

THE NATIONAL AFFORDABLE HOUSING SUMMIT

**Australian Council of Social Service
Community Housing Federation of Australia
National Shelter**

**Australian Council of Trade Unions
Housing Industry Association**

Round Tables on a National Affordable Housing Agreement

Background Paper 4

Finance Issues

July 2008

**ACTIVITIES OF THE SUMMIT GROUP ARE SPONSORED PRINCIPALLY BY
MEMBERS EQUITY BANK MECU LIMITED BROTHERHOOD OF ST LAURENCE
AUSTRALIAN GOVERNMENT HOUSING INDUSTRY ASSOCIATION**

Other Key Sponsors Include

**Community Housing Federation Mission Australia National Shelter
South Australian Government Victorian Government**

This Background Paper comprises two Parts, each written by a separate consultant in relation to aspects of possible financing arrangements for registered housing under the National Affordable Housing Agreement. The papers have been prepared on an independent basis to help provide information and stimulate discussion. They do not necessarily represent views of any members of the Summit group.

PART 1

Background

One of the proposals arising from the National Affordable Housing Summit (NAHS) concerns new arrangements for financing public and non-profit housing. Specifically the NAHS calls for a National Affordable Housing Agreement which should...

... boost the supply of low-rent housing by establishing a new Capital Grants Program which is earmarked solely for building or buying additional government and non-profit housing rather than for operating subsidies.

... create a separate Recurrent Subsidies Program under which the Commonwealth makes payments to public housing providers which are equivalent in value to Commonwealth Rent Assistance for each of their dwellings, based on market rents, and also makes appropriate payments to non-profit providers.

... provide for Commonwealth expenditure under these new programs to be matched by the States in an agreed ratio, replacing the current system of matched grants under the Commonwealth-State Housing Agreement (CSHA).

This note outlines an approach to implementing these recommendations.

Considerations

A number of background issues need to be taken into account when framing new models and mechanisms for financing public and non-profit housing.

- The current system is opaque; it has proven difficult to judge the relative efficiency of public housing and non-profit providers.
- Nevertheless, it is likely that the principal reason why many social housing providers are on the margins of viability relates to the tight targeting of this housing to very low income / high cost tenants. This tight targeting is justifiable and, indeed appropriate, where poverty alleviation is a pressing need. The inability to generate reasonable operating surpluses means that many such corporations must 'cannibalise' their existing asset base to stay afloat, notwithstanding the availability of continuing grants under the CSHA.
- Approaches to improving net stock yield from available public funding must take into account:
 - any advantage gained in targeting the stock in question to households with a greater capacity to pay; and
 - any trade off of long term stock acquisition for a near term boost in stock availability achieved through various forms of leasing.
- Any reform of the CSHA should avoid the creation of a dual social housing system, with social, environmental and economic outcomes in newly acquired public housing stock sharply differentiated from those in older stock

Principles

The high level principles to guide the design of a new funding regime for social housing might include the following:

- *Subsidiarity*: The funding arrangements should avoid confusion in the respective roles of the Commonwealth and the States/Territories and should establish clear lines of community accountability for performance in the delivery of social housing. The role of the Commonwealth is to establish national performance goals and jurisdiction specific targets, and to provide reasonable funding to support achievement of these outcomes. The States and Territories should be free to devise their own strategies for delivering these outcomes on the ground. The States and Territories should be accountable for these defined outcomes, not for the delivery process per se (as per the Building Better Cities funding model).
- *Sustainability*: Social housing stock generated via the Agreement should be sustainable in every respect. It should achieve high standards of environmental performance (energy use / GHG emissions etc); provide residents with good access to health and education services as well as opportunities to engage in employment and the cultural life of their communities; and contribute to the achievement of preferred settlement patterns as identified through metropolitan planning strategies and the like. All social housing stock should progressively be brought up to these standards, not just newly acquired stock.

- *Targeting, transparency and fairness:* Within the bounds of socially sustainable outcomes, scarce social housing opportunities should be allocated to those who need them most.
- *Commercial discipline:* Publicly accountable commercial disciplines should be applied in the delivery of social housing. Organisations providing these services should be corporatised and required to produce all the usual market/shareholder reports on financial performance and prospects. They should be required to meet commercially relevant rates of return on assets deployed albeit that transparent Community Service Obligation (CSO) payments will be necessary to achieve these outcomes. These Corporations should be subject to independent prudential supervision.
- *Contestability:* The funding pool made available by the Commonwealth and States/Territories for both capital and recurrent funding for social housing should be open to new entrants. These could include not for profit housing associations, private sector initiated social housing corporations and social housing businesses generated from the break up of existing public housing organizations.

Mechanisms and Processes

1. Via COAG or similar, the Commonwealth would offer the States / Territories additional **untied** grants under the auspices of a new National Affordable Housing Agreement provided that the States commit to:
 - reforming local legislation to enable a contestable market for the delivery of social housing, including the corporatisation of public housing providers;
 - comply with a national regime for independent registration and prudential supervision of social housing providers, including public housing corporations¹.
2. In accepting additional untied grants under the Agreement, participating States / Territories would formally contract with the Commonwealth to meet specific outcomes over, say, a 5 year Agreement term, but with mutually agreed annual targets. These outcomes could cover:
 - the **net addition** to social housing stock numbers to be delivered over the contract period;
 - the **mix of housing stock** to be achieved by the end of the contract period (i.e. mix of unit size, location and type);
 - improvement in the **social sustainability** aspects of the stock by the end of the contract period (social inclusion, proportion of social housing in employment rich areas etc);
 - improvement in the **environmental sustainability** aspects of the stock by the end of the contract period (energy ratings, car dependence etc);
 - alignment of stock acquisition and redevelopment with the **urban consolidation** and **economic development** strategies adopted for the host region achieved by the end of the contract period; and
 - the extent of **alleviation of measured housing stress** amongst very low income households achieved by the end of the contract period.
3. As part of the negotiations around this contract, the States / Territories would put a proposition to the Commonwealth regarding the amount of untied funding required for delivery of the nominated 5 year outcomes and annual milestones.
4. Once the outcome measures and funding amounts are agreed, the States / Territories would deploy the funding as they see fit, but would face the prospect of withheld (or reduced) future payments under the agreement if they fail to meet targets. The Commonwealth would rely on advice from the national registrar of social housing providers as to whether funds should be withheld from the non-performing State / Territory.
5. The States would capitalize their social housing providers as per local priorities, and provide CSO payments as appropriate. Commercially derived dividends would be expected from Government owned social housing providers (with the expectation that the dividends would be effectively recycled back into the social housing funding pool). The States would monitor the efficiency / performance of all social housing providers within their jurisdiction, with advice and sector wide data from the national registrar of social housing providers.

PART 2

Background

1. In June 2007, a coalition of industry bodies, community groups and unions released a *Call for Action* on housing affordability, which included eight proposals to improve housing affordability. Proposal 4 of the *Call for Action* was to boost the supply of low-rent housing by establishing

- a new Capital Grants Program (CGP) earmarked solely for building or buying additional government and non-profit housing.
- a separate Recurrent Subsidies Program (RSP) providing operating subsidy to affordable housing providers.

2. These programs would replace the Commonwealth State Housing Agreement (CSHA), which was established in 1945 to fund the creation of public rental stock to address an estimated shortage of 300,000 dwellings across Australia. Under the 1945 CSHA the Commonwealth providing loan funding for the construction of new dwellings, and the States were responsible for service delivery.¹¹ Since 1945 there have been a number of major changes to the CSHA, including:

- a shift in focus from public housing towards first home ownership and later towards management by non-profit organisations,
- an increasing emphasis on 'targeting' those most in need, i.e. people on the lowest incomes and/or in specific target groups,
- the introduction of formal State matching requirements, and
- a shift from loan funding to grant funding.

3. Another major change often remains unidentified, as it has emerged by accident rather than been introduced by design. This is an implicit change in the *de facto* use of CSHA funds, away from the original purpose of capital funding for stock expansion and increasingly towards funding growing operating deficits faced by social housing providers. These deficits can be linked directly to the increased emphasis on 'targeting' public housing to those most in need, which has meant both lower rental income and higher management costs.¹²

4. However, in a number of jurisdictions, the current level of CSHA funds is now insufficient to fully fund these operating deficits. Some jurisdictions have responded by providing additional capital funding for affordable housing outside of the CSHA, while in other jurisdictions the response has been to sell off stock. The net result has been a reduction in the number of social housing dwellings and a significant maintenance backlog in a number of jurisdictions.

5. Proposal 4 of the *Call for Action* can thus be viewed as explicitly recognising and funding the operating deficit faced by social housing providers through an RSP, whilst at the same time creating a CGP to generate growth in the social housing sector – i.e. the original purpose of the CSHA. However, this separation of funding streams introduces the need to address a number of issues associated with the directing the resulting incentive streams for affordable housing providers. These issues are discussed below, and a number of bold statements are provided with the purpose to elicit discussion rather than provide final answers.

Recurrent Subsidies – Eligibility

6. Recurrent subsidies could be made available to a range of housing providers, including SHAs, community housing providers, non-profit affordable housing companies and for-profit affordable housing providers.

The following table summarises four key differences between these types of housing providers:

- community housing providers and non-profit housing companies are usually charities, and exempt from GST, reducing housing construction costs,
- community housing and non-profit housing company tenants are eligible for Commonwealth Rent Assistance (CRA), increasing rental income; for-profit providers might be eligible for CRA depending on the terms of an RSP,
- SHAs do not have access to private capital, the three other types of provider do, and
- rents charged by community and public housing providers are set as a proportion of tenant income, whereas this is not necessarily the case with housing companies.

	State Housing Authority	Community Housing	Non-Profit Housing Companies	For-Profit Affordable Housing Providers
Exempt from GST	No	Yes	Yes	No
Tenants eligible for CRA	No	Yes	Yes	?
Access to private capital	No	Yes	Yes	Yes
Non-income related rent	No	No	Yes	Yes

7. In general terms, it is desirable that an RSP include all of the above housing providers. Casting the net as widely as possible maximises the amount of variety generated by the system, and therefore the number of options available to housing consumers. However, in order for this to be acceptable to Government funding agencies, non-government affordable housing providers would need to address issues in two areas.

- Accessibility: in most jurisdictions there is no common access point for non-government housing providers. As a result, a number of prospective tenants have experienced difficulties in identifying and accessing such housing.
- Standards: unlike public housing providers, non-government affordable housing providers do not have independent appeals mechanisms, and there are no minimum standards for tenancy management and maintenance.

Bold Statements

S1. The affordable housing system would benefit from including a range of non- government affordable housing providers in the recurrent subsidy program.

S2. Providers should only be eligible for RSP subsidies if they meet minimum national standards covering issues such as accountability, accessibility, tenancy management, maintenance and appeals mechanisms.

Recurrent Subsidies – Level

8. Economic theory suggests that the efficient level of recurrent subsidies is equal to the gap between market rents and subsidised rents. However, in practice there are a number of issues associated with implementing this approach. For instance:

- Market rent levels vary substantially at the jurisdictional, regional, and sub-regional levels. There are practical difficulties involved with having a system of differentiated subsidies below the national level.
- A number of sub-regions, including for instance many mining centres and remote Aboriginal communities, have no, very limited or highly distorted rental housing markets. This would make it very difficult to accurately calculate the appropriate level of recurrent subsidy in these sub-regions.
- Market rents can vary considerably over relatively short periods of time, putting strain on bureaucratic resources to constantly re-calculate subsidy levels.

9. Another approach that has been suggested in view of these difficulties is to set recurrent subsidy levels equal to CRA levels. The main attractions of the ‘CRA method’ are that it would be administratively straightforward to implement, and that average CRA levels are roughly equal to the average operating deficit per dwelling of SHAs. In addition, this approach resolves an issue of policy inconsistency, in that public housing tenants are currently ineligible for CRA, while tenants in all other forms of rental housing are eligible.

10. At the same time, however, the ‘CRA method’ has some inherent problems:

- Community housing providers and non-profit housing companies will not benefit from this approach as their tenants are already eligible for CRA.
- Cost structures may change over time, potentially making CRA levels inadequate to meet the rent-cost gap faced by affordable housing providers. This is discussed further under “Replacement Costs” below.
- CRA is an open-ended subsidy, which could be unattractive to policy makers.
- CRA eligibility parameters and subsidy levels may change over time, or the program may cease to exist altogether, causing uncertainty for providers.
- CRA is a capped subsidy, which is proportionally smaller in high rent markets. However, high rent markets tend to be located in relatively job-rich areas. A CRA-based recurrent subsidy could therefore provide incentives for housing providers to locate stock away from expensive rental markets in relatively job-poor areas.

- The CRA 'threshold' rent below which tenants are not eligible for any assistance could give affordable housing providers an incentive to focus on higher income tenants. In combination with a continued targeting policy, this would involve providers focusing their housing on household types that bring in higher rent (e.g. aged pensioner couples), at the expense of other groups (e.g. young singles).

11. These problems can be overcome, but will require a careful redesigning of current CRA policy parameters. For instance, the impact of the CRA method on other types of housing providers could be increased by redesigning its policy parameters, for instance by introducing limited regional variations, reducing or eliminating 'threshold' rents, and / or increasing maximum subsidy levels.

Bold Statement

S3. CRA should be used as a basis to calculate recurrent subsidy levels, on the basis that its policy parameters are redesigned with a view to ensure that:

- a) the total RSP outlay is and continues to be sufficient for providers to meet all operational expenses and replacement costs from the subsidy plus rental income, and*
- b) providers face appropriate incentives regarding tenant selection and housing provision.*

Recurrent Subsidies – Implementation

12. Currently tenants of community housing and affordable housing providers are generally eligible to receive CRA. However, rent setting mechanisms vary considerably across providers, with some providers appropriating all CRA, others a proportion, and some not appropriating any CRA.

13. The proposed new system creates an opportunity to revise the system by paying RSP subsidies directly to affordable housing providers. Tenants would no longer receive CRA individually, but an equivalent amount would be paid to their housing provider on, say, a quarterly basis. This system has a number of advantages, including greater uniformity across providers, leading to more transparency for funding providers and equity for tenants. In addition, providers would face lower risks due to rental defaults.

14. The system could be simplified by 'deeming' RSP subsidies for a number of household types (e.g. single, couple with 3 children, pensioner couple, etc) across different locations (e.g. low/medium/high rent areas), rather than basing subsidies on actual rent charged. This would minimise the administrative requirements of the system, and have the added advantage of providing the same subsidy for housing a particular type of tenant in a particular location, irrespective of the way in which a provider happens to calculate the rent.

15. However, this approach does introduce an administrative problem due to the large number of affordable housing providers. For instance, there are 939 community housing providers funded under the CSHA,^{iv} and an additional 496 Indigenous Community Housing Providers.^v A solution would be to limit the introduction of direct lump sum payments to those providers who are eligible for both CGP grants and RSP subsidies.

16. All other providers would continue to operate their existing housing stock without change. Tenants of such providers would continue to receive CRA on an individual basis, and the provider could continue to appropriate or otherwise any CRA received.

Bold Statement

S4. Recurrent subsidy levels should be set at equivalent levels for all types of affordable housing providers by 'deeming' subsidy levels for a limited number of household types in a limited number of location types.

S5. Recurrent subsidies should be paid as a quarterly lump sum to affordable housing providers that are eligible for both CGP grants and RSP subsidies.

Capital Grants – Eligibility

17. A CGP could be made available to the same 4 types of affordable housing providers as an RSP. Broader eligibility would ensure greater variety of housing options. In addition to the issues listed above, expanding eligibility for a CGP beyond SHAs raises long term accountability issues. In particular, it would be essential to put in place mechanisms to ensure that any dwellings purchased with CGP funds continue to be available for low income housing consumers for an extended period of time.

18. This issue is particularly pressing for non-profit and for-profit affordable housing providers that do not relate rent to tenants' incomes but to market rent levels. Inclusion of these provider types in a CGP would require legally

binding agreements that specify, amongst others, the criteria for affordable housing and the minimum period of time dwellings purchased with CGP funds should meet these criteria.

Bold Statement

S6. All rental tenures and all types of affordable housing providers should be eligible for CGP funding, subject to the introduction of mechanisms that ensure that dwellings purchased with CGP funds continue to be available as affordable housing for low income housing consumers in the long term.

Capital Grants – Level

19. The total outlay of a CGP, as well as its distribution mechanism across jurisdictions, regions, housing types and types of housing providers, could be derived at in a number of ways, for instance:

- a simple dollar figure allocated across jurisdictions, regions, housing types and / or types of housing providers according to some formula,
- a simple dollar figure allocated across housing providers through a competitive tendering process,
- an annual dollar figure derived from a national target for affordable housing, e.g. a certain proportion of total housing stock at a certain date, or
- the sum of annual dollar figures from regional targets for affordable housing.

20. The nominal level of the total outlay and the level of a possible target are beyond the scope of this paper, as they are essentially a political issue. However, the design of the program should take into account incentive flow issues in three main areas:

21. Firstly, there are a number of issues related to the introduction of quantitative targets for housing stock. One issue is that, depending on the detail of the program, this approach could provide affordable housing providers with an incentive to meet targets by reducing the quality of their housing, e.g. located in job poor areas, cheap construction materials, etc. A second issue is how to deal with the impact of fluctuations in construction costs and housing prices on the ability of providers to meet set stock targets.

22. Secondly, a CGP provides an opportunity to introduce incentives for innovation in housing delivery. For instance, rather than fixed annual grants, a CGP could give providers an option to take out low interest loans of funds allocated for outyears in advance, or borrow at commercial rates against a guaranteed capital income stream.

23. Thirdly, a CGP provides an opportunity to introduce incentives for reducing workforce disincentives. For instance, higher grants could be available for the construction or acquisition of affordable housing in areas that are well connected to employment opportunities.

Bold Statements

S7. A CGP should be designed in such a way as to foster innovation, including multi-year commitments to specific providers.

S8. CGP levels should be linked to a long term target, with sufficient flexibility to allow for providers to deal with price fluctuations affecting housing delivery.

Who Funds What?

24. The CSHA is jointly funded by the Commonwealth and the States, while CRA is funded by the Commonwealth. A new program consisting of separate programs for recurrent subsidies and capital grants could be funded in an analogous way. However, the problems with this approach are well-known, and include attempted buck-passing during regular funding rounds. There are two alternative approaches:

- *Commonwealth to provide Capital Grants, States to provide Recurrent Subsidies*
This places effective control of all of the recurrent income streams for affordable housing, i.e. rental income and subsidies, in the control of State Governments, either directly via the SHA or indirectly via non-government housing providers. The Commonwealth would have a closed dollar commitment to the expansion of the system.
However, this system would give the States a disincentive to invest in capital growth of the affordable housing sector. In addition, it could compromise the ability of State Governments to respond to changes in demand, for instance by increasing supply in particular regions or for particular tenant types in response to changes in demand.

- *Commonwealth to provide Recurrent Subsidies, States to provide Capital Grants*

This approach has the political advantage that it would be easy to implement through an amended CRA program. Recurrent subsidies could either be paid via the tenant, as is currently the case with community housing, or as a lump sum directly to the provider.

In addition, this approach would encourage the States to increase growth funding outside of the CSHA, because any stock expansion would automatically produce increased Commonwealth subsidies through the RSP. On the other hand, the Commonwealth would face an open ended commitment.

25. Finally, it should be noted that it would be possible to design either approach in such a way as that the total outlays of the State and Commonwealth Governments remain roughly at their current levels, and – over time – at their current proportions.

Bold Statement

S9. The Commonwealth Government should fund recurrent subsidies using an amended CRA program, while the States should have responsibility for capital funding.

Replacement Costs

26. One key issue that arises from the separation of recurrent subsidies and capital grants is the question whether property replacement costs are part of recurrent or capital costs. In the current system this question is largely academic, as SHAs are effectively control both, and their performance can be measured by one key indicator, i.e. net additions to housing stock.

27. In a system where recurrent subsidies and capital grants are separated, however, the question of where replacement costs sit becomes acute because of the impact of this decision on the incentives faced by social housing providers. Broadly speaking, the separation between capital and recurrent funding could affect the ability of social housing providers to use asset management to respond to changes in demand.

28. The exact nature of the incentives faced by social housing providers regarding the replacement of their current stock and their asset management decisions depends on the detail of the capital and recurrent funding provisions. For instance:

- If dwelling replacement costs are funded through the CGP, affordable housing providers could have an incentive to over-specify the quality of the dwellings and subsequently under-spend on maintenance. This would reduce their operating costs, and the resultant increased cost due to the reduction in the expected lifespan of the dwelling will effectively be funded by capital grants.
- If dwelling replacement costs are funded through the RSP, affordable housing providers could have an incentive to under-specify the quality of replacement dwellings and over-spend on maintenance, partly in the hope that at least part of the increased operating costs will be funded by an RSP. More importantly, keeping sub-standard dwellings in service would allow providers to demonstrate greater net increases in stock and therefore receive more capital grants funding.

29. While both approaches have benefits and drawbacks in terms of incentives to housing providers, funding replacement costs through recurrent subsidies is elegant from an academic point of view and attractive from a political point of view, in that it would in principle allow recurrent subsidies to be set at a level where housing providers would fund the tenancy management, maintenance, asset management and replacement costs from recurrent funds and rental income streams.

Bold Statement

S10. Replacement costs should be regarded as an operating expense rather than a capital expense.

30. Assuming that replacement costs are regarded as an operating expense, this then raises a number of issues regarding what constitutes replacement stock and what constitutes an additional dwelling in the context of active asset management policies. These issues arise because housing stock has several quantitative (e.g. number of dwellings, number of bedrooms) and qualitative (e.g. location, construction quality) dimensions. There are three basic approaches:

- *Measure capital expenditure through a one dimensional measure*

For instance, capital expenditure could be measured as net additions to some quantitative dimension of housing stock such as dwelling numbers or bedroom numbers. This approach has the inherent

disadvantage of attempting to control a number of quantitative and qualitative dimensions of a provider's housing stock through a single measurement, which inevitably provides opportunities for cost shifting.

- *Measure capital expenditure through a combination of measures*

A variation on the above approach would be to use a combination of a number of qualitative and quantitative measurements. For instance, this could be achieved by developing a formula that weights dwellings according to a number of dimensions, e.g. a four-bedroom house might be equivalent to 2 one-bedroom units, or a dwelling in Sydney might be equivalent to 2 dwellings in Burke.

The advantages of this approach are that it reduces opportunities for cost shifting, and that the formula could be designed in such a way as to provide incentives for providers to develop stock in a way consistent with some national policy imperative, e.g. by giving stock in certain job-rich areas a higher weighting.

One disadvantage is that cost shifting opportunities could still occur if any dimensions are not included or under-weighted in the formula. Another disadvantage is that the formula would be resource intensive to develop, and then would need to be constantly updated as housing needs shift e.g. across different housing types or across regions. A final disadvantage is that this method would punish housing providers for responding to changes in demand that are not or not yet reflected in the national formula.

- *Set annual replacement costs as a fixed amount / ratio of replacement value*

This approach overcomes the above disadvantages by calculating annual replacement costs as a set amount or a proportion of total replacement cost of all of a provider's dwellings. This could be standardised across providers, e.g. using an average replacement time of say 40 years would equate annual replacement costs to approximately 2.5% of replacement value. Alternatively, annual replacement costs could be differentiated according to the housing stock of providers, regional housing delivery cost differences, etc.

One advantage of this approach is that it is relatively simple to calculate replacement costs, and the amount of funding required each year for the RSP. An additional advantage of this approach is that other components of housing management costs could be linked to housing replacement value in the same way - e.g. tenancy management, maintenance and asset management could be put at 1.5-2.0% each, plus 2.0-2.5% for replacement cost equals an RSP equivalent to 7.0-9.0% of total replacement value.

On the other hand, this approach dissociates the direct link between the amount of funding required for the CGP and the number of dwellings added to affordable housing stock. At worst, this might produce lower growth in affordable housing dwelling numbers or bedroom numbers than might occur under some of the other options. Another disadvantage is that the implementation of this method would require accurate annual estimates of the replacement value of each affordable housing provider's stock.

Bold Statement

S11. The annual value of RSP funding should be set at 8% (i.e. 2% each for tenancy management, property management, asset management and replacement costs) of the replacement value of total affordable housing stock held by each affordable housing provider in each jurisdiction.

Transitional Issues

31. Different jurisdictions face different situations with regard to a number of issues that impact on their affordable housing provision. A system with separate capital and recurrent funding programs could result in some transitional issues:

- *SHA Debts*

A 2002 paper by the Policy and Research Working Group of the Housing Ministers Advisory Committee paper identified that as at 30 June 2001, SHAs owed a total of \$3.9 billion to the Commonwealth, ranging from nothing (Victoria) to \$1.4b (NSW). This difference in starting points could cause some transitional issues, depending on the detail of the CGP and RSP.

For instance, if States are responsible for recurrent subsidies and debt repayments are in any way recouped from these monies, this would result in operating deficits for housing providers in jurisdictions with high levels of debt during the transitional period. However, the only impact would be different stock growth rates in different jurisdictions depending on their levels of debt in the case of States being responsible for the funding of capital grants.

- *Non-CSHA Capital Contributions*

A number of jurisdictions currently provide capital contributions to affordable housing providers over and above the requirements of the CSHA. This would not pose any transitional problems in a system where States are responsible for funding a CGP, but could pose considerable problems if the Commonwealth holds this responsibility.

- *State of Housing Stock*

Affordable housing stock varies significantly across providers in terms of both quality (e.g. state of repair, location, bedroom size, etc) and quantity (i.e. stock numbers). Operating costs would be higher for providers with maintenance backlogs until such time that these backlogs are resolved, either by purchasing new stock with CGP funds or by repairing existing stock with RSP funds.

An alternative way of dealing with these problems is to conduct an independent audit of the state of current affordable housing stock in the various jurisdictions in order to estimate the total maintenance backlog in each jurisdiction. A once off allocation of funding could then be allocated to each of the jurisdictions for instance on a per capita basis. This funding allocation should be sufficient to resolve maintenance backlogs in those jurisdictions with the highest maintenance backlogs, and could be used to fund expansion of the system in those jurisdictions with lower maintenance backlogs.

Bold Statement

S12. Transitional issues caused by maintenance backlogs in a number of jurisdictions should be dealt with through a once-off allocation of funds to all jurisdictions. The level of funds should be determined on the basis of an independent stock audit.

ⁱ Over time, the national registrar of social housing providers will develop commercial performance criteria and benchmarks for this sector.

ⁱⁱ Parliamentary Library, *The Commonwealth State Housing Agreement: E-Brief*, Parliament of Australia, November 2001, <http://www.aph.gov.au/library/intguide/sp/statehouseagree.htm>, accessed 6/11/07

ⁱⁱⁱ For instance, a 2004 AHURI report found that "six out of nine SHAs in Australasia are running operating deficits which are not financially sustainable": Jon Hall & Mike Berry, *Sustainable Financing for Public Housing Authorities*, AHURI Research & Policy Bulletin 41, Australian Housing and Urban Research Institute, 2004

^{iv} As at 30 June 2004: Community Housing Federation of Australia, *Community Housing Snapshot - Organisations*, 17 May 2005, www.chfa.com.au/portal/CH_Organisations.pdf, visited 23 November 2007

^v As at 30 June 2006: Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities Australia 2006*, ABS Cat No 4710.0, Commonwealth of Australia, 2007.