Public housing transfers – financial implications for community housing providers

Conference presentation: Financial Models for Community Housing; Melbourne, 24/25 July 2013

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Presentation overview

- Research questions and methodology
- Scale and distribution of public housing transfers – recent and prospective
- Transfer objectives and drivers
- Transfer models
- Financial and accounting considerations

- Study funded by AHURI
- Research team: Hal Pawson, Vivienne Milligan, Ilan Vizel & Shanaka Herath (UNSW); Kath Hulse (Swinburne University)
• Debate about possible role of public housing transfers to CHPs revived post-2007
• In line with broader policy aspiration to grow community housing
• 2009 stated aim for ‘up to 35%’ of social housing to be managed via CHPs by 2014 implied expectation of substantial transfer activity
• C/W Govt preference for title transfer reconfirmed 2013 but Australian ‘housing transfers’ often limited to management outsourcing
• Inspiration partly drawn from large scale shift of state housing into not-for-profit sector in the Netherlands, UK and US in 1990s/2000s
• Transfer experiments by Australia’s states and territories since 1990s previously little researched
Research purpose and questions

- **Aim:** through review of existing experience, to identify issues needing to be addressed in implementing housing transfers on larger scale
- **Research questions:**
  1. What forms of transfer have been tried out, or are currently envisaged?
  2. What objectives have prompted transfers and how far have these been met?
  3. What has been learnt from existing experience?
  4. What forms and scale of transfer are currently envisaged across Australia?
  5. How does the Australian experience compare with the UK?
  6. What principles should underpin any future larger-scale transfers?
  7. What policy, operational and financial barriers would need to be overcome to enable such transfers to progress?
- **Fieldwork completed May 2013 - AHURI report publication Sept/Oct**
Research base

• National SHA survey on completed and prospective transfers
• Interviews with national stakeholders and experts
• Case study work – 6 post-2009 transfers in NSW, Vic and Tas:
  – Extensive interviews with SHA and CHP managers
  – Document analysis
  – Tenant focus groups
• Limited contacts with Qld and SA state govts to cover newly emerging transfer agendas
### Public housing transfers in Australia to 2012

<table>
<thead>
<tr>
<th></th>
<th>ACT</th>
<th>NSW</th>
<th>Qld</th>
<th>Vic</th>
<th>WA</th>
<th>SA</th>
<th>National total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-2011 management outsourcing</td>
<td>200</td>
<td>7,900</td>
<td>200</td>
<td>1,400</td>
<td></td>
<td></td>
<td>9,500</td>
</tr>
<tr>
<td>Pre-2011 title transfers</td>
<td></td>
<td>400</td>
<td>600</td>
<td></td>
<td></td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>SHI transfers 2010-2012</td>
<td>100</td>
<td>6,000</td>
<td>2,600</td>
<td>1,300</td>
<td>600</td>
<td></td>
<td>10,800</td>
</tr>
<tr>
<td>Grand total</td>
<td>300</td>
<td>14,300</td>
<td>2,800</td>
<td>2,000</td>
<td>1,300</td>
<td>600</td>
<td>21,300</td>
</tr>
</tbody>
</table>

**Notes: 1. National total also includes small number of SHI transfers in Tas. 2. ACT total includes 132 homes subsequently subject to title transfer**

- Excluded from our definition of transfer: SHA vacant and newly built (pre-SHI) properties – hence, zero scores for WA and SA
- Vast majority of transfers in NSW – programs ongoing since 1990s
- SHI transfers relatively large in number but no tenant consultation issues
- Most experience of *tenanted transfers* in NSW
## Transfers planned and/or proceeding 2013

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Program/completion date</th>
<th>Properties</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>QLD</td>
<td>Logan Renewal Initiative – 2013</td>
<td>Up to 5,000</td>
<td>Second stage tenders under assessment July 2013</td>
</tr>
<tr>
<td>QLD</td>
<td>Statewide transfer – by 2020</td>
<td>Approx 45,000</td>
<td>Framework not yet published</td>
</tr>
<tr>
<td>SA</td>
<td>Better places, stronger communities – by 2018</td>
<td>Up to 5,000</td>
<td>Initially 2 x 500 property packages</td>
</tr>
<tr>
<td>TAS</td>
<td>Better Housing Futures phase 2 – 2014</td>
<td>Up to 3,500</td>
<td>Tenders for 3 property packages under assessment, July 2013</td>
</tr>
</tbody>
</table>

*Note: All proposed as management outsourcing only*
### Housing transfer drivers in the UK and Australia (highly generalised)

<table>
<thead>
<tr>
<th>Driver</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue maximisation</td>
<td>Australia High UK Low</td>
</tr>
<tr>
<td>Leveraging private finance for new supply</td>
<td>Australia High* UK Low</td>
</tr>
<tr>
<td>Enhanced governance/contestability</td>
<td>Australia Moderate UK Moderate</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>Australia Moderate UK Low</td>
</tr>
<tr>
<td>Tenancy service improvement</td>
<td>Australia Moderate UK Moderate</td>
</tr>
<tr>
<td>Leveraging private finance for stock upgrade</td>
<td>Australia Low UK High</td>
</tr>
<tr>
<td>Tenant/community empowerment</td>
<td>Australia Low UK High</td>
</tr>
<tr>
<td>Enhanced long term asset management</td>
<td>Australia Low UK High</td>
</tr>
</tbody>
</table>

*for title transfers*
### Transfer models – as exemplified by case study programs

<table>
<thead>
<tr>
<th>Case study</th>
<th>Transfer type</th>
<th>Location</th>
<th>CHP(s)</th>
<th>Dwellings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. NSW Social Housing Initiative 'vesting'</td>
<td>Asset transfer</td>
<td>State-wide</td>
<td>Various</td>
<td>6,000</td>
</tr>
<tr>
<td>2. Vic Asset Conversion Strategy</td>
<td>Asset transfer</td>
<td>Melbourne</td>
<td>Various</td>
<td>575</td>
</tr>
<tr>
<td>3. NSW Property Transfer Program (whole of area)</td>
<td>Management transfer</td>
<td>Blue Mountains</td>
<td>Wentworth Community Housing</td>
<td>425</td>
</tr>
<tr>
<td>4. NSW Property Transfer Program (CHP capacity building)</td>
<td>Management transfer</td>
<td>SW Sydney</td>
<td>St George Community Housing</td>
<td>580</td>
</tr>
<tr>
<td>5. Aboriginal Housing Victoria</td>
<td>Management transfer</td>
<td>State-wide</td>
<td>Aboriginal Housing Victoria</td>
<td>1,300</td>
</tr>
<tr>
<td>6. Tasmania – Clarendon Vale /Rokeby</td>
<td>Management transfer</td>
<td>Hobart periphery</td>
<td>MA Housing</td>
<td>500</td>
</tr>
</tbody>
</table>

Case study transfer models differ in terms of:
- Asset transfer vs management outsourcing
- Whole of area vs client group-specific
- Place management/renewal vs tenancy & property management
- Tenant empowerment vs ‘business as usual’
• CHP becomes legal landlord of tenants ‘voluntarily’ opting to switch
• RA entitlement of ‘transferring tenants’ increases potential landlord revenue by approx 50% - assumes rental charge set as:
  ➢ 25-30% of tenant income net of RA + 100% of deemed RA
  ➢ But resultant revenue gain not designed to match actual landlord costs
• CHP retains all rent revenue but usually takes responsibility for:
  – All ongoing repairs and maintenance (responsive and cyclical) other than ‘structural repairs’
  – Property insurance
  – Council rates, sewerage charges etc
• Asset retained on state govt accounts but projected revenue can generate some additional CHP borrowing capacity (or ‘leverage’)
• Duration of lease may be a limiting factor for leveraging – somewhat longer leases envisaged by SA to maximise
Title transfer remains the C/W Govt preferred option
CHPs naturally favour title transfer as offering autonomy and ‘irreversibility’
Potentially, as compared with management outsourcing, title transfers could also:
- Eliminate counterparty risks of management transfers where asset care responsibilities are divided
- Through greater independence conferred by asset ownership, maximise CHP entrepreneurialism and innovation
- Facilitate more responsible, rational and efficient long term asset management planning
But major financial and accounting barriers need to be overcome....
Financial and accounting considerations – title transfers

- Title transfers can generate ‘financial payoff’ – leveraged private finance:
  - secured against transferred asset
  - repaid through projected rental income stream
- NSW ‘vesting’ to generate approx 20% leveraged additionality over 10 yrs
- **But** State Govt incurs ‘budget loss’ because book value of assets booked as recurrent expenditure loss for year of transaction. Scale of loss reflects:
  - expectation that title transfers at nil consideration
  - method used to value public housing in the relevant jurisdiction
- And mainstream public housing transfers raise questions on division of leveraged resources – property upgrading vs. new dev’mt
- Differs fundamentally from UK transfer model where:
  - Council housing valued ‘as a business’ not a saleable asset, with outstanding upgrading needs fully accounted for
  - Acquiring housing assoc pays a transfer price funded through borrowing secured against projected future revenue stream
1. Ensure that all states/territories value public housing assets on a ‘realistic’ basis:
   – Recognising continuing use as social housing
   – Fully pricing in outstanding upgrade needs
   – Allowing for ‘superlot’ title impacts
   – Fully factoring in future liabilities of public housing remaining in govt ownership

2. Offsetting negative impact on state govt balance sheet – possibly by:
   – Mitigating book losses mitigated through drawing on revaluation reserves
   – Acquiring-CHP payment of transfer price underpinned by govt-backed rental income guarantee to secure private finance

3. State govt adoption of accounting convention where profit and loss account figures are routinely published net of public housing

4. A national approach involving Australian Government co-operation to mitigate impacts on state level finances

But only if underpinned by a convincing policy case on the fundamental superiority of CHP housing stewardship could it be expected that any of these might be accepted
Transfers to CHPs seen by some as possible salvation of unsustainable public housing, but major financial impediments to asset handovers remain in place

Even if negative impacts on state govt budgets could be mitigated, modest scope for asset-underpinned leverage no substitute for ongoing new development capital funding program

Recent surge in interest inspired mainly by scope for RA-revenue capture but participating CHPs placed at risk by lack of future certainty (e.g. RA policy)

Cost effectiveness and ‘superior tenant outcomes’ case for CHP management outsourcing not yet convincingly demonstrated

Full report will cover all these matters in detail as well as a much broader range of issues including:
- Tenant consultation and choice
- Transfer packaging and successor landlord selection
- Impacts of transfers completed to date


Plibersek, T. (2009) *Room for more: boosting providers of social housing*; Speech by the Minister for Housing, Tanya Plibersek MP, Sydney Institute, 19 March 2009


Sphere Analysis (2010) *Leveraging Affordable Rental Housing for Sustainability and Growth*; Sydney: Shelter NSW