Recent housing transfer experience in Australia: implications for affordable housing industry development

Inquiry into affordable housing industry capacity

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<td>AASB</td>
<td>Australian Accounting Standards Board</td>
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<td>AHURI</td>
<td>Australian Housing and Urban Research Institute Limited</td>
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<td>AHV</td>
<td>Aboriginal Housing Victoria</td>
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<td>AIHW</td>
<td>Australian Institute of Health and Welfare</td>
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<td>ALMO</td>
<td>Arms-length management organisation</td>
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<td>BHF</td>
<td>Better Housing Futures (Tasmania)</td>
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<td>BPSC</td>
<td>Better Places, Stronger Communities (South Australia)</td>
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<td>CH</td>
<td>Community housing</td>
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<td>CHP</td>
<td>Community housing provider</td>
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<td>COAG</td>
<td>Council of Australian Governments</td>
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<td>CRA</td>
<td>Commonwealth Rent Assistance</td>
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<td>DHPW</td>
<td>Department of Housing and Public Works (Queensland)</td>
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<td>EPI</td>
<td>Evidence-Based Policy Inquiry</td>
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<td>HIU</td>
<td>Housing Innovations Unit (Tasmania)</td>
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<td>ICHO</td>
<td>Indigenous community housing organisation</td>
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<td>LCC</td>
<td>Logan City Council (Queensland)</td>
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<td>LCCH</td>
<td>Logan City Community Housing (Queensland)</td>
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<td>LNP</td>
<td>Liberal National Party (Queensland)</td>
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<td>LRI</td>
<td>Logan Renewal Initiative (Queensland)</td>
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<td>JWH</td>
<td>Junction and Women's Housing</td>
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<td>NAHA</td>
<td>National Affordable Housing Agreement</td>
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<td>NAO</td>
<td>National Audit Office (England)</td>
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<td>NBESP</td>
<td>Nation Building Economic Stimulus Plan</td>
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<td>non-government organisation</td>
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<td>NRAS</td>
<td>National Rental Affordability Scheme</td>
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<td>NRSCH</td>
<td>National Regulatory System for Community Housing</td>
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<td>NSW</td>
<td>New South Wales</td>
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<td>RMA</td>
<td>Residential Management Agreement</td>
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<td>ROGS</td>
<td>Report on Government Services</td>
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<td>ROSAS</td>
<td>Renewing Our Streets and Suburbs (South Australia)</td>
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<td>SA</td>
<td>South Australia</td>
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<td>SAHT</td>
<td>South Australian Housing Trust</td>
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<td>SDA</td>
<td>Sales and Development Agreement</td>
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<td>SHI</td>
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<td>SROI</td>
<td>Social Return on Investment</td>
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<td>TLO</td>
<td>tenant liaison officer</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>WA</td>
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Executive summary

- Since the mid-2000s, Australian housing policy-makers have taken an interest in the transfer of public housing to community housing providers (CHPs), partly as a means of transforming a social housing system dominated by financially unsustainable public housing into a vibrant affordable housing industry. Until recently, however, such transfers have been mostly small in scale and experimental in nature.

- Since 2013, three Australian states with relatively little prior experience of transfers have initiated ground-breaking transfer programs: Tasmania’s Better Housing Futures (BHF), South Australia’s Better Places, Stronger Communities (BPSC) and Queensland’s Logan Renewal Initiative (LRI).

- The BHF and BPSC programs initially focused the activities of successor CHPs on eliminating backlog maintenance and improving tenant services, with more ambitious estate renewal objectives coming later to the agenda. LRI, which from the outset linked an ambitious vision for estate renewal to a wider policy of public sector cutbacks, was subject to a drawn-out implementation process and terminated in 2016 by a successor state government.

- The case study transfers consolidate some aspects of previous transfer practice, in particular: capturing Rent Assistance-enhanced revenues; the transfer of ‘management’ rather than freehold title; and the absence of a role for tenants.

- The case study transfers also extend on previous practice, with larger parcels of properties and longer contractual terms, as well as (in Tasmania) incorporation of (part-portfolio) title transfer as a second stage action. However, questions about contract termination provisions, organisational and tenancy management obligations, and employment require further resolution.

- Transfers via long-term contracts mark a development in affordable housing industry finance, whereby assured cash flows may be accepted as sufficient security for credit. Financial modelling indicates that transfers on this basis may be a viable means for addressing moderate maintenance backlogs, enhancing community development and modestly expanding affordable housing portfolios. Recent transfer experience has also helped clarify the proper accounting treatment of transfers by long-term contract, with the assets concerned appropriately recorded as ‘disposals’ on the public accounts.

- While transfers have built capacity in CHPs, there may be other, more advantageous, ways for CHPs to upscale and develop their businesses.

- A long-term plan to transform social housing provision, informed by better data on public housing finances, coordinated across both levels of government and with the industry, and sustained by strong national leadership and bipartisan support, is an urgent priority.
Key findings

Public housing transfers and affordable housing industry development
Since the mid-1990s, but especially since around 2007, property transfers by Australian state and territory housing authorities have added significantly to the housing stock and capacity of community housing providers (CHPs). Latterly, there has been increasing interest among housing policy-makers in the prospect of further transfers, at a larger scale, as reflected by the 2009 Housing Ministers Conference target of community housing achieving a 35 per cent share of the social housing sector. This interest has been particularly motivated by the increasingly financially stressed and physically run-down condition of public housing, and by the perceived benefits of ‘contestability’ arising from a multi-provider social housing system. Crucial here are the revenue advantages afforded CHPs under current subsidy settings—in particular, CHP tenant eligibility for Commonwealth Rent Assistance (CRA) paid through the social security system, thus enabling CHPs to charge higher rents without reducing tenant net incomes. Until recently, however, public housing transfer programs have been relatively small in scale and experimental in nature (Pawson, Milligan et al. 2013).

Public housing transfers post-2012
Since 2012, three Australian states with little prior experience of transfers have commenced ground-breaking new transfer programs. Tasmania’s Better Housing Futures (BHF), South Australia’s Better Places, Stronger Communities (BPSC) and Queensland’s Logan Renewal Initiative (LRI) are considered here as case studies on contemporary public housing transfer policy and practice.

BHF involved four parcels of properties (about 500–1,100 dwellings each, with some vacant land for development), representing, in total, 35 per cent of Tasmania’s public housing stock; these were transferred to four CHPs, three based interstate. BPSC involved transfer of two parcels (about 500–600 properties each) to two SA-based CHPs. These two programs proceeded through to management handovers in 2014 and 2015, and the respective state governments are, at this writing, progressing further transfer initiatives with more ambitious objectives. By contrast, LRI, which would have been the largest and most far-reaching transfer program yet undertaken in Australia (about 5,000 properties to a partnership of two interstate CHPs), has recently been terminated, along with other planned Queensland transfers, after protracted preparations, political controversy and a change of government.

Transfer objectives and models
Relative to the objectives and models of transfers identified in our 2013 research (Pawson, Milligan et al. 2013), the case study transfers examined here consolidated, extended and innovated in various ways.

All three programs embodied the objective of capturing CRA as the most important motivating factor. In South Australia (SA) and Tasmania, this enhanced revenue was directed to increased spending to address maintenance backlogs. More ambitiously, the Queensland Government aspired to leverage funding for large scale estate renewal and housing construction, which would have involved investment reportedly totalling $800 million.

Building the capacity of the not-for-profit housing industry was an important secondary objective of each of the programs. Recognition of local industry capacity limitations was reflected in the initially modest objectives for renewal and growth adopted by the SA and Tasmanian governments.

The case study transfers also consolidated the model of transferring property management rights by lease or agency agreement, rather than freehold title. However, they also extended the model by transferring for longer periods (terms of 10 years for Tasmania, and 20 years for SA
and Queensland (as planned). Competitive selection processes, without a role for tenants, also consolidated previous practice—although the openness to interstate providers represented a new development.

**Transfer processes, terms and tenant implications**

In all the case study states, the transfer selection, contracting and transition processes built capacity in government and housing providers, but were costly—most of all, of course, in Queensland, where the Logan transfer was aborted despite an extensive tendering process and a subsequent lengthy period of preparation for handover. In the two states where transfers progressed to completion, significant process issues were encountered—particularly in connection with Centrelink payments and the transfer of tenant credits and liabilities.

The transfer contracts contain notable provisions relating to:

- Government termination of contracts—raising questions of security.
- Backlog maintenance liabilities—subject to spending caps that mitigate risk for CHPs.
- CHP organisational management and tenancy management in accordance with social housing policies—raising questions as to the proper place for this level of regulation.

Large-scale transfers raise questions around the employment of public housing staff; however, BHF and BPSC largely avoided the issue through prior recruitment freezes and internal redeployments within the public service—approaches that could not be replicated in a larger-scale transaction or program. LRI would have required the successor CHP to employ ex-public housing staff—but with the project’s cancellation, the associated organisational challenges and opportunities were not seen through to implementation.

None of the case study transfers sought to build the capacity or agency of tenants in the transfer process, but CHPs’ post-transfer engagement with tenants and service improvement initiatives appear to have been well received.

**Transfer finances, accounting and CHP asset bases**

Financial modelling indicates that, through CRA-enhanced rent revenues, transfers of public housing to CHPs may be a viable way of achieving maintenance backlog reduction and, at the same time generating a modest revenue surplus to underpin other designated CHP activities. Employing social landlord income and expenditure assumptions derived from transfer tendering practice, this modelling focused on a number of ‘30-year business plan’ scenarios for a notional 1,000 dwelling public housing transfer. These scenarios were compared with a ‘continuing public housing management’ base case.

Allowing for the elimination of a maintenance backlog averaging $15,000 per dwelling, our transfer ‘base case’ generated an operational surplus over the business plan period sufficient to leverage construction of 113 new homes. Of these, 13 would be for market sale, 29 to replace obsolete transferred public housing, and 71 as additional affordable housing units. Alternatively, in the most favourable scenario—where strong government action facilitates access to cost-effective private finance (through a financial intermediary) and free land (through planning interventions)—it was estimated that leveraging could yield as many as 557 new homes. Of these, 77 would be for market sale, as well as 143 units to replace worn out public housing and 337 additional affordable dwellings.

However, any transfer contract commitment for a recipient CHP to carry out larger scale catch-up repairs and/or to undertake non-landlord activities (e.g. place making, housing advice and support) would quickly erode and eliminate this development capacity. And, even in the most favourable circumstances imaginable, the social housing financial regime would (over 30 years)
enable the successor landlord to replace only a very small proportion of the ageing transferred portfolio.

The above objectives may be achieved where CHPs are granted a mere leasehold, as opposed to freehold, interest in transferred properties. This is because lenders consider ‘long-lease’ acquisitions of former public housing as potentially sufficient to underpin cash flow-based lending to reputable providers. For accounting purposes, ‘long lease’ is now being interpreted as including contracts of as little as 10-year duration. As confirmed through recent practice, proper accounting treatment of such transactions involves the asset concerned being recorded as a ‘disposal’ on the public accounts.

It must be emphasized that significant questions linger as to what, under current policy settings, transfers may be reasonably expected to deliver. In particular, there is no validated information about the true scale of dwelling condition impairment in transferred property portfolios, nor on the time needed for ‘catch-up repair’ programs to eliminate such problems. Moreover, the adequacy of modelled allowances for successor landlord expenditure on responsive repairs, cyclical maintenance and other matters remains to be authenticated by experience. Equally, there are important uncertainties about the quality of the contractual terms granted by state governments, particularly regarding the degree of security afforded to CHPs—and, hence, CHP creditors. Valid arguments for title transfer remain.

Policy development options

The case study transfers offer numerous lessons for the conduct of any future public housing transfers—most of these are of specific relevance to state government policy-makers and their CHP counterparts.

The step up in transfer parcel size and length of transfer period effected by BHF and BPSC may generally be considered the standard or starting point for transfers going forward.

The staged approach of the BHF and BPSC programs—whereby the CHP capacity was first tested by property improvement and tenant service improvement objectives, pending more ambitious objectives of estate renewal—is a sound one. By contrast, the failure of the Logan transfer may be attributed in part to poor staging.

BPSC’s use of concurrent leases is a promising innovation. This cuts through the previous confusion about tenants’ existing agreements, and makes clear that CHPs acquire a leasehold interest in the property while existing agreements remain on foot. In previous transfers, tenants could choose to sign a new agreement with the CHP; if they opted against, in some programs the CHP did not acquire a leasehold interest but managed the property as an agent (e.g. BHF, some NSW transfers); in others, tenants were threatened with mandatory relocation (Pawson, Milligan et al. 2013).

The process of transitioning properties and tenancies is technically demanding. Early collaborative engagement with tenants helps to identify problems and ameliorate concerns as they arise.

There is an issue regarding the degree of control reserved to state government in transfer contracts, particularly regarding transfer termination and CHPs’ organisational management and tenancy management obligations.

Aspects of practice yet to be resolved include the question of the employment of ex-public housing staff. BHF and BPSC avoided the issue by means of recruitment freezes and redeployments, which cannot be replicated or sustained indefinitely. There are challenges and opportunities for CHPs in taking on ex-public housing staff.
Transferring leasehold, rather than freehold, interests in property portfolios has helped to avoid political controversy—but not altogether, as the LRI experience shows. Nor do long-term leases avoid the issue of state governments accounting for transfers as a disposal of the housing asset.

‘Leasehold transfer’ also appears potentially serviceable in providing the basis for securing loan finance, but there is a question as to whether the terms on which the case study transfers have been effected are sufficiently secure to serve as the basis for the leveraged growth of the affordable housing sector by CHPs.

There are more fundamental issues surrounding transfers that need resolution. In particular, the dearth of meaningful data on the financial and physical condition of the state and territory public housing systems makes it hard to specify the problem for which transfers are said (by some) to provide a solution.

Also essential is Australian Government leadership and full participation in the social housing reform process, to ensure that public investment in housing stock is protected, and that system revenues and subsidies are secure enough to support leveraged reinvestment and, ideally, growth.

A long-term plan to transform social housing provision is required, informed by better data on public housing finances, coordinated across both levels of government and with the industry, and sustained by strong national leadership and bipartisan support.

The study

The research is part of a wider AHURI Inquiry into Australian ‘affordable housing industry capacity’, and follows on from previous AHURI research into public housing transfers by Pawson, Milligan et al. (2013).

For each of the case study transfers/transfer programs we interviewed officers of the state government agency responsible for the transfer and of the State Treasury, as well as the successor CHPs and third party stakeholders (e.g. peak non-government housing organisations). We also conducted focus groups with tenants whose homes and tenancies were transferred under BHF and BPSC. We reviewed case study transfer documents, including the four BHF contracts and one of the BPSC contracts.

The financial modelling was commissioned from Sphere Company, which has previously modelled public housing transfer finances (Sphere Company 2010; 2013) and which has extensive consultancy and business planning experience with CHPs.
1 Introduction

- Longstanding interest in large-scale transfer of Australia’s public housing into not-for-profit control has been largely motivated by the financially unsustainable condition of public housing, but also by the ‘contestability’ arguments for a multi-provider social housing system.

- There have been concerns that the ‘limited capacity’ of the affordable housing industry is a key factor constraining the scope for large-scale transfers.

- Transfer projects and programs planned and carried through since 2012 have broken new ground and generated new knowledge with the potential to inform future housing policy and practice across Australia.

- This report therefore documents and analyses post-2012 transfer projects carried through by the governments of SA and Tasmania, and those planned and progressed but not completed in Queensland.

- To contextualise the new research undertaken, this chapter summarises the policy context and the existing research knowledge on this topic.

1.1 Why this research was conducted

1.1.1 Background

The possibility of large-scale transfer of public housing to not-for-profit sector control has been debated and anticipated in Australia since the early 2000s (Jacobs, Marston et al. 2004; Berry, Whitehead et al. 2004; Spiller and Lennon 2009; Pawson and Gilmour 2010). The first comprehensive study on this topic, a national overview of transfers already enacted at that time, was published by AHURI in 2013 (Pawson, Milligan et al.). Focusing specifically on subsequent transfer planning and activity in the three states where this has occurred, this report builds on that research by addressing the following questions.

1 What are the distinctive objectives and components of ‘stock transfer’ models among the latest wave implemented in Australia?

2 What can be learned from the experience of recent transfer initiatives in terms of ‘affordable housing industry capacity’ as a limiting factor?

3 Bearing in mind factors such as the geography of the public housing stock, what are the potential ‘transfer process’ options and ‘post-transfer housing system’ models open to Australian governments and what are their respective strengths and weaknesses?  

4 What are the cost implications of transfer for governments?

1 The specification of this question substantially reflected the contemporary expectation that the Queensland Government would be progressing towards the transfer of 90 per cent of its public housing by 2020 and that this would entail consideration of an ‘enabler’ rather than ‘provider’ state government housing role. Since this did not eventuate, the question was not fully addressed in the research.
In part, debates about the possible role of ‘public housing transfers’ reflects recognition of:

- The financially unsustainable condition of the nation’s public housing system—a deepening problem since the 1990s (Hall and Berry 2004; 2007; NSW Auditor General 2013).

- The somewhat advantaged status of not-for-profit housing providers in terms of potential revenues and tax status (Pawson, Milligan et al. 2013).

Thus, underlying advocacy for transfers is the understanding that these may form a key component of a strategy to revive the failing state housing system (Jacobs et al. 2010).

At a more conceptual level, divestment of public housing to ‘alternative social landlords’ has been seen as fundamental in establishing a multi-provider social housing system in tune with the New Public Management orthodoxy favouring ‘contestable’ service provision frameworks (Hilmer 1993; Plibersek 2009; Milligan and Pawson 2010). The 2015 report on Competition Policy Review (‘the Harper Report’) has recently re-energised this debate with the argument that competition policy ‘needs reinvigorating’ and ‘should apply more broadly to government services’. While social housing is not specifically mentioned, Harper and colleagues argue that across the broader ‘human services’ field, ‘governments should retain a stewardship function, separating the interests of policy, regulation and service delivery’, that ‘user choice should be placed at the heart of service delivery’ and that ‘a diversity of providers should be encouraged’ (Harper, Anderson et al. 2015: 8).

Some inspiration for transitioning public housing to not-for-profit status has been drawn from countries such as the United Kingdom (UK) and the Netherlands. There, recent decades have seen public housing largely shifted from municipal control into the ownership of what have become—for the most part—financially robust not-for-profit landlords. In the UK, an incremental process initiated in 1989 had, by 2008, encompassed some 1.4 million dwellings, thus eliminating ‘council housing’ from more than half of all local authorities (Pawson and Mullins 2010). In the Netherlands, the one-off ‘brutering’ settlement in 1993 switched funding of the entire Dutch social housing portfolio from public to private financing and effectively converted public housing to not-for-profit housing status (Priemus 1995).

As shown in our 2013 AHURI study (Pawson, Milligan et al. 2013), almost all Australia’s states and territories had at that time engaged in some public housing transfer activity, although typically modest in scale and largely experimental in character. More recent developments suggest that larger-scale change may be forthcoming. In 2013, Queensland’s then Liberal National Party (LNP) government announced an intention—albeit later renounced by the succeeding administration—to transfer 90 per cent of all public housing to non-government providers by 2020 (DHPW 2013). In 2015, Luke Foley MP, New South Wales (NSW) Parliamentary Opposition leader, became the first top-rank Australian Labor Party figure to advocate the full transfer of public housing. Declaring that, ‘This is an area of public policy where I believe the not-for-profit sector will do better than the state’, Foley went on:

> Over time all of the state’s public housing should be transferred to not-for-profit community housing associations. They are more responsive and they are best placed to lift the quality and quantity of social housing stock. (Australian Labor Party 2015)

However, the Queensland Government’s July 2016 cancellation of LRI (Pawson 2016) demonstrates that arguments for the transition of public housing to not-for-profit control remain politically contested.

1.1.2 This research

This research explores and analyses the processes and objectives embodied in the qualitatively distinct new cohort of transfer models and processes developed since 2012 in Tasmania, SA
and Queensland. In analysing this activity, the study's central aim is to inform future transfer deliberations in these and other Australian jurisdictions.

The present study is one component of a wider investigation of the institutional ‘capacity constraints’ that could hamper the future expansion of Australia’s non-government affordable housing industry (hereafter ‘affordable housing industry’). This investigation of ‘affordable housing industry capacity’ is structured within an AHURI-driven Inquiry Program (AHURI 2015: 6). The overall aim of the Inquiry is to inform policies for transforming Australia’s social housing system, which remains dominated by state-owned and -managed public housing, into an affordable housing industry, predominantly comprised of non-government organisations (NGOs) providing a more diverse range of affordable housing products and services and operating at an efficient scale (Milligan, Martin et al. 2016: 11).

A key implementation question here concerns the possible range of viable approaches through which the affordable housing industry might be expanded via the absorption of former public housing. Hence, the specific research questions this research project was set up to address— as set out above.

Other supporting research projects contributing to this Inquiry Program have concerned:

- The current capacity of Australia’s affordable housing industry and recommended approaches for further capacity-building (Milligan, Martin et al. 2016; Milligan, Pawson et al. forthcoming).
- Learnings from the extended UK experience (since the 1980s) of transitioning social housing to third-sector control (Maclennan and Miao forthcoming).
- Insights from international experience of transforming public housing in a federal governance context (Lawson, Legacy et al. 2016).

The Inquiry Program has been guided by a high-level group of policy-makers and industry experts (the Inquiry Panel), who have provided advice on the policy implications of the findings from each supporting research project.

The research findings reported here will be of interest to policy-makers both in the Australian Government and in states and territories, as well as to CHPs and other players in the wider affordable housing industry. It is to be hoped that the findings are factored into evidence-informed management and reform of Australia’s social housing system.

1.2 Policy context

1.2.1 Policy origins and early activity

The policy imperative for the transfer of public housing into community housing control has its origins in state and national government initiatives of the 1980s and 1990s to diversify social housing provision through establishing and growing not-for-profit social landlords alongside state housing authorities. Part of the rationale was that ‘multiple providers increase the choices available to tenants as “consumers”’, and to government as the “purchaser” of social housing services’ (Jacobs, Marston et al. 2004: 250). Equally, against the backdrop of post-1996 funding cuts to public housing programs, there were aspirations to foster not-for-profit landlords with the capacity to channel private finance into the social housing expansion needed to at least sustain its market share. Thus, not-for-profit organisations would take on construction debt to which state-controlled entities are effectively denied access because of official limitations placed on public borrowings (Bisset 2000).

From the mid-1990s, the transfer of public housing was increasingly being seen as a key component of community housing sector expansion—a broader policy objective inspired by the
aim of fostering choice, competition and innovation in social housing (NSW Department of Urban Affairs and Planning 1996). In Victoria, while the state government drew back from a contemplated large-scale transfer in the early 2000s (Jacobs, Marston et al. 2004), it enacted two significant transactions later in the decade—the delegation of the management of Indigenous-specific public housing to Aboriginal Housing Victoria (AHV) from 2007 and the ‘asset conversion’ transfer program in 2008 (Pawson, Milligan et al. 2013: 44–50).

1.2.2 Expanding community housing and the importance of rent assistance

While certain jurisdictions had already initiated small-scale transfer activity, the momentum for national public housing reform received substantial Commonwealth impetus under the 2007–13 Labor administrations (Plibersek 2009; Butler 2013). Pivotal here was the Australian Government’s role in facilitating a 2009 intergovernmental agreement to boost community housing provision to ‘up to 35 per cent’ of all social housing by 2014 (Housing Ministers’ Conference 2009). Community housing at this point accounted for some 11 per cent of all social housing. Factoring in the known pipeline of new social housing, this was estimated as implying the transfer of over 80,000 homes (Milligan and Pawson 2010).

As interpreted by the states and territories, the ‘35 per cent target’ agreement had important practical significance. From their perspective, it signalled the Australian Government’s tolerance for the additional federally funded CRA expenditure incurred in consequence of transfers of this magnitude. This is important because, as explained below, the CRA eligibility rules in effect amount to a pro-transfer financial incentive.

CRA is an income supplement available to private tenants in receipt of Centrelink payments (i.e. Australian social welfare payments) and paying rent above a threshold amount. For these purposes, ‘private tenants’ include those renting from a CHP but not from a public housing authority. Therefore, where a CHP takes over a tenancy from a public housing provider, and where (as would be overwhelmingly the case) the tenant qualifies for CRA on income grounds, there is scope for charging a higher rent without affecting the tenant’s income-after-housing costs. Bearing in mind the very low rents typically collected by public housing authorities (usually 25 to 30% of tenant household income), access to additional CRA-derived income means a CHP can garner rental income around 50 per cent higher than a public housing authority managing the same cohort of tenants occupying the same homes (Pawson, Milligan et al. 2013).²

1.2.3 Leveraging private finance

A more tangible impetus to the growth of community housing via transfers arose during the late 2000s from the Australian Government’s decision to include rental housing within its 2008 counter-recessionary Nation Building Economic Stimulus Package (NBESP).³ Within the NBESP, the Social Housing Initiative (SHI) involved a $5.6 billion housing investment, mainly to fund a rapidly deployed house-building program to construct 19,600 homes for social rent across Australia (KPMG 2012). As specified by the Australian Government, at least three-quarters of the new dwellings were to be managed and/or owned as community housing.

In some states, SHI program delivery involved the leveraging of significant volumes of private finance to ‘stretch’ the resulting output. In Victoria and Queensland, for example, this was

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² Community housing tenants are normally charged a rent equivalent to a certain percentage of household income (as in public housing) plus the deemed amount of the CRA payment for which the tenant is eligible.

³ In some states (e.g. Victoria, Queensland and WA) a proportion of these were procured directly by community housing providers and the remainder were transferred to not-for-profits on dwelling completion. In others (e.g. NSW) all transfers took place on completion.
achieved through allocating SHI funds direct to CHPs charged with developing homes part-funded through private debt lodged on their balance sheets. In NSW, government-developed homes were subsequently transferred free of charge to CHPs in exchange for a contractual pledge to leverage private finance for the subsequent construction of additional affordable housing. Within a 10-year delivery timescale, it is anticipated that this ‘vesting’ process will generate additional social and affordable housing units equating to around 20 per cent of the transferred homes (KPMG 2012).

1.2.4 Financial viability of the public housing system

Underlying all of the considerations and initiatives summarised above has been the declining financial viability of Australia’s entire public housing system since the latter years of the twentieth century; expenditures required to maintain system operation have everywhere come to exceed revenues generated. In the main this results from:

- Declining rent-paying capacity of an increasingly disadvantaged public housing tenant population—largely reflecting increasingly stringent allocations prioritisation of those with severe and complex needs and a rising share of single-person (lower income) households in the tenant population.
- Associated growth in resident support needs.
- Growing maintenance and modernisation demands arising from an ageing property portfolio.

In combination, the above factors have badly eroded public housing system financial viability. Even by 2000/01 all but two of the eight state and territory housing authorities had fallen into deficit—that is, rental income was exceeded by operational expenditure. Ten years earlier, all but one of the authorities had remained in surplus (Hall and Berry 2007). While there are no specific national figures to chart subsequent change, it is widely recognised that the 1990s trajectory will certainly have been maintained in the new millennium, pushing jurisdictions towards deeper deficits. The consequence is that for all state and territory governments, the ongoing provision of public housing requires subsidy from consolidated revenue and implementation of unsustainable ‘coping measures’, primarily:

- market sale of housing properties to fund operational deficits
- deferral of some non-emergency maintenance.

Such measures inherently lead to shrinking social housing portfolios and declining physical condition of remaining stock. The latter point is exemplified by the NSW experience where, as acknowledged by the NSW Government, ‘30–40 per cent’ of the state’s public housing had fallen below an acceptable physical standard by 2013 (NSW Auditor General 2013).

1.2.5 A new post-2012 policy agenda on transfers

In the post-2012 period, public housing transfer activity has been concentrated in Tasmania, SA and Queensland—although in the case of Queensland, the activity has lately been terminated and planned transfers have not proceeded. As well as involving states previously relatively inactive in this arena, the post-2012 initiatives break new ground in two important ways.

1 They are enacted on a scale larger than previously attempted in Australia. Tasmania’s BHF program involved four parallel transactions together encompassing some 4,000 tenancies—about one third of that state’s entire public housing portfolio (Housing Tasmania 2012). Encompassing some 4,700 homes, the Queensland Logan transfer would have been larger than any previous transfer transaction.

2 Unlike most earlier transfers, CHPs aspiring to participate have needed to: engage in highly competitive selection processes; accept significant landlord responsibilities (e.g. the self-funded upgrading of acquired properties); and weigh up the associated risks.
It is in the light of these novel aspects that it was judged important to update existing research focusing on the three sets of transactions in these named states.  

### 1.3 Existing research and data collection

The following review relates specifically to published research on the restructuring of Australia’s social housing system through public housing transfers. For a digest of existing work on the affordable housing industry and its institutional capacity see Milligan, Martin et al. (2016).

#### 1.3.1 Interpreting ‘property transfer’

Some earlier studies touched on public housing transfer practice in Australia (e.g. Darcy and Stringfellow 2001; Jacobs, Marston et al. 2004) and on the financial viability of such transactions (Sphere Company 2010; 2013). However, the main contemporary source is our own AHURI-funded research (Pawson, Milligan et al. 2013; Pawson and Wiesel 2014), a comprehensive national study which collated data on relevant programs implemented across all states and territories in the period 1995–2012—although focusing more particularly on activity in the 2008–12 period.

From this earlier investigation we know that transfers of tenanted housing actioned by 2012 had encompassed around 22,000 homes—including some 10,000 SHI homes passed by Australian states and territories to CHPs around 2010–12. Importantly, however, our 2013 study confirmed that (excepting the special circumstances of the SHI) the vast bulk of such activity had involved ‘management transfers’ rather than ‘title transfers’. Typically, therefore, what are described in the Australian context as ‘public housing transfers’ have entailed the contractual outsourcing of public housing management to CHPs, usually on three-year rolling terms. This is quite different to the UK ‘stock transfer’ model and to the Netherlands’ case, in which asset transfer from state to not-for-profit agency ownership was a fundamental component.

While contractual agreements relating to Australia’s pre-2013 transfers have been routinely rolled forward on an annual basis, it was clear from our 2013 research that the lack of long-term proprietary interests in transferred stock was less than ideal for the CHPs concerned or from a system perspective. Firstly, the fact that CHPs lacked full responsibility for asset-management decisions undercut long-term planning considerations. Secondly, it limited the scope for CHPs to leverage debt. This latter point refers to the understanding that CHPs seeking to borrow for investment (e.g. to build additional social or affordable housing) will need to own assets against which such debt can be secured. Moreover, if cash flows are not secured for the long term, loan durations will be short and terms restrictive. Financial modelling predicated on this assumption suggested that, within the context of a typical public housing transfer, ‘growth potential highly benefits from some degree of title transfer’ (Sphere Company 2013: 28). In a transfer of 500 public housing properties, the modelled scope for borrowing to invest would be maximised if 10–20 per cent of these were transferred with title.

As reported in our earlier contribution (Pawson, Milligan et al. 2013), there were two important factors argued to be discouraging state and territory governments from sanctioning title

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4 While the current research has been under way, the NSW Government indicated an intention to initiate a new round of public housing transfers, stating that, ‘Within 10 years the community housing sector will manage up to 35 per cent of all social housing in NSW’ (NSW Government 2016: 10). This could imply new transfers totalling over 20,000 public housing dwellings, a substantial number in terms of transactions already completed. However, the government’s official statement falls far short of being a definitive or specific pledge and at the time of writing no further details are available. Thus it proved impossible to incorporate within this research any analysis of the projected post-2016 NSW transfer program.
transfers. The first concerned the accounting treatment of public housing, whereby it is conventionally valued according to ‘highest and best use’ principles and where divestment of such an asset (at a lower or nil receipt) is recorded as a loss on government accounts in the year of the transaction. The second concerned the risk to the state government credit rating of a large balance sheet adjustment resulting from title transfers—a concern that our previous research concluded was misplaced.

1.3.2 Scalability of ‘experimental’ transfer practice
Tenants of dwellings subject to pre-2013 transfers experienced a change in their legally recognised landlord where they individually chose to ‘sign up’ to the chosen CHP. This differs from the ‘tenant choice’ component of council housing transfers as enacted in the UK, where such transactions have proceeded only if securing majority support in a mandatory tenant ballot. In that context the ballot outcome would result in either all or none of the designated homes being acquired by the designated successor landlord (Pawson and Wiesel 2014). We recognised that the different institutional and social context of social housing in Australia raised major questions about the possible applicability of the UK approach here. Nevertheless, we observed that the UK requirement to secure majority tenant support created an important discipline, necessitating the precise and transparent definition of the case for the proposed transaction and its associated beneficial outcomes.

Pre-2013 Australian transfer practice (e.g. as in NSW and Tasmania) reflected an official understanding that a proposed change of landlord could be enacted only through individual tenant affirmation. However, the resulting approach introduced a problematic component of financial uncertainty in terms of predicting the extent to which members of a given tenant cohort would ‘voluntarily’ convert to community housing tenant status if offered the opportunity to do so. Only for those undergoing such conversion could the designated new landlord capture the higher rent that would result from an eligible tenant’s CRA entitlement (see above).

In the assessment of many key stakeholders, the ‘individual tenant choice model’ described above would be untenable in larger-scale public housing transfers. Likewise, our 2013 report contended that any scaled-up transfer program of the future would need to make provision for transfer of public housing staff to the designated successor landlord. ‘Employment continuity’ commitments for existing personnel would be important in securing stakeholder buy-in for large-scale transfer proposals. In both of these respects, therefore, it was argued that any attempt to scale up transfer activity would call for significant changes of approach.

1.4 Research methods and limitations
The current research has been mainly conducted via state-specific qualitative case study work in Tasmania, SA and Queensland. In each state, fieldwork focused primarily on recent or current transfer programs, as highlighted in italics in Table 1.
Table 1: Case study states and transfer programs

<table>
<thead>
<tr>
<th>State</th>
<th>Transfer program</th>
<th>Location(s)</th>
<th>Number of homes</th>
<th>Transfer period</th>
<th>Successor landlord(s)</th>
<th>Current status, August 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tas</td>
<td>Better Housing Futures (BHF)</td>
<td>Bridgewater, Launceston, Devonport</td>
<td>3,915*</td>
<td>10 + 5 + 5 years**</td>
<td>Centacare Evolve Housing, Community Housing Ltd, Housing Choices Australia</td>
<td>Completed 2014</td>
</tr>
<tr>
<td>SA</td>
<td>Better Places, Stronger Communities (BPSC)</td>
<td>Elizabeth Grove, Mitchell Park</td>
<td>1,080</td>
<td>3 + 20 years***</td>
<td>Anglicare SA, Junction and Women's Housing</td>
<td>Completed 2015</td>
</tr>
<tr>
<td></td>
<td>Renewing Our Streets and Suburbs (ROSAS)</td>
<td>Up to seven sites (not disclosed)</td>
<td>Up to 4,000</td>
<td>20 years</td>
<td>Yet to be determined</td>
<td>Ongoing 2016</td>
</tr>
<tr>
<td>Qld</td>
<td>Rural Housing Service Centre Pilot</td>
<td>Roma (Maranoa)</td>
<td>200</td>
<td>3 years</td>
<td>Maranoa Shire/ Horizon Housing</td>
<td>Completed 2010</td>
</tr>
<tr>
<td></td>
<td>Logan Renewal Initiative (LRI)</td>
<td>Logan</td>
<td>4,700</td>
<td>20 years</td>
<td>Logan City Community Housing****</td>
<td>Aborted 2016</td>
</tr>
<tr>
<td></td>
<td>Gold Coast</td>
<td>Gold Coast</td>
<td>4,200</td>
<td>Not determined</td>
<td>Not determined</td>
<td>Aborted 2015</td>
</tr>
</tbody>
</table>

* Including 500 homes transferred to Mission Australia Housing in 2013 as a pilot phase of the BHF program. ** An initial term of 10 years, with an option to extend for two further terms, each of five years. *** An initial term of three years, with an option to extend for a further 20 years. **** Established as a special-purpose legal entity jointly owned by two NSW-based entities, Compass Housing and BlueCHP.

Source: This research.
Table 2: Case study transfers—timeline

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<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td><strong>Tasmania</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BHF announced</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Rokeby pilot CHP announced</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Rokeby transfer go live</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>Round 2 CHPs announced</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td>Bridgewater transfer go live</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>North West transfer go live</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Northern transfer go live</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Title transfer EOI announced</td>
<td></td>
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<tr>
<td><strong>South Australia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BPSC announced</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Renewal SA in charge</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BPSC CHPs announced</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BPSC transfer go live</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>ROSAS EOI announced</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td><strong>Queensland</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LRI announced</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LRI shortlist announced</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LRI CHP announced</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LRI terminated</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
</tbody>
</table>

*Note: EOI = expressions of interest.*

Source: This research.
Fieldwork involved in-depth interviews with a range of key stakeholders party to each of the case study transfer projects. In all, 62 participants were involved (see Table 3). These included:

- state government officials in various ministries including Treasury, as well as in each state’s lead department responsible for progressing transfers
- transfer recipient CHP senior managers
- third-party local government and NGOs.

Interviews were structured according to an all-purpose topic guide (see Appendix 1).

In addition, to probe resident perspectives on transfer processes, we convened or participated in meetings of ‘involved tenants’ in each state as follows.

- Tasmania—Convened focus group undertaken with transferred estates’ tenant representatives, April 2016. Participants were a diverse mix with respect to age, family situation, background and gender, but all were long-term residents of the transferred estates.
- South Australia—Convened focus groups involving tenants at Elizabeth Grove and Mitchell Park in November 2015 immediately post-transfer. Participants were recruited with CHP assistance and included predominantly longstanding residents.
- Queensland—Attended tenant champion workshop convened by Compass Housing and involving tenant attendees invited by Compass.

The tenant focus groups in Tasmania and SA were structured according to an agenda derived from the main topic guide (see Appendix 1).

### Table 3: Research participants

<table>
<thead>
<tr>
<th></th>
<th>Tas</th>
<th>SA</th>
<th>Qld</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State government officers</td>
<td>2</td>
<td>3</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>CHP officers</td>
<td>7</td>
<td>5</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Local government and NGO representatives</td>
<td>–</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Tenants</td>
<td>5</td>
<td>14</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Total number of participants</td>
<td>14</td>
<td>24</td>
<td>24</td>
<td>62</td>
</tr>
</tbody>
</table>

While the interviews and focus groups were not fully transcribed, they were audio-recorded as well as noted. This material was collated into thematically structured working papers for each of the three states. These working papers provided much of the raw material from which this report has been collated.

Because the Australian Government has played no part in the design and implementation of public housing transfer programs, it was not considered worthwhile for the research to include interviews with Australian Government officials. Given the traditionally unquestioned responsibility of states and territories for public housing management, the Australian Government’s explicit influence in this sphere has historically been limited mainly to its stances adopted in the periodically negotiated Commonwealth–State Housing Agreements (CSHAs) and the 2009 successor compact, the National Affordable Housing Agreement (NAHA). While the government’s responsibility for social security policy (including Rent Assistance) is clearly an important contextual consideration for state/territory-led public housing reforms (see Section 5.3.2), the Australian Government generally takes no publicly stated position on such proposals.
We also collated and analysed relevant documents associated with each case study transfer program or transaction, to the extent that these were in the public domain. The ‘commercial in confidence’ status of transfer transactions and the associated lack of transparency about the terms of agreements and the obligations of the respective parties constrained the research in some regards. We have been able to access most of the text of the BHF agreements, which have been published (except for the schedules) by the Tasmanian Government; we were able to access one of the BPSC agreements, with the mutual consent of Renewal SA and the relevant CHP, subject to a covenant not to disclose the text; and we were unable to access the LRI agreement and related documents.

Special mention should be made of the research in relation to Logan. The termination of the Logan transfer program by the Queensland Government on 20 July 2016 came late in the period of the research project, after completion of the fieldwork. Our interviews and documentary research were conducted at a time when all participants and stakeholders assumed that the transfer would proceed and were working to that end. However, on the grounds that the transaction was yet to be enacted, the parties to the program were unwilling to disclose any details not already in the public domain. Following the project’s cancellation, this stance was maintained. We have therefore been obliged to place greater reliance on third party observations and media reports in relation to the Logan program, and to substantially revise our analysis of the data in light of the July 2016 decision.

On a related matter, it should be noted that although the larger and by all accounts more ambitious Renewing Our Streets and Suburbs strategy (ROSAS) program was already being rolled out in SA at the time of the research (see Table 1), our fieldwork in that state focused almost exclusively on the initial BPSC transfers, because the still ongoing ROSAS tender process unfortunately ruled out disclosure of any details of that program.

All of the fieldwork was conducted in accordance with the approval granted by the University of New South Wales Human Research Ethics Committee (reference 155063).

Apart from the fieldwork, the research is informed by financial modelling commissioned from the Sphere Company that further explores the factors impacting on transfer viability and the recurrent cost implications. This exercise benefits from Sphere’s involvement in numerous post-2010 transfer tenders, which has facilitated a sophisticated and evidence-based approach to scenario-modelling that factors in realistic assumptions in relation to the full range of operational expenditures and other financial liabilities taken on by a CHP taking control of former public housing, as well as the associated income. In particular, the modelling enables us to test the feasibility of using transfer as a means of eliminating backlog maintenance needs in public housing. The methodology is more fully explained in Section 4.1 and in Appendix 2.

1.5 Report structure

Following this introduction, Chapter 2 first summarises the social housing policy contexts specific to each of the three case study states. It then analyses the case study transfers in terms of their objectives, structures and frameworks. Next, in Chapter 3, we compare and contrast the case study transactions in terms of the processes through which they have been progressed and contractual terms agreed. This includes consideration of successor landlord selection, the post-transfer division of responsibilities for tenancy and asset management, and the implications of the transfer programs for the staff of the state housing authorities employed in the transferred areas and for the tenants of the transferred properties.

Chapter 4 focuses on the financial considerations associated with the case study transfers. Here we consider the transaction costs incurred by tendering CHPs and by state governments themselves. Drawing on the Sphere Company modelling, we go on to examine the financial viability of public housing transfers. Distinct from the remainder of the report, this analysis is
generic in nature—it does not relate specifically to the particularities of the case study transfers themselves. However, once more referring to practice in our case study states, the chapter ends with a discussion about the accounting treatment of public housing transfers. Finally, in Chapter 5 we revisit our research questions and, in particular, the implications of our findings in relation to ‘affordable housing industry capacity’.
2 Transfer objectives and models

In each of the three case study states, capturing CRA was overwhelmingly the most important motivation for transfer. In SA and Tasmania the main aim was to boost repairs spending to address maintenance backlogs. More ambitiously, the Queensland Government aspired to leverage investment in large-scale estate renewal and housing construction.

Building the capacity of the not-for-profit housing industry was an important secondary objective of each of the programs. Recognition of local industry capacity limitations was reflected in the initially modest objectives for renewal and growth adopted by the SA and Tasmanian governments.

In comparison with pre-2013 precedents, the transfer models adopted by the three states were distinctive in terms of the following:

- Larger parcel scale—Transfer tranches were relatively large, ranging from around 500 in the initial transactions in SA and Tasmania, to the 5,000 properties included in the failed Logan project.

- Longer duration of transfer contracts—Although all three sets of transactions were primarily to involve contractual transfers of management responsibility (rather than grants of freehold title), ‘lease’ terms of 10 years (Tasmania) and 20 years (SA and Queensland) represented a new departure.

- Variation and innovation in the legal form of the transfer contracts—SA’s ‘concurrent lease’ structure was a particularly promising development.

- The competitive approach to successor landlord selection—Bidding was open to interstate players as well as locally based providers; two-stage processes were used to initially shortlist and then select awarded bidders, in this way aimed at striking a balance between maximising competition and limiting transaction costs.

Recognising the procedural and logistical challenges involved, the SA and Tasmanian governments prudently adopted phased approaches to their initial transfer programs. Queensland’s launch of the large, complex and ambitious Logan transfer, without significant state government experience, proved a risky and costly strategy.

In this chapter we summarise the social housing policy contexts specific to each of the three case study states, then analyse the case study transfers in terms of their objectives and the models devised to achieve them.

First, however, we briefly review the objectives and models of previous transfer programs.
2.1 Previous transfer program objectives and models

In our previous research (Pawson, Milligan et al. 2013), we identified the following as the primary objectives of the public housing transfers recently undertaken in NSW and Victoria:

- Social housing system revenue maximisation, through the capture of Rent Assistance.
- The prospect of leveraging private finance to grow the social and affordable housing stock.
- Enhanced responsiveness and personalisation in social housing services.

We also observed that the models for effecting transfers primarily involved, subject to some variation:

- The transfer of tenancy and property management functions by lease (72% of transferred homes), rather than freehold title (28%).
- Transfer packages defined both on a geographical ‘whole of area’ basis and in other ways (e.g. construction as part of the SHI).
- Relatively short periods for management transfers (usually three or five years), with the prospect of the lease continuing.
- Limited use of competitive tender processes to select successor CHPs.
- An established CHP (rather than a new entity established specifically for the purpose) receiving the transfer.
- Contractual commitment by the successor CHP to leverage revenues from transferred stock.
- Tenants having no role in the decision as to whether a transfer as a whole should take place, or in the selection of the successor CHP, and limited choice in relation to their own tenancy agreement.

2.2 The transfer programs in context and outline

The objectives and models identified above are prominent in the recent and ongoing programs investigated in the current research (hereafter ‘the case study transfers’). There has, however, been some variation in emphasis, both between previous and present programs, and within each of the present programs as it has been developed and implemented. The following sections provide a brief overview of the policy contexts of each of the case study transfers and their development from announcement to delivery—or, in the case of Queensland, termination—before considering in more detail their objectives and models.

2.2.1 Tasmania

In 2012, prior to the BHF program, Tasmania’s social housing system comprised about 11,200 dwellings under Housing Tasmania and 1,900 managed by CHPs (Productivity Commission 2013). Until 2008, the state’s community housing sector was limited to small-scale homelessness and accommodation services operated by generalist welfare service not-for-profits. A 2006 state government effort to emulate the Brisbane Housing Company model resulted in the creation of Tasmanian Affordable Housing Ltd. However, the venture was wound up in 2010 (Francis-Brophy and Donoghue 2013).
Over the course of the SHI\(^\text{5}\) and the National Rental Affordability Scheme (NRAS)\(^\text{6}\), two interstate CHPs—Community Housing Limited (CHL) and Housing Choices Australia—established operations in Tasmania, contributing to a strong rate of growth across the sector (by 2013 it had tripled from 600 properties in 2008).

Announced in 2012, the BHF program has involved the transfer of four packages of former public housing dwellings, totalling around 4,000 homes, into the management of four CHP successor landlords. The transferred stock reportedly encompasses all of Housing Tasmania’s major ‘broad-acre estates’—that is, substantial public housing concentrations, often situated in somewhat outlying locations. While generally only 25–40 years old, the estates were considered by many interviewees to be Housing Tasmania’s ‘worst stock’ in terms of condition as well as location. Respondents knowledgeable on public housing transfers in other states considered the BHF portfolio as, in general, in poorer condition than comparable cohorts elsewhere. From the state government’s perspective, the selection of broad-acre estates reflected BHF objectives, which highlighted the desirability of social and administrative benefits potentially realisable through a place-based management approach.

Collectively equating to about 35 per cent of the former public housing stock, the BHF portfolio has been transferred on 10-year leases, along with freehold title to some vacant land.\(^\text{7}\) Proportionate to the state’s public housing stock, this makes BHF the largest transfer program yet implemented in Australia. It has also proceeded the fastest: first announced in February 2012, BHF effected a pilot transfer in March 2013 and a second round of handovers in May, June and July 2014 (see Tables 2 and 4). Devised and initiated by the Giddings Labor–Green Government, BHF was continued by the Hodgman Liberal Government that came to office in March 2014. The responsible agency was the Housing Innovations Unit (HIU), a relatively new agency (established in 2008) within the Department of Health and Human Services but reporting independently of Housing Tasmania.

Table 4: Better Housing Futures transfer packages (Tasmania)

<table>
<thead>
<tr>
<th>Transfer date</th>
<th>Transfer package</th>
<th>Successor CHP</th>
<th>Number of properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2013</td>
<td>Rokeby and Clarendon Vale</td>
<td>Mission Australia Housing</td>
<td>500</td>
</tr>
<tr>
<td>May 2014</td>
<td>Bridgewater, Gagebrook and Herdsman’s Cove</td>
<td>Centacare Evolve Housing</td>
<td>1,050</td>
</tr>
<tr>
<td>June 2014</td>
<td>Northwest estates (Devonport, Burnie and other regional centres)</td>
<td>Housing Choices Tasmania</td>
<td>1,175</td>
</tr>
<tr>
<td>July 2014</td>
<td>Northern estates (Launceston)</td>
<td>Community Housing Ltd</td>
<td>1,190</td>
</tr>
</tbody>
</table>

Source: This research.

Since giving effect to the BHF transfers, the Tasmanian Government has adopted the Tasmanian Affordable Housing Strategy 2015–25 (Tasmanian Government 2015a), which envisages a greater contribution from BHF to new housing supply. To that end, the Tasmanian

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\(^\text{5}\) The social housing component of the 2008 Nation Building Economic Stimulus Package, which involved a $5.6 billion program yielding 19,600 additional social housing dwellings across Australia in the period 2009–12 (KPMG 2012).

\(^\text{6}\) The revenue subsidy program launched by the 2007–10 Rudd Government and aimed at stimulating the construction of 50,000 homes to be let at below-market rates for 10 years.

\(^\text{7}\) One of the transfer agreements included provision for the transfer of title to 20 properties with dwellings, for the purpose of redevelopment.
Government has proposed to vary the BHF model by granting interested BHF providers title to a proportion of the transferred properties, in order to facilitate leveraging and development of an additional 150 dwellings across the parcels. At this writing, the Tasmanian Government is preparing to transfer title to 500 BHF properties. The stated purpose of this is ‘to provide additional borrowing capacity and recurrent financial incentives for the [recipient] community housing organisations’ (Tasmanian Government 2015b: 9). The Labor Opposition and Green parties have opposed the title transfer (see Section 5.2.3).

2.2.2 South Australia

In 2014, prior to the BPSC program, SA’s public housing system comprised about 40,000 properties managed by Housing SA for the South Australian Housing Trust (SAHT) (Productivity Commission 2016a). Historically distinctive for its relatively large size and close connection with policies for the state’s industrial development, in recent years the SA public housing system has, like other jurisdictions, suffered reduced capital funding, declining revenues, mounting recurrent costs and loss of housing stock.

SA’s pre-BPSC community housing sector encompassed about 5,900 properties. The sector is distinctive in that CHPs have held title to most of their managed portfolios, albeit subject to SA Government encumbrances known as ‘debentures’—a legacy of refinancing, by the SA Government, of high-interest debts incurred by CHPs under finance arrangements in the 1980s. Properties subject to debentures cannot be used as security for borrowing, and surpluses generated are ‘clawed back’ by the SA Government. The sector had also received 600 properties with title under the SHI, between 2008 and 2012 (Pawson, Milligan et al. 2013: 21), but has latterly remained the slowest growing community housing sector in the country.

As announced in June 2013, BPSC was to involve two phases of transactions, totalling about 5,000 properties. Under the first phase of the program 1,080 public housing properties, in two parcels (see Tables 2 and 5), were transferred to CHPs in October 2015 on leases initially for three years, with the prospect of a further lease term of 20 years. These parcels are both in suburban Adelaide and are generally considered to be around average in terms of their condition and popularity—albeit that Mitchell Park had some locational advantages over Elizabeth Grove. In any event, this was far from a case of the state government dispensing with its most problematic property.

<table>
<thead>
<tr>
<th>Table 5: Better Places, Stronger Communities transfers (SA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer date</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>October 2015</td>
</tr>
<tr>
<td>October 2015</td>
</tr>
</tbody>
</table>

Source: This research.

In 2014, responsibility for BPSC was shifted from Housing SA to Renewal SA, the state’s urban renewal agency, which was also charged with various other public housing renewal projects under ROSAS, launched December 2014. Renewal SA has brought the foreshadowed second phase of transfers—amounting to some 4,000 homes—under the ROSAS banner.

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8 In 1991, SAHT housed 12 per cent of SA households (in contrast to 6% for all of Australia) (Industry Commission 1993: xix). Currently SAHT houses about 6 per cent (in contrast to 4% for all of Australia *AIHW (2016)).
From the Renewal SA perspective, the ROSAS transfers will be ‘sharply different’ from those under BPSC, with a greater emphasis on leveraging and urban renewal (SA government officer, interview). At this writing (July 2016), a confidential request for tenders in relation to seven parcels (Adelaide: Central and Northern suburbs; Adelaide: CBD and East; Adelaide: Western suburbs; Fleurieu Peninsula; Limestone Coast; Morphettville; Woodville) is being considered by shortlist of interested CHPs, and Renewal SA is discussing with the existing BPSC CHPs their expressed interest in the BPSC model being varied to align with the pending ROSAS model.

2.2.3 Queensland

Queensland’s public housing system currently comprises about 51,700 dwellings, housing less than 3 per cent of all households—a relatively small sector, even by Australian standards. Its community housing sector is relatively large (11,600 total properties managed by CHPs) at 18 per cent of mainstream social housing (Productivity Commission 2016). Along with numerous small providers, the sector also contains a few medium–large CHPs with housing-development businesses, including the affordable-housing developer and owner, Brisbane Housing Company.

In the 1990s, Queensland’s community housing sector was the recipient of some public housing management transfers and investment in capacity-building initiated by the Borbidge Coalition Government. The subsequent Beatty Labor Government preferred to retain stock in public housing, but in 2010, the Bligh Labor Government initiated the Rural Housing Service Centre Pilot, under which, management of 200 public housing dwellings in southern Queensland was transferred to the local government, Maranoa Shire, which was already a registered CHP with 50 dwellings under management.

Under LRI, as announced in 2012, all 4,700 public housing dwellings (plus 300 dwellings already in community housing management) in the City of Logan, on the southern outskirts of Brisbane, were to be transferred to Logan City Community Housing (LCCH). LCCH is a joint venture of two NSW-based Tier 1 CHPs, Compass Housing and BlueCHP. LRI also proposed to transfer housing staff from the Department of Housing and Public Works (DHPW) to LCCH.

LRI had its roots in discussions in 2009 between Logan City Council (LCC) and the Queensland DHPW on the prospect of establishing an affordable housing company along the lines of Brisbane Housing Company (Milligan, Gurran et al. 2009), to be owned jointly by LCC and the Queensland Government. LRI was also conceived of as a ‘partnership’ between the state government and LCC, and both were involved in the tender assessment process9. However, the Logan transfer was also closely related to the policies of the Newman Liberal–National Government that took office in March 2012. With a strong agenda for reducing government service provision through cutbacks and outsourcing, the Newman Government proposed public housing transfers in a number of locations, including Logan and the Gold Coast—where Horizon Housing Company was invited by the Housing Minister to develop a proposal to receive all 4,200 public housing dwellings in the area.

The following year, the Queensland transfers agenda was enlarged by:

- The government’s Commission of Audit, which recommended that ‘the Government progressively transition the ownership and management of existing and new public housing stock to the non-government sector, with the scope and timeframe for transition to be

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9 As this report went to press in December 2016, news emerged of a new Queensland Government initiative encompassing the regeneration of Logan’s public housing, reportedly on a scale even larger than the LRI. This new scheme was however entirely devised by the State government and its origination involved no joint working with Logan City Council (Channel 10, 2016).
determined by the sector’s performance and governance capability’ (Queensland Commission of Audit 2013: 1–44).

- The government’s own adoption of a target of transferring management of 90 per cent of public housing dwellings to CHPs by 2020 (DHPW 2013).

The Newman Government lost office in February 2015. Shortly thereafter, the Gold Coast transfer, which had not been contracted prior to the election, was terminated by the new Palaszczuk Labor Government, which also dropped the 90 per cent state-wide transfer target. The Maranoa pilot continued, but with Horizon Housing as the CHP, following the shire’s withdrawal in 2013. Work on LRI by both DHPW and LCCH partners continued, though subject to considerable delays, well into 2016—indeed, it is reported that the LCCH partners and LCC were informed of the Queensland Government’s decision to terminate the program10 only hours before the housing minister’s announcement on 20 July 2016 (Templeton 2016a).

### 2.3 Transfer objectives

The objectives of the case study transfers are largely familiar from predecessor initiatives, but with a more demanding role envisaged regarding property management, improvement and renewal, and subject to differences in emphasis between the current programs.

Perhaps the most significant difference between the current case study transfers, relates to the ways in which the case study transfers have been placed in the context of wider state government policy objectives. The Tasmanian and SA programs were closely associated with the 2009 Housing Ministers’ Conference agenda and the 35 per cent target. In interviews, officers of both governments indicated that this agenda was significant in that it ‘gave cover’ to the development of transfer programs for which need was already perceived by housing and other agencies (SA government officer, interview). In SA in particular, the government was ‘defensive’ of public housing and concerned that BPSC should take a ‘conservative’ approach that emphasised returns to the social housing system (SA government officer, interview). By contrast, LRI was distinctive for its close association with the Newman Government’s agenda for cutting back and outsourcing government services, and its novel 90 per cent target for transfers, and became the object of party-political controversy that was almost absent in the other states.

#### 2.3.1 Maximising revenues

Increasing social housing system revenues through receipt of CRA stands out as a primary objective of each of the case study transfers. As noted in Section 1.2, community housing tenants (unlike public housing tenants) are eligible for CRA and this can increase a landlord’s rental revenue by as much as 50 per cent. The announcement of BPSC by the SA Premier was candid: ‘It will mean Commonwealth Rent Assistance can now be paid towards the rental of these homes—which in turn will generate for SA about $2 million extra per 1,000 houses each year for the community housing sector’ (Weatherill and Piccolo 2013).

In interviews, SA government officers were also frank: the primary objective of BPSC from its inception has been to increase revenues through the capture of CRA and thereby to fund necessary property maintenance. Improvements in place-making and capacity were ‘important secondary objectives’ (SA government officer, interview). Similarly, a Tasmanian government

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10 Reportedly, the new Queensland Government initiative for the regeneration of Logan’s public housing, as announced in December 2016, was to feature collaboration with private developers and ‘non-profit groups’. Whether this was a reference to community housing providers and, if so, what their role might be, was unclear (Channel 10, 2016).
officer said, ‘BHF would be able to bring in CRA, because otherwise, why do it? … There was a real political driver, a financial driver, to say yes, we’re going to take this opportunity to do this.’ (Tasmanian government officer, interview).

The prominence of CRA as a transfer driver raises the question of whether a change in CRA policy settings—specifically the eligibility of community housing tenants—could affect the viability of the programs and successor CHPs. In an interview, a SA CHP officer indicated that the loss of CRA would be, at least for their own organisation, ‘problematic’ rather than ‘catastrophic’—the consequence would be that the time taken to catch up on required property maintenance (another prominent program objective) would be greatly extended (SA CHP officer, interview). It also raises the question of the appropriateness of the present structure of CRA, which reflects its primary purpose as a co-payment for individuals paying high market rents. The significance of CRA in enhancing social housing system sustainability is further discussed in Chapter 4.

Aside from CRA, the BHF and BPSC provide for increased rental revenues through allowance for some allocations of housing outside the usual social housing priority policies to moderate-income households. This is not, however, a major feature of the programs: the allowances (discussed in more detail in Section 3.2.7) are relatively small, and in an interview, a SA government officer indicated that no such provision would be made in the ROSAS transfers.

2.3.2 Property improvement

Improving the physical condition of transferred housing stock is a major objective of both BHF and BPSC: each of these programs involved housing stock impaired by significant backlog maintenance requirements, with the Tasmanian stock regarded as some of that state’s worst. The use of transfers as a device to leverage property upgrading and the centrality of backlog maintenance provisions in the contracts differentiates the projects covered in this research from typical pre-2013 transfer practice. In NSW, where the bulk of pre-2013 transfers took place, these transactions reportedly involved the elimination of backlog maintenance to homes handed over—although treated as a responsibility of the former public housing landlord, not the receiving CHP. Under the NSW Government’s Stock Transfer Program (STP) and Property Transfer Program (PTP), properties were brought up to the Housing NSW standard through works either directly commissioned by Housing NSW in advance of property handover, or funded through a ‘dowry’ paid by Housing NSW to the receiving CHP when taking control (Pawson, Milligan et al. 2013: 36). To the extent that transfer recipient CHPs are now expected to manage and fund the equivalent process, it could be argued that transfer participation has become somewhat more demanding.

Each of the BHF and the BPSC contracts commits the successor CHPs to spending specified sums on maintenance significantly in excess of historic levels under state government control. However, while intended to overcome maintenance backlogs, there is no contractual commitment for their time-specified elimination. Nevertheless, the increased revenues that come with the present transfers are directed to resolving the maintenance backlog, more than to developing new stock—at least to begin with. The prospect of more ambitious asset management under BHF and the pending ROSAS transfers is discussed below.

The focus of LRI was different from the outset: here the stock was regarded as fairly well-maintained, and the successor CHP’s asset management would have been directed more to estate renewal activities to reduce concentrations of social housing and increase the mix of incomes in the community.

2.3.3 Estate renewal and growing the stock

There is scope for transfers to enable the renewal of estates and the procurement of additional social and affordable housing stock by leveraging CRA-enhanced revenues and by
redeveloping sites at greater densities—that is, making additional land or housing available for sale on the market, to fund social and affordable housing replacement and growth.

Estate renewal was a major objective of LRI, which envisaged the transferred parcel being substantially redeveloped to effect a ‘de-concentration’ of public housing and the ‘creation of mixed communities’ in the transfer parcel (Manders 2013). Subsequent to the announcement of the successful LCCH bid, the Queensland Government stated that renewal activity would see approximately 1,000 dwellings (20% of the stock) replaced with 2,600 new dwellings for sale and rent, for a net increase of 800 social and affordable housing dwellings (DHPW 2015). The termination of the LRI transfer has also put an end to this proposed renewal and growth. When it announced the termination of the LRI, the state government indicated that it would instead fund the construction of 70 new public housing dwellings in Logan as part of its own ‘revitalisation’ plan (de Brenni 2016).

In Tasmania and SA, the objective of renewal and growth has been pursued relatively cautiously, in a staged way. While the prospect of growing the stock of social housing was prominent in public announcements of both BHF and BPSC (Weatherill and Piccolo 2013), it was not reflected strongly in the programs as initially implemented—however, it has risen up the agenda again in proposed variations to BHF and in the proposed ROSAS transfers.

A Tasmanian government officer was explicit on the staging of BHF:

As something that we were effectively putting into place as an innovation … this became sort of that notion of the proof of concept. Okay, you give them management: if you can show these guys can operate as sustainable business, maybe there’s a scope to do some form of title down the track.

BHF provided from the outset some scope for renewal and growth through the inclusion of developable land within each transfer parcel and provision for property sales to facilitate new dwelling construction. The program required each CHP to make a master plan for their sites, but the development commitment was deliberately modest: the total across BHF is projected to be 321 dwellings (101 social housing, 220 affordable housing)11. According to a government interviewee, even that commitment will take a backseat to improving present conditions and maintenance:

If those funds are coming in, they feed into things around better amenity as a primary thing. If we’ve got plans for how these communities can look, and then those plans are acted on in terms of where you’ve got capacity to put some new supply on the ground and where tenants might be able to buy their home etc., and it gives us funds, well, that’s great. Now if that means we get 20 new homes over 10 years—that’s good. A hundred’s better, but if a hundred new homes came at the expense of the amenity, we don’t want [that].

Of the three case study transfer programs, SA’s BPSC had the most modest objectives as regards renewal and growth, containing no requirements for either. CHP proposals for property

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11 It should also be noted that the financial modelling underlying the BHF transfers assumes ongoing open market sales equating to around 2 per cent of transferred dwellings, annually, with sales proceeds being shared between Housing Tasmania and the relevant CHP. Over the duration of the 10-year contracts, therefore, it would be expected that such sales might total up to 800 units—substantially more than the 321 homes scheduled to be built. It is understood that the projected number of sales was based on pre-existing Housing Tasmania stock disposal rates. Therefore, the impact of the transfer on overall stock numbers over 10 years might be a net reduction of around 500 homes (new build minus sales) as compared with the status quo pre-2014 position, which would have resulted in a net reduction of 800.
sales and development are to be considered by Renewal SA on a case-by-case basis; the initial announcement indicated that the SA Government expected about 100 additional dwellings to be developed via the program (Weatherill and Piccolo 2013).

In interviews, CHP officers in each state reported frustration on the limited allowable scope for redevelopment in their respective programs. A BHF CHP officer offered this perspective:

> When we engaged with Housing Tasmania during the formal process, they said they had three priorities and, not in order, they said, the priorities were repair and maintenance of the existing stock, upgrade of the existing stock and additional new outcomes … The fourth one, which is never mentioned in any of it, was, 'Don't get this wrong. Don't upset anybody, do what we do, don't be innovative, and just—we want smooth water because we don’t want any political fall-out. So don’t make my life a misery’ … The absolute priority was repair and maintain what’s there. If there’s any money left over upgrade if you can. And new development would be fantastic. But the first priority is definitely the first priority, and only then can you do the second priority about upgrades, and only then can you do new development.

A SA government officer involved in both BPSC and the prospective ROSAS transfers observed:

> There is a terrific appetite for renewal and redevelopment amongst providers. When you just offer management transfers, there really isn’t much enthusiasm … The sector is very driven to undertake development work.

It appears the ROSAS transfers are intended to go further in harnessing this drive. In an interview, a SA government officer stated that CHPs’ bids would be judged on, among other things, how much capital the CHPs propose to raise, and how much the renewal components of their proposals would contribute to economic activity and employment. In fact, in assessing renewal proposals, projected outcomes for ‘economic growth and jobs’ would be regarded as more important than the growth of social and affordable housing stock.

### 2.3.4 Social housing service improvement

Beyond improved asset management, improved service provision to tenants is a major objective of each of the present programs. In part this is seen as coming from the increased revenues achieved by the transfer, which allow for greater responsiveness to requests for repairs and maintenance and for greater staffing levels. However, the programs also envisage improvement coming from the special skills and ethos of community housing as local, responsive and networked service providers. For example, a Tasmanian government officer said of the BHF:

> … we wanted to … create that more place-based approach to management … Housing Tasmania had over the last five to six years before that effectively moved out of those suburbs in terms of its actual presence … One of the benefits of say, a [name of CHP] being in that space is because they have those different arms of the business, they can actually provide linkages into that, because that’s what they do. And it’s sort of like when you hear, you know, the ‘joined up service’ stuff that’s being talked about. Well they’re sort of putting some of that into practice.

### 2.3.5 Capacity building

Each of the case study transfers seeks to build capacity in the community housing sector by building CHPs’ revenue streams and balance sheets, particularly where large locally based providers were previously thinly represented (Tasmania) or heavily constrained (SA, through debentures).
For Tasmania, this has been a continuation of the strategy adopted to take advantage of the SHI and NRAS programs. These post-2008 initiatives had enabled interstate CHPs to gain a foothold in the state, thus starting to establish the basis for a multi-provider social/affordable housing system. As reflected in comments by Tasmanian government interviewees, part of the motivation for the BHF program was the aspiration to build on this progress—by using BHF as a mechanism with which to build the desired capacity within the community housing sector or, alternatively, by using BHF as an incentive to attract interstate providers with existing capacity:

We did have a focus on trying to say, well, our effort needs to be put into getting organisations here who can operate at scale, who bring in additional skills, hopefully new ways of thinking through their boards and their senior management etc.

(Tasmanian government officer)

In SA, BPSC tender documents expressly stated that the program (including the subsequent transfer now proceeding under ROSAS) was intended to foster the development of ‘a small number (5–6) of large CHPs able to operate at scale and partner strategically with Government around service delivery and future significant urban renewal and growth projects’ (SA Government 2014). While it had involved open competition, where interstate organisations were pitted against locally based rivals, the outcome of BPSC can be seen as having made a major contribution to building locally based CHP capacity. The two successful CHPs, Anglicare SA and Junction and Women’s Housing (JWH), were each awarded transfers close to their local ‘home patch’—in North Adelaide and South Adelaide, respectively.

In interviews, both SA and Tasmanian government officers indicated a ‘chicken-and-egg’ issue about ‘industry capacity’—that concerns about the present capacity of CHPs limited the expectations, objectives and scale of the programs. For example, a SA government interviewee characterised BPSC as ‘dipping a toe in the water’, and considered that it had tested the capacity of the local CHPs. Although CHPs indicated greater ambitions for BPSC and BHF, one SA government interviewee—with an eye to the much longer and less certain process then occurring around the Logan transfer—observed that, ‘Stop-start policies destroy capacity—you’re better off with a slow steady program than a big bang.’

### 2.4 Transfer models

To pursue the above objectives, the case study transfers have employed models that are broadly familiar from previous transfer programs, but on a greater scale: the current case study transfers are significantly larger (in terms of parcel size) and longer (in terms of transfer period). The case study transfers are, like most of the previous transfers, ‘management transfers’, with only marginal transfers of freehold title. However, there has been considerable variation and innovation in the legal forms by which the transfers have been effected. These transfers also continue the practice of affording no role for tenants in designing or determining transfers, though their various legal forms have different implications for tenants.

#### 2.4.1 Larger transfer parcels

The case study transfers involve relatively large parcels of properties, ranging from about 500 properties in each of the SA parcels and the Clarendon Vale and Rokeby parcel, to 1,000–1,200 in the other Tasmanian parcels. The LRI parcel, comprising almost 5,000 properties, would have been the largest single parcel to be transferred in Australia.

The seven parcels pending under ROSAS are each between 200 and 900 properties. SA government officers indicated that they considered that CHPs generally lacked the ‘infrastructure’ to take on parcels of more than 1,000–2,000 properties: ‘swallowing that big a pig would be hard to do’ (SA government officer, interview).
2.4.2 Longer agreements

The case study transfers all involve agreements for the transfer of something less than a freehold interest in the parcel properties; the precise nature of the interest transferred varies between the programs. All of them have relatively long terms, from 10 years (BHF) to 20 years (BPSC; the planned LRI). The BHF agreements are subject to a review at the end of the second year (now passed) and the BPSC agreements are subject to an initial term of three years, during which reviews and a formal program evaluation will be carried out. In interviews, both SA government and CHP officers indicated that they felt it would be very difficult to justify terminating the leases at the third year, but CHP officers also felt that the initial term had inhibited dealings with the properties and meant that ‘we weren’t starting where we wanted to’ (SA CHP officer, interview). It was also seen as giving rise to practical difficulties, such as the inability to issue tenants with leases extending beyond the end date of the initial term.

While ostensibly they are similar ‘management transfers’, the case study transfers differ significantly as regards their legal form. The BHF agreements are expressly structured as agency agreements (as distinct from leases) with respect to the transferred properties (clause 2). As such, the agreement is subject to tenants’ existing residential tenancy agreements; however, where an existing tenancy agreement terminates, the agreement provides for the Tasmanian Government and the CHP to then enter into a lease for that property (clause 14). Under this arrangement, tenants remain tenants of Housing Tasmania—not the CHP—and ineligible for CRA until such time as their agreement is terminated (typically by disclaimer upon signing a new tenancy agreement directly with the CHP). In fact, within two years of the transfers being enacted, most tenants in each locality had signed up with their designated CHP—76–90 per cent at March 2016 (Tasmanian government officer, interview).

By contrast, the BPSC agreements are structured, from the outset, to grant the CHP a lease for each of the transferred properties, running concurrently with each tenant’s existing residential tenancy agreement. This arrangement, known as a ‘concurrent lease’, is a straightforward (if apparently little-known in Australian social housing) application of principles from the common law of leases; no special legislation is required to enable it. The result is that the CHPs receive a lease of the SAHT’s interest, as lessor, in each tenancy, and so become the landlord—while the tenants become eligible for CRA—for the term of the concurrent lease.

Because the LRI agreement was not available to us, the nature of the legal interest created is not clear; however, we surmise that it provided for a lease, but not expressly a concurrent lease. We infer this from section 527C of the Queensland Residential Tenancies and Rooming Accommodation Act 2008, which was specially enacted by the Newman Government to facilitate transfers. It provides that a lease of public housing properties to a CHP empowers the CHP to unilaterally terminate existing public housing tenancy agreements for the properties and issue its own agreements, which may have different terms, in their place. It is at this point that the tenants become eligible for CRA.

Aside from the creation of agency and leasehold interests, BHF also makes limited provision for freehold title transfers to a small number of properties, and it appears that LRI may have contemplated transfer of titles to permit sales as part of the financing of renewal work. As noted above, the prospect of more freehold title transfers has lately been added to BHF by the Tasmanian Government’s affordable housing strategy—financial implications are further discussed in Chapter 5. It is understood that at an early stage in the development of BPSC,

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12 When a lease is granted to a tenant, the lessor (in this case, SAHT) retains a legal interest known as the ‘reversion’. This interest can itself be the subject of a lease and granted to another party (in this case, the CHP). This second lease is the concurrent lease. See LexisNexis (2016).
Housing SA proposed that title should be transferred, but other state government agencies and, ultimately, the cabinet disagreed. The prospective ROSAS transfers will also be by 20-year concurrent leases.

2.4.3 Competitive selection and established CHPs

The case study transfers have all employed competitive selection processes involving established CHPs, with no further take-up of the corporatisation model—represented by the arms-length management organisations (ALMOs) involved in UK transfers—that has previously been the subject of some industry interest. In the case study transfers, large interstate CHPs were especially active in the bidding and were successful in the Tasmanian and Queensland transfers. In certain instances, their involvement has been via the creation of new joint entities: LCCH in Logan and Centacare Evolve Housing in Tasmania. For the purposes of its BPSC bid, JWH also entered into a smaller-scale partnership arrangement with an interstate CHP for support in service planning (not actual service delivery).

Tasmania’s HIU was especially interested in organisations that had an established local presence in the provision of housing or other services, but also a back office with the administrative and financial capacity to operate at scale. All of the successful bidders fit this specification, being either the local offshoot of a large interstate CHP (CHL; Housing Choices Tasmania; Mission Australia Housing) or a partnership between an established service provider and an interstate CHP (Centacare Evolve Housing). In interviews, all four organisations indicated that they had drawn on their interstate capacity, including through ‘embedding’ interstate workers with local staff to provide initial training and support, and adapting existing administrative and property management systems to the transfer parcels. A Tasmanian government officer reflected, ‘I think we’ve actually achieved, you know, a good result that’s let us keep that local touch whilst, hopefully, bringing in some of that expertise.’

In SA, local CHPs were selected, one of which (AnglicareSA) had previously had only a small housing business (though also a large business in other social services). SA government officers indicated that this was consistent with BPSC’s capacity building objectives, and with the SA Government’s general preference for ‘local content’ in procurement. However, they also suggested that larger interstate CHPs may be suited to the more ambitious objectives of the ROSAS transfers.

In Logan, the successful bidders, Compass Housing and BlueCHP, established LCCH as a wholly owned company limited by guarantee, essentially as a vehicle for holding the LRI contract and ring-fencing transfer parcel revenues. With its own chief executive officer and a board of seven directors—five of whom are senior employees or directors of Compass or BlueCHP, and only one of whom resides in Queensland—LCCH was to employ few staff. Tenancy management, property development and maintenance in the Logan parcel were to be undertaken by Compass, BlueCHP and Lake Maintenance, respectively, under subcontracts with LCCH.

2.4.4 No role for tenants

As in Australia’s previous transfer programs, tenants have had no role in designing the case study transfer programs, in drawing up tenderer specifications, nor in selecting CHPs. The issue of tenants’ individual choice has been dealt with in a variety of ways.

13 Notably, the aborted Gold Coast transfer did not; there the Minister for Housing invited a selected CHP to make a proposal.
With BHF, successor CHPs took on responsibility for managing the estate as the agent of the state government, with existing tenants offered a choice as to whether to sign a new tenancy agreement with the CHP or retain their agreement with Housing Tasmania. Because CRA would not be paid where the CHP is not the legal landlord, there was a strong impetus for CHPs to persuade tenants to sign a new agreement; there was also a contractual obligation that both parties encourage tenants to do so, and provision for review of the contract if a sign-up rate of 40 per cent was not achieved (clause 5.3). As a result, the BHF CHPs offered various incentives to tenants for signing up (e.g. shopping vouchers, iPads, and property improvements). At the time of our fieldwork (early 2016) large majorities of tenants in each of the transfer parcels (76–90%) had done so. Tasmanian government officers considered that giving choice was important in mitigating resistance among tenants. In practice, however, the agency agreement meant that services to tenants of the chosen estates became the day-to-day responsibility of the designated CHP, irrespective of whether an individual tenant had resisted encouragements to formally sign up to the successor landlord. There is a question, therefore, as to whether the ‘choice’ for tenants is really a genuine one—even if it substantially affects the financial position of the CHP.

With BPSC, on the other hand, tenants were afforded no choice at all, with the successor CHP becoming their legal landlord upon the grant of the concurrent lease by SAHT to the CHP. This means the rights and obligations of SAHT under its existing leases with individual tenants were granted by SAHT to the successor CHP, leaving the existing tenants’ leases intact (and hence running ‘concurrently’ with the lease held by the CHP). In interviews, both SA government officers and CHP officers said that the use of concurrent leases had contributed to smooth transition of management to the CHPs and had been well received by tenants.

In Logan, tenants also would have had no choice, and LCCH would have been their landlord, under a new tenancy agreement, if the transfer had been effected, as engineered by section 527C of the Queensland Residential Tenancies and Rooming Accommodation Act 2008. This provision has not been put to the test, but the prospect of unilateral termination and replacement of agreements seems to be unnecessarily high-handed, especially when use of concurrent leases also avoids the issue of tenant choice.

2.5 Policy development implications

The present transfer programs have consolidated some aspects of Australian public housing transfer objectives and models:

- the importance of CRA
- the transfer of management rights, rather than title
- competitive bidding by established CHPs
- the absence of a role for tenants.

Other aspects of transfer policy and practice have been extended in significant ways:

- the size of parcels
- the period of transfers
- the use of concurrent leases.

The cautious, staged approach of the Tasmanian and SA transfers has caused some frustration for ambitious CHPs, but has also largely avoided political controversy, and resulted in large transfers being effected and more ambitious objectives being contemplated for future activity.
3 Transfer processes, terms and tenant implications

In all the case study states, the transfer selection, contracting and transition processes built capacity in government and housing providers, but were costly. Even in the two states where transfers progressed to completion, significant process issues were encountered—particularly in connection with Centrelink and the transfer of tenant credits and liabilities.

Notable aspects of the terms of the transfer contracts relate to:

- Openly phrased provisions enabling government termination of contracts—raising questions of security.

- Backlog maintenance liabilities—a significant new obligation for CHP (relative to pre-2013 transfers), but specified in terms of mandated repairs expenditure rather than upgraded property outcomes, thus mitigating risk for CHPs.

- Prescriptions as to CHP organisational management and tenancy management in accordance with social housing policies—raising questions as to the proper place for this level of regulation.

With both its intended post-2013 transfers subject to cancellation, some of the innovations in Australian transfer practice mooted by the Queensland Government—in particular relating to staff transfer and CHP payment of management fees—have remained untested.

Through the experience of specifying and negotiating transfer contracts, of developing and assessing transfer business plans, and of multi-agency working, affordable housing industry capacity has been built in all three of the state governments involved and within participating provider organisations. And while none of the case study transfers aimed to build the capacity of tenants or to give them agency in the transfer process, recipient CHPs’ significant efforts to engage with tenants and to improve tenant services appear to have been positively received.

This chapter considers the case study transactions in terms of the processes through which they have been progressed and the contractual terms agreed between the respective state governments and successor CHPs. This is where the objectives and models considered in more abstract terms in the previous chapter meet the realities of state politics, interagency collaboration, and implications for staff and tenants.

3.1 Transfer processes

3.1.1 Changing political and administrative contexts

Before considering specific elements within the transfer processes, it is useful to outline prevailing state-level political contexts which formed the backdrop for the transfer programs examined. In all three states, the programs extended beyond the terms of the initiating state governments, and in both Tasmania and Queensland there was a change of government during program implementation.
In Tasmania, the transfers proceeded uninterrupted under the new post-2014 administration, but the 2016 ministerial proposal to transfer title aroused party political controversy (Baines 2015). More dramatically, in Queensland, the post-2015 government abandoned the Gold Coast transfer, rejected the longer-term 90 per cent state-wide transfer target and, in 2016, cancelled the LRI (Pawson 2016). As noted in the previous research, one of the claims made for the community housing model is that it benefits from being insulated from politically driven priorities and electoral cycles (Pawson, Milligan et al. 2013: 67); however, effecting housing transfers in this politically insulated space is itself politically sensitive and susceptible to derailment.

In SA, where there has been no change of government in the course of the recent and currently ongoing transfer processes, there was, however, a potentially significant switch of government agency responsible for the transfer program. The 2014 shift from Housing SA to Renewal SA initially caused a degree of concern amongst the BPSC CHPs, including worries that agreements under negotiation would not proceed. However, the transfers did go ahead (albeit nine months later than originally indicated) and CHPs reported that their relations with Renewal SA were generally mature, professional and respectful.

### 3.1.2 Successor landlord selection

In each of the case study transfers, successor landlords were selected through a competitive process, with expressions of interest received and determined by the state government. There were some formal differences between states as to their processes: in Tasmania, the smallest BHF parcel proceeded ahead of the others as a pilot; while in SA, both BPSC parcels proceeded simultaneously through a two-step process, with an initial call for expressions of interest that produced a shortlist of interested parties, then a request for proposals from these shortlisted parties. The LRI involved a similar two-step process.

Greater differences arose informally. Queensland stakeholders reported that in the course of the LRI process a number of successive requests for proposals were made of shortlisted parties, suggesting that the initial brief was underdeveloped and issued for expressions of interest prematurely. One stakeholder close to the process opined that, ‘those who wrote it didn’t know what they didn’t know’ and DHPW informants conceded that, ‘as we went along through procurement … we realised we needed to be clearer about our requirements and expectations.’ Originally envisaged as being completed within six months, the LRI selection process in fact took 18 months, with major changes in some of the bidding partnerships, and bidder withdrawals because of concerns about program viability.

Many state government and CHP officers indicated that participation in the tendering process had built capacity, both in government agencies and the CHPs, in terms of conducting financial modelling, specifying policies and services, and recruiting staff with new skills. There may also be an argument that competitive processes made for stronger proposals and stronger buy-in on both sides of the proposed transaction. However, government and CHP officers in all the states said in interviews that the selection processes were costly—nowhere more so than in Logan, where all the expended resources were, of course, ultimately fruitless. One unsuccessful proponent reported that: [name of organisation] spent a lot of money and time … It has cost us. We made a loss for the first time ever.

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14 Two counter-examples from Queensland: there was no competitive process for the Gold Coast program, which was aborted immediately upon the 2015 change in government; nor for the Maranoa program, from which the original successor CHP withdrew.
3.1.3 Transfer transaction costs

In our research on pre-2012 public housing transfers, it was noted that one ‘downside’ of the general move towards competitive (rather than negotiated) designation of successor landlords was the likelihood that this would generate substantial transaction costs for each individual handover package (Pawson, Milligan et al. 2013). Relevant here are considerations around package size, since, even if progressed in tandem, two separate transfers involving 500 homes each would likely generate transaction costs close to double what would be incurred by a single 1,000 home handover.

In the UK context it has been argued that ‘the transaction costs involved in stock transfer are very heavy and an unnecessary means of getting new investment in [social] housing’ (House of Commons Council Housing Group 2004: 3). Similarly, ‘high transaction costs’ are cited by Whitfield (2012) as one of a number of disadvantages attaching to ‘mutations of privatisation’, among which is counted UK council housing stock transfer. These and other critics have cited an official estimate that council transfers in England and Wales incurred average transaction costs totalling £1.7 million per transfer or £430 per dwelling (NAO 2003). Allowing for inflation, this equates to $3.9 million per transfer or $990 per dwelling in 2016 dollars. The kinds of costs included within the National Audit Office (NAO) figure were fees associated with consultancy, legal services and loan arrangement.

In relating the above evidence to the Australian case, it is important to bear in mind two key differences with the UK. Firstly, the average size of UK transfers has been much larger than the typical transfer transaction progressed in Australia. For example, transfers completed in England in the period 1989–2003 averaged 4,300 homes. Secondly, with UK transfers invariably involving asset ownership handovers and undertaken on a commercially priced basis, every transaction necessarily involved substantial activity on stock valuation and associated loan finance arrangement, as well as legal input on conveyancing. With Australian transfers normally restricted to management outsourcing, none of these cost outlays will be necessary (although assessment of dwelling condition by one or both parties for each transaction will be required).

Among the case study transfers, it seems certain that the most substantial transaction costs will have been those incurred by the parties to the failed Queensland LRI project. Not only was this the largest transfer yet attempted in Australia but, by comparison with all previous and currently ongoing housing handovers, its inclusion of major estate renewal and reshaping made it unusually complex and ambitious. Indeed, parties to the transaction confirmed to the research team that they had needed to incur substantial direct expenditure through commissioning external experts in fields including legal and probity advice, financial modelling, accountancy and tax, marketing and communications, urban planning, property development and community engagement. Transaction expenditure will also have been inflated by two distinct aspects of the project’s implementation:

- The lengthy tender process, which involved multiple stages and changing requirements stipulated by government.
- The drawn-out post-tender period during which LCCH, the designated successor landlord, made extensive preparations to take charge of the specified portfolio.

With the LRI transfer incomplete at the time of our 2015 fieldwork and aborted by the Queensland Government in July 2016 (Pawson 2016), no specific transaction cost data was made available to the research team by either of the principal parties involved. Subsequently, however, it was reported that the losses incurred by the CHP consortium bidding to take on the transfer amounted to $8–10 million (Templeton 2016b)—equating to at least $1,600 per property within the designated portfolio. The resources committed to the project by the Queensland Government itself will also have been substantial.
Likewise, only fragmentary information about transaction costs was available from the participants involved in the other case study transfers. In SA, one of the BPSC CHPs said that preparation of its bid cost $80,000, exclusive of staff hours; including staff hours, the cost may have exceeded $120,000. On the government side, costs included substantial staff time inputs by senior public servants, and payments to consultants for independent advice, particularly financial advice. A SA government officer reflected that costs to CHPs could have been saved through greater rigor in the first stage of the selection process (i.e. producing a shorter shortlist), but also noted that CHPs could have avoided some costs in the presentation of their proposals: We said we didn’t want ‘glossies’, but we got them anyway.

No information on bid costs for the Tasmanian and Queensland transfers was disclosed to us; however, it was indicated that before the Gold Coast transfer was aborted, Horizon Housing had incurred costs of several hundred thousands of dollars in preparations. We understand that the company has rationalised that the resulting enhancements to corporate systems and capabilities have positioned the organisation well for other growth opportunities.

On the government side, Renewal SA acknowledged that, over and above extensive staff time inputs, progressing BPSC Phase 1 had involved major consultancy outlays, especially on financial advice. While one SA government interviewee considered that some of this work could have been undertaken in-house, it had been determined that an ‘independent’ perspective would be valuable.

More specifically, Housing Tasmania disclosed that its BHF transaction costs included grants to designated successor landlord CHPs to cover establishment costs and expenses disbursed in the set-up phase prior to their receiving rental income. These grants totalled $2.55 million for the three non-pilot transfers—or $747 per property in the respective portfolios. However, while these costs will have formed only an element of the Tasmanian Government’s BHF resource outlay, no further information on other expenditure items is available.

### 3.1.4 Consultation and negotiation—state governments and CHPs

Before and after the announcement of the successor CHPs, all of the case study transfers afforded some degree of participation by CHPs in the development of the terms of the transfer contracts. In Tasmania, both state government and CHP officers observed that there were a few ‘non-negotiables’ in the contracting process, particularly around the retention of present conditions for existing tenants. A government interviewee characterised contracting under the BHF as ‘a little bit like an alliance rather than just a straight contract that says, “well you took this on, your problem, you suck it up”’. From the other side of the bargaining table, a BHF CHP officer said that Housing Tasmania was engaged in the negotiation and consciously going further than other states had in their transfer programs, but that ‘they didn’t really let go’.

In SA, shortlisted bidders participated in workshops and provided comments on a draft request for proposals, and the BPSC successor CHPs noted that they had been able to negotiate for some items of concern to be addressed in the contract (e.g. some flexibility in allocations, engagement of contractors, and provisions addressing site contamination). CHP representations for a greater hand in renewal activity were not, however, incorporated—with one CHP officer reflecting that they had signed up anyway ‘for the opportunity, not because we’re in love with the model’. It is understood that the BPSC contracts may be revised along those lines when ROSAS transfers are implemented.

### 3.1.5 Transition

In both Tasmania and SA, the period between the announcement of successor CHPs and transfers taking effect was some months (between three and seven months in Tasmania; six months in SA) and was actively managed as a transition phase, with considerable public communication and liaison, and organisational development.
In Tasmania, in order to maximise sign-overs, BHF contracts obliged successor CHPs to establish offices in the transfer areas and to undertake ‘regular’ and ‘consistent’ tenant engagement activities. However, Housing Tasmania retained control of all community engagement and communication in the lead-up to the transfers ‘going live’. In our interviews, it appeared that this initial sidelining of the providers from the engagement process had produced a degree of tension: some CHP officers said it created an unnecessary barrier between them and their future tenants and prevented them building the relationship early on. One provider argued that the department’s process was also misdirected, relying too heavily on occasional barbeques attended by bureaucrats in suits and reams of written information. Although there was some diversity in provider views, overall the consensus seemed to be that the department’s engagement with tenants in the lead-up to the transfer could have been improved.

In SA, successor CHPs were likewise obliged to open local offices serving the designated estates. In this case, both SA Government and CHP officers highlighted the beneficial role of tenant liaison officers (TLOs) engaged by Housing SA. These officers commenced work upon the announcement of BPSC and were engaged to the end of 2015 (just after the transfers were effected), providing face-to-face information about the program to tenants and assisting in the transition to the new landlords, including by helping with CRA applications. Following the award of tenders, the TLOs collaborated with CHP officers in joint visits, which CHP officers believed to be an important assurance to tenants of a smooth transition. Both state government and CHP officers also credited the personal effort of the then Social Housing Minister who, following the announcement of BPSC, attended tenant information sessions with a white board and ‘answered questions until they didn’t ask anymore’ (SA government officer, interview).

In both Tasmania and SA, the greatest difficulties encountered with the transition processes concerned tenants’ payments, including the receipt of CRA. Tasmanian government officers indicated that negotiations with Centrelink (the CRA-administering agency) on whether BHF tenants would be eligible were protracted and difficult. The concept of extending access to CRA for BHF tenants was totally new to Centrelink, which had no established policies, processes or procedures in place to facilitate it. While access to CRA was vital to the financial viability of the BHF model, the situation with regard to CRA remained uncertain on the eve of the first transfer.

BHF interviewees also indicated that Centrelink staff working in the various local offices were unprepared for the increased demand that would result from expanded entitlement to CRA. In one case, the provider reported that Centrelink staff were actually unfamiliar with the CRA claim form and procedures themselves, and the provider had to assist in training Centrelink workers to ensure prompt claim processing. Another provider said that a significant number of their tenants were initially charged double rent due to a problem with the Centrepay deduction system—routinely, when the new Centrepay deduction was set up for the provider, the old deduction (for Housing Tasmania) was not immediately cancelled. Although these were issues with Centrelink’s internal communications and management, they were seen by providers as posing a risk to the relationship they were attempting to build with their new tenants. A BHF CHP officer also said that, in retrospect, staff training and capacity-building should have continued for some time after the ‘go live’ date—it had been conducted in a virtual environment, but the real areas of training need did not emerge until staff started engaging with actual tenants living in actual properties.

In SA, the structuring of the BPSC leases as concurrent leases avoided the issue of tenants signing new agreements and made them all eligible for CRA on ‘day one’. Nevertheless, according to CHP officers, poor coordination between Housing SA, Centrelink and the CHPs in their communications with tenants caused problems—for example, Housing SA sent tenants a letter about the cessation of its management and rent collection before the CHP had sent a letter about how management and rent collection would proceed. There were also difficulties in properly transferring tenants’ rent accounts in credit to the BPSC CHPs, and in accounting for
water charges. A government officer observed that Housing SA’s systems strongly link assets, tenants, charges and concessions, and effecting a transfer of liabilities from this system has been more difficult than expected.

In Logan, the transition process had been underway for two years and was still incomplete when LRI was terminated in July 2016. One DHPW stakeholder reported:

*We all underestimated how long the transition would take—originally thought 6 months. We underestimated both the procurement and transition phases.*

Tenant consultation on LRI had been minimal prior to the change in government in 2015; thereafter, tenant engagement ramped up considerably, with information sessions and correspondence from the Queensland Government and then from LCCH. LCCH also engaged an urban regeneration expert (Professor Dave Adamson) to lead development of social and economic development strategies.

### 3.2 Transfer terms

To inform our discussion of the terms of each of the case study transfers, we have been able to draw on, in addition to our interviews and focus groups in each state, the publicly available portions of the BHF contracts, and on one of the BPSC contracts (provided to us by both parties, subject to the stipulation that contract details would remain confidential). We have not been able to see a copy of the LRI contract, which remains confidential between the parties.

The contracts for the BHF and, especially, the BPSC transfers are long, complex documents. Formally, contractual arrangements for each of the BHF transfers comprise a Residential Management Agreement (RMA), a Sales and Development Agreement (SDA) and, where tenants have signed up with the CHP and disclaimed their previous agreement, leases for the relevant properties. The RMA is, for most purposes, the most important element: it sets out the CHP’s obligations with regard to property and tenancy management, and makes provision for grants of leases. The SDA deals with the transfer of title to vacant land and commits the CHP to developing new stock. The BPSC agreement comprises a deed of management, which grants the concurrent leases and sets out transfer terms.

#### 3.2.1 Period and termination

As noted above, the BHF agreements have an initial term of 10 years, with an option for the government to extend the agreement for two further terms, each of five years. The agreements were also subject to an initial period of two years (now passed), at the end of which a review of the arrangement, including finances, was to be conducted (RMA clause 15A). The RMAs provide for termination by either party, with 30 days’ notice, where the other party defaults (RMA clause 28), subject to an obligation to seek resolution of disputes through mediation and arbitration (RMA clause 31). The agreement provides that no compensation is payable to CHPs on termination (RMA clause 28.6).

Also as previously noted, the BPSC agreements have initial terms of three years, with an option to extend for a further 20 years. The agreements also make provision for termination on default, and without fault, with some obligations on the CHPs to prepare disengagement plans where termination is pending. Compensation on termination is at the Minister’s discretion.

The LRI was to have been for a term of 20 years; its provisions regarding termination and compensation were not disclosed to the researchers. One proponent, however, disclosed that ‘negotiations had strong focus on reporting, re-negotiation, exit clauses’.
3.2.2 Finances

Under BHF and BPSC, all rent revenues from the transfer parcels are owned by the respective CHPs, with provision made to 'ring-fence' the revenues and assets from the CHP’s other activities, and no (or negligible) rent to be paid by the CHP to the state government for the assets (for BHF, see RMA clause 18).

We understand that the LRI made similar provisions. By contrast, for the aborted Gold Coast transfer it was proposed that the CHP would be liable to pay rent to the state government. That approach would effectively allow the Queensland Government to capture CRA-assisted surpluses and to control decisions on whether the funds concerned should be invested locally (e.g. in physical upgrades of the transferred stock), devoted to the improvement of public housing stock or services elsewhere in the state, or removed from the system entirely. As it is, the very different approach of the case study transfers keeps revenues within the CHP and within the parcel. This may be consistent with government objectives to manage risk and ensure improvement in the condition of parcel properties, but also imposes important limitations on acquiring CHPs by eliminating the potential for cross-subsidisation and flexibility in portfolio management.

From their parcel revenues, CHPs under both BHF and BPSC are obliged to pay insurance and council rates. For the BPSC CHPs, full exposure to council rates in particular were regarded as a significant liability, because in SA CHPs are generally eligible to pay concessional rates only. In Tasmania, BHF CHP officers observed that the CHPs were each the largest ratepayer in their respective local government areas, but had not (yet) sought to exploit any associated leverage—and probably could not, because Housing Tasmania actually pays and is reimbursed by the CHPs. They indicated generally that local government remained only marginally engaged in the transfer areas—borne out in the master planning processes the acquiring CHPs had undertaken post-transfer.

3.2.3 Property maintenance

Both the BHF and the BPSC contracts expressly make the successor CHPs liable for maintaining and repairing the designated premises, including in relation to defects arising prior to transfer (i.e. backlog maintenance liabilities). With regard to the BHF properties, CHPs are required to spend $9,000 per property on backlog maintenance, plus an annual maintenance spend of $3,000 (prior to improvement) and $1,500 (post improvement) per property. In interviews, however, CHP officers said that the condition of properties was actually worse than indicated by the $9,000 commitment, and that these amounts would generally be insufficient to bring properties to a sound condition.

If we say that 75 per cent of the housing stock has got a fan-forced bar heater that needs to be replaced with a heat pump, there goes $3,500 of your $9,000 upgrade budget. And heating is the number-one issue that we have. So we expect from day one that every pocket of $9000 in upgrades is going to have a third go to heating—heating, ventilation, that type of thing. That doesn’t even begin to contemplate ramps, rails, accessible bathrooms, and how you modify a 1960s three-bedroom property for someone in their 70s or 80s. (BHF CHP officer, interview)

With regard to BPSC, CHP officers indicated an average backlog maintenance spending requirement of $14,000 for each Mitchell Park property, and $20,000 for each Elizabeth Grove property. We understand that the LRI contract would have similarly made LCCH liable for maintenance, including backlog maintenance. However, since it was argued that the properties
were for the most part ‘well-maintained’, no specific allowance for backlog maintenance needed to be factored into the transfer business plan.15

The property maintenance obligation is a significant liability for CHPs and the contracts of both the BHF and BPSC manage it in a number of ways. Both sets of agreements commit the CHPs to spending specified amounts on maintenance, including backlog maintenance, over the term of the agreement and in each year. Under BHF, the contractually specified spend is an express limitation on the CHP’s liability as regards maintenance; further, a 25 per cent underspend in any year is permitted, and overspends resulting from responsive maintenance may be deducted from funds allocated to development activity (RMA clause 20). In an interview, a BHF CHP officer indicated that the ‘cap’ on maintenance expenditure was crucial to the CHP’s participation in the program—it would not be viable without such a limitation on the CHP liability. In relation to BPSC, a CHP officer observed that the schedule for expenditure on backlog maintenance did not actually set a timeframe for clearing the backlog, and that this substantially mitigated the CHP’s risk. Another safeguard was the provision of the BPSC contracts allowing the CHPs to hand back any properties in the first six months of the agreement, where repairs and maintenance would be uneconomic. However, at the time of our fieldwork, neither of the BPSC CHPs had actually passed any properties back, and one CHP officer said that this would be highly undesirable, since this might damage confidence in its capacity.

The contracts make further provisions in relation to the conduct of repairs and maintenance. The BHF contracts require CHPs to use, where possible, social enterprises and local organisations to carry out maintenance and repairs. By contrast, under BPSC, CHPs remain free to choose their subcontractors—a provision pressed for by the CHPs after an early suggestion that Housing SA’s existing contractors should be engaged routinely. One BPSC CHP has determined as a matter of policy to use small, local tradespersons because they are more responsive than larger firms, and an interviewed CHP officer considered this ‘fundamental’ to achieving improved maintenance and tenant satisfaction. BPSC also requires the CHPs to implement a program of Affordable Living Initiatives that reduce utility costs to tenants. Envisaged as property-based measures such as solar panels and water tanks, one of the CHPs is also planning to conduct educational activities under this head.

3.2.4 Planning, renewal and new dwellings

Under the BHF, CHPs have committed to the development of specific numbers of new dwellings for social and affordable housing in their SDAs. The SDAs also provide a mechanism for compliance: in return for the transfer of title to the vacant land, the CHP agrees that it is liable to pay a specified sale price for the land, with actual payment deferred and, if the properties are developed as promised, the sale price drops to zero (SDA clause 3). Also, under the RMAs, CHPs have been required to prepare a master plan for each of the transfer parcels—including through the establishment of a community reference group, consultation with residents and local councils, and the engagement of professional planners—with the master plan to set out options for development and tenant mix (clause 45). The master plans appear more ambitious and aspirational than the SDA requirements, with numerous qualified components (e.g. ‘subject to funding’).

15 In relation to this point, it should be acknowledged that, of all the states and territories, Queensland probably has the lowest proportion of ‘poor condition’ public housing stock. According to 2014 tenant survey data, only 12 per cent of Queensland’s occupied public housing properties are non-compliant with the standard that houses must have at least four working facilities and not more than two major structural problems. The Australia-wide norm for public housing non-compliance with this standard is 20 per cent (Productivity Commission 2016a: Table 17A15).
BPSC required CHPs to make strategic asset plans for transferred properties, but contemplated strategic asset management decisions (e.g. property sales, demolitions and renewal of buildings) as being made by CHPs only with the consent of Renewal SA on a case-by-case basis.

Of the case study transfers, the LRI would have had by far the most ambitious renewal commitments, but the details of these commitments are unclear. From announcements and documents made public over the course of the LRI process, it appears that expectations on redevelopment and additional dwelling provision changed over time. In 2014, the Queensland Government indicated that, ‘at least 1,000 new social and affordable dwellings will be built during the first 10 years’ (DHPW 2014b). But subsequently, interview participants and various later LRI public documents indicated that a net increase of 800 social and affordable housing units was envisaged (LCC 2015; LCCH 2015). We understand that the LRI included an agreed 20-year development plan, to be reviewed and documented annually with development targets re-negotiated between LCCH and DHPW, and development plans for each public housing site to be approved by DHPW on a project-by-project basis.16

Financing and governance arrangements for the LRI redevelopments are also unclear, but market sales are understood to have been part of the financing strategy. According to some stakeholders, the state government had been considering transferring title to sites and providing a line of credit, while other options canvassed included redevelopment of non-public housing sites and possible partnerships or joint ventures with LCC or other landowners. LCC had committed to working closely with the LCCH and DHPW to facilitate and fast-track planning and building processes.

Several informants voiced concerns about the property market assumptions underpinning any modelling in Logan, because the area is relatively low-value and the dwellings developed were to be medium density—a largely untested product in the local context. One of these interviewees, with knowledge of the Logan housing market, expressed the opinion that:

Development is a problem in Logan. There’s no market for new medium-density apartments. The targets are ridiculous. No way they can meet them.

The 20-year timeframe would have made accurate financial modelling and risk assessment for the renewal difficult, but also afforded some ability to adjust the timing and scope of development in line with market conditions.

3.2.5 Organisational management

Both the BHF and BPSC contracts place various obligations on the successor CHPs in relation to their own management. For example, both require the CHPs to maintain their National Regulatory System for Community Housing (NRSCH) registration, and to cooperate in the provision of information to the state government. The BPSC contracts contain numerous other detailed clauses in relation to specific aspects of organisational management.

These obligations are not really specific to the parcel of transferred properties, and in the event of further transfers being effected—and hence further contracts being made—it is easy to envisage a multiplication of contractual obligations, perhaps slightly varying in the details, applying to the organisational functions of CHPs. An argument can be made that many such

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16 As this report went to press in December 2016, news emerged of a new Queensland Government initiative involving the regeneration of Logan’s public housing, reportedly featuring the development of ‘3,000 new homes over 20 years’. However, as recounted in the news media one major difference was that the scheme would result in a net reduction in social housing to the state average (Channel 10, 2016).
obligations would be more appropriately located in the NRSCH, agreement rather than in contracts for specific transfer parcels.

### 3.2.6 Tenancy management

Both the BHF and BPSC contracts make detailed prescriptions as to CHP tenancy management policies and practices, particularly for consistency with social housing tenancy management policies as set out by the state housing authorities.

The BHF contract reflects a state government undertaking that there should be ‘no tenant worse off’ after transfer, and has financial as well as management implications. In particular, it means successor CHPs must not charge tenants for their water usage, which CHP officers said represented a significant cost. It also provides for the CHP to sign up tenants according to public housing policies regarding fixed terms and periodic agreements. With regard to tenancies of properties developed under the BHF SDAs, the CHPs are given a freer hand, committing to an equitable and non-discriminatory eligibility policy and fair appeal processes (SDA clause 27).

The BPSC contract is more prescriptive and detailed. Arguably, this level of prescription on tenancy management policy and practice may be justified by the lack of choice afforded tenants under the transfer models. In other words, where tenants have no real say in whether their tenancy is to be transferred, it is appropriate to give a strong assurance of continuity of expectations. However, while the assurance appears strong, there is a problem of privity of contract: these obligations are owed by the CHPs to the state government, not to tenants, who cannot take action under the BPSC contract to get a remedy in the event of a dispute with the CHP. As with the obligations around organisational management, there is a case for these obligations and assurances being located outside the contracts for specific transfer parcels, in the general regulation of CHPs and in legislation that allows tenants to seek independent, binding review of CHP decisions.

### 3.2.7 Housing allocations

Both the BHF and BPSC contracts oblige CHPs to make tenancy allocations to applicants on the relevant state’s social housing register, although each make some provision for allocations outside the usual priority given to high-needs households. The LRI would have required allocations according to households eligible for social housing; whether there would have been any special dispensations about priority is unclear.

BHF requires not less than 30 per cent of allocations to go to the highest priority applicants, the intention being to offer some scope for allocations to households with less need and higher incomes—in the interest of achieving ‘more mixed communities’. However, income limits for non-priority social housing eligibility in Tasmania remain quite tight, and in any event, BHF CHP officers indicated in interviews that they had in fact been making many more allocations than required (up to 80% more) to high-priority cases.

Under BPSC, CHPs may make 30 per cent of allocations to households in the lowest priority category on SA’s social housing register—which means, because of that state’s less restrictive income limits for eligibility, a significant minority of vacancies may go to moderate-income households. This provision was pushed for by CHPs as an important measure in support of the financial viability of the transfers and place-making objectives, but it will not be part of the ROSAS transfer contracts.

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17 Eligibility is based on eligibility for a Commonwealth Health Care Card, which is in turn based on eligibility for certain Centrelink payments or for the maximum rate of Family Tax Benefit.
3.2.8 Place-making and community development

All of the case study transfers have framed social housing service improvement as ‘place-making’, and committed the successor CHPs to make plans for place-making and tenant engagement.

The BHF contracts require CHPs to make ‘tenant engagement plans’, particularly to encourage tenants to sign up with the CHPs (RMA clause 15), but tenant engagement and community development has continued post-transition. The BHF contracts also require the CHPs to use their best endeavours to have social enterprises or local organisations used in property maintenance (RMA clause 20.8), and one CHP has met this by offering traineeships to tenants.

Under BPSC, successor CHPs are required to have ‘place-making plans’. Each CHP has devised and committed to a wide range of activities, including:

- the establishment of a community reference group
- liaison with potential partner agencies and other stakeholders in the parcel areas
- the use of community forums to inform asset management
- the development of policies for social procurement and social enterprise, to support local businesses and tenant employment
- case planning and specific activities targeted to high needs tenants.

Prior to the termination of LRI, LCCH had committed to: maximising local employment in construction and maintenance; employing a ‘skills and employment’ officer to help connect tenants with local employment and training providers; developing local social enterprises; establishing a new ‘community hub’ and community participation programs especially targeted to parents and young people.

3.2.9 Staff implications

When considering large-scale public housing transfers, the question arises of the employment of the state housing authority property and tenancy managers.

In both Tasmania and SA, the state housing authorities had been able to redeploy permanent staff—a load made easier by a pre-transfer freeze on permanent recruitment and the use of temporary contracts only to fill vacancies. Successor CHPs were also encouraged, but not required, to advertise employment opportunities to state housing officers. As a result, BHF resulted in the loss of 32 full-time positions at Housing Tasmania and only 10 voluntary redundancies. Under BPSC, there were no redundancies, consistent with an assurance given by the state government to staff and the union immediately upon the announcement of the program.

This approach, however, has probably run its course. In an interview, a SA government officer indicated that Housing SA probably could not ‘absorb’ the employment implications of the pending ROSAS transfers in the same way, but that—with the ROSAS transactions remaining in progress at the time of our fieldwork—it was ‘premature’ to comment on whether there would be redundancies. The program will, however, not require CHPs to take on state employees.

By contrast, LRI would have addressed the issue by stipulating that the successor CHP must offer employment to departmental staff at the local housing office. Under the LRI, Compass Housing was obliged to offer employment at LCCH to all permanent DHPW staff at the
Woodridge Housing Service Centre\textsuperscript{18}, on existing pay and conditions for five years, subject to any new enterprise agreement that may be negotiated with Compass. Employees not taking up the LCCH offer would not receive a redundancy payment, or be able to participate in the state government’s public sector ‘employee requiring placement’ scheme (DHPW 2014). This arrangement was facilitated by legislation enacted by the Newman Government that removed job security and outsourcing clauses from public sector enterprise agreements.

In our interviews, affected DHPW staff appeared to have accepted the transfer of employment as inevitable, but with mixed feelings; with some optimistic about the change, while others were troubled by the extended period of uncertainty about the transfer, additional workloads and the curtailment of secondments elsewhere in the department. Some staff had ‘voted with their feet’ and left for other jobs. The mood prior to the decision to terminate LRI was summed up by one informant from the DHPW Service Centre, who said:

\begin{quote}
Staff are ‘over it’. They just want it to happen. We are sick of delays … can’t plan leave and lives. We are not sure when we cease being government employees. We can’t fill some vacant positions … [staff are] frustrated. Some are keen to go and others feel it will never happen.
\end{quote}

The ‘absorption’ approach would not be replicable for transfers at greater scale. Recruitment freezes merely shift job insecurity onto new (temporary) workers and an additional workload burden onto existing staff, with reduced service to tenants as well. However, while it replicates the standard UK approach to council housing transfers (Pawson and Mullins 2010), mandating staff transfers presents problems too: ex-public housing staff may bring with them cultures of work inconsistent with the ethos of CHPs and the transfer objectives of improved service to tenants. On the other hand, many ex-public housing staff will have desirable technical skills and knowledge that, when combined with the client-oriented ethos of a CHP, may add powerfully to the capacity of the receiving organisation and give greater satisfaction to staff and tenants.

Both sides of this issue were indicated in our Tasmanian fieldwork. Here, tenant focus group participants spoke particularly strongly about the unsatisfactory service they had received from Housing Tasmania and how it contrasted with the post-transfer experience (see Section 3.3.2). However, we also observed that the relevant CHP had employed several ex-Housing Tasmania officers, and CHP interviewees considered that the better staff/client ratios of the CHP enhanced scope for officers to get to know ‘their’ tenants and exercise a more responsive, supportive style of management:

\begin{quote}
We had some staff that came across … that insight and help was great … Having someone in the seat who goes, ‘Okay, we need access here to financial support or drug and alcohol [support]’. A lot of quick wins early on from that perspective. To a large extent they all felt empowered, those ones that came from Housing Tasmania, empowered to the extent that they’d say, ‘Oh we can do that? It’s okay to do that?’
\end{quote}

Nonetheless, the organisational challenges of managing the acculturation of ex-public housing staff recruited at scale have yet to be grappled with.

\subsection*{3.2.10  Reporting and evaluation}

The BHF and BPSC contracts called for periodic reports by successor CHPs to the state government, as well as more general review or evaluation processes.
Under the BHF, a review was scheduled at two years into the new regime (now passed), and further reviews on certain triggers (e.g. widespread property damage) are provided for. BHF CHPs have also been obliged to prepare a Social Return on Investment (SROI) report that forecasts the impacts of the CHP’s master plan, and to provide evaluations against the report every two years thereafter. According to Housing Tasmania interviewees, the intention of the SROI process was to try to capture and quantify the broader benefits of housing transfer (e.g. the provision of more efficient heating for tenants, thus lowering their cost of living), as a balance to the other performance measures in the contract, which were primarily financial. In interviews, CHP officers indicated that the reporting requirements of BHF were burdensome—in particular, that some of the periodic reporting duplicated reporting under the NRSCH and the Report on Government Services (ROGS), and that the SROI was too ambitious for its timeframe—but also observed that Housing Tasmania had been accommodating with adjustments to timeframes.

The BPSC provides for an independent evaluation of the program, to report at the end of the second year of the initial three-year period. At the time of our fieldwork, little reporting had taken place, as the BPSC parties were still developing the reporting templates.

### 3.3 Implications for tenants

We have already observed, in the discussion of the transfer transition process, some aspects of how the parties to the case study transfers engaged with affected tenants. We now turn to consider some more of the details of this engagement, and how tenants themselves described their experiences.

#### 3.3.1 Engagement with tenants

Under BHF, the financial imperative to get CRA-eligible tenants to sign up, as well as the CHPs’ own community development missions, strongly motivated CHP liaison with tenants. In particular, CHPs invested considerably in sign-up incentives, including $150 grocery vouchers, $10-a-week tenant ‘bonuses’, choice over how the first $2,000 of additional revenue (i.e. CRA) would be spent, and priority access to upgrades or heat pumps. Housing Choices offered its tenants the opportunity to match the length of their existing lease, a free bond, and either an upgrade to the value of $1,500 within 12 months and a $500 ‘resident choice’ (either $500 on the tenant’s electricity bill, a $500 supermarket voucher, a $500 Kmart voucher or an iPad) within four weeks, or property improvements to the value of $2,000 within 12 months. Tenants could have input into what improvements were made.

State government officers perceived the availability of this choice, along with the guarantee that no tenant would be worse off under BHF whether they signed over or not, as being key factors in mitigating resistance to the program. As one government interviewee noted, ‘the figures [signovers] show it’s working’ (see Sections 2.4.2 and 2.4.4). Community engagement and development was also felt by the providers to be a particular strength and many managers were proud of what their organisations had achieved already in this area. Housing Choices Tasmania, for example, employs two community development officers.

In the BPSC transfer parcels, both CHPs commenced engagement with tenants in the transition period—through establishment of community reference groups within the estates, engagement of community development workers, and hosting of social events, such as barbeques, bus trips and even a ‘poetry slam’. Since then, JWH has commenced investigation of the use of social media (i.e. online tool ‘Our Place Manager’) to connect tenants, and AnglicareSA has commenced a partnership with Playford City Council and the Roger Rasheed Sports Foundation to develop a multi-purpose sports facility at Elizabeth Vale. Aside from these overt tenant engagement activities, SA CHP officers also emphasised the importance of maintenance
to the success of a transfer generally: small maintenance jobs attended to rapidly were ‘quick wins’ that gave tenants confidence in the new landlord.

In Logan there was very little engagement with tenants, at least prior to 2015, but also little opposition expressed by tenants to the transfer. In part, this can be explained by the absence of organisational capacity due to the loss of tenants’ advice services and tenant participation structures, which were defunded by the Newman Government (and subsequently funded again by the Palaszczuk Government).

From 2015, as required by the incoming Queensland Government, LCCH’s tenant engagement had involved multiple strategies, including: hosting information sessions at numerous local morning teas; engaging with community leaders such as the Indigenous elders and leaders of cultural and ethnic groups; and holding workshops to recruit ‘tenant champions’ to act as a point of contact in specific neighbourhoods of housing developments. Although LCCH employed staff specifically to conduct these engagement activities as part of its ‘handover preparation’, it is not known whether the associated costs were met by LCCH or by the state government.

A member of the research team attended the first tenant champions’ workshop, where the small group of attendees who had been hand-picked by Compass to participate indicated that they were positive about the transfer and were prepared to take on a role, within their facility or neighbourhood, as a contact point for LCCH and to disseminate information. At that stage, participants still had limited prior information about the transfer and were primarily concerned with issues around allocations, rent and maintenance policies and practices. The workshop overall highlighted the outstanding challenges still faced by LCCH at that stage in terms of engaging tenants from diverse cultural and linguistic backgrounds or with disabilities.

3.3.2 Tenant responses

We conducted focus groups with tenants in one BHF and both BPSC transfer parcels, to understand how they had experienced the issue of their agency (or lack thereof) in the transfer process and with the change in landlord.

Under BHF, tenants were formally afforded a choice as to whether to enter into a new agreement with the CHP, and in our focus group tenants indicated that they appreciated the ‘incentives’ on offer—as one tenant joked, ‘bribes are important!’ However, it was not clear that having a choice of this kind was important to tenants, or that they understood the nature of the choice. In one instance, this may have been the result of poor communication of the choice: a tenant, who had initially delayed signing over, said that ultimately she had done so because Housing Tasmania refused to undertake any maintenance on her property and directed her to go to the successor CHP. The tenant took this to mean that she had to sign over if she wanted any maintenance at all carried out, rather than as meaning that she could keep her lease with Housing Tasmania but had to deal with the CHP as its agent. In other respects, however, it appears that the fact that tenants would be dealing with the CHP in one way or another, regardless of their decision, meant that the choice was not a very meaningful one.

Aside from the question of choice, tenants involved in our BHF focus group did strongly prefer the CHP. A particularly strong theme in their responses was the contrast between the way in which Housing Tasmania staff and CHP staff responded to them. They said Housing Tasmania staff had been unhelpful, and that when officers did respond to a request, it was ‘as if they were doing you a favour’. Tenants felt stigmatised, inferior and even fearful about approaching them. One participant, who had entered public housing as a result of domestic violence, said public housing staff had ‘acted as if I deserved my circumstances’. By contrast, the successor CHP’s staff ‘always listened’, took a ‘personal interest’ and, even if they couldn’t answer a question immediately, would always respond as quickly as they could. It was ‘not an effort to respond’. If a tenant turned up at the office in tears, they would be invited in, given a cup of tea and listened to. The participants used words like ‘human’, ‘friendship’ and ‘care’ to describe the tone of their
interactions with CHP workers. It was clear that participants now felt heard, valued and supported in a way that they had not previously.

The participants saw the community development initiatives progressed by the successor CHP as activities that would have been unthinkable under the pre-transfer regime and they were overwhelmingly positive about the opportunities participation had given them. One participant said, ‘it totally changed my life’; she had been unemployed and depressed, with ‘nothing’ in her life, but participation had given her the confidence to pursue further study and get involved in other volunteer activities. She described doing her ‘homework’ alongside her children as they did theirs and said that their school performance had improved as a result. Another participant who had originally left school at the age of 15 had also been encouraged back to study and was amazed at herself for having done so.

BHF tenants acknowledged, however, that getting people along to community development activities continued to be difficult—although those who attended were positive. Tenants suggested that moderate levels of participation reflected tenants’ lack of faith in Housing Tasmania, carried over to interactions with their new landlord. One commented that more face-to-face engagement to explain the transfer and its rationale at the time that it occurred would have helped to dispel some of these concerns.

When BPSC was announced in SA, a representative of the Housing Trust Tenants Association declared the association’s opposition to transfers of public housing (reported at Petersen 2013); however, government and CHP interviewees indicated that they had encountered no outright opposition to the transfers at either of the sites. In the tenant focus groups, a number of tenants indicated that there had been some unease at the announcement of BPSC, and confusion as to the purpose of the transfer, but that there had been a ‘massive communication’ effort and that the transfers had generally been effected ‘very gently’.

A few tenants indicated that they had been uneasy at the prospect of transfers to Anglicare SA, being a faith-based organisation, and of being required or pressured to participate in religious activities. However, greater disquiet was expressed in relation to rents, CRA and accounts in credit. A number of tenants indicated that information received about rent increases and CRA was difficult to understand or was badly timed (e.g. a letter about rent increases received before a letter about increased CRA caused some tenants to ‘freak out’); or that the outcomes were not as they had been given to expect. Where tenants were in credit with regard to rent and other charges, the credits were slow to be transferred from Housing SA to the CHPs.

3.4 Policy development implications

A number of policy development implications arise from the findings recounted in this chapter:

- **Conditions surrounding possible termination of transfer contracts:** There is an issue about these, especially in relation to the stipulated notice periods, the reasons such termination might occur and the scope for compensation. Although contractual transfers (unlike title transfers) are inherently reversible, in order to avoid problems in relation to CHP aspirations to secure debt against associated future rental income, agreements should set clear limitations on the circumstances in which a contract may be ended.

- **Local government involvement:** Local governments were largely been left out of BHF and BPSC processes. Future transfer programs should consider bringing local government on board early in the piece. CHPs need to recognise that securing local government buy-in is a worthwhile objective and that this is going to be difficult to achieve alongside calls for rate exemption.

- **The technically challenging nature of the transfer process:** Particularly around tenant liabilities and credits, and the connection with Centrelink, the transfer process is
administratively complex. A housing transfer manual for Centrelink staff should be developed by the agency for use at relevant local offices.

- Content of transfer contracts: The contracts for case study transfers were heavily prescriptive in terms of organisational management and tenancy management. Some of the associated requirements could more logically be incorporated within the wider CHP regulatory regime. It could also be beneficial to incorporate provision for independent, binding review where tenants dispute a CHP decision.

- Staff implications of transfer: Transfer practice has yet to get to grips with staff implications: present approaches are not replicable for transactions at greater scale.

- Managing communication with tenants: Where tenants have been given no choice in transfers, they have not been provoked to opposition. The key reasons for this appear to be: strong assurance as to maintenance of expectations under social housing policy; effective collaboration by public housing and CHP officers in transition; early demonstrations by CHPs as to competence, especially as regards maintenance; and engagement of tenants in community development activities. State housing authorities should be careful not to ignore or underestimate the feelings of dislike and distrust that tenants may have towards the authority and its work culture, or their disappointment with mediocre or unsatisfactory services resulting, at least in part, from inadequate resources.

- Implications of failed transfer at Logan: LRI was positioned as part of a privatisation agenda that was politically controversial. It was announced prematurely, which meant questions arose about the product being proposed for the market, and a long period post-announcement in which the program brief was developed and redeveloped. There was a lack of staging (compared with SA and Tasmania), which meant there was no chance to test/demonstrate CHP capacity or market for product—no ‘quick wins’ or ‘getting runs on the board’. What about LRI was promising? Engagement of local government, the (late) development of plans for community development and tenant economic participation, ambitious and unprecedented proposals for absorption of former public housing staff, the stepping up by CHPs to the challenges of planning and governing a big renewal undertaking.
4 Transfer finances and accounting considerations

Financial modelling indicates that, through CRA-enhanced rent revenues, transfers of public housing to CHPs may have the potential to viably enable maintenance backlog reduction, improved community development and modest affordable housing stock growth—especially if combined with government action to improve CHPs’ cost of finance and access to cost-free land.

The above objectives may be pursued where CHPs gain leasehold, as opposed to freehold, interest in transferred properties. This is because lenders consider ‘long-lease’ acquisitions of former public housing as potentially sufficient to underpin cash flow-based lending to reputable providers.

Balance sheet transfers, nevertheless, would bring additional benefits in terms of CHP business scales and financial strength. These would also remove counterparty risks concerning long-term asset management planning and decision-making.

As also confirmed through recent practice, proper accounting treatment of public housing transfers on a ‘long lease’ basis—management contracts of as little of 10-year duration—involves the asset concerned being recorded as a ‘disposal’ on the public accounts (as if it were a freehold title transfer).

As discussed in Chapter 2, financial considerations—particularly the prospect of CRA-enhanced rent revenues, and greater scope for property improvement and renewal activities—stand out as prime motivators for public housing transfers. In this chapter, we examine the factors influencing the business viability of transfers and the potential for stock improvement and growth. In doing so, we widen our focus beyond the case study transfers examined in the previous chapters, to present some scenarios around a hypothetical transfer of 1,000 public housing properties to a CHP for a 30-year period. These scenarios are the product of a detailed model of transfer finances prepared for the research by the Sphere Company, the parameters of which are informed in a general way by the case study transfers and previous transfers. In the second section of the chapter, we briefly consider the associated cost of transfers to government, in particular with respect to the Australian Government’s CRA expenditure. In the third section, we discuss the issues surrounding the public accounting treatment of transfers—an issue previously identified as a crucial influence on state and territory government policy in this realm (Pawson, Milligan et al. 2013)—particularly in light of the practice (consolidated in the case study transfers) of using leases, rather than grants of freehold title. In the final section, we consider the implications of this for the asset base of CHPs.

19 The modelling should not be taken as an analysis of the viability (or non-viability) of any of the case study transfers.
4.1 Financial viability and leveraging potential

4.1.1 Previous work

As noted in Section 1.2, the deteriorating financial and physical condition of Australia’s public housing system is a critical component of the policy context for housing transfers. Within the context of the current research, this factor is relevant to the contention that transfer to not-for-profit control is one possible means of countering the slow deterioration and contraction of state housing.

As explained in Section 2.3, the entitlement of CHP tenants to CRA payments (enhancing their rent-paying capacity compared with public housing tenants) is a key motivator of all present transfer programs. However, allowing for the ability to harness CRA, to exactly what extent can a change of status from public to not-for-profit impact on social housing finances?

Factoring in reasonable assumptions about other parameters, previous work by the Sphere Company modelled the addition of CRA to the rental income stream receivable by a public housing authority. Consistent with previous practice on housing transfers (Pawson, Milligan et al. 2013) Sphere’s 2010 modelling assumed the transfer of former public housing into CHP ownership at nil cost—so no debt was incurred for the acquisition of the asset. Another key assumption underlying the 2010 Sphere projections was the understanding that the homes conveyed into community housing control would be newly built and therefore free of any ‘backlog maintenance’ obligations.

The conclusion was that, all other things being equal, a transfer that added CRA to rent revenues could indeed ‘make all the difference’ in terms of meeting operational expenditure needs. The work suggested that a CHP receiving 250 former public housing dwellings could expect to generate income sufficient to fund all necessary day-to-day management and repairs, as well as planned maintenance, and generate a small surplus sufficient to service borrowing that could grow the original portfolio by 11–20 per cent over 20 years (Sphere Company 2010). Consistent with this analysis, NSW CHPs given newly built social housing under the 2008 NBESP committed to delivering—within a 10-year timeframe—an additional cohort of social and affordable housing dwellings equating to around 20 per cent of the portfolio received (KPMG 2012).

However, Sphere’s report also emphasised that the projected income stream arising from the transferred portfolio would be insufficient to fund the debt repayments arising from the capital costs of long-term structural maintenance, or the replacement of units reaching the end of their viable life.

> It is not realistic to expect that the provider can grow or even maintain the portfolio in perpetuity. At some point the portfolio will have to stop growing and at some point dwellings will have to be sold to address long-term building replacement. (Sphere Company 2010: 11)

This is another way of making the familiar point that its limited financial yield means that procurement of new social housing inherently requires some form of direct or effective government subsidy (Milligan, Yates et al. 2013).

Subsequent Sphere modelling work on transfer leveraging potential (Sphere Company 2013) was based on the contemporary understanding that in order for CHPs to meet lender requirements for loan security, leveraging debt on the back of housing transfers would be possible only for transactions involving freehold title being received by the acquiring CHP. Otherwise, a CHP would only be able to raise debt through accumulated cash reserves used as equity—essentially a deposit payment as security for a bank loan. On this basis, the 2013 modelling nevertheless demonstrated that maximisation of leveraging potential could be
achieved through a public housing handover involving only 10–20 per cent of a total transfer parcel. This reflects the limiting factor constituted by the constrained rental income stream associated with social and affordable housing—and the resulting restriction on a CHP’s ability to service debt repayment.

However, while this earlier work remains relevant, two important new considerations need to be taken into account in revisiting the leveraging question. The first is the run-down condition of much public housing stock—as exemplified by the recent SA and Tasmanian transfers (see Chapter 2). This means that a transfer business plan may need to factor in provision for the remediation of substantial backlog maintenance liabilities in addition to ongoing responsive repairs and planned maintenance. It would be expected that eliminating such backlogs would have ‘first call’ on any leveraged debt. Considering that the Sphere 2010 modelling assumed no such ‘catch-up repairs’ liability associated with transferred housing (effectively, it assumed the transferred stock would be newly built), this would imply that the potential for leveraging additional social/affordable housing provision through the transfer of existing public housing might be significantly lower than the 2010 estimates.

Secondly, again as indicated through fieldwork undertaken in this research, it now appears that lenders will not necessarily require a CHP to offer assets as loan security. Rather, it may be the case that long leases or similar dependable agreements with associated rental cash flow are, in fact, sufficient to access debt finance on good terms:

*I see no difficulties in us, or other financial institutions, lending on the basis of cash flows derived from long-term leases … the leases need to be of sufficient length that the debt associated with them can be amortised before their expiry. This kind of structure is common in PPPs [public–private partnerships] and should not attract any significant risk premium. (Lender interview)*

This indicates that affordable housing industry finance practice may have moved away from the assumption that freehold title is the only bankable asset for housing providers. However, this raises questions about what qualities are required of leases to make them bankable. This includes the level of security around the continuance of leases in terms of the threshold for cancellation by the state government concerned (see Section 3.2.1).

Moreover, whether it involves a long lease or an asset handover, the viability of a transfer business plan is inherently predicated on rental income derived largely from state benefits paid to tenants (not only CRA but also the transfer payments on which social renters typically depend). Rents set according to tenant income (standard Australian social housing practice) rather than related to property features (as in some other countries, like the UK) only magnify the associated sovereign risk to which a CHP is exposed, where debt has been leveraged against projected future income.

### 4.1.2 Transfer viability and leveraging potential under diverse scenarios

To explore in more detail financial viability issues around transfers, the Sphere Company has undertaken fresh financial modelling work to inform this report. This exercise benefits from Sphere’s involvement in numerous post-2010 transfer tenders, which has facilitated a sophisticated and evidence-based approach to scenario-modelling that factors in realistic assumptions in relation to the full range of operational expenditures and other financial liabilities taken on by a CHP taking control of former public housing, as well as the associated income. In particular, the modelling enables us to test the feasibility of using transfer as a means of eliminating backlog maintenance needs in public housing.

**Assumptions**

Drawing on the newly calibrated model, a range of scenarios is explored below. Each of the scenarios involves a hypothetical portfolio of 1,000 tenanted public housing dwellings, with
typical income and expenditure factors categorised (except where otherwise stated) under the following headings:

- rental income
- rent assistance income (loading on rental income)
- management expenditure
- routine repairs and cyclical maintenance expenditure
- other landlord costs: council rates, property insurance, water rates
- rent loss associated with vacant dwellings and uncollectable rent arrears.

Key financial assumptions factored into the modelling include:

- the ability to raise debt secured against cash flow (i.e. no requirement for freehold property pledged as loan security)
- debt incurred at 6 per cent interest for a term of 20 years
- affordable housing rents set at 75 per cent of applicable market rents.

Each of the above components is explained in more detail in Appendix 2, where we also specify the values attached in each instance and the basis for these.

**Base case—impact of public housing transfer to community housing status**

The first priority is to assess the impact on housing viability of simply factoring in the entitlement of community housing tenants to CRA. Table 6 therefore compares four scenarios involving a portfolio of 1,000 social housing dwellings over a 30-year timescale. Social landlord income here includes only rent and (under CHP scenarios) CRA—no other source of subsidy is assumed. It should be noted that, except where stated, the comparison between public housing and community housing scenarios assumes equivalent annual housing management expenditure per dwelling—that is, $2,000 (see Appendix 2).

‘Public housing base case’ represents a body of public housing with backlog maintenance needs averaging $15,000 per dwelling. This is within the range of backlog estimates quoted by parties to the SA BPSC transfers (see Chapter 2). It is higher than the standard backlog maintenance expenditure required by Housing Tasmania in relation to the BHF portfolios ($9,000)—although BHF successor landlords believed the true extent of backlog repair liability to be much greater.

Over the 30-year timeframe used in the Sphere Company model, the projected operational costs of managing and maintaining a ‘typical’ public housing portfolio of 1,000 homes will exceed the projected rental income by $32 million. This ‘deficit’ situation is consistent with the post-1990s financial status of public housing authorities as reported by Hall and Berry (2007) and the more recent assessment of the NSW case by the NSW Auditor General (2013). In these circumstances, it is believed that state governments typically maintain their public housing systems partly through deployment of Commonwealth funds under the NAHA, partly through allocating state revenue, and partly through effectively ‘running down the system’—that is, deferring essential maintenance and market sale of vacant properties. Unfortunately, however, the routinely published public housing finance statistics (in the Productivity Commission’s ROGS) are inadequate to inform any meaningful analysis of public housing system financing.

However, as quantified in Table 6, the inclusion of CRA income within the social landlord budget can significantly change the situation. Under the ‘community housing base case’ scenario, for example, the 30-year business plan outcomes projected here resulted in the elimination of backlog maintenance, as well as generating $40 million in crude surplus. This is available to fund additional and replacement housing—or, indeed, other services as may be specified by
government as a condition of transfer\textsuperscript{20}. In total, under the assumptions applied, this could generate a total of 113 newly built homes over the business plan period\textsuperscript{21}. However, this number includes replacement social housing, and once we also factor in the market sale of 20 per cent of the newly built homes, the net gain in affordable housing numbers is just 42.

If a public housing portfolio slated for transfer has more extensive backlog maintenance needs, transfer viability is made more marginal. For example, if we factor in backlog maintenance needs averaging $30,000 per dwelling, the modelled surplus available for developing new housing is cut to only $11 million over 30 years—sufficient to construct 34 dwellings, with a net addition totalling only six (see Table 6). If, on the other hand, the ex-public housing portfolio has no backlog maintenance need—as claimed for Logan—such a transfer could theoretically generate 220 new homes, with a net increase of 73 homes (this scenario not tabulated).

Finally, in Table 6, we model the impact of transferring public housing to community housing where the base case scenario is varied to allow for the additional staff costs incurred through community development (or ‘place-making’) activity that may be specified in a transfer contract. That is, where the CHP is required to provide a broader service than the former public housing landlord. To reflect this we have varied the ‘community housing base case’ scenario by factoring in expenditure of $250 per dwelling per year. This figure is based on previous research on CHP housing management expenditure (Pawson, Milligan et al. 2015). The effect is a significant reduction in the resources available for additional housing development, with gross dwellings procured cut from 113 to 89. Where community development expenditure is factored into the ‘community housing heavy backlog maintenance’ scenario (not tabulated), the effect is to virtually wipe out the scope for new house-building—with total dwellings procured cut from 48 to seven. Essentially, what this is saying is that while the addition of RA to rental income provides a significant revenue enhancement, it is not a ‘magic pudding’.

\textsuperscript{20} Under the 2016 New South Wales transfer program, announced too late for detailed investigation in this research, transfer recipient CHPs are expected to run—at their expense—non-landlord services including housing advice and support, as well as waiting list administration.

\textsuperscript{21} On the assumption that all ‘operational surplus’ funds are devoted to this purpose, and none and none are needed to fund other government-specified services—see previous footnote.
Table 6: Portfolio-level impact of public housing transfer to community housing (1,000 dwellings)—base case scenarios

<table>
<thead>
<tr>
<th></th>
<th>PH base case</th>
<th>CH base case</th>
<th>CH heavy backlog maintenance</th>
<th>CH base case plus community development activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-year net dwelling growth (social/affordable dwellings)</td>
<td>0</td>
<td>42</td>
<td>6</td>
<td>27</td>
</tr>
<tr>
<td>Total cost of dwellings procured ($M)</td>
<td>0</td>
<td>40</td>
<td>11</td>
<td>31</td>
</tr>
<tr>
<td>Social dwellings replaced (lost)</td>
<td>0</td>
<td>29</td>
<td>14</td>
<td>26</td>
</tr>
<tr>
<td>Social dwellings growth</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Affordable dwellings growth</td>
<td>0</td>
<td>71</td>
<td>34</td>
<td>53</td>
</tr>
<tr>
<td>Private sales (dwellings)</td>
<td>0</td>
<td>13</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Total dwellings procured (sum of above)</td>
<td>0</td>
<td>113</td>
<td>48</td>
<td>89</td>
</tr>
<tr>
<td>Peak debt ($M)</td>
<td>0</td>
<td>25</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>Year 30 Cash Balance ($M)</td>
<td>-32</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 1 ($000)</td>
<td>15</td>
<td>15</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 30 ($000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes: 1. PH = public housing; CH = community housing. 2. Heavy backlog maintenance means $30,000 per dwelling. 3. Peak debt refers to the debt secured against the income stream associated with the transfer portfolio. 4. Year 30 cash balance under community housing is zero because the model is structured to maximise growth. 5. All additional social/affordable housing dwellings are affordable housing (as in NSW's SHI transfer program—see text).

Source: Modelling by the Sphere Company.

4.1.3 Impact of public housing transfer to community housing status—comparison of ‘low revenue generating’ and ‘high revenue generating’ portfolios

As explained above, our base case scenario assumptions for rental and CRA revenue per dwelling (Table 6) are, respectively, $120 per week and $57.50 per week (applicable under community housing status). In practice of course, social housing encompasses significant diversity in terms of tenant profile, property type and housing market setting. Recognising this reality, Table 7 exemplifies the viability impacts of varying associated landlord income assumptions. First, we illustrate the effect on public housing finances if typical rent per dwelling is assumed to be $130 per week (instead of $120). This might better reflect the situation of a parcel of housing involving an unusually large proportion of family-size properties accommodating larger-than-average households. As shown in Table 7, the public housing 30-year deficit here is reduced to some $16 million as compared with the $32 million for ‘public housing base case’ shown in Table 6.

Also illustrated in Table 7 is the effect on community housing finances where portfolios with different revenue-generating capacity are compared. Here, consistent with the above scenario for public housing, the ‘high revenue’ variant assumes $130 per dwelling per week in rental income. For CRA, we allow $60 per dwelling per week. In the ‘low revenue’ community housing variant we factor in average rent of $110 per dwelling per week and CRA of $55 per week.
Under the low revenue scenario the project barely breaks even, whereas in the high revenue variant the managing CHP is able to invest nearly $68 million in new homes, generating 197 dwellings in total.

**Table 7: Viability impacts of varied revenue-generating capacity**

<table>
<thead>
<tr>
<th></th>
<th>PH high revenue</th>
<th>CH low revenue</th>
<th>CH high revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-year net dwelling growth (social/affordable dwellings)</td>
<td>0</td>
<td>17</td>
<td>77</td>
</tr>
<tr>
<td>Total cost of dwellings procured ($M)</td>
<td>0</td>
<td>14</td>
<td>68</td>
</tr>
<tr>
<td>Social dwellings replaced (lost)</td>
<td>0</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Social dwellings growth</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Affordable dwellings growth</td>
<td>0</td>
<td>27</td>
<td>127</td>
</tr>
<tr>
<td>Private sales (dwellings)</td>
<td>0</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Total dwellings procured (sum of above)</td>
<td>0</td>
<td>37</td>
<td>197</td>
</tr>
<tr>
<td>Peak debt ($M)</td>
<td>0</td>
<td>15</td>
<td>38</td>
</tr>
<tr>
<td>Year 30 Cash Balance ($M)</td>
<td>-16</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 1 ($000)</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 30 ($000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

*Note: PH = public housing; CH = community housing.*

Source: Modelling by the Sphere Company.

**4.1.4 ‘Additionality’ impact of extra government assistance**

There are a number of ways that governments can help facilitate the development of affordable housing. Table 8 exemplifies the possible impacts on transfer ‘additionality’, factoring in other forms of government assistance. For context, these are compared with the ‘community housing base case’ scenario already set out in Table 6 and reproduced in Table 8 for ease of reference.

First, we look at the impact of enabling a successor landlord CHP to access cheaper loan finance, as could be made possible by government action to establish a specialist financial intermediary and to back associated loan finance with a government guarantee (Lawson, Berry et al. 2014). If it is assumed that this might reduce the price of finance by two percentage points—from 6 per cent (assumed in the base case) to 4 per cent—this would enable an additional $26 million of CHP investment in newly constructed housing. This would boost the total number of homes constructed over the business plan period from 113 to 201.

Also factoring in the provision of free land for the construction of additional housing, the quantum of finance available for housing investment would rise to some $111 million and the total number of dwellings procured would expand to 557 (see Table 8). Here we are alluding to the scenario where state/territory-owned land is given to the provider or where private developers are obliged to donate sites for affordable housing development through the deployment of land-use planning powers (Gurran, Milligan et al. 2008).
Table 8: Possible additionality impacts of extra government assistance

<table>
<thead>
<tr>
<th></th>
<th>CH base case</th>
<th>CH—4% finance</th>
<th>CH—4% finance and free land</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-year net dwelling growth (social/affordable dwellings)</td>
<td>42</td>
<td>71</td>
<td>194</td>
</tr>
<tr>
<td>Total cost of dwellings procured ($M)</td>
<td>40</td>
<td>66</td>
<td>111</td>
</tr>
<tr>
<td>Social dwellings replaced (lost)</td>
<td>29</td>
<td>54</td>
<td>143</td>
</tr>
<tr>
<td>Social dwellings growth</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Affordable dwellings growth</td>
<td>71</td>
<td>125</td>
<td>337</td>
</tr>
<tr>
<td>Private sales (dwellings)</td>
<td>13</td>
<td>22</td>
<td>77</td>
</tr>
<tr>
<td>Total dwellings procured (sum of above)</td>
<td>113</td>
<td>201</td>
<td>557</td>
</tr>
<tr>
<td>Peak debt ($M)</td>
<td>25</td>
<td>45</td>
<td>68</td>
</tr>
<tr>
<td>Year 30 Cash Balance ($M)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 1 ($000)</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 30 ($000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: CH = community housing.
Source: Modelling by the Sphere Company.

4.1.5 Viability considerations in a regional setting

A final scenario explored here is where a transfer takes place in a regional setting. It would be expected that this would be associated with lower land values. Therefore, in place of the standard assumption that average land cost for every new dwelling would be $150,000 and a weekly market rent would be $350, Table 9 instead factors in $50,000 and $250, respectively. Where all other factors are included at baseline scenario values (e.g. backlog repairs to be made good), the impact is a modestly higher output in terms of overall housing procured and net increase in social/affordable dwellings.

Table 9: Additionality impacts of a regional setting

<table>
<thead>
<tr>
<th></th>
<th>CH base case</th>
<th>CH—regional context</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-year net dwelling growth (social/affordable dwellings)</td>
<td>42</td>
<td>49</td>
</tr>
<tr>
<td>Total cost of dwellings procured ($M)</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Social dwellings replaced (lost)</td>
<td>29</td>
<td>42</td>
</tr>
<tr>
<td>Social dwellings growth</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Affordable dwellings growth</td>
<td>71</td>
<td>91</td>
</tr>
<tr>
<td>Private sales (dwellings)</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Total dwellings procured (sum of above)</td>
<td>113</td>
<td>147</td>
</tr>
<tr>
<td>Peak debt ($M)</td>
<td>25</td>
<td>23</td>
</tr>
<tr>
<td>Year 30 Cash Balance ($M)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 1 ($000)</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Maintenance backlog/dwelling year 30 ($000)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: CH = community housing.
Source: Modelling by the Sphere Company.
4.1.6 Summing up

The broad conclusion to be drawn from the above analysis is that it confirms the earlier Sphere Company finding that, on reasonable assumptions, the factoring in of CRA-enhanced rent revenues can be expected to generate a modest operational surplus—sufficient to eliminate moderate maintenance shortfalls over the medium term and to underpin limited stock expansion. Where additional liabilities are loaded onto the successor landlord CHP—for example, the need to eliminate larger-scale maintenance backlogs or to engage in significant community development activities—the 30-year viability of transfer is made more marginal and the scope to generate new social/affordable housing can be easily diminished to near zero.

Where government opts to actively facilitate the development of new and replacement social/affordable housing through transfer, it appears possible that such outputs may be substantially expanded in scale (see Table 8).

On the other hand, it is important to stress that all of the above scenarios restrict the development of new non-market dwellings to ‘affordable’ rather than ‘social’ housing. In all cases, therefore, the replacement of social housing dwellings results in diminished provision for those requiring deeply subsidised accommodation—even though transfer-leveraged housing development facilitates substantial new provision for ‘key workers’ and other low-to-middle-income households capable of paying discounted market rents.

From a social perspective, the above scenario may have some positive attributes if it results in the dilution of spatially concentrated disadvantage. From the CHP business perspective, portfolio diversification away from an exclusive focus on low-yielding social housing will also be considered desirable. However, given Australia’s existing shortage of social housing, transfer financing strategies predicated on such diversification would need to be accompanied by separate programs to make recompense for resulting losses.

It is also vital to keep in mind that all of the scenarios illustrated above assume the transfer of public housing at nil cost—a practice with accounting implications that are explored later in this chapter.

4.2 Budget impact of CRA channelled into transferred former public housing

On the basis of the average CRA ‘premium’ built into the Sphere Company model ($57.50 per week), the annual cost incurred by the Australian Government for each dwelling transferred is $2,990—or some $3 million across a portfolio of 1,000 homes (in 2016 dollars). The Australian Government was a party to the 2009 intergovernmental agreement (or aspiration) that community housing should be expanded to account for ‘up to 35 per cent’ of all social housing by 2014 (Housing Ministers’ Conference 2009). On this basis, it has been assumed by some policy-makers that there would be tolerance for the associated increase in CRA expenditure, assuming that the vast bulk of community housing expansion to fulfil the ‘35 per cent aspiration’ would have to come from public housing transfers. Only if states and territories were to opt for a larger-scale transfer program (e.g. as planned for Queensland by the 2012–15 Newman Government), it was reasoned, might the Australian Government consider measures to compensate for additional CRA expenditure (e.g. clawing back part of its annual NAHA payments).

In estimating the CRA-associated cost to government of community housing expansion to meet the ‘35 per cent aspiration’, the starting point is the current stock of community housing. In 2014/15 this accounted for 74,000 homes out of a combined (mainstream) public housing/community housing total of 395,000 homes—that is some 19 per cent of the total (AIHW 2016: Table 1). Assuming no net change in the overall size of the (mainstream) social
housing stock, a further 65,000 ex-public housing dwellings would need to be transferred to the community housing sector for compliance with the 35 per cent benchmark. The annual budgetary cost (assuming the rate of CRA payments stated above) would be $193 million (2016 dollars)—an increase of 4 per cent on the total CRA budget of $4.39 billion (Commonwealth of Australia 2015: 82).

Two further points need to be borne in mind here. Firstly, that the accommodation ‘product’ to which government contributes through CRA payments to CHPs is a service whose quality is assured through regulation (unlike for both private and public landlords); and that, unlike private landlords in receipt of CRA-enhanced rent payments, CHP housing-related support contributes towards the welfare of vulnerable tenants (Pawson, Milligan et al. 2015). Secondly, as public housing continues to shrink—due to the necessity of revenue-generating sales—the Australian Government will in any case be exposed to rising CRA expenditure as growing numbers of low-income tenants otherwise accommodated in public housing are forced into the private rental market.

4.3 Accounting treatment of public housing transfers

4.3.1 Background

Public housing transfers have the potential to impact on government financial accounts. In part, this reflects the approach of Australian state and territory governments to the valuation of public housing assets—that is, according to their open market value, irrespective of their current use as non-market housing (Pawson, Milligan et al. 2013). Historically, dominant voices within state and territory governments have resisted calls for the transfer of public housing asset ownership to CHPs by arguing that—unless compensated by a capital receipt equal to portfolio book value—such transactions would impair the public finances as officially recorded and published. More specifically, it has been claimed that such ‘booked losses’ could damage a state’s credit rating.

The above anxieties reflect an understanding of accounting practice dictating that a disposal of assets such as public housing must be booked as such on the state’s profit and loss account for the year concerned, and that a disposal for no or negligible payment will result in a substantial loss. By contrast, the short-contract ‘management outsourcing’ of public housing to CHPs—the typical approach adopted in pre-2012 transfers (Pawson, Milligan et al. 2013)—has been treated as being not a disposal of the asset, and hence has had no such effect on the state’s profit and loss account.

However, in respect of the more recent transfers examined in this study, there has been an important development resulting from the adoption of longer-term ‘management outsourcing’ contracts between state governments and CHP successor landlords. As noted in Chapter 2, Tasmania’s BHF transfers involved 10-year contracts with options for two five-year extensions, while SA’s BPSC and ROSAS programs provide for a 20-year term (although in the BPSC instance, this is proposed to be initiated only after an introductory three-year agreement).

The remainder of this section considers the implications of this development as regards the public accounting treatment of housing transfers—that is, the way they are recorded in the accounts of the relevant state or territory government. The related issue of how public housing

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22 Here we draw on expert advice kindly provided by Dr Richard Morris, Associate Professor in the University of New South Wales School of Accounting.
is valued is not discussed in depth here because this is being investigated in detail in another AHURI research study currently underway and due to report in 2017.

4.3.2 The accounting status of public housing transfers via long-term contracts

Theory

The accounting treatment of public housing transfers is governed by guidance issued by the Australian Accounting Standards Board (AASB), which is, in turn, influenced by international accounting standards. Leases are the subject of a specific AASB standard, AASB 117; this standard is shortly to be superseded by AASB 16, which is due to commence 1 January 2019. Although public housing transfers on the ‘management transfer’ model are commonly referred to by stakeholders as ‘leases’, there is a question as to whether transfers, in their contemporary form, fit the definitions of the AASB lease standards.

AASB 117 defines a lease as ‘an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time’. Since the contemporary transfer model (e.g. as exemplified in BHF and BPSC) involves no payment or payments by the successor CHP there is some doubt as to whether the relevant agreements fulfil the AASB 117 definition of a ‘lease’.

AASB 16, however, has a slightly different definition of ‘lease’ that refers to the transferred right being ‘in exchange for consideration’, not ‘in return for a payment’. Arguably, a CHP taking on former public housing is bound by contractual commitments to provide a property and tenancy management service that could be construed as a form of ‘consideration’. The new wording of AASB 16 could therefore possibly strengthen the case for treating transfer agreements of the kind described in this report as leases—at least from the commencement of AASB 16.

If a transfer is regarded as a lease, a second question arises as to whether it is a finance lease, in which all the risks and rewards of ownership are transferred. Finance leases are required by AASB 117 (and AASB 16) to be treated as a disposal of the asset, with its value replaced in the lessor’s balance sheet by a ‘lease receivable’. Alternatively, if the lease is not a finance lease, it is an operating lease, which remains as an asset on the lessor’s balance sheet.

The most relevant consideration here appears to be whether the lease is for ‘a major part of the asset’s economic life’. The most appropriate approach may be to treat the building and land components of the transferred asset separately, with the building component (the social housing dwellings, having an estimated economic life of finite years) as subject to a finance lease, and the land component (which has an indefinite economic life) as subject to an operating lease. This would mean that the land component of the transferred portfolio would remain as an asset on the state government’s balance sheet.

However, if a contracted transfer is regarded as other than a lease (because there is no or negligible payment from the CHP), the proper accounting treatment for such a transaction may be under AASB 140, which deals with ‘investment properties’. Under AASB 140, ‘investment properties’ are defined as properties held to earn rentals or capital gains or both, and are to be de-recognised (eliminated from the balance sheet) on disposal or when permanently withdrawn from use. The impact on the profit and loss account is stipulated as the difference between the

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23 Generally, the lease receivable is valued at the present value of minimum lease payments plus the present value of any residual value. The book value of the lease receivable is amortised over the life of the lease using the effective interest rate method. Revenue comes from interest on the lease receivable as time passes, and lease rentals reduce the book value of the receivable.
portfolio’s asset value and the disposal proceeds—that is, for an asset disposed of for no or negligible payment, the recorded loss will be the full book value.

This raises the question of whether the long-term contracting out of public housing management (and with it the rights to collect and utilise the associated revenue stream) constitutes a ‘disposal’. In the Conceptual Framework underlying the accounting standards, it is stipulated that an asset will be recognised (i.e. accounted for as such) when the flow of future economic benefits to the entity is ‘probable’ and the asset has a cost or value that is reliably measurable; and conversely, if the flow of benefits is improbable, it should not be recognised (AASB CF para 90). Considering that no transfer of public housing to an Australian CHP has yet been terminated by a state government after commencement of a lease term or CHP performance of management functions24, the return of the benefit of the rental revenues to the state government is improbable, and the asset should be regarded as disposed of—and off the balance sheet.

**Practice**

The first Australian instance of a public housing transfer on a ‘long-term’ contract is the 2013 Housing Tasmania handover to Mission Australia Housing of 496 homes on the Clarendon Vale and Rokeby Estates near Hobart—the BHF pilot project.

The Tasmanian Government’s 2012/13 financial statement recorded the Mission Australia Housing transfer as involving a ‘grant’ to the recipient CHP equating to the book value of the properties concerned: $62 million (Parliament of Tasmania 2013: 66, 69–70). Accordingly, this sum is taken off the Statement of Financial Position and instead recorded as a ‘contingent asset’. This is on the stated grounds that, despite ongoing state government ownership of the homes concerned, control of the economic flows from the asset have been ceded to the recipient CHP for 10 years.

More recently, following the main stage of the BHF program, the Tasmanian Government has adopted similar practice for the three larger 10-year transfers completed in 2014. Across all four transactions, the accounting ‘write-down’ totalled $485 million. Interviews with senior policy-makers conducted as part of the current research established that this was not of concern to the Tasmanian Treasury in terms of any credit rating implications. Credit rating agencies were understood to regard public housing portfolio as an encumbered asset due to its dedicated function as low-cost housing and therefore incapable of realising open market book value.

The values removed from the balance sheet reflect the combined building and land components of the transferred assets and, perhaps significantly, the published accounts cited above do not use the word ‘lease’ in connection with the transfer contracts. The Tasmanian approach, therefore, is consistent with the treatment of transfers as a disposal of investment properties, rather than as a lease. It remains to be seen whether other state governments may account for ‘long-term contract’ transfers as leases, and in particular as a ‘finance lease’ of the buildings (which are disposed of) and an ‘operating lease’ of the land (which is retained as an asset on the state balance sheet).

### 4.4 CHP asset bases

From the CHP perspective, the shift to long-term contracts to effect public housing transfers has implications for their accounts and for the uses to which they can put their asset bases.

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24 Contrast LRI, which was terminated after the LRI contract had commenced but prior to LCCH taking possession of the properties or performing management functions.
As a matter of accounting, CHPs’ treatment of transferred properties is the mirror image of state government practice, with one exception consequent on the commencement of AASB 16. If the transfer arrangements are treated as a lease, under AASB 117 a CHP would properly treat the buildings (not the land) as subject to a finance lease to be recorded as an asset on the CHP’s balance sheet, with a corresponding liability for the value of services rendered in consideration. Under AASB 16, however, all leases for a term of more than 12 months have to be capitalised as an asset, along with the corresponding lease liability. This treatment would apply to both the building and land components of the lease, so the odd situation arises where both the state government and the CHP would have the same asset (the land component of the transferred portfolio) on their balance sheets. In the alternative situation, where the transfers are not regarded as ‘leases’ for accounting purposes, the whole of the portfolio would, again, be recognised as an asset on the CHP balance sheet.

As indicated above, this treatment assumes the probability of the flow of benefits from the asset going to the CHP for the relevant period. This assessment of ‘probability’ is based on the historic practices of state governments in relation to public housing transfers to CHPs, and is a rather different kind of assessment to that of individual lenders assessing the specific assets and hence the creditworthiness of individual CHPs. In particular, the latter kind of assessment would involve scrutiny of the specific qualities of the CHP’s asset base, including the liabilities associated with its assets and, crucially for leasehold assets, how legally secure they are. There is a question as to whether the long-term contracts used in the case study transfers too readily permit termination of the agreement, particularly by the state government without compensation to the CHP. This question is highlighted by the LRI termination, but it potentially applies more widely.

### 4.5 Policy development implications

The Sphere Company’s modelling work has confirmed that:

- Through CRA-enhanced rent revenues, transfers of public housing to CHPs may have the potential to viably enable maintenance backlog reduction, improved community development and modest affordable housing stock growth—especially when combined with government action to improve CHPs’ cost of finance and access to cost-free land.
- These objectives may be pursued by transfers that grant CHPs a mere leasehold, as opposed to freehold, interest in the properties.

There appear to be alternative accounting treatments of such transfers:

- One that would, as in the Tasmanian case, remove all of the transferred asset from the state government’s balance sheet.
- Another that would see the land component recognised as an asset on the balance sheets of both the state government and CHP balance sheets.

In either case, there is a further question for CHPs and their lenders about the quality of their leasehold assets, in terms of both the liabilities that come with it and the provisions of their leases as regards termination.

Despite the apparent possibility that the leveraging of debt may be achieved through ‘long-lease’ transfers, valid arguments for title handovers remain (see Chapter 5). In addition, since the impact of on the state/territory accounts is indistinguishable, the bureaucratic argument that ‘long-lease’ transfers are potentially acceptable but asset transfers cannot be contemplated no longer stands.
5 Conclusions, reflections and future directions

This chapter reflects on how the experience of post-2012 public housing transfer planning and implementation might inform ongoing social housing reform in Australia. A particular focus here relates to the relationship between transfers and ‘affordable housing industry capacity’.

5.1 Developments in transfer practice

In terms of public housing transfer practice, the objectives and procedures incorporated within recent programs examined in this research have pushed the boundaries in a number of ways. These include, in particular:

- A more central aim of targeting CRA-enhanced rental income towards reducing maintenance backlogs (BHF and BPSC).
- A greater focus on ‘place management’ or ‘place making’ aspirations and activities (BHF and BPSC).
- Larger transfer parcels that significantly upscale CHPs (BHF and BPSC) and begin to change the distributions of functions across the whole of the social housing sector (BHF).
- Moving towards longer-term contractual agreements, potentially providing a basis for leveraging debt despite the absence of asset security (BHF and BPSC).
- The use of concurrent leases to simplify the transfer of tenancy service obligations—albeit while removing (what might be no more than illusory) tenant choice (BPSC).

Assuming that transfers continue at some level, the experience gained through applying such innovations is likely to be beneficial for future initiatives. At the same time, if transfers continue to be seen as primarily a way to enable restoration of run-down public housing, CHPs should surely expect to encounter more demanding requirements—that is, performance contractually defined in terms of measurably enhanced stock condition outcomes within specified timescales, rather than via expenditure obligations.

5.2 Taking stock of public housing transfers

5.2.1 Gauging the scale of transfer activity

As shown in Table 10, recent activity in SA and Tasmania (as detailed in this report) has broadened experience of public housing transfers across the country. However, even including the portfolios originating from the SHI (something of a ‘special case’) the numbers in most jurisdictions remain small relative to the totality of social housing. Even in 2016, mainstream community housing still accounts for under a fifth of total mainstream social housing at the national scale. Only in Tasmania is this exceeded—although completion of SA’s currently ongoing ROSAS program (see Chapter 2) will push community housing in that state to approximately 22 per cent of all social housing. Nationally, leaving aside SHI-related activity, the number of tenanted homes transferred in the years to 2016 equates to less than 5 per cent of all mainstream public housing as at 2007/08 when transfer activity began in earnest (AIHW 2016).
Table 10: Public housing transfers 1995–2016

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Public housing transfers</th>
<th>All community housing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Social Housing Initiative</td>
<td>Non-SHI</td>
</tr>
<tr>
<td>ACT</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>NSW</td>
<td>6,000</td>
<td>8,300</td>
</tr>
<tr>
<td>NT</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Qld</td>
<td>2,600</td>
<td>200</td>
</tr>
<tr>
<td>SA</td>
<td>600</td>
<td>1,100</td>
</tr>
<tr>
<td>Tas</td>
<td>0</td>
<td>4,000</td>
</tr>
<tr>
<td>Vic</td>
<td>0</td>
<td>2,000</td>
</tr>
<tr>
<td>WA</td>
<td>1,300</td>
<td>0</td>
</tr>
<tr>
<td>Australia</td>
<td>10,800</td>
<td>15,800</td>
</tr>
</tbody>
</table>

Notes: 1. SHI transfers relate to social housing developed by state/territory governments under the 2008 NBESP. Transfers involving established public housing are enumerated under the ‘Non-SHI’ heading. 2. ‘Mainstream social housing’ refers to all social housing other than that managed as Indigenous-specific housing and/or by Indigenous community housing organisations (ICHOs).


5.2.2 Transfer activity in prospect

There have been recent indications of renewed interest in transfers in certain states that have been inactive in this domain for some years.

In October 2016, the NSW State Government announced a major transfer program of all public housing dwellings in the Northern Sydney, Mid-North Coast, Hunter–New England and Shoalhaven regions. Rolling out over three years from mid-2017, the program will transfer 14,000 public housing dwellings in nine parcels (900–2,200 dwellings each) to CHPs on 20-year leases—specifically, concurrent leases.25 A further 800 dwellings already managed by CHPs on an agency basis will also be transferred on concurrent leases—essentially tidying up a result of past transfer programs in which tenants were allowed choice on whether to accept a change of landlord (see Pawson, Milligan et al. 2013). Initial program documents indicate that successor CHPs will be required deliver ‘wrap-around services’ to tenants, other housing assistance services currently delivered by Family and Community Services Housing, and to assume responsibility for repairs and maintenance—in the discharge of which CHPs will be obliged to use NSW Land and Housing Corporation contractors up to 2021. Successor CHPs will also be ‘asked’ to consider ex-public housing staff for employment before recruiting publicly (FACS 2016).

The transfer program outlined above comes on top of another scheme, Communities Plus, announced earlier in 2016, which proposes to grow the community housing sector in the course of the renewal of public housing estates. Under Communities Plus, CHPs are invited to partner

25 Shortly after the announcement of the transfer program, the NSW State Government introduced amendments to the Housing Act 2001 (NSW) that specifically provide for the NSW Land and Housing Corporation to enter into concurrent leases (section 13A).
with private developers in bids to renew selected public housing estates at higher densities and with a mix of tenures, with both replacement social housing (about 30% of each development) and additional affordable housing expected to be placed under CHP management. With former residents given the ‘right to return’, they will, if they do so, become community housing rather than public housing tenants. From the first phase of Communities Plus projects (for which bids are currently under consideration), it is expected that about 3,300 social and affordable housing dwellings will be built and come under CHP management; and over the whole of the 10-year program, up to 23,000 social housing and 500 affordable housing properties may come under CHP management (Communities Plus 2016).

Also in 2016, the Victorian Government has progressed the long-running staged transfer of some 1,500 former publicly owned dwellings to Aboriginal Housing Victoria (AHV). The homes in question were initially subject to a management transfer in 2007 (Pawson, Milligan et al. 2013). As announced in September 2016, a 511-dwelling tranche of this portfolio was converted into a title transfer, the initial element of an always-intended second phase of this project (Skelton and Burin 2016). Apart from boosting the AHV balance sheet, this will enable AHV tenants an option of transitioning to ownership of their occupied home. When completed in 2018, this will be the largest single public housing title transfer so far seen in Australia. Transfers of state-owned Indigenous-specific housing may well form an important capacity-building contribution for the Indigenous housing organisation sector in other states in coming years (Milligan, Pawson et al. forthcoming).

Meanwhile, across the Tasman, a number of fairly sizeable state and council housing transfers were announced during 2016 by New Zealand authorities:

- Christchurch City Council’s planned management handover of 2,500 homes to Otautahi Community Housing Trust, announced August 2016 (Radio New Zealand 2016).
- The New Zealand Government’s March 2016 transfer of ownership of 2,800 homes in Auckland to the Tamaki Regeneration Company, a joint venture between the Crown and Auckland City Council (New Zealand Government 2016a).
- The New Zealand Government’s plan to transfer the management of some 1,100 state housing properties in Tauranga to Accessible Properties, already New Zealand’s largest CHP (New Zealand Government 2016b).
- The New Zealand Government’s plan to transfer ‘between 2,000 to 2,500’ Housing New Zealand properties in Christchurch to community housing providers. This will be achieved via ‘a single transfer transaction’. Whether the transfer will involve title handover or a ‘long-lease’ management contract is unclear (Scoop 2016).

The last two of these projects forms part of the New Zealand Government’s broader policy objective of transferring to community housing an initial tranche of 1,000–2,000 properties, with more to follow ‘if successful’ (New Zealand Government c 2015).

At the same time, however, the Australian transfer activity step-change anticipated when this research was commissioned has not come about. With the Queensland Government’s post-2015 renunciation of both local transfer plans and state-wide aspirations, the expected test-bed for large-scale system transformation has failed to materialise. It therefore remains the case that no state government has openly contemplated or planned how it would devolve public housing service delivery in its entirety and activate a social housing role exclusively involving strategic planning, funding and enabling activity—as opposed to direct provision. Moreover, the Queensland volte-face removes the urgency that a wholesale transfer would have lent to reform of the financial settlement between the Commonwealth and the states/territories as embodied in the 2009 NAHA.
5.2.3 The politics of public housing transfers

Our earlier AHURI research noted that the predominantly small-scale transfers progressed in the pre-2012 period had been transacted by governments in a highly managerialist way and that:

In terms of public and media visibility, it has been possible for the [transfer] policy to ‘fly below the radar’. In other words, its inherently ‘political’ nature has been suppressed. If the process is to be significantly scaled up … it is unlikely that this will remain tenable. Therefore, while it might already command support among informed sections of the policy community, the policy will need to win solid support from elected parliamentary members. It will need to be justified and defended in the public arena using political arguments and political language. Convincingly demonstrating the prospective tenant and community benefits and differentiating housing transfers from privatisation of the asset-stripping variety will be key elements of this communication challenge. (Pawson, Milligan et al. 2013: 75)

Subsequently, the scope for political contestation around public housing asset management decisions has been highlighted by the controversy over the NSW Government’s 2014 decision to dispose of 293 valuable properties (subject to 409 public housing tenancies) in Millers Point and The Rocks, Sydney (Tenants Union of NSW 2014a). Partly due to the portfolio’s prime location and heritage value, this generated a heated public debate (Tenants Union of NSW 2014b). While the NSW Social Housing Minister later committed to re-investing sale proceeds in a much larger quantum of new public housing elsewhere in Sydney (NSW Government 2015), the associated dispute has continued to rage (Darcy and Rogers 2016; Morris 2016).

The likelihood that proposed future transfers will be viewed in ‘political’ terms has also likely been compounded by the Productivity Commission’s recent decision to include public housing within its 2016/17 inquiry into Australia’s human services. Here, the commission is tasked with ‘… examin[ing] the application of competition and user choice to services within the human services sector and develop policy options to improve outcomes’ (Productivity Commission 2016b: v). The Inquiry’s eventual recommendations could possibly contribute new impetus for transfers to bring about a ‘more contestable’ social housing system (see Section 1.1), a conception consistent with the politics of New Public Management (Lyons 2006; Steane 2008). For critics not signed up to this world view, however, this would constitute damaging ‘privatisation’ (Rhiannon 2016).

Unlike council housing divestment in the UK, which was in many localities sharply contentious (Pawson and Mullins 2010), the latest round of Australian transfer activity (including in Queensland) generated little if any ‘grass roots’ opposition of a political nature. Nevertheless, the inherently political dimension of major social housing reform has been strongly exemplified in Australia in 2016, most dramatically in the Queensland Government’s July 2016 LRI cancellation. In doing so, the Housing Minister directly invoked concerns of principle: ‘It’s not the policy of this government to privatise essential services and I want to make it very clear that this includes public housing’ (de Brenni 2016).

Local observers have, however, suggested this decision may have been influenced by workforce interests (O’Connor 2016; Templeton 2016c), including concerns that superannuation arrangements were not fully encompassed by the assurance of guaranteed continuing employment of public housing staff on existing terms and conditions under a new employer (Courier Mail 2016). At the same time, with claims that the cancelled $800 million project would have generated 400 jobs (Templeton 2016b), there are obvious questions about whether the
decision was consistent with fostering the vitality of the local economy—irrespective of area renewal and housing supply considerations.

Although not a relevant factor in Logan (because it involved a ‘long-term lease’ arrangement), another concern often motivating ‘anti-privatisation’ sentiments around this type of ‘social housing reform’ is the loss of government control over services when ownership of state-owned assets is transferred. One possible dimension of this is where such assets are unjustifiably disposed at a price not considered as reflecting their ‘true value’ and therefore inconsistent with the public interest. Another aspect is the loss of public control likely to be associated with asset transfer—albeit that this may be mitigated through contractual conditions and/or statutory regulation. In the public housing transfer context, a key question is whether, to the extent that control is diminished, that is a ‘price worth paying’ for positive outcomes (e.g. significant housing investment; more responsive management) unlikely to eventuate under status quo arrangements.

Anti-privatisation concerns seemingly related to ‘loss of control’ surfaced in Australia in 2016 in debates around the Tasmanian Government’s proposal to transfer title of 500 properties already conveyed to CHPs on ‘long leases’ under the BHF program (see Section 2.2.1). Despite their parties having initiated BHF when previously in government, Opposition member contributions to parliamentary debate characterised title transfer as ‘privatisation’ and ‘giving away’ public assets (Tasmania, House of Assembly 2016a, 2016b, 2016d, 2016e; Tasmania, Legislative Council 2016a, 2016b). CHPs who had taken charge of ex-public housing under BHF lobbied in support of associated legislation, rebutting the claim that title transfer would lead to homes being ‘sold out from under tenants’ (Tasmania, Legislative Council 2016a: 14). In a letter read into Hansard, the providers indicated that the request for proposal for the transfer had in fact specified that the properties ‘will be required to be retained as part of the CHP portfolio for in the order of 30 years and will be required to be allocated to people on the priority waiting list’ (Tasmania, Legislative Council 2016a: 14). In their evidence, the Tasmanian Council of Social Service (TasCOSS) and Shelter Tasmania explicitly indicated that they had no ‘in principle’ objection to title transfer (providing it was not expanded beyond the existing tranche of BHF properties), and, following legislative amendments introduced by the government, that they were satisfied with the legislation (Tasmania, Legislative Council 2016a: 7–9; 2016b: 78).

The politics of expediency or the politics of principle? There are certainly some of the latter to be found here. The contention that public services are most efficiently and effectively provided via a ‘contestable market’ is underpinned by one principled world view, just as is the notion that services for the most disadvantaged citizens are properly the direct responsibility of the state. However, state governments actually pursuing transfers are predominantly motivated by purely pragmatic managerial considerations, in turn conditioned by hard financial imperatives. If, in the future, governments decide to embark on the larger-scale transfers long anticipated by some, they will need to pay greater attention to ‘politically’ framing their proposals and to winning public support from tenants, staff and unions, and from the wider community.

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26 As this report went to press in December 2016, news emerged of a new Queensland Government initiative for the regeneration of Logan’s public housing, reportedly involving investment totalling $1 billion—i.e. a scale even larger than the LRI—and claimed by the Queensland Housing Minister as likely to result in ‘over 2,400 jobs created in our community’ (Channel 7, 2016; Channel 10, 2016).
5.3 ‘Fixing public housing’

5.3.1 Key data deficiencies

As things stand, the most immediate case for larger-scale transfers is the posited scope for CHPs to fix otherwise ‘failing’ public housing, mainly through channelling into the system additional CRA-generated revenue and thereby providing the basis for leveraging private finance. Occasional government-commissioned studies such as that published for NSW in 2013 (NSW Auditor General 2013) provide some insight into the system’s problematic condition. Similarly, reference is still made to the groundbreaking Hall and Berry studies that charted the descent of all Australia’s public housing systems into a ‘financial deficit’ status during the 1990s and into the early 2000s (Hall and Berry 2004; 2007). Across the country, however, the extent to which public housing systems are, in fact, ‘failing’ is not at all clear. If the level of interest in transfers is a proxy measure of ‘system stress’, this would place Tasmania (pre-2013) at one end of the spectrum and Western Australia (WA) at the other. But there is no means by which the robustness of public housing systems in each state and territory can be quantified and ranked.

A major problem here is the opaqueness of the public housing finances and the dearth of information on public housing stock condition. The ‘cost of provision’ statistics annually published by the Productivity Commission are, unfortunately, in urgent need of fundamental reconfiguration (Pawson, Milligan et al. 2015). Equally problematic is the absence of reliable and comparable data on public housing system financing—that is, the extent to which state and territory governments need to complement rental income from NAHA payments, property sales and state-financed revenue support. Similarly, only with access to time-series data on trends in public housing property condition relative to a clearly defined standard can any judgement be made on the extent to which constrained maintenance expenditure is effectively ‘running down the system’.

At state/territory level the problem of opaque finances has, in a number of instances, recently become worse, as formerly autonomous state housing entities become increasingly enmeshed in the structure and the accounts of larger multi-service departments. Not only are there no routinely published cost of provision and financing statistics for public housing in each state/territory, but the jurisdictions themselves have become incapable of assembling such statistics upon request (Pawson, Milligan et al. 2015).

5.3.2 The need for Australian Government leadership

Both in remediating the data vacuum and in the development of an urgently needed transformation strategy for Australia’s social and affordable housing, national leadership is essential. Unfortunately, with the Australian Government’s 2014-15 ‘hands-off’ attitude to social and affordable housing, any contribution to national reform momentum from that source dissipated. Initial discussions around a 2016 renewed national government role in housing have centred on options for financial and governance reform (Australian Government 2016a and b). Whether this might re-invigorate wider system reform impetus remains to be seen.

Irrespective of claims that there is no constitutional obligation for involvement in this policy area, the Australian Government has a responsibility to the wider community to ensure that CRA and NAHA funds are being well deployed—not to mention an historic obligation to ensure that public housing assets it helped to create are being properly managed.

Notwithstanding a brief engagement with the issues in the period 2007–10, the Australian Government’s post-1996 remoteness from the challenges faced by public housing means it has not been bound into any strategy to address these. Other than the implicit tolerance for moderately increased CRA expenditure consistent with the ‘35 per cent target’ (see Section 4.2), there has been no clear Australian Government ownership of the structural
problems facing public housing, nor acknowledgement of its own role in enabling these to be addressed. As a result, projected CHP cash flows predicated on social security benefit entitlements and rates—not only CRA but also other forms of welfare payment—leave CHPs exposed to serious downstream revenue risks. Even if acceptable to the provider organisations themselves, these might well be intolerable to lenders. The substitution of property-based rents for (tenant) income-contingent rents, plus a rental income assurance or guarantee from government, could greatly mitigate this vulnerability.

To date, state governments have been generally reluctant to transfer title to CHPs and with it the full control of former public housing (operated within regulatory rules). This introduces additional risks that need to be overcome. The first of these, as revealed through this research (see Chapter 3), concerns the inclusion of ‘openly phrased’ termination provisions in longer-term management contracts, which could militate against long-term least-cost CHP leveraging. The second concerns the counterparty risk for CHPs that asset planning and decision-making includes onerous requirements for state government property-owner consent. Thirdly, and more broadly, if transfers continue in a form that fails to strengthen CHP balance sheets, the financial solidity and credit rating benefits enjoyed by similar entities elsewhere will not be achieved.

The broader point is that, however innovative and well-motivated they might be, states and territories are unlikely to solve the public housing problem alone. What is required is a sound national policy approach led by the Australian Government and negotiated through the Council of Australian Governments (COAG), similar to the manner in which disability services reform was achieved. Key to the largely successful story of UK council housing transfers was the active stakeholder buy-in incorporated within the process and involving not just the former and successor landlords (council and housing association), but also central government, former council housing staff and, not least, tenants. This much is evident from the historical review of the UK process undertaken as part of the current Inquiry by Maclennan and Miao (forthcoming 2016). Beyond this, the decades of bipartisan political support enjoyed by the UK’s not-for-profit housing sector was a crucial stability factor on which its successful expansion depended. With the reform of public housing once again recently exploited for partisan political advantage not only in Queensland but also in Tasmania, this is a lesson that needs to be learned.

## 5.4 Public housing transfers and affordable housing industry capacity

However, the argument for transferring public housing into not-for-profit control is not just about finding a way to arrest the disintegration of the state-owned housing stock. It is also about the scope possibly afforded by transfers of existing tenanted properties for boosting (non-government) ‘affordable housing industry capacity’. That is, the industry’s ability to contribute more broadly to better accommodating Australians into the future—not only through involvement in low-cost rental housing, but also by promoting a continuum of housing options and applying commercial principles to ensuring the long-term viability of service provision. In formulating the terms of transfers it is therefore vital that governments avoid simply shifting the public housing problem into a new organisational status.

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27 The UK’s larger housing associations are credit-rated entities. Albeit some have been negatively impacted in 2016 by the UK’s impending exit from the European Union, the UK’s (asset-holding) housing associations continue to be generally well-regarded by the ratings agencies. Indeed, backed by a UK government guarantee, there have been recent instances of associations securing debt at rates below government gilt rates (Apps 2015; 2016).
Linking this research back to its parent Inquiry Program (see Section 1.1), we have seen that—through the challenges inherent in their transaction—recent transfers have indeed built capacity, not only among provider organisations but also within governments themselves. The phased approaches seen in SA and Tasmania were clearly designed with recognition of such concerns in mind, and they were successful in this respect. Queensland’s LNP government appears to have recognised the relative paucity of capacity among its state-based CHPs and, on that basis, encouraged interest from interstate providers. What was possibly underestimated (perhaps reflecting a lack of governmental capacity at the political level) was the limited capacity of the bureaucratic machine itself. In addition, while the Logan (and Gold Coast) projects were pushed forward ahead of a declared intention for state-wide transfer, there was no sense that these were in any case part of a coherent strategy to test and refine models and processes.

Perhaps surprisingly, however, none of these states have seriously pursued the ‘corporatisation’ approach to housing transfer, as advocated, for example, by consultants undertaking the 2014 Triennial Review of the South Australia Housing Trust (Elton Consulting 2014). ‘Corporatisation’ here refers to an approach to transitioning a public service into non-government control through creating an autonomous entity from, for example, a local housing office. Elton Consulting thus recommended that the SA Government set up an ALMO based on a SAHT regional office, with the intention of transitioning this to CHP status after five years.

The Elton recommendation may have been partly inspired by the UK council housing reform process where ‘stock transfers’ usually involved a council effectively converting its former housing department into a new not-for-profit entity where governance was quite different from the predecessor organisation but the staff were largely the same (Pawson and Mullins 2010; Maclennan and Miao forthcoming). Another UK variant, more directly analogous to the Elton proposal, was to create an ALMO as a ‘half-way house’ to a full ‘stock transfer’. This could be portrayed as the instant creation of (non-government) affordable housing industry capacity. While some early UK commentators (e.g. Cope 1999) speculated that this would result in a lasting preservation of bureaucratic council ways, later evidence indicated that such newly created housing associations in fact tended to be absorbed relatively quickly into the distinct not-for-profit housing sector culture (Pawson and Mullins 2010). If Australian state and territory housing transfer ambitions have been seriously constrained by concerns about ‘inadequate capacity’ among existing provider organisations, it might have been expected that the corporatisation approach would have been trialled by now.

The other aspect of capacity-building that this Inquiry has highlighted is CHP scale. In the absence of large capital investments of the past, like NRAS and SHI, large-scale transfers are one of the only available means by which organisational scale economies and growth can be promoted.

In contemplating further public housing transfers as a potential means of growing capacity, CHPs (and their lenders) need to consider whether the terms on offer are acceptable. In particular, they need to be confident that associated risks can be borne and that ‘long lease’ contracts are not so tightly drawn by governments as to proscribe any innovation or creativity in managing the portfolio. If, as might be expected, governments in future seek to incorporate within transfer contracts more tightly-defined CHP investment and/or non-landlord service provision obligations, this might be tolerable where other uncertainties can be reduced. For example, through:

- transfer of title
- transfer of leasehold interests with security of tenure (restricted grounds and processes for termination)
- income guarantees that mitigate the risk of future welfare benefit cuts.
Otherwise, if these are available, CHPs might be well-advised to give priority to other growth strategies such as involvement in estate renewal projects—as under the NSW Communities Plus program (see above), where the end result may involve CHPs managing (if not owning) newly built homes set within mixed-tenure developments. Similarly, if ‘inclusionary zoning’ for affordable rental housing takes hold on an appreciable scale—as recently proposed in NSW (Greater Sydney Commission 2016)—CHPs operating in relevant areas might see this as a preferable strategic direction.

5.5 Future directions

Fundamental reform of public housing in Australia is long overdue. As quipped by some interviewees during our research, the system is currently on life support.

Well-designed and planned diversification of the public housing system has the potential to generate the benefits of competition, innovation and customer service improvements that are widely claimed for contestable multi-provider models, while ensuring public accountability through national regulation. However, this area of human service provision has lagged well behind other human service areas.

Continued neglect of deteriorating public housing is going to come at a cost in the medium and longer term. We therefore reiterate our 2013 report conclusions that there is a need to rekindle the concerted and focused political leadership and policy effort that briefly flared in the 2007–10 era. The possible impending NAHA re-negotiation might form a vehicle for progressing this. One key issue to be revisited here would be the ‘35 per cent target’ for the community housing share of all social housing. If there is continuing commitment to transfer as a strategy for resolving the problems of public housing and/or enhancing the operation of the social housing system, then an increase in this aspiration to 50 per cent (e.g. to be achieved by 2025) would be an obviously arguable proposition. However, no such target will have significant value without a clear implementation plan involving a coordinated approach engaging both main levels of government as well as the (non-government) affordable housing industry. Complementary reforms necessarily included as part of such a strategy should include:

- Revamped social housing regulation—see detailed discussion in other Inquiry report (Milligan, Pawson et al. forthcoming).
- Endorsement of preferred management/ownership models—registered CHPs, ALMOs.
- Strong tenant/consumer engagement at the outset—even if not to facilitate ‘choice’, then to assure of rights and expectations.
- Minimum adequate housing standard.
- A specialist agency to lead and drive change (independent of state housing authorities).
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## Appendix 1: Key stakeholder interview topic guide

<table>
<thead>
<tr>
<th>1. Background</th>
<th>State treasury official</th>
<th>State housing policy-maker</th>
<th>CHP</th>
<th>Third party stakeholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. How was the transfer program conceived? When was it first proposed/known to you?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>b. What drove the decision to transfer?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>c. How and why were the particular parcels of housing for transfer selected?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>d. How does the housing for transfer compare with the overall State Government housing portfolio in terms of (a) property age and type, (b) condition and/or outstanding repair needs, (c) tenant profile?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>e. Is this transfer program novel or distinctive in the local or national context? (e.g. in terms of process, scale, objectives, financing, risk transfer)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>f. Which non-government organisations, stakeholder groups or advisory bodies (including the CH industry) influenced the content of the transfer program? In what ways?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<table>
<thead>
<tr>
<th>2. Transfer objectives</th>
<th>State treasury official</th>
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</tr>
</thead>
<tbody>
<tr>
<td>a. What were/are the objectives of the transfer program? Where are they set out? Which are the most important?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>b. How were the objectives devised? Did they change as the program was implemented?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>c. How ambitious or realistic are the objectives?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>d. How is the success of the transfer in meeting objectives (to be) measured or assessed? What are the indicators and corresponding performance targets? How are these monitored/regulated?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>e. Has the successor CHP committed to adding value over and above the State Government's objectives?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
### 3. Successor landlord selection

| a. What was the State Government’s thinking about the type of successor landlord required (e.g. CHP vs private company; existing CHP vs purpose-created entity; local vs interstate CHP)? How did ‘capacity’ considerations figure in this? How was this reflected in the program design and transfer process? | ☑ | ☑ |
| b. Was the selection process competitive? | ☑ | ☑ | ☑ |
| c. Were there any specific capacity-building activities or transition arrangements associated with the transfer? | ☑ | ☑ | ☑ |
| d. What costs have been incurred by the State Government and CHP(s) involved in the transfer program? What if any work has been done to quantify these? | ☑ | ☑ | ☑ |
| e. What new understandings about ‘industry capacity’ were revealed through the selection process? | ☑ | ☑ | ☑ |

### 4. Transfer terms

| a. What considerations influenced the decision to transfer management functions (rather than title) and the duration and staging of the lease/contract? | ☑ | ☑ | ☑ |
| b. To make the transfer business plan viable, was it necessary to provide for activities other than conventional social housing (e.g. transfer of assets such as developable sites; allowing for a % of moderate-income tenants)? | ☑ | ☑ | ☑ |
| c. How were recipient landlord asset management liabilities determined (e.g. stock condition survey, external surveyor input etc.)? Are the property condition standards applicable to the transferred stock clear? | ☑ | ☑ | ☑ |
| d. What provision is made in the transfer contract for post-transfer ‘portfolio reconfiguration’ desired by the recipient CHP (e.g. disposal of ‘expensive to maintain’ properties; redevelopment of under-utilised sites)? | ☑ | ☑ | ☑ |
| e. What conditions apply to the transferred stock in relation to (i) allocation rules; (ii) length of tenancy/expiring tenancy review procedures; (iii) other housing management policies and procedures? | ☑ | ☑ | ☑ |
f. What is the division of responsibilities between State Government and successor CHP(s) in terms of (a) repairs and maintenance to dwellings; (b) repairs and maintenance to common areas; (c) local government rates; d) insurance?  

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g. What are the provisions for (i) management outsourced property redevelopment; and (ii) new development of transferred sites?  

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h. What are the pros and cons of the division of responsibilities as currently operated?  

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i. What are the implications of the transfer for those existing public housing staff who were directly impacted? How was the transfer proposal viewed by the staff concerned?  

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j. How have the implications for staff been negotiated between the State Government, staff and the successor landlord(s)? To what extent are recipient CHPs required to take on associated financial liabilities (e.g. long service leave and superannuation)?  

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k. What aspects of business risk are transferred to the recipient CHP and what aspects retained by the State Government?  

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l. What scope is there for renegotiation of the transfer agreement (e.g. because of unexpected events)?  

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m. Who is responsible for monitoring and managing the transfer program? What is the process (e.g. regular meetings and reports)?  

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5. Tenant considerations  

a. What undertakings were made to tenants about implications for tenancy rights, rents, dwelling transfers, property upgrades, succession of tenancy, etc.?  

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b. In what ways were tenants consulted about the proposed transfer—individually or collectively?  

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c. What choices or options (if any) were open to tenants?  

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d. Did the transfer proposal trigger critical responses or active opposition? How were such interventions addressed?  

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<tr>
<td>e. Did the transfer process involve tenant or community capacity-building?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>f. What are/will be the consequences of the transfer for tenants, in terms of landlord services (how is the CHP service different)?</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</table>

6. Assessment

a. How well are the transfer projects progressing in relation to their stated objectives and business plans? ✓ ✓ ✓ ✓ ✓
b. In what ways and for what reasons are transfer projects diverging from business plan assumptions? ✓ ✓ ✓ ✓
c. What do you think has been the impact of the transfer for tenant satisfaction? ✓ ✓ ✓ ✓
d. What have been the consequences of the transfer for any ex-public housing staff and CHP staff? ✓ ✓ ✓ ✓
e. What unforeseen problems have needed to be addressed (e.g. unexpected liabilities)? ✓ ✓ ✓ ✓
f. How might the model and processes of this transfer program inform future programs? In what ways would the model need to be modified? ✓ ✓ ✓
g. What lessons were learnt in terms of the transfer process (e.g. timeframes for selecting a successor landlord and effecting transfer)? ✓ ✓ ✓
h. What are the lessons learned in terms of: (a) industry capacity; and (b) successor CHP capacity? ✓ ✓ ✓ ✓
i. What are the prospects for future stock transfers in this state? What form might future transfers take and how would industry capacity considerations affect this? ✓ ✓ ✓ ✓
Appendix 2: Assessment of public housing transfer viability: key variables incorporated in financial modelling

This appendix details the ‘baseline scenario’ values assigned to each of the key variables incorporated in the financial modelling of transfer viability undertaken on behalf of the research team by the Sphere Company (see Chapter 4).

- Rental income: A baseline scenario figure of $120 per week is allowed. While there is no nationally published data to provide a suitable benchmark, we can refer to NSW public housing accounts showing average rental charges (net of water rate contributions) of $127 in 2013/14 (Sphere Company 2014). Partly to reflect what are likely to be relatively high market rents (payable by a small proportion of public housing tenants) in NSW, a slightly lower figure has been assumed in our modelling because this is intended to describe the ‘typical’ situation of social housing across Australia.

- Rent Assistance income: A baseline scenario figure of $57.50 per week has been allowed here, based on the Sphere Company’s experience that the average ‘per transferred tenancy’ figure usually lies within the realm $55–60. Importantly, these figures allow for both the CRA rates typically payable to eligible CHP tenants and for the incidence of CRA eligibility among the cohort.

- Management expenditure: A figure of $2,000 per dwelling per year has been allowed to cover what are largely salary costs associated with tenancy management, property management (not including repair works) and other landlord-associated activities such as tenant support and community development. A reference point here is our recent AHURI research, focusing on six larger CHPs, which reported mean annual management expenditure per dwelling of $2,671 (Pawson, Milligan et al. 2015). A slightly lower figure is allowed here to recognise the economies of scale (theoretically) associated with expanding a CHP’s managed portfolio via transfer. In other words, the resources involved in managing additional dwellings should properly reflect the associated marginal cost rather than the whole-of-portfolio average cost.

- Routine repairs and cyclical maintenance expenditure: Again, in the absence of national published data, a reference point is the 2013/14 published accounts for NSW public housing. These indicated repairs and maintenance costs equating to 0.6 per cent of building value and lifecycle maintenance costs have been assumed to be 0.8 per cent of building value. For our purposes we have again factored in slightly lower figures (0.5% and 0.7%, respectively) on the assumption that public housing portfolios in other jurisdictions may have been somewhat better maintained than in NSW. One basis for such an assumption is the survey evidence showing the proportion of NSW public housing in satisfactory condition as significantly below the national norm (Productivity Commission 2016: Table 17A.15). Since the model factors in an average social sector dwelling value (building only) of $200,000, the annual cash amount factored in for responsive repairs is $1,000 and for cyclical maintenance $1,400.

- Other landlord costs: Drawing on the Sphere Company’s experience of contributing to public housing transfer proposals, the model allows $1,000 per year for council rates, $1,000 per year for property insurance and $650 per year for net water rates. It should be noted that no allowance for council rate discounts has been factored into the calculations.

- Rent loss associated with vacant dwellings and uncollectable rent arrears: An allowance of 3.5 per cent of rental income due is factored in here—once again drawing on Sphere Company experience.

Key financial assumptions factored into the modelling include the following.
• The ability to raise debt secured against cash flow—in line with the new understanding that a secure income stream obviates the need for asset ownership as loan security, no Loan to Value hurdle is imposed.

• Debt incurred at 6 per cent interest for a term of 20 years—this reflects the emergence of 20-year transfer contracts and the understanding that this will condition lender amortisation requirements.

• All additional dwellings generated under CHP ownership designated as ‘affordable housing’ rather than ‘social housing’ (thus generating higher rental income—see below).

• Affordable housing rents set at 75 per cent of market rents—this recognises that to maintain charitable status, CHPs must charge less than 74.9 per cent of market rents.

The model also incorporates the possibility of replacing a small fraction of the transferred former public housing stock—and factors in an assumption that it will be possible to build three replacement homes on the site of one demolished home.
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