issues of increasing social housing supply. More detailed and properly contextualised statements of the findings can be found in the relevant Final Reports on the AHURI website, as referenced in the Bibliography.

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