

Financial outcomes of Community Housing Organisations

COMMUNITY HOUSING ORGANISATIONS IN AUSTRALIA RECORDED A SURPLUS IN THE THREE YEARS TO 2005-06. TO ACHIEVE LOW COSTS, MANY USED VOLUNTARY LABOUR, RECEIVED DISCOUNTED RATES, AND DID NOT PROVIDE FOR DEPRECIATION.

KEY POINTS

- A sample of Australian Community Housing Organisations (CHOs) recorded an average surplus (before depreciation, interest and grants) of \$805 per dwelling in 2005-06, reflecting higher revenues than expenses and the contribution of government rebates.
- This compares favourably with the outcome for public housing where a deficit of \$181 per dwelling was recorded in the same period. It is also an improvement in outcome in real terms within the sector since 2003-04 (when the surplus was \$276 per dwelling in 2006 dollar terms).
- Net interest earnings boosted the financial outcomes of Community Housing Organisations such that after interest and depreciation and grants were counted, the average surplus was almost \$1700 per dwelling (or approximately 8 per cent of operating income).
- The better financial result compared to public housing reflects lower cost provisions for depreciation, maintenance, asset replacement and management functions. Many CHOs appear to survive financially by depending on voluntary labour and both hidden and explicit subsidies from state and local government. If all of the costs faced by public housing were faced by Community Housing Organisations,

*This bulletin is based on research by **Dr Jon Hall** and **Professor Mike Berry** of the AHURI RMIT Research Centre. The research analysed the financial records of eighteen community housing organisations and explored how such organisations might be able to address their financial status.*

the majority would be experiencing substantial operating deficits.

- The financial position of the sector is not linked to the impact of non-housing support costs for tenants with complex and special needs.
- The lack of an adequate funding base and limited sector capacity is placing severe constraints on the potential for the sector to expand under existing policy settings. Maintenance of affordable rents in the community sector will require any substantial expansion of the sector to be achieved by stock transfers and substantially increasing subsidies, or by significant capital injections, such as those initiatives recently committed by the Victorian Government's 'Growth Fund' complemented by the Commonwealth Government's National Rental Affordability Scheme.

POLICY CONTEXT

Together with public housing, Community Housing Organisations are a major source of social housing in Australia. Community housing in Australia is distinguished from public housing in a number of important ways: its organisations are generally small scale (88 per cent have less than 50 dwellings under their management), it depends on voluntary labour and often lacks sufficient resources for professional housing management. In many places it has ageing stock. However, in recent times, in a number of states, community housing has been the subject of recent substantial revitalisation (e.g. in Queensland the 'One Social Housing System' was introduced in 2006 enabling Community Housing Organisations to access clients off the same waiting list system as for public housing) and additional resourcing (e.g. in NSW the sector doubled in the period 1997 to 2007 to 13,000 dwellings under community management).

The Rudd Federal Government has moved to introduce a National Rental Affordability Scheme (NRAS), which will provide a subsidy flow that may encourage Community Housing Organisations to substantially expand provision. Indeed, judging by international comparisons, this policy initiative is unlikely to succeed unless non-profit housing providers are centrally involved. This prospect raises the importance of increasing the scale and

operating efficiency of the community housing sector throughout Australia.

Previous AHURI research (Project 30359, Operating Deficits in Public housing, 2005-06 update) discovered that Public Housing Organisations in every state (bar two) faced operating financial deficits. The intent of this project was to examine the financial operating situation of this sector, to compare its outcomes with the public sector, and to consider ways in which policy-makers and Community Housing Organisations might address its financial sustainability.

METHOD

Detailed data on costs and revenues were gathered from a sample of Community Housing Organisations (CHOs) across Australia. This approach followed a similar method to that used by the researchers in two earlier Australian studies into the financial operating performance of public housing and Indigenous community housing providers. The data were gathered through spreadsheets and questionnaires distributed to selected CHAs with the assistance of relevant community housing peak organisations.

Due to the uneven size and capacities of individual CHAs, it was not possible to achieve a random sample in each state and territory or (in some cases) complete data returns, as originally intended. This entailed changing from a random sampling method to a purposive sampling method and from a 'complete data set' to a 'best available data set' approach.

The sample that was finally obtained is only representative in Queensland and South Australia; hence the analysis is confined to these states and the averages for Australia as a whole. The total number of organisations responding was 18: six from South Australia, five from Queensland, four from NSW, two from Victoria, and one from Tasmania. The financial item definitions and method of quantification and analysis is the exactly the same as that conducted for public housing in the AHURI Operating Deficits project 2005/06. The data in this study can, therefore, be directly compared to the 2005/06 results for public housing.

KEY FINDINGS

Figure 1 shows that in real terms, the surplus before interest and depreciation for this sample of Community Housing Organisations increased over the three years studied from \$276 per dwelling in 2003-04 to \$805 per dwelling in 2005-06. Net rents increased significantly over this period (with rebates per dwelling increasing from \$793 in 2003/04 to \$2,425 in 2005/06). Net grants and subsidies have also increased very rapidly, from just over \$198 to almost \$370 per annum (in June 2006 dollar terms).

While the overall outcomes suggest financial solvency, it should be noted that there was variation within the sample – for example, in South Australia the surplus was as high as \$1,225 per dwelling, but in Queensland they recorded a deficit of \$135 per dwelling.

Table 1 provides a comparison between incomes and expenditures per dwelling in both community and public housing. It suggests that, compared to public housing, rents and net average incomes are lower in community housing, but the expenses – especially in terms of rates and overhead – are also lower. Community housing in 2005-06 recorded a surplus between income and expenditure (not counting depreciation, interest and grants) of \$805 per dwelling. This compared to a net deficit of \$181 per dwelling in public housing. Whereas community housing further improves its net surplus (to \$1,320 per dwelling) because of interest earnings and low rates of depreciation, the opposite occurs in public housing (the deficit widens to \$2,230 per dwelling). Grants in community housing bring up the surplus in that sector to an average of \$1,690 per dwelling.

Overall, average total operating revenues (rent plus other income) reflect the move to similar targeting and rent charging policies, with average operating revenues for the sample of Community Housing Organisations being approximately three per cent less across Australia, respectively, than for public housing.

The situation is more complex on the expenditure side. Operating costs are lower in the community housing sector compared to public housing for the following main reasons:

- Use of voluntary labour: The research found that

use of voluntary labour is still extensive for both cooperatives and associations in a range of states. While the extent of the savings to CHOs is difficult to quantify, it is extensive (e.g. one CHO estimated that use of volunteers may be responsible for saving up to 20 per cent of total maintenance expenditure). Moreover, volunteers are used not only in maintenance but also in core housing management functions.

- Rate concessions: Rates expenditure per dwelling in the sample of Community Housing Organisations is 64 per cent lower compared to public housing. In many states, Local Authorities provide substantial concessional rates to charitable and not-for-profit organisations, and many community housing organisations are obtaining these concessions.
- Non-quantified state subsidies: The analysis isolated and stripped out any subsidies received by Community Housing Organisations for assistance with their operations. However in some jurisdictions, while the organisation may not have received a direct cash payment, the cost of certain expenditures may have been met by state agencies (e.g. some structural maintenance expenditures of Community Housing organisations in New South Wales are met by the NSW Department of Housing).
- Cost of capital: Only a few Community Housing Organisations sampled have any debt related to the provision of the stock or make provision in their accounts for the capital cost of dwellings. Operating expenditures of CHOs, therefore, contain no servicing cost for the capital employed, such as interest payments on loans originally obtained to purchase dwellings.
- Provisioning of asset replacement: Similar to the cost of capital, only one CHO in this sample made any provision for asset replacement through depreciation.

If all of the costs faced by public housing were faced by community housing organisations, the majority would be experiencing substantial operating deficits.

FIGURE 1: COMMUNITY HOUSING ORGANISATIONS — REAL AVERAGE OPERATING SURPLUSES/ DEFICITS PER DWELLING: 2003/04–2005/06 (JUNE 2006 DOLLARS)

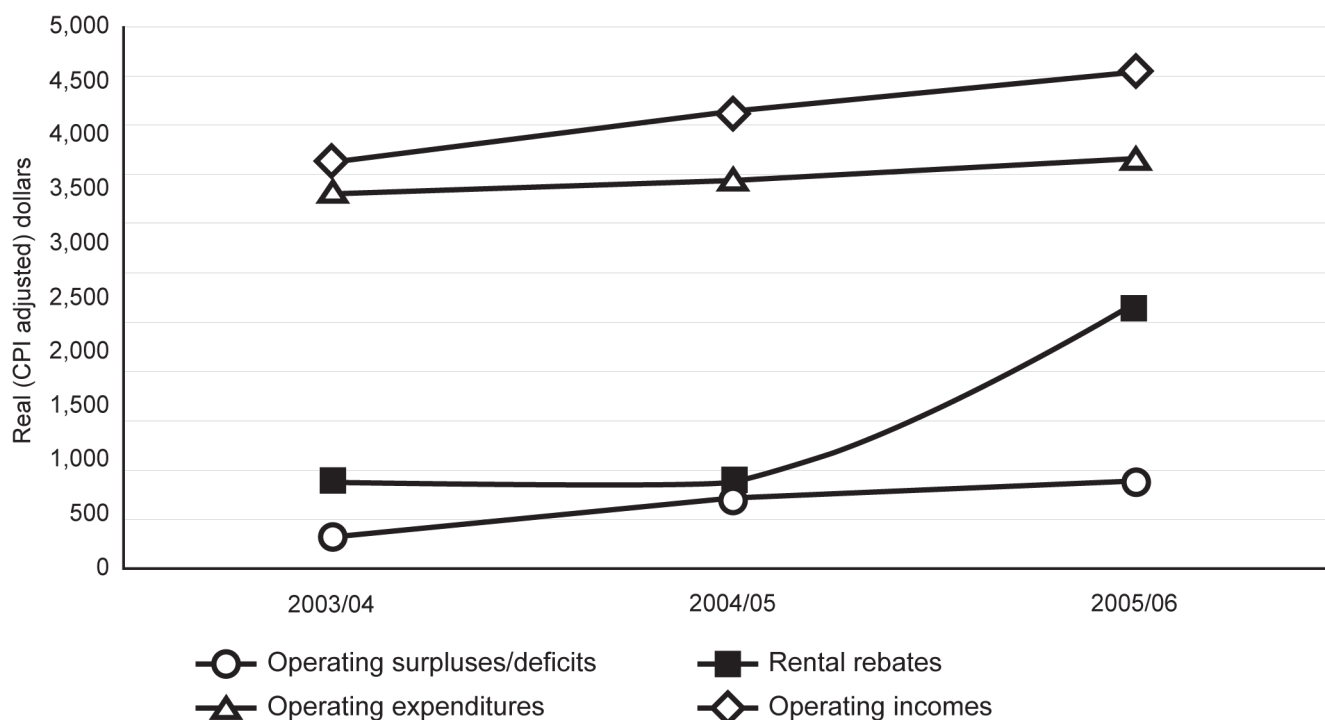


TABLE 1: FINANCIAL POSITION OF COMMUNITY HOUSING AND PUBLIC HOUSING 2005-06 (DOLLARS PER DWELLING)

	Community housing sample (18 organisations)	Public housing organisations (8 Australian organisations)
Income		
<i>Average net income</i>	\$4,601	\$4,725
Expenditure		
Maintenance	\$1,321	\$1,894
Rates	\$684	\$1,900
Overheads (including staff costs)	\$1,759	\$2,212
<i>Average expenditure</i>	\$3,796	\$5,112
Surplus/Deficit		
Before interest and depreciation	\$805	-\$181
After interest and depreciation	\$515	-\$2,049
<i>Interest and depreciation</i>	\$1,320	-\$2,230

Is community housing expenditure for maintenance too low?

There is also strong evidence that CHOs were facing major maintenance problems. Over 90 per cent of respondents indicated concerns with the age of their stock and all of them suggested that upgrading was required for between 50 per cent and 15 per cent of their stock.

Average maintenance expenditure in 2005/06 by respondents was 30 per cent less than the average for public housing. The average maintenance expenditure per dwelling in community housing is less than one per cent of its asset value – well below a life-cycle costing benchmark commonly used by public housing asset managers of between 1.5 per cent and two per cent of asset value per annum. Coupled with the absence of depreciation provisioning, for this sample at least, some of the assets must be degrading.

The low costs do not appear to be related to a lower proportion of people with complex or special needs. CHOs were asked to nominate the proportion of their total overhead expenditure that is applied to non-housing support services for clients. Without exception, respondents indicated that expenditure on non-housing support services is minimal, absorbing between one per cent and three per cent of overhead costs. Increasing the proportion of people in such a category would not lead to a significantly high increase in such costs.

POLICY IMPLICATIONS

Community Housing Organisations are able to maintain solvency by taking advantage of a number of cost savings, including lower salaries, rates, and by not having to book interest costs associated with debt or depreciation.

The current negotiation of the National Affordable Housing Agreement (NAHA), intended to supplant the long-standing Commonwealth State Housing Agreement, offers a timely vehicle for addressing some of the issues raised by this study. The funding arrangements affecting community housing could focus on three streams:

- specific payments to CHOs to build housing management capacity and effectiveness

- specific recurrent grants to redress identified maintenance backlogs
- a capital program focused on redevelopment and expansion of the existing stock; this could be complemented by the NRAS program leveraging private investment into developments involving the community housing sector.

The balance between the program components and funding commitments across the levels of government could be part of tripartite negotiations between the community housing sector, State Housing Authorities and the Commonwealth, where issues related to delivery arrangements, accountability, etc. could be resolved within the NAHA framework.

The Commonwealth could also consider funding a nation-wide survey of stock condition in the community housing sector with the aim of estimating the costs of bringing all stock to an appropriate standard. Such an investigation could be carried out under the supervision of relevant state housing and state peak Community Housing Organisations in each jurisdiction. This would provide a firmer basis on which to fund, over time, the maintenance backlog, and establish an effective life-cycle maintenance approach.

This study found that, if community housing tenant profiles remained constant, simply transferring ownership of assets from public housing authorities to CHOs would not provide a sufficient resource base to significantly expand the community housing sector through capital borrowings, assuming that maintenance and management costs were adequately met and rents were charged at 25 per cent of income. Even factoring in the receipt of Commonwealth Rent Assistance at maximum rates, would allow only a modest expansion of the existing stock across Australia by between six and nine per cent.

In summary, maintenance of affordable rents in the community sector will require any substantial expansion of the sector to be achieved by stock transfers and substantially increasing subsidies, or by significant capital injections, such as those initiatives recently committed by the Victorian Government's 'Growth Fund' complemented by the Commonwealth Government's National Rental Affordability Scheme.

FURTHER INFORMATION

This bulletin is based on AHURI project 30355, *Operating deficits and Community Housing: policy options for reversing the trend*.

Further information on a similar topic can be found at AHURI report 30359, *Operating deficits and Public Housing: policy options for reversing the trend 2005-06 update*.

The Final Reports for these projects can be found on the AHURI website: www.ahuri.edu.au

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ACKNOWLEDGMENTS This material was produced with funding from Australian Government and the Australian States and Territories, AHURI Ltd acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

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