

ASSET MANAGEMENT IN SOCIAL HOUSING IN AUSTRALIA

By Dr Joe Flood
Adjunct Professor of Urban Development and Housing,
University of Canberra, Australia
urbanresources@bigpond.com

ABSTRACT: Asset management, consisting of property management and tenancy management, is also a philosophy that embraces a strategic life cycle approach to management, a general concern with social and environmental sustainability, and the establishment of formal roles and responsibilities.

The State Housing Authorities, the principal social landlords in Australia, have been wedged in a situation of very high demand, diminishing Commonwealth and State financial support, rising costs and reduced income from tenants who are now largely from the most marginalised groups. This has provided them with a substantial challenge in which more explicit and professional asset management practices and systems are playing a major role.

Estate improvement is now the major property-related focus of most SHAs, and during the 1990s the SHAs have developed asset management systems that are at the international leading edge. The strategies include:

- upgrading and reconfiguring the stock to the point where it is a genuine marketable asset;
- improving the social mix in areas where there are concentrations of entrenched social disadvantage, through redevelopment and sale to owner-occupiers;
- developing inner city housing or housing in more expensive locations to higher densities to improve returns on capital;
- tentative moves to place the more problematic areas that require higher levels of social intervention into community-based housing associations, where these have good records.

The systems in place or being developed include:

- long term asset strategies and medium term capital plans;
- options appraisal tools to determine what strategy to apply to particular groups of stock – often involving a time-based benefit-cost assessment and sensitivity analysis;
- Strategic dwelling condition assessment systems and asset registers;
- Networked systems for management reporting and database maintenance;
- Monitoring of joint ventures and estate redevelopments;
- Assessing compliance of options and strategies with organisational objectives, legislation, or risk management

These systems are operating at varied levels of effectiveness.

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Asset management refers both to a number of important activities in housing management and also to a generic approach or philosophy.

The activities are

- tenancy management, including property allocation, contracting with tenants, rent setting and collection, accounts, chasing arrears, and evictions or other sanctions;
- property management, including investment, acquisitions, disposals, condition assessment, property registers, refurbishing, and cyclical and urgent maintenance.

The philosophy involves

- A strategic life cycle approach to management, looking at whole-of-life costs for the property and a tradeoff between maintenance, refurbishment and acquisition
- A general concern with environmental, social and economic sustainability;
- The establishment of roles and responsibilities as part of a general strategy, including participation and stakeholder involvement.

This Chapter looks at these issues in the context of Australia's major social landlords, the State Housing Authorities (SHAs). It describes the changes to asset management policy that have been necessitated in the 1990s, as the SHAs have come to accept in the face of an unsympathetic policy environment that their primary function in the future will not be to try to meet the huge excess demand that exists for their services, but instead to use the stock they already have in the most effective way through restructure and rationalisation.

The main issues that have been facing the SHAs have been:¹

- Changing demographics, including the growth of smaller households, family breakup, the decline of rural areas, and larger numbers of older households, which all require significant changes to the stock;²
- Greater social inequality, mostly resulting from casualisation of the labour market and other neoliberal trade and capital account policies, that have put steadily increasing pressure on all forms of social welfare;
- Changing client base. Because most new tenants have special needs or are in a housing crisis situation, liaison must increasingly be made with social support agencies and extra costs of tenancy management are evident.
- Readjustment of strategies, adopting different strategies for dealing with highly pressurised metropolitan and coastal areas and declining regional areas. The balancing of social and economic strategies has also become an important task;
- Ageing housing stock. Over the past 50 years, the focus in public housing has been on expansion, generally at the expense of maintenance. The result is that States are now having to spend an increasingly significant share of capital funds to maintain and upgrade existing stock, parts of which were poorly and inappropriately designed and built.
- Dispersal of stock. All States have given some priority to addressing the problems of large public housing estates - particularly where design and location problems have contributed to significant social problems. Addressing these issues has often involved

¹ Drawn from Larkin (2001) and recent CSHA reports

² In South Australia 86 per cent of new applications are now from singles or single parents (SAHT 2003).

significant redevelopment and/or the break-up of the public housing estates, using mixed tenure strategies.

- Financial viability. Declining rent returns from an increasingly poor clientele is no longer sufficient to meet immediate costs, and funding originally earmarked for acquisitions or upgrading now has to be used to meet the deficit. As well, commercial and other debt was utilised by the States to varying degrees in the 1970s and 1980s in order to try to meet rapidly escalating demand. To ensure financial sustainability, the SHAs are using capital funds and asset sales to retire debt.

1. Social Landlords in Australia

Australia began in 1901 as a federation of six former penal and agricultural British colonies. Today following a number of waves of post-war immigration it has about 20 million inhabitants of diverse ethnic backgrounds. It is one of the most urbanised countries in the world: the five larger State capitals are primate cities with at least 60 per cent of the State population in their boundaries. Much of the huge interior is unsuited for settlement and is very sparsely populated. Special housing responses have been necessary for people living in these remote areas, especially the indigenous inhabitants, the Aboriginal and Torres Strait Islander (ATSI) people. The housing and re-housing of servicemen following two world wars has also played a significant role in housing policy.

Australia is primarily a nation of home owners, with about 70 per cent of households owning or buying their houses. The percentage of public stock is small, ranging from 4 per cent in Victoria to 12 per cent in South Australia. Most low-income people live in the private rental sector, which has about 23 per cent of the total stock. The total public stock is around 400 000 dwellings, valued at about AU\$30 billion.

Under the Constitution the States are equal partners with the Commonwealth, and retain primary responsibility for housing. Commonwealth involvement in social housing began in 1945 with the first Commonwealth-State Housing Agreement (CSHA), which has generally been renegotiated at five year intervals. Under the Agreement, the Commonwealth provides around \$800 million for housing annually to the States,³ which they partially match from their own sources.

Table 1: Number of dwellings and managing agencies by sector, June 2000.

<i>Sector</i>	<i>Dwellings</i>	<i>Agencies¹</i>
Public housing	362967	8
Community housing	24316	1000
Crisis housing	5507	1183
ATSI housing ²	23490	750
Government employee housing ³	25000	25
Defence housing	17000	1

Notes: 1. Approximate only. Includes managing agencies, not just owners.

2. About 11300 are in 700 Indigenous Community Housing Organisations (ICHOs) and the remainder is under the CSHA in various arrangements

3. Approximate only. Firm numbers could be obtained for only four States.

Source: Assembled from DFCS (2002) and various online resources.

³ From this must be subtracted about \$370 million a year that the States repay to the Commonwealth for earlier loans.

Each State (and two Territories) manages its own stock under broad general guidelines negotiated in the CSHA, in organisations that fall under one or more government ministry but are known collectively as the State Housing Authorities (SHAs). These organisations are the eight major social housing providers in Australia. As well, they act as the strategic planning body for the provision of most forms of housing assistance, and as the funder and regulator of community housing.

From the mid 1970s the Commonwealth began to provide fairly small amounts of “tied” funds to the States, for special purposes such as Crisis Housing, Community Housing and Aboriginal Housing. As Table 1 shows, about an eighth of the public stock is held in this way.

The community housing movement has taken root under a variety of arrangements, following the international lead. The 24 300 dwellings designated as Community Housing are managed and/or owned by as many as a thousand different Community Housing Organisations, constituted as

- Community Housing Associations on the European model, with professional management. Some of these are very innovative and activist. In New South Wales, there are 44 CHAs ranging in size from 30 to 800 houses.
- Cooperative housing, with low-income tenant management. These are usually much smaller, with 5 to 30 houses. In Victoria they are run under a Common Equity Rental Cooperative umbrella, where a single organisation owns the houses managed by 100 co-operatives.
- Church housing Churches own a good deal of urban land, and have been sympathetic to converting this land for low-cost housing. In NSW a single organisation now coordinates the setting up of church CHOs and constructs the stock.

Indigenous housing within and outside the CSHA is also mostly run according to one of these community housing models.

As well as public housing, the various levels of government have also commonly provided housing in remote areas for employees such as teachers, policemen and nurses. These are managed under a variety of different arrangements in different States. Employee housing has declined in importance but is still significant, as Table 1 shows. The Defence Housing Authority in particular is the second largest landlord in the country (after the State of New South Wales).

2. National context for asset management

From 1977 pressure was placed on housing authorities to target public housing only to poor people, and to charge market rents to those who could afford them. Increasing social inequality from that time caused demand for public housing to increase much more rapidly than acquisition could take place, and entry increasingly was restricted to the most needy households. Today about 90 per cent of public housing tenants are welfare recipients with low incomes. Public housing entry is now heavily prioritised towards people who are not only low income earners, but who are also in housing crisis situations, are disabled or have other special needs.⁴ As a result, the SHAs have overall been operating at an increasing net loss on their rental business for about ten years, which has to be made up from grant funds, sales and other economies. This has required them to handle their stock far more carefully than in the previous era of expansion.

⁴ Only in South Australia where both sides of parliament supported public housing in the post-war years, and in the Territories where the dominant employer was the Commonwealth Government, were sufficiently large stocks built up to attract middle income earners. Today, SA and the ACT have about 18 per cent of tenants paying market rents. Current national policy is aimed at removing these tenants.

A further impetus toward asset management much of the stock is now at the end of its economic life or it does not meet current needs. Concentrations of entrenched social disadvantage have developed in some public housing estates. Replacing this stock in-situ or through disposal and acquisition elsewhere have become legitimate concerns of SHAs, although they were never considered in the past because of the dislocation to tenants.

The CSHA was held in abeyance for much of the 1990s since agreement could not be reached on a proposal to cancel Federal capital funding and provide recurrent housing allowances to government tenants instead. The new 2003 CSHA has retained the existing system, offering somewhat reduced funding to the States, with part of it withheld unless they can demonstrate they have acted to reduce “poverty traps” or workforce disincentives, and to increase private sector involvement in social housing provision.⁵ Other proposed reforms are to increase the proportion of income paid by tenants as rent, and to negotiate term leases so that middle-income tenants can be removed from the stock.

2.1 Regulations

The bilateral agreements of the 1999 CSHA require the States to

- assist those whose needs for appropriate housing cannot be met by the private market,
- provide assistance for the duration of need,
- promote alternative methods of housing provision,
- ensure that the costs of assistance are transparent, and
- provide assistance in a way that minimises workforce disincentives.⁶

Under the CSHA the States are required to charge market rents to higher income tenants. These are regularly reviewed. However about 90 per cent of tenants are “rebated”, which means they pay no more than 25 per cent of their income as rent.⁷ This means that the SHAs cannot vary rents received to any extent. The CSHA also requires the SHAs to obtain a replacement dwelling for any that have been sold or otherwise disposed of,⁸ which must be at market value.

Otherwise, the SHAs manage the stock as they see fit, subject to State policy.

2.2 Supervision of Community Housing

According to the 1999 CSHA, the challenge for the community housing sector is to prove that it is both viable and responsive to need. Community housing organisations are accredited and monitored by the States, but have been otherwise largely unregulated. The Community Housing Federation of Australia⁹ acts as a peak body for the sector and there are equivalent community housing federations in each State. These bodies are responsible for networking, encouraging good practice and service standards. Some States are developing a regulatory framework for community housing.¹⁰ National Community Housing Standards are currently being negotiated and adopted.

⁵ Commonwealth Budget 2003,

<http://www.chp.org.au/Miscellaneous/FamilyandCommunityServicesCommonwealthBudget2003.doc>

⁶ DFCS (2002)

⁷ Up until 1996 the maximum allowed ratio was 20 per cent of income. The median is now about 23 per cent.

⁸ This requirement seems to have been abandoned in recent years, as since 1996 it is no longer mandatory for the SHAs to use capital funds for capital purposes.

⁹ www.chfa.com.au

¹⁰ See, for example, http://www.housing.qld.gov.au/strategic_policy/legislation/expl_chr.htm, or Clough *et al* (2003).

2.3 Financial support

Funds come from two main government sources - the Commonwealth which provides capital funding to the States, formerly as loans but now as grants, and circulating funds from the existing asset base and from repayments from the portfolio of earlier concessional loans to home owners. In the late 1980s, as lower income people increasingly came to dominate the stock, substantial recurrent deficits began to be recorded and the capital funding of the CSHA was increasingly used to meet the deficit, while money began to be borrowed from private sources in some States. This threatened the sustainability of the system and had to be discontinued.

In the neoliberal nineties, the amount of funds provided for public housing has fallen by about 30 per cent in real terms, in favour of rent allowances provided to private renters.¹¹ This has forced the States to “do more with less”. Acquisitions have become very few and the focus has moved to repairing the existing stock and managing it better.

It is generally agreed in housing policy circles (but not in general government circles) that all those on rent allowances (about 940 000 people) would be better accommodated in public housing. It would thus require a doubling of the stock to house even the poorest members of the community adequately. However, this aim has now largely been abandoned as the SHAs increasingly see themselves as just one player in the business of providing affordable housing for low income earners.

2.4 Housing market

Until recently the housing authorities have only been marginally interested in broader housing market issues. This is because their stock is too small to have much effect on broader markets, and because the market conditions they face are always the same – extreme shortage, with waiting lists of up to five years. With some SHAs now choosing to rationalise or even sell a portion of their stock, and with joint ventures becoming a common practice, market conditions are likely to occupy more prominence in management deliberations.

Apart from their prime business of managing public housing, the SHAs have always been involved in various programmes to help lower income people in the broader housing market, through such programs as concessional home purchase assistance, and bond and relocation assistance for private renters.

3. Asset management practice.

Each State (and to some extent, each landlord) has its own approach to asset management, which depends on their stock, local conditions, historical factors, and the policies introduced by successive State governments. All have now taken on board the necessity for asset management, rather than past *ad hoc* approaches that involved a scramble for acquisitions, on-call repair, allocation by convenience and client management by fiat, though the extent to which formal asset management is actually being practiced differs markedly between sectors and jurisdictions.

It is also true that many practitioners do not understand exactly what asset management is, or take a quite narrow view. In the early 1990s most asset management strategies were concerned largely with physical renewal. Recognition of the need to integrate social and

¹¹ The Commonwealth Rent Assistance Program mostly pays a fixed weekly allowance depending on family type to about 940 000 low income people in private rental tenure, through the Social Security system. Outlays have more than quadrupled since it was first introduced in its current form in 1985 and are now about AU\$1.9 billion annually.

economic concerns grew in the 1990s, which are now part of “whole of government” or “place management” strategies.

The SHAs have now become considerably more professional in their asset management practices. Prior to the 1990s, poor records were kept of the properties, tenants and waiting lists through primitive database systems that in some cases could not be altered once a record had been entered, and asset management was conducted through short-term bureaucratic procedures rather than any longer term strategy. This matched the expediencies associated with short government election cycle (typically three years) that made it extremely difficult for any class of infrastructure to be managed on the longer time frames required. In some cases housing was deliberately acquired which could not be easily traded, in order to protect it from succeeding governments. Housing was never regarded as an asset that might be managed or sold, but as a one-off budget cost. For that reason, State Treasuries were exceedingly reluctant to spend on housing, regarding it as a Commonwealth welfare activity.

From the mid 1980s the winds of managerialism swept through public housing, at the same time as they were being transformed into social welfare organisations. The new class of intermediate manager was often female, generally trained in social welfare or public administration rather than civil engineering, and client-oriented rather than stock-oriented. The result has been that direct bricks-and-mortar concerns have moved to the background in favour of financial management and client management approaches. These are exactly the required skills in a situation of steady or shrinking stocks housing a client base with special needs requiring case management or other interventions.

3.1 Acquisitions

For most of their history, expanding the housing stock was the primary aim of the SHAs, particularly from the mid 1970s when waiting lists began to grow. As with public housing elsewhere, this was initially done through slum renewal, and through greenfields estate construction at the edge of town.

With the economic circumstances of clients rapidly falling through targeting in a context of increasing social inequality, it was soon realised that these strategies were creating large poorly located estates of underprivileged people. Various attempts to obtain a better mix of housing were tried, including spot purchase of existing dwellings in Victoria and South Australia, infill medium density construction in better-located areas, and headleasing from private landlords in New South Wales. These programmes were not always successful in deconcentrating the stock, since economy required purchases to be made in cheaper areas that were often socially disadvantaged.

NSW in particular has tried a number of partnership approaches with the private sector to build or finance housing. For about twenty years it has been involved in complex joint ventures and other arrangements with large enterprises or banks to acquire housing or to take pressure off public housing with home ownership loans to low-middle income earners.

These have not been regarded as particularly successful because of the lack of security of tenants under most such arrangements, and the heavy level of subsidy necessary. Few current joint ventures in any State involve housing management by the private sector, but rather joint development of sites (see Box 1). Leasing dwellings directly from private landlords is also practiced to a small extent.

However, alternative financing and delivering models will increasingly come into focus under the conditions of the 2003 CSHA.¹² Partnerships in particular are likely to become a normal feature and widely used option for project development in all SHAs.

¹² See for example Berry *et al.* (1997), Berry and Hall (2001), McNelis *et al.* (1999), and http://www.dhhs.tas.gov.au/housing/ahs/pdfs/bg_paper_5_financing_models.pdf

Community and emergency housing has also been acquired under a wider range of arrangements than in usual for public housing, and innovative approaches have been tried including purchasing and renovation of older large dwellings, and leasing from the private sector. The community sector has in several cases been able to acquire housing in more innovative ways than vanilla public housing, through their greater knowledge of the local scene and their more flexible financial procedures. Bayside (formerly St Kilda) in Melbourne began as a local government response in an area where there were many social problems but no public housing, and through innovative acquisition managed to obtain a first rate and unusual stock at low cost, including disused fire stations, old mansions, and apartment buildings with spectacular bay views.

3.2 Rent setting

Following the Henderson Report on Poverty in 1977, States were encouraged to charge market rents and target poor households, making subsidies explicit. For most of the 1980s, the SHAs in fact attempted to implement a cost-rent formula for public housing which was never fully resolved, and all States eventually reverted to a “market rent” formulation. Nominal rents steadily rose until a reasonable approximation to market rents was “charged”.

In practice these formulae were largely irrelevant both to the housing authorities and the tenants, since almost all the tenants were “rebated” or subsidised and paid a fixed proportion of their incomes to the landlord. By the late 1980s this was no longer enough to meet even the immediate costs of repairs, administration, council rates and interest payments on past Commonwealth loans. The States were therefore forced to use an increasing proportion of their capital allocation to meet the recurrent shortfall, to the point where most States now make almost no new acquisitions, despite the long waiting list.

Community housing also has very low income tenants, with the vast majority on less than 50 per cent of average household income, and 75 per cent on statutory incomes. However the sector has been rather more able to manoeuvre since rents are more typically 25 per cent of tenant income, possibly providing a small excess for capital purposes. A few housing associations and co-operatives have therefore made limited use of mortgage finance in order to purchase equity or increase their housing stock.¹³ There has been a considerable debate as to whether tenants of community housing run under the CSHA are eligible for (private rental) Rent Allowances. This is extremely valuable since the landlords can make use of this to meet the operating deficit while meeting affordability standards for the tenants.

3.3 Allocations and eligibility

Eligibility for the waiting lists is based on household income limits that vary by State.¹⁴ Because most waiting lists are 3 to 5 years long, in practice allocation is made on a two-tier priority system that in most States gives preference on a case by case basis to people who are in an emergency situation, have disabilities or are homeless.

The actual allocation of dwellings is commonly achieved by giving a client three choices related to their family circumstances and preferred location zone,¹⁵ and if none are acceptable the client goes back to the bottom of the list. Transfers of existing tenants within the stock are also quite common.

Client eligibility for community housing is generally the same as for public housing, but different interest groups may add their own selection procedures for membership (e.g. women, disabled, aged, students, particular local government areas etc).

¹³ Brian Elton and Associates (2000), <http://www.nchf.org.au/finance.htm>

¹⁴ DHCS (2002), Appendix G. South Australia with its larger stock has much higher income limits.

¹⁵ In New South Wales, clients must accept the first allocation.

3.4 Sales

From 1956-1972 under conservative governments, significant proportions of the better-quality and better-located stock were sold off to sitting tenants at a discount (Hayward 1996). Since that time, the CSHA rule has been that property must be sold at market value. Sales to tenants are supported, at market value less the value of any improvements made by the tenants, and are exempt from stamp duty.

Current circumstances have encouraged some housing authorities to adopt private-sector methods in rationalising stock, selling off less useful stock or stock in excess supply (such as three bedroom detached housing, or housing in declining rural areas or where job opportunities have failed to materialise) and replacing it with housing more suited to client demand. Sales are also used as a means of diversifying the social situation in large estates. Overall, sales are running at about 6800 per year or about 2 per cent of the stock, slightly more than acquisitions.

Some public housing design styles have turned out to be inappropriate to the new reality of welfare housing. For example, Radburn-style estates popular in the 1970s with dwellings facing cul-de-sacs, and footpaths connecting houses on public open space, were intended to engender a pleasant community with reduced traffic risk. As the need to house priority cases has increased, these areas have experienced an increasing concentration of disadvantaged households. This planning design has turned out to be inappropriate in a situation of uniformly low income and social breakdown, since poorly monitored public areas may become dangerous, and it is difficult to introduce home owners into the area to obtain a better social mix. In order to sell part of the stock to private buyers, it has been necessary to reconfigure road and dwelling layouts to conventional block form, to obtain separate titles for the dwellings, and to sell or otherwise privatise redundant public open space.

In a number of cases stock has been divested to the community sector. About a third of the South Australian loss has been to Aboriginal and Defence Housing. NSW is proposing to pass further stock on to Argyle Community Housing in Sydney, which has been able to manage housing successfully in estates regarded as among the worst, through community-based action.

Box 1. South Australia sales programme¹⁶

In South Australia, which developed using a manufacturing industry base, public housing started as “worker housing” in 1937 and was integrated with various government enterprises, including factories and shopping centres. A substantial stock was acquired in the post-war years, so that something closer to a European-style social housing sector was developed, occupied by a partly middle class clientele. Because the sector was seen as a genuine alternative tenure, eligibility requirements for entry were much less stringent than elsewhere and waiting lists were much longer.

From the mid-1970s the public enterprises were divested. The loss of manufacturing employment meant that the State underwent a long-drawn out “rust belt” recession and poverty trebled. The SA government borrowed substantial funds at market rates for public housing to try to improve and increase the stock. Because Commonwealth funding in the 1990s came to be provided proportionally to population rather than the size of the housing stock, SA was hit particularly hard. Federal funding reduced by 60 per cent in real terms over the past ten years, and rent received from increasingly poor tenants also fell by 25 per cent in real terms, with both trends expected to continue. By the mid 1990s the rapidly increasing deficit per dwelling meant that action had to be taken to remove stock that was unpopular, of poor quality or contributing to social problems, and to apply the proceeds to obtaining better housing, to reduce the deficit and retire debt.¹⁷ A plan was put forward to reduce the size of the stock from 63 000 to 42 000 dwellings.

The situation was treated as a challenge rather than a crisis. A key element in this strategy was the use of computer based options appraisal tools to determine what strategy to apply to particular groups of stock – to retain, renovate, sell as is, upgrade and sell, demolish and subdivide, or joint venture. At the project level quite detailed financial analyses are done, with outputs including net present value, internal rate of return and return on equity. Normally projects are self-funding through sales. A policy published in 1996 focuses on the rights of tenants affected, but it makes it quite clear that relocation will be required in some circumstances.

At Mitchell Park, 9 km south of Adelaide, close to the Mitsubishi car factory, 75 per cent of stock was in public ownership and the semi-detached double units were no longer in demand. Asset management problems of declining values, increasing maintenance costs and high vacancy rates needed to be addressed, and pressure on local social services was excessive. Following sale of most of the allotments, Community Perceptions Studies showed improved quality of life, while maintenance costs were reduced from \$823 per dwelling per annum down to \$230.

North Salisbury, a suburb 20 km north of central Adelaide developed to service engineering firms and a large arms factory, has 40 per cent public housing and the highest deprivation level in the State. The South Australian Housing Trust is implementing a master plan to reduce the concentration of public housing to 15 per cent by demolishing poor quality semi-detached houses and blocks of units and selling the sites to five private developers in stages. The local government is cooperating by upgrading roads and community facilities.

The Parks area, 7 km from Adelaide, is one of the largest urban renewal projects in Australia. A formal joint venture has been established with Urban Pacific, a major developer. All but 450 of 2840 public dwellings, mostly dating from the immediate post-war era, will be demolished, and housing density will be increased. To make the project self-funding, 3.5 old dwellings will be swapped for one new one. Risk is shared, so that the Trust will receive a proportion of increasing land values. Social and employment/skills development programs will be provided, and the existing strong community networks and the impact of relocations will be taken into account.

¹⁶ SAHT (2003), SGS (1997) Appendix 2, Larkin (2001).

¹⁷ The Common Public Borrowing high cost debt was finally retired in 1999 (SAHT 2001). The stock has already been reduced to 49 000 (SAHT 2003).

3.5 Maintenance and renewal

Maintenance is still mostly conducted in the traditional manner, in response to direct demand from individual tenants or under longer-term regular replacement schedules. The latter has been made easier by the construction of full asset registers that make it possible to prepare for replacement of various components well in advance, and on an estate basis. Optimal maintenance/replacement analysis is not widely conducted, except in the context of estate renewal – although there is now greater awareness of the possibilities (see Boxes 1 to 3).

In some estates, tenant committees have been formed that manage the local maintenance budget in accordance with their priorities rather than on a whole-stock basis.

The real problem is that in the past, a long-term life cycle approach to the stock was not applied and funds accumulated for future repairs are quite inadequate. This means that in some States, the whole capital budget is not sufficient to meet projected repair costs. Estate renewal has become the major focus of activity, as Boxes 1 to 3 demonstrate.

Increasingly, the life cycle performance of the underlying asset base has come under scrutiny, with more formal means of assessing stock condition and the timing of various maintenance strategies or other options coming into use.¹⁸ Most landlords are seeking to realign maintenance expenditure from responsive to preventive and programmed maintenance, and also to reduce the maintenance bill by replacing old housing with newer, better quality housing more in line with modern community standards.

Community housing is generally newer and does not face the maintenance challenges of the older-generation public stock. Tenants also often pay bonds, which can be helpful in preserving property condition.

However ATSI housing in particular suffers extremely high levels of damage due to high occupancy rates and cultural differences in the use of housing (with the stock typically depreciating at around 10 per cent per annum) and a great deal of effort has been put into developing design, repair and maintenance strategies for the sector (see Flood 2002 and SGS/Urban Resources 1999). Community-based housing for older people is also facing a major asset management crisis, since like public housing, retirement villages were built using government capital funding with no vested provision for depreciation or major repairs.

Defence housing has been criticised in the past as being of poor condition, and the Defence Service Homes Authority has also been engaged in an extensive programme of upgrading and rationalizing its stock using a similar approach to the SHAs.

3.6 Considerations and strategies of landlords in investment decisions

The SHAs are large, autonomous organisations and have had access to significant resources and expertise for planning and management, as well as access to research funding. It is in the areas of formal strategic management and asset management that most of the advances of the last decade have been made. Asset management has been recognised as the key to successful handling of the stock, and all States have set up sophisticated formal asset management mechanisms, which may include business planning, options appraisal systems, stock condition assessment, asset registers, online property management systems, planned maintenance schedules, and risk assessment.

¹⁸ See for example Tucker *et al.* (1996) or http://www.housing.qld.gov.au/builders/psi/psi_data.htm for the development of a formal Stock Condition Index based on a detailed analysis of various building components.

Box 2. Asset management and Options Appraisal in New South Wales¹⁹

New South Wales, easily the largest landlord with about 127 500 dwellings, has always tended to be the most active of the States in finding alternative solutions to the financial and asset problem. As the “global city” Sydney is the most prone to residential segregation and has the highest house prices. The SHA has been criticised in the past for establishing large estates on the edge of town which now have some of the worst social problems.²⁰ The stock is considered inappropriate in location, quality and form (in particular too many three bedroom family houses built for conditions of the 1950s to 1970s). NSW therefore has good reason to consider how best to use its stock in the different parts of the city, and how to balance acquisition with maintenance and renewal strategies.

Overall, the major strategies that have been adopted in NSW are:

- a) all new capital funds are to be spent on upgrading the existing stock to the point where it is a genuine marketable asset and provides good quality accommodation.
- b) There are tentative moves to place the more problematic areas that require higher levels of social intervention into community –based housing associations.
- c) There has always been a shortage of inner city housing and housing in more expensive locations. Existing sites will be developed to higher densities.

NSW has developed an Options Appraisal System that is generally considered to be the most comprehensive formalised evaluation system in place. The options appraisal analysis is undertaken in two parts which are brought together to provide the overall assessment of the relative worth of different approaches or options to renewal.

First, identification of issues, goals and available alternatives is achieved through widespread consultation and the agreement of all the relevant arms of the organisation.

The financial component of the system is a Cost Benefit assessment of alternative strategies, making use of data such as

- Average value of dwelling
- Average value after improvements
- Market rents
- Acquisition costs
- Improvement costs
- Specific costs relating to such things as road works, titling, disposal etc.

Sensitivity analysis is used to ensure that the impact of alternative assumptions is fully understood. The output of this stage of the analysis is a set of conventional economic evaluation measures.

Finally, the assessment of policy goals is designed to measure the extent to which outcomes will meet the Department’s policy goals. The bringing together of the two strands ensures that the overall assessment measures goal achievement in the light of the efficiency with which it is achieved.

Also under development are: a commercial investment system, a strategic dwelling performance measurement system, local area plans, condition assessment, and programme and project appraisal systems.

The New South Wales approach to stock management is interesting in that to some extent it seeks to emulate the operation of the private market within the public system. Under market forces, more desirable areas have higher land prices and therefore are built to higher densities.. By redeveloping high-cost areas at higher densities, the SHA is duplicating the

¹⁹ SGS (1997).

²⁰ The Department of Housing actually moved its operational offices to Liverpool near the western urban fringe about 15 years ago, as part of a general State decentralisation policy but also because the majority of the clientele are in the west.

effects of the market without the intervention of a pricing mechanism. It also means that more intensive use is made of the high valued sites, with more rents being received. So far, other States have not been so market-oriented in their approach to redevelopment, and are more concerned with reducing costs and client welfare.

All SHAs are making use of formal decision-making tools. For example, the smallest State housing authority, Housing Tasmania, with a stock of 13 200 dwellings, has an Asset Decision Making Model using a variety of data extracted from the Tasmanian Housing Information System to identify nonperforming properties. The Preliminary Asset Decision Making Model analysis identifies a broad range of properties that exhibit some or the full range of negative performance attributes, with these properties then subject of further assessment and analysis in order to prioritise disposal (FACS 2003).

Some parts of the Community Housing Sector and the ATSI Housing sector have poor managerial capacity and have found themselves near bankruptcy. A strong emphasis has been placed on correcting the situation through training, through manuals describing the whole range of asset management activities, and by replicating good practice.²¹ To improve performance, accreditation of Community Housing Organisations is practiced, National Awards for Excellence in Asset Management are conducted annually,²² and a National Regulatory Framework is under negotiation.

3.6 Structuring the decision making process

A strong top-down emphasis on performance management has been evident in government in Australia in the last decade, particularly the use of performance indicators as a means of monitoring national goals. Data on the diverse CSHA programs had always been collected and aggregated as part of the reporting process to the Commonwealth, though numbers were seldom reliable. From the mid 1990s an attempt was made to develop and benchmark a set of performance indicators, based on a framework common to all government activities. Initially these indicators were rather clumsy, concentrating on a rather narrow set of internal efficiency procedures in delivering housing, and were not at all integrated into SHA decision making processes (Urban Resources and SGS 1999, Burke and Hayward 1999). They have been improved in recent years, and now *inter alia* deal with client satisfaction with the stock.

The collection of these indicators is rather patchy; and standardised methods of calculating the indicators using the different State data collection and monitoring systems have yet to be firmly established. As a result, reporting is not consistent. So far, the mechanism by which these indicators are to be articulated into actual policy change has yet to be determined. Also, bottom-up benchmarking between States to replicate best practice and to establish concordance of procedures is in its infancy.

3.7 Methods for estate assessment

As indicated in Section 3.6 and Boxes 1-3, all the SHAs are using formal methods and monitoring to some extent, at the level of the whole stock, for particular estates, and increasingly for single dwellings. The linking of outcomes to management strategies has always been informally practiced to some extent and now more formal mechanisms are coming into play, with financial analyses undertaken for all regeneration proposals.

²¹ See SGS and Urban Resources (1999).

²² <http://www.nchf.org.au/awards2001a.htm#ppha>

Box 3. Asset management in Victoria

Victoria has had a rather more social welfare oriented public housing policy than New South Wales. Depending on the government in power, new initiatives in the 1980s focused on self help (such as urban homesteading) or empowerment (rental cooperatives). A large infill programme of building on inner sites, and a spot purchase program of buying existing housing rather than building new housing was tried from 1982, with the aim of achieving a better mix of stock. The latter had its own problems in that firstly the new stock generally required substantial and expensive refitting and rehabilitation, while upper limits on purchasing price meant that stock could only be bought in the cheaper suburbs.

Today the Office of Housing stock portfolio comprises over 72,000 rental dwellings with a total value in excess of AU\$7.8 billion, supported by an annual capital program budget exceeding \$400 million. The Strategic Asset Management (SAM) Branch is responsible for setting capital program strategic directions and monitoring the performance of the social housing asset portfolio. Major functions include:

- Establishing a 10 year Asset Strategy to ensure the portfolio improves access to appropriate and affordable public and community managed housing;
- Within this 10 Year Asset Strategy, formulation of 4- year capital plans for acquisition, disposal, redevelopment, and upgrade programs;
- Assessing the viability and progress of all joint ventures and estate redevelopments and where those involve Office of Housing commercial interest, overseeing project management;
- Maintaining and developing electronic systems for management reporting and managing the capital program and property condition databases.

All rental properties are planned for inspection at least once every five years. A range of property condition elements are inspected and reported on. This information is recorded onto the Office of Housing Property Management System so that the Office of Housing can choose consistently from a variety of capital actions inclusive of acquisition, upgrade, redevelopment and disposal. A future trends assessment is conducted for stock being appraised, with stock categorised by local managers into 5 year bands in terms of likely future viability. Stock in the shortest time band will only be subject to responsive repairs and may be considered for sale or redevelopment.

The present property reporting system has been in place for seven years and it is now undergoing review with regard to improving data quality and timeliness, to establish better human resource capacity to meet inspection regime demands, and to develop strategic computer-based tools. Core computing systems are now under replacement to improve capacity. The new system under development is intended to have the following capabilities:²³

- A property condition database with capacity to deploy data in decision-making regarding asset management strategies and programs;
- Property actions that will produce effective and affordable short and long term improvements in the condition of housing assets;
- Resource deployment decisions that will maximise the capacity to respond efficiently and effectively to trends revealed by property condition data;
- Budget forecasting and budget allocations between often competing needs of property acquisition (future clients), and property maintenance (current clients) requirements;
- The formulation of short and long term upgrade and maintenance programs;
- The formulation of property disposal and asset re-investment programs, and
- The demonstration of compliance with legislative and policy requirements regarding risk management.

²³ Tender document, *Asset Management System Victoria*. The tender was let to a British firm.

4. Conclusion

From the late 1980s the SHAs have been wedged in a situation of very high demand, rapidly increasing operating costs, diminishing Commonwealth and State financial support and reduced income from tenants. This has provided them with a substantial challenge in which more explicit and professional asset management practices and systems must play a major role.

Under neoliberal policies and international competitive pressures, the chances of increases in social housing funding in Australia are slim but demand will remain high or increase. Making use of the existing stock to its fullest extent and restricting occupancy to only the poorest and most marginalised tenants will be the only option for SHAs.

Most SHAs have adopted fairly comprehensive asset renewal programmes, strategies and systems in line with current practice, and often as a result of estate renewal plans from the early 1990s. Renewal strategies for highly disadvantaged local communities remain high on the agenda; the redevelopment of the physical environment is seen as a focal point for engaging the community in a process of development. Increasingly, social and economic criteria have been introduced into these plans as part of a “whole of government” or community development approach, as in other countries.

It remains to be seen to what extent better management and planning of asset strategies can compensate for a lack of funding, or whether strategies can be sustained in the face of an always volatile political agenda. The limits to housing-led interventions have yet to be established, or indeed what criteria can be established to know whether community based interventions have worked. The question also remains, as Randolph (2000) points out, how can we build communities and replace or displace them at the same time, which seems to be an inevitable result of asset-based strategies.

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ATTACHMENT.

FINANCIAL SUSTAINABILITY OF PUBLIC HOUSING AND THE RECURRENT DEFICIT*

**J Flood
Urban Resources**

SUMMARY. Because of the low incomes of public housing tenants in Australia, the business has never been sustainable. Unlike other similar public businesses, no Community Service Obligations have been provided to the sector. The situation has been disguised by large capital inputs and the lack of vesting of depreciation provisions. As time has proceeded, tenants have become poorer and the stock has become older, the tenancy manager deficit has become more obvious and has continued to eat into capital funds – which also have lessened in recent years. The SHAs have responded in a number of ways, none of which have addressed the underlying problem – that true costs continue to rise approximately in line with property values but rents received rise at best only in line with inflation.

A first blowout in the deficit occurred in the 1980s. The response was identified in the Staples Review of 1988 and enshrined in the 1989 CSHA – to reduce debt, turn all Commonwealth funds into loans, and make the States supply grant funding. Efforts have subsequently been made to reduce the repair bill through estate renewal. These strategies, which were always stopgaps, are no longer working and the SHAs are now entering a second period of fiscal crisis.

A simulation is conducted which suggests that on current trends that:

- a) the SHAs are already running at both a gross and a nett deficit;
- b) the stock will decline with a half-life of 35-50 years as it is sold to meet the deficit;
- c) the SHAs will have to discontinue all non-core activities;
- d) rents would have to be increased at over 3% per annum indefinitely to arrest the situation

The only solution is to charge full cost rents. This involves changing completely the basis on which public housing is financed so that the net deficit is eliminated. Also, the data reporting arrangements for the CSHA must be modified so that these issues can be monitored, as during the period 1986-94.

Attachment to “Asset management in social housing in Australia”, paper to National Housing Conference, Adelaide, November 2003.

* Thanks to Jon Hall for valuable discussions on these issues; however the opinions expressed are entirely those of the author

FINANCIAL SUSTAINABILITY OF PUBLIC HOUSING

AND THE DEFICIT

The problem.

Public housing in Australia differs from its counterparts in Europe in that it has always been a small part of the stock and has tended to house relatively few middle-income people. As a result, tenants have never paid the full costs of operating the stock. Until 1996 the public housing stock was expanding using large capital payments from the Commonwealth and States, and the tenant manager deficit, which had been a relatively small part of the total budget of the SHAs, was able to be easily absorbed. Now that expansion has stopped due to a fall in grant funding and an emphasis on upgrading an aging stock, the deficit takes on considerably more significance.

In Europe the response to the same problem was to provide the tenants with housing allowances and to charge full cost rent on the stock. This has not been done in Australia – even though the situation is much more serious here because of the very low incomes of tenants.

The deficit crisis of the 1980s

The original cause of the deficit was a selloff of much of the better stock to middle income tenants in the 1960s and 1970s (Hayward 1996), followed by a push to welfare housing rather than social housing – without any change in the way public housing was funded. These were the preconditions for a full-blown crisis that began to emerge by 1982, when all States except Queensland and the Northern Territory went into deficit on the tenancy management account for the first time.

This first blowout in the deficit was largely as a result of liberalisation pressures both in labour markets and financial markets. Firstly, social inequality deepened rapidly in the 1980s and waiting lists began to lengthen. The response of the States in the face of rising demand was to acquire housing at a rapid rate through the use initially of Nominated Loan Council Funds, then later through State borrowings at commercial rates, which was made possible by deregulation.

Flood (1988) attributed the burgeoning deficit to three factors:

- the increasing proportion of low-income tenants, who were unable to pay the recurrent costs of public housing, especially the interest and depreciation components;
- increasing internal costs of housing authorities, and difficulties in setting rents to match these costs; and
- the increasing interest bill due to Loan Council and commercial borrowings.

Figure A1 shows the deficit per dwelling in real terms as the difference between rents and expenses, at its peak in 1986 through to the present. Real rents fell very fast between 1983 and 1987 as the proportion of rebated tenants rose from 56 per cent to 70.2 per cent.²⁴ In response the States began to push rents to non-rebated tenants towards cost rent or market rent levels. As Figure A1 shows, rents per dwelling rose modestly in real terms from 1986 to 1992.

²⁴ Rebated tenants were only 15 per cent in 1968, according to Hayward (1996).

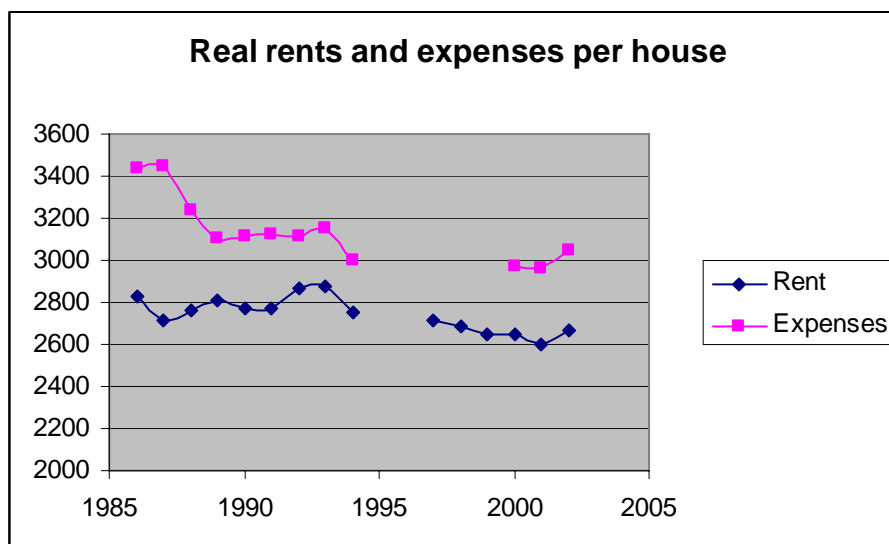


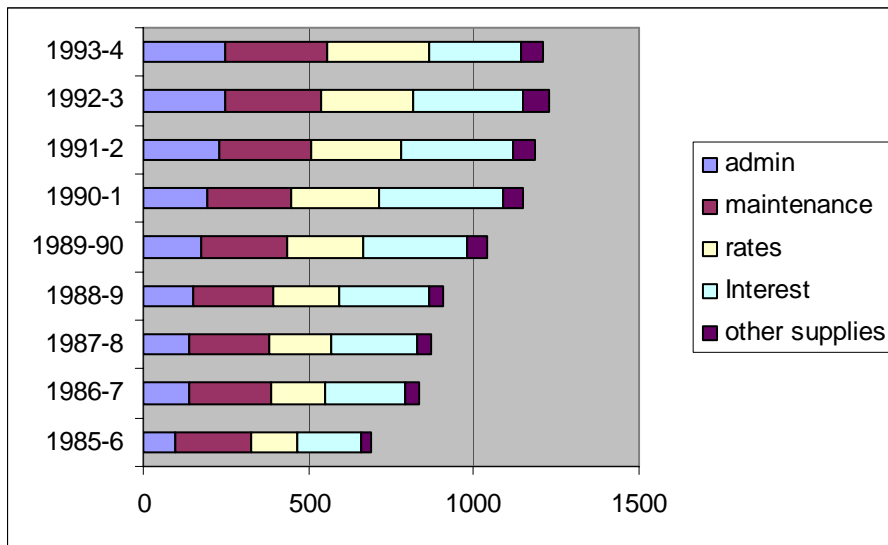
Figure A1. Real annual rents and expenses per dwelling, 1990 values.

During this period, expenses overall appeared to fall, but this masked the underlying trends in the various components of cost. Administration costs and rates rose rapidly (per dwelling in real terms, at an average 2.3 per cent and 0.8 per cent per annum) but maintenance expenditures per dwelling actually fell (at 4.4 per cent per annum). This was due in part to the newer stock as a result of rapid expansion, but more significantly part of the bill was moved onto the capital account through estate improvement and major upgrading initiatives. The lowered maintenance coupled with rising rents actually halved the tenancy manager deficit.

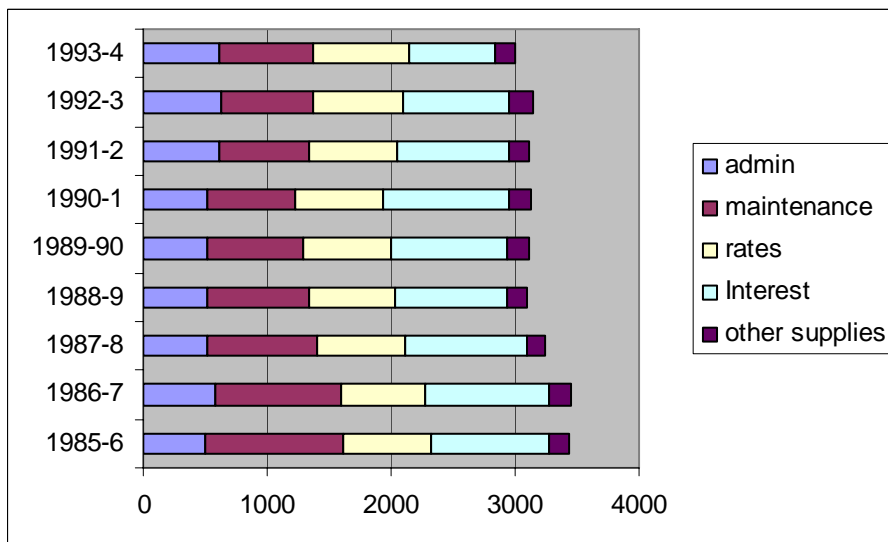
Significant also was a fall in interest payments by the SHAs after 1990. This followed the (largely unpublicised) Staples Review in 1988 which commissioned the first significant studies on the financing of housing policy undertaken in Australia. Flood (1988) showed that rebated tenants could barely afford to pay the direct costs of public housing and could not meet any interest payments at all. As a result, the 1989 CSHA converted all future Commonwealth CSHA payments from loans to grants, and insisted on no future commercial borrowings. By 1991 the effects were beginning to be seen on the interest bill, particularly as the States began to pay off their higher-cost loans. Coupled with the requirement that States actually provide matching funds as grants and not just revolving funds, the 1989 CSHA staved off the fiscal crisis of public housing for some years, and in 1991-2 the deficit hit its lowest level of 8.5 per cent of rents, compared with 21.7 per cent five years earlier. After the introduction of general Rent Assistance for private tenants, from 1986 the States were also permitted to use a proportion of their capital funds for recurrent purposes, so that it was no longer so necessary to juggle funds between categories.

The 1990s.

The underlying trends continued during the 1990s, but never became a top priority due to their masking within public budgets. As acquisitions lessened and estate improvement became a primary focus, the States continued to pay off their loans and reduce their recurrent repair bill. On the other hand, although rebated tenants had stabilised at about 88 per cent by 1994, the mix of tenants now included a much greater proportion of very low income single person and single parent households, who paid a lower rent. Although the States moved to increase rents paid from 20 per cent to 23 per cent of income, this was not sufficient to arrest the decline in rents, as Figure A1 shows. As well, many new tenants were in special needs groups requiring a variety of intervention services, which added substantially to the administration bill.



a) Total expenditure \$million



b) Expenditure per dwelling, 1990 values.

Figure A2. Expenses by component, 1985-94.

In 1993 the Industries Commission Inquiry into Public Housing advised that public housing should move to the now standard public enterprise model of receiving Community Service Obligations rather than capital funding from the Commonwealth. This was hotly debated, and finally in 1996 the Commonwealth offered to meet the recurrent deficit.²⁵ However while the States were receiving more in capital funding than the Commonwealth was offering in rental subsidies, they were reluctant to change the funding model. In hindsight this may have been an error. Rent Allowance for private tenants has increased fourfold since it was introduced in 1985 and the SHAs have missed out on this bonanza.²⁶

²⁵ The Industries Commission also suggested other neoliberal "new managerial" "reforms" including the separation of the property manager and tenancy manager functions to different agencies, in the manner of infrastructure providers have been required to separate wholesale and retail arms under privatisation (Industry Commission 1993, Hayward 1996, Burke and Hayward 1999).

²⁶ Burke and Hancock (1999), Figure 1. Hall (private communication) considers that it would have been cheaper for the Commonwealth given the huge rise in asset values over the period to continue on

Once new capital funding was reduced after 1996 however, the States were in an unenviable position as the new government removed the offer from the table. They were now permitted to use all their grant funds towards the deficit if they wished. Public housing units reached a maximum in 2000-1 and now have started to slowly fall, as Figure A3 shows.

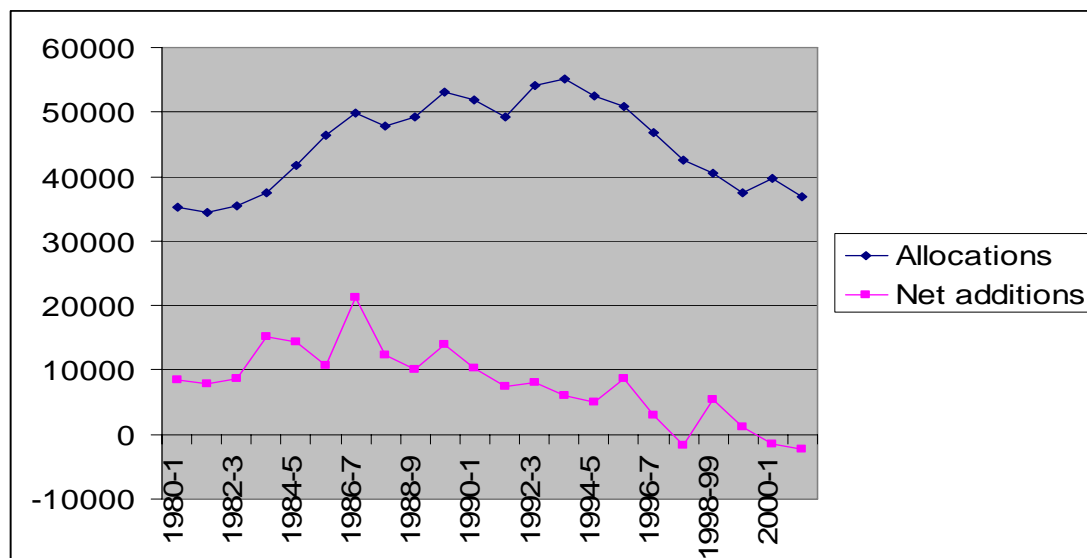


Figure A3. Applicants accommodated and additions to the stock 1980 to 2001²⁷

By 1999-2000 the strategy of the SHAs had become very defensive; with the majority of funds used to consolidate assets and retire debt. As Figure A4 shows, about half the grant funds paid to the SHAs were used for upgrading or replacing dwellings, about a sixth each on retiring debt and on grants/subsidies (some of which were to meet the recurrent shortfall of community housing), while only 11 percent was needed for the deficit.²⁸

Hall (private communication) believes that since 1996 and the dropping of constraints on the use of capital funds, the States reduced their efforts to hold down costs. This was encouraged by a goal setting procedure using a performance indicator system that stressed largely the quality of service delivery and not its cost.²⁹ The data published by the CSHA are no longer suitable for assessing the question as they were from 1986-94.

It is however easy to determine that the States are not running a sustainable operation. The largest hidden factor remains, as it has always done, the depreciation of the housing stock. Depreciation as a key part of asset management has never really been taken seriously by the SHAs, and a depreciation fund has never been maintained against future repairs and upgrading. Depreciation has been regarded as purely an accounting convention that has never been vested, when in fact it is a very necessary and real expenditure that must ultimately be actively undertaken. While the stock was expanding, depreciation was effectively embedded in the acquisition budget. Now that the stock is no longer expanding, the SHAs are actually making expenditures near to those that are required to maintain the stock at a constant average condition of repair. In 2000-01 \$677 million was spent on upgrading and replacement and in

with public housing rather than adopt the rent allowance model. However the argument of Spiller (1988) and Flood (1988) must be taken into account.

²⁷ Note: 1986-7 figures are irregular because of the inclusion of ACT's 11000 dwellings in the CSHA, though this has been partially adjusted for.

²⁸ This interpretation is somewhat arbitrary since these grant funds are absorbed into general revenue.

²⁹ Hall (forthcoming). The Public Housing Deficit. Report of AHURI Project.

2001-02 \$840 million. This is still not enough; the conservative estimates of the next section suggest that about \$1080 million is the minimum annual expenditure that should be made to keep the stock at the same average age and level of repair at the end of the year as at the beginning.

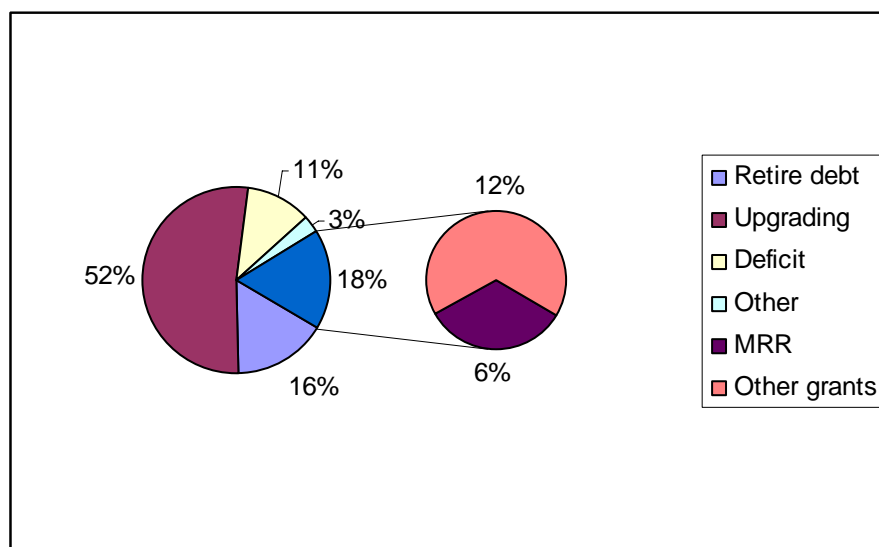


Figure A4. Imputed use of grant funds, 1999-2000.

A simulation of the effects of depreciation and the deficit

While better data and a State by State analysis are necessary to evaluate the situation properly, it is still possible to investigate the global sustainability situation for the SHAs using a straightforward simulation.

The simulation is conducted for the core public stock only in constant 2000-1 dollars. The assumptions used are fairly conservative. They are:

1. Grants stay at 2000-2001 levels in real terms;
2. Real rents per dwelling decline at 1.2% per annum in line with the historical trend
3. Repairs and administration costs per dwelling rise at 2% per annum real (this has been the long term trend for salaries).
4. Dwelling prices and rates rise at 3% per annum real.
5. Any surplus is used to buy new dwellings. Once the grant funds are exhausted, stock is sold to meet the deficit
6. Interest etc is ignored (since home purchase loans from the CSHA and SHA borrowings now almost cancel out, in terms of both principal and interest)
7. the average market value of public stock was said to be \$84 300 in the *HAA report 1998-99* which seems too low.³⁰ We take it to be \$150 000 in 2000-1.
8. SHAs make an expenditure of 2% of market value on replacements to keep the average age of the stock the same, so that the actual maintenance activity does not increase with time. This would require an expenditure of \$1078 mill in 2000-1, rising annually with the price of housing.

³⁰ It is recognised in Housing Assistance Act reports that market valuations have not been updated for a number of years - as the SHAs have no incentive to do so.

The net results of the simulation are as follows.

1. All grant funds are used up by 2002-2003, as the net deficit turns positive;
2. The gross deficit is positive by 2003-4 (ie direct costs excluding interest exceed rents);
3. The SHAs have to discontinue paying MRR and other grants entirely by 2006-7;
4. The net deficit reaches maximum around 2040 with expenditure about 4 times the current grant level, in real terms;
5. The stock reaches half its current level by 2050, and a quarter of current levels by 2085;

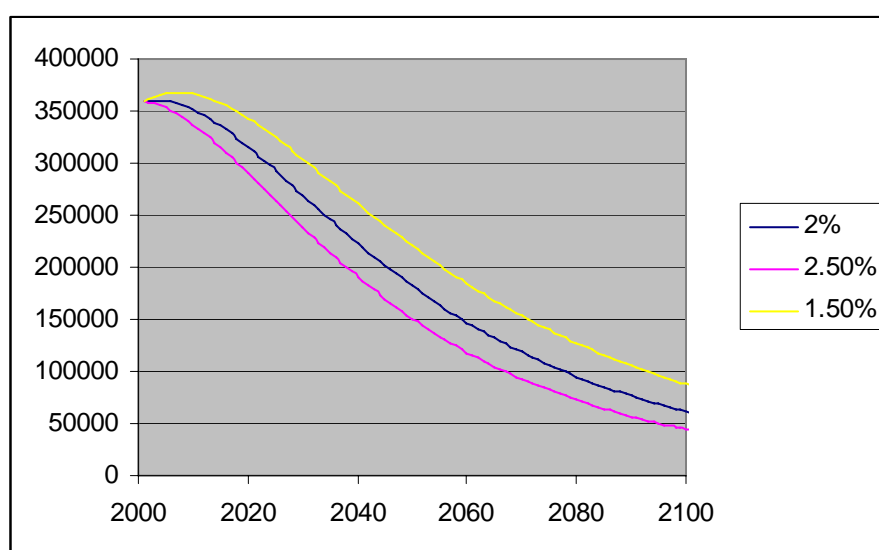


Figure A5. Simulation of stock levels, various depreciation rates

One key parameter is the depreciation rate (rate of spending on replacements). If it is reduced to 1.5% per annum, as per stock replacement expenditure in 2001-2, then the rate of decay of stock numbers is somewhat lower. However, in this case the properties would age on average, repairs would increase and property values would not advance as quickly, so that avoiding upgrading is not necessarily helpful.³¹ To keep in line with community standards that are always increasing, an expenditure of 2.5% per annum is more reasonable to replace obsolescent dwellings, which causes a more rapid reduction in stock.

In a situation of fixed or falling real grants,³² the only way to stop assets being sold off is to increase rents in real terms. As Figure A6 shows, rents have to increase by 3.3% per annum in real terms indefinitely in order to stabilise the situation (they must rise in line with costs, and an extra amount to cover the present nett deficit).

In general, the **only way** a steady state can exist is for the net deficit to be nil. One way to achieve this is for the Commonwealth or/and the State Treasuries to meet the difference between full cost rents and rent paid transparently, or (if the SHAs can keep their

³¹ Except to the extent that it drops rents on poorer quality housing down towards the incomes of the tenants, reducing the deficit in exactly the way that the private rental sector does in this situation.

³² The simulation also shows that an increase of grant funds at the same annual rate of 3.3% will also stabilise the stock. This is not likely in the present political climate

administration and repair costs down to private sector levels) to meet the deficit against market rents.

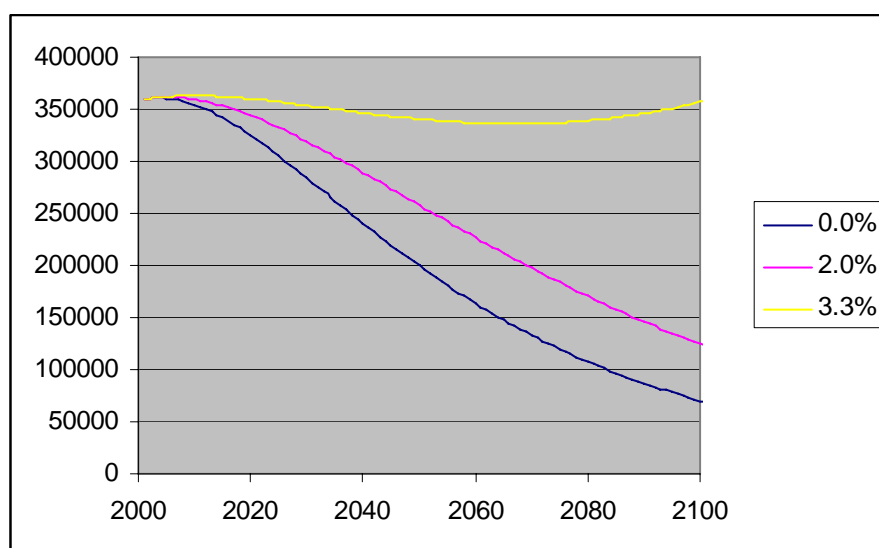


Figure A6. Decline of stock for different real rates of growth of rental income per dwelling

In fact the SHAS have somewhat more room to manoeuvre than this simulation would indicate; they are after all large businesses that can inexplicably find large sums of money from internal or State budget sources.³³ As well, they also have the option of deferring both maintenance and upgrading - in the manner of slumlords faced with low income tenants - if they are prepared to see themselves as a truly marginal sector; holding out until a more sympathetic government comes to power. This is not however the direction in which public housing policy is headed, and the simulation is a fair representation of likely trends.

Conclusions

The financing of public housing in Australia is conducted like no other sector in Australia and like no other social housing sector in the world. There is a fundamental long-term contradiction in the way public housing is financed in Australia. This underlying instability manifests itself from time to time, and brought to the fore whenever social conditions or economic policies change. However the problem is endemic and is bound ultimately to surface of its own accord.

For some 50 years the SHAs have been running a net rental deficit that has been more or less kept under control by absorbing it within the much larger budgets of rapidly growing organisations, by absorbing real depreciation through a program of acquisitions, and undertaking various economies as required. It the mid 1980s the deficit first blew out and was brought back under control. It is beginning to blow out again and the situation will become very serious within 10 years, no matter what is done, if grants continue to fall in real terms. As a result the viability of public housing is threatened – as it was in the mid 1980s

There is only one solution – to raise rental income to meet the true cost rent including depreciation. If affordability is then regarded as impossible by the stakeholders (since tenants would then be paying more than market rents, because of the extra services they are receiving), then the tenants will have to be explicitly subsidised through Community Service

³³ In fact up to \$350 million of surplus funds appears on the accounts of the SHAs in some years from unexplained State sources.

Obligations. This requires a complete retooling of the way public housing is funded to bring it onto a par with private rental tenancy.

Because the situation has already been allowed to get far out of equilibrium, then even if this is done there will be hardships and adjustments to be made.

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DEFINITIONS

(on either a whole -stock or individual dwelling basis)

Direct cost (AIHW) = administration + maintenance + rates and charges + interest

Gross deficit = Rents collected - administration - maintenance - rates and charges

Tenancy manager deficit = Gross deficit + interest paid (part of the interest paid by the SHAs has always been attributed to Public Housing). This is reported in the HAA Annual Reports.

Cost rent = Total cost + depreciation

Net deficit = Gross deficit + Depreciation - Grants. Interest would normally be included but it is effectively netted out at present in the accounts of the SHAs because of the large portfolio of home purchase loans they hold.

Appendix: Notes on the Data

The present analysis makes use only of published reports of the Housing Assistance Act between 1978 and 2002. Frequent changes in the data reported make it difficult to compile meaningful time series for these important data. According to AIHW (1997),

“The coherence of data across housing assistance areas is restricted by a range of technical issues relating to data definitions and quality and the availability of appropriate analytical tools and expertise. A lack of time series data—there is a need for data to be developed that will provide continuous measurement of the effectiveness of housing assistance.”

During the Housing Subsidies Study (Flood and Yates 1987) an agreement was reached with the Commonwealth as to the important consolidated data that should be collected for purposes of examining financial performance of the SHAs, and the key data were published from 1985-6 to 1993-4. It is difficult to make meaningful comparisons outside of that time frame.

Unfortunately the Commonwealth has chosen since 1996 to publish only those indicators developed under a clumsy top-down indicators system established in an ad-hoc fashion in 1996 and improved somewhat in 1999 (see Flood 1998 and Burke and Hayward 2000 regarding problems with this system). These data now form the CSHA National Performance Indicator Framework, part of the National Data Agreement with the AIHW who now publishes only these indicator data and no other. The net result is that it is no longer possible to monitor the financial performance of the public housing system. Improving performance against the existing indicators is not funded in any way; it only encourages a further cost blowout and is largely impractical in the present climate of fiscal restraint. It is an ironical consequence of both poor conceptual attitudes to asset management and poor technique in developing indicators that the most fundamental indicator of all, the viability of the SHAs, has been omitted, since as Burke and Hayward (1999) assert "the 1999-03 CSHA is largely a unilateral agreement...this has reduced the importance of national reporting through the CSHA".

It is essential that proper cost data should be assembled and regularly published to allow the true financial and stock situation of the CSHA to be monitored.