



**dhcs | ACT**

department of disability,  
housing & community services

**PUBLIC HOUSING ASSET MANAGEMENT  
FINANCING AND PRIVATE SECTOR PARTNERSHIPS**

**MINISTERS HOUSING ADVISORY FORUM**

**6 December 2005  
1-3PM**

## PUBLIC HOUSING ASSET MANAGEMENT

### FINANCING AND PARTNERSHIPS FUNDING

#### Purpose

The purpose of this discussion paper for the Ministerial Housing Advisory Forum on “Public Housing Asset Management – Financing and Private Sector partnerships” is to facilitate discussion of key issues around the financing of housing for people in need.

Access to housing is central to health and well-being. The provision of secure housing helps to provide dignity and the opportunity to develop a sense of community. Access to public housing is an important strategy in alleviating poverty and disadvantage in our community.

Funding is obviously a key element in achieving the desired outcome. The issue of resourcing is an important consideration within the context of competing priorities and other Government objectives.

There is an increased focus on the possible involvement of the private sector in public housing initiatives. Under the Commonwealth State Housing Agreement the Territory is required to report against a range of strategies which include exploring opportunities for further private investment. This theme is also included in the ‘Public Housing Asset Management Strategy’ that was debated and noted in the Legislative Assembly in 2003.

The Framework for National Action on Affordable Housing endorsed by the Ministers for Housing, Local Government and Planning in August 2005 also references greater private sector involvement.

This paper seeks to:

- Consider a range of issues associated with the management of the Housing ACT asset base.
- Look at possible mechanisms for increasing private sector involvement in public housing.
- Look at opportunities for community housing in partnership arrangements.

It should be noted that any discussion around asset management of public housing financing inevitably raises issues of affordability and how to improve the supply of dwellings for people that are not able to access accommodation through the normal housing market.

While the paper raises issues associated with affordable housing, the intent is to focus specifically on the financing of public housing and the opportunity for private sector partnerships.

In the broader context challenges facing the housing sector include:

- An erosion of the funding base under the Commonwealth State Housing Agreement and an increase in the level of funding made available from the Commonwealth Rent Assistance program.
- Increasing numbers of people on low incomes with complex needs entering public housing.
- The cost and availability of private sector accommodation

There is a need to develop innovative responses to these challenges and to work with the private sector in developing solutions. This includes the use of alternative financing programs to increase the supply of low cost affordable housing that provides accommodation for people in need.

## **Issues**

The Department of Disability, Housing and Community Services manages around 11,400 properties, including properties leased from private landlords. In addition, over 200 properties are head-leased to community organizations for critical, transitional and crisis accommodation. This is a significant property portfolio which must be managed efficiently and effectively so that the tenants receive the maximum benefit possible and the stock maintains value.

Further information about the property portfolio and the issues that are presented by the size, type and age of the dwellings are outlined in Attachment 1.

## **Improving private sector financing of public housing/social housing**

The aim of improving the level of private sector financing of public/social housing is to increase the number of suitable dwellings which are available for use by people on low and moderate incomes that are in need of assistance.

Under the current arrangements money is sourced for public/social housing by a number of means including the auspices of the Commonwealth State Housing Agreement, within Housing ACT's budget or as a direct capital injection from the ACT Government.

As noted above there has been a decline in Commonwealth funding for direct investment in public housing. It is imperative to attract private sector investment to this area to maintain the delivery of accommodation to people that cannot access dwellings through the normal housing market.

Innovative ways of raising capital could include:

- using joint ventures to leverage additional resources
- encouraging the private sector to invest in public housing through public private partnerships

The opportunity is taken in this paper to briefly look at a number of mechanisms as set out below.

## **Using joint ventures to leverage additional resources**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are often established to enable the participants to share resources, including people and skills, as well as risks.

The term 'joint venture' can apply to a range of associations of participants and can take many forms, including companies, partnerships and unincorporated joint ventures. Joint ventures are used regularly in the commercial world.

Last month the Government announced that the Commissioner for Housing was in the process of finalizing negotiations for the development of two sites by way of joint venture. The sales process commenced in September 2004 when the Commissioner for Housing announced that it was seeking to enter into a joint venture arrangement for three sites – one each in Kingston, Lyons and Braddon. After an initial Expressions of Interest process, five firms were selected to take part in a Request For Tender.

Discussions are proceeding with tenderers for the sites in Kingston and Lyons. As there were no acceptable bids for the Braddon site it was decided to not proceed with a joint venture on that site at this stage. An announcement on the preferred tenderers should be announced by the Government in December.

In deciding to take the sites to market by way of joint venture, independent financial advice was sought on the benefits to be gained by using a joint venture as opposed to selling the land directly to the market. It was decided that under the joint venture model the Commissioner would make the land available as equity for the project, which the private partner could use when securing funding for the development of the site. The Commissioner would retain title of the land.

The joint venture model offers a number of benefits:

- the level of risk is shared between the Commissioner and the developer. Where the land is sold all of the risk is transferred to the market, which affects the price paid for the land. For the Commissioner the risk would be limited to the land; the developer takes the development and construction risk.
- there is an increased return expected by the Commissioner in line with the increased assumption of risk. This return is greater than what might be expected by selling the site to the market. This return can be by way of increased revenue or the retention of a number of dwellings.
- by leaving the land in the project, there is the capacity to remove transfer costs for the sale of the land to the developer as an intermediary and the servicing charges for the cost of the land. The direct sale of dwellings to an end purchaser under a units plan saves a range of statutory charges and taxes, legal and conveyancing fees.
- it is possible to provide improved outcomes consistent with the Government's broader planning and social objectives eg the Canberra Plan and Spatial Plan, through a higher level of involvement in the delivery of the project by the Commissioner. In the case of the proposed joint ventures there is a requirement that a certain element of affordable housing be provided, especially on the Fraser Court site.
- by releasing larger sites it is possible to stage the development of the land, and hence the release of dwellings onto the market in response to demand. This provides a greater degree of flexibility and responsiveness, and hence an improved return.

- it sends a strong signal to the development industry that the Commissioner is committed to leveraging assets and to meet the objectives of the Public Housing Asset Management Strategy. This is done in the context of a commercial focus and outlook.

The outcomes of the joint venture proposals to date confirm that using a joint venture approach for the two sites will realise significant benefits to the Commissioner, which are greater than would have been achieved if the sites were sub-divided and taken to the market through a competitive approach.

To date, when land has been taken to the market through a simple sales process, revenue returned from such sales has generated enough cash to replace 15 percent of the units that might be lost. It is expected that the proposed joint ventures will exceed that rate.

By way of example, if the Kingston site (Fraser Court) was taken to the market as a sale it is anticipated that it would return \$14M or enough to purchase/build some 42 units. This is about 40 percent of the units that are currently on the site.

With the Commissioner participating in the project, through a joint venture process, the anticipated return is \$21.5M or the equivalent of 65 units, with the potential for a higher return flowing from improved outcomes for the JV.

Translating this to the impact on stock numbers, a straight sale would result in a loss of 62 units; the joint venture has the potential to reduce that loss to 35 or less.

### **Encouraging the private sector to invest in public housing through public private partnerships**

The high cost of developing and maintaining public infrastructure and related services is a major concern throughout Australia. Private provision of public infrastructure and related services (PPPI) is one procurement option for addressing this concern.

PPPI is defined as a project in which the private sector not only provides public infrastructure but also has a significant and long-term involvement in the operation/maintenance of the infrastructure.

PPPIs are not joint venture partnerships, where private and public partners share agreed business objectives. They are contractual arrangements between the Government as a purchaser of services and the private sector as a provider of services.

The main objective of involving private sector entities in providing public infrastructure services is to obtain value for money. In a large and complex project, significant savings can be achieved by fully integrating, under the responsibility of one private party, the initial design and construction of the infrastructure with the operation and maintenance of the infrastructure over its life. Such an approach also allows significant project risks to be allocated to the private party.

The PPPI process is complex and requires detailed information collection and analysis to be confident that value for money is being achieved. It also requires the provision of specialist

contract management services which often need to be procured. To date, a PPPI has not been established in the ACT.

In December 2004 the New South Wales Government announced the Bonnyrigg Living Communities Project that is worth up to \$500 million. The project is being delivered as a social housing private-public partnership.

Under the project, a private sector partner will be chosen to finance, plan, develop, build, refurbish and maintain social housing as well as roads, parks and community facilities. The partner will also provide tenancy and facilities management services for a period of 30 years. The partner is to play a lead role in community renewal and consultation throughout the project.

An Expression of Interest seeking proposals from the private sector for this project closed in March 2005. The purpose of the EOI was to shortlist potential private partners that would be selected to move to the next stage, a Request for Tender.

Following this process, the following were shortlisted:

- Bonnyrigg Partnerships: Becton Group Holdings, Westpac Banking Corporation, Spotless Property and Facilities Pty Ltd, St George Community Housing Co-op Ltd
- Lend Lease and Commonwealth Bank: Lend Lease, Commonwealth Bank, United KFPW, Cumberland Community Housing Association
- Sydney West Housing Partnerships: Urban Pacific Limited, Macquarie Bank, Transfield Services, Hume Community Housing Association.

The NSW Government has prepared a Request for Detailed Proposals outlining what it wants from the project, the services to be provided and the standards to be met. The shortlisted companies will need to prepare their proposals, cost them and submit them to the Department of Housing by the end of 2005.

The Bonnyrigg scheme is on a large scale, which exceeds that likely to be required in the ACT. However, the principles that are being applied as part of the Bonnyrigg scheme may be of useful application in the ACT. There may be lessons learnt from that process that could be applied in the ACT.

### **Further opportunities**

The Public Housing Asset Management Strategy set in place a program that would continue to deal with the public housing stock, especially for multi-unit properties.

This recognised the need to individually assess each of the multi-unit sites for ongoing cost benefit and broader social appropriateness for public housing. Each site is to be assessed against the asset management principles, with particular emphasis on value for money and the achievement of sustainable communities. The Strategy considered that priority sites for assessment and decision regarding upgrading or replacement should be:

- Currong Apartments

- Lyneham/Owen/De Burgh Flats
- Gowrie Court

It is proposed to consult with industry early in 2006 about the development of the Currong site.

The opportunity also exists to redevelop existing sites, with some sites offering the capacity for part of the site to be sub-divided, with one part being sold for private development. The proceeds from this sale would be used by the Commissioner for Housing to purchase properties in other locations.

Where sites are located in areas where planning gains can be obtained, which would improve the capacity for higher densities to be achieved on a site, it is appropriate to pursue improved planning outcomes with the ACT Planning and Land Authority. This work should generally be undertaken before the site is developed or released on the market. This ensures that the maximum financial return is received by the Commissioner.

The opportunity might also exist to work with community housing providers to develop partnerships on particular projects to maximise the return to the social housing sector. City Edge and the development in Lyons are examples where community housing providers can benefit from a close relationship with the Commissioner for Housing.

Building the capacity of not for profit community housing providers is a core commitment of the Framework for National Action on Affordable Housing. This is seen as necessary so that such groups can participate in large scale affordable housing initiatives.

A previous Ministerial Forum addressed the issue of Community Housing. Matters that need to be addressed are:

- Governance – to provide confidence to Government and the private finance sector that management and governance/reporting/accountability arrangements are entrenched in the operations of the organisation.
- Training – so that the organisation engages staff that meet service delivery requirements and are aware of the requirements for dealing with financial and government agencies.
- Developing appropriate models and structures for brokering deals – there is a need to adopt a flexible outlook without compromising the benefits which are attracted by operating a not-for-profit community based organisation.
- Financing and developing housing – this needs to be attracted from the private sector with the possibility of joint ventures using existing community housing assets.
- Economies of scale – there are few economies of scale for small organisations and a need to deliver consistent high quality services, which raises issues of partnerships and possibly amalgamations.

## Discussion/other concepts

The need to be more innovative and flexible in addressing the housing needs and aspirations of households who cannot compete effectively for housing in high priced housing markets is an issue that is being faced by other cities throughout Australia, not just Canberra.

All sectors need to work more closely together to increase the supply of housing to people that cannot access appropriate accommodation in normal circumstances. Any solutions developed need to be flexible, accountable and transparent. In particular, better relationships need to be developed with the financial sector and for there to be a common understanding of the needs of each party. There is evidence to suggest that this is happening.

Internationally, large-scale private investment in areas such as affordable housing is established and widespread. In the United Kingdom over \$4 billion is invested in affordable housing annually, mainly through mortgage backed debt finance to housing associations.

A consideration of the issues associated with the growth in private sector financing in other jurisdictions suggests that there needs to be a number of factors to create an environment of investment:

- The right mix of government commitment, rules of engagement and policy certainty that give confidence to potential investors
- Sufficient scale of opportunity to create commitment from the financial sector, attract large players and create competitive pressures.
- Secure and adequate level of subsidies that close the gap between the required rate of return for investors and the income stream that is generated by prices or rents that are kept affordable for lower income households.
- Delivery agencies with robust governance and balance sheets and income streams that can accommodate the range of risks associated with loan financing, property development and long-term property management.
- A regulatory regime that underpins the delivery system that gives confidence to investors, and underwrites their risk, thereby reducing the cost of finance.

These factors highlight the value of coordinating the financing, regulatory and planning policy levers to create an atmosphere within which investor confidence is generated, principally through the scale of investment and predictability of growth. The objectives contained in the National Action on Affordable Housing are consistent with these factors.

Building partnerships between the private and not-for-profit sector will allow for different financing and non-financing elements to be combined and be tailored to meet specific requirements and exploit local opportunities.

Challenges include:

- promoting and encouraging the development of financial products. Clearly there is a need to be open and transparent and to ensure that all parties are treated equitably.
- supplementing private investment to reduce the debt burden.
- using planning arrangements to enable development of affordable housing projects and generate additional funding for landowners and developers.
- leveraging off existing housing stock to unlock serviced but underutilised land eg borrowing against the assets such as selling or leasing back part of the portfolio.
- developing the potential of community groups/organisations to participate in partnerships with financial institutions.
- recognising that every community/organisation has its own characteristics and these can influence the capacity of the organisation to participate in partnerships.
- enhancing the capacity of groups to participate in such partnerships by ensuring that the opportunities for training and education in relevant areas is available.

## ISSUES ASSOCIATED WITH THE ACT PUBLIC HOUSING PORTFOLIO

The property portfolio presents significant challenges

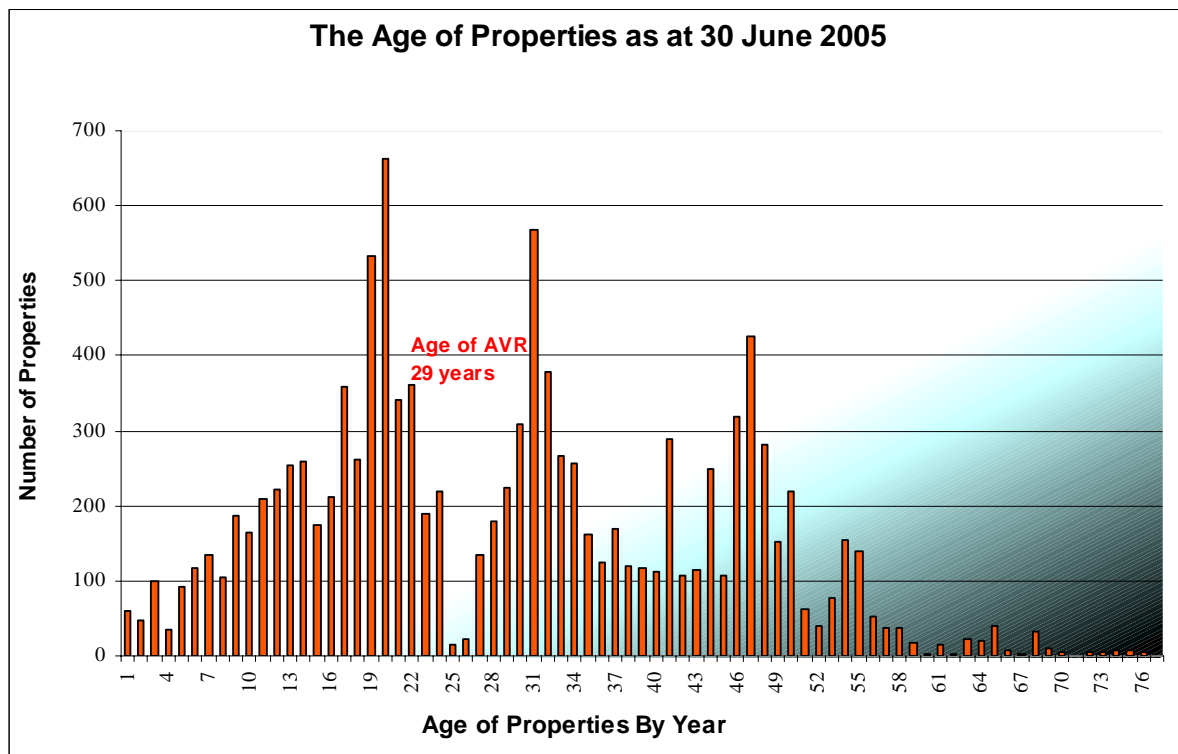
- Stock numbers

Since 2001 public housing stock numbers have stabilized, following a reduction of properties from 1996.

The Government's intention is to maintain stock numbers at present levels (over the long term, as opposed to numbers at any one time) and at the same time implement sustainable and long-term asset management strategies. However, there will be a reduction in property numbers from the refurbishment and/or redevelopment of the multi-unit sites which are nearing the end of their economic life.

- age/condition/maintenance

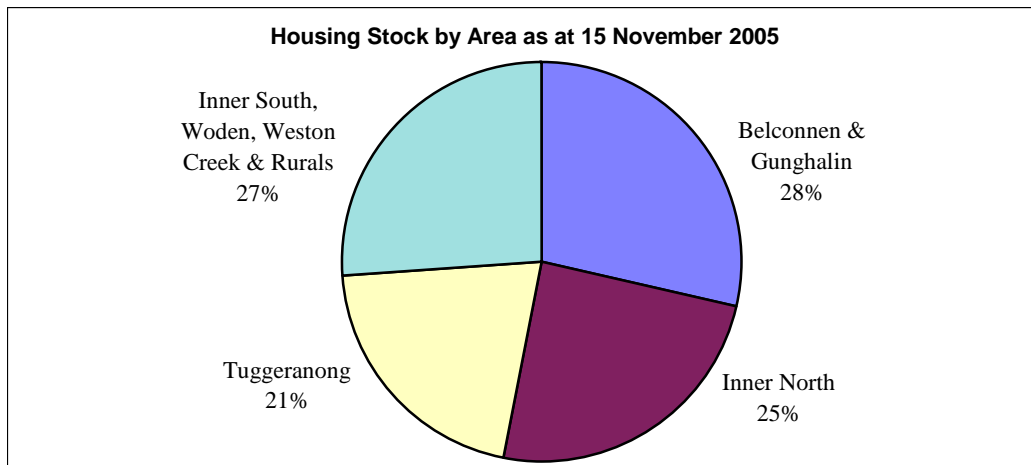
The average age of the ACT public housing stock is 27 years with over 20 per cent more than 40 years old – this is the oldest public housing portfolio in Australia. The age of the stock has a major impact on repairs and maintenance requirements.



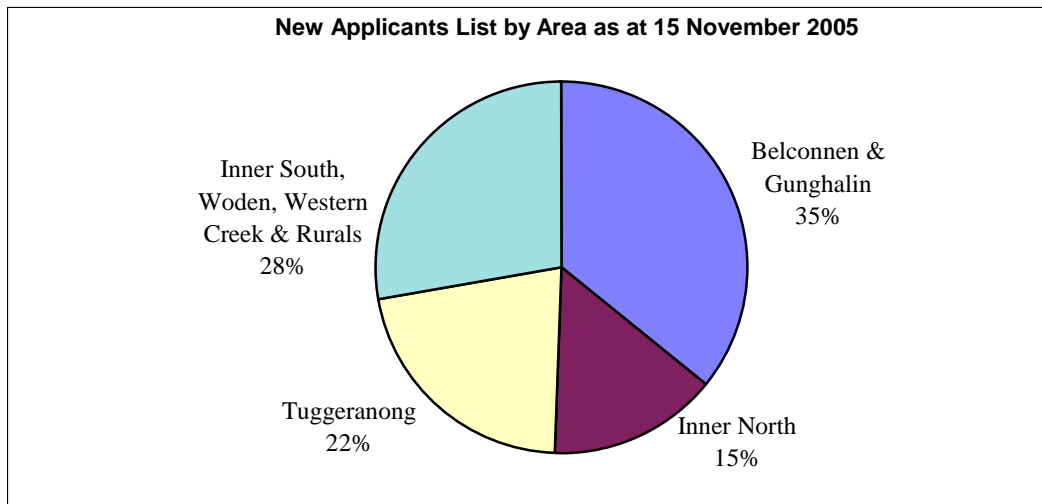
- type and location

There is an apparent mismatch between the location of existing properties and new applicant preferences, as shown in figures 1 and 2 below.

*Figure 1 - Housing stock by area*



*Figure 2- Applicant list by area*



Allocation times and churn rates need to be considered in interpreting the above charts, however they do indicate a need to continue to selectively reduce stock holdings in Inner North and to increase stock holdings in Belconnen and Gungahlin.

There is also an apparent mismatch between the type of housing stock held and applicant entitlements, as shown in figures 3 and 4.

Figure 3 – Housing stock by type

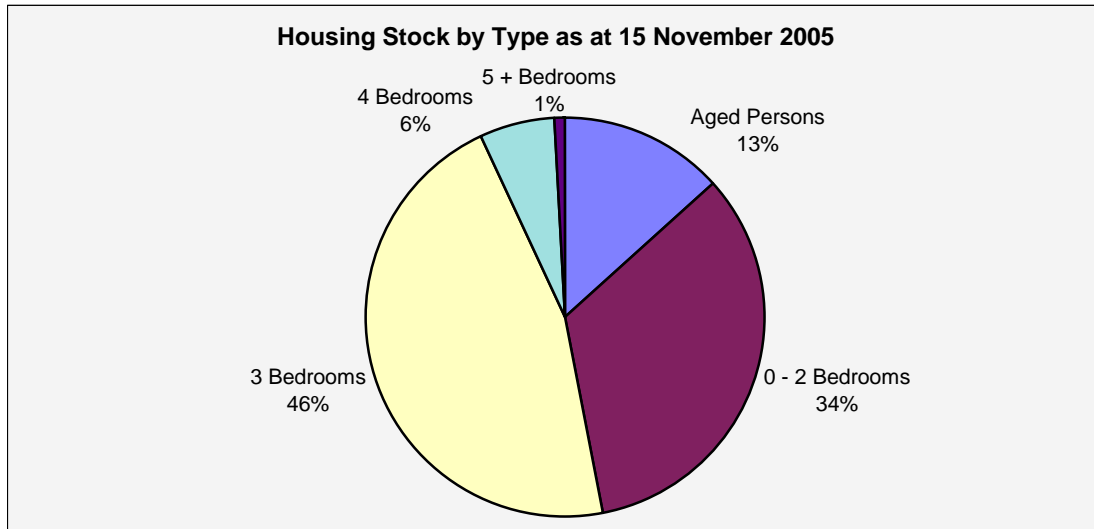
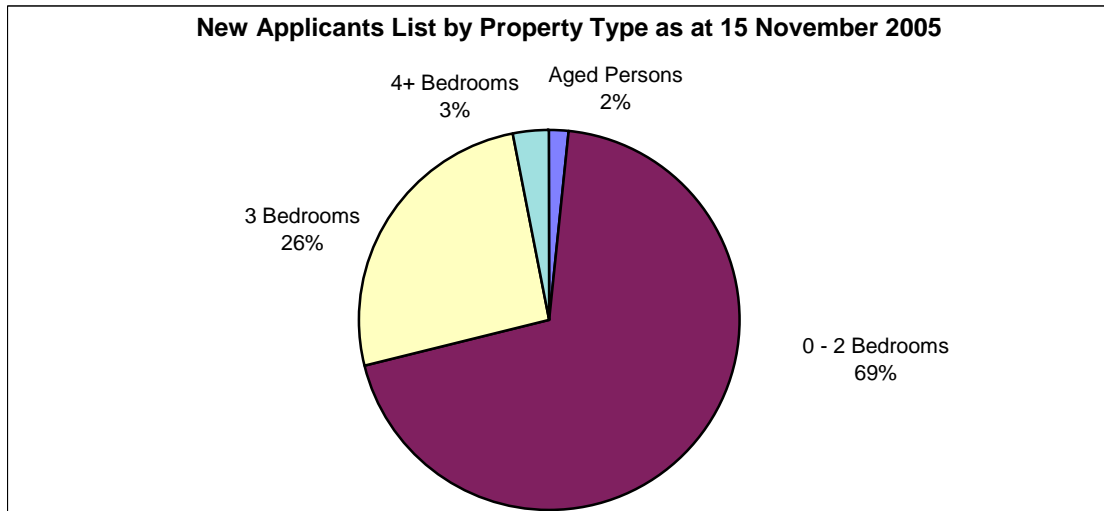


Figure 4 – New Applicant List by property type



Three bedroom properties represent 46% of the total stock, yet only 26% of new applicants require this type of accommodation. This is due, perhaps, to a reduction in the size of the average household over the past 20 years or so, a trend expected to continue as the population ages and the number of single parent families and single person households grows. This cannot be corrected quickly as the turnover or “churn” of tenants through three bedroom dwellings is significantly less than, say, the multi-unit properties which have a high turnover.

This trend in dwelling demand is expected to be reflected across the ACT as a whole. Based on work carried out by the ACT Planning and Land Authority, for the period between 1996 and 2021, the projected household types:

- for couples with children is expected to be static
- a substantial increase is expected in households for couples without children

- a slight increase is expected for households of singles with children
- a large growth in single persons households is expected
- group households will show a slight increase

While the number of applicants seeking three bedroom houses is lower than those seeking smaller properties, retaining a high proportion of three bedroom properties may still be desirable because of their flexibility. However, this needs to be balanced against the age of three bedroom properties (the average age of three bedroom properties is 29 years), and the estimated maintenance expenditure if these properties are retained indefinitely.

Changes in stock numbers demonstrate a concerted effort to reduce the proportion of bed-sitters and three bedroom properties, and increase the proportion of one and two bedroom properties. However, this has not fully kept pace with demand.

There is also a need to address existing areas of high concentration. The large multi-unit sites (greater than 40 units), which comprise close to a fifth of the total portfolio, represent the most difficult asset management challenge.

While several of these complexes are in high value locations and are well located near shopping centres and public transport, there are major problems with many of them. Many are over 40 years old with some in poor condition. They are limited in the types of households they can house, do not comply with community standards or current building codes, are unable to cater for people with special needs, have significant tenancy issues, and generally have under-utilised the land on which they have been built.

In terms of tenant needs, some of the large flat complexes do not provide appropriate accommodation or contribute to sustainable communities as evidenced by several having high turnover rates. A number of applicants, including those assessed as requiring priority assistance, are refusing to accept allocation to some of the larger complexes.

▪ Financial arrangements

Operating revenue is derived principally from rents and funding under the Commonwealth State Housing Agreement (CSHA).

Over 80 percent of tenants receive a rental rebate which represents an unfunded community obligation. If anticipated on-going reductions in CSHA funding proceed, continued targeting of assistance to those most in need will see further increases in rebates and a further erosion of the revenue base. This situation makes it difficult to fund running costs and to adequately maintain properties.

Since the report of the Affordable Housing Task Force was tabled in December 2002 a number of additional funding initiatives have been implemented to ensure an adequate supply of housing in the ACT. The various initiatives include:

- \$33.2 million capital injection for social housing of which \$27 million was allocated for the acquisition of new public housing stock to be leased to the community housing sector under the Community Organisations Rental Housing Assistance

Program; and

\$20 million for affordable housing, which provides \$5 million per year over four years.

- Community housing

Community housing is long-term, safe, secure and affordable accommodation provided by not-for-profit organizations. Community housing is complementary to public housing in that it offers a higher level of tenant participation in tenancy management and seeks to accommodate diverse and complex needs.

While small in comparison to public housing, community housing is an important source of housing for those in the ACT. This has been recognised by the Government which has initiated a range of measures designed to expand the community housing sector and ensure that it remains a viable and growing source of affordable housing including:

- \$6 million in capital funding for new community housing properties.

- from the \$33.2 million capital injection for social housing, \$6.2 million was allocated for expansion of the community housing sector.

The matter of community housing has been the subject of an earlier Ministerial Advisory Forum. A Discussion paper was produced for that Forum which canvassed a number of issues associated with community housing – its current state and future directions.

### Affordable housing

Stable, safe and secure housing is central to the lives of all people in our community. Without appropriate, accessible housing it is not possible to fully participate in education, employment, recreation and social activities that support our individual development and well-being.

The housing system comprises homelessness services, public and community housing, private rental and home ownership. Improved interaction between all four elements is critical to improving levels of affordability.

A full discussion about the issue of affordable housing is contained in 'Progress on Affordable Housing in the ACT – Report to the ACT Legislative Assembly' which was tabled in the Legislative Assembly on 30 June 2005.

Put simply, the ACT Government considers that housing affordability needs to be addressed at a number of levels. At a local level measures have been introduced including:

- capital injections for social and affordable housing
- a significant increase in the overall supply of land and opportunity for redevelopment along with the release of land by ballot for moderate income earners
- Examining the release of sites in City West that would contain a substantial residential component with a requirement that some or all of the units be built to affordable standards.

- Continuation of incentives for redevelopment in the City area where provision is made for affordable housing.
- Stamp duty concessions which along with the First Home Owner Scheme give incentives to home ownership

At the national level, the ACT Government has been an active participant in developing the *Framework for National Action on Affordable Housing*. This seeks to establish a national strategic, integrated and long term vision for affordable housing through a comprehensive approach by all levels of Government. Federal Government involvement in these matters is important to establishing a national long-term solution.

The Framework seeks to, amongst other things:

- grow the community housing sector
- leverage new investment in affordable housing
- improve the viability of public housing sector

### Public Housing Asset Management Strategy

The fact that the public housing stock that is managed by Housing ACT is the oldest housing stock in Australia presents considerable challenges for the management, and directly influences the level of effectiveness in meeting the community's need for housing assistance.

The public housing portfolio is valued in excess of \$3 billion, making it one of the Territory's largest assets. Servicing this asset base requires more funding than is currently available as a significant amount of revenue is foregone through the provision of rental rebates.

To ensure that the portfolio is properly managed an asset management strategy was developed in 2003. The strategy is based on asset management principles that were developed to respond to the challenges facing Housing ACT. The principles assumed that maintaining a viable public housing portfolio is integral to meeting the ongoing needs of people for affordable and appropriate housing

The principles are set out in the "Public Housing Asset Management Strategy 2003 –2008". Of relevance to this paper is the principle that

The public housing system will be managed efficiently and cost effectively, providing best value to Government.

This principle sought to establish the need for decision making to operate within a financially viable framework that recognises the Government's broad social policy objectives. Set within the context of diminished revenue, this places pressure on maintenance and a capital program which is aimed at rejuvenating the stock and maintaining total stock numbers.

The Strategy acknowledges the importance of the stock portfolio as an asset base and the need to adapt, maintain and trade the assets so that they increase in value and receive the best possible return. This contributes to financial sustainability. It will also require innovative approaches to raise the necessary capital.

The Strategy was developed on the basis that its currency and relevance would be reviewed regularly. Housing ACT is in the process of reviewing the Strategy, which is expected to be completed by the middle of 2006.