

AFFORDABLE HOUSING IN AUSTRALIA: FINDING SHELTER

Background

Investment in affordable housing (including public and social housing) in Australia is one of the lowest in the more advanced 'first world' countries.

The Australian approach in attempting to solve its housing crisis is mixed and chaotic. Generally State Governments are at odds amongst themselves and with the Federal Government over funding and approach while the NGO/NFP and Private sectors are doing it their way, although assisted by funding from both State and Federal Governments. Little funding is sought from direct public investment (save for tax incentives such as NRAS). There are numerous peak bodies and sector/organisational representative bodies which agree on most issues but disseminate knowledge and understanding with little concert amongst themselves and with differing agendas' of priorities.

Housing demand outstrips supply which helps feed the housing industry. The 'profit pie' of supply of affordable housing consists of many 'profit takers' at entry level of the supply chain, while at the end of the chain, in such activities as tenancy management and property maintenance, the NGO/NFP and Government sectors take the profit 'hits' as the commercial reality of low margins needs to be carefully monitored for requirements over future years. Development of a 'housing continuum' requires careful consideration in establishing sustainable options for the more vulnerable people in our society and a sustainable organisational best practice in managing and sharing the burden over the long-term.

Many of the social/affordable housing properties throughout Australia leased and rented to the public are in high need of repair. Governments have left very little in their bursaries to keep up with property aging costs. Some Governments, such as in WA, have allowed their Housing Authorities to dabble in more 'profit taking' activities through construction, land acquisitions and sales which has only added to clouding the issues and difficult to identify effective and efficient public property cost management and understanding the true cost of on-going maintenance. It has however been demonstrated, that the NGO/NFP Sector has been able to strip out much of the red tape and bureaucratic costs that Governments must deal with, allowing the Sector to be more effective in management of tenancies and associated property and in dealing with the Private Sector. The NGO/NFP Sector in working with the Private Sector has brought about its own property construction and on-going management operations. Unfortunately the NGO/NFP Sector is in desperate need of consolidation. The cost of capital, administration duplication and missed funding opportunities is high as far too many organisations manage far too few tenancies and properties.

Australian Affordable Housing Corporation

And so we have many sectors doing many things in the name of providing Affordable Housing; it's more like a group of musicians playing the same notes but with differing pitch as opposed to a finely tuned orchestra. Australia needs a finely tuned orchestra!

Let's call this finely tuned orchestra the Australian Affordable Housing Corporation, a blend of Government, Non-Government and Private Sectors (the members) ALL working as a consolidated body to an agreed Strategic Plan that (among other things) lays out the roles of the members and

their specific accountabilities; what they are good at doing and not so much what they would like to do! These 3 Sectors combined, driven by strong leadership, will do more consolidated than they would individually. It may require its own governing board made up of individuals of these 3 sectors with the mandate to provide development, governance and oversight of the Strategic Plan and to ensure specific outcomes are achieved over specific periods. This becomes the means to an end, the end being the provision of shelter to needy and vulnerable Australians.

What else should we be doing and should needy Australians be also helping to do the best they can? Providing shelter is a 'Band-Aid' fix, what we really need to be understanding of is the root cause, why are these Australians in need, what has caused their need to be extreme and can we do anything about it and the drain caused on government funds? Can we teach people to be more self-supportive?

Root cause is many and varied such as age, job loss, health/disability, marriage/family issues, poor education, financial stress, physical or psychological; the list goes on. Understanding the 'why' people become in need of shelter and the 'how' they are able to help themselves with support from Government and Non-Government is critical in achieving a more satisfactory outcome in the provision of affordable housing. Both Government and Non-Government agencies provide support services to Australians caught in such circumstances but resources are limited, this is the 'public funded end' which generally does not attract private sector funding. The 'construction end' does attract the private sector as financial gains are to be made. We need to be more holistic in blending both financial and social gain and ensure that any investment has both elements: the 'profit takers' need to balance out social gain with financial gain. The social part needs to be more business-like with its undertakings.

With external support mustered for people in need, these people must also be asked to contribute wherever possible and be taught how to better manage their financial situation. Poor financial management only increases vulnerability to housing stress. Isolation of root cause with more focused support, including financial support will increase the effectiveness of an outcome that has less dependence on longer term support as the tenant gains greater independence and enhanced ability to move up through the 'housing continuum'.

With 3 Sectors (as noted earlier) coming together to form the Australian Affordable Housing Corporation the need for role clarification is critical to the success of this structure to deliver acceptable growth of affordable housing and in co-ordinating with Service Providers to better service root cause of housing stress over the long-term.

Government Sector

The role of Government ought to be moving towards that of a funding provider and less of a service provider (unless services demanded are not able to be provided by other sectors). Many Governments are allowing market economics to play a role in procurement of services, where through an appropriate tender process, Government are able to establish a more effective and efficient way of providing a community service other than through its own resources. Government's role is to then provide funding and ensure outcomes are consistent and sustainable to community/social goals. Tender responses often come from the NFP/NGO Sector but may also come

from the Private Sector, particularly when Government entice the Private Sector through the offer of incentives.

Government needs to become more savvy and innovative when inviting the Private Sector to bid. This Sector often has more advanced resources available to it and better able to find solutions than other Sectors, should the attraction and reward be provided for it to perform.

Government must also become a more strategic investor in affordable housing by smarter partnering with the Private and NFP/NGO Sectors and smarter use and leveraging of Government policy over the longer term rather than term of government, they need to become courageous! Some Governments are already undertaking partnerships but are being selective in who they partner with and at the same time disengaging other potential partners and opportunities. As an example in WA where registration is mandatory for only a handful of Community Housing Organisations (CHO's), others (some 230) are allowed to operate outside registration. The result limits:

- the opportunity to raise capital
- the quality of service and maintenance
- the proper and consistent application of rules, regulation and legislation governing the Community Housing Sector and
- in general carrying on of practices that become unsustainable.

Refer to Appendix 1.1 'The Community Housing Sector in Co-operation' for a more detailed look at current issues in WA and the idea that by leveraging policy and undertaking consolidation may provide solutions for many of the issues faced. Government may also assist with capital raising initiatives (as an investor of its own funds and as guarantor in attracting public funds). This may be through an offering of numerous financial instruments such as mortgages, bonds and debentures in assisting the NFP/NGO Sector raise funds outside of Government funding.

NFP/NGO Sector

This Sector strives to provide the un-met needs of housing demand from people with low to middle range incomes and receives various forms of Government funding (which is limited) used to deliver social and community services. This sector needs to act as a conduit between Government and the Private Sector, the middle ground between the business of meeting social and commercial objectives (which often clash). It should overcome the short-term thinking and acting of most Governments by ensuring the Strategic Plan sees out a longer term. It engages the Private Sector in the final step of execution of the Strategic Plan. It also undertakes service provision, procured by Government that ordinarily cannot be effectively and efficiently delivered by Government or the Private Sector.

In the provision of affordable housing this Sector will develop initiatives to fund, construct, manage and maintain the housing continuum. It will take on a large portion of the risk of managing both tenant and property to sustainable outcomes. It will engage amongst itself and look to operating

through its individual core business practices, developing economies of scale which must be assisted through Government intervention and policy development.

This Sector is also poised to undertake research and development of ideas in conjunction with Government and the Private Sector.

The Sector must be run as a sustainable business where surpluses are re-invested into providing housing growth aligned to Strategic Plans.

Private Sector

The Private Sector has the 'enablers' to ensure housing construction strategy is executed on the ground. This Sector would also include organisational and sector representatives such as UDIA and AHURI. The Sector constructs, supplies land and perhaps assists with raising finance. It may also provide other services. It innovates with delivery. It builds capacity and ensures recourses are adequate to meet increasing housing demand. It provides a training and research facility in practices and methodology of housing construction. It balances the need to provide adequate financial returns with social responsibilities which is kept in check by the Corporation by providing incentives.

Summary

Appendix 2.1 attached illustrates movement of an individual/family through to home ownership, lease rental or other forms of housing need with appropriate interventions along the way.

It illustrates that 3 key Sectors: Government, NFP/NGO and Private all play a vital role in co-ordinating a consolidation of resources through the use of a Corporation as a vehicle to develop, execute, manage and monitor a Strategic Plan.

The main responsibilities of these 3 Sectors being:

Government:

- Policy development
- Funding (Grants of cash, land or property)
- Land development
- Leadership
- Investor/Guarantor
- Regulation
- Community Services (Needs) Assessment
- Innovation

NFP/NGO

- Conduit between Government and Private Sectors
- Service Delivery
- Property and Tenant management
- Capital Raising and re-investment of surpluses
- Research and Development
- Engagement with private Sector
- Innovation

Private

- Construction and land supply
- Research and Development
- Capital Raising
- Capacity development
- Training
- Innovation

As in most businesses the key ingredient for success is obtaining funding and being able to fund such an endeavour over the long term: financial stability and sustainability. Ensuring that all parties involved, including tenants, maintain financial prudence in the management of funds and property will provide positive results much quicker. It starts on the ground with tenant engagement, there must be enough resources to properly identify root cause of a critical housing need and resources to develop skills to better manage the need from both a Service Provider and tenant aspect. Much work still needs to be done to work smarter and be more integrated.

The leadership of the governing body ('Corporation') is critical in bringing about these elements of planning and associated responsibilities. It will provide a consolidation of effort on a scale that Australia has not seen before and will become a world class housing social enterprise that engages with all parts of the community. Leadership needs to be courageous!

Stephen Walker

CEO
Stellar Living Ltd

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Author Disclaimer:

Note that the views, thoughts and ideas expressed by me in this paper and other associated papers are not necessarily those of Stellar Living Ltd, its employees or its Board.

Stephen Walker.

Appendix 1.1

The Community Housing Sector in Co-Operation

Sector Composition

The Community Housing Sector (CHS) in Western Australia consists of many participants, more so than any other state in Australia. Apart from the State Housing Authority, there are approximately 270 organisations of varying size and only 40 (15%) of these are registered as Community Housing Providers, these 40 control 40% to 45% of rental stock. Only 12 of the 40 registered organisations have signed the Community Housing Agreement (CHA). The registration sees three types of providers: Growth (6), Preferred (15) and Registered (19). Outside of the two major growth providers, Access Housing and Foundation Housing, which have a combined rental stock in excess of 3,000 properties, all other organisations pale into insignificance on the basis of their size.

Many of these organisations are Community Service Providers delivering services (funded by State/Federal or both) such as crisis accommodation, mental health and disability. The provision of housing is an adjunct to their core business of service provision.

Sector in Crisis

The Housing System in Australia is in crisis. We have three wheels in motion, the Wheel of home ownership affordability, the Wheel of rental affordability and Wheels of Government. All with the aims of providing shelter, but often with different drivers affecting these aims. Higher incomes, developers/builders, financiers, ROI and interest rates in one corner polarised against lower incomes, landlords, socio-economic issues and cost creep in the rental affordability corner. The wheels of Government are lacklustre not knowing how to address these issues, as is evident by not one single State Government having its approach and policy mirrored by another State Government; they are all doing things differently. In these government wheels they have embraced the Not-For-Profit Sector to assist in the provision of housing with some success but missing the opportunity to be even more successful.

Issues with housing are compounded by not appropriately addressing an aging population with increasing disability and even further compounded in WA by higher than normal population growth rates, pushed up by newcomers to the State. Populations grow, housing needs rise as Australia's capacity to provide slips, more so in WA.

As was stated by the National Housing Supply Council in 2012:

“...the National Housing Supply Council, which monitors strain on the housing system, has projected that demand for public housing in Perth will be highest of any tenure of any jurisdiction in Australia. In 2024, relative to 2009, demand for public housing is forecast to increase by more than 50 per cent. Demand for public housing is predicted to be considerably higher than demand for private rental accommodation or home ownership because of an overall shortage of housing and consequent high costs. This will adversely impact low income households who have to compete for housing with higher income earners. Inevitably, low income earners will need to rely on the public system for affordable housing’.

Breaking down all the rhetoric and jibber jabber the solution is cash based, of which very little is currently available and/or budgeted for in growing capacity for social/affordable housing!

How do we free up cash? One answer is better utilisation of the resources we have, smarter investment strategies with organisations and people willing to give something back as a social return offset against a financial return. It's not only building new dwellings but looking at leveraging existing dwellings, as an income producing asset, to provide new sources of revenue and enhance existing sources.

It requires:

- Identification of assets (both in-use and not-in-use) split into regions that will provide for manageability
- Determining suitability for leveraging cash and growth (such as re-development opportunities of large blocks with existing dwellings)
- Recognising, defining and resolving ownership formulae (retention of title with long-term lease and development rights, asset transfer, etc)
- Recognising and defining the mechanism/instrument of providing cash flow (such as a lease agreement)
- Develop investment strategy and structure
- Courting and providing knowledge and comfort to potential financiers/investors of the potential of investment in the structure
- Consolidation of the Housing Sector, maintaining diversity, that will free up assets for leveraging and re-development (before Governments do it for us)
- Better utilisation of NFP sector assets and development of effective business strategies through concentration and focus on core business activities
- Workable partnerships with the Housing Authority and other Government Departments such as Treasury and Commerce (intergovernmental differences must be sorted)
- Leadership in development of Strategy, management and measurement of performance that provides transparency (possibility of applying templates to assist in reform such as Australian Business Excellence or Balanced Scorecard)

Management Structures

Every one of the 270 organisations that provide housing for various community and services types have some form of management structure which will include front line (tenant/property management) and back-line (admin, compliance, recording, reporting and transactional). The disparities in systems, that literally have the same or similar end in mind, are enormous. The sector cost associated with the disparity is even bigger. There are also risk, governance and compliance

burdens to consider. As well as attracting the right people to manage the organisation (including the Board).

With the introduction of the ACNC and a strengthening of the ATO's resolve to sort out the NFP sector comes the added burden of registration through a national body and increased accountability in reporting standards, organisational governance and risk mitigation. It becomes increasingly difficult for smaller organisations to manage these burdens in a cost effective way and continue to provide a reasonable service. Support for the front line begins to diminish as compliance and reporting burdens (form over content) take a larger slice of people's time and a focus.

The Cost of Doing Business

The average weekly ordinary time earnings for full time adult persons in administrative and support services ¹(May 2013) was \$1276.50 or around \$34 per hour, adding superannuation brings it to \$37 per hour.

When we remove registered providers from the mix there are approximately 230 unregistered providers managing 2,550 properties. It is estimated that Growth, Preferred and Registered manage 5,150 between them.

Most property officers manage up to 120 properties comfortably, the number of people required to manage 2,550 economically is around 21. We can assume that at least 1 part-time person in 230 organisations is acting as a property officer, say 115 people.

Based on experience we may also assume that 1 full time bookkeeper/accounts person is required to support the management of a minimum of 200 properties up to a maximum of 300 properties before further part-time assistance is required. Supporting the management of 2,550 properties may require 8 or 9 accounts people. However amongst 230 separate organisations there would be employed at least 57 part-time support people with potential that it could reach up to 115 full time people.

Every organisation would require an operating system (such as MYOB) and IT architecture that at least runs MS Windows environments and applications, incurring ongoing costs to meet licencing requirements. NFP's are able to apply for concessions. However every organisation would require at least 1 server, peripheral equipment and multiple licences as well as costs to deploy an operating system and potentially a system that handles rental tenancies.

Organisations may require office rental to manage tenancies and incur outgoings such as rates and taxes with the rental. Rents vary from suburb to suburb and region to region

The list of direct and indirect costs may be extended to telephone, printing, stationery, motor vehicle and many other operational and capital acquisition costs, again multiplied by 230 separate

¹ ABS Industry Earnings

organisations. Forming a buying group to leverage the potential of combined buying power for these items would produce significant savings.

The following table has been provided to illustrate potential savings:

SAVINGS ESTIMATIONS					
230 Organisations Individually Managing 2,550 properties					
Front Line Mangement Cost		\$ 4,425,200			
Office/Admin		\$ 4,112,550			
IT Capital/Set-up averaged every 4 years		\$ 460,000			
IT on-going annually		\$ 598,000			
Rent & Outgoings		\$ 3,450,000			
Rates & Taxes (no shire concessions)		\$ 4,845,000			
Other Costs		\$ 2,530,000			
		<u>\$ 20,420,750</u>			
<i>Assumes that property repairs and maintence remain same as isolated to property</i>					
230 Organisations Combined Managing 2,550 properties					
Front Line Mangement Cost		\$ 1,515,150			
Office/Admin		\$ 2,037,750			
IT Capital/Set-up averaged every 4 years		\$ 230,000			
IT on-going annually		\$ 299,000			
Rent & Outgoings		\$ 360,000			
Rates & Taxes (no shire concessions)		\$ 4,845,000			
Other Costs		\$ 1,265,000			
		<u>\$ 10,551,900</u>			
<i>Assumes that property repairs and maintence remain same as isolated to property</i>					

The potential for savings is close to \$10m should the 230 organisations form a group or structure providing economies of scale. If we value the 2,550 properties conservatively at \$300k per property, total capitalisation of the group approaches \$765m. This example does not take into account any buying discounts that a group of this size may achieve against what is currently being obtained as individual organisations. Even discounting the estimations by 20%, allowing for inaccuracies, the savings and capital base that could be leveraged for growth is significant enough not to ignore.

Co-Operation

The power that may be harnessed by consolidating the 230 smaller CHO's under one structure as a group would be substantial.

The gains that may be achieved is in cutting through repetition and waste, providing for a more efficient way of operating and will serve to provide better and more cost effective solutions for consumers of affordable housing.

The structure would include in its design provision an umbrella authority for all group participants for registration, compliance, governance, reporting, administration and risk mitigation. It would be a structure that self-regulates in accord with both state and federal legislation. This would cease the need for individual organisations that participate, to comply with all requirements and administration burdens as separate entities.

Harmonisation of policies and procedures would lend itself to the development of best practice within the group.

Access to funding to assist with enhancement of an organisation's growth and sustainability pathways will be more achievable.

The Right Structure

Numerous structures may be developed in building an entity that appropriately governs a business enterprise, in this case a social enterprise. Most go down the path of the Corporations Act where in general the corporate vehicles are 'Limited' or 'Proprietary Limited' companies. Another route is development of a Co-Operative enterprise. Wesfarmers Ltd started life as a co-op. Australia and New Zealand have developed some of the most ingenious co-ops in recent times. Co-op definition, values and principles are as follows²:

Definition - A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

² Extract from Co-Operatives WA

Values - Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles - The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and open membership – A co-operative is a voluntary organisation, open to all persons able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic member control – A co-operative is a democratic organisation controlled by its members, who actively participate in setting policies and making decisions.

Members serving as elected representatives are accountable to the membership. In co-operatives other than co-operative groups members have equal voting rights (one member, one vote). Co-operative groups are organised in a democratic manner.

3rd Principle: Member economic participation – Members contribute equitably to, and democratically control, the capital of their co-operative. Usually, at least part of that capital is the common property of the co-operative. Usually, members receive limited compensation, if any, for capital subscribed as a condition of membership. Members of a co-operative allocate surplus to be used for any or all of the purposes of –

(a) developing the co-operative, possibly by setting up reserves, at least part of which are indivisible; and

(b) benefiting members in proportion to their transactions with the co-operative; and

(c) supporting other activities approved by the membership.

4th Principle: Autonomy and independence – A co-operative is an autonomous, self-help organisation controlled by its members. If a co-operative enters into agreements with other organisations, including governments, or raises capital from external sources, it does so on terms that ensure democratic control by its members and maintain its autonomy.

5th Principle: Education, training and information – A co-operative provides education and training for its members, elected representatives, managers and employees so they can contribute effectively to the development of the co-operative. A co-operative informs the general public, particularly young people and opinion leaders, about the nature and benefits of co-operatives.

6th Principle: Co-operation among co-operatives - Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for the community - Co-operatives, while focussing on member needs, work for the sustainable development of their communities through policies accepted by their members.

One of the largest Co-Ops in WA has the catch cry of 'saving members time and money'. When designed appropriately this is exactly what co-ops achieve and the consumer obtains a product or service that is discretely targeted and competitively priced.

Structural Design Principles – Economies of Scale

Business efficiencies are developed and practiced far more robustly when duplication is eliminated and effective internal control mechanisms are aligned to support front line operations. Much of the 'wastage' of administration time and effort may be eliminated through smarter utilisation of business automation technologies which have been around since the mid-nineties. All businesses will have the following administrative (back-office) functions in one form or another:

- Accounts Receivable & Banking (AR)
- Accounts Payable & Purchases (AP)
- Payroll (Salaries/Wages)
- Human Resources (HR) (employee effectiveness, well-being and legislation)
- Occupational Health & Safety (OHS)
- Recording, Storage, Retrieval and Reporting of Data
- Compliance and Audit (enterprise, local, State and Federal)
- Risk Management
- Information and Communication Technology (ICT) – software, hardware, telecommunications
- Policy, Practice and Procedure
- Board governance
- Organisational Reputation & Brand
- Lobby and PR

Economies of scale are the cost advantages an organisation is able to obtain through increments in size. The cost of outputs per unit (let's say hours) will generally be less per unit as an organisation increases its size. There are optimisation limitations but certainly the initial pooling and smarter use of resources will increase operational efficiency when combining individuals (doing the same or similar things) into a group.

Front line functions (property officers and management) may also be pooled into utilisation to sector standards. In organisations of scale there will exist regional and remote challenges, however organisations of scale are much better placed to deal with these than smaller organisations. The

same or better level of service may be provided as support mechanisms and organisational agility is stronger.

Work and Document Flows become more efficient through the use of technology that is more affordable in a scaled organisation than would be in a smaller organisation.

Policies, practices and procedures become more systemised which enhances compliance and governance processes.

The buying power of an organisation of scale is superior to smaller organisations. Many co-ops exist purely as 'buying co-ops'. Consider the purchase of a motor car, furniture, printing & stationery, IT & Telecommunication providers, legal and professional, insurance (potential for a mutual), repairers and other experts.

The design would be challenging, however the most effective approach would be to undertake a back-office build up while allowing entities to continue with field operations. Eventually field operations would fall within the scope.

The design does not wipe out existing smaller entities that are currently serving communities broadly, what it does do is align them to common goals and to assist with cutting costs and being more efficient in reaching common goals.

Membership

The smaller entities purchase a membership (shares) into the larger entity (co-op). This creates the capital base from which the larger entity is formed. Should we find 200 entities individually purchase 20,000 \$1 shares, the capital raised would be \$4m. Initially the structure provides the back-office services (as outlined above) to the members for a fee, based on functions used and usage levels.

The co-op also undertakes agreements with preferred suppliers (PS) to it and its members. These agreements provide a margin payable by the PS (to be part of the group) to the co-op which it uses to help fund its activities on behalf of the members. The margin is gained by member activity. Every time a member purchases from a 'preferred supplier' a margin is paid to the co-op on that purchase. Typically these can range from 2% to 6% depending on how much the co-op is able to negotiate from the supplier. The co-op negotiates supply arrangements on behalf of the group and may also tap into Government purchasing.

Depending on the co-ops ability to be effective in its operations, there may be financial returns made to members on an annual basis. Often there is a return on the number of shares held as well rebates against the \$ size of purchases made by the member.

For example:

- a member may hold 20,000 shares (\$1 ea.) with a dividend payable of 4% for the year
- there may be a rebate of 5% on purchases made by members.

If a member has purchased \$30k through the co-op PS network, there would be a total of \$2,300 returned to the member for the year (\$800 for dividend and \$1,500 purchase rebate). The more the member utilises the co-op the more that is returned. As an example see Capricorn Society Ltd's latest financial report which provided a dividend of 11% to its members.

http://www.capricorn.coop/uploadedFiles/MainSite/Content/About_Capricorn/Corporate_Documents/Financial_Information/CSL_Annual_Report_-_30_June_2013.pdf

Summary

It's time to think more clearly and re-define the objectives of the Housing Sector in WA in concert with all the players within the sector, it's time for consolidation and it's time for stronger partnerships. It's time that a Government provided the leadership to think big picture; what is best for the consumer and how it can engage help without worrying about its popularity and retention of jobs for public sector employees.

Appendix 2.1

