



Community Housing
Federation of Victoria
Incorporated

Submission to FaHCSIA on Regulation and Growth of the Not-For-Profit Sector

May 2010

1. Introduction

The Community Housing Federation of Victoria congratulates the Commonwealth Government on its commitment to addressing regulatory reform of the not-for-profit housing sector and in particular on its commitment to growth of the sector as the primary response to the severe unmet demand in affordable rental housing across Australia. We welcome the opportunity to respond to the FaHCSIA discussion paper.

1.1 About CHFV

The Community Housing Federation of Victoria (CHFV) was formed in 1997, and is the peak industry body for not-for-profit housing organisations in Victoria. CHFV represents the views of its members to government and other relevant bodies, as well as providing advice, resources and training to the community housing sector. CHFV's vision is to support accessible, affordable and appropriate housing for all.

The not-for-profit housing sector in Victoria includes nine registered Housing Associations and 31 registered Housing Providers. All 40 registered housing organisations choose to be members of CHFV as their industry peak. Our sector is growing rapidly - it already employs nearly 1000 staff, manages over 12,000 tenancies and owns nearly 5,000 properties worth over \$1.2 billion. However, by July 2011 the National Rental Affordability Scheme (NRAS) and the Nation Building Economic Stimulus Package Social Housing Initiative are expected to have raised these figures to around 15,000 dwellings under not-for-profit management and almost 8,000 dwellings directly owned by community housing organisations, representing \$2,000 million in assets.

1.2 Structure of CHFV's response

This paper responds to each of Chapters 2-8 of the FaHCSIA paper individually, addressing the specific details of each section where CHFV wishes to offer a direct response. The numbering of this CHFV paper reflects these FaHCSIA chapters and sections.

2. Reshaping Australia's Social Housing Sector

The Victorian Government and the Victorian community housing sector have been at the forefront of innovation and development in housing, resulting in a major reshaping of the social housing landscape over the last thirty years. This does not seem to be reflected in the FaHCSIA discussion paper. CHFV believes that there is much to learn from both the clear successes and the occasional flaws of the Victorian approach.

Some of the Victorian transformation has been driven by the natural evolution and maturation of the not-for-profit housing sector itself, as organisations have

sought to improve their client services through consolidation, specialisation and vertical integration.

The other major driver has been the policies and initiatives of successive Victorian Governments going as far back as the establishment of rental housing cooperatives in the 1980s and the Transitional Housing Management Program in 1997, and more recently amendments to the *Housing Act 1983* and the passing of the *Housing (Housing Agencies) Act 2004*

These legislative arrangements provided the first Australian model for “a regulatory framework for non-profit rental housing agencies serving the needs of low-income tenants.”¹ In its wake came the establishment of the Registrar of Housing Agencies in 2005, the formation of Housing Associations as the designated “growth providers” of community housing, and in July 2007 the introduction of registration for housing agencies.

The immediate impact of registration in Victoria was a dramatic acceleration of the process of consolidation within the sector. Around 200 organisations were faced with the prospect of having to register as housing agencies – an arduous process in itself – and then having to shoulder an annual regulatory compliance burden.

A large number of these organisations could be described as “micro” housing providers managing less than a dozen properties. For most, their primary business was the provision of support to their clients. The introduction of mandatory registration provided the stimulus for these organisations to refocus on core business and seek a suitable organisational partner to provide specialist tenancy management.

The outcome of this mandatory registration process is that in Victoria there are now just 40 registered housing agencies, in two tiers. There are nine registered Housing Associations (although two of these have merged within a group structure), and 31 registered Housing Providers.

The Housing Association tier of registration has been designated for “growth providers”. In addition to this group, there are another eight registered Housing Providers engaged in Nation Building and other major residential development projects, and there are at least another ten registered Housing Providers that are either actively pursuing growth opportunities or have substantial tenancy portfolios and are in a position to grow. In other words, around 25 of the 40 registered housing organisations in Victoria have some capacity to act as vehicles for growth of social housing stock.

Nonetheless, it has been the clear intention of the Victorian Government that those organisations registered as Housing Associations should be the primary growth providers. All of the registered Housing Associations have been vigorously pursuing growth opportunities

A number of obstacles to growth have become apparent:

- Organisations operating nationally have been prevented from using Victorian property assets or the surpluses from Victorian operations to leverage finance for housing developments in other jurisdictions.

¹ Victorian Government (2004), *Housing (Housing Agencies) Act 2004*, Melbourne, p1.

- Some registered Housing Providers report that they have been denied capital funding by the State Housing Authority for a viable residential development project, only to find that the same project is later undertaken by another Provider or even by the State Housing Authority itself.
- Inflexible leverage requirements imposed by the State Housing Authority have meant that some otherwise high-value projects have not been able to proceed, and others are struggling to balance allocation targets with rental yield. The Victorian Government is now aware of the lost opportunities and ongoing difficulties and has indicated that it aims to apply a more flexible, case-by-case approach to leverage in future.
- Lack of certainty in future capital funding rounds prevents organisations from being able to plan for development capacity. With no further capital funding on the horizon, much of the expertise developed as a result of Nation Building could be lost to the Victorian sector as the pace of development and construction winds down in the next few years.

The FaHCSIA paper states that growth will occur if large community housing organisations “increase in both scale and number”. CHFV questions this broad assumption. In Victoria’s case there is already an adequate number of large providers, and it is not clear that growth will escalate merely by the existence of large-scale providers. Their existence is certainly a necessary precondition for growth, but the rapid growth in social housing that Australia needs is also dependent on substantial and ongoing capital investment by Commonwealth and State governments.

Independent analysis by SGS Economics and Planning indicates that current planning for growth in social housing “is unlikely to deliver the benefits anticipated by Government.... Such numbers are insufficient to generate the contestability and consumer choice required for innovation across this system.”² The SGS report goes on to note that “preliminary analysis confirms the strong business case for rapid expansion of the Housing Association sector.”³

The latest assessment of the National Housing Supply Council paints a bleak picture of chronic undersupply of housing for Australia, with a cumulative gap between underlying demand and adjusted net supply of 640,600 dwellings by 2029⁴. The inevitable consequences of this imbalance between supply and demand are upward pressure on housing prices and decreasing availability of affordable housing. The inflationary effect of rising housing prices in turn creates pressure on the Reserve Bank to raise interest rates, putting further upward pressure on private rents and putting marginal homeowners at greater risk of default. In the absence of dramatically increased supply delivered by the private sector, there is a clear imperative for State and Federal Government to expand the stock of social housing at a much greater rate than is contemplated.

CHFV believes that social housing must cease to be seen by Commonwealth and State Governments as purely a social service and must be viewed *in*

² SGS Economics & Planning (2008), *Housing Associations: Framing a Growth Strategy*, unpublished paper, p.i

³ *Ibid.*

⁴ National Housing Supply Council (2010), *Key findings of the 2nd State of Supply Report*, Commonwealth of Australia, Canberra, p5

addition as essential public infrastructure with economic significance at least as great as hospitals and transport. CHFV argues that for not-for-profit housing organisations to achieve a sufficient operating scale to deliver this level of ongoing social housing supply, Government must provide the certainty of substantial ongoing *annual* Government capital funding, supplemented by a transparent program of stock transfers from public housing. Based on the analysis by SGS⁵, CHFV suggests that the scale of Government capital funding required is in the order of \$1.3 billion a year nationally for ten years.

2.1 A bigger role for the not-for-profit sector

COAG agreed in May 2009 that the not-for-profit housing sector would achieve up to a 35% share of social housing by 2014. CHFV certainly supports this target, but we note that its achievement would require massive transfer or unprecedented capital investment in Victoria. CHFV estimates that the not-for-profit sector's share of social housing in Victoria will be 19.4% at 30 June 2011, up from 15.6% only two years earlier. The additional transfer of tenancy management or title required for community housing to reach 35% in Victoria is 13,000 dwellings. Such an unprecedented transfer would not be without risk to the recipient organisations.

FaHCSIA states that capital growth should only occur for community housing "operating at scale". CHFV rejects this view. Growth funding should certainly focus on at-scale providers, but provision should also be made for capital grants or property transfers that enable smaller providers to achieve sustainable operating size and/or to deliver important niche housing products. Attention should be paid not just to the growth of the not-for-profit housing sector, but to its diversity, its overall strength and reputation, and its capacity to meet special housing needs. Federal and State Governments can play a role in this space by encouraging creative partnerships that foster business sustainability and good governance and at the same time engage the individual strengths of the partnering housing organisations.

CHFV stresses that "consolidation ... of housing portfolios" should be allowed to occur primarily through natural sector processes. The Victorian experience of the introduction of regulation was that around 75% of not-for-profit organisations (not counting common equity rental cooperatives) voluntarily relinquished their tenancy management function in recognition that housing was not their core business, and there was only one organisation that having sought to register was in the end unable to fulfil the registration requirements. Nonetheless, the Government expectation of widespread mergers was misplaced. There was – and remains – strong opposition to "forced" mergers, and if further consolidation is expected in the short term, this should be encouraged through Government *incentives* such as additional capital funding or transfers.

2.2 The changing face of community housing in Australia

FaHCSIA notes that NRAS and the transfer of stock under both Nation Building and the National Partnership Agreement on Social Housing are expected to

⁵ SGS Economics & Planning, *op. cit.*, p.ii

bring the proportion of social housing stock held by not-for-profits to around 15%.

It's not clear, however, whether NRAS properties are (or should be) counted by FaHCSIA as social housing stock. Would an NRAS property be classed as "social housing" where the property is owned by a private investment company but the tenancy management is provided by a not-for-profit? What if the property is owned by a charity but managed by a real estate agent?

If NRAS stock is to be counted as social housing, this raises the prospect that NRAS would fall within the purview of national housing regulation – which would either impose an additional burden on the not-for-profit sector that the private sector was exempt from, or would impose a burden on the private sector that would act as a major disincentive to investment.

Encouraging private sector investment in NRAS is made all the more difficult in the absence of State Government budgetary commitments to (at the least) the next NRAS round. What guarantee is there of jurisdictions uniformly agreeing to future funding of NRAS? CHFV notes that the Victorian government has so far only committed to 7,500 incentives compared to Victoria's nominal 12,500 per capita share of the 50,000 NRAS incentives available. CHFV suggests that COAG has a further role to play in gaining confirmation from all jurisdictions of their budgetary provision for forthcoming NRAS rounds.

We also question whether there is any certainty regarding either Nation Building or Social Housing NPA stock transfers. The FaHCSIA paper's Glossary states that "Housing Ministers have agreed that up to 75% of housing stock constructed under Stage Two [of Nation Building] will be transferred to community housing providers by 30 July 2014." CHFV notes that the inclusion of the words "up to" could render this commitment meaningless, as this would include zero transfer. The word "transferred" is not defined. CHFV believes greater clarity on the meaning of "transfer" and an agreed minimum percentage transfer of Nation Building stock would provide greater business planning certainty to the not-for-profit sector and would strengthen the finance and investment sectors' confidence in not-for-profit housing. CHFV's position on transfer is that we would prefer transfer of title and ownership.

2.3 Leveraging social housing assets for growth

CHFV does not believe that "promoting efficiency" is necessarily achieved "through fostering greater competition between housing providers". Growth providers are already competitors, and should be encouraged to *collaborate* to maximise efficiencies.

For example, is it efficient for a large number of providers to compete in the bidding process for a government-funded residential development project when the costs of unsuccessful tender cannot easily be recouped from each not-for-profit organisation's operating surplus, except at the risk of reducing their – and the not-for-profit sector's – capacity to house the most disadvantaged? A blinkered encouragement of business efficiency ignores a more important measure of success: the effectiveness of the not-for-profit sector in meeting the

very diverse housing needs of a highly disadvantaged segment of the population.

CHFV notes that the not-for-profit housing sector's capacity to address “the labour force marginalisation and social exclusion [of] public housing tenants” is a key consideration for governments. Not-for-profit housing organisations have, without exception, a stated mission or purpose to address disadvantage and increase the life chances of those they assist. Some have been doing this long before public housing existed, and there is an increasing focus on integrated service delivery encompassing employment programs, health provision, classes in life skills and general education. The benefits of such an approach are not just limited to the tenants or even their local community, but extend to the community housing organisation itself, and by extension to any government that fosters a vibrant and diverse community housing sector. As tenants' social and health outcomes improve, the risk of losses related to failed tenancies is reduced; and as tenants enter the labour market, rental yield improves – which enables other more disadvantaged tenants to be housed through cross-subsidisation within a portfolio, and increases a housing provider's capacity to leverage further growth so as to assist even more people in need of affordable housing.

The FaHCSIA paper also offers the UK example of a successful regulatory system reducing the cost of debt finance to community housing organisations. CHFV notes that the attribution of lower risk by financiers in the UK regulatory environment is partly predicated on guarantees of consistent rental yield due to the UK's “Housing Benefit”. The Australian equivalent, Commonwealth Rent Assistance (CRA) doesn't operate like the Housing Benefit. Instead of the rent subsidy bringing the rent up to market rate, CRA provides a flat payment and social housing rents in Australia must therefore adjust to reflect household income. The resulting uncertainty of rental yield remains a structural impediment to greater confidence in a community housing organisation cash flow. CHFV urges the Commonwealth to consider how CRA might be adapted to deliver a more reliable rental yield for the community housing sector.

We also note that there are other financing options worthy of exploration. While Australian governments have been reluctant to leverage their own assets, they do have the capacity to borrow at substantially better rates than those available to the community sector. Would it be feasible for the Commonwealth to lend directly to community housing organisations at more affordable rates than those organisations can access in the private market? If not, is there a role for government guarantee of community housing loans?

3. The Role Of Regulation In Growing The Not-For-Profit Housing Sector

3.1 The need for national regulation

The role of regulation is identified as being “to protect Government investment, increase investor confidence and protect tenants' interests.” “Diversity ... warrants a targeted, risk-based approach to regulation.” CHFV strongly

supports such a regulatory approach. We note that regulation in Victoria currently fails to differentiate adequately between risk categories, in that there is little difference in the administrative burden of regulatory compliance between the largest and the smallest providers.

CHFV also strongly supports the suggestion that State Housing Authorities also be subject to the same regulatory framework, including quality assurance.

3.2 Current Regulatory Systems

FaHCSIA notes that “the independence of the Community Housing Registrar from the Housing Authority varies between State systems.” CHFV is deeply concerned that in Victoria there is a perception of a lack of independence of the Housing Registrar, as the Office of the Housing Registrar sits within the State Housing Authority administration and is even on the same floor as the directorate that funds and administers community housing. CHFV believes it is essential that any national regulatory model guarantees the separation of the roles of regulator, funder and public housing provider.

3.3 Regulation to build capacity and manage risk

CHFV strongly supports the principle that the role of regulation “is to set benchmarks for governance and viability against financial and commercial performance.” The Victorian experience is that few of our regulator’s 19 benchmarks are externally derived, and many go well beyond providing a framework for assessment of governance and viability.

A national regulatory framework offers an opportunity for improved benchmarking. CHFV hopes that FaHCSIA will learn from Victoria’s experience and ensure that the knowledge and practice of regulators in other sectors (such as real estate agents, electricity retailers or banking) is considered in developing a regulatory environment that encourages enterprise rather than suffocating it in red tape.

3.4 Good regulation can attract greater investment in the sector

CHFV agrees, and points to the success of regulation in Victoria in developing the private market’s understanding of and confidence in the not-for-profit housing sector. CHFV believes that for a step change to be made in the growth of the community housing sector, a range of financial models need to also be considered.

3.5 Prudential Supervision

The FaHCSIA paper lists the characteristics of good prudential practice common to other comparable sectors. One of the characteristics is “registration with ASIC as a company limited by guarantee” as a minimum requirement to receive government assistance.

CHFV notes that the Companies Act is not the only legal vehicle for a registered business entity. Cooperatives have a long and proud history in Australia, and in many overseas jurisdictions they are market leaders in social housing. The

largest company in New Zealand, Fonterra, is actually a cooperative – it has revenue exceeding NZ\$16 billion. In Australia, Dairy Farmers was the best known cooperative with revenue of \$1.3 billion in 2008, the year it was acquired by Kirin Group of Japan.

In Victoria, there are eight rental housing cooperatives registered as Housing Providers but the Victorian legislation excludes cooperatives from registering as Housing Associations. CHFV does not support a regulatory model that penalises a not-for-profit housing organisation for its choice in remaining a cooperative. If a cooperative wishes to become a “growth provider”, it should be entitled to be registered as such provided it meets all other governance and viability benchmarks appropriate to that risk category.

3.6 How regulation can attract private investment

CHFV strongly agrees that regulation “should not impose an undue burden” and that “investors might well regard an over-regulated sector as ... unable to operate independently, flexibly and entrepreneurially.” The Victorian experience is of an unnecessarily restrictive and burdensome combination of State Government policy and regulation. CHFV believes that commercial standards in benchmarking are more likely to give confidence to investors and not-for-profit boards alike that the sector can get on with the business of increasing the stock of affordable housing in Australia.

3.7 A proportionate approach to risk

CHFV agrees that a national regulatory framework should:

- minimise the regulatory burden on small providers;
- differentiate between small, medium and growth providers;
- focus on risks associated with growth providers; and
- change with community housing organisation “operational size and growth trajectories.”

CHFV notes that the current two-tier regulatory model in Victoria fails to allow for those medium-sized second-tier “Housing Providers” who are interested in growth and take on a low level of debt financing for small or ad hoc asset acquisitions. The two-tier approach in Victoria acts to deny opportunities for growth to these organisations. Further, those second-tier organisations who succeed in expanding their operations to include debt-financed housing assets must inevitably have a higher risk profile than the small, non-complex organisations whose sole business is tenancy and property management.

A national regulatory model must make provision for “growth-oriented” housing providers.

An alternative is to approach regulation without any tiers at all, with each organisation regulated according to its risk profile without having to be assigned to an artificial category of regulation. The allocation of organisations into tiers has more to do with administrative expediency, and creates difficulties for organisations wishing to move from one tier to another. A purely risk-based approach is sufficient, focussing on the capacities, competencies and activities of each organisation. CHFV notes that the UK model doesn’t involve a tiered approach. In an Australian context, regulation of the banking sector is not tiered – the overall regulatory approach to the “Big Four” banks is the same as that towards the smallest credit union, and is adjusted on a case-by-case basis according to the risk profile of each entity.

4. A Model For National Regulation

The introduction of a national regulatory approach represents both an opportunity and a risk for the community housing sector in Victoria. A model approximating Victoria’s system would be less problematic in adoption and hopefully would reduce the current onerous reporting burden of change, but risks replicating some of the flaws. A substantially different model is a much greater risk and would threaten to undermine the hard work and considerable advantages of the Victorian system.

CHFV emphasises that once the broad model of regulation is chosen, there must be a clear process of engagement with the community housing sector in determining the finer details of that model. CHFV would be delighted to lead that process of engagement in Victoria. Further we would encourage dialogue across all state and relevant national peaks.

4.1 Options for national regulation

CHFV believes that the most effective means of expanding the supply of social housing in Australia is by encouraging, enabling and, in part, funding the rapid growth of at-scale not-for-profit housing organisations. To achieve this, CHFV calls for the development of a single national regulatory system that demonstrably separates the roles of the regulator and the state housing authority, is administered at the jurisdictional or regional level and is underpinned by consistent standards and reporting across jurisdictions.

CHFV supports the creation of a national independent regulation advisory council reporting directly to the Federal Minister for Housing. The council should comprise representatives from Commonwealth, State and Territory governments, the housing sector, financial and investment institutions, and consumers (tenants) – and must be predicated on openness, transparency and consultation. While the primary role of the council would be the setting and monitoring of benchmarks and standards, it would be appropriate for the council to be given the initial role of rolling out the regulatory framework.

The regulatory framework must be designed to reduce the risk of “regulation by contract” by minimising the scope of contractual arrangements placed on housing providers by the funding government. CHFV notes that such contractual constraints are already having an impact in Victoria’s regulated housing environment. Changes to allocation and targeting requirements are posing risks in relation to the viability of growth projects and the sector’s relationship with financiers; and new interpretations of the Housing Provider Framework leasing agreement have created an unexpected financial burden for a large number of registered housing organisations.

CHFV also notes that the regulatory framework should be harmonised with – or even contained within – other regulatory frameworks such as Aged Care. CHFV encourages FaHCSIA to investigate the adoption of mutual recognition of performance against common standards in other frameworks. CHFV also urges that in the establishment of the national framework, any additional compliance costs incurred on top of existing compliance regimes be met by the Commonwealth.

While the primary focus of a regulator should be prudential supervision, accreditation and continuous quality improvement are also key elements of a national framework. Nonetheless, the administrative burden of quality assurance must not be so onerous that the organisation’s capacity to deliver quality services is impacted. CHFV notes that the purpose of empowering and regulating the sector for growth is to provide more quality affordable housing for tenants. CHFV notes that quality assurance systems should be administered centrally.

The FaHCSIA paper makes no reference to the intervention powers of a national regulator. CHFV believes that any intervention should have as its focus the security of tenure of the affected tenants, rather than the financial interests of investors and bankers. Discreet early intervention relies upon identifying poor performance against benchmarks, and should involve assisting an organisation to address their problems.

Our comments regarding the specific FaHCSIA options follow:

4.1.1 Option 1 – National accreditation combined with State/Territory regulation

This model does not appear to resolve the difficulties that large not-for-profit housing organisations face in operating across multiple jurisdictions. CHFV reiterates our concern that a national framework may result in additional or even duplicated reporting requirements for Victorian organisations already burdened by excessive red tape.

CHFV does support the creation of a national system of accreditation and quality assurance, provided that the reporting mechanisms for such a system are integrated with those of the regulator (if regulator and QA assessor are not the same body).

4.1.2 Option 2 – National Housing Associations

CHFV recognises that there are genuine advantages in having national housing associations operating in multiple jurisdictions. In particular, such organisations would be more attractive to investors as risk is spread across several markets. However, CHFV believes that other models of regulation are equally capable of enabling, assisting and encouraging cross-border operations of large housing providers.

Our main concern is that Option 2 risks dividing the sector. A robust not-for-profit housing sector relies on its diversity, and we as the peak body have responsibility in ensuring that the voices of medium and small providers are heard as well. Option 2 could create a small number of huge businesses with potentially little engagement in the broader community housing sector, and whose commercial power would be seen as threatening state-based providers of growth opportunities.

FaHCSIA suggests that such mega-providers “could grow to operate on a par with providers such as Defence Housing Australia and State and Territory Housing Authorities.” CHFV questions this assumption. DHA currently manages 17,000 properties and the Victorian State Housing Authority manages 65,207 properties, while the largest Victorian not-for-profit housing organisation manages just 2,000 properties. Even with the 13,000 transfer from public housing required to achieve a 35% community housing share in Victoria, no community housing provider will remotely approach the scale of DHA, let alone the Victorian State Housing Authority. It seems most unlikely in a social housing market as small as Australia’s that a competitive number of national housing associations could achieve this massive scale, and it would be counter-productive to create a scenario of only one or two not-for-profits at this scale.

FaHCSIA anticipates mergers and new entrants from the not-for-profit and private sectors. CHFV believes that new entrants would pose a genuine risk to the sector if they have no community sector experience, and we strongly oppose any model that enables entry by for-profit organisations whose main purpose is the maximisation of rental yield and dividends rather than the maximisation of life opportunities for their tenants. The recent experience of the Netherlands, where Housing Associations have increasingly pursued financial returns at the expense of social policy objectives, offers a stark warning of the risks associated with encouraging private sector engagement in social housing provision⁶.

FaHCSIA notes the possibility of national Housing Associations under this Option having eligibility for direct Commonwealth investment, e.g. through NAHA. We question how the State Housing Authority would maintain consistency in housing provision between the national Housing Association and the rest of sector, especially if the national Housing Association is directly funded by Commonwealth.

FaHCSIA correctly identifies the risk of “dividing the sector on the basis of size and capacity.” CHFV believes the risks are considerable. Existing Victorian

⁶ Travers M, Phillips R, Milligan V and Gilmour T (2010), Regulatory frameworks and their utility for the not-for-profit housing sector, Positioning Paper No. 127, AHURI, Melbourne.

Housing Associations are committed to diversity and supporting the sector, but mergers and new entrants could undermine this. The sector needs its strongest players to support state-based community housing activities.

4.1.3 Option 3: Referral of powers to Commonwealth

CHFV believes this option is politically unlikely and would take too long to implement, which would hamper the growth of the largest growth providers. CHFV believes this option also poses difficulties for the national regulator to have a constructive relationship with small providers.

4.1.4 Option 4: Harmonised State and Territory regulation

CHFV notes that this option, if adopted, must include agreement on mutual recognition, otherwise it would not be worth the long lead time in implementation.

4.1.5 Option 5: A State-hosted national regulator

CHFV believes this option does not offer any substantial advantage compared to Option 1 or Option 3.

4.2 Transitional arrangements

FaHCSIA states that nationally, 90% of providers manage less than 50 dwellings, and that the largest 4% of providers manage 43% of all tenancies. However, the introduction of regulation in Victoria has resulted in a very different housing landscape from that in the rest of Australia. In Victoria there are 12,052 dwellings managed by around 180 community housing organisations (including over 100 common equity rental cooperatives) – but of the 40 registered providers, only nine have fewer than 50 tenancies (22%) and there are no registered housing organisations managing fewer than 15 dwellings.

FaHCSIA states that the “emerging industry view appears to be that the ideal size for sustainable growth is 5000 dwellings per housing provider.” CHFV challenges this and would like to see what evidence FaHCSIA has to support such a claim, either nationally or overseas. Michael Newey of Broadland Housing Group in the UK recommends 3000 as the ideal size and believes that larger than this reduces an organisation’s ability to retain local links and community focus. There is no advantage in the introduction of a national regulatory framework encouraging the cloning of state housing authorities in scale or philosophy.

CHFV supports establishing a Government-funded advisory council and development fund, eg a Centre of Excellence and/or a Development Agency. However, we note that such a council cannot replace the role of a national community housing sector advocacy body with the independence to represent its members.

5. *Protecting The Interests Of Tenants In Community Housing*

5.1 The core functions of community housing – the tenants' perspective

CHFV notes that the definition of tenancy management fails to emphasise the importance of “management” of tenancies and instead focuses mainly on administrative tasks. Tenancy management is much more than a transactional process, and involves the skilful application of community development principles including empowerment of tenants. This, more than anything else, is what differentiates tenancy managers in community housing from property managers in real estate agencies.

CHFV would like to see the development of a true commitment to tenant empowerment throughout all social landlords in Australia.

5.2 Protecting Tenants' Rights

CHFV notes that this area is well established in Victoria, with policy on tenant complaints and appeals processes required as a condition of registration, and further support being available through the Victoria-wide Social Housing Advocacy and Support Program (SHASP) and the Homelessness Advocacy Service (HAS).

However much more could be done to create added social capital and engine rooms for stronger communities – particularly in disadvantaged communities.

5.3 The National Community Housing Standards

CHFV believes the NCHS cannot be used as the basis for a regulatory framework (as has happened in Victoria), as it is primarily a tenancy management practitioners' guide. Its role is therefore suited to accreditation and quality assurance purposes only.

6. *Commercial Activities Of The Not-For-Profit Housing Sector: Developing Social Enterprise*

CHFV believes a further area of commercial activity of significance to the social housing sector is the role community housing organisations can play in initiating and managing social enterprises that tackle community disadvantage.

CHFV notes that the National Rental Affordability Scheme has been a highly effective means of attracting private investment in the Australian affordable housing market, and we strongly encourage the Commonwealth to continue offering incentive rounds that enable moderate-sized applications

(i.e. a required minimum scale of no greater than 100 dwellings, as was the case in rounds one and two).

CHFV strongly advocates for the Commonwealth to investigate the options for a national affordable housing subsidy for tenants in social housing. A subsidy – possibly similar in form to the UK Housing Benefit - restricted to social housing tenants would ensure a guaranteed income stream for the community housing organisations, strengthening their attractiveness to financiers and investors. Considering this would ensure that Federal Government is aware of the extent of the internal state governments subsidy and its housing and make transparent the real cost of maintaining large chunks of public housing.

CHFV also believes in the need for a degree of predictability in availability of capital funding. This can best be achieved through a Commonwealth commitment to annual capital funding rounds. It is also essential that the leverage requirements for this capital funding are sufficiently flexible so as to maximise a range of housing outcomes, rather than imposing artificially-derived constraints on the sector's ability to house those on very low incomes or with high and complex needs.

We also note the option of Commonwealth housing bonds as a further financial vehicle for private sector investment.

You may wish to note that despite serious public funding constraints in Scotland there is at present a situation where local (public) authorities are borrowing money over a 60 year term to fund new affordable housing. They are then transferring title to local community housing organisations. The lower cost of long term borrowing benefits tenants in terms of the amount of rent they pay. This model represents a strong partnership between local government and the community housing sector.

6.1 Raising and allocating funding

CHFV notes that any consideration of commercial activities under a national regulatory framework must also take into the account the risks associated with charitable tax status.

6.2 The role of cost-effective private financing at scale

CHFV supports the suggestion that financiers may need to “adopt a preferential risk-weighting” for community housing organisations. We also note that while the risk-weighted return on investment in residential property is excellent, large-scale investment has not been supported through the creation of the necessary market instruments.

The Victorian approach to leverage is unique in Australia and should be mentioned. The Victorian approach to Nation Building will generate leverage of around \$170 million, and Victoria has already leveraged \$100m from the Victorian Government's successful 2007 Growth Strategy. These levels of leverage are a long way ahead of those in other jurisdictions – and they are not without their risks.

Lessons learned from the Victorian approach to leverage are critical – especially the need for flexibility in leverage requirements – otherwise the national framework for growth risks skewing new housing provision to a safe, homogenous middle band of households and away from providing for the most disadvantaged households.

CHFV believes much more work needs to be done to independently examine what the most cost effective private finance solutions are across Australia.

6.3 Rental income

CHFV strongly supports an approach to tenant mix that “optimises rental income while maintaining provision for disadvantaged households. However, non-growth providers should still be adequately supported in providing subsidised housing for low-income households, especially taking into account the additional costs relating to housing those with very low incomes and those with high and complex needs.

6.4 Protecting government investment in social housing assets

CHFV supports the FaHCSIA summary, provided the approach to national regulation doesn’t unreasonably impede growth providers, for example by imposing inflexible leverage requirements or failing to reflect the diversity of community housing organisation models and capacities.

6.5 Competitive allocation of funding

CHFV supports the principle of State housing authorities and community housing organisations having “access to capital funding on the same conditions.” We should compete with state authorities on a level playing field. Despite the development of community housing in Victoria for a number of years it is of serious concern to CHFV that the aims of community housing often appear to be misunderstood.

We are not sure whether the current competitive funding process actually ends up wasting valuable community and public resources. We would like to work on how these negative consequences of competitive funding could be ameliorated.

CHFV supports the option of “funds allocated on a regional or sub-regional basis in response to housing market pressures” and notes that this approach has already been taken by the Victorian Government in relation to allocation of funding for community housing organisations undertaking Nation Building projects.

7. *Strengthening Indigenous Community Housing*

CHFV is disappointed that Australia's largest indigenous community housing organisation, Aboriginal Housing Victoria (AHV), is not mentioned in this chapter. AHV has been at the cutting edge of innovation in the community housing sector, with the first large-scale common housing register (all Aboriginal housing applicants can choose whether to be listed for AHV vacancies or public housing vacancies or both) and with Victoria's largest stock transfer (AHV took over tenancy management of 1300 properties formerly administered by the State housing authority).

AHV's success and pre-eminent role in Victorian community housing is not only noteworthy in its own right but stands as a significant model for provision of indigenous housing elsewhere in Australia.

8 *About the consultation and submission process*

CHFV believes there are aspects of the Victorian approach to regulation and growth of the not-for-profit sector that can be improved. We also believe that the Victoria Government has in only six years achieved a robustly diverse, competitive, efficient, mature and growth-oriented sector that has the confidence of the private market, from builders and developers to financiers and investors.

There is much to learn from this success. Our members have expressed disappointment that the Victorian experience seems largely unreflected in the FaHCSIA discussion paper. The FaHCSIA paper fails to mention the unique experience of Victorian not-for-profits in delivering half of the \$1.5 billion in housing projects under Nation Building. We would like to contribute to the final FaHCSIA report to ensure that it incorporates and builds upon the learnings from the Victorian community housing sector.

9 *Conclusion*

CHFV aims to play a significant and constructive role in the growth of the affordable community housing sector in Victoria. We would be delighted to take up any further opportunities to elaborate on the ideas and comments in this submission or in further consultative processes.

For further comment, please contact:

Jacqui Watt

Chief Executive Officer

Community Housing Federation of Victoria

Lvl 5, 128 Exhibition St Melbourne 3000

Ph: 03 9654 6077; Fax: 03 9654 5133

Web: www.chfv.org.au