



10 November 2016

Dr Peter J Boxall AO, Chairman  
Independent Pricing and Regulatory Tribunal of New South Wales  
Level 15, 2-24 Rawson Place  
Sydney NSW 2000

Dear Dr Boxall,

**RE: OUR SUBMISSION ON IPART'S REVIEW OF RENT MODELS FOR SOCIAL AND AFFORDABLE HOUSING**

I am delighted to enclose our research paper *From housing assets, to housing people: Fixing Australia's social housing system*; which forms our submission to your review.

Our paper limits its inquiries to the financial sustainability and regulation of the social/public housing system.

Our concept modelling, undertaken by KPMG using the real property data underpinning the NSW public housing system – shows how the system could be radically improved in terms of the quantity of subsidised housing – and the quality of the housing and human services that NSW provides, to social/public housing tenants.

Our paper considers in part the reduction in the level of rent paid by social/public housing tenants, through the residualisation of social/public households, across the past several decades.

However, noting the core purpose of the social/public housing system – we do not consider that an increase in the proportion of tenant rent paid is an appropriate measure.

Instead, we consider how the public sector subsidy can be increased to grow the capacity and quality of social/public housing, without increasing the household contribution above 30 per cent of household income.

IPA welcomes IPART's review of rent models for social and affordable housing – and we hope that our enclosed paper informs your final report on pathways to fix the social/public housing system – within your broader inquiry into affordable housing rent models.

**BRENDAN LYON**

CHIEF EXECUTIVE OFFICER



INFRASTRUCTURE  
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# From housing assets, to housing people:

FIXING AUSTRALIA'S SOCIAL HOUSING SYSTEM



**Infrastructure Partnerships Australia is a national forum, comprising public and private sector CEO Members, advocating the public policy interests of Australia's infrastructure industry.**



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## ABOUT IPA

Infrastructure Partnerships Australia is the nation's peak infrastructure body – formed in 2005 as a genuine and enduring policy partnership between Australia's governments and industry.

IPA's formation recognises that through innovation and reform, Australia can extract more from the infrastructure it's got, and invest more in the infrastructure we need.

Through our research and deep engagement with policymakers and industry, IPA seeks to capture best practice and advance complex reform options to drive up national economic prosperity and competitiveness.

Infrastructure is about more than balance sheets and building sites. Infrastructure is the key to how Australia does business, how we meet the needs of a prosperous economy and growing population and how we sustain a cohesive and inclusive society.

Infrastructure Partnerships Australia draws together the public and private sectors in a genuine partnership to debate the policy reforms and priority projects that will build Australia for the challenges ahead.

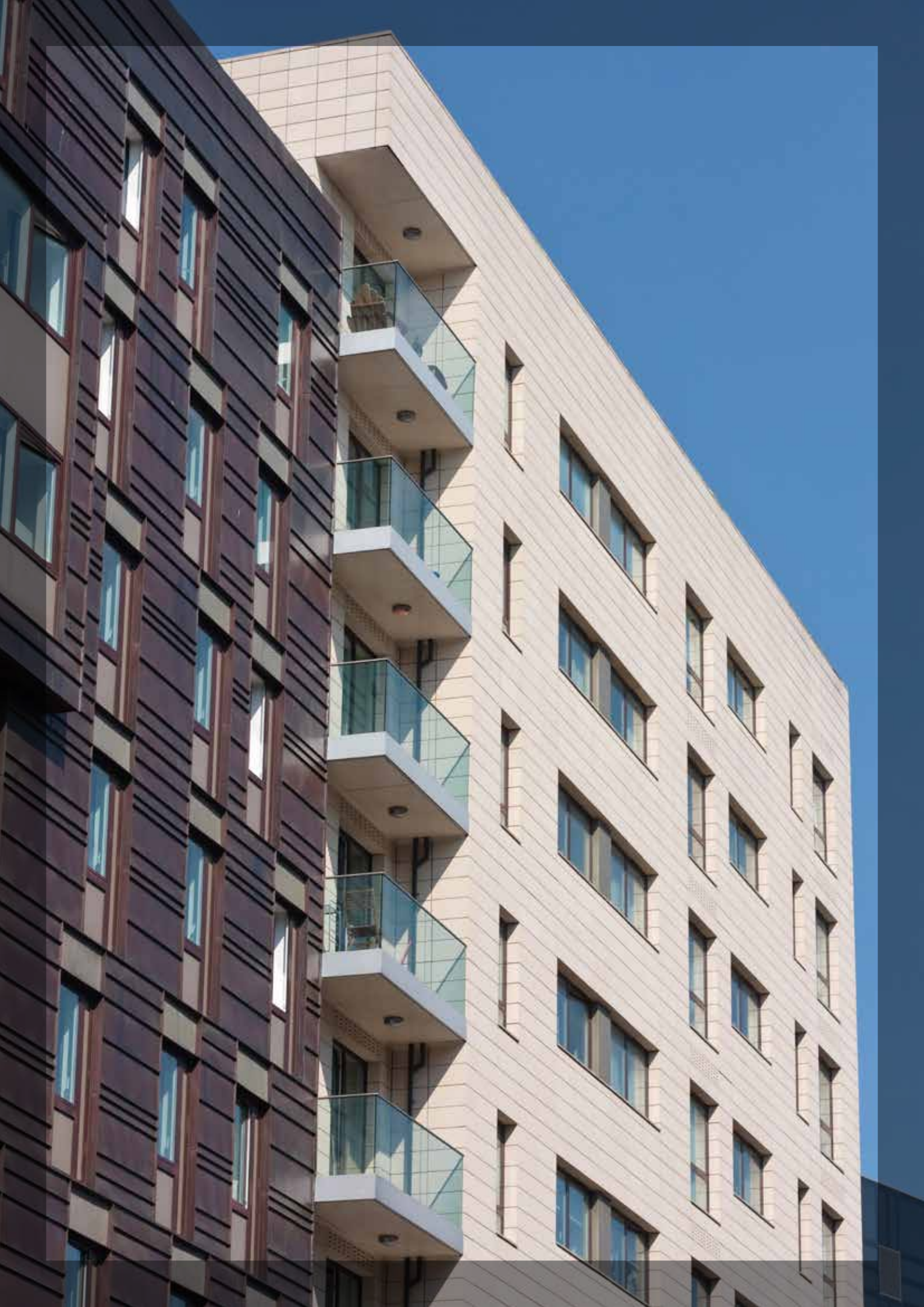
#### Disclaimer

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To Graham Brooke at KPMG and his team, IPA thanks you for your generous donation of the modelling that evidences the 'proof of concept' for the IPA housing model.



We also thank the numerous political leaders, public sector officials, charities and other stakeholders that have helped us review and refine this research paper over the last three years.





# 1.

## EXECUTIVE SUMMARY & RECOMMENDATIONS

Social housing is the joint Commonwealth-state funded system of publicly-subsidised housing, which supports the community's most vulnerable households.

Within the system of 'social housing', traditional government-owned and managed 'public housing' provides nearly 80 per cent of social housing places nationally, with Non-Government providers supplying the balance.

On current settings, Australia's social housing system is in terminal decline, with changing and growing community needs sitting uncomfortably astride declining levels of public funding and low quality housing stock.

The net result is a system where:

- More than 250,000 Australian households are on social housing waiting lists;
- More than half of the highest priority households will spend more than two years waiting for placement; and
- Traditional public housing dwellings are often old, poorly maintained and fail to meet governments' own minimum quality standards.

Over the past two decades, Commonwealth and state governments have attempted an array of incremental policy and funding reforms; however, as Figure 1.1 shows, these modest interventions provided only modest increases, before a return to the trend decline in public housing.

### WE MUST TREAT THE SYMPTOMS, BUT WE CAN ALSO FIX THE CAUSE...

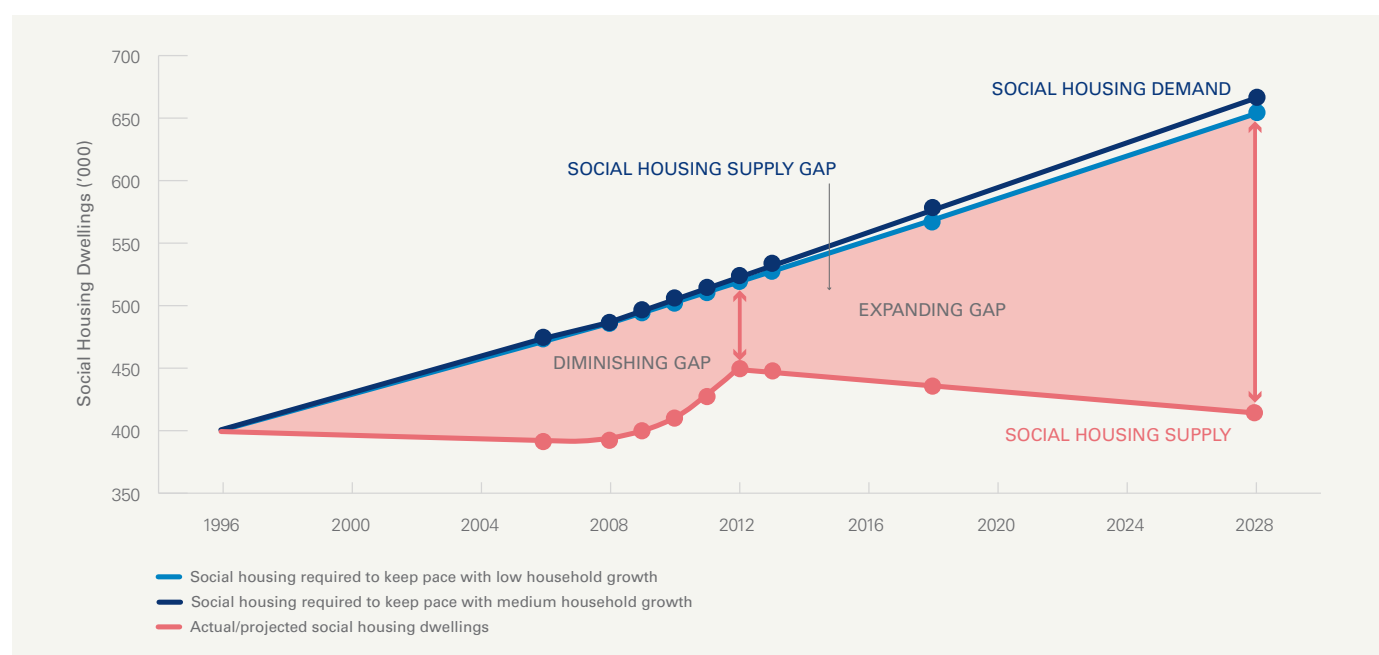
Unsustainable public funding – a raw lack of available dollars to spend – is the principal problem facing Australia's social housing system.

This lack of sustainable government funding is the disease, causing symptoms like growing waiting lists, poor quality housing and a large maintenance backlog.

That's why this paper develops a model that allows Australia's governments to move from incremental, temporary measures to treat the symptoms of the dying funding model.

▼ FIGURE 1.1

#### INCREMENTAL POLICY CHANGE SEES THE SYSTEM FAILING TO MEET NEEDS



Source: Implementing the national housing reforms, a progress report to COAG, November 2009



## OUR RECOMMENDATIONS ARE NATIONAL, BUT OUR PROOF OF CONCEPT FINANCIAL ANALYSIS AND MODELLING ARE BASED ON NSW, BECAUSE WE HAVE THE DATA...

Social housing, like other areas of public infrastructure and public services, sees concurrent, dual and overlapping responsibilities between the Commonwealth on the one hand, and the states and territories on the other.

While the Commonwealth is an important source of funding, essentially every practical aspect of social housing – like the ownership, management and allocation of public housing stock, managing Non-Government providers (where they exist), and wider controls such as the land use planning system – is the preserve of sovereign state governments.

For this reason, we have approached this paper as national in its recommendations and conclusions – but we have used NSW as the reference state for our ‘proof of concept’ financial modelling and much of our analysis.

We have used NSW because of our Memorandum of Understanding (MoU) with the NSW Government – meaning that we were able to access the Land & Housing Corporation’s asset data and other practical aspects.

## HOW CAN WE FIX SOCIAL HOUSING?

Our paper identifies a new structure to govern Australia’s social housing sector, which secures public funding and would allow the system to grow, in line with community needs.

We call this the Social Housing Future Fund model, which is outlined in Figure 1.2 below.

This approach sees surplus legacy public housing stock sold, as existing tenancies expire, with the proceeds invested into a sole-purpose, ring-fenced investment fund, investing to earn a financial return that is large enough to increase the number of social housing dwellings – and significantly increase the amount of funding available for each of those households.

This improved system-wide funding allows well located precincts to be kept within the system.

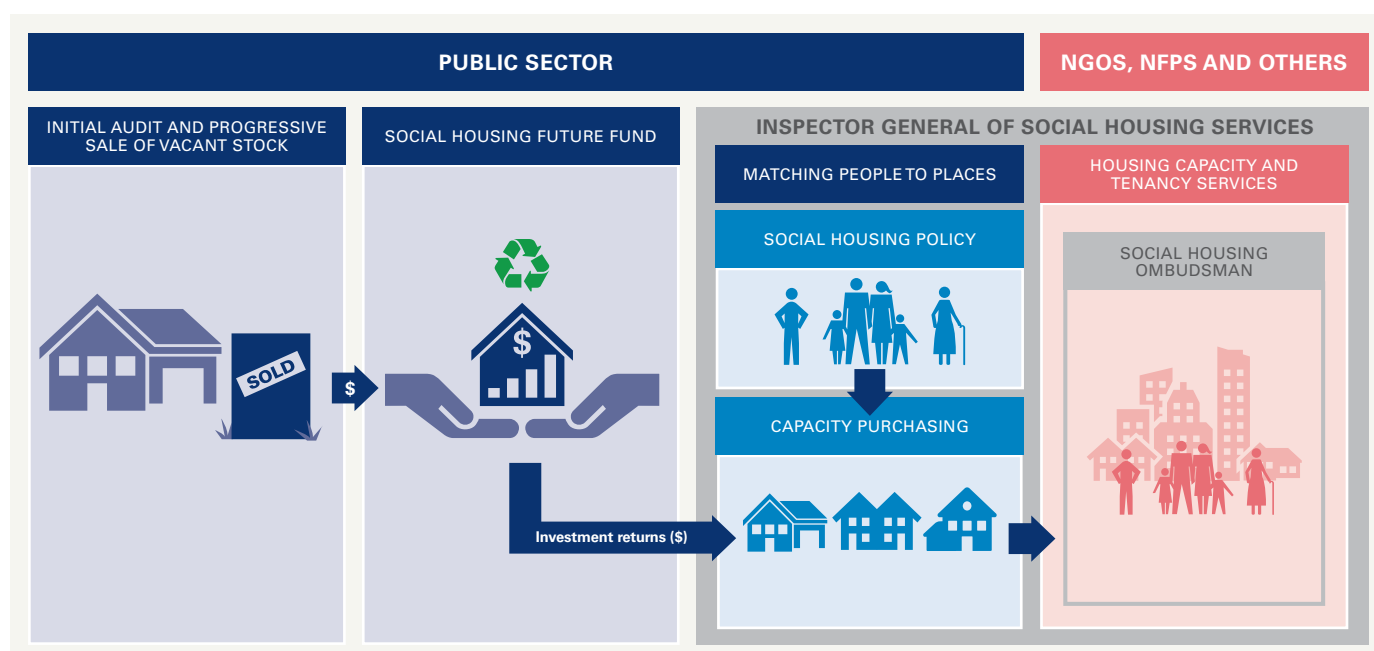
## UNDER OUR SOCIAL HOUSING FUTURE FUND MODEL, SOCIAL HOUSING REMAINS 100 PER CENT PUBLICLY FUNDED...

Our model ‘solves’ many of the problems facing Australia’s social housing system, by increasing public funding – and making it sustainable over the long-term.

Our model delivers this increased, sustained pool of funding by considering the (very, very large) existing taxpayer investment in public housing as a financial endowment that can be unlocked and better deployed, earning a financial return that is used to pay for more and better social housing.

▼ FIGURE 1.2

### SIMPLIFIED APPLICATION OF THE SOCIAL HOUSING FUTURE FUND MODEL



## PROPERLY DONE, OUR MODEL GIVES GOVERNMENT A HIGHER LEVEL OF CONTROL...

Policy change can see community concern gather around a perceived risk that a government could 'lose control' of core services. These concerns are amplified in importance in sensitive areas of government service delivery, like social housing.

While these concerns are understandable, our model would in fact serve to substantially increase transparency of the quality and capacity of the social housing system – and radically increase the accountabilities for high quality housing and wrap-around services.

While our approach involves full public funding, services are provided under measurable KPIs, in binding contracts, between the government and Community Housing Providers and other specialists and investors.

Government's new role as a social housing rule setter, performance measurer and funder sees a much stronger framework that would enact government's social housing policies in long-term contracts with specialists.

## THE FINANCIAL MODEL RELIES ON NATURAL EXPIRY OF TENANCIES, NOT FORCED RELOCATIONS...

It is very important to note that our model would not see large-scale relocations for existing public housing tenants. Instead, we have assumed a 20 year transition period.

The 20 year transition period reflects our conservative assumption that circa 5-7 per cent of public housing vacancies will expire in any given year.

In this way, our financial model would see no change for most public housing tenants.

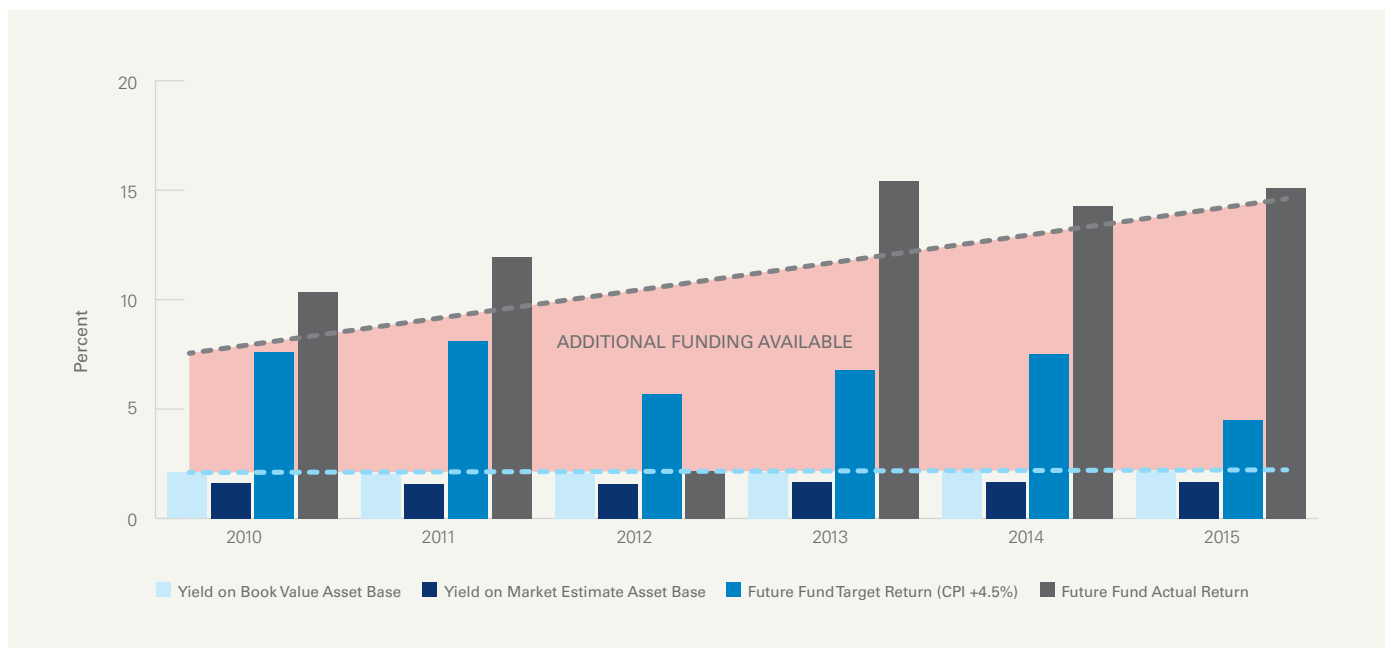
## HOW DOES OUR MODEL INCREASE FUNDING?

Our model is not 'magic' – it is a relatively simple conceptual model that delivers more funding and more social housing by moving the high-value/low-yield taxpayer investment out of old housing stock and into a ring-fenced, protected and independent public investment fund.

Figure 1.3 shows the increased revenue that would be available to social housing, if NSW already had the Social Housing Future Fund model in place.

▼ FIGURE 1.3

### SOCIAL HOUSING FUTURE FUND – ADDITIONAL FUNDING AVAILABLE



Source: IPA using data from the Productivity Commission and the Future Fund.

## DOES THE NEW MODEL CHANGE THE WAY HOUSING SERVICES ARE DELIVERED?

With circa 80 per cent of social households accommodated in public housing, the Social Housing Future Fund model fundamentally relies on changing who delivers social housing and services and how they are provided.

This will require the public sector to reform the machinery of government to retain control over key policy and financial aspects, even as service delivery functions move to Non-Government providers.

Best practice reforms to public services markets suggest that the public sector needs to retain control over social housing policy, regulatory and accountability measures (setting the rules and measuring performance). Pure service delivery functions are undertaken for government, by contracted Community Housing Providers (CHPs) and specialist providers.

We consider that each state adopting our model would need improved structures to govern and regulate the new system, including:

- **A Social Housing Future Fund:** The Fund would be structured as a Public Financial Enterprise and would have a sole purpose of investing the proceeds of public housing sales, to meet its return profile. While 100 per cent government owned, the Social Housing Future Fund would operate at arms-length and be structured along similar lines to the Commonwealth Government's existing Future Fund; and have a board responsible for an investment strategy to mitigate any volatility risks between fund returns and service costs, over time.
- **A social housing policy agency:** As a core public service, government needs to retain policy setting functions. This agency would be responsible for setting social housing policies as well as managing the qualification of households for support; the allocation of individuals to places (provided under contract, via the capacity purchasing agency); and would be responsible for broader housing policy advice to government.
- **A capacity purchasing agency:** Translating government social housing policies into measurable, valid and complete contracts will require sophisticated procurement and contract management skills. For transparency, we suggest that this contracting function should be specialised and operationally distinct from the policy functions of the social housing policy agency; but should be located within the social housing agency cluster to reduce the risk of interface problems between government policy making and service procurement functions.
- **An Inspector General of Social Housing Services:** Achieving value for money from contracted Non-Government providers relies on regular accountability for performance. Based on reforms in other public services markets, we recommend that as with the policy agency, this function be distinct of the policy and procurement agencies, outlined above; and

- **A Social Housing Ombudsman:** Ultimately, the social housing system must be about providing the best possible support to vulnerable households, at the best possible value to the taxpayer. Based on reforms to utility and telecommunications markets, we recommend the appointment of a dedicated Social Housing Ombudsman, ensuring that tenants' rights are protected and that any disputes with Non-Government providers are transparently and fairly resolved.

With the right structure, the change from direct government service delivery in favour of contracted services from a range of Non-Government providers should increase public control of social housing, because it makes providers accountable against measurable performance indicators, backed by financial or contractual penalties where services fall short.

For policymakers, this offers a higher level of public sector control than the current approach, where the public sector acts concurrently as the rule maker, auditor, purchaser and provider of most social housing services.

Moreover, our structure would provide social housing tenants with a much higher degree of protection and support than they enjoy under current arrangements.

## MORE GOVERNMENT FUNDING MEANS WE CAN MOVE FROM PUBLIC HOUSING ASSETS, TO PUBLIC HOUSING OUTCOMES...

In our financial model, we have assumed that new social housing capacity is purchased from Community Housing Providers – and that that new housing capacity costs full market rent, plus an additional return yield of around 20 per cent of private market rental.

This assumption of a higher-than-market cost sees a radical increase in the revenue available to Community Housing Providers – and opens the prospect for a housing system that is flexible and tenant-focused.

The improved funding creates a wider opportunity for integrated delivery of 'wrap around' support services, turning social housing into a platform for whole-of-government service delivery. 'Wrap around' services may include health, mental health, employment or drug and alcohol services, among others.

In this way, the Social Housing Future Fund model aligns long-term social policy outcomes sought by government, with the contractual incentives of Non-Government providers – paid for through a better use of the system's existing endowment.



## THE SUSTAINABLE FUNDING STREAM WILL ALLOW BETTER CHOICES WITH HIGH VALUE PUBLIC LAND THAT IS CLOSE TO CITIES, JOBS AND SERVICES...

Until now, public housing has suffered from incremental and individual opportunities to unlock taxpayer value via property developments on particular, individual public housing sites.

This has seen 'successful' redevelopments cherry-pick many of the higher value land holdings from the public housing portfolio, given that the property economics of those higher value sites sees them self-select for development.

This poses a challenge where the highest value land – which is usually well located to transport, the city and social services – is permanently lost to the social housing system, other than some proportion of the development returned for public housing use.

With the comfort of the sustained funding from the Social Housing Future Fund, the government sector will no longer be dependent on cherry-picking the best located sites to renew social housing; rather, the improved funding model gives the government sector better signals to make the best long-term decisions about what existing properties should be sold – and the financial resources to retain particular high value sites to ensure they are not lost to the social housing system.

In contrast to other reform options, the IPA model allows government to retain public housing that is valuable and transfer it to CHPs, while divesting the properties that are under-maintained and poorly matched to tenant needs; and with higher than market revenue, financials of the CHPs will radically improve.

## WITH THE RIGHT GOVERNANCE STRUCTURE, OUR MODEL SEES SIGNIFICANT BENEFITS FOR STATE GOVERNMENT BUDGETS AND CREDIT RATINGS...

Our Social Housing Future Fund model would also provide state governments with a three-fold fiscal benefit, being:

- **'Off budget':** As the annual cost of social housing shifts across to be paid from the Social Housing Future Fund's investment activities, it progressively releases money on the government's budget that can be used for other priorities;
- **'Off rating':** With the right governance structure and genuine independence for the investment fund and other agencies in this paper, states should be able to assure rating agencies that the social housing system is genuinely at arm's length; and financially self-sustaining. This would remove the costs and risks for social housing from state government ratings and substantially improve state government financial positions; and
- **Taxation revenues:** The recycling of social housing assets will also create additional state government taxation revenues, through stamp duties and land taxes. These have not been included in the Fund returns, but are assumed to go to consolidated revenue.

## AND THE COMMONWEALTH BUDGET IS ALSO BETTER OFF, BECAUSE IT ALLEVIATES UPWARD PRESSURE ON OUTLAYS

Current arrangements see the Commonwealth provide funding to support the circa 20 per cent of social housing delivered by Non-Government providers. Given the Commonwealth's own fiscal challenges, a key benefit of the shift to the Federal budget by the Social Housing Future Fund model, is that recipients of Commonwealth Rent Assistance (CRA) in the community housing sector would no longer receive Federal payments.

This sees a significant benefit to the Commonwealth's own operating budget under this model through avoided payments; strengthening the case for national reform incentives linked to the principles in our model.

## MODELLING THE OUTCOME: NSW PUBLIC HOUSING ASSETS

With the cooperation of the NSW Government, IPA commissioned KPMG to model how the Social Housing Future Fund model would operate, if applied to the NSW public housing estate.

We applied this model across three housing policy scenarios, which are:

- **Scenario one:** Social housing capped at 2015 levels.
  - The waiting list grows significantly; and
  - The Social Housing Future Fund has returns that significantly exceed service costs (surplus).
- **Scenario two:** Public housing system capacity grows at the same rate as population.
  - The waiting list remains at 2015 levels (a proportional decline in the waiting list); and
  - The Social Housing Future Fund has returns that exceed service costs (in balance).
- **Scenario three:** Social housing system grows faster than population.
  - The waiting list falls to zero by 2045; and
  - The Social Housing Future Fund has returns that are lower than service costs (deficit).

These scenarios are modelled based on very conservative assumptions – using the register of NSW public housing properties – to illustrate the robust financial case for this model – and to demonstrate the significantly better outcomes that are available through a refreshed approach to social housing.

### SCENARIO ONE: NSW caps housing supply

The first scenario is modelled in Figure 1.4, and shows that the investment returns are substantially higher than the above market rental costs of providing social housing capacity at the current level. However, under this scenario the waiting list would grow to 90,925 in 2045. The additional headroom in this scenario shows that the Social Housing Future Fund model offers the opportunity to expand system capacity.

**SCENARIO ONE:** holds housing supply constant at 2015 level, allowing the waiting list to grow over time in line with population growth.

**IMPACT:**

- **Housing supply:** remains constant at 126,054 over the evaluation period.
- **Fund value:** grows over the evaluation period to \$134.08 billion by 2045, supporting 126,054 dwellings
- **Waiting list:** grows over the evaluation period in line with population growth of 1.4 per cent:
  - @2015 = 59,917
  - @2045 = 90,925

### SCENARIO TWO: Increase social housing in line with population

The second scenario is modelled in Figure 1.5. This sees the public sector increase social housing supply to maintain the NSW waiting list at the current level of circa 59,900 people – representing a substantial proportional increase in the capacity of the system given population growth. The model shows that both capacity, and fund balance, continue to grow, showing that on this scenario the system is financially self-sustaining.

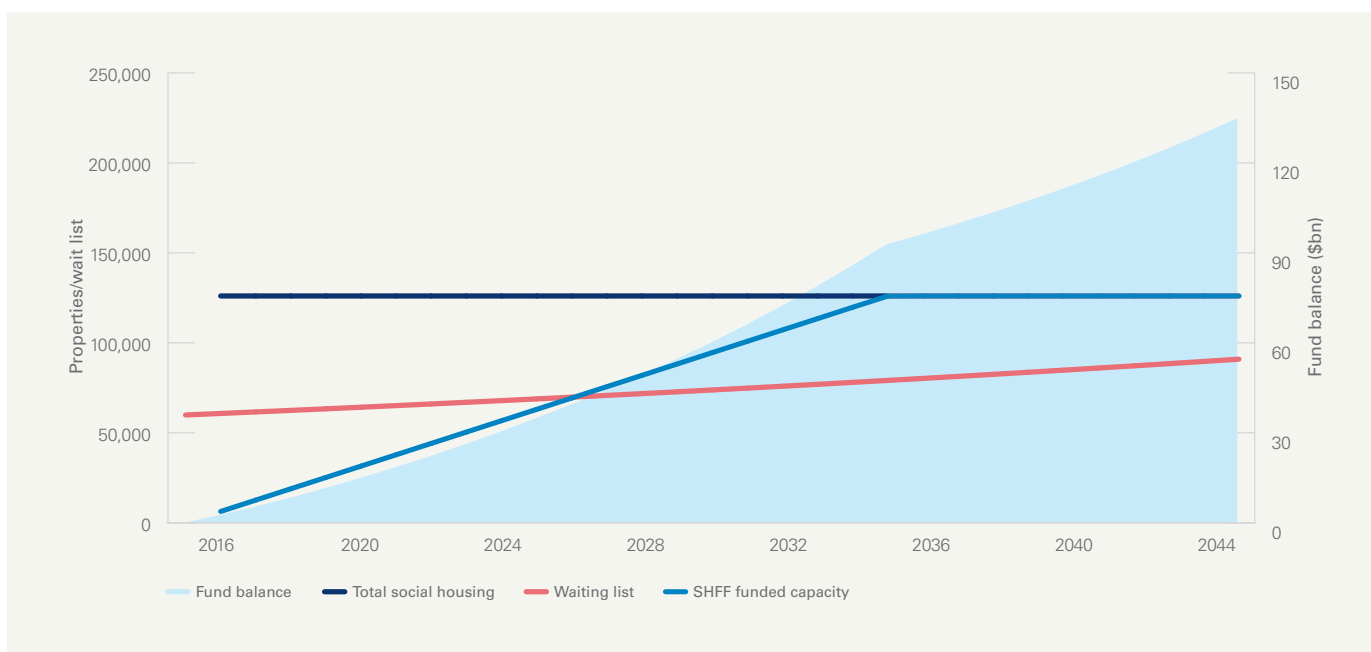
**SCENARIO TWO:** expands housing supply moderately, to the extent that the waiting list is maintained at the 2015 level throughout the evaluation period, representing an increase in capacity relative to population.

**IMPACT:**

- **Housing supply:** grows to 157,063 over the evaluation period.
- **Fund value:** grows over the evaluation period to \$109.15 billion by 2045, supporting 157,063 dwellings
- **Waiting list:** despite population growth of 1.4 per cent, additional supply sees the number of approved applicants on the waiting list remain at the 2015 level over the evaluation period:
  - @2015 = 59,917
  - @2045 = 59,917

▼ FIGURE 1.4

#### SCENARIO ONE – SUPPLY CAPPED AT 2015 LEVEL



Source: KPMG

### SCENARIO THREE: Bring waiting list to zero

The final scenario, illustrated in Figure 1.6, assumes that the waiting list is progressively reduced to zero, by 2045. The modelling shows that this scenario is not self-sustaining without additional equity investment by the State – however, the fund balance does not begin to decline until the conclusion of the asset sales programme, meaning that the recapitalisation could occur later, depending on detailed and robust actuarial advice.

**SCENARIO THREE:** expands capacity rapidly, enabling the waiting list to be reduced to zero by 2045.

#### IMPACT:

- **Housing supply:** grows to 216,979 over the evaluation period.
- **Fund value:** grows over the asset divestment phase to a peak of \$70.31 billion in 2035, before beginning to decline over the remainder of the evaluation period:
  - @2035 = \$70.31 billion, supporting 185,156 dwellings
  - @2045 = \$54.97 billion, supporting 216,979 dwellings
- **Waiting list:** despite population growth of 1.4 per cent, the waiting list is reduced rapidly over the evaluation period through additional supply:
  - @2015 = 59,917
  - @2045 = 0

### OUR 20 YEAR TRANSITION PERIOD IS DELIBERATELY SLOW TO AVOID SHOCKS TO TENANTS, PROVIDERS OR THE PROPERTY MARKET

Our model relies on a very long conversion period, avoiding the prospect of unpopular disruptions or relocations for existing public housing tenants. Instead, we have allowed for a 20 year transition period, using the average vacancy rate of 5 to 7 per cent per annum, allowing public housing assets to be progressively sold, as they become vacant. This approach would apply to the vast majority of properties under the model.

Any concern that the process may be accelerated should be placated by the sound economic, fiscal and political reasons for a measured and calm conversion across several decades.

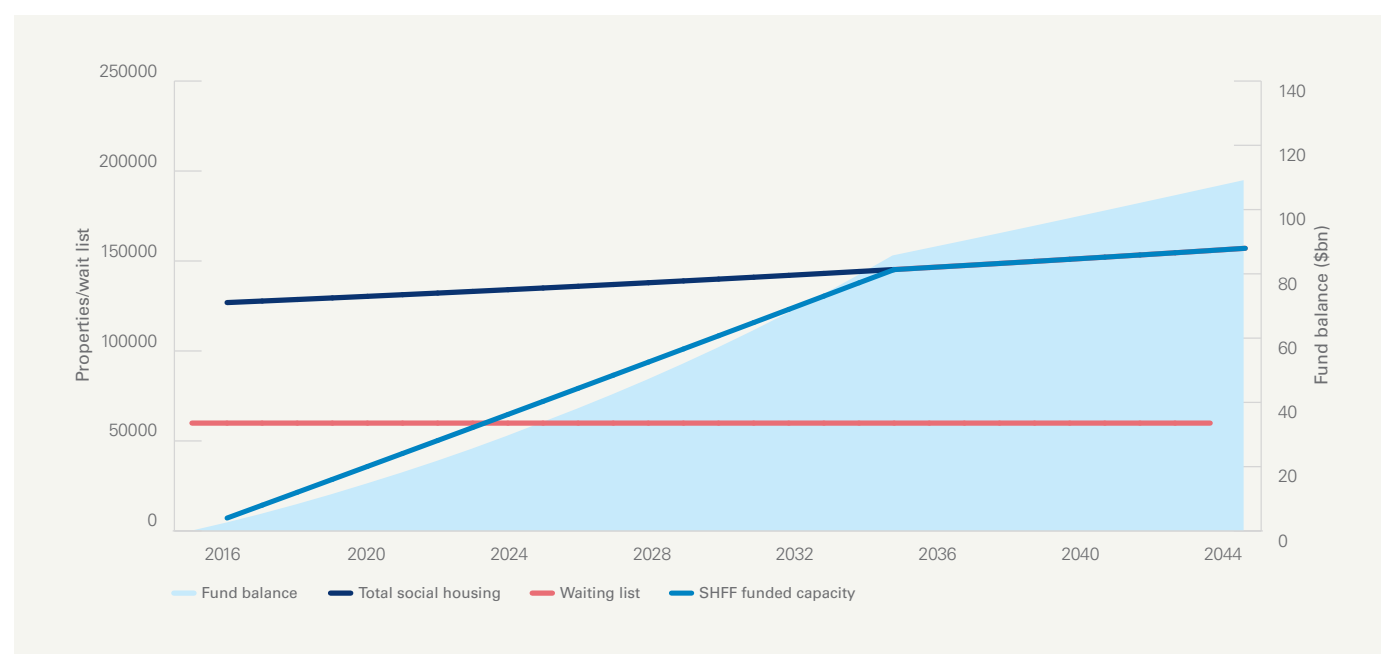
While the overwhelming majority of public housing tenants would see no change whatsoever, for some types of public housing – such as the failed 'Radburn' outer metropolitan estates and concentrated inner city tower blocks – some relocations will be unavoidable.

The case study on the Riverwood North Renewal Project (see Chapter 5) shows how these relocations can be achieved, with minimum disruption and can even win active support. The case study identifies key elements that allowed a sensitive relocation process that respected tenant needs and maintained desirable community aspects.

Sensitive relocations are possible – provided that each tenant's needs and wants are considered and respected.

▼ FIGURE 1.5

### SCENARIO TWO – SYSTEM GROWS, WAITING LIST FALLS BY 1.4 PER CENT PER ANNUM



Source: KPMG



## FIXING SOCIAL HOUSING CAN BE DONE, AND IT DESERVES CROSS-PARTY SUPPORT

Our model shows that the chronic decline in the funding, quality and capacity of Australia's public housing system can be reversed, by better using the existing taxpayer investment in public housing.

But any change to long-established public services are often complex and can see deep concern from stakeholders and the wider community.

By its nature, social housing reform will require additional sensitivity in its explanation and implementation, given the vulnerability of many of the households supported by the social housing system.

But it is exactly the vulnerability of social households that makes these reforms the right thing to do.

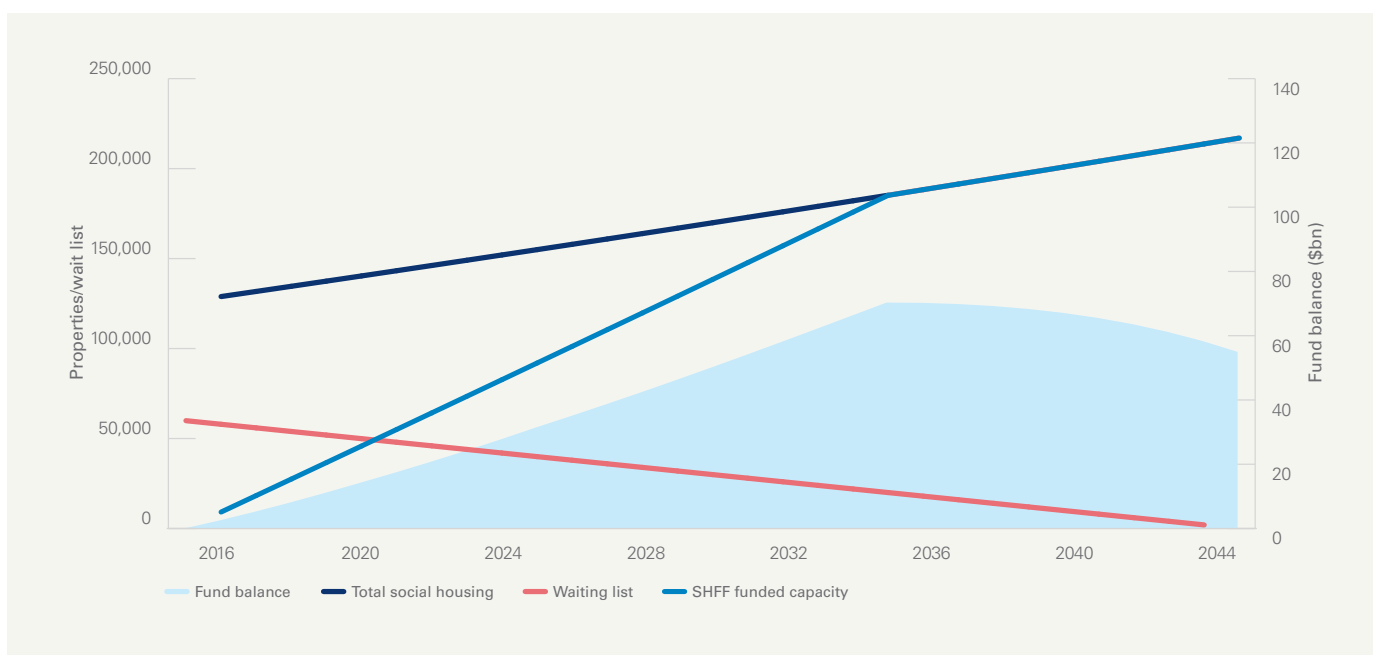
This paper finds that Australia's social housing challenges can be surmounted, without additional public investment, provided we can contemplate and deliver consistent social housing reform, across several decades.

The key elements in achieving better social housing will be cross-party political will, bureaucratic determination and the active support from the charitable sector.

With these elements – Australia has the ways and means to provide the kind of social housing sector that we should expect in a prosperous country.

▼ FIGURE 1.6

### SCENARIO THREE – REDUCE WAIT LIST TO ZERO BY 2045



Source: KPMG

# RECOMMENDATIONS

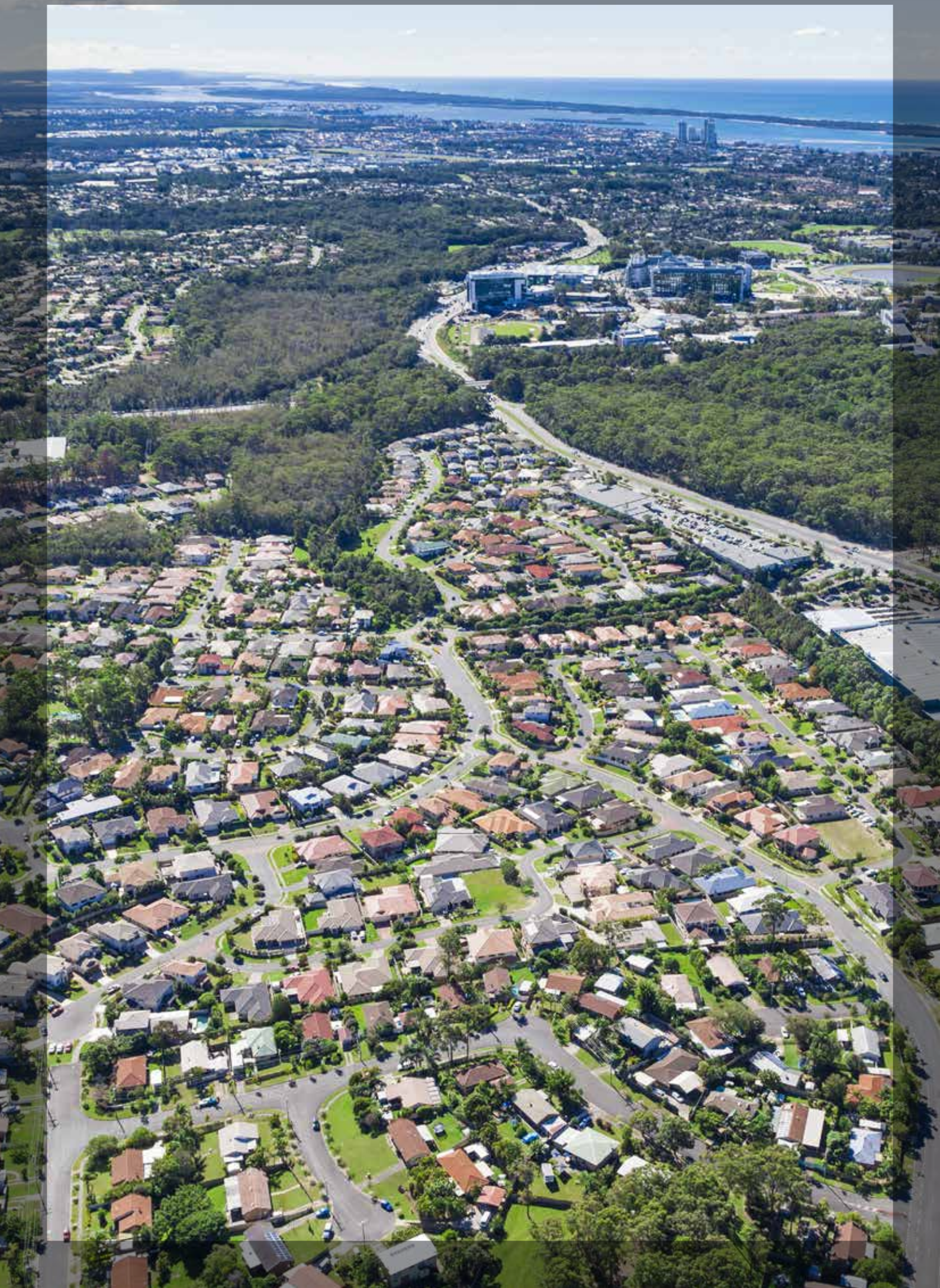


- 1) The Australian Government should commit to lead national reforms to public housing, based on the Social Housing Future Fund model in this paper and reflecting the principles in the NSW Government's Social and Affordable Housing Fund pilot scheme.
  - i. This inquiry should be overseen by the COAG Financial Relations Council or a similar process, ensuring oversight by each jurisdiction's central agencies and treasurers, noting that neither state housing authorities, nor state housing ministers, are likely to be best-placed to advise on the full range of reform options.

We consider that this process should:

- a) See each state provide detailed and transparent financial appraisals of the Social Housing Future Fund model's application to their own public housing stock, including detailed assessments of further refinements or augmentations; with these assessments to be conducted on agreed methodology and be publicly released;
- b) See each state commence detailed scoping and implementation studies, including identifying strategic precincts and sites and assessing the capacity of CHPs and other providers;
- c) See each state assess and adopt the principles outlined in our governance model, which provides new governance structures and skills to align government's core policy, procurement and performance monitoring functions, which remain public;
- d) Establish a Social Housing Future Fund in each jurisdiction, with legislation to enshrine best-practice, arms-length management and to protect the endowment and returns from other uses;
- e) Provide national reform incentives, to encourage state consideration and adoption of aspects of this paper; and
- f) Develop a common framework to allow best-practice to be shared across jurisdictions in respect of policy, regulation and procurement and to provide for national cost and performance benchmarks, across providers.







## 2. AUSTRALIA'S DECLINING SOCIAL HOUSING SYSTEM

'Social housing' is an umbrella term for Australia's system of publicly provided housing, including traditional public housing, specialist Indigenous housing and, more recently, subsidised housing capacity provided for the public sector by Non-Government providers.

Social housing accommodates only a very small part of the total housing market, housing just 3.9 per cent of Australian households.

By comparison, more than two thirds of households (67.5 per cent) either own or are purchasing their home; while a further quarter of households (25.1 per cent) rent privately.<sup>1</sup>

Figure 2.1 shows that within social housing, traditional public housing, where government owns and directly manages the property and tenancies, provides almost four fifths of social housing capacity (77 per cent), with Non-Government Community Housing Providers (CHPs) providing around 17 per cent of dwellings.

This distinction between social housing as a **public service**, and public housing as one type of **social housing service delivery model**, is an important foundation concept underpinning this paper.

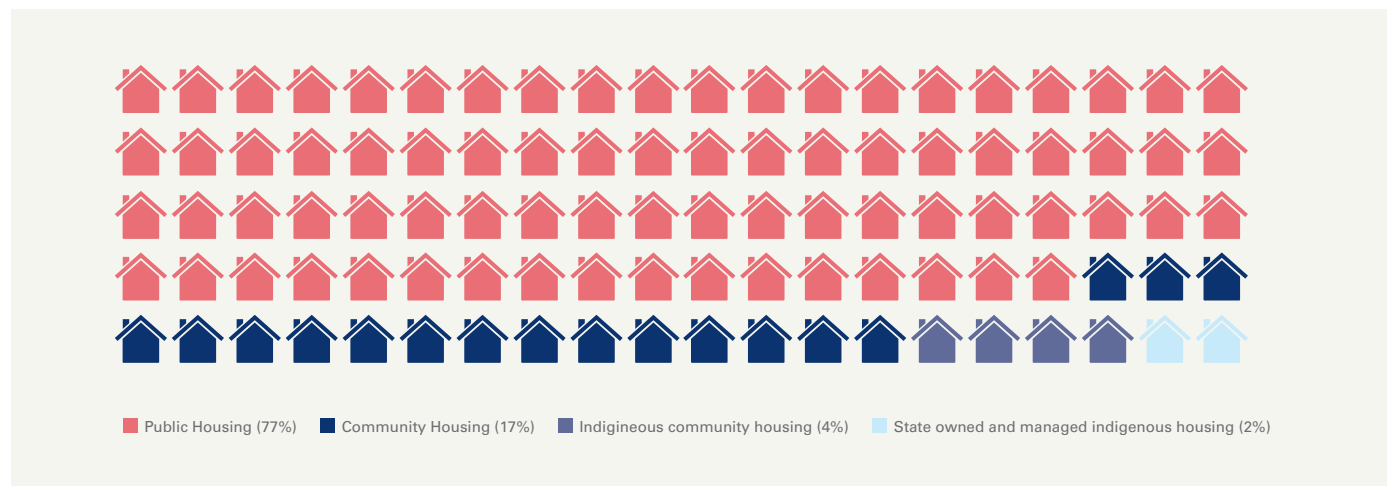
While social housing meets only a small portion of Australia's housing demand, it plays a fundamental role intermediating between the community's most vulnerable households and the private housing market.

Social housing can be considered the second stage in a continuum of government housing support policies spanning from acute and crisis services, with diminishing levels of support through social, affordable and ultimately, to unassisted private rental or ownership.

This continuum is shown in Figure 2.2 overleaf.

▼ FIGURE 2.1

### SOCIAL HOUSING DWELLINGS BY TYPE OF SOCIAL HOUSING, AT 30 JUNE 2014



Source: IPA using data from the Productivity Commission Report on Government Services 2015

1. Productivity Commission, 2014, *Report on Government Services 2014, Chapter 17, Housing*.

▼ FIGURE 2.2  
HOUSING MODELS & OCCUPANCY TYPES & THE GROUPS THEY SERVE



Source: NSW Government, Centre for affordable housing



## FOUNDATION TERMS IN SOCIAL HOUSING

**Social housing** is an umbrella term encompassing various forms of publicly subsidised housing, spanning a range of owners and providers. Social housing includes dwellings that might be variously provided, owned or managed by the public sector and/or the not for profit and/or other Non-Government providers.

### Different types of social housing include:

**Public housing** refers to the dominant and traditional type of social housing, where the housing is owned and managed by the public sector, and tenants are directly managed by the state housing department.

**Community Housing** is social housing which is owned or managed by Non-Government community-based providers, for the public sector. Providers are funded by government to deliver services for the government sector.

**State owned and managed Indigenous housing (SOMIH)** is public social housing dedicated to Indigenous public housing tenants.

**Indigenous community housing (ICH)** refers to Non-Government social housing serving Indigenous households.

Source: Adapted from Productivity Commission, *Report on Government Services 2014, Chapter 17, Housing*.

## BACK TO BASICS: WHAT ARE THE FIRST PRINCIPLES OF SOCIAL HOUSING?

In developing this paper, we have used stakeholder interviews and consultations to distil a consensus about the fundamental aims sought from social housing:

**Housing should be provided to those who cannot provide it for themselves:** Australia's social housing system should have the capacity and flexibility to provide housing for people who need it, when and where it's needed.

**The social housing system needs to be financially sustainable and properly funded:** The social housing system needs to have a reliable public funding stream that is able to effectively meet the community's needs.

**Social housing should provide the platform for improving tenant and community wellbeing:** The social housing system should be aimed at improving the wellbeing of supported households, providing the basis for integrated 'wrap around' social services such as health, mental health, disability and employment support services.

**Respecting tenant needs and choices:** Australia's social housing system should have the flexibility to provide tenants with the right type of housing, and should respect each tenant's needs and choices in property location, proximity to transport, existing community integration and proximity to supporting social services, where needed.

**Social housing dwellings should be high quality and well-maintained:** Social housing properties should be maintained to meet quality standards, to provide supported households with high quality, well-maintained accommodation.

**Social households are part of the broader community:** Social housing tenants are part of the community, and this should be reflected through social housing that blends and integrates supported households with the wider community.

**Social housing stock should have the flexibility to cater to changing needs and choices:** Social housing needs to be responsive to tenant needs and should seek to respect tenant choice. That means the system needs the flexibility to change and adapt as needs change over time.

**Social housing dwellings should be accessible and adaptable:** Social housing properties should be able to support people with disabilities, people aging at home, and people with other accessibility requirements.

## 2.1.1 SOCIAL HOUSING CAPACITY IS SHRINKING, BUT DEMAND IS GROWING...

Social housing is squeezed between a shrinking funding stream and mounting costs; meaning it should be little surprise that Australia's social housing system is failing to keep pace with community need.

The past decade has seen Australia's population grow by 17.9 per cent, but the number of social housing dwellings has only grown by 6.4 per cent.

Put another way, Australia now has 9.7 per cent fewer social housing dwellings available per capita than we did a decade ago, with almost a quarter of a million Australian households awaiting social housing places, including:

- 158,971 households awaiting public housing;
- 49,612 households awaiting community housing; and
- 8,953 Indigenous households awaiting SOMIH placement.<sup>2</sup>

Almost half of the highest priority tenants will spend more than two years on a waiting list for public housing.<sup>3</sup>

The impacts of unmet social housing demand are predictable, and have wider social and societal costs.

For example, on the night of the 2011 Census, 105,237 people were classified as 'homeless'. In 2006, the homeless figure was 17 per cent lower, at 89,728,<sup>4</sup> meaning that in just five years the proportion of homeless people in Australia has risen from 45 in each 10,000 people, to 49 in each 10,000.<sup>5</sup>

Demand for social housing is increasing faster than the underlying demand for other rental accommodation. Demand for social dwellings will grow by 28 per cent to 2023, while demand for private rental accommodation will grow by 21 per cent.<sup>6,7</sup>

<sup>2</sup> Ibid; waiting list numbers exclude those waiting for transfer.

<sup>3</sup> AIHW 2015 <http://www.aihw.gov.au/housing-assistance/haa/2015/>

<sup>4</sup> Australian Bureau of Statistics, 2012, *2011 Census of Population and Housing: Estimating Homelessness Australia*, 2049.0.

<sup>5</sup> Homelessness Australia, 2012, *Sector briefing: 2011 Census night homelessness estimates*, <http://www.nwhn.net.au/admin/file/content2/c7/Sector%20Briefing%20on%202011%20Homelessness%20Estimates.pdf>

<sup>6</sup> Ibid.

<sup>7</sup> Department of Families, Housing, Community Services and Indigenous Affairs, 2010, *Regulation and Growth of the Not-For-Profit Housing Sector*, Discussion Paper.



## 2.1.2 AUSTRALIA'S SOCIAL HOUSING SYSTEM IS UNDER PRESSURE, BECAUSE ITS ROLE HAS FUNDAMENTALLY CHANGED, BUT OUR APPROACH HAS NOT...

Australia's public housing had its genesis providing for returning servicemen and their growing families. Figure 2.3 shows the fundamental change in the profile of public housing tenants, with 'couples with children' falling from 70 per cent of public households in 1970, to just four per cent now.

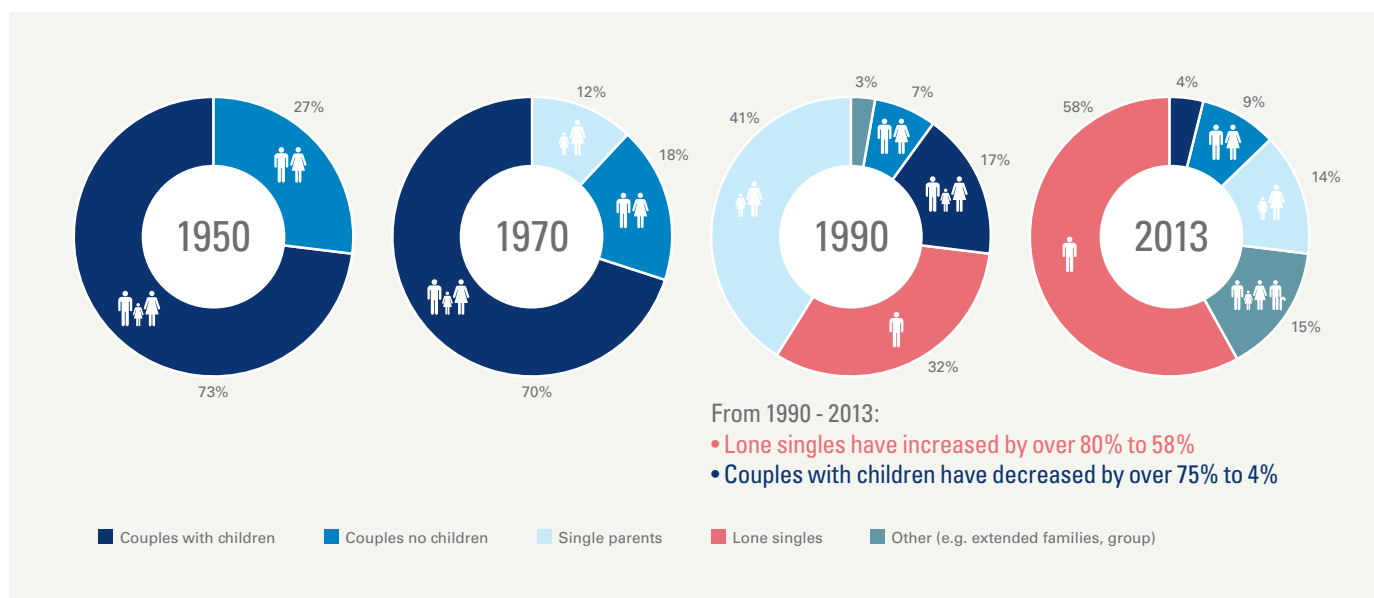
Single person households have risen from being statistically irrelevant in 1970, to nearly 60 per cent of public households now. While the Figure represents NSW data, the trend is mirrored across the states.

This trend is in line with shifting government policies over time involving a narrower targeting of public housing to those most in need of support, many of whom live alone.

It is not only the configuration of households which has changed, but also the needs of public tenants. Figure 2.4 shows that more than two thirds of new public housing tenancies are now allocated to households with special needs, a proportion which has increased rapidly.<sup>8</sup>

▼ FIGURE 2.3

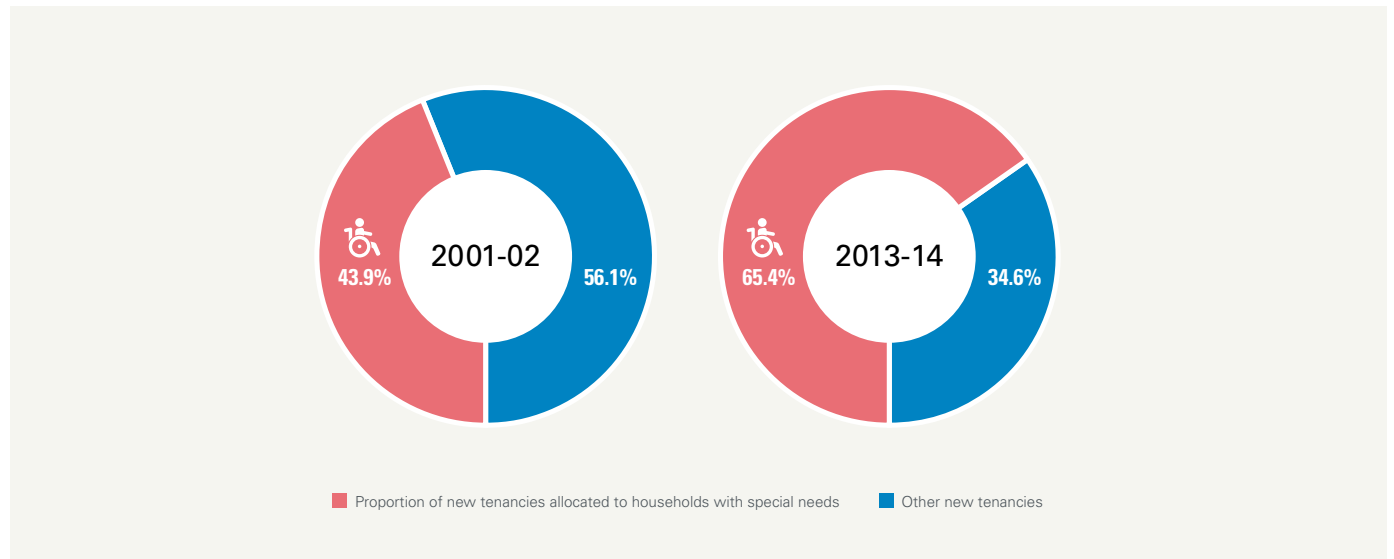
### NSW PUBLIC HOUSING TENANT PROFILE BY HOUSEHOLD TYPE (1950 – 2013)



Source: NSW Department of Family and Community Services

▼ FIGURE 2.4

PROPORTION OF NEW TENANCIES ALLOCATED TO HOUSEHOLDS WITH SPECIAL NEEDS –  
PUBLIC HOUSING (PER CENT); 2001-02 TO 2013-14



Source: IPA, based on Report on Government Services, Productivity Commission, 2007, 2012, 2015.

## 2.1.3 INTERGOVERNMENTAL ARRANGEMENTS FOR SOCIAL HOUSING

Australia's social housing system is governed by the National Affordable Housing Agreement (NAHA), which seeks to apportion responsibilities for social housing policy and funding between the tiers of government.

This Agreement seeks to broadly segment responsibility reflecting where each tier of government is best placed to act – for example, making the Federal Government accountable for national taxation policies affecting housing affordability – with the states accountable for relevant areas of policy such as land use planning, and for service delivery.<sup>9</sup>

### Australia's National Affordable Housing Agreement (NAHA)

#### Commonwealth responsibilities:

- (a) leadership for national housing and homelessness policy including Indigenous housing policy;
- (b) income support and rental subsidies;
- (c) immigration and settlement policy and programmes;
- (d) financial sector regulations and Commonwealth taxation settings that influence housing affordability;
- (e) competition policy relating to housing and buildings;
- (f) provision of national infrastructure;
- (g) housing-related data collected by the Australian Bureau of Statistics and Centrelink; and
- (h) coordination of homelessness data collection from states and territories.

#### State and territory responsibilities:

- (a) leadership for housing and homelessness policy, including Indigenous housing policy;
- (b) housing and homelessness services, administration and delivery;
- (c) housing for Indigenous people, including in remote areas;
- (d) land use, supply and urban planning and development policy;
- (e) housing-related financial support and services for renters and home buyers;
- (f) housing-related state and territory taxes and charges that influence housing affordability;
- (g) infrastructure policy and services associated with residential development;
- (h) tenancy and not-for-profit housing sector legislation and regulation; and
- (i) collection and publication of data from housing providers and agencies that provide services to people who are homeless.

## 2.1.4 PUBLIC FUNDING IS FALLING...

The NAHA sees social housing concurrently funded by the Commonwealth and by the states and territories, through a range of subsidies and grants, and by capped rent contributions from households.

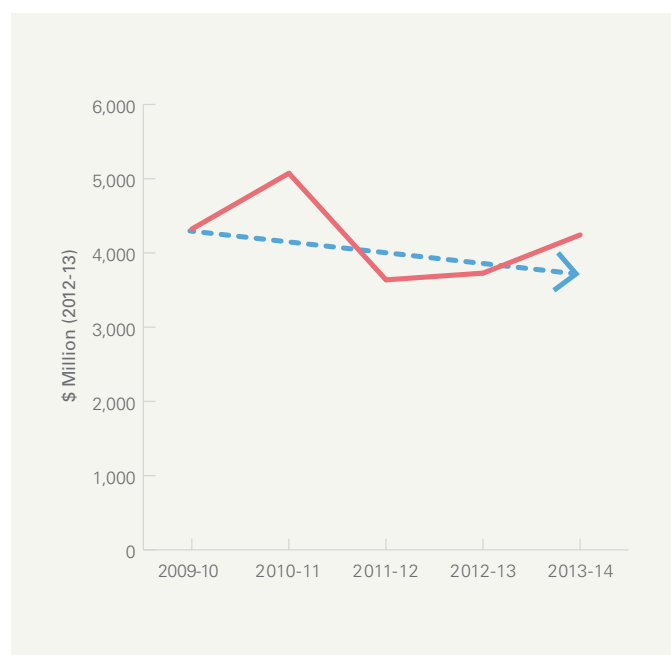
In 2013-14, the Commonwealth Government provided \$2 billion in recurrent funding to the states and territories for state-delivered public housing, through the National Affordable Housing Specific Purpose Payment (NAHSPP).<sup>10</sup> The Commonwealth also funded \$3.9 billion in direct subsidies through Commonwealth Rent Assistance (CRA).<sup>11</sup>

The same year saw the states and territories expend \$4.2 billion on recurrent social housing costs (including the \$2 billion in NAHSPP payments above).

While these are large numbers, Figure 2.5 shows that state funding for social housing services is in a declining trend.

▼ FIGURE 2.5

### TOTAL STATE AND TERRITORY GOVERNMENT NET RECURRENT EXPENDITURE ON SOCIAL HOUSING



Source: IPA, data from Productivity Commission, Report on Government Services, 2015<sup>12</sup>

9 Productivity Commission, 2014, *Report on Government Services 2014, Chapter 17 Housing*  
10 Productivity Commission, 2015, *Report on Government Services 2015, Chapter 17 Housing*.

11 Productivity Commission, 2015, *Report on Government Services 2015, Chapter 17 Housing*.

12 The end of additional funds provided by the Australian Government for the social housing component of the Nation Building Stimulus Package is reflected in the contraction of expenditure between 2010-11 and 2011-12.







In 2013-14, combined state and territory government capital expenditure for social housing was \$1.2 billion (down from \$1.5 billion in 2012-13).<sup>13</sup> This funding was, in part, comprised of Commonwealth Government allocations from the NAHSPP, again reducing clarity around exactly what is being spent, and by which level of government.

### 2.1.5 AND SO ARE RENTS...

Amidst being squeezed by reducing public funding for social housing's recurrent (services) and capital (public housing) needs, the revenue received from public tenants has also reduced.

Social housing tenants in Australia pay no more than 30 per cent of their gross household income as a rental contribution, reflecting the core purpose of the housing system.

That means that when public housing provided accommodation for returning servicemen and their families, the state collected circa 30 per cent of working household incomes, across most tenancies.

The shift toward special needs tenants shows that social housing continues to play its proper role, accommodating those who need it. But in a context of falling public sector budget funding, it serves to further erode the revenue supporting the social housing sector with the majority of public housing tenants now contributing 30 per cent of a government benefit income, not a private sector income.<sup>14</sup>

Read together, Australia's social housing system is squeezed by reducing government funding, and reducing tenant contributions.

### 2.1.6 AND THE COST OF EACH PUBLIC HOUSING DWELLING IS GROWING...

Within a shrinking pool of funding, the cost to provide each public housing dwelling is growing.<sup>15</sup>

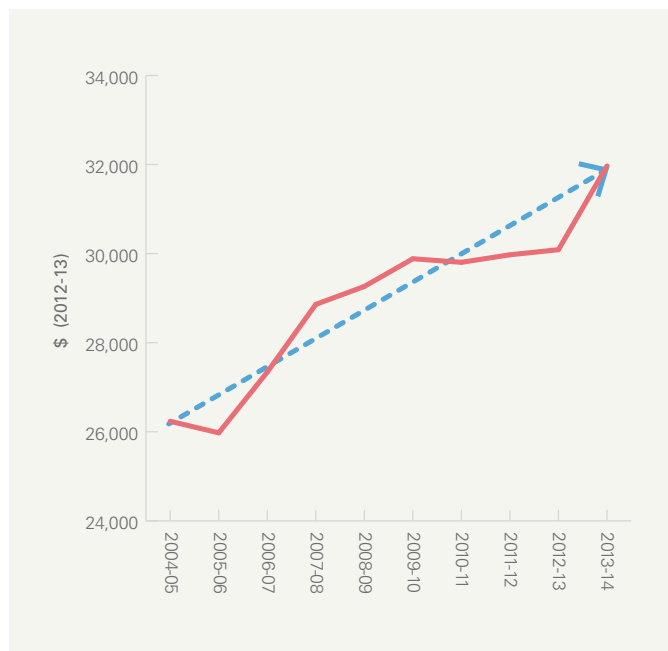
Figures 2.6 and 2.7 show the rapid growth in the recurrent and capital costs of public housing, across the past decade. All other factors being equal, an increasing cost per dwelling suggests declining efficiency in publicly provided social housing, and exacerbates the impact of the overall reduction in system funding.

In 2013-14, the average rent received per public housing dwelling was \$6,739, but the total cost to provide that dwelling was \$31,986, including operating and capital costs.<sup>16</sup>

This leaves a gap of \$25,247 per dwelling that needs to be made up through public subsidy. Figure 2.8 opposite shows the gap between cost and revenue.

▼ FIGURE 2.6

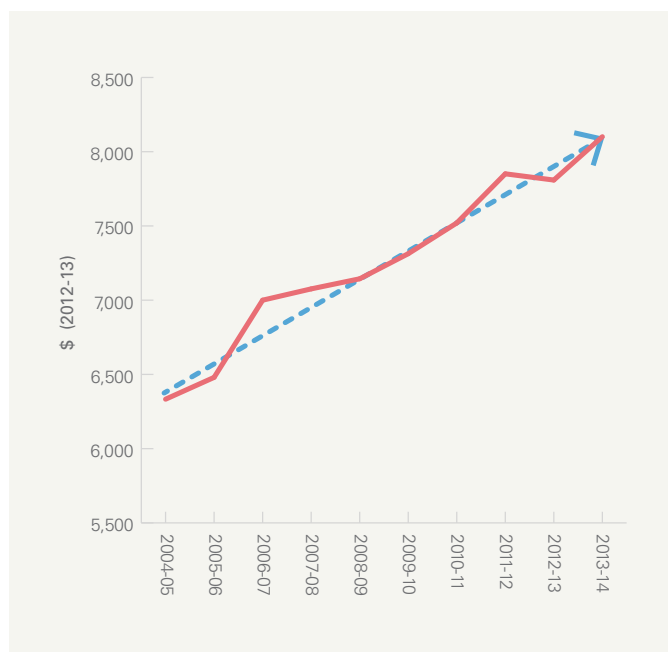
**COST OF PROVIDING ASSISTANCE (INCLUDING COST OF CAPITAL) PER DWELLING, 2004-05 TO 2013-14**



Source: IPA using data from the Productivity Commission Report on Government Services, 2014

▼ FIGURE 2.7

**NET RECURRENT COST OF PROVIDING ASSISTANCE (EXCLUDING CAPITAL) PER DWELLING, 2004-05 TO 2013-14**



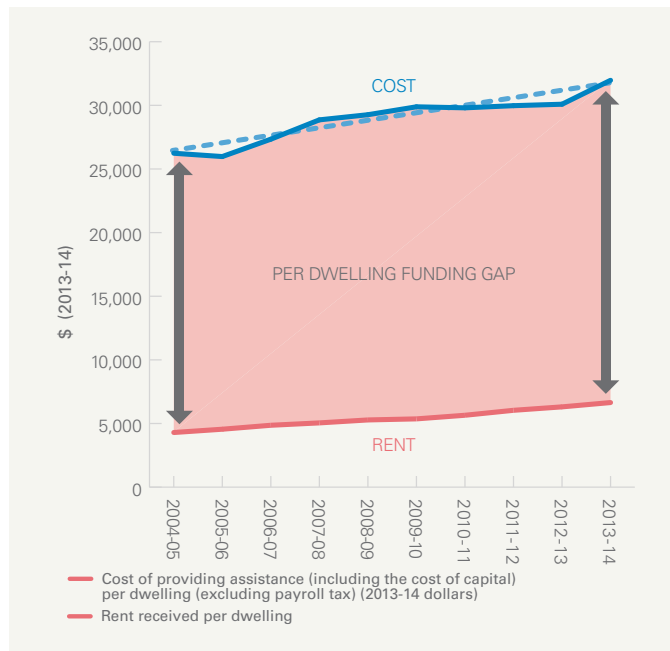
Source: IPA using data from the Productivity Commission Report on Government Services, 2014

13 Productivity Commission, 2015, *Report on Government Services 2015, Chapter 17, Housing*  
14 AHURI, 2010, *What future for public housing? A critical analysis.*

15 'Net recurrent cost per dwelling' is defined as the cost of providing assistance per dwelling, including administration and operational costs, divided by the total number of dwellings.

16 Productivity Commission Report on Government Services, 2015.

▼ FIGURE 2.8

**FUNDING GAP PER PUBLIC HOUSING DWELLING, AUSTRALIA (2013-14 DOLLARS)**

Source: IPA using Productivity Commission data

Australia's social housing sector is being squeezed, with the reducing funding delivering fewer homes to the vulnerable, at greater cost to taxpayers.

We can also consider that the failure to provide adequate and decent capacity and supporting services increases the wider social costs, through homelessness, crime and other negative impacts.

## 2.1.7 PUBLIC HOUSING IS OFTEN OLD AND POORLY MAINTAINED...

With an average age of circa 30 years, and many properties substantially older, Australia's existing public housing stock often fails to deliver decent and appropriate accommodation for public tenants, and adds yet further pressure to the social housing sector's financial sustainability.

Ageing dwellings require a greater level of ongoing maintenance and renewal, adding to the already substantial (and expensive) maintenance liability.

A recent estimate by the NSW Government found that that State would need an immediate injection of more than \$300 million, just to bring public housing properties up to the NSW Government's own minimum standards.<sup>17</sup>

In Victoria, a 2011 analysis by that State's Department of Human Services found that circa \$600 million needed to be spent over three years to "avoid the closure of approximately 10,000 properties", approximately 14 per cent of the State's total housing portfolio.

Indeed, estimates of the scale of the maintenance backlog may substantially understate the challenge, with a 2012 report by the Victorian Auditor-General warning that:

- the extent to which public housing has been under-maintained has not been accounted for as a liability; and
- an accurate forecast of accrued maintenance across the portfolio is prevented by a lack of property condition data.<sup>18</sup>

Beyond the potential budget and credit rating implications of the unknown maintenance backlog, it is unlikely that under-maintained and ageing dwellings provide a reasonable and decent level of support for vulnerable households.

## 2.1.8 AND PUBLIC HOUSING STOCK IS OFTEN THE WRONG SHAPE, OR IN THE WRONG PLACE, MEANING WE USE WHAT WE HAVE POORLY...

The radical change in the profile of public housing tenants shown in Figure 2.3 has not been met with a corresponding process to adjust the shape of public housing dwellings.

The massive contemporary demand for single person dwellings, and the legacy stock of larger dwellings designed for families means more than half (54 per cent) of public housing dwellings were tenanted with empty bedrooms in 2011.<sup>19</sup>

These figures appeared to improve substantially by 2013, falling to just 15.6 per cent. However on closer examination this reflects a change to the definition of underutilisation to: "two or more bedrooms additional to the number required in the dwelling,"<sup>20</sup> rather than improved utilisation rates.

17 NSW Government: <http://www.finance.nsw.gov.au/about-us/media-releases/22-billion-better-housing-people-need>

18 Ibid.

19 Productivity Commission, 2012, *Report on Government Services 2012*, Chapter 16, Housing.

20 Productivity Commission, 2014, *Report on Government Services 2014*, Chapter 17, Housing.

## 2.1.9 RECENT POLICY INTERVENTIONS HAVE NOT FIXED THE FUNDAMENTAL LACK OF MONEY

Federal and state governments have deployed a range of policies to try to address aspects of Australia's social housing policy challenges; while each of the below approaches has been successful in addressing parts of the problem, none has been designed to solve the fundamental problem of declining system funding.

### 2.1.9.1 CASE STUDY: THE NATION BUILDING STIMULUS AND THE NRAS INCREASED SUPPLY BUT NOT FUNDING

The Commonwealth Government sought to assist by directly funding 19,700 new public housing dwellings under its GFC-Nation Building stimulus programme; while stimulating the private sector to supply 50,000 affordable rental dwellings through the National Rental Affordability Scheme (NRAS).

While both these interventions increased public housing supply, without addressing the core structural funding challenge, the system has returned to a trend decline in overall social housing.<sup>21</sup>

Figure 2.10 opposite shows this rally in the supply of social housing, before returning to an accelerating decline.

### 2.1.9.2 CASE STUDY: STATE GOVERNMENT STOCK TRANSFERS NEED REVENUE TO SWITCH THEM ON

Between 1995 and 2012, Australian states and territories transferred 21,279 public housing dwellings to Non-Government Community Housing Providers (CHPs). The pace of transfers increased significantly from 2007, with the majority occurring in NSW.<sup>22</sup> Where property title has been transferred to the CHP, it has typically been for nil consideration.<sup>23</sup>

This transfer programme aligns with a NAHA commitment to grow the community housing sector to provide up to 35 per cent of social housing stock by 2014.<sup>24</sup>

The development of CHPs and transfer of assets is a sound policy, but one of the key assumed benefits – the ability to borrow against transferred property to invest in new capacity – has not materialised.<sup>25</sup>

A 2012 analysis found low gearing levels, at only 15 to 20 per cent.<sup>26</sup>

In providing a loan, a lender will typically calculate the borrower's 'interest cover ratio', to assess the adequacy of cash flows to service the debt.<sup>27</sup> While the asset transfer programme provides CHPs with assets for their balance sheet, these properties were transferred with caveats attached and are protected from loss. This means if a CHP were to default, banks and other lenders could not sell the social housing properties to recover their losses.

Rather, a new operator would have to be appointed. This means that CHPs cannot 'leverage' against the value of the property – but against the much smaller Net Present Value (NPV) of the forward concessional rental stream.

For example, Westpac recently provided a \$61 million loan to St George Community Housing (SGCH) to finance the development of 275 dwellings in NSW. The size of the facility does not reflect the value of the assets the loan is secured against, but rather the level of rental income to repay the loan.

At that time, SGCH had a housing portfolio valued at circa \$460 million, meaning the loan value represented less than 15 per cent of their housing assets' book value.

At its most fundamental, CHPs and other providers will only be able to borrow more, if they can earn more through improved revenues.

Without fixing the revenue model, further title transfers alone cannot significantly grow the community housing sector, increase overall social housing stock, or represent the best value use of the existing housing assets of the states and territories.

The title transfers alone are like giving CHPs refrigerators without the electricity to run them, where the housing assets are the refrigerator and the electricity is the government subsidy that pays the costs.

21 Implementing the national housing reforms, a progress report to COAG, November 2009.

22 [http://www.ahuri.edu.au/publications/download.asp?ContentID=ahuri\\_rap\\_issue\\_184&redirect=true](http://www.ahuri.edu.au/publications/download.asp?ContentID=ahuri_rap_issue_184&redirect=true)

23 <http://www.audit.nsw.gov.au/further-audit-information/proposed-topics-for-2014-15/transfer-of-public-housing-to-community-housing-providers>

24 <http://www.audit.nsw.gov.au/further-audit-information/proposed-topics-for-2014-15/transfer-of-public-housing-to-community-housing-providers>

25 <http://www.audit.nsw.gov.au/further-audit-information/proposed-topics-for-2014-15/transfer-of-public-housing-to-community-housing-providers>

26 <http://www.audit.nsw.gov.au/further-audit-information/proposed-topics-for-2014-15/transfer-of-public-housing-to-community-housing-providers>

27 [http://chfa.com.au/sites/default/files/node/317/kinetic\\_white\\_paper\\_-\\_bank\\_finance.pdf](http://chfa.com.au/sites/default/files/node/317/kinetic_white_paper_-_bank_finance.pdf)

▼ FIGURE 2.9

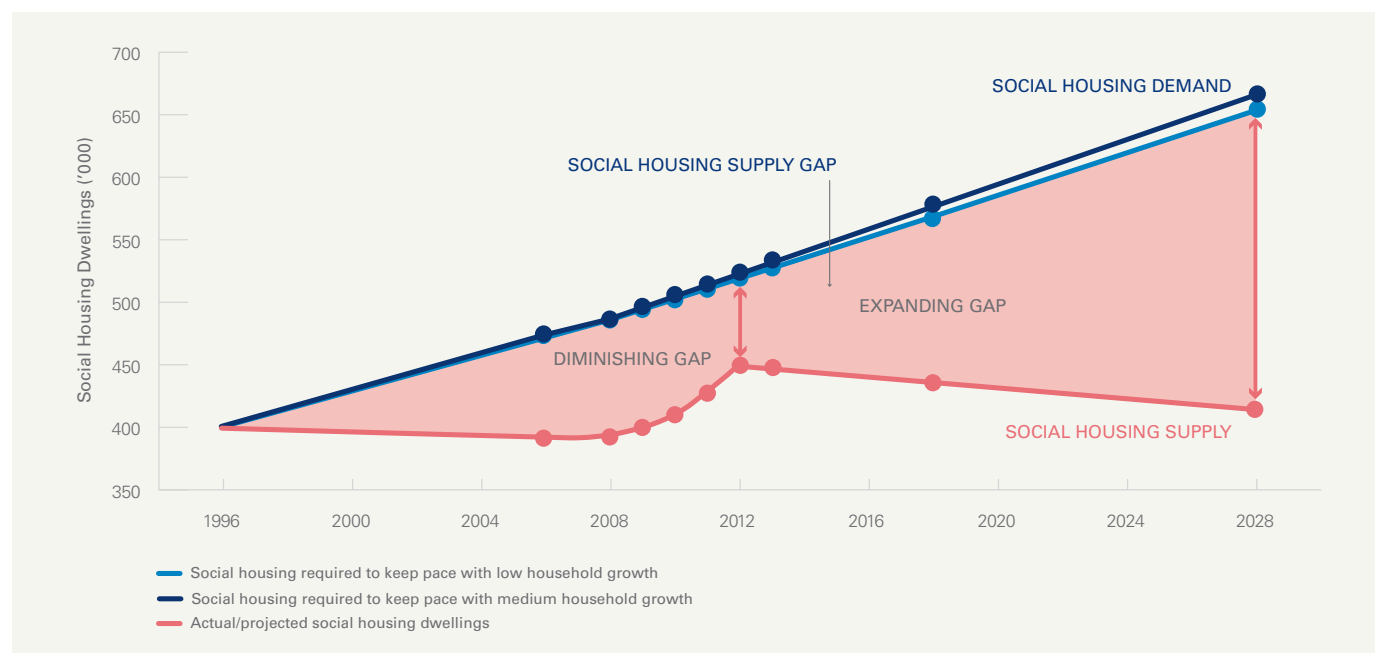
### NATION BUILDING – ECONOMIC STIMULUS PLAN – SOCIAL HOUSING INITIATIVE; FUNDING, ACTIVITY AND TENANT OUTCOMES BY JURISDICTION

	FUNDING ALLOCATION \$M	NO. NEW DWELLINGS CONSTRUCTED	NO. DWELLINGS REPAIRS/ MAINTENANCE	TENANT OUTCOMES* (PERCENTAGE OF NEW DWELLINGS TENANTED)				
				HOMELESS OR AT RISK OF HOMELESSNESS	INDIGENOUS AUSTRALIANS	PEOPLE WITH DISABILITY	AGED OVER 55 YEARS	ESCAPING FAMILY VIOLENCE
NSW	1,894.0	6,330	31,672	47	15	47	52	5
VIC	1,265.9	4,663	9,363	47	10	29	22	8
QLD	1,165.6	4,035	27,420	57	13	58	34	2
WA	590.2	2,083	10,489	81	10	24	48	5
SA	434.2	1,470	503	69	13	50	9	12
TAS	134.8	530	534	35	5	40	37	5
ACT	93.5	421	259	24	5	14	63	5
NT	59.7	208	297	60	68	23	28	22
<b>TOTAL</b>	<b>5,638.0</b>	<b>19,740</b>	<b>80,537</b>	<b>53</b>	<b>13</b>	<b>42</b>	<b>38</b>	<b>6</b>

\* Percentages are based on the number of new dwellings that had been tenanted as at 30 November 2012.  
Source: Commonwealth Government

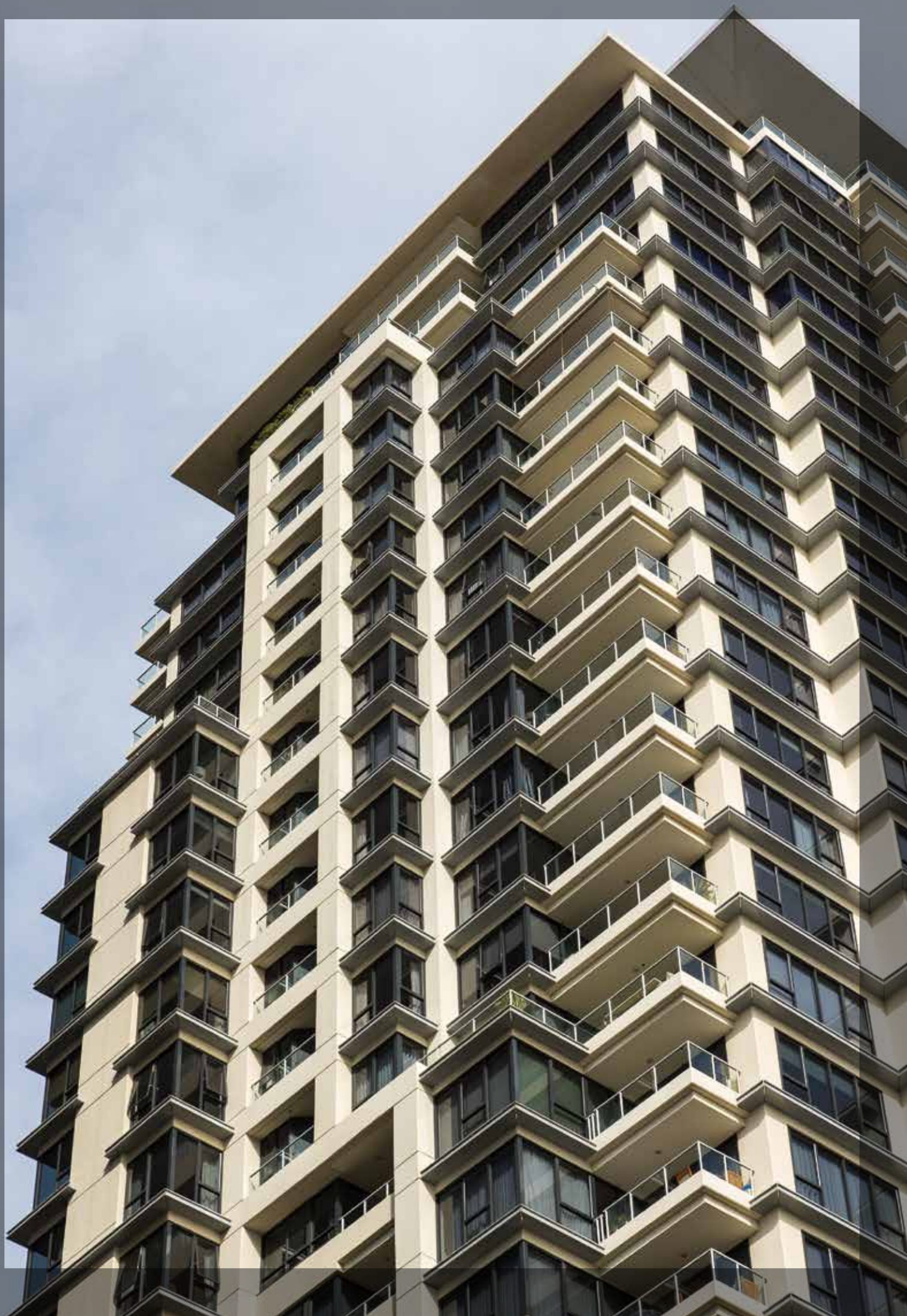
▼ FIGURE 2.10

### SOCIAL HOUSING DEMAND AND SUPPLY PROJECTIONS



Source: Implementing the national housing reforms, a progress report to COAG, November 2009





# 3.

## AUSTRALIA CAN FIX THE FUNDING MODEL FOR SOCIAL HOUSING

This paper commenced with an analysis of Australia's current social housing policies, identifying weaknesses and finding the system is delivering less capacity, less efficiently, over time. That section considers the value of public housing as the dominant social housing delivery model, finding that public ownership of housing stock is accelerating the financial and structural decline of Australia's social housing sector.

The remainder of the paper brings a different focus, considering public housing as an asset available to be progressively unlocked and better used to meet the needs of the community.

This chapter undertakes financial modelling of the Social Housing Future Fund model. For the purposes of the modelling, we have selected NSW as a case study of how the proposed reformed structure would apply.

### 3.1.1 THEORY IN PRACTICE – APPLYING THE SOCIAL HOUSING FUTURE FUND MODEL TO NSW

Our financial model applies modest assumptions to the NSW public housing asset stock – and shows that NSW can solve its social housing funding challenge through a better utilisation of invested capital.

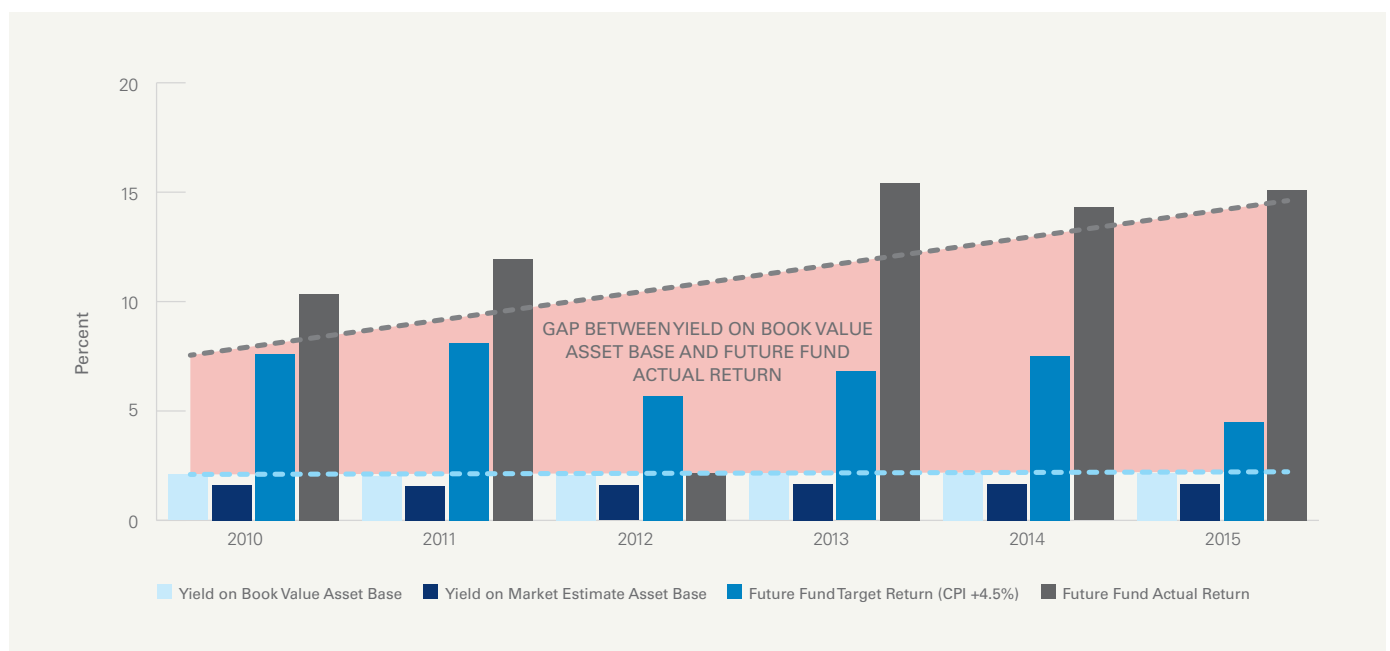
Importantly, our financial model shows that this can be achieved without requiring any further investment from the public sector.

The 'magic' of the Social Housing Future Fund is that it redeploys significant existing public investment from a very low value use (direct ownership of public housing) to a higher value use (commercial investment), with the increased investment return able to fund more and better social housing.

Figure 3.1 below shows the rental yield NSW achieved from its public housing since 2010, versus the returns achieved by the Future Fund. The 'gap' between the social housing ROI and the Future Fund ROI is the new money that becomes available to social housing, under this model.

▼ FIGURE 3.1

#### YIELD ON NSW PUBLIC HOUSING ASSET BASE COMPARED TO FUTURE FUND RETURNS FY 2010-2015



Source: IPA using data from the Productivity Commission, Future Fund.



### 3.1.2 MODELLING ASSUMPTIONS

The financial model which follows makes a series of assumptions, reflecting likely policy settings or practical matters.

The first is that we assume a 20 year conversion, reflecting the average annual vacancy rate of circa five to seven per cent each year. In this way, the model is predicated on the natural expiry of public housing tenancies and does not rely on forced relocations.

We assume that the only source of capital for the Fund is the sale of existing public housing.

This means that the model assumes no additional public funding. Of course, either additional public funding or higher returns from the sale of properties would improve the Fund's actual performance.

For the purpose of the modelling, we assume that each public dwelling is replaced with a social housing dwelling, in the same suburb.

For example, a three bedroom public housing dwelling sold in North Sydney, would be replaced with a three bedroom social housing dwelling in North Sydney.

In this way, the model does not rely on moving people from higher value areas to lower value areas – rather, it assumes that all capacity is replaced in the same configuration, in the same area.

**Note that these are only modelling assumptions, used to evidence the validity of the financial modelling. Obviously, not all social housing is well-located at present and a better outcome will be achieved if housing is established in different locations and different configurations.**

For the purpose of the modelling, we assume that each replacement property is sourced at full market rent plus an additional incentive of one per cent yield. We have used this as a proxy for the recurrent cost of providing social housing capacity.

For our three bedroom public dwelling in North Sydney, the model assumes it is replaced with a three bedroom home – and that each replacement dwelling is sourced at an above-market rent cost.

Our model assumes the Social Housing Future Fund has the same mandate and return profile as the Commonwealth Government's sovereign wealth fund, the Future Fund (see Case Study in section 4.1.2).

We assume that replacement capacity is sourced from CHPs for tenants by the public sector and is required to come online immediately, ensuring there is no lag or loss of capacity.

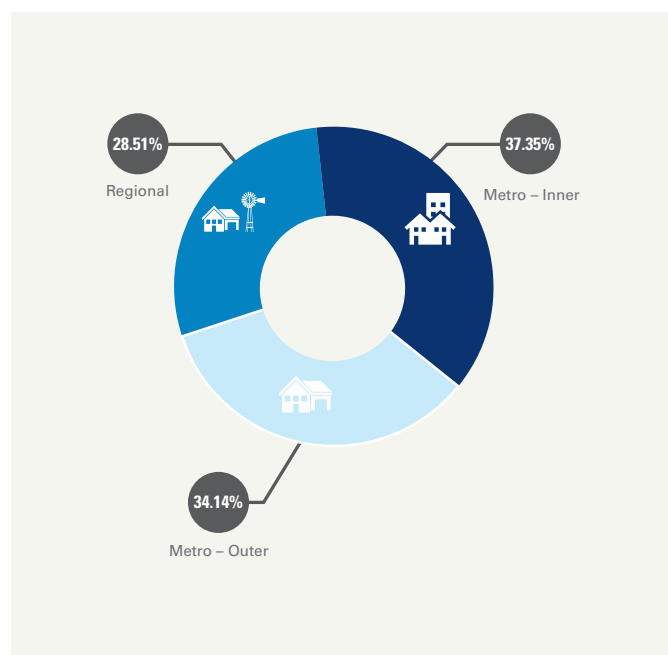
We assume per dwelling sales commissions and costs of 2.5 per cent per property.

### 3.1.3 THE NSW PUBLIC HOUSING ESTATE

NSW has circa 126,054 public housing properties, with roughly one third of properties distributed across regional, outer metropolitan and inner metropolitan areas. This distribution is described in Figure 3.2, below.

▼ FIGURE 3.2

#### PERCENTAGE OF NSW PUBLIC HOUSING PROPERTIES BY REGION 2015



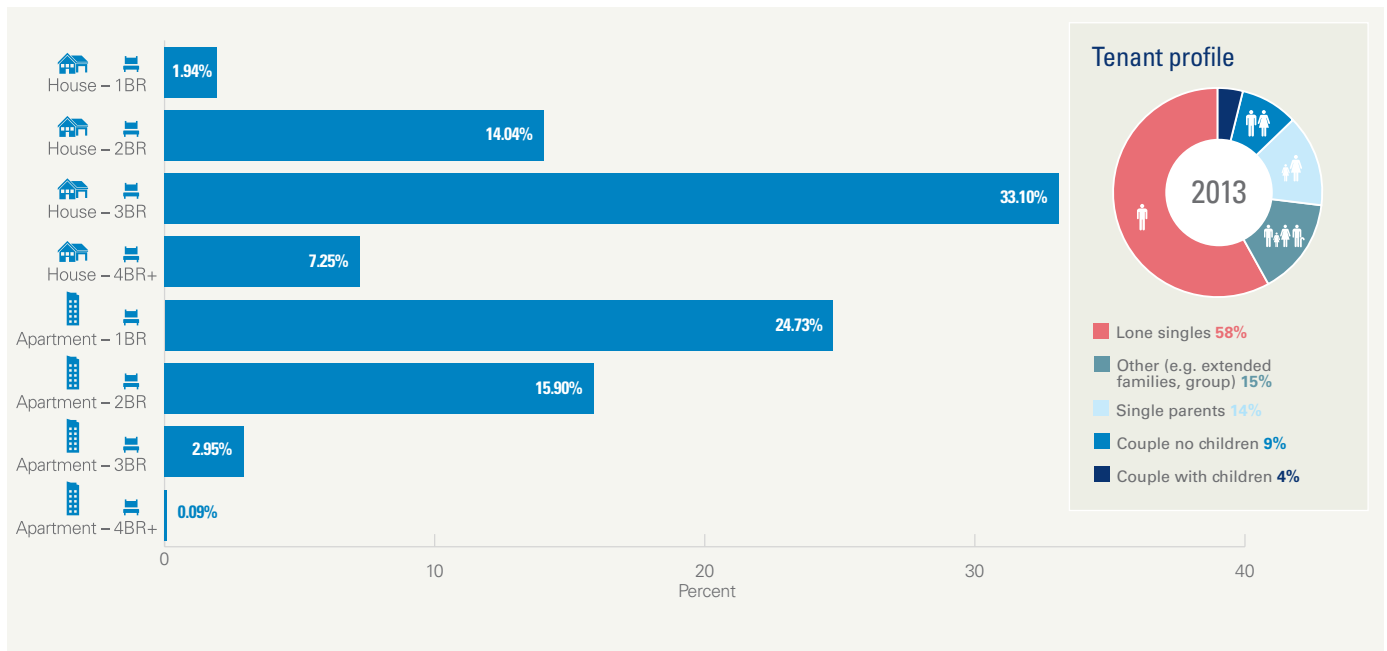
Source: KPMG

The distribution between dwelling types shows that NSW's public housing assets are heavily weighted toward three bedroom detached homes, making up more than one third of total asset stock as illustrated in Figure 3.3. Conversely, one bedroom apartments are the housing type with the greatest demand, but comprise just one quarter (25 per cent) of public housing dwellings.



▼ FIGURE 3.3

## PERCENTAGE OF PORTFOLIO BY DWELLING TYPE 2015



Source: KPMG

## 3.1.4 WHAT IS THE VALUE OF THE NSW PUBLIC HOUSING ESTATE?

The NSW Land & Housing Corporation (LAHC) reports a book value of circa \$38.4 billion for NSW's public housing estate, as at 30 June 2015. While this is a substantial endowment, our analysis suggests that the LAHC book valuations are substantially below the market value of these properties.

Indeed, the LAHC asset valuations see an average capital value (price) of:

## ▼ AVERAGE CAPITAL VALUE (BOOK VALUE)

BUILDING TYPE	METRO - INNER	METRO - OUTER	REGIONAL
Apart. - 1BR	274,989	177,387	134,235
Apart. - 2BR	362,062	232,978	218,425
Apart. - 3BR	451,370	254,100	247,712
Apart. - 4BR+	523,817	355,757	269,296
House - 1BR	343,799	161,334	130,907
House - 2BR	514,362	321,348	223,281
House - 3BR	462,936	340,074	246,832
House - 4BR+	563,837	402,957	272,392

Noting the seeming divergence between the book and market value of the NSW public housing assets, KPMG has uplifted the portfolio value by 30 per cent – which maintains a conservative estimation of market value.

The average book capital values compared to the average estimated market value is illustrated in Figure 3.4 for each of the dwelling types and locations.

Once the asset portfolio is uplifted to better reflect market values, it provides an endowment of circa \$49.9 billion in existing property, as illustrated in Figure 3.5.

#### ▼ AVERAGE CAPITAL VALUE (ESTIMATED MARKET VALUE)

BUILDING TYPE	METRO - INNER	METRO - OUTER	REGIONAL
Apart. - 1BR	357,485	230,603	174,505
Apart. - 2BR	470,681	302,872	283,953
Apart. - 3BR	586,781	330,330	322,026
Apart. - 4BR+	680,963	462,484	350,084
House - 1BR	446,939	209,734	170,179
House - 2BR	668,670	417,753	290,265
House - 3BR	601,816	442,096	320,882
House - 4BR+	732,988	523,844	354,109

▼ FIGURE 3.4

#### AVERAGE CAPITAL VALUES (BOOK VALUE AS AT 30/06/2015 AND ESTIMATED MARKET VALUE)

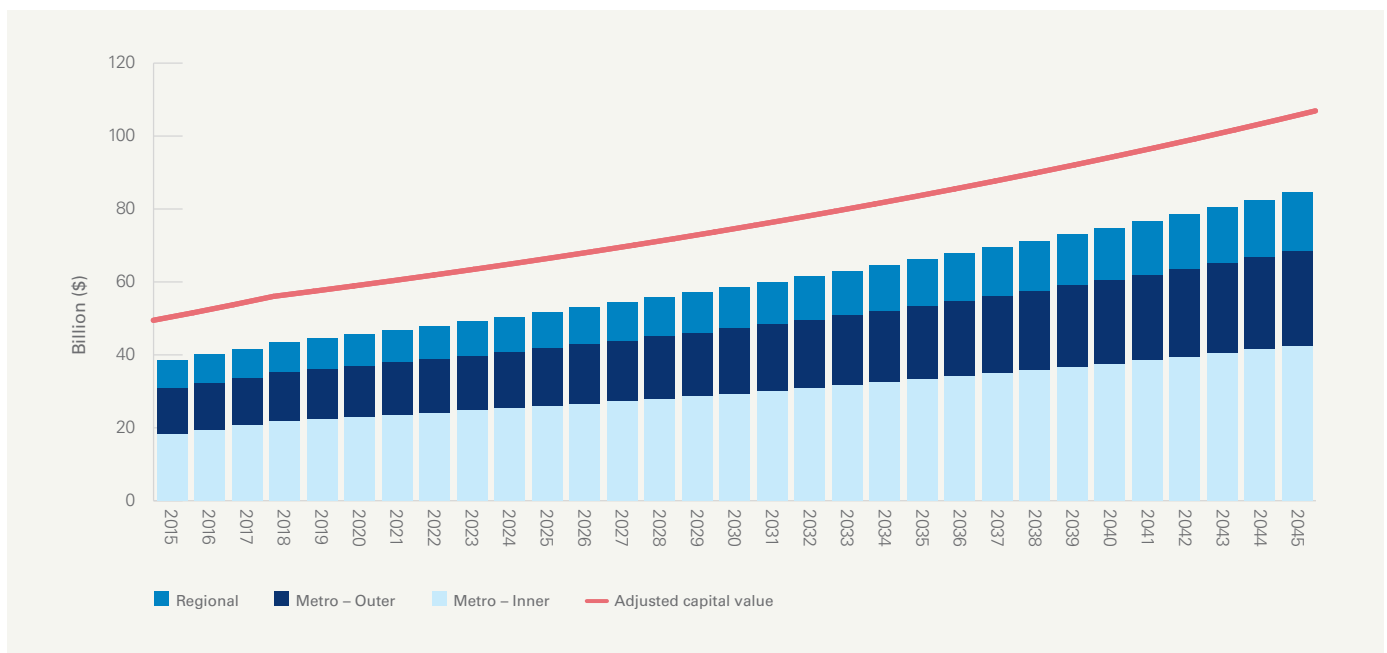


Source: KPMG



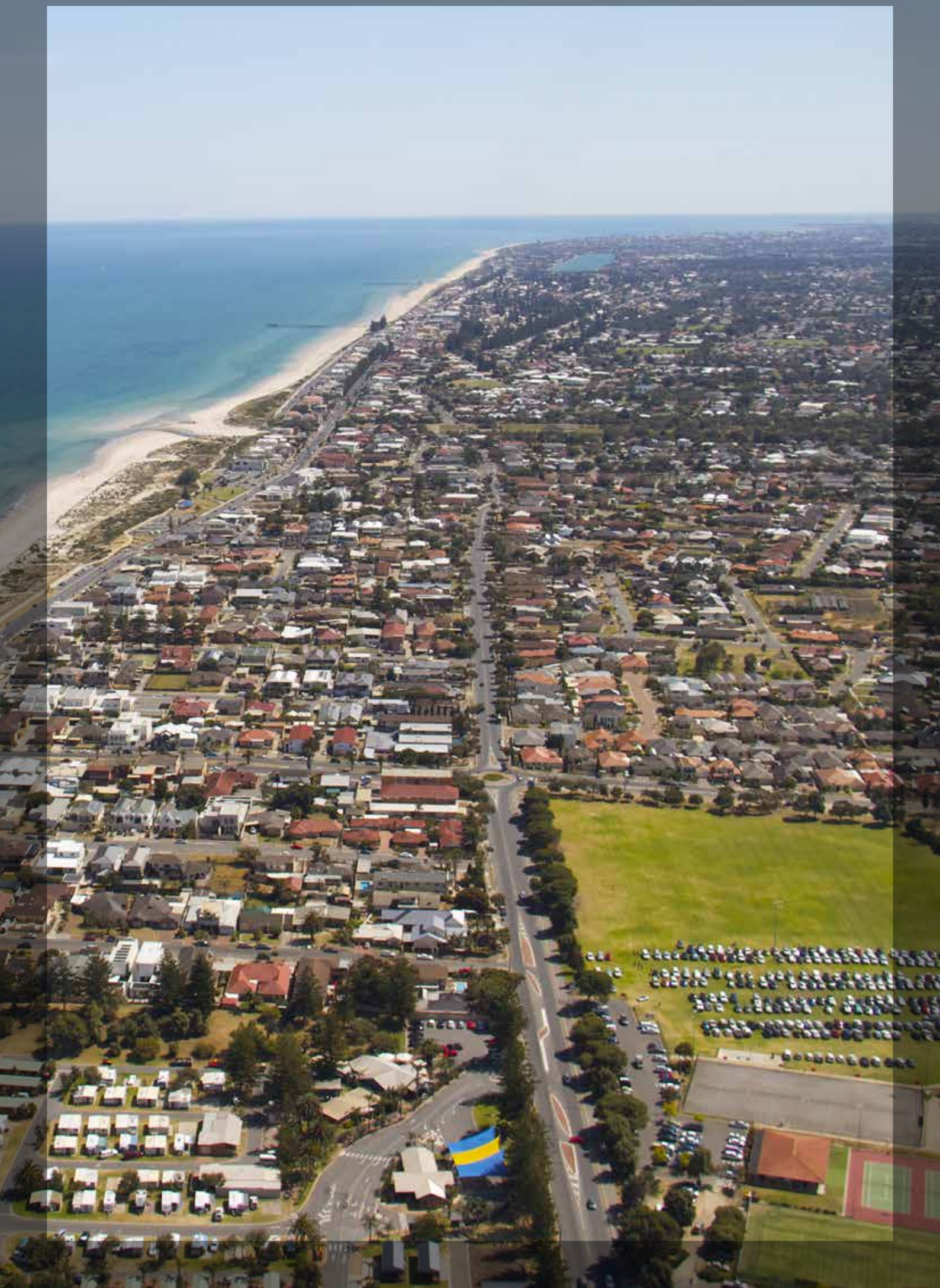
▼ FIGURE 3.5

MARKET VALUE OF LAHC PORTFOLIO BASED ON 2015 STOCK (\$BN) – BOOK CAPITAL VALUES



Source: KPMG







### 3.1.5 APPLYING THE MODEL ACROSS THREE POLICY SCENARIOS

In order to evaluate the opportunities available from the Social Housing Future Fund (SHFF) structure, we have applied a scenario modelling approach which projects key variables under a range of policy settings. This method allows for analysis of three key variables pertinent to policy makers across the 20 year reform pathway:

- Housing capacity supported by the system (including both fund supported and traditional public ownership during the ramp-up phase);
- Size of the waiting list; and
- Balance of the SHFF.

Using the level of housing capacity supported by the system as the input variable, we have modelled the impact for waiting list size and fund balance across three scenarios:

- **Scenario One:** holds housing supply at the current level, allowing the waiting list to grow over time;
- **Scenario Two:** grows housing supply in line with population growth, maintaining the waiting list at the current level; and
- **Scenario Three:** grows housing supply to progressively reduce the waiting list to zero by 2045.

Each of these scenarios is modelled in detail below, revealing the impact on the fund during both the accumulation phase and the post reform business-as-usual phase out to 2045. While a number of other variables or scenarios could be modelled, the three selected scenarios demonstrate the breadth of opportunities available from the SHFF structure and the flexible platform the SHFF provides for delivering differing policy and capacity objectives. Alternative scenarios could also be adopted within the SHFF structure based on different objectives.

For each scenario we analyse the housing capacity supported by the fund, the impact on waiting lists and the resulting effect on the fund balance and return profile (a proxy for the sustainability of the funding stream) over the full lifecycle of the model.

#### 3.1.5.1 SCENARIO ONE: Maintain supply at current level (no growth in capacity)

**SCENARIO ONE:** holds housing supply constant at 2015 level, allowing the waiting list to grow over time in line with population growth.

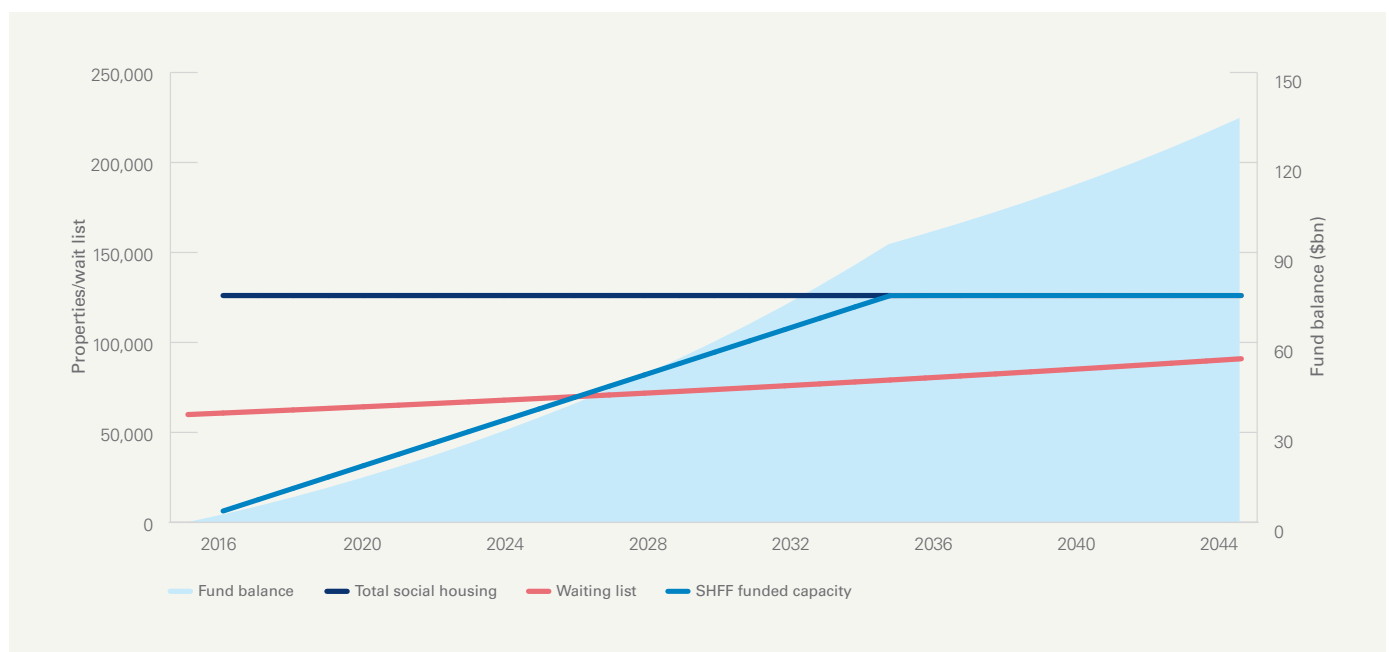
##### IMPACT:

- **Housing supply:** remains constant at 126,054 over the evaluation period.
- **Fund value:** grows over the evaluation period to \$134.08 billion by 2045, supporting 126,054 dwellings
- **Waiting list:** grows over the evaluation period in line with population growth of 1.4 per cent:
  - @2015 = 59,917
  - @2045 = 90,925

The first scenario examined maintains supply of social housing places at the 2015 level of 126,054 dwellings, allowing the waiting list to grow in line with population growth from 59,917 to 90,925 in 2045 – an increase of 31,009 over the 30 year evaluation period.

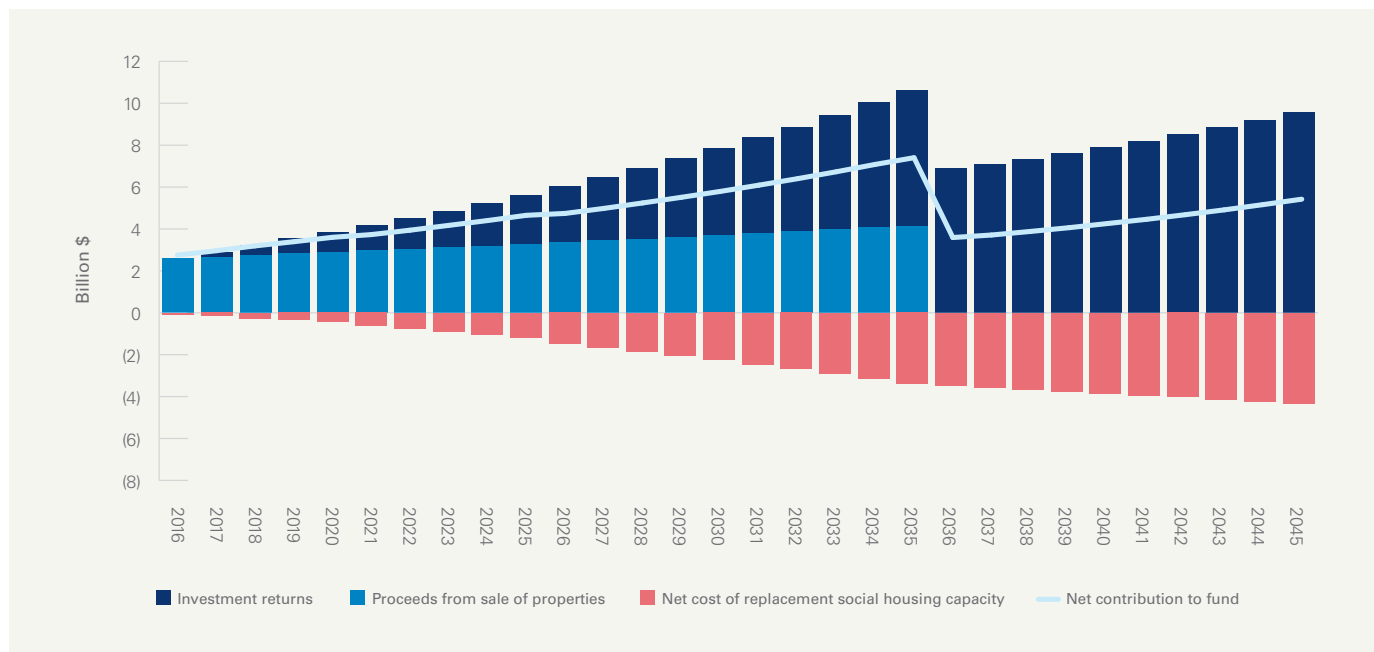
▼ FIGURE 3.6

#### SCENARIO ONE – SUPPLY CAPPED AT 2015 LEVEL



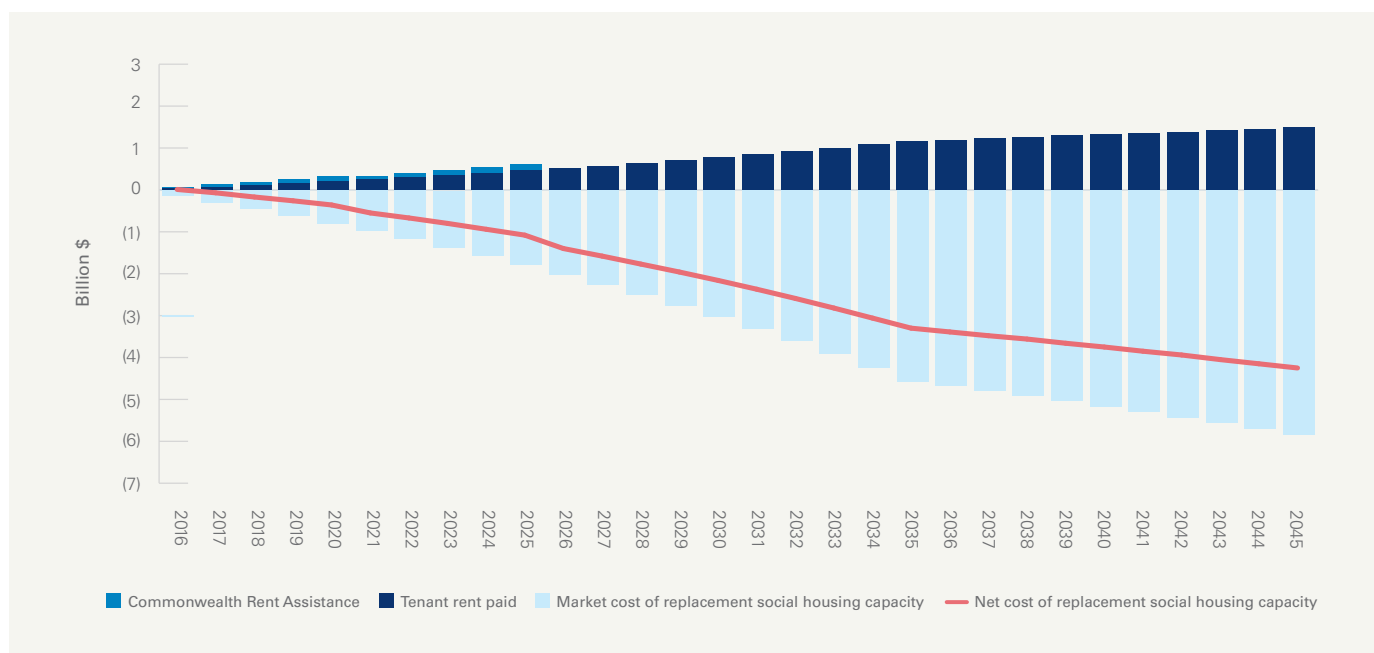
Source: KPMG

▼ FIGURE 3.7

**SCENARIO ONE – SUPPLY CAPPED AT 2015 LEVEL: FUND RETURNS MUCH HIGHER THAN COSTS**

Source: KPMG

▼ FIGURE 3.8

**SCENARIO ONE – SUPPLY CAPPED AT 2015 LEVEL: WITH TENANT RENTS CAPPED, THE SHFF PROVIDES A MASSIVE FUNDING INCREASE WITHOUT COMMONWEALTH FUNDING**

Source: KPMG

By maintaining housing supply to support 126,054 dwellings and allowing an inflation of the waiting list proportional to the population, Scenario One provides a substantial growth trajectory for the fund – in turn providing future policy makers with a sustainable revenue stream which could be applied to related policy outcomes, such as programmes to support appropriate tenants to transition into affordable and private rental options.

Figure 3.6 shows this growing fund balance (shaded blue area) set against the number of dwellings supported by the fund (bright blue line) and the total housing opportunities supported by the system (the dark blue line) between 2015 and 2045. The chart also shows the upward trajectory of the waiting list (red line) in line with population growth.

Notably under this scenario, the fund balance grows to \$135 billion by 2045, supporting a sustainable, ongoing return of \$9.56 billion per annum in that year. This type of return profile would, as discussed above, provide additional opportunities beyond supporting circa 126,000 dwellings without the need for additional government support or to draw down on the fund balance.

This return profile is detailed in Figure 3.7. Investment returns (shown in dark blue) grow over the accumulation phase to 2035 as they are supplemented by the sale proceeds from the gradual divestment of stock (shown in bright blue). The net cost of subsidising the supply of 126,054 dwellings (at 2035 onwards) is shown below the X-axis (in red) representing a net contribution from fund returns. And finally, the net contribution to the fund (comprising sale proceeds, plus investment returns, minus distributions to support subsidised rent) is shown by the light blue line.

Note the growth trajectory of the light blue line (net contribution to the fund) indicates the sustainable funding option provided by Scenario One – with investment returns to the SHFF well in excess of service costs.

Having established the sustainable funding platform provided by Scenario One, Figure 3.8 illustrates the net cost of the subsidised rentals to be paid from the SHFF. Under all scenarios modelled, distributions from the SHFF (shown by the red line) supplement tenant rent (shown in dark blue) and, for a time limited period, CRA (shown in bright blue). Together, these components provide the market rental stream (the level of which is shown by the light blue bars) which underpins the SHFF concept.

### 3.1.5.2 SCENARIO TWO: Expand social housing to reduce the waiting list by 1.4 per cent per annum

**SCENARIO TWO:** expands housing supply moderately, to the extent that the waiting list is maintained at the 2015 level throughout the evaluation period, representing an increase in capacity relative to population.

**IMPACT:**

- **Housing supply:** grows to 157,063 over the evaluation period.
- **Fund value:** grows over the evaluation period to \$109.15 billion by 2045, supporting 157,063 dwellings
- **Waiting list:** despite population growth of 1.4 per cent, additional supply sees the number of approved applicants on the waiting list remain at the 2015 level over the evaluation period:
  - @2015 = 59,917
  - @2045 = 59,917

The second scenario examined growing the supply of social housing in order to maintain the waiting list at 2015 levels – representing a proportional decrease in waiting list length relative to the State's population. Under this scenario, the waiting list effectively falls 1.4 per cent per annum over the evaluation period as new housing supply supported by the SHFF comes on line.

Scenario Two provides a gradual increase in total social housing supply in line with population growth from 126,054 in 2015, to 157,063 supported dwellings by 2045. A growing social housing supply, and real terms reduction of the waiting list, sees a slower growth rate of the fund balance over the 30 year evaluation period. Despite a more gentle growth trajectory for the fund, this Scenario still provides a long-term sustainable funding base and future flexibility to provide additional services from the return distribution – albeit on a more modest scale, reflecting the additional housing supported under this scenario.

Figure 3.9 shows this additional housing supply, set against a more modest SHFF balance growth profile. Total housing supply (shown by the dark blue line) grows over the evaluation period from 126,054 in 2015 to 157,063 in 2045, with the SHFF supporting all social housing by 2035 (bright blue line). The waiting list, held constant at the 2015 level of 59,917 is shown by the red line. The light blue shaded area of the chart shows the growth profile of the SHFF during the accumulation phase and the business-as-usual period from 2035 onwards.



Notably, the return profile of Scenario Two shows the potential to maintain real growth in social housing supported by the SHFF, with returns growing at a sustainable rate as new housing capacity is added during the distribution phase (post 2035).

Modelling of Scenario Two projects a fund balance of \$109.15 billion in 2045 which, consistent with Scenario One continues to grow following the accumulation phase – albeit at a more modest rate, reflecting the growth in social housing modelled under this scenario.

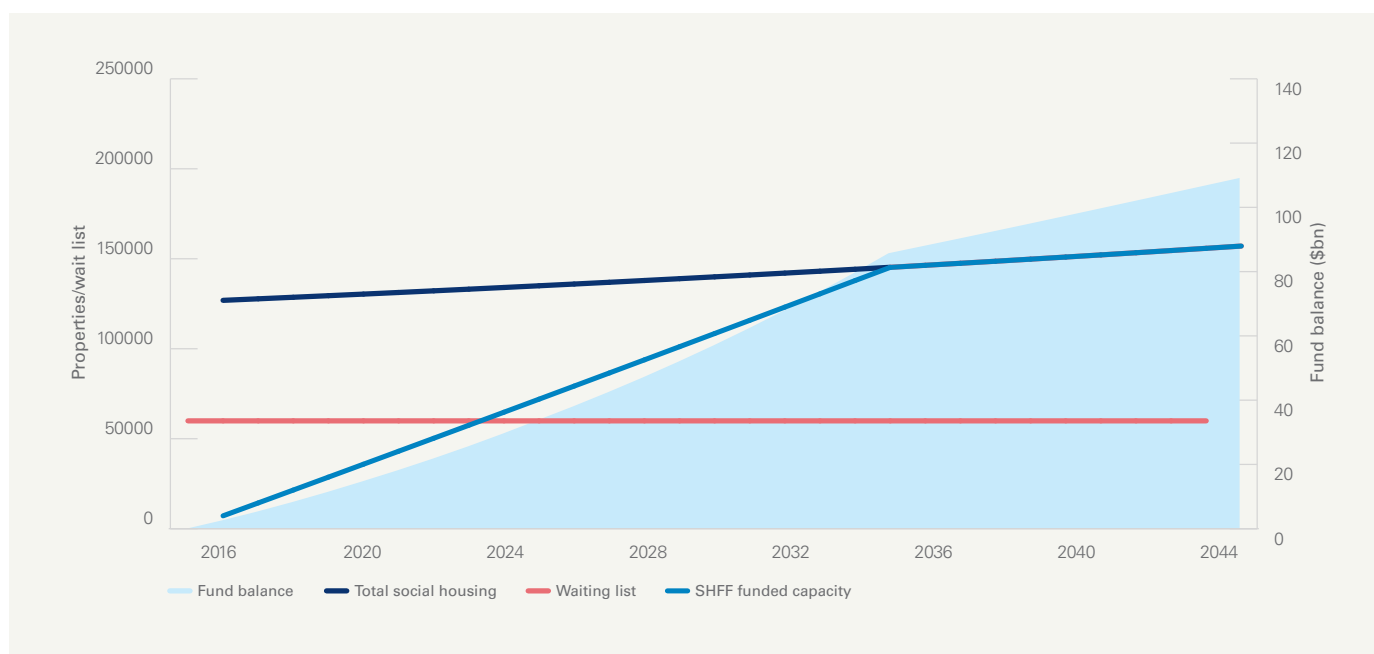
This return profile for Scenario Two is detailed in Figure 3.10 opposite. As with Scenario One, investment returns (shown in dark blue) grow over the accumulation phase to 2035 and are supplemented by the sale proceeds from the gradual divestment of stock (shown in bright blue). The net cost of subsidising the supply of dwellings (145,212 at 2035 growing to 157,063 by 2045) is shown below the X-axis (in red) – this is more substantial than Scenario One, reflecting the additional dwellings supported by the SHFF under this scenario. And finally, the net contribution to the fund (comprising sale proceeds, plus investment returns, minus distributions to support subsidised rent) is shown by the light blue line – again reflecting net positive contribution, albeit more modest than those under Scenario One.

As with Scenario One, the trajectory of the line representing net contribution to the fund (the light blue line) again indicates a sustainable funding option – with investment returns exceeding the costs of service provision.

Finally, Figure 3.11 shows how distributions from the fund support provision of social housing supply. Relative to Scenario One, the modelling demonstrates larger distributions from the fund (shown by the red line) to supplement tenant rent (shown in dark blue) which also grows reflecting expanded social housing capacity and, for a time limited period, CRA (shown in bright blue). As with the modelling for Scenario One, the market rental cost of replacement stock (shown in the light blue bars) represents the total amount the providers would receive from combined payments from the fund and tenants.

▼ FIGURE 3.9

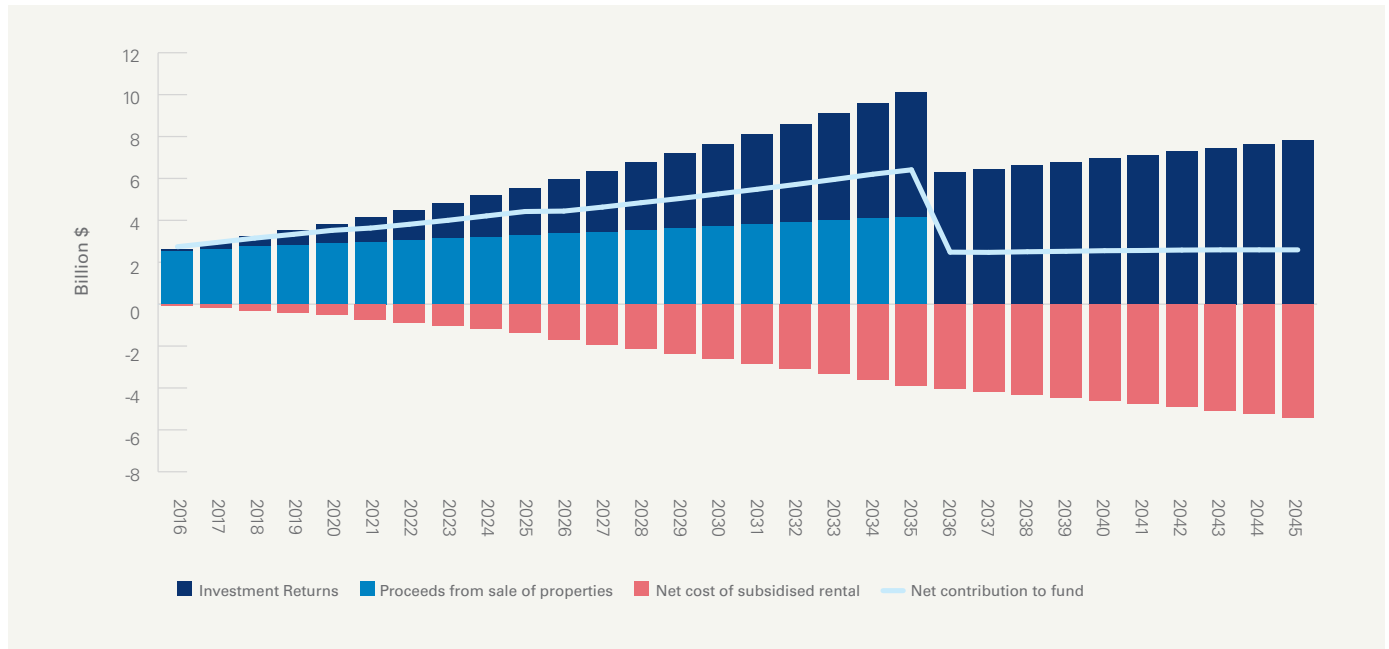
#### SCENARIO TWO – SYSTEM GROWS, WAITING LIST FALLS BY 1.4 PER CENT PER ANNUM



Source: KPMG

▼ FIGURE 3.10

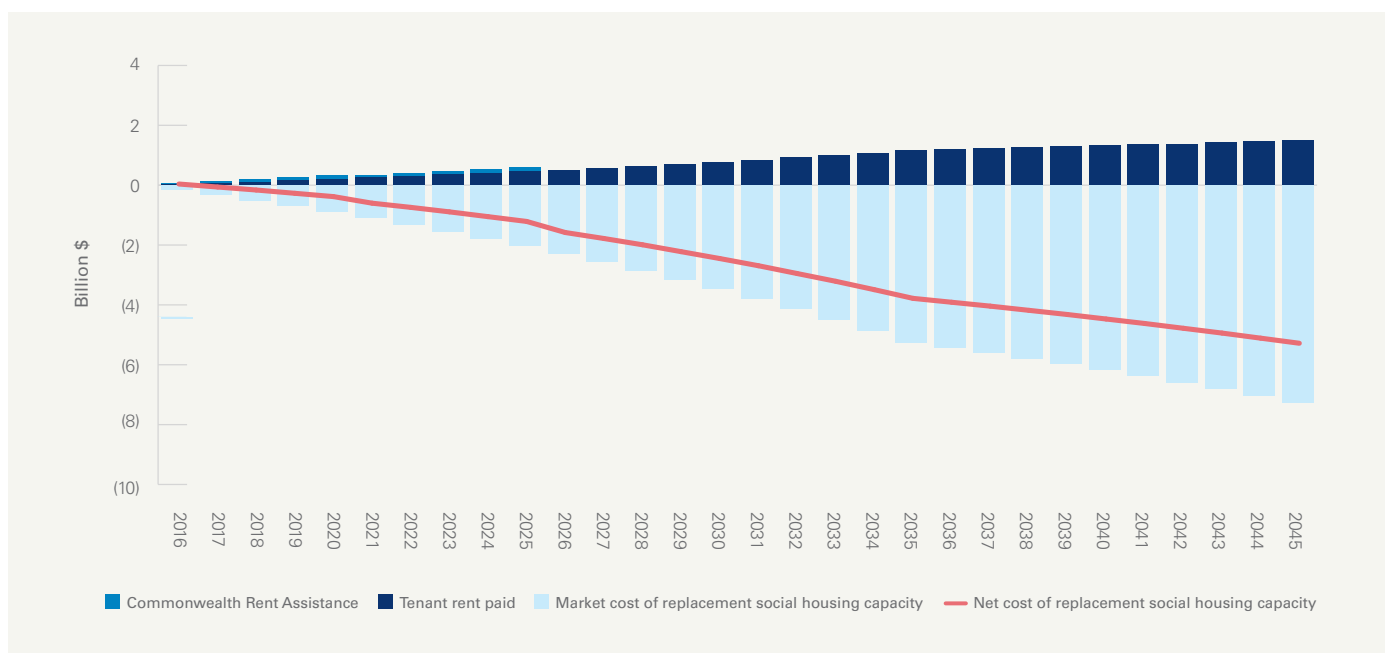
SCENARIO TWO – SYSTEM GROWS, WAITING LIST FALLS BY 1.4 PER CENT PER ANNUM: FUND RETURNS HIGHER THAN COSTS



Source: KPMG

▼ FIGURE 3.11

SCENARIO TWO – SYSTEM GROWS, WAITING LIST FALLS BY 1.4 PER CENT PER ANNUM: WITH TENANT RENTS CAPPED, THE SHFF PROVIDES A FUNDING INCREASE WITHOUT COMMONWEALTH FUNDING



Source: KPMG

### 3.1.5.3 SCENARIO THREE: Reduce the waiting list to zero by 2045

**SCENARIO THREE:** expands capacity rapidly, enabling the waiting list to be reduced to zero by 2045.

**IMPACT:**

- **Housing supply:** grows to 216,979 over the evaluation period.
- **Fund value:** grows over the asset divestment phase to a peak of \$70.31 billion in 2035, before beginning to decline over the remainder of the evaluation period:
  - @2035 = \$70.31 billion, supporting 185,156 dwellings
  - @2045 = \$54.97 billion, supporting 216,979 dwellings
- **Waiting list:** despite population growth of 1.4 per cent, the waiting list is reduced rapidly over the evaluation period through additional supply:
  - @2015 = 59,917
  - @2045 = 0

The third scenario examined sees a graduated reduction of the waiting list from 59,917 in 2015 to zero by 2045 – achieved by an increase of dwellings supported by the system from 126,054 in 2015 to 216,979 by 2045. Scenario Three increases supported dwellings by 90,925 over the evaluation period.

While Scenario Three provides a platform to eliminate the waiting list for social housing by 2045, the modelling demonstrates that the rapid increase in capacity provision is not sustainable over the longer term. The modelling for Scenario Three shows negative fund returns after the accumulation phase, as subsidised rental on substantially increased supply outstrips investment returns. Unlike scenarios One and Two, Scenario Three does not provide additional returns beyond supporting market rents to allocate to related needs.

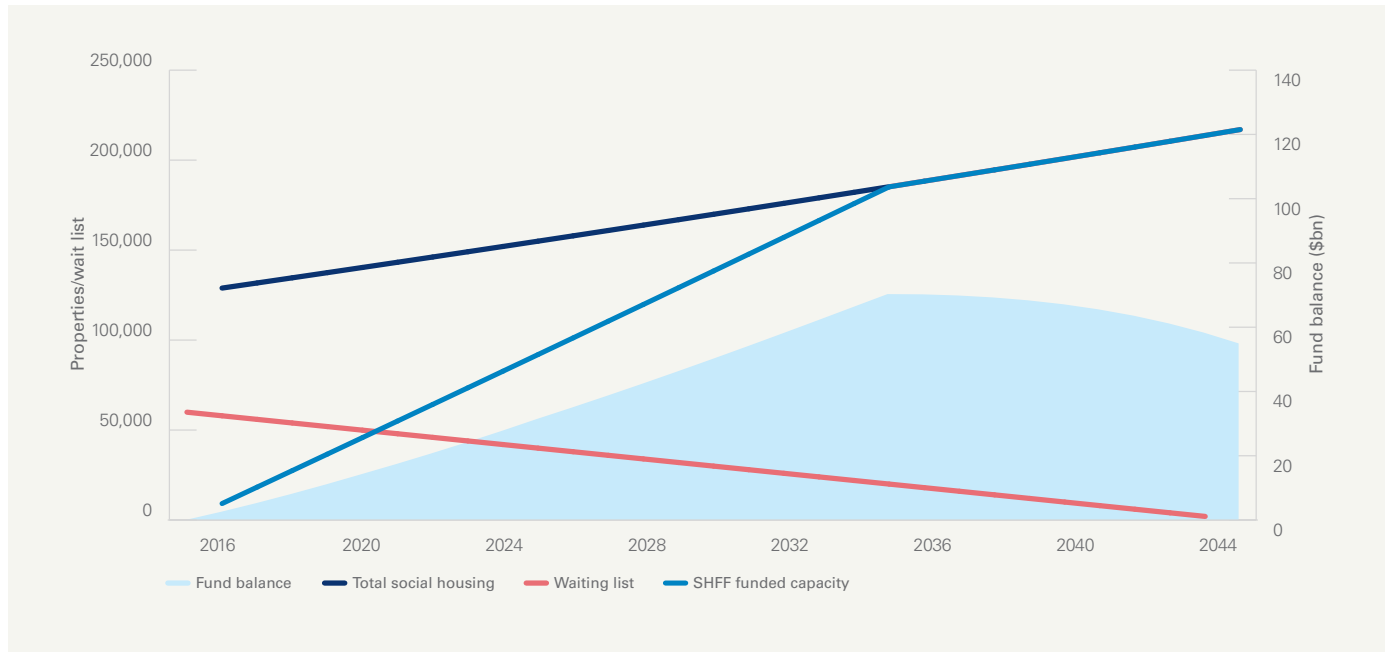
Figure 3.12 shows the net effect of reducing the waiting list to zero with the fund balance (the shaded light blue area) on a downward trajectory after the accumulation phase ends in 2035. By 2045, the fund balance under Scenario Three is the lowest modelled at \$54.97 billion, with a yearly net deficit of \$3.38 billion that year. This reduced fund balance is a reflection of the substantially increased total social housing supply (shown by the dark blue line), supported by the SHFF (bright blue line). The impact on the waiting list is shown by the red line which falls every year, reaching zero by the end of the evaluation period in 2045.

The diminishing fund balance during the business-as-usual phase forecast under Scenario Three is a direct result of the substantial increase in capacity anticipated under the approach. Figure 3.13 shows the impact of substantially increased supply, with net cost of subsidised rental (red) in excess of investment returns (shown in dark blue) resulting in a net negative contribution to the SHFF (shown by the light blue line). The light blue line in Figure 3.13 also shows how distributions from the principal (rather than investment returns) from the SHFF cause an accelerating negative net contribution as a lower fund balance supports lower investment returns, necessitating the need to allocate larger principal distributions.

The accelerating decline of the SHFF balance under this forecast demonstrates that Scenario Three, unlike scenarios One and Two, represents an unsustainable funding platform. As shown in Figure 3.14, the market rental required to support the expanded capacity (shown by the light blue bars) reaches \$10.05 billion by 2045, with distributions from the SHFF (the red line) supporting the majority of this market rent. Critically, these distributions exceed the investment returns from the SHFF.

▼ FIGURE 3.12

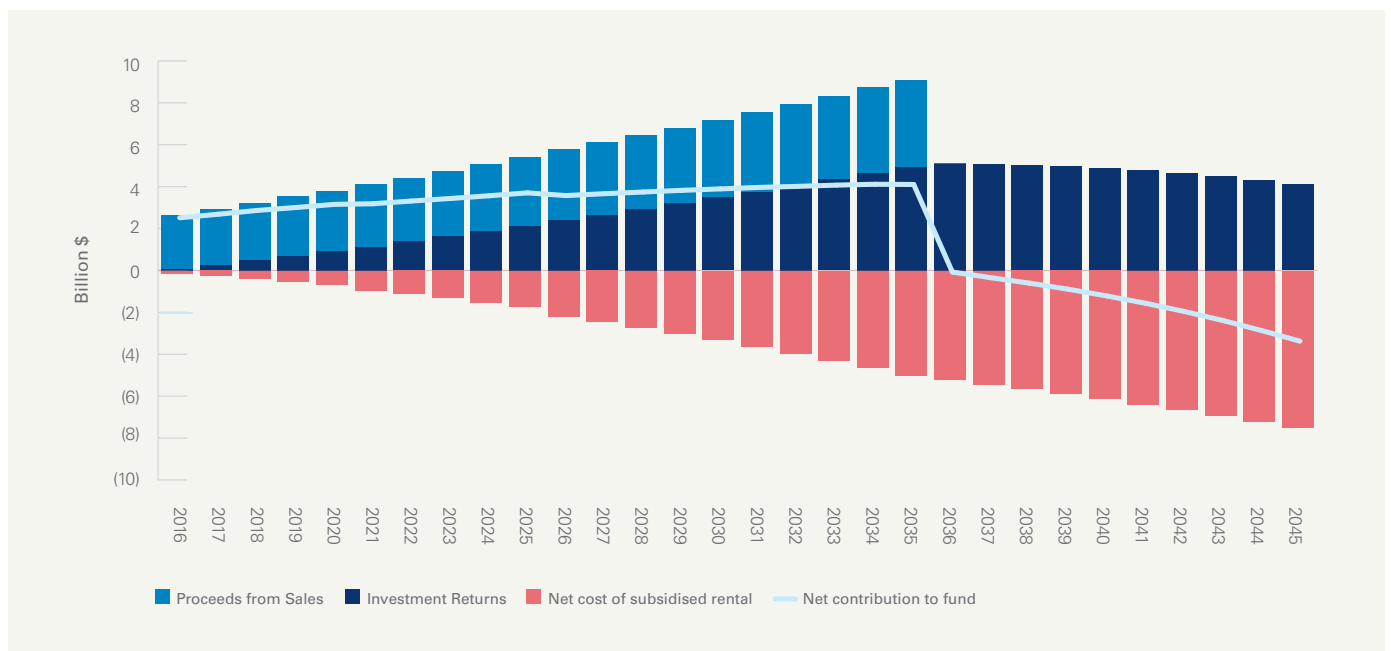
SCENARIO THREE – REDUCE WAIT LIST TO ZERO BY 2045



Source: KPMG

▼ FIGURE 3.13

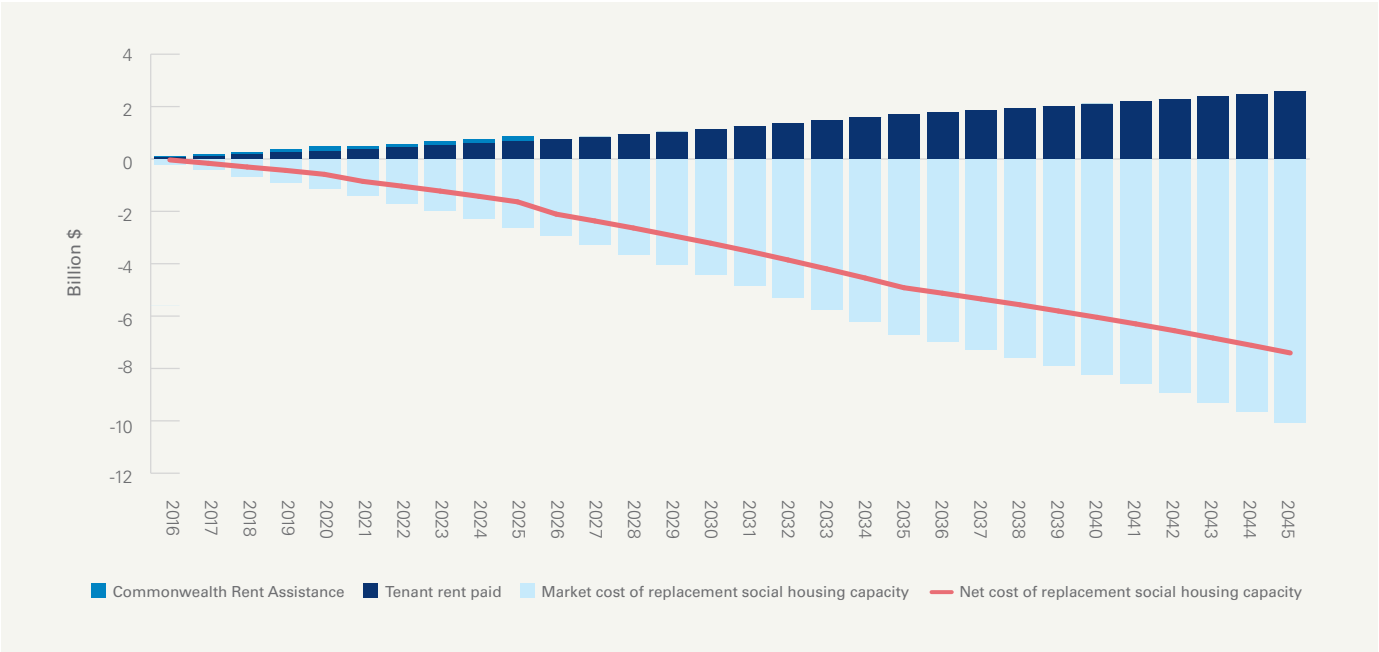
SCENARIO THREE – REDUCE WAIT LIST TO ZERO BY 2045: COSTS HIGHER THAN FUND RETURNS



Source: KPMG



▼ **FIGURE 3.14**  
**SCENARIO THREE – REDUCE WAIT LIST TO ZERO BY 2045: WITH TENANT RENTS CAPPED, THE SHFF PROVIDES A FUNDING INCREASE WITHOUT COMMONWEALTH FUNDING, BUT WOULD REQUIRE RECAPITALISATION**



Source: KPMG



### 3.1.6 WITH THE RIGHT GOVERNANCE STRUCTURE, SOCIAL HOUSING CAN BE 'OFF BUDGET' AND POTENTIALLY, 'OFF RATING'

The proposed reforms to social housing will provide states with two fiscal benefits; by taking the annual cost of social housing 'off budget' – and through the opportunity to take social housing costs 'off rating'.

We know from Chapter Two that Australia's governments expended \$4.2 billion in recurrent social housing costs in 2013-14. This means that state and Federal governments have to allocate that money in their annual budgets, meaning it cannot be used for other purposes such as infrastructure, education or health services.

The reformed structure in this paper allows states to take the annual cost of providing social housing 'off budget' because the costs will be paid by the returns from the Social Housing Future Fund's investment activities, via the state's housing agencies, to providers.

Our model sees a substantial boost to the Commonwealth budget too, as recipients of Commonwealth Rent Assistance (CRA) in the community housing sector would no longer receive Federal payments. This would alleviate a significant future liability for the Federal Government.

If the SHFF model were already applied nationally, this would have seen the Commonwealth's budget \$3.9 billion better off in 2013-14 alone.

However there is a broader opportunity to take social housing 'off rating', providing substantial upward pressure on state government credit ratings. 'Off rating' simply means providing sovereign credit rating agencies with the comfort that the risks and costs from social housing are genuinely remote from the state's budget.

Establishing social housing 'off budget' and 'off rating' is possible, because of the substantial endowment of invested capital within public housing – but structural independence and governance are critical.

Rating agencies will consider the legal, structural and moral independence from government when assessing whether there is sufficient insulation between government finances and the funding of social housing. Chapter Four makes recommendations about these machinery of government matters.

### 3.1.7 AND REFORMING STATES ALSO COLLECT A TAX WINDFALL

As shown in Figure 3.15, there is an additional benefit from the model, with the increased volume of property transactions providing additional state revenue in the form of land tax and stamp duties.

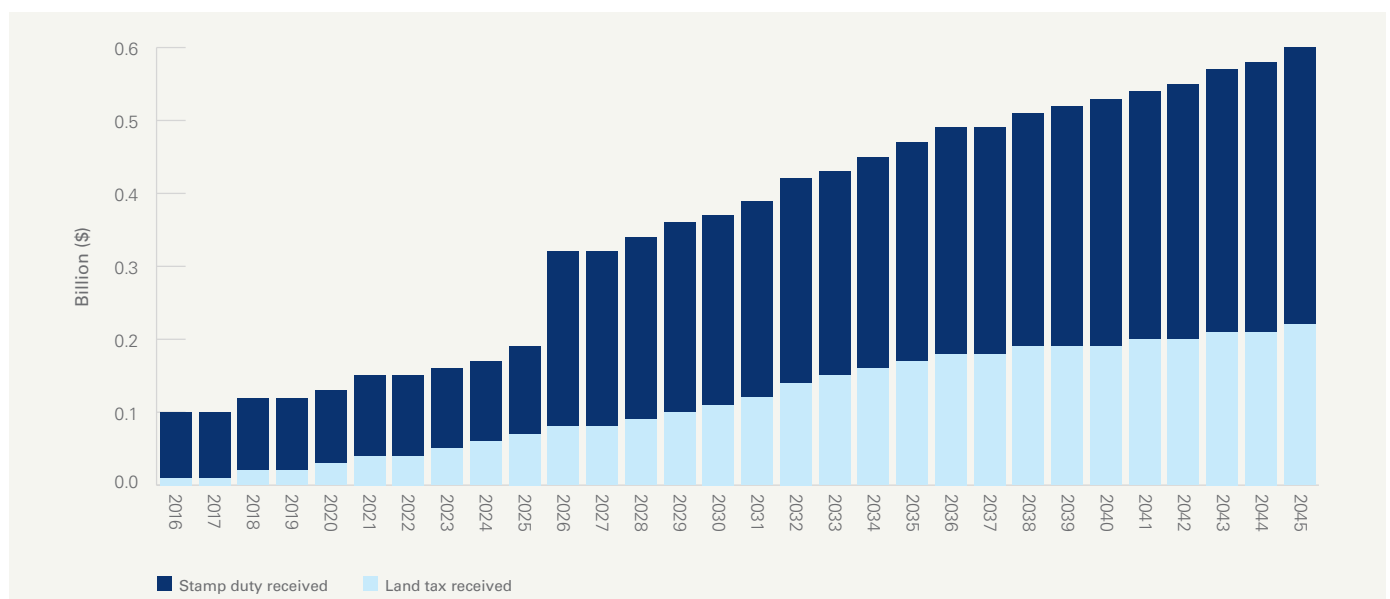
Stamp duty will be payable by the purchaser of each property sold, totalling an estimated \$7.1 billion over the 20 year transition period. This is based on an average turnover in Sydney in 2014 of 11.2 years for houses and 8.5 years for units.<sup>28</sup>

Properties that are sold to private sector investors will also be liable for land tax. Incremental land tax collected as a result of the proposal is estimated to be \$1.51 billion over 20 years, and \$3.43 billion over 30 years.

Total increased tax revenue flowing to the NSW Government as a result of the proposal is an estimated \$10.63 billion over 30 years. The tax benefits to the NSW Government are illustrated in Figure 3.15.

▼ FIGURE 3.15

ADDITIONAL SCHEME BENEFITS TO THE NSW GOVERNMENT (\$BN); STAMP DUTY RECEIVED, LAND TAX RECEIVED



Source: KPMG

28 KPMG using CoreLogic RP Data





WELL'S  
HOUSE

MOUNTS BAY  
HOUSE

29

WELL'S HOUSE  
& MOUNTS BAY HOUSE  
MOUNTS BAY



# 4.

## FROM HOUSING ASSETS, TO HOUSING PEOPLE



In Chapter Two, we saw that public housing is delivering less capacity, less efficiently and sees the wider social housing system in terminal decline.

In Chapter Three, we considered public housing as a financial endowment to be unlocked and better deployed. This would restore financial sustainability for social housing and allow the system to grow its capacity and improve the quality and scope of ancillary support services, to better meet community need.

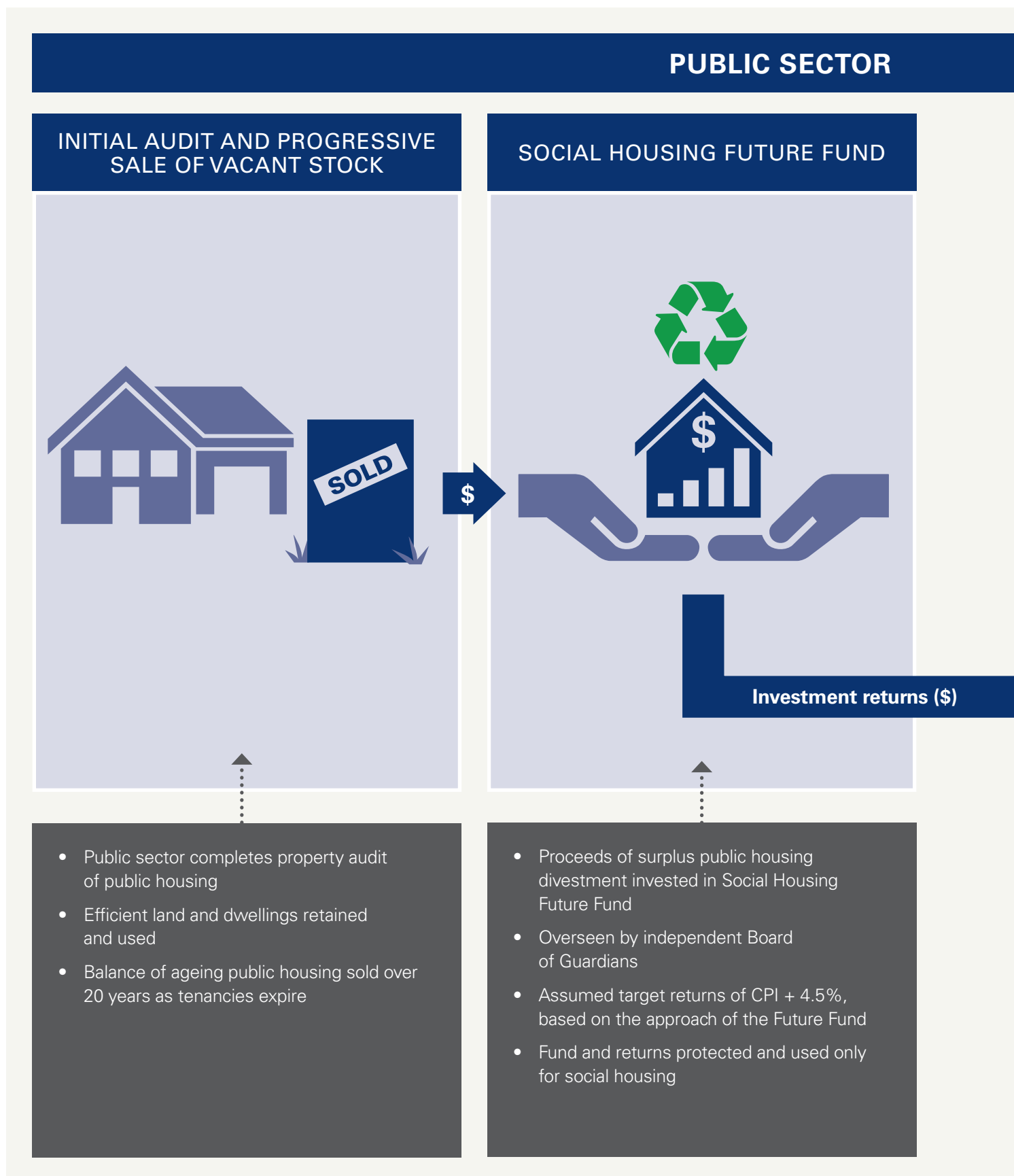
Chapter Four considers a broad process and a range of structural and governance considerations that should be taken into account in moving to reform and rebase Australia's social housing sector.

Our simplified conceptual model is outlined in Figure 4.1 overleaf.



▼ FIGURE 4.1

## SIMPLIFIED APPLICATION OF THE SOCIAL HOUSING FUTURE FUND MODEL



## NGOS, NFPS AND OTHERS

## CONTRACTS MANAGED BY INSPECTOR GENERAL OF SOCIAL HOUSING

## MATCHING PEOPLE TO PLACES

## SOCIAL HOUSING POLICY



## CAPACITY PURCHASING



## HOUSING CAPACITY AND TENANCY SERVICES

## SOCIAL HOUSING OMBUDSMAN



- State Housing Authority becomes the policy setter and rulemaker, and allocates housing to eligible households
- New specialist agency established to purchase social housing capacity from providers
- New agency to look to modern outcome-based procurement models, including for wrap-around services and through impact investing

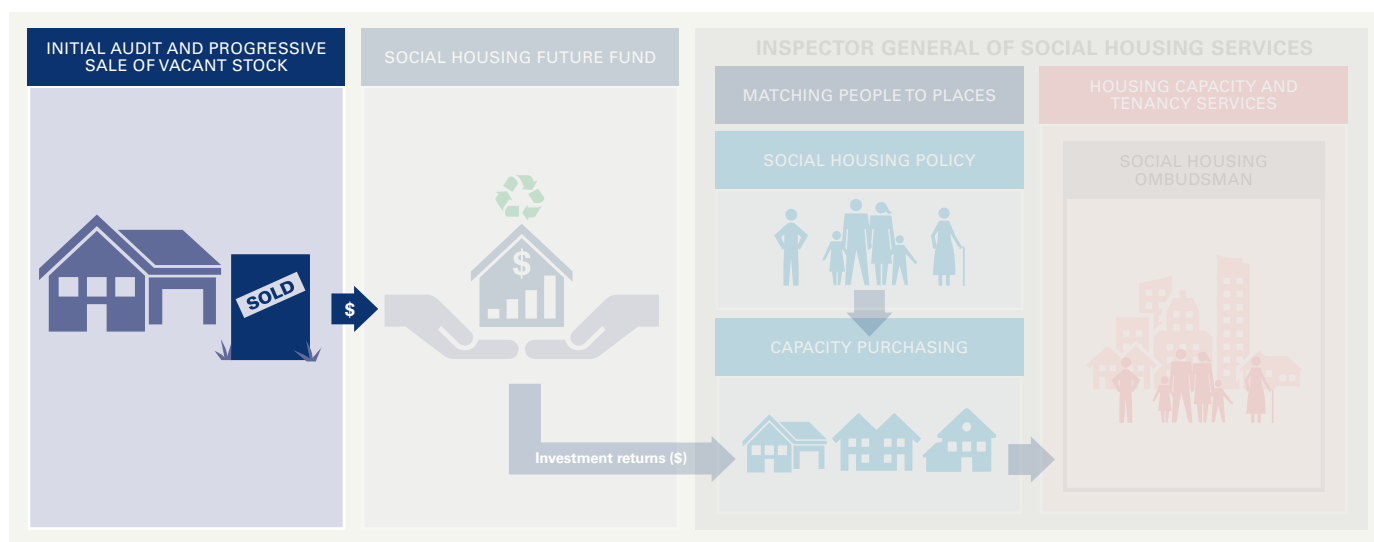
## Housing capacity supplied by:

- CHPs
- Faith providers
- Private rental market
- Innovative delivery options – e.g. precinct redevelopments; Public Private Partnerships (PPPs); service contracts; etc.

Tenants protected by Inspector General of Social Housing Services and Social Housing Ombudsman

### 4.1.1 PUBLIC SECTOR: INITIAL STRATEGIC AUDIT & 20 YEAR PROGRAMME TO RECYCLE PUBLIC HOUSING

While most existing public housing stock would be progressively liquidated, it is likely that some strategically located public housing sites should be retained for redevelopment; while some individual dwellings which are efficient or specialised, may be better transferred or sold to CHPs.



#### Initial Audit – dealing with strategic sites

Alongside giving a detailed view of the asset book and asset conditions across the social housing portfolio, the Initial Audit would likely identify strategically important sites and properties that require a different approach to reform.

For instance, some sites/precincts, by virtue of their geographic location, housing composition, proximity to services and other features, may be identified as ‘strategically important’ and warrant a different approach to ownership reform.

This is particularly important in respect of the large, valuable and well-located existing public housing ‘tower block’ sites, located close to CBD’s in most major capital cities; and may also include some contiguous inner and outer metropolitan housing estates.

Proportionally, these properties are likely to make up a small component of the overall portfolios – but remain a financially and strategically important asset base for the government.

While the broader capital release model discussed in this paper can be deployed on these strategically important precincts, greater value for the taxpayer and tenant is likely to be derived from a more tailored approach. For instance, the state may see value in precinct scale redevelopment, estate master planning, social mix planning and a planned return of ownership to the Social Housing Future Fund, amongst other options.

#### Initial Audit – specialised and high quality assets

Alongside strategically important or valuable sites, a minority proportion of state owned dwellings comprise new or specialised properties, such as those serving disabled or other special needs households, for which there is likely a strong short to medium-term case for retained ownership.

Other parts of the public sector are also likely to retain surplus land that is ideally suited for social housing utilisation. Examples might include surplus land owned by road or rail authorities or health departments which is surplus to need and close to transport or health services.

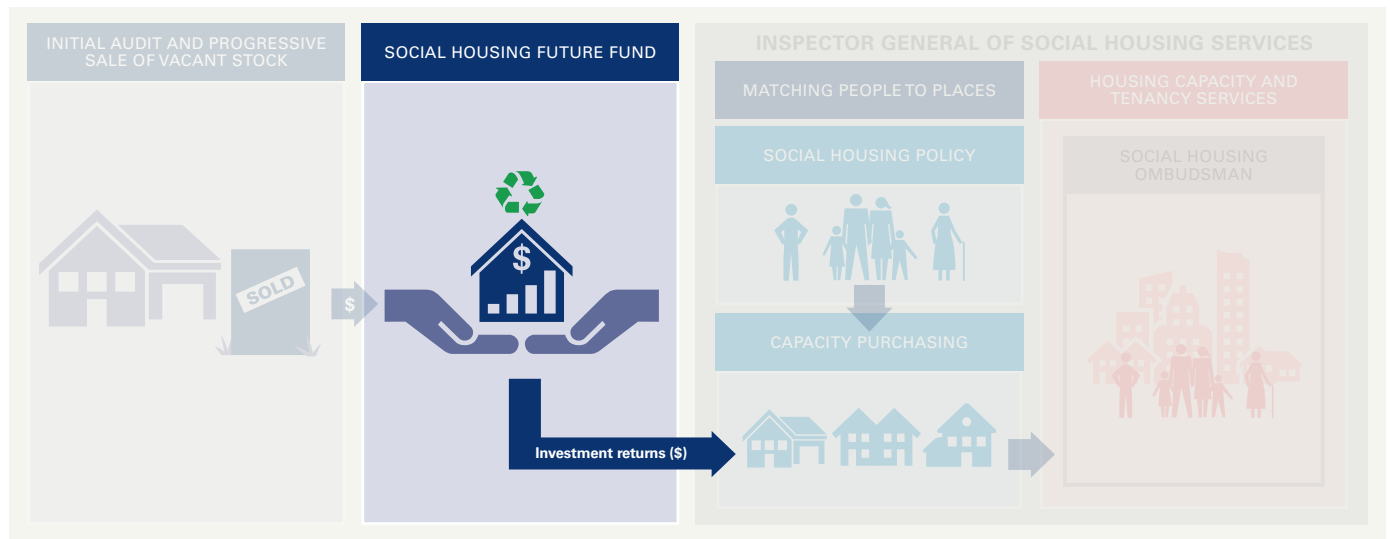
For these reasons, the whole-of-government audit of existing public housing assets and the identification of land holdings across government would also seek to identify smaller scale assets which fit the criteria for retained ownership – such as those which are well-located or have been specifically customised for specialist high needs households.

As discussed above, these properties identified by the audit would be sequestered from the broader process of stock recycling.

The balance of ‘surplus’ public housing stock would then be identified for sale, and divested as tenancies expire, with proceeds invested in the Social Housing Future Fund.

#### 4.1.2 PUBLIC SECTOR: AN ARMS-LENGTH SOCIAL HOUSING FUTURE FUND

The Social Housing Future Fund should be structured as a Public Financial Enterprise (PFE) and established under legislation. It should be created with the sole purpose of achieving the target return profile, assumed in our model to match the Future Fund, at CPI + 4.5 per cent.



The utility of the Future Fund example extends well beyond providing a reliable prediction of financial returns; offering important lessons regarding structural independence and legislative protection of the Fund's principal and investment returns.

This model will ensure that the billions of dollars of invested taxpayer money is protected and conserved for the benefit of social housing tenants into the future – and cannot be leached away through piecemeal or ad hoc policy decisions.

This principle of protecting the existing social housing endowment from being lost over time is an important benefit from the Social Housing Future Fund model – and one that should commend it to the social housing sector and households.

The separation between the Social Housing Future Fund and the public sector's social housing regulatory and procurement agencies (outlined in the following section) is important for a range of reasons. For one, the skill set required to deliver sound investment returns is markedly different from project and capacity procurement, and quality and capacity regulation.

This clarity of function and accountability for performance is important for broader fiscal management reasons also. One of the potential benefits of the model is the wider budget relief across the public sector, because the Social Housing Future Fund offers the opportunity to take social housing out of general government budgeting – so called 'off budget' – and also to be structured outside of the consideration of the government's liabilities by credit rating agencies.

Taking social housing 'off budget' with its own, secure funding stream has the significant benefit of liberating social housing from the broader budget funding constraints and cycles affecting the wider government sector.

Moreover, the structure outlined in this paper should also offer the rating agencies comfort to take the system 'off rating'. This means that the costs and risks of social housing ownership and funding could be removed from the calculation of the state's credit position – offering a significant benefit to taxpayers generally.



#### 4.1.2.1 CASE STUDY: INVESTING FOR A RETURN – THE COMMONWEALTH'S FUTURE FUND

The Social Housing Future Fund is modelled on the Australian Government's Future Fund, which was established in 2006 as a sovereign wealth investment fund, designed to provide for the significant and unfunded superannuation liabilities for the public service.

The Future Fund was endowed through the sale of public assets – the Commonwealth shareholding in Telstra – together with budget surpluses. In this way, the Future Fund provides a sound template to guide the structure and function of the Social Housing Future Fund.

##### What is its purpose?

The Future Fund was established to invest for a commercial return to fund the Commonwealth's superannuation liabilities.

The purpose of the Future Fund is to accumulate financial assets sufficient to fully fund the future superannuation payments of public servants, taking this funding requirement 'off budget' for the Commonwealth.

The Fund was established with the stated aim of accumulating \$140 billion by 2020, to fund \$7 billion in superannuation payments each year. In line with achieving this purpose, funds can only be withdrawn from the Fund to pay superannuation benefits after 1 July 2020 or once the superannuation liability has been fully offset.<sup>29</sup>

The decision to establish the Fund was made to counter the expected additional pressure on Government finances after 2020 as a result of the ageing population.<sup>30</sup>

##### How is it governed?

Investment of the Future Fund's assets occurs at arm's length from the Government and is the responsibility of an independent board, the Future Fund Board of Guardians (the Board). The Board has responsibility for the performance of the Fund's assets, and is accountable to the Government for this task. They are supported by the Future Fund Management Agency.

The Board is established as a body corporate with a separate legal identity from the Government.

The Board consists of a Chair and six other members, who are appointed by the Government on the basis of their expertise in corporate governance and investment management.

Section 38 of the *Future Fund Act 2006* specifies that Board members are to have substantial experience or expertise and professional credibility and significant standing, in at least one of the following fields: investing in financial assets; the management of investments in financial assets; or corporate governance.

##### How are investment decisions made?

The Board makes its investment decisions (based on its Investment Policies) independent of the Government and holds the Fund's investments in its own name. The Commonwealth of Australia retains ownership of the assets at all times.

The Investment Policies form the framework set by the Board that will be adhered to in investing the Fund's assets. In addition to constructing a diversified portfolio, the portfolio management of the Fund focuses on the Fund's specific objectives:

1. To maximise return, subject to acceptable but not excessive risk;
2. Investment Mandate benchmarks the Fund against at least CPI +4.5 - 5.5 per cent per annum; and
3. Assessed over the long-term, which is defined as 10 years.

The Future Fund's asset allocation at 30 September 2014 is illustrated in Figure 4.2.

▼ FIGURE 4.2

#### FUTURE FUND ASSET ALLOCATION AT 30 SEPTEMBER 2014

ASSET ALLOCATION AT 30 SEPTEMBER 2014		
ASSET CLASS	30 SEPTEMBER 2014	
	A\$ MILLION	PERCENTAGE OF FUND
Australian equities	9,452	9
Global equities		
Developed markets	25,527	24.4
Emerging markets	10,133	9.7
Private equity	9,168	8.8
Property	6,084	5.8
Infrastructure and Timberland	7,691	7.4
Debt securities	11,794	11.3
Alternative assets	14,427	13.8
Cash	10,208	9.8
<b>TOTAL</b>	<b>104,483</b>	<b>100</b>

Source: Future Fund<sup>31</sup>

29 <http://www.finance.gov.au/investment-funds/future-fund/>  
30 <http://www.finance.gov.au/investment-funds/future-fund/>

31 [http://www.futurefund.gov.au/\\_data/assets/pdf\\_file/0017/6218/2014\\_October\\_Media\\_briefing\\_A400099.pdf](http://www.futurefund.gov.au/_data/assets/pdf_file/0017/6218/2014_October_Media_briefing_A400099.pdf)

### Has it been successful?

The portfolio update as at March 2015 shows that the Future Fund is well on its way to meeting its stated aim. The Fund generated a return of 15.1 per cent for the first nine months of the 2014/15 financial year, growing to \$117 billion.<sup>32</sup>

The return since inception (2006) stands at 8.2 per cent per annum, with investment returns of \$56.6 billion generated from the original Government contributions (valued at the time of transfer at \$60.5 billion).<sup>33</sup>

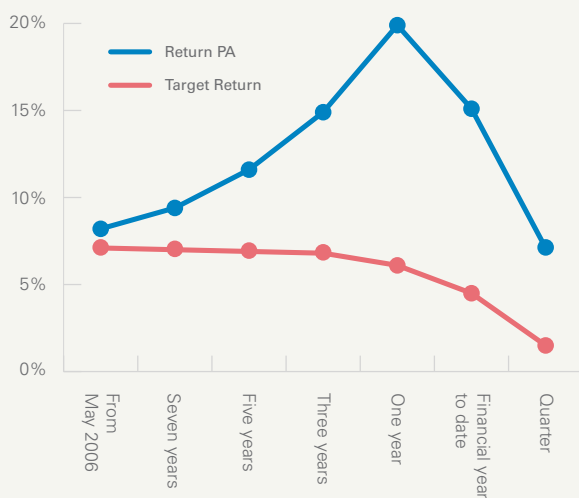
Figure 4.3, below, lists the Fund's returns over time, and shows how the Fund has continuously outperformed its target.

▼ FIGURE 4.3

#### THE COMMONWEALTH FUTURE FUND HAS OUTPERFORMED ITS TARGETS

RETURNS		
PERIOD TO 31 MARCH 2015	RETURN PA	TARGET RETURN (CPI+4.5%) <sup>2</sup>
From May 2006	8.2% pa	7.1% pa
Seven years	9.4% pa	7.0% pa
Five years	11.6% pa	6.9% pa
Three years	14.9% pa	6.8% pa
One year	19.9% pa	6.1% pa
Financial year to date	15.1%	4.5%
Quarter	7.1%	1.5%

Source: Future Fund<sup>34</sup>



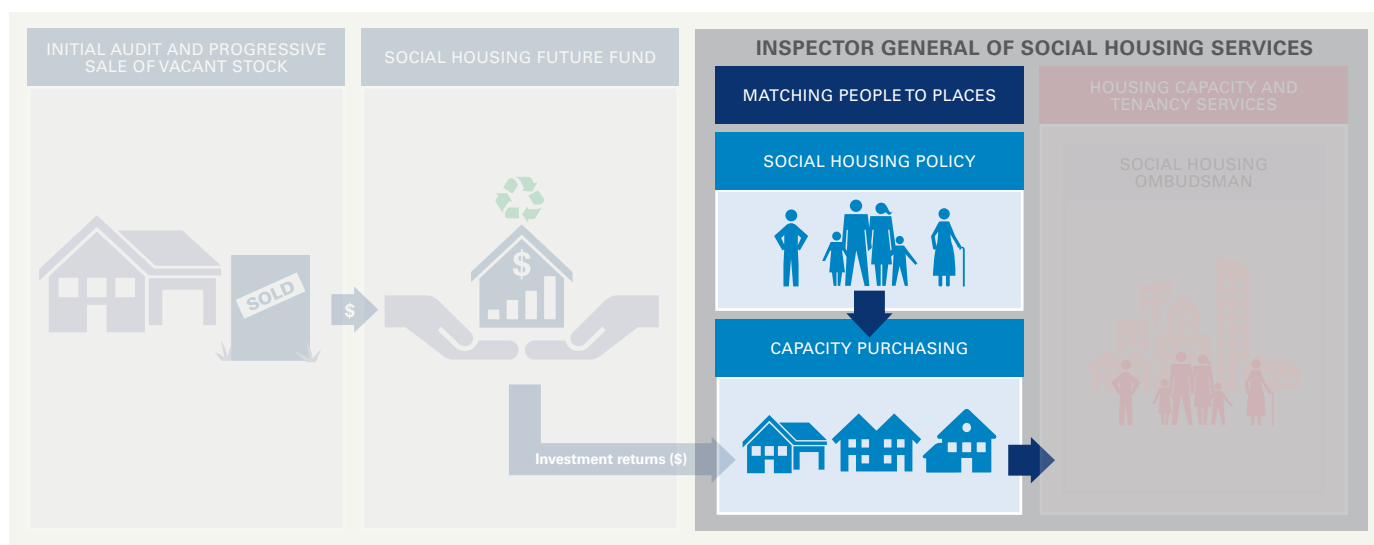
32 [http://www.futurefund.gov.au/\\_data/assets/pdf\\_file/0011/6599/2015\\_April\\_Portfolio\\_update\\_to\\_31\\_March\\_2015.pdf](http://www.futurefund.gov.au/_data/assets/pdf_file/0011/6599/2015_April_Portfolio_update_to_31_March_2015.pdf)

33 [http://www.futurefund.gov.au/\\_data/assets/pdf\\_file/0011/6599/2015\\_April\\_Portfolio\\_update\\_to\\_31\\_March\\_2015.pdf](http://www.futurefund.gov.au/_data/assets/pdf_file/0011/6599/2015_April_Portfolio_update_to_31_March_2015.pdf)

34 [http://www.futurefund.gov.au/\\_data/assets/pdf\\_file/0011/6599/2015\\_April\\_Portfolio\\_update\\_to\\_31\\_March\\_2015.pdf](http://www.futurefund.gov.au/_data/assets/pdf_file/0011/6599/2015_April_Portfolio_update_to_31_March_2015.pdf)

### 4.1.3 PUBLIC SECTOR: RESPONSIBLE FOR TENANT ALLOCATION, SYSTEM CAPACITY, AND SERVICE QUALITY

Even as government progressively exits pure service delivery in favour of contracted Non-Government providers, it needs to increase its effective control over policy and regulatory functions (which set the 'rules of the game') and its contractual management and accountability framework.



In social housing, we have sought to deal with the changed role of government through four new social housing agencies, which for simplicity we call:

- The 'social housing policy agency';
- The 'capacity purchasing agency';
- The 'Inspector General of Social Housing Services'; and
- The 'Social Housing Ombudsman'.

Provided clear contractual relationships are established and performance measurement is regular and thorough, this distinction between the public sector as the 'rule maker' and 'performance measurer' allows the public sector to retain policy control, while injecting innovation and efficiency into frontline social housing service delivery.

#### A 'social housing policy agency'

We consider the 'social housing policy agency' would be responsible for most aspects of social housing policymaking, including:

- Advising the state on social housing and wider planning and other policies;
- Setting minimum asset and service quality standards;
- Setting eligibility policies;
- Managing the qualification of individuals for social housing support; and
- Governing the allocation of individuals to social housing providers (via the capacity purchasing agency).

The retention of these powers by the public sector means government retains effective control over the system's capacity (through control of eligibility and allocation), and quality (through setting minimum standards for properties and related services).

### The social housing 'capacity purchasing agency'

We consider that a new, dedicated agency should be created to manage the purchasing of social housing capacity and services from Non-Government providers.

We consider that this function should be distinct from the policymaking role of the social housing policy agency and solely focused on commercial aspects of procurement and contract management.

In this way, the 'capacity purchasing agency' is using contracts with providers to give effect to the policies and housing outcomes sought by the 'social housing policy agency's' policymaking role.

Through the Social Housing Future Fund modelling in Chapter Four, we know that the recurrent funding stream for social housing capacity can be uplifted to market rental plus one per cent yield (the basis of the modelling of capacity cost).

This substantially improved 'per dwelling' funding stream gives the public sector new options to purchase social housing services through a variety of modern models and approaches. These are likely to include:

- Community Housing Providers: The improvement of the revenue stream to 'market rental' means that CHPs will be able to increase their degree of leverage (borrowing), to invest in new and improved stock;
- Sophisticated precinct redevelopments: Strategically important sites sequestered during the initial property audit will likely lend themselves to blended 'precinct redevelopments' which may include a mixture of social, affordable and private housing stock. Consideration will need to be given to the term and form of tenure over these sites;
- Defence Housing style development;
- Social housing Public Private Partnerships (PPPs);
- Social impact investing;
- The administration of the SAHF (in NSW); and
- Integrated 'wrap around' services and outcomes-based procurement models.

In addition to initial purchasing of capacity (for instance entering an agreement to purchase capacity from a CHP) the capacity purchasing agency would also be responsible for ongoing contract management and monitoring.

While this role will vary by purchasing model, and over time as the market for social housing provision matures, the contract management functions are likely to include:

- Asset scale performance evaluation against contract standards and KPIs;
- Asset condition enforcement and abatement regime management and enforcement;
- Contract renewal; and
- End of tenancy management and reallocation.

### Measuring performance and protecting people

Beyond the public sector's own policy and regulatory functions, the revised system must also include public sector agencies which can represent the interests of social housing tenants, ensuring compliance with quality requirements through a function we call an 'Inspector General of Social Housing Services' and a 'Social Housing Ombudsman'.

### The Office of the Inspector General of Social Housing Services

The capacity purchasing section, above, identifies the use of explicit, contracted performance measures as a key benefit from using Non-Government service providers.

Logically, this benefit relies on the public sector developing an accountability and compliance function, within the public sector to ensure regular measurement of contract performance and appropriate rewards or abatements.

Our consideration of other public service reforms in other sectors suggests that this oversight function should ideally be distinct and independent of both Non-Government providers and the government's policy and contracting agencies.

The following case study outlines the functions of the Office of the Inspector of Custodial Services in Western Australia. While correctional and social housing services are markedly different in most respects, the principle of independent oversight applies well to the reformed social housing model.





#### 4.1.3.1 CASE STUDY: REGULATING QUALITY, ENSURING VALUE: THE WA OFFICE OF THE INSPECTOR OF CUSTODIAL SERVICES

In 1997, the Western Australian Government commenced contracting out elements of the State's justice support and prison administration functions to the private sector, to reform prison culture and improve the efficiency and humanity of correctional service delivery.

The move to contract Non-Government correctional service providers saw concerns about the potential for a loss of public sector control over correctional services. As a result, the WA Government formed the Office of the Inspector General of Custodial Services, responsible for independent oversight of Western Australia's corrections providers, public and private.

Today, the Office provides accountability to the Western Australian corrections system through the inspection and review of custodial services. Reports of the Office's inspections and reviews are publicly available and tabled in Parliament.

The purpose of the Office of the Inspector of Custodial Services is "to report to Parliament on the state of custodial places and services with the intention of improving public confidence in the justice system; ensuring the decent treatment of detained people; and ensuring the justice system provides value for money."

The Office is required by its governing legislation, the *Inspector of Custodial Services Act 2003*, to undertake announced inspections and report to Parliament on all the State's prisons, juvenile detention centres, court custody centres and prescribed lock up facilities, at least once every three years.

Unannounced inspections, or inspections at short notice, can also be carried out where deemed necessary or appropriate by the Inspector.

The Inspector must prepare a detailed report following each inspection, describing the findings and recommendations, which is sent to the Department of Corrective Services for comment. The Department's comments are included in the report, which is then finalised and sent to Parliament for tabling and publication.

Progress against a report's recommendations is monitored, including through 'liaison visits', which occur at all facilities at least three times each year and can be announced or unannounced. These visits allow the Office to monitor performance and progress against recommendations made after previous inspections and against other relevant standards.

The Inspector also has the power to undertake reviews of individual prisoners moving through the custodial system, following changes introduced in the *Inspector of Custodial Services Amendment Act 2011*.

While custodial and social housing services are markedly different, the principle of independent oversight of compliance with the public sector's asset and service standards provides a sound case study for the reforms of social housing – ensuring regular transparency and accountability for excellent standards.

We therefore consider that the Office of the Inspector General of Social Housing Services should be established as a statutory body and operate independently of government.

The functions of the Inspector General of Social Housing Services would include:

- Spot assessments of social housing providers;
- Periodic assessments of dwelling and tenancy services;
- Assessments of the quality and decency of social housing services, across providers;
- Regular analysis and benchmarking of social households' perception of service quality;
- Regular analysis and benchmarking of costs, across providers and cohorts;
- Reviews of individual applicants and tenants, focusing on their journey through the system and the quality of service they receive;
- Periodic reviews of the functions of the social housing policy agency and the capacity purchasing agency;
- Reporting their findings to Parliament for tabling and publication; and
- Monitoring progress against recommendations made to providers and government agencies to improve service delivery.

Due to the size and nature of the social housing sector, and particularly the number of providers when compared to the corrective services sector, it would be unfeasible for the Inspector General of Social Housing Services to carry out periodic inspections of all dwellings.

However, the inclusion of unannounced reviews, or spot assessments, of providers would be expected to drive a level of self-monitoring, particularly where providers are subject to financial penalties for poor performance and contract termination in the event of a serious breach.

Tasking the new body with reviewing the operations of the social housing policy agency and the capacity purchasing agency would increase transparency in the public operations, ensure the most vulnerable applicants are making their way into appropriate accommodation, and help deliver taxpayer value for money. This will be particularly important as the public sector transitions into its new roles.

## The Social Housing Ombudsman

Additionally, it would be necessary to establish a Social Housing Ombudsman, as an avenue for social housing tenants to report poor service quality or contract breaches on the part of the provider.

A Social Housing Ombudsman would likely follow the model used for regulated utilities, acting as an independent government mandated dispute resolution service between customers (tenants) and providers (covering both the public and private components of the social housing supply chain).

A Social Housing Ombudsman would be neither a tenant advocate nor an industry representative – but would have standing powers to direct outcomes and seek enforcement by making binding decisions on a fair and transparent basis.

While a Social Housing Ombudsman would have a specific mandate to apply its powers to the unique circumstances of Social Housing, it is important that any new body does not duplicate or dilute the role and responsibility of existing institutions.

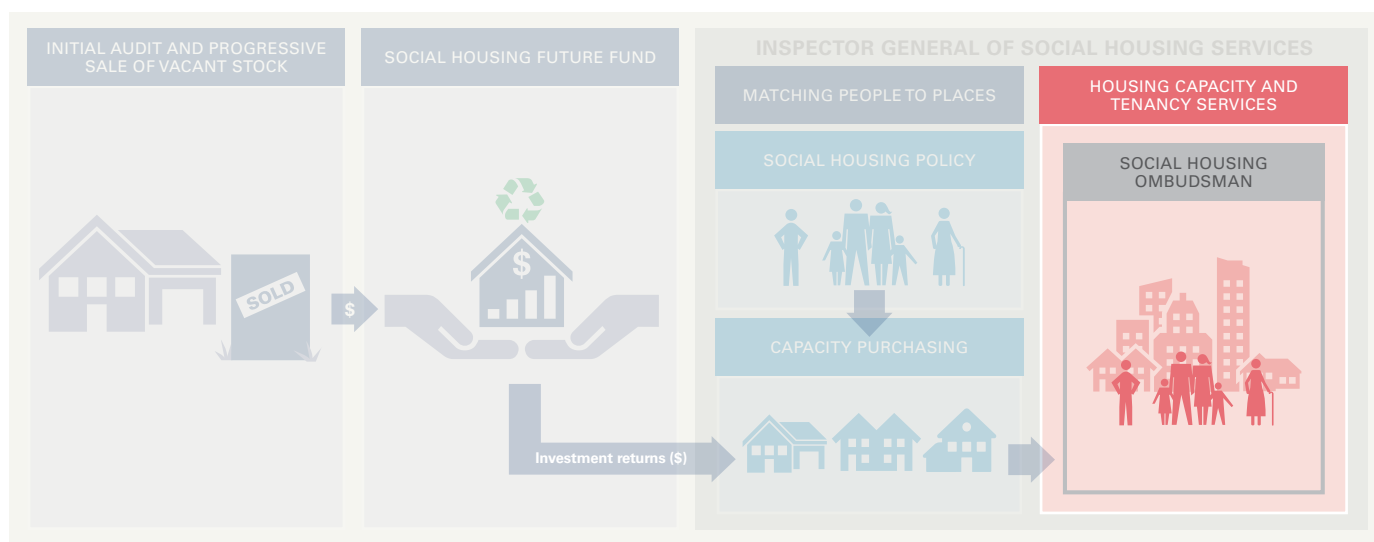
For instance, in NSW tenant advice and advocacy is provided through Tenants NSW, with the NSW Civil and Administrative Tribunal (NSWCAT) providing a judicial decision and enforcement framework.

In establishing the Social Housing Ombudsman, close consideration would need to be made of where the body most appropriately fits into this architecture.

The introduction of this framework would increase accountability and public confidence in the social housing system and ensure a high standard of service delivery to social housing tenants.

#### 4.1.4 NON-GOVERNMENT: HOUSING CAPACITY AND TENANCY SERVICES PROVIDED BY A MARKET OF PROVIDERS

The delivery of social housing and related services is undertaken by Non-Government providers, contracted to deliver social housing services on behalf of the government.



Capacity building will be important, allowing CHPs and other providers to become increasingly sophisticated as a professional service delivery sector. Improving the funding model, as discussed in this paper, will assist in this regard.

The improved project economics provided by the enhanced recurrent 'per dwelling' funding will also provide opportunities for other procurement approaches. These could logically include availability and outcome based 'social' PPPs, Defence Housing models and others.

One of the most exciting opportunities in moving to an outsourced, contracted model of service delivery will be the opportunity to move toward outcome based contracting models. These might include KPIs around:

- The wellness and happiness of a cohort of social households;
- Incentives to improve social outcomes such as reducing crime or increasing employment; and
- Rewards and incentives to support suitable social households to transition through to other forms of housing over time.

This paper does not seek to prescribe the exact form of service procurement approaches, noting that the form and type should be led by the policies of the government and the 'social housing policy agency' – and contracted through the 'capacity purchasing agency'.

Under our proposed option, funding through public subsidies that are above market, would significantly improve cash flows compared to traditional social housing approaches.

#### 4.1.5 HOUSING PEOPLE: WHAT DOES THE SHFF MODEL MEAN FOR HOUSEHOLDS?

The delivery of social housing and related services is undertaken by Non-Government providers, contracted to deliver social housing services on behalf of the government. This has a number of benefits for households.

##### Security of tenure

The core objective of social housing is to provide those who are most vulnerable in the community with stable and affordable housing. The private rental market doesn't offer tenants the same level of housing stability and security as social housing, with most private leases routinely no longer than 12 months. Low income earners are unable to compete with applicants with higher incomes when trying to find a rental property, and as such are often pushed out of the market even when an affordable rental property is available.

The short length of leases means that the private rental market is not a secure long term solution and tenants are unable to focus on the other elements of their lives, such as education, health and employment. Especially for tenants with young children or specialised needs (which make up a large percentage of social housing tenants due to the shift to needs based allocation) the lack of security of tenure can be extremely stressful.

In contrast, social housing gives people the ability to establish themselves within communities. Children are able to continue at the same school, tenants who need to be able to access services (such as health services) can have continuity of care and tenants have the opportunity to establish themselves as part of a community.

Under the SHFF security of tenure would not change from that currently offered in public housing.

Additionally, the new social housing framework includes a Social Housing Ombudsman, further protecting tenants' rights.

### Affordability

Housing affordability is the fundamental goal of social housing, and for the vast majority of social housing tenants this goal is being successfully achieved. According to the National Housing Supply Council, in 2009 – 2010, 60 per cent of low income tenants in the private rental market were experiencing housing stress (paying more than 30 per cent of their income in rent), while only 1.3 per cent of low income social housing tenants reported being in housing stress.

For those who are lucky enough to have accessed social housing, housing stress may no longer be an issue. Unfortunately, there are hundreds of thousands of Australians who are eligible for social housing who are unable to access it due to insufficient housing supply and huge waiting lists.

Under the SHFF, tenants would continue to pay rent set as a proportion of their income, ensuring affordability. In addition, one of the key aims of the SHFF is to increase overall social housing system capacity in order to reduce waiting lists and provide secure housing for more people who need it. Through the SHFF, state governments will be able to secure adequate resources to fund their social housing systems and significantly increase the supply of social housing, without charging tenants more.

### Quality housing

The quality of social housing is an increasing concern for tenants, due to the prevalence of ageing social housing stock and the reduced capacity of governments to afford proper maintenance work and upkeep of social housing. Public housing agencies around Australia are struggling to maintain social housing at an acceptable standard, due to serious funding shortfalls and the constant need for upkeep on old properties.

Under the Social Housing Future Fund, tenants can expect the quality of housing to improve as old stock is divested from the system and Community Housing Providers are required to meet acceptable standards specified in their contracts. Importantly, the uplift in revenue under the SHFF model will give housing providers the capacity to adequately maintain properties and procure high quality housing that is suited to the individual needs of tenants.

The SHFF also allows Community Housing Providers to source social housing based on the needs of the prospective tenants. Under the current system it can be difficult for people with disability or specific health problems to be allocated properties that are suitable because the options available are limited. The demographics of those needing social housing have changed dramatically over the last half century, meaning that there is a significant mismatch between the types of housing available and the households on the waiting list. The Social Housing Future Fund model delivers the flexibility to reshape the housing supply to better meet contemporary demands.

### Safe, friendly and peaceful communities

Like everyone, social housing tenants benefit from good communities, free from antisocial behaviour, and the SHFF is more likely to deliver this based on two key ingredients:

1. The SHFF aims to create a platform for integrated service delivery to better support tenants to sustain their tenancies and improve their economic and social participation. Tenants will have a better choice of housing to meet their individual needs, in locations that offer the best access to any support they require and a sound platform for the delivery of integrated services; and
2. The SHFF is focused on building diverse communities that are home to a range of residents from social housing to private ownership. Moving away from concentrated public housing estates towards mixed communities is expected to have positive impacts on communities, by reducing the overall poverty and stigma of an area and improving the diversity of community members.





# 5.

## MANAGING THE TRANSITION: FROM HOUSING ASSETS TO HOUSING PEOPLE



The Social Housing Future Fund relies on a very long conversion period for legacy public housing dwellings, avoiding the prospect of disruptive, large-scale forced relocations for potentially vulnerable public tenants.

Our indicative 20 year conversion period is based on the circa 5-7 per cent of public tenancies which vacate annually, meaning that the financial and conceptual model sees surplus public housing sold when it becomes vacant – capacity which is immediately replaced with new social housing.

This is an important point, because previous considerations of new public housing policies have often suffered from poor explanation – with resulting disruption for public tenants and concerns in the wider community.

Indeed, anyone concerned about the risk that government might be tempted to undertake large-scale relocations should take comfort in the economic and fiscal reasons for a 20 year transition – which support the social requirement. These include:

- Large-scale forced relocation programmes cause unnecessary stress and dislocation for public tenants and are unpopular in the community;

- The major states have public housing portfolios measured in many tens of billions, which would risk distorting the private housing market if legacy housing was sold too quickly;
- Governments are only in the very early stages of developing and refining the way they purchase social housing services from Community Housing Providers, through procurement programmes like the NSW SAHF – with time needed to develop the best ways to provide social housing and related services; and
- The CHP and charity sector will also need time to develop from a cottage industry into sophisticated and professional providers.

While the majority of public housing tenants would not see disruption to their tenure of existing public housing, in some instances the shape and type of legacy public properties will mean that it's not feasible to await the expiration of all tenancies.

Large public housing 'tower blocks' and large, concentrated outer-suburban public housing estates form examples where a different approach will be needed – including an ability to relocate tenants sensitively to allow these concentrated areas to be redeveloped, whether for social or private housing.

This chapter discusses a range of aspects to provide an identifiable and relatable understanding of the changes proposed by the SHFF model.



## 5.1 THE SOCIAL HOUSING FUTURE FUND MODEL DELIVERS A 'WHOLE OF SYSTEM' APPROACH TO PUBLIC HOUSING, WHICH WILL PROMOTE BETTER DECISIONS ABOUT EXISTING LAND

The Social Housing Future Fund model fundamentally relies on a staged conversion of legacy public housing real estate assets, into a ring-fenced financial asset, over several decades.

Until now, public housing has suffered from incremental and individual opportunities to unlock taxpayer value via property developments on particular, individual public housing sites.

This has seen 'successful' redevelopments cherry-pick many of the higher value land holdings from the public housing portfolio, given that the property economics of those higher value sites sees them self-select for development.

This poses a challenge where the highest value land – which is usually well located to transport, the city and social services – is permanently lost to the public housing system, other than some proportion of the development returned for social housing use.

A benefit of the SHFF model is that it brings a whole of system and whole of portfolio approach to better harness the value of existing public housing, for the benefit of public housing tenants.

With the comfort of the sustained funding from the SHFF, the government sector will no longer be dependent on cherry-picking the best located sites to renew social housing; rather, the improved funding model gives the government sector better signals to make the best long-term decisions about what existing properties should be sold – and the financial resources to retain particular high value sites to ensure they are not lost to the social housing system.

This section provides an indicative outline of how the SHFF model would affect identifiable types of public housing properties and tenants.

**Q: What happens to an individual public house?**

**A:** A typical 'fibro' public house is sold and the proceeds invested by the SHFF. Replacement housing is immediately provided by CHPs and charities.

A typical stand-alone public housing dwelling – the dominant type of public housing – would simply be sold, as and when tenants choose to vacate. These properties would be sold on the private housing market and cease to be part of the public housing system.

Typically, between 5 and 7 per cent of public housing tenancies will expire in any given year.

The houses being sold are immediately replaced with new social housing dwellings – with more funding – provided from the returns from the SHFF.

All proceeds, less the sale costs, are invested by the SHFF.

**Q: Will all housing be replaced in the same suburb, and with the same type?**

**A:** No. Our financial modelling assumes that each public house is replaced by a publicly funded (but CHP provided) property, of the same size and type, and in the same suburb. But the SHFF model is fundamentally about having the funding to make the right choices.

This is a modelling assumption used to demonstrate that the financial model doesn't rely on moving public housing from high land value areas, to areas of lower land value.

Despite the modelling assumption of like for like replacement, one of the key benefits of the SHFF model is the flexibility it creates to provide social housing that meets tenants' preferences and needs.

This benefits tenants through choice, and removes the current problem where many legacy public housing dwellings have one or more empty bedrooms – while tens of thousands of others families and individuals do without.

**Q: What will happen to the inner-city tower blocks, located close to transport and services?**

**A:** With sustainable, increased system funding delivered by the SHFF, the public sector will need to carefully assess how it redevelops inner-city public housing land. It is very likely that a portfolio approach will see redevelopment of these sites that will reduce the immediate dollar returns, but deliver better long-run value to the social housing system.

Taking a portfolio-wide view of the public housing estate will identify public housing properties like the CBD 'tower blocks', which are proximate to transport, public services and close to the CBD; and where the best long-term value will be unlocked by using redevelopment models which see this (highly valuable and well located) land remain available for social housing.

Traditional, incremental property development-led social housing renewal models see these sites redeveloped by private developers, with only some minority proportion of properties returned to the state, post development. Problematically in these renewals, the land is lost to the system in perpetuity because the majority of dwellings are privately held.

Property developments are critical to realising the value of the legacy public housing estate, but the highest upfront profit may not deliver the best use of these particularly valuable precincts.

For example, with the comfort of sustainable funding through the SHFF, a state may choose to offer these type of precincts under a ground lease or similar; whereby the land and improvements return to the government sector at the end of an agreed period – say 25 or 50 years.

For example, the state may be able to redevelop a 'tower block' site into a mix of subsidised social housing (via the SHFF) – while using the property's individual development uplift to both repay the developer's investment and potentially subsidise affordable and key-worker housing, close to the CBD.

Unfortunately this principle has not been applied as part of the recent approach taken on the redevelopment of some of these strategic sites in Australia.

By improving system funding and system governance, the SHFF will naturally drive better decision making based on long-term value, not-short term returns.

**Q: What will happen to concentrated public housing estates, with free standing properties located on urban fringes, often far from transport, services and opportunities?**

**A:** *These estates will need site-specific redevelopment approaches that may or may not include social housing.*

The failed 'Radburn' style concentrated outer-suburban public housing estates will require individual, site-specific approaches, designed to maximise the value of the land, while minimising the disruption to households.

These estates are characterised by significant intergenerational disadvantage, and predictably poor social outcomes in terms of health, mental health, education, employment and crime.

These estates will need a specific approach, based on individual location and tenant needs.

Options could include master-planning across entire estates, estate renewal Public Private Partnerships, or staged redevelopment and density uplift projects.

**Q: Can public tenants in Radburn estates and tower blocks be relocated sensitively?**

**A:** *Of course. While the overwhelming majority of public tenants would not be affected by the SHFF model, those in concentrated public housing areas can be relocated, provided they are appropriately informed, assisted and respected.*

While the SHFF model sees no change for most public tenants, with old public housing sold when vacant, the Radburn estates and tower block precincts will need some tenants to be relocated.

Previous precinct redevelopment projects have involved tenant relocations, and provide lessons and point to key ingredients for success. Key success factors include open and ongoing communication, and comprehensive and timely information and support before, during and after the relocation.

Sensitively managing any necessary tenant relocations would be a key component of successfully managing the transition to a people-focused social housing system.

The case study (overleaf) on the Riverwood North Renewal Project in NSW and the new community it has created at Washington Park, shows what can be achieved through well-planned and effectively implemented tenant relocations to improved mixed social and private communities. It also shows one of the options for recycling ageing, run down dwellings in concentrated estates.



### 5.1.1 CASE STUDY: MANAGING THE MOVE – THE RIVERWOOD NORTH RENEWAL PROJECT'S RELOCATION PROGRAMME

The Riverwood North Renewal Project provides a positive contemporary case study in how the transition from a public housing estate to a modern, integrated community, can be managed with minimal disruption to public tenants.

Riverwood North is a suburb some 15km south-west of the Sydney CBD, with a high concentration of low, medium and higher density public housing. The Riverwood North Renewal Project involved the redevelopment of existing public housing into a new, sustainable and blended community, including both social and private housing. The area has been renamed Washington Park.

The redevelopment began in 2011, in a development agreement between:

- the NSW Government; and
- Payce Communities – a private property developer.

The social housing is managed by St George Community Housing Limited, a not for profit Non-Government CHP.

#### The redevelopment

The redevelopment involves a 3.5 hectare portion of the Riverwood estate, a public housing precinct developed through the 1950s and 1960s. The renewal will see the replacement of around 15 per cent of the existing dwellings on the estate.<sup>35</sup>

When complete Riverwood North will have exchanged 176 low density, under-maintained and outdated public housing dwellings for at least 650 new homes in a medium density development; circa 150 social housing dwellings, and some 500 apartments available for private sale. Of these social housing dwellings, 123 have already been completed, with a further 27 soon to be delivered in the mixed tenure site above the new library.

Washington Park has consistent architecture and interior design so that social housing dwellings are indistinguishable from private homes.

Washington Park's design includes significant landscaped open space, a library, community gardens and other community areas – including the new Garden Plaza and Central Park.



35 <http://www.sgch.com.au/about-us/what-we-do/regenandrenewal/riverwood/>; Payce.

## Working with public tenants to move from old to new

The ability to win and maintain the support of existing public housing tenants was a key part of delivering a successful development.

The tenant relocation strategy began by meeting with each public tenant, to understand their needs and concerns; and was based on continual, clear and regular information and the ability to relocate people within the area.

The tenant relocation process saw the NSW Government, St George and Payce collaborate to manage the process, with a focus on providing tenants with detailed information and support services.

The process began with a detailed client assessment, to understand each tenant's choices, and to understand additional support requirements.

Considerations including each tenant's age, choice in terms of relocation, any requirement for language or disability support services, the proximity of family and friends and other matters were detailed across each household to inform the relocation process.

Tenants were also given an express option to relocate to Washington Park, as the new apartments became ready for occupation.

Armed with a customised understanding of each tenant's needs, the next step was to match each household with suitable public or social housing, allowing the site to be decanted for redevelopment.

The development phase coincided with the delivery of a significant volume of new social housing stock, funded through the stimulus programmes during the GFC, providing for a high degree of tenant choice, in brand new housing.

The relocation process was built on regular meetings with tenants, providing constant assurance on timelines and also coordinating relocation related services, such as removalists and providing for refuse collections during the lead up to each wave of relocation.

Through good management, communication and partnership the NSW Government housing agencies and St George, with the help of Payce and services providers, successfully and sensitively oversaw the total relocation of affected tenants, within a six month period.

## The outcomes

The successful relocation programme at Riverwood North and the repopulation of Washington Park holds a range of lessons in considering broader opportunities for high value public housing sites.

For their part, formerly public tenants who chose to relocate back to Washington Park report improved quality of life and renewed community pride.

These community outcomes are evidenced through the Residents Organisation at Riverwood (ROAR) organisation.

This self-initiated group is comprised of social housing tenants at Washington Park.

ROAR meets formally on a monthly basis, and is a forum to discuss community issues, represent the interests of social tenants and also plan social events to build community cohesion. This sense of community is also reflected in funding benefits, with the sense of community pride in turn reducing malicious damage and maintenance spending.

The success of the relocation process at Washington Park is best evidenced through the lobbying by public tenants across the rest of the Riverwood estate.

City Futures Research Centre (UNSW) was jointly commissioned by SGCH, LAHC and Payce to complete a longitudinal study of the Washington Park development and resident experience. The first wave of this report will be available at the end of 2016.



Around 500 of the tenants resident in the remaining public housing on the estate have signed a petition calling on the NSW Government to commit to renewing the balance of the Riverwood North estate, in effect calling for their own relocation and the renewal of the rest of the estate.

The petition states:

**“This petition of citizens of the Riverwood area draws to the attention of the House and Members of the state of social housing in Riverwood, and calls upon the House to commit to expanding the current urban renewal project at Riverwood North.**

**“Much of the social housing in this area is in poor condition and in need of immediate renewal. The housing has been poorly maintained and in many cases is not fit for purpose for many tenants, in particular seniors.**

**“As residents of Riverwood, we ask the House to support the continuation of the successful Riverwood North Urban Renewal Project, and its important objective of creating mixed social and private housing.”<sup>36</sup>**

The redevelopment of the Riverwood North project also appears to have had wider benefits, through improved community safety and reduced crime statistics, as shown in Figure 5.3.



The above case study shows that it is possible to carry out social housing renewal – at the dwelling, community or even the portfolio level – with positive outcomes for tenants and communities alike.

The transition from a system focused on housing assets to a system focused on housing people will require a measured, deliberate and sensitive transition, over 20 years.

Success in fixing social housing will rely on policy consistency across more than two decades, and as such it requires support from both major parties.

Over the transition phase, governments will also need to commence the transactions and initiatives that will drive the growth of the market. The SHFF model represents a major change from the status quo and one that would require a deeper and more professional market of providers of social housing. Australia's community housing sector, while improving, could currently be described as a cottage industry, characterised by an extreme range of provider size, capacity and professionalism.

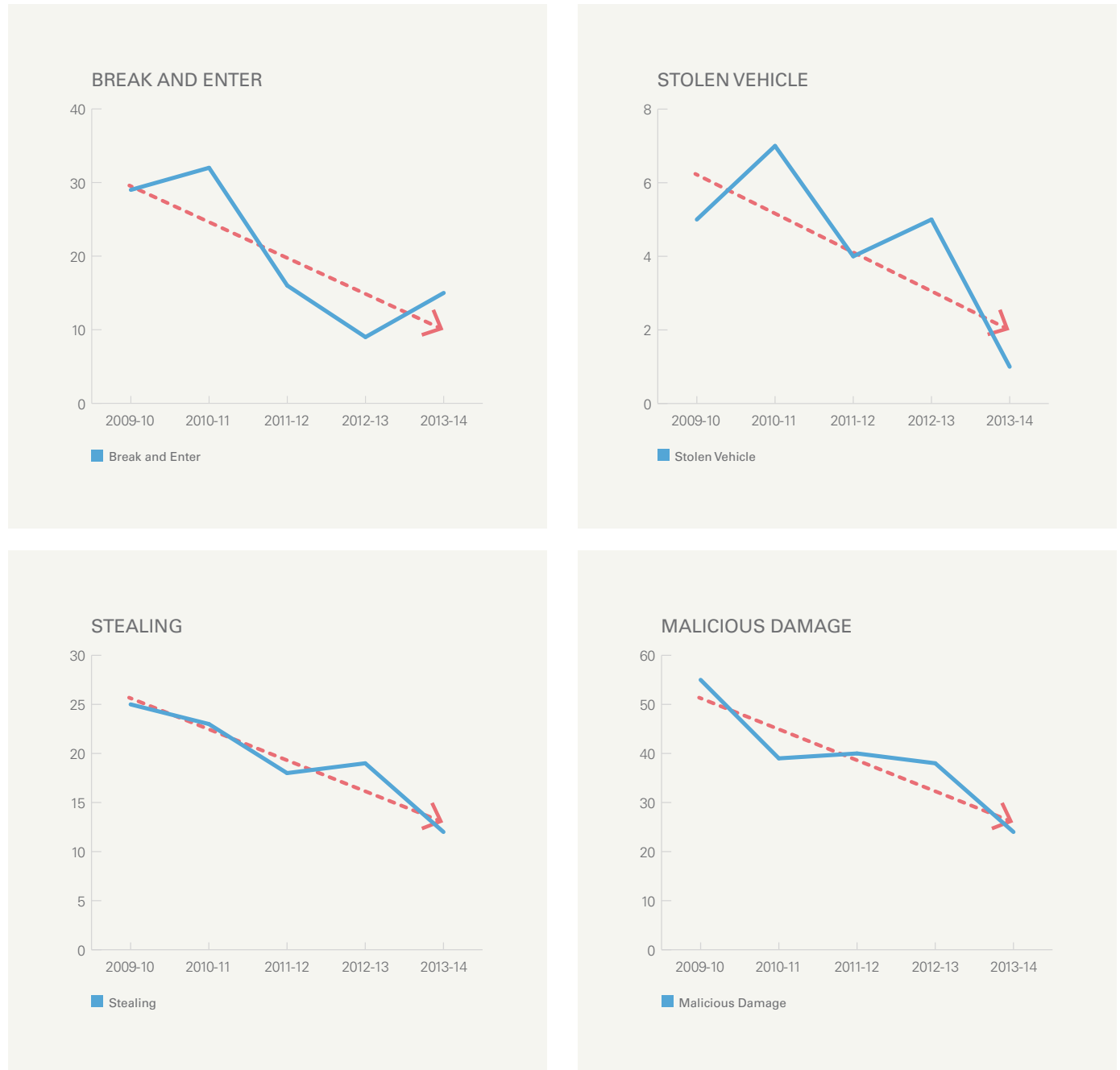
Growth, increased business acumen, and consolidation across the sector would partly occur automatically as a result of the improved commercial signal under the SHFF model. However, by experimenting with how social housing capacity and services are purchased, the relevant state government can speed up and shape this process.

For example, the NSW Government's Social and Affordable Housing Fund (SAHF) includes a minimum transaction size requirement, meaning smaller CHPs must seek out partnerships to be able to participate; driving desirable consolidation across the sector. The SAHF transactions have also been structured in a way to encourage equity and debt participation, by effectively making the previously uncommercial social housing sector investable.

In supporting a transition to a people-focused system, governments should take comfort in the interest and readiness of the market to provide housing capacity and services to tenants on behalf of the government, as shown by the case study on the SAHF.

▼ FIGURE 5.3

## INCIDENCES OF PARTICULAR CRIMES IN RIVERWOOD NORTH, 2009-10 TO 2013-14



Source: Payce Communities



### 5.1.2 CASE STUDY: CAN YOU BUY THINGS FOR MONEY? THE NSW SAHF PILOT SAYS YOU CAN

Some government stakeholders raised questions about whether there would be appropriate levels of interest and participation from CHPs and investors, in the type of social housing procurements contemplated by this paper.

Indeed, one unnamed government minister was particularly concerned that the assumptions of the SHFF model may not hold up, 'in the real world' – because of their view that it is a fundamentally new and unproven approach.

The NSW Government's pathfinding social housing procurement programme – the Social and Affordable Housing Fund (SAHF) – provides compelling evidence that it is indeed possible to buy real social housing services (and better outcomes), in return for money.

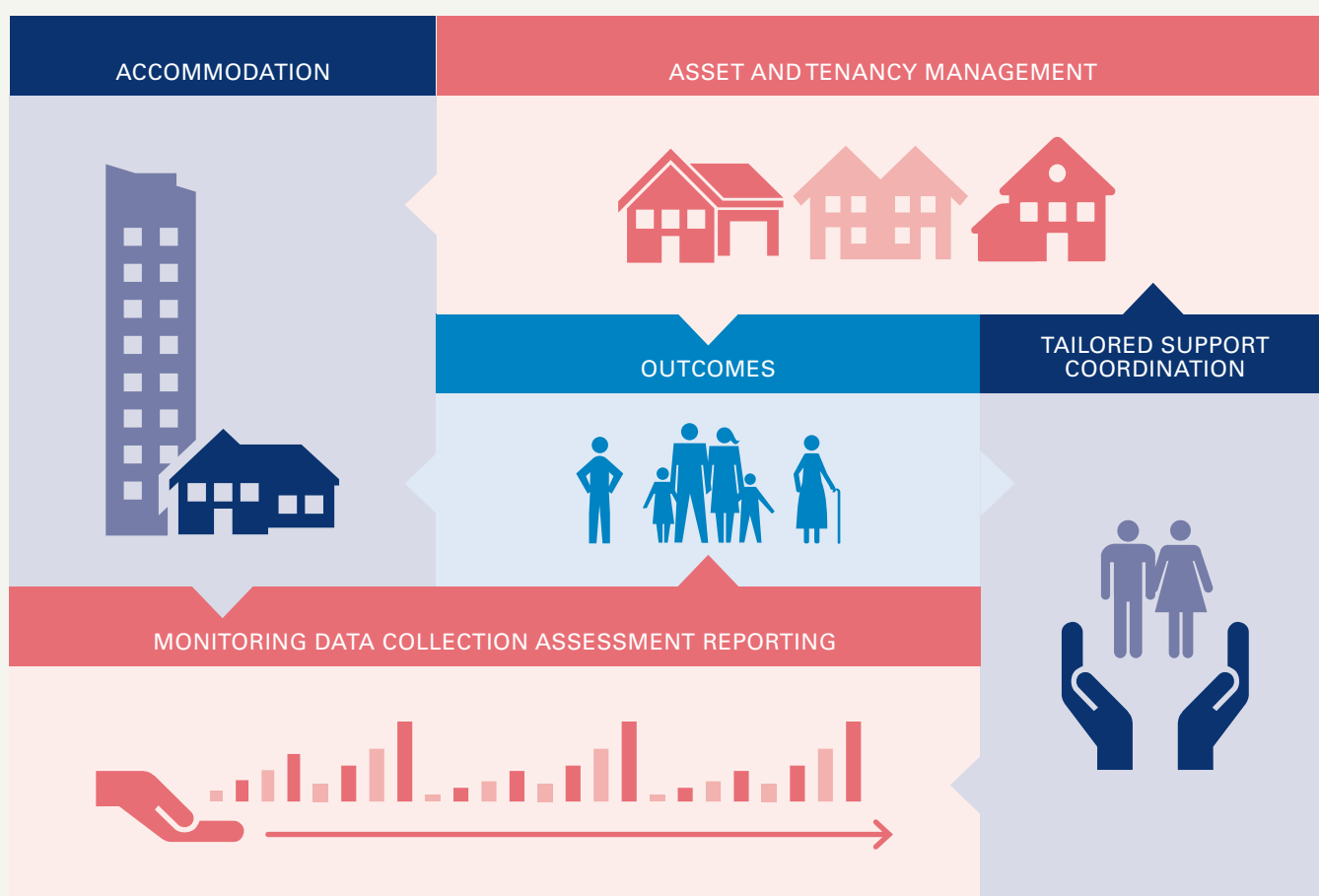
#### What is the SAHF?

In March 2015, Infrastructure Partnerships Australia signed a tripartite agreement with the NSW Government and the NSW Council of Social Service, to consider a limited trial of the SHFF model – both in terms of funding and delivery.

The SAHF is a stand-alone fund, which like the larger SHFF contemplated by this paper, invests its initial \$1.1 billion in funds under management to deliver a long-term investment return – which will support the delivery of 3,000 new social housing dwellings, delivered by CHPs.

▼ FIGURE 5.4

#### SERVICES PACKAGES



Source: NSW Government

## The commissioning unit

Again reflecting the MoU and this paper's recommendations, the SAHF programme has seen the appointment of a dedicated 'commissioning unit' within the Department of Family and Community Services – based on the capacity purchasing agency outlined in Chapter Four.

## Under the SAHF, the approach has changed

The limited trial under the SAHF has already allowed for significant experimentation and change, in terms of who provides what in social housing – and particularly, in terms of refocusing the system on tenant need and financial sustainability, rather than dogged adherence to traditional models.

The fundamental difference under the SAHF is that the NSW Government is able to use an above-market level of funding (from the investment activities of the Fund) to purchase integrated, tenant-focused and needs based housing capacity and related services, from CHPs. The service packages are outlined in Figure 5.4.

These new transactions are similar in form and structure to a hospital or other social service 'heavy' PPP – and see a competition between charitable providers to deliver the best accommodation and service package to meet tenant needs, at the best value. For the first transaction, the PPP-style contract sees payments over a term of 25 years, net of any financial penalties, if standards fall short or KPIs are not met.

Importantly, the first transaction also begins to force providers to measure asset standards and performance metrics, based on the ability to improve the quality of life for the housing tenants.

## The initial procurement of the SAHF, while a pathfinder, has stirred the interest of investors and CHPs alike.

Despite the fears of the unnamed government minister, the response from CHPs and the wider market of ethical investors has been overwhelming, with nine consortia, led by Community Housing Providers, shortlisted from 24 applicants.

This very high level of interest should provide every comfort and assurance that the expertise and investment will be available, provided governments get the structures right.

▼ FIGURE 5.5

### SHORTLISTED APPLICANTS FROM THE SAHF PHASE ONE EO1

APPLICANT NAME	PARTICIPANTS (IN CASE OF CONSORTIA)
BaptistCare NSW & ACT	
Compass Housing Services and Amber Infrastructure	Amber Australia Pty Ltd Compass Housing Services Co Ltd
Future Living	Affordable Community Housing Ltd (trading as Evolve Housing) Macquarie Corporation Holdings Pty Ltd Mission Australia Housing
Link Housing Limited	
Plenary Community Housing	Bridge Housing Trust Hume Community Housing Association Co Ltd Illawarra Community Housing Trust Southern Cross Community Housing Ltd Wentworth Community Housing Ltd Plenary Origination Pty Ltd Plenary Asset Management Pty Ltd
SCCH Sustainability Limited	St George Community Housing Ltd
The Salvation Army (NSW Property Trust)	The Salvation Army (NSW) Property Trust The Salvation Army Community Housing Service Ltd (Trading as Salvos Housing)
The Trustees of St Vincent de Paul Society	St Vincent de Paul Housing (Trading as Amelie Housing) St Vincent de Paul NSW
The Uniting Church of Australia Property Trust (NSW) for Uniting (NSW & ACT)	

Source: NSW Government

In addition to the clear benefits to the social households, purchasing services in this way will deepen the pool of Non-Government provided stock – and the field of providers. One of the specific objectives of the SAHF initiative is to “drive cooperation and partnerships between private and non-government sectors to deliver innovative services that build on the strengths of each sector.”

## ▼ APPENDIX A:

**MEMORANDUM OF UNDERSTANDING**

This Memorandum of Understanding (MoU) is between the NSW Government, Infrastructure Partnerships Australia (IPA) and the Council of Social Services of New South Wales (NCOSS).

The NSW Government has announced it will seek a mandate at the 2015 election to lease 49 per cent of the state's electricity transmission and distribution assets.

This Memorandum recognises that the lease of the poles and wires creates new funding capacity that can be used for core infrastructure, including social and affordable housing.

In this context, the parties to the Memorandum commit to work together to develop and refine a dedicated fund that will facilitate up to \$1 billion in new social and affordable housing stock to support vulnerable households.

NCOSS is the peak body for the social and community services sector in New South Wales. As a signatory, NCOSS will provide an independent and expert understanding of social policy issues relevant to social and affordable housing.

IPA is the peak body for Australia's infrastructure sector. As a signatory to this MoU, IPA will provide expertise in public policy and infrastructure partnerships that lead to improved social outcomes.

This MOU outlines the general nature and scope of the proposal, as follows:

- The parties will explore the creation of a new dedicated fund to facilitate up to \$1 billion in new social and affordable housing stock.
- The scheme will seek to leverage additional contributions from the not for profit, faith and commercial sectors to increase the quality and capacity of the NSW social and affordable housing sector.
- The eventual scheme will be limited to the provision of new stock, and will specifically exclude the refurbishment of existing stock.
- Criteria will be established such that the fund's sole purpose will be the achievement of social and affordable housing outcomes as defined by the NSW Government.
- The parties acknowledge that this fund is to be enabled by the increased financial capacity of the State from the lease of the New South Wales poles and wires businesses, and is therefore contingent on that outcome.
- The parties acknowledge that the purpose of the fund is to facilitate social and affordable housing proposals that would otherwise not be viable.
- It is envisaged that the fund will only fast-track or facilitate proposals in which proponents have land or other assets available to be leveraged.
- A potential model for consideration could include the successful *Local Infrastructure Renewal Scheme*; although this MOU signals that a suite of models will be considered.
- The parties acknowledge that the development of the fund aims to improve the economic feasibility of potential social and affordable housing projects, and that private finance will be involved to increase the scale and impact of the fund.
- The parties expressly acknowledge that the scheme's sole purpose will be to better achieve social and affordable housing outcomes and not to improve commercial advantage.

## ▼ APPENDIX A:

- The parties acknowledge that the fund will be considered within and developed alongside broader reforms affecting social and affordable housing, including the Premier's Innovation Initiative, the Social Housing Discussion Paper, the Sydney Metropolitan Strategy and others.
- The parties acknowledge that this MoU marks the beginning of a collaborative process between the parties to consider innovative options for the reform of social housing, consistent with the NSW Government's broader directions in social housing policy.
- It is envisaged that the collaborative process will be ongoing, with the parties committing to continue to work together on social and affordable housing reform, as a priority.

Any proposal developed from this MoU will be implemented in accordance with appropriate standards of probity and in accordance with any applicable laws and policies.

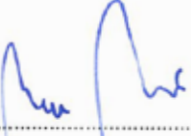
In particular, the parties acknowledge that this MoU is not intended to give rise to any exclusive or favourable treatment of any party or any undue advantage in any future competitive processes that may be involved in implementing the proposal.

The NSW Government's counterparties in this MoU are not-for-profit policy organisations with no commercial interests in the development of the incentive mechanism.

The counterparties acknowledge that they will assist the NSW Government in consultations with housing proponents and the financial sector.

Although this MoU does not constitute or create any legally binding obligations (whether at law or in equity or otherwise), it constitutes a statement of the genuine and mutual intentions of the parties with respect to its contents.

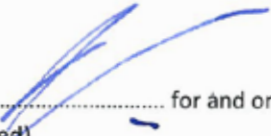
The parties acknowledge that this MoU does not contain references to all matters that will need to be considered in developing the proposal, but that the parties will each act in good faith and adhere to principles of probity and, where appropriate, commercial confidentiality in pursuing the proposal.

  
..... for and on behalf of the NSW Government  
(Signed)

Date: 12/3/15

Witnessed by:

..... Date:  
(Signed)

  
..... for and on behalf of Infrastructure Partnerships Australia  
(Signed)



▼ APPENDIX A:

Date:

Witnessed by:

12/3/15 Date:

(Signed)

[Signature]

for and on behalf of the Council of Social Services of New South Wales (NCOSS)

(Signed)

Date:

Witnessed by:

[Signature] Date: 12/3/15

(Signed)

NSW COMMUNITY SERVICES UNIT