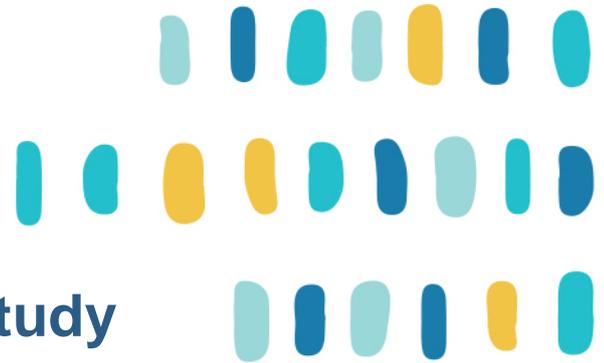




Government of **Western Australia**
Department of **Communities**



2018 Community Housing Study

Stage 1 Thematic Summary

Introduction

To provide input into the preparation of the new State Housing Strategy, the Minister for Housing has commissioned a Community Housing Study to examine the contribution of community housing providers to the social housing system, particularly in terms of tenant, asset and financial outcomes. It will also inform future performance metrics for potential application across the public and community housing sectors. The Study is not focussed on any particular provider – it instead is focussed on looking at the achievements and experiences of providers of diverse types. The Study is being undertaken by PricewaterhouseCoopers (PwC) and the Department of Communities.

Consultation

Consultation is being undertaken in two discrete stages:

- 1. Stage 1:** Stage 1 consultation was undertaken by PwC with a representative sample of entities, to enrich their desktop research. The Project Team carefully selected a representative sample of 14 organisations and individuals, to add to the breadth and diversity of the information provided to PwC for their research. The fourteen “Stage 1 entities” consulted did so in confidence.
- 2. Stage 2** has commenced, using the results of Stage 1 as the basis. Stage 2 involves various methods of consultation, tailored to the various perspectives on community housing.

Stage 1 consultation results

The thematic summary from the Stage 1 consultation is provided overleaf. This summary has been prepared to provide a condensed version of the Stage 1 interview notes, for consultation purposes.

	KEY THEME	THEME DESCRIPTION	ISSUES IDENTIFIED	EXAMPLE QUOTES FROM STAGE 1 INTERVIEWS
1	<p>CHO KEY STRENGTH 1: CHO SERVICE DELIVERY IS RESPONSIVE TO CLIENT NEEDS</p>	<p>The Stage 1 consultation identified a view that a key strength of the community housing sector is CHOs' flexible and personalised service delivery. This means that CHOs develop a good understanding of and close relationships with their clients and flexibly and sensitively respond with appropriate allocations, evictions and arrears policies, supports (either provided directly or through a third party), education etc to sustain tenancies, encourage transitions and benefit the community</p> <p>Some entities stated that CHOs' responsiveness to client needs has resulted in appropriate housing design which reflects the views of clients who are aging or have a disability; or that CHO awareness of community and family dynamics also applies to the development of culturally appropriate new housing products.</p>	<p>Some entities emphasised the strengths of small CHOs in building close relationships with clients and responding rapidly to client needs, informed by their close ties with local communities. Another noted that some CHOs bring a community development focus and with low caseloads provide a personal service to tenants. One entity noted that CHOs' enduring focus on the most vulnerable and high-needs people is their key strength.</p> <p>CHOs are not always funded to provide supports. Three entities requested better funding for supports to sustain tenancies or assist transitions, with two larger providers who received investment through the ATP noting it would be useful for CHOs to access the support program funded by the Department of Communities for public housing tenants (i.e. THRIVE).</p> <p>Some entities noted that flexibility in allocations to and use of dwellings is constrained by the siloing of dwellings within different programs, which impacts tenant outcomes and transitions.</p>	<p><i>"CHOs provide a nexus between wrap-around services and housing management. The "service brokerage" and tenancy sustaining aspects of the CHO offering is a key strength – helping tenants to access services that they would find difficult to identify and obtain by themselves, and to maintain tenancies"</i></p> <p><i>"Key strengths of the CHO sector include the high level of service and individualised support offered to clients, which keeps them in housing."</i></p> <p><i>"The strengths of small CHOs were highlighted:</i></p> <ul style="list-style-type: none"> <i>• Close relationships with the clients, and the ability to respond rapidly to their needs.</i> <i>• They are able to support clients to take the next step in to private accommodation (e.g. by giving rent references and support through the application process) ..."</i>
2	<p>CHO KEY STRENGTH 2: A VARIETY OF FUNDING SOURCES</p>	<p>The Stage 1 consultation identified a view that a key element of the CHO value proposition are the financial aspects - the ability to access Commonwealth funding streams (including CRA, NRAS, etc), private and philanthropic funding, and other exemptions and concessions (GST, LG rate exemptions). Some entities stated that these funding streams allow CHOs to grow the stock of social housing supply. Other entities stated that their philanthropic funding sources allowed them to offer a higher standard of accommodation.</p>	<p>Eight entities noted that CHOs' ability to access alternate funding streams was a key part of their value proposition, with 2 entities stating that CHOs' ability to deliver additional stock growth from these funding streams was their key value.</p> <p>Two entities stated that CRA was not being maximised due to current rent-setting practices and/or the small scale of the sector in WA. Five entities referenced WA being behind other States in terms of the proportion of stock controlled by the sector, or an apparent failure to transfer 35% of stock to the sector. One entity noted that not all social housing tenants receive CRA - this may particularly impact crisis accommodation facilities.</p> <p>Three entities stated that access to finance from the forthcoming Bond Aggregator may be precluded by the small scale of the sector.</p>	<p><i>"Social housing development and management requires a subsidy by definition. CHOs are able to attract Commonwealth Rent Assistance, a key funding stream to be leveraged for new development to meet growing need. This is their key value proposition."</i></p> <p><i>"Some small CHOs which can raise significant own-source revenues believe they offer a higher standard of accommodation relative to the Department and other CHOs. The philanthropic funds and in-kind assistance enable them to do this."</i></p> <p><i>"Currently not maximising CRA as only 17% of sector. Could get significantly more income from Federal government (estimated at around \$40M) if were 35% of sector"</i></p>

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3	PARTNERSHIPS - FOR SUPPORTS AND FOR STOCK GROWTH	<p>The community housing sector's capacity to enter partnerships to deliver support services to clients or stock growth via innovation was a key theme. Partnerships with support providers were seen by some CHOs as integral to their service delivery and to tenant outcomes. Partnerships with the private sector and with State and local Government were noted by some respondents as facilitating CHOs' delivery of growth in supply (e.g. through Joint Ventures, management transfers under peppercorn leases, NRAS delivery, etc).</p>	<p>There were divergent views on whether support services to tenants should be delivered by the same entity which delivers property and tenancy management services, or whether these functions should be split or split within the one entity.</p> <p>Noting the importance of the partnership between the community housing sector and the Department, some entities suggested that it could be improved by a relationship management model where each CHO had a single prime contact in the Department, a greater emphasis on shared objectives and a move away from competition.</p> <p>One entity noted the need for high levels of trust for a partnership to succeed, and that the Department has little awareness of the governance responsibilities of CHOs. Others noted a preference for greater availability of information from the Department, including regarding policy interpretation and tracking of performance.</p>	<p><i>"The link between the asset management and service components of the CHO sector are key, but do not necessarily need to be combined within single organisations... Separating them could be beneficial in terms of facilitating newer models of service... Department of Communities funding streams... must be more coordinated to facilitate this kind of specialisation and unbundling in the sector. This would be more efficient and result in better outcomes for clients."</i></p> <p><i>"CHOs are smaller and more nimble so can do things differently. They can partner with other organisations for innovation."</i></p> <p><i>"CHOs have built support service partnerships between government, other NFP organisations and philanthropic and can co-design support for clients."</i></p> <p><i>"The imperative should be to increase social housing supply, and through the...key value propositions (of alternate funding streams and partnerships with Housing for land grants) CHPs can support this objective."</i></p>
4	CONSOLIDATION	<p>The importance of scale in promoting economies of scale, less reliance on Government, increased access to alternate funding streams such as bond aggregator finance and greater philanthropic funding, and the pursuit of stock growth, was a key theme from consultation. Some respondents noted many small providers are not well geared to manage and maintain houses, having no head office and little expertise in policy, financial, or asset management. In these regards respondents suggested that aggregation may be important for effectiveness. Some respondents noted that some very good small providers had demonstrated good business models, but had not been given the opportunity to scale up.</p>	<p>Obstacles to consolidation were raised by some entities who noted concerns around maintaining their allocation rights to dwellings, the security and protection of their clients, and the quality of asset maintenance if property and tenancy management were taken over by a larger CHO. The financial viability and rapid response challenges associated with low occupancy crisis dwellings, and challenges around maintenance of dwellings in rural and remote areas, were also cited as obstacles to larger CHOs taking over property and tenancy management services.</p> <p>Some responses suggested that partnerships between larger, asset management focussed CHOs and smaller, service oriented CHOs, would be effective in achieving some of the benefits of consolidation through scale, while maintaining the role of "niche" housing providers and their value propositions to clients.</p>	<p><i>"Community Housing Providers have potential to support the supply side of the social housing sector. The Community housing sector is currently operating at a scale too small to make a major impact, and most are not pursuing aggressive growth strategies."</i></p> <p><i>"The strength of small CHOs in providing tailored services to vulnerable clients is complemented by larger CHOs' strengths as asset managers."</i></p> <p><i>"Maintaining control over quality is the key concern when it comes to accessing assets managed by the Department or larger CHOs. This is of particular concern in remote or rural areas, where larger CHOs with an asset management focus are hesitant to work because of the weak economies of scale."</i></p>

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<p>5</p> <p>NEED FOR STRATEGIC CLARITY</p>	<p>A key theme from consultation was that the absence of a strategic vision for social housing in WA and the role of the community housing sector has created uncertainty and compromised growth for small and large CHOs. Respondents noted that strategic decisions were required around whether community and public housing should play complementary or competitive roles, and the degree to which the State wished to provide a subsidy or to leverage CRA to develop and run social housing. Clarity around the intent of transfers and a coherent strategic plan setting the State's policy intent, direction, and view of the key outcomes to be targeted were noted as highly welcome.</p>	<p>Nine entities noted the need for strategic clarity to provide certainty to the sector and to guide the Department's future engagements with the sector. Two respondents noted this lack of strategic direction had impeded the ability of small CHOs to generate growth. One stated that the historical lack of policy and strategic direction had reduced the dividend from social housing, and that CHOs should be involved in a co-design process for a social housing strategy.</p> <p>One respondent stated that the role the community housing sector should play across the housing continuum is a key strategic decision for the State Government and suggested that public housing should focus on the highest need or most subsidised tenants while CHOs should focus on lower needs or Band B tenants. One entity stated that taken together, it's believed that the lack of strategic direction and the failure to meet commitments (for management transfers under the PHLP) in full have impeded the growth of WA's larger CHOs in contrast to other jurisdictions which have supported alternative provision.</p> <p>Some entities noted their optimism in working with the new Department of Communities, and their willingness to work with the Department to build a vision for social housing in WA.</p>	<p><i>"(If across the housing continuum in WA the public and community housing sectors play) competitive roles...serving the same clients, providing them with more choice and options...In such a small market, this is not likely to be viable."</i></p> <p><i>"Housing departments...need to make a strategic decision about the level at which state government is able and prepared to provide a subsidy for social housing. The extent to which CRA must be leveraged to develop and run social housing, and the structure of any state subsidies, should flow from this strategic decision."</i></p> <p><i>"...CHPs can grow social housing stock through accessing initiatives ...including the bond aggregator, further capital gains tax discounts and managed investment trusts, along with current advantage of CRA. Access to State Government land (with long term peppercorn leases) along with inclusionary zoning provisions will facilitate this growth opportunity."</i></p>
<p>6</p> <p>OUTCOMES FROM THE ASSET TRANSFER PROGRAM AND THE MERGERS</p>	<p>A key theme from consultation was that the ATP had been successful in growing the entities which received ATP investment, and that greater clarity and transparency would be required to guide any future transfers. On the matter of providing stock growth respondents noted that:</p> <ul style="list-style-type: none"> The importance of cash flows, rather than collateral, increases the importance of management transfers and means this type of investment in CHOs should also be considered if future growth is required. (As growth targets should consider a CHO's whole portfolio and prior growth achieved and therefore capacity to take on more assets and debt.) A current barrier to growth is the cap on Band B tenants in a CHO's tenant mix. Joint ventures require less upfront capital from the CHO or the Government, and the CHO can still use the surplus from rent to build more houses - this is better for both parties' cash flows and balance sheets. The early accumulation of high levels of debt to deliver growth targets via a build /sell model of funding growth has resulted in a higher risk second tranche of developments considering property market trends. Stock growth from CHOs' access to alternate funding streams is key to CHOs' value proposition. 	<p>There were divergent views on the outcomes of the ATP.</p> <ul style="list-style-type: none"> Some entities noted the success of the ATP and the mergers flowing from the Key Provider Strategy in growing the sector and enabling step change in capacity, while delivering additional social housing stock. Some entities noted that the momentum of the ATP had been lost due to lack of strategic follow through. Other entities noted the lack of transparency around the ATP process, that smaller CHOs should have been given greater access to ATP investment to produce growth, and that not enough assets were transferred for growth leverage to be realised. Still other entities noted that most CHOs did not benefit from the ATP or the mergers and that not participating in the ATP had limited the ability of smaller CHOs to generate growth for the last number of years, access to capital grants for joint ventures having become unavailable. A final entity noted that the evidence is unclear in relation to the impact of the ATP on the State Government's balance sheet especially given the ongoing maintenance liability associated with assets, and that ATP outcomes could have been improved with clearer expectations informing commitments. 	<p><i>"The ATP was quite successful for Tier 1 providers. Overall it was a structured, positive process for introducing more stock into the social housing system with greater levels of wrap-around service."</i></p> <p><i>"There is a perception that the ATP was better than other states as it had fewer restrictions. New, unencumbered stock with minimal requirements is needed to achieve future growth. There is a perception of a lost opportunity having made the initial investment but not kept assisting to grow. Currently have fully utilised cash flow capacity so minimal additional growth is possible..."</i></p> <p><i>"It was and remains difficult for the sector to see the State's policy framework for these initiatives, and how they are measuring success. Clarity around the intent of transfers would be seen as a good thing... There was a lack of strategy guiding State and Federal programs, and a lack of clarity with respect to the policy and growth strategy for the sector in WA"</i></p>

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7	FINANCIAL VIABILITY	<p>A key theme from consultation was the issue of financial viability, with various factors of concern across the diversity of entities. For refuge and crisis operators, financial viability challenges arose due to the intermittent utilisation of dwellings, lack of CRA or rental income from tenants, the high-risk clients housed and the requirement to fund maintenance expenses out of other funding streams - including from grants intended to fund client supports. Philanthropic and other own source funding were seen as integral to the viability of these operators. Other respondents noted the importance of rental income streams and CRA in funding operating expenses such as maintenance and noted that additional stock transfers (including by management transfer and joint venture) would increase these income streams assisting with financial viability.</p>	<p>Two CHOs that had received investment through the ATP stated that there is a yield gap. One of these CHOs noted that assistance is needed to close this gap through access to State land, diversity of tenants and in the eastern states asset transfers had assisted. The other suggested that Government could provide yield gap funding to enable more growth.</p> <p>The contribution of Band B tenancies to whole portfolio rental income was raised by two entities, with one noting the barriers to stock growth imposed by the cap on Band B tenancies.</p> <p>A CHO that had not received investment under the ATP noted that the sector needs new transfers to make borrowing financially sustainable, and referenced the surplus generated from rent and importance of capital grants for joint ventures in funding new stock delivery.</p> <p>One entity noted that for refuge operators, funding for major maintenance at key intervals would be helpful. Another noted that longer lease periods (of 10+ years) would enable CHOs to work more strategically to enable stock growth and embed tenant support programs.</p>	<p><i>"There is a yield gap, in eastern states asset transfers assisted in closing the yield gap. Need assistance to close this through access to state land, diversity of tenants."</i></p> <p><i>"Joint Ventures are useful as require less upfront capital. Can use surplus from rent to build more houses. Better for cash flows and balance sheets."</i></p> <p><i>"Financial viability challenges with low occupancy crisis dwellings - vacancy rates can sometimes be high in crisis accommodation."</i></p>
8	STRATEGIC ASSET MANAGEMENT AND MAINTENANCE	<p>A key theme from consultation was the importance of strategic asset management and its impacts on maintenance requirements and expenditures. Opportunities and barriers to effective strategic asset management in terms of sale and redevelopment of stock, including due to asset age or shifts in geographic or demographic demand, were noted. For example, a CHO with strategic asset management responsibilities for its dwellings noted the challenges in turning over properties in small regional areas.</p> <p>There was a view that CHOs' lack of control over strategic asset management for management-transferred dwellings impacted maintenance budgets. The importance of the client mix (high and low risk) in managing the maintenance budget was raised, as were the sources and constraints around maintenance funding.</p>	<p>Some entities noted that maintenance costs are generally covered by CRA provided the properties are not too old, or that the overall cost of maintenance was roundly breakeven with income on a whole-portfolio basis provided there was a balance of high needs and low-needs clients.</p> <p>One entity noted that standards expected for assets upon return to the Government are set higher than when transferring them to the sector. Two entities noted that asset maintenance is often cross-subsidised through Child Protection funding streams or own-source revenues such as fundraising and in kind donations, with two entities funding capital works through sponsorship and other income. Some respondents noted the strengths of smaller CHOs in conducting maintenance in a manner sensitive to client needs. Another noted that large maintenance contracts had failed in regional areas due to a lack of responsiveness to emergency callouts.</p> <p>The importance of asset ownership in ensuring appropriate maintenance was raised. One entity noted the State's large unfunded maintenance liability and suggested an avenue for its address. The South Australian model, where Government assets are held in trust by CHOs with certain rights to strategic asset management, was cited by another entity as a potential model that gives CHOs access to cash flow while reducing (both parties') long term maintenance liabilities.</p>	<p><i>"Have a long term plan for asset renewal but need to invest money as there is no government support. Challenging to turn over old properties in small regional areas which are in decline."</i></p> <p><i>"Need more flexibility in switching houses where there's no longer a need for them (ie sell house in one small community that's not required to purchase house in the nearby town where there's significant need)."</i></p> <p><i>"State has a large unfunded maintenance liability. Should sell property when it is 15 years old, to limit maintenance costs and enable new stock to be built. This will reduce long term maintenance liability and lead to more stock available (low cost private housing and new social housing). Also means that stock is updated to suit the needs and locations of current clients. Sale could go into trust fund to reinvest in asset renewal / refurbishment."</i></p>

9	OUTCOMES MEASUREMENT	<p>A key theme from consultation was the effectiveness or otherwise of current measurement, tracking and reporting of outcomes. The importance of transparently sharing information allowing comparisons between the public and community sectors in achieving outcomes for various client groups was repeatedly raised. Which outcomes should be tracked and measured, and the mechanisms for such measurement which do not impose a significant burden, would require substantial input from the community and public sectors.</p>	<p>There were divergent views on the extent and usefulness of the outcomes currently being measured across the social housing system. Three entities stated that CHOs do not currently collect much in the way of relevant outcomes data, and another noted that neither the public nor community sector had been good at identifying key outcomes and tracking and managing performance against them. Some entities noted that some CHOs apply the Outcomes Star which was in its infancy; that service-oriented CHOs currently collect data on drug and alcohol misuse, sexual abuse and child abuse, self-management and violence, as part of reporting against other funding streams; and that data currently collected on items such as tenant satisfaction, eviction rates, arrears, etc tend to support the value CHOs bring in terms of tenant outcomes.</p>	<p><i>"The sector as a whole, public and community, has not been very good at identifying key outcomes and tracking and managing performance against them."</i></p> <p><i>"There is no public data available which is vital to work out who is best to deliver different services to different groups requiring housing."</i></p>
			<p>Some entities noted that some tenancy management outcomes should be retained in tenant outcome measures, while most entities stated a preference for wholistic and meaningful outcomes measures.</p>	<p><i>"...A co-design process for a new outcomes framework ... should establish the evidence links between activity metrics and ultimate outcomes and draw on information from more mature markets nationally and internationally."</i></p>
			<p>Many respondents noted that outcomes measurement should be consistently applied across the social housing system, taking into account differences in client populations, and reported publicly with greater transparency for comparative purposes. One entity noted that a focus on outcomes could potentially be achieved by a national system of regulation applied across the social housing system. Various suggestions for potential outcomes for measurement were made.</p>	<p><i>"In the future, ... it would be important to put in place independent structures to monitor performance against outcomes measures across the public and community housing sectors."</i></p>