

Growing Social & Affordable Housing – It is now the right time to move to scale

Bold action is required in the upcoming budget to begin to scale up the delivery of more social and affordable housing in Victoria. CHIA Vic urges the State government to

- **Borrow to support the large growth required in social and affordable housing as is the case for any other form of essential infrastructure**
- **Make a commitment to increase the levels of social housing to the national average of 4.5% of housing stock within 10 years – this would be 60,000 new community and public housing homes with at least 3,000 being designated for aboriginal people**
- **Refine funding models to enhance funding fairness for smaller and specialist community housing organisations and to support borrowings**
- **Provide the land and system architecture to enable delivery at scale including**
 - **Access to government land**
 - **Planning and procurement reforms**
 - **Implementation of the community housing transition plan**
 - **Separate housing policy & procurement from DHHS**

There is ample evidence of the need for more social and affordable housing in Victoria – from the large numbers of people sleeping in our streets; to the ever increasing numbers on the Victorian Housing Register to the 1 million+ Victorians estimated to be living in housing stress.

Why should we do anything about it when there are so many demands on Government funds for a myriad of worthy causes? We should provide safe, affordable housing to all Victorians not only because it is the morally and socially right thing to do but also because it is economically wise.

In fact, state governments cannot afford **not** to increase the supply of social and affordable housing. Housing is a major contributor to state's economy and residential construction directly contributes around 9 per cent to Australia's GDP.

A recent literature review commissioned by the CHIA Network and other national bodies interested in housing and homelessness found that investment in social and affordable housing can have large social and economic benefits for individuals and society, and in some cases can equal the current funding gap.⁷ The report also concludes that there is Australian and international evidence that the provision of social and affordable housing has 'the potential to materially improve national productivity.'¹

The overall findings also highlight two dimensions of social and affordable housing as social infrastructure:

- As an independent effect on the wellbeing, productivity and cost reduction for individuals and society
- As a platform for unlocking additional individual and societal wellbeing, productivity and cost reduction also for individuals and society

Borrow for Growth

CHIA Vic recognises that governments should, as a rule, only borrow to invest. We also recognise that what is meant by investment is contested. The key issue is that the debt should be used to finance purchases that deliver benefits over a long period of time; infrastructure being a classic example. It is a double benefit if the asset invested also delivers a direct financial benefit that can help cover the financial cost, a criteria that does not always apply as is the case of roads and bridges that are not tolled.

Housing is an asset class that fits both criteria; it delivers benefits over a long period of time and it also generates financial returns in the form of rent and also capital gains. The private sector embraces debt finance for the majority of their purchases but strangely government does not. It tends to be overlooked as a candidate for debt financed government expenditure.

The Victorian government has committed to increasing the level of state net indebtedness in order to grow the economy and ultimately benefit all Victorians through a higher standard of living. Quality, affordable housing will provide the platform for an improved standard of living for the most vulnerable low income

At a time of great shortages of affordable housing in the state, there could surely be no better candidate for a portion of the state's additional indebtedness than new social housing, especially as the public housing stock — valued at \$26b — is debt free.

Set a supply target

Targets are more than symbolic. They provide focus and establish a platform for review and accountability. CHIA Vic suggests that the right target is to match the national average of social housing of 4.5% in 10 years. Based on research undertaken this means we need to deliver approximately 60,000 community and public homes within the next 10 years and at least 3,000 of these need to be designated for aboriginal people in line with the Aboriginal Housing and Homelessness Framework. While this figure is daunting we believe that it is possible. There are many overseas and local examples where community housing sectors have successfully geared up to deliver large growth programs in partnership with Government.

Locally, the Commonwealth Government allocated funding of \$5.238 billion to the Social Housing Initiative over three and a half years (2008/09 to 2011/12) for the construction of new dwellings. Around \$1.16b was allocated to Victoria with a target of 3,889 homes. However the state and the sector jointly delivered 4,592 with over a half being developed by the community housing sector. ⁱⁱ

A current international example is Scotland and they are part way through implementing a five-year government program to develop 50,000 new homes, with 35,000 of those to be social housing. About two thirds of the homes are to be delivered by the sector, with Local Authorities building the remainder. The Scottish sector is looking at developing somewhere between 30,000 and 35,000 in five years from a standing start and they are on target to achieve the desired result.

Sector capacity is not the determining issue – it is political will to allocate the funding and design the system architecture to enable and streamline delivery.

Funding Fairness

Much has been learned over the last year about blended funding models to deliver new stock. The level of capital or subsidy is determined by the inputs available such as the cost of land and finance, who is to be housed and ownership/leasing arrangements. The State government and the sector have recast our relationship to one of a true partnership in recent times and we ask that this continue with funding fairness.

The Social Housing Growth Fund applications were a competitive process that encouraged CHOs to include external contributions in their projects such as free land or philanthropic funds and to seek the lowest level of subsidy from the Fund. The DTF modelling project being undertaken by KPMG is also attempting to establish the cheapest delivery models. While value for money is important, moving to scale will require a more nuanced approach. Consideration will also need to be given to:

- Providing higher levels of capital grants rather than subsidies to build stock given security requirements of financiers
- Allocating higher levels of capital to projects put forward by small specialist providers who propose to develop a service for complex, single or very low income tenants and do not have the cash flow and borrowing capacity of other CHOs

Enablers

Over the past 18 months Government has been focused on designing and allocating initiatives announced in *Homes for Victorians*. The Social Housing Growth Fund and Low Cost financing initiatives were a fundamental departure from the way Government previously funded social housing. With any new approach there are inevitably delays and mistakes but Government officials and the sector have learned considerably from the first rounds of these programs. We are in a good position to build on these learnings and deliver at greater scale. We see the following reforms as foundational for success.

Access to land – On average about 30% of the cost of a unit of social housing is land. If the cost of this element of the development can be minimised or eradicated then more capital is available for development costs. State and Local Governments have surplus or under utilised land as does the Director of Housing. The constraints of the land monitor and selling surplus land at market cost needs to be overcome. As a priority a pipeline of available land needs to be identified and details made available to the sector in order to plan.

Affordable housing requires a whole of government approach. This state government has large infrastructure projects in planning and under development such as the Suburban Rail Link and the level crossing removals. These are perfect opportunities to increase land for affordable housing. Similarly, Victoria's priority precincts are areas identified as having strong economic and social opportunities and of course this should include land for more affordable housing..

Procurement reform – the current procurement model is project specific, resource intensive for CHOs and government staff and expensive. It is not fit for purpose for a larger program. When Homes England looked at a large growth program they consulted housing associations about how the procurement model could be improved. Housing associations argued that they needed a pipeline of projects, flexibility and investment. Therefore Homes England moved away from project specific approvals and called for bids from housing associations or consortia for a 4 or 5 year pipeline of projects. Within these 'strategic relationships' a housing association would nominate the region/LGA for the delivery, the housing types they plan to deliver, the likely timing and the subsidy required. Once negotiated the agreement between the parties would focus on outcomes delivered. Homes England guaranteed a 3 month turn around and so far they have entered into 23 partnerships, mainly with large and some medium sized housing associations.

Homes England believes that the program better reflects the partnership between the government body and the sector and is very successful because:

- Housing associations in these partnerships will be delivering 40,000 more homes than they had in their own strategic plans
- They believe the housing associations are taking greater risks because they are not judged on individual projects but overall delivery of outcomes
- The proposals have been more creative
- Payments are easier to access with 50% up front and 50% on completion generally. If land is funded then they can draw down 95% of its value
- They believe that housing associations are doing more land banking
- Homes England has been able to reallocate their own resources to focus on program design and planning rather than contract management

Planning Reforms – Over the last couple of years Affordable Housing Agreements have been introduced via amendments to the *Planning and Environment Act* and Inclusionary Housing Pilots have been conducted on 6 sites across the state. Again it is time to take what we have learned and the considerations of the Ministerial Advisory Committee on Planning Mechanisms for Affordable and Social Housing and put a mandatory system in place that starts to deliver properties with greater regularity. CHIA Vic has no preference regarding the design of the contribution – whether it is a cash contribution or results in actual properties being contributed or to CHOs for a heavily reduced amount or free.

Delivering new stock is a time consuming process and consideration should be given to how the planning process can be streamlined to expedite projects. In particular consideration should be given to waiving third party appeal rights for social and affordable projects of significance as occurred during the Nation Building stimulus.

Implement the Community Housing Transition Plan in order to ensure that the community housing sector can maximise any opportunities presented.

Separate housing policy & procurement from DHHS – CHIA Vic believes that it is incongruous having the housing policy and procurement functions in a welfare department. Good policy development would be best achieved by a department or entity working at arm’s length from public housing provision and free from any concerns about its own operational needs. Public Housing could compete with CHOs for funding for new stock. As housing is social infrastructure it would be more appropriately placed in an economic or infrastructure body. For example Homes England is a non-departmental public body that is the Government’s ‘housing accelerator’ and is responsible for

- increasing the number of new homes that are built in England, including affordable homes and homes for market, sale or rent
- improving existing affordable homes and bringing empty homes back into use as affordable housing
- increasing the supply of public land and speeding up the rate that it can be built on
- helping to stimulate local economic growth by using our land and investment, and attracting private sector investment in local areas.

The community housing sector is ready to gear up and work with the state government to provide a social and affordable housing program at scale. We urge you to take bold action and restore Victoria to the national standing it once had as leader in social housing provision and innovation. The status quo is simply not good enough.

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The Community Housing Industry Association Victoria (CHIA Vic) is the peak body that represents the not-for-profit community housing sector in Victoria. CHIA Vic works to support the growth of community housing as the most effective and efficient means of ensuring more disadvantaged Victorians can enjoy the dignity of safe, secure and appropriate housing.

CHIA Vic’s member community housing organisations (CHOs) include all the organisations registered as housing associations or housing providers under the Victorian regulatory framework. These registered CHOs make up an integral part of Victoria’s social housing system, managing more than 20,000 units of rental property, over 9,700 of which are owned by CHOs.

ⁱ Nygaard, C (2019) Social and Affordable Housing as Infrastructure
<https://www.communityhousing.com.au/wp-content/uploads/2019/11/Social-and-affordable-housing-as-social-infrastructure-FINAL.pdf?x33467>

ⁱⁱ KPMG – Social Housing Initiative Review September 2012