



Date: 8 February 2016

The Committee Manager
Public Accounts Committee (PAC)
Parliament House
Macquarie St
Sydney NSW 2000

Dear Sir / Madam

Re: Inquiry into the Management of NSW Public Housing Maintenance Contracts

The NSW Federation of Housing Associations (the Federation) welcomes the opportunity to make a submission in response to the inquiry into the management of NSW public housing maintenance contracts. This submission has been developed in consultation with our members and draws upon their experience.

About the Federation and the community housing industry

The Federation is the industry peak body for community housing providers (CHPs) in NSW. Since 1993 the organisation has provided leadership, support and resources for the further development of the industry, and has represented the aspirations and interests of the industry to all other stakeholders – government, partners, business and the wider community.

The Federation's purpose is to support the development of a not-for-profit rental housing sector which compares favourably to any around the world, and which makes a difference to the lives of lower income and disadvantaged households across the state. The Federation seeks to ensure that community housing providers are active in all housing markets, providing a full range of housing products.

CHPs are viable, ethically run businesses driven by strong social missions and values. In 2015, community housing providers managed 38,000 tenancies across New South Wales and owned \$1.7 billion worth of community housing assets. Income sources include rent, subsidies, and fees from services. The demographic of tenants living in community housing

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is similar to those of living in public housing, as tenancy allocations by community housing providers and Family and Community Services (FACS) are made from the common Housing Register.

Introductory Remarks

In composing the Federation's response we have drawn on information about the condition and management of the public housing portfolio published in the 2013 NSW Auditor General Performance Audit referenced below.

This report had much to say that was critical of the management and condition of the public housing properties. The Federation recognises that the deterioration in the condition of the public housing portfolio can be attributed to changes in housing allocation policy. Over the years a greater percentage of property allocations have been to households in priority need and on very low incomes. In consequence the rental income received by the NSW government has been insufficient even when supplemented by Commonwealth funding to meet the maintenance and management costs associated with an ageing portfolio. In these circumstances while it may be arguable whether more efficient management could have secured improvements it is unlikely these would have made any significant difference to current conditions.

More fundamental reform was required to transform the property condition and the Federation has long argued that a program of property transfers to community housing providers meets this objective. Our position statement on property transfers is attached to our submission. The statement puts forward that property title should be transferred. At this point the government is unprepared to consider title transfer and its plans in its recently published social housing strategy Future Directions¹ assume (undefined) long term management contracts. It is possibly beyond the scope of this Inquiry to examine whether property transfer to community housing providers would achieve improved outcomes and if so whether title transfer or long term management contracts are likely to be most successful. The Inquiry Panel may however wish to recommend the government does commission work to examine property transfer practices by examining key processes and drivers, namely 1) asset valuation methodologies, 2) property transfer risks, 3) capital management opportunities and 4) asset management factors.

One action in Future Directions also has potential to influence resources available to renovate and upgrade property for all social landlords. The NSW government is proposing to commence an independent review of different social and affordable housing rent models in 2016. While its prime intent seems to be to minimise disincentives to work in the current income based model the Inquiry Panel should consider recommending that it also considers models that would better reflect the cost of management including property maintenance.

The Federation recognises that the NSW Government has responded to the Auditor General's report by developing a strategic asset management plan (its portfolio strategy) and making improvements to practice. The Land and Housing Corporation (LAHC) portfolio strategy which we understand is underpinned by revised property condition, locational and

¹ <http://www.socialhousing.nsw.gov.au/?a=348442>

demand information. Recent government policy notably Future Directions indicates that the approach to tackling asset management issues is through a combination of regeneration, property transfers and improvements to management of what will still in ten years be around two thirds of the social housing portfolio. In the absence of evidence (for example the option appraisal process the government undertook in deciding on its approach) it is difficult to be assured whether this approach is designed to achieve the best outcomes.

The Federation has made reference to transparency and accountability throughout the response. With the exception of what is commercial in confidence it is important that information is publically available that demonstrates that the resources being deployed to upgrade and maintain the public housing portfolio are cost effective and achieve explicit outcomes. We hope the Inquiry will recommend such as publication as a priority.

a) The current repair status and physical condition of the public housing properties managed by Housing NSW

As noted there is little information available on the current repair status and physical condition of the public housing properties.

The Federation recognises that LAHC has implemented a new approach to assess, measure, analyse and report on the condition of public housing assets at state, regional and local levels. Indeed it has shared information with individual CHPs in relation to properties they manage on the government's behalf.

We recommend that information should be should be easily accessible and publically available to provide for greater accountability of government to the public on its management of public assets. We do however accept that the detail of what is disclosed will vary depending upon the audience. We are not arguing unit level information is available to the general public.

Processes should be introduced that ensure continuity of property condition data collection and reporting so that trends can be tracked over time including the level of compliance of public housing dwellings against measurable and clear asset condition standards and against legislative requirements. The availability of this data will be a valuable resource for other organisations (such as CHPs) to benchmark against. The Federation in 2015 launched House keys² benchmarking platform with participation from CHPs across Australia, recognising that exchange of comparative information can help drive performance improvements. We would welcome the participation of public housing landlords. By reporting on a district / area basis it should be possible to make meaningful comparisons.

The 2013 NSW Auditor General Performance Audit - Making the best use of public housing³ does provide some valuable information which we have as noted used to inform the Federation's submission. Again we recognise progress will have been made and we

² <http://www.communityhousing.org.au/housekeys/index.html>

³ NSW Auditor General (2013) Performance Audit – Making the best use of public housing; Sydney: NSW Auditor General's Department

anticipate the Inquiry will be seeking to examine the outcomes since the report was published.

The Auditor General acknowledged public housing is ageing and increasingly not fit for purpose. In the report, LAHC had identified that at 2010-11 between 30 and 40 per cent of its properties were not at its "well-maintained" standard. LAHC also reported that there was a continuing funding gap in what was needed to maintain the current properties numbers of properties at reasonable standards over the long-term. If this continued LAHC housing portfolio would decline in terms of both dwelling numbers and standard. The NSW government thus recognised that fundamental reform was required.

The importance of transparency was also highlighted in the Performance Audit:

"Overall, there is a lack of transparency in the reporting of performance that means that the public may not have a full picture of the existing pressures on public housing in New South Wales" p.42

CHPs are careful stewards of public assets. They are held publically accountable through contractual arrangements, policy settings and robust independent regulation - the National Regulatory System (NRS). Under the NRS, CHPs are required to engage in setting and meeting relevant property condition standards (Regulatory Code requirement 2). This includes demonstrating that they:

- Undertake comprehensive property inspections on all properties every three years
- Develop comprehensive long-term strategic asset management plans; including rolling 10 year costed plans mapped against current and projected housing needs analyses

The Federation recommends that at the very least the social housing properties under direct government management should be subject to similar scrutiny.

A key element in the growth of social and affordable housing is the transfer of properties from public to community housing. Far from simply moving properties from one part of the system to another, this transfer helps to grow the system by creating opportunities for leveraging private finance, and assisting CHPs to achieve further economies of scale. Fundamental within any transfer business plan are assumptions on the cost of catch-up repairs and modernisation/ renovation, as well as ongoing maintenance. The need for up to date social housing property information is necessary to ensure that business plans and associated financial projections are robust and the outcomes required from transfer contracts (on leveraging, achieving other social outcomes whilst upgrading the portfolio) are realistic.

b) The costs of maintenance of the current public housing properties, variations in expenditure trends over the previous five years and projected expenditure for the next five years

The 2013 NSW Auditor General Performance Audit reported that at May 2013, LAHC's forecast was that the operating cost of providing housing would exceed revenue, with LAHC

expected to be in deficit by about \$490 million in 2012-13. If an additional amount is added to cover the estimated shortfall to maintain dwellings at an appropriate standard, the deficit widens by another \$100 million.

The Inquiry will no doubt be seeking assurances that the aforementioned portfolio strategy addresses this financial challenge in the most optimal way. CHPs can attract additional Commonwealth funding, i.e. Commonwealth Rent Assistance (CRA) which averages \$3,000 per tenant per year. Although the Government's recently announced policy Future Directions does promise to restart property (management) transfers to CHPs in 2017 this is at a relatively small scale and slow pace. By 2026 CHPs will still only managed around a third of social housing - a target originally planned for 2014.

There are a number of arguments put forward to explain why property transfers should not proceed more quickly including around staff and tenant sensitivities. In both these instances there is much compelling evidence (of transfers elsewhere) to demonstrate that with an open process neither are a barrier. In the end the question remains whether the best outcome for tenants and the public purse is for the overwhelming majority of social housing remains under public management.

There is limited information about cost effectiveness (another reason for arguing for or against different management arrangements) across any sector. Of the limited data available a recent study by AHURI into assessing management costs and tenant outcomes in social housing⁴ hoped to compare the efficiency and effectiveness of different forms of social housing providers in terms of property and tenancy management costs (rather than actual maintenance expenditure). However it is was made more difficult for the researchers in public housing by the difficulty in attributing overheads:

"...it proved impossible for our two PHP case study organisations to collate their expenditure on a sufficiently comprehensive or reliable basis to derive publishable figures." p.35.

The NSW government has commissioned work in 2015 to analyse the costs of maintenance in social housing. A small number of community housing providers participated in this work. The methodology used in making comparisons, the findings and conclusions have not been shared with the sector. While potentially valuable the Federation would be extremely concerned if the report was made available to the Inquiry without an opportunity given to participants to first comment on the draft.

While we have focused on the general position, some of our members have observations based on managing housing for the government. One CHP has recently scoped the extent and cost of removing asbestos from its portfolio (owned and most managed for government). The cost is estimated at \$8 million. The works will involve complete bathroom renovation, using accredited asbestos removalists and approved local waste facilities. Any landlord is likely to find such expenditure obligations difficult to meet. Asbestos is prevalent throughout the social housing portfolio and the opportunity exists for public and community housing to work in partnership to comprehensively scope and address asbestos removal, particularly

⁴ Pawson H; Milligan V; Liu E; Phibbs P; Rowley S, 2015, Assessing management costs and tenant outcomes in social housing: Recommended methods and future directions

the provision of government funding to deal with employee work health and safety issues and public risk.

Other joint action between the public and community housing providers could also be explored, for example with previous asbestos producers and suppliers under a community gesture scheme. Once the asbestos has been removed, properties could be properly insulated and reclad.

c) The nature and administration of maintenance contracts, including private sector arrangements

The FACS MRP08 maintenance contract has recently been retendered. It was due to expire in June 2013 and we understand after a piloting process new contracts across all the portfolio are about to commence.

The argument has been made that CHPs are unable to realise procurement efficiencies due to their small scale though evidence to support this view has not been tendered. What CHPs do have is the business model that can respond more flexibly and in a timelier manner to for example vary existing contracts, promptly changing contractors where performance is below expectation, and taking advantage of local labour markets where competitive rates can be found. CHPs would be against any mandatory requirement to take on existing contracts in whole of area transfers.

CHPs have the demonstrated capacity to carry out their own asset and maintenance planning under long term leases or title transfers. Title transfers would allow the government to divest maintenance liability and ensure properties are brought to standard by CHPs at no cost to the government. CHPs also mostly use locally based small and mid-sized maintenance contractors or in-house staff to conduct maintenance activities maximising efficiency and cost effectiveness. Larger contractors used by FACS cannot supply the maintenance services at rates competitive to their sub-contractors meaning that maintenance money is being spent inefficiently through paying large overheads both internally and to head contractors.

The Inquiry panel should take evidence from the Registrar of Community Housing as to the reliability of the community housing sector as to its compliance with asset management standards.

d) Methodologies and processes for ensuring consistent public housing maintenance standards across NSW, including quality assurance, effectiveness, efficiency and contract supervision

Well-defined provision standards or benchmarks are a crucial component of effective asset management as they quantify the extent to which social housing portfolios meet minimum acceptable requirements. Fit-for-purpose minimum physical quality/condition standards for existing social housing is essential given that property investment has remained tightly constrained over a long period and this is unlikely to change in the short term.

Only with reference to such standards can a landlord quantify and cost any repair and modernisation backlog – a critical requirement for asset management planning in any circumstances and one as we argued earlier a necessity for CHPs participating in public housing transfers programs.

In NSW the quality/condition standard for existing social housing is defined in the document Asset Performance Standards (Housing NSW, 2009) which lays down certain 'basic provision standards' (or minimum requirements) for dwellings and associated external space – e.g. in terms of facilities such as number of power points, size of kitchen bench, width and surface of access path. However, the document is primarily a detailed manual for determining whether particular building components are of acceptable condition rather than specifying the minimum acceptable facilities and physical condition of a dwelling.

Moreover, the NSW 'basic provision standards' are restricted in remit and do not clearly connect with the document's concept of 'well maintained' dwellings – those judged at least 97% compliant with relevant standards under the headings of safety, function and appearance. Overall, the manual's scope is limited on defining what constitutes an unacceptable level of disrepair, in addressing safety considerations such as the presence of lead paint or asbestos and in addressing 'building performance' issues such as thermal efficiency and thermal comfort ratings. Given the expected increase in energy / fuel poverty rates resulting from changing climate, these latter issues are of growing importance.

In the UK both the Scottish and UK governments have introduced clear minimum property standards (the Scottish housing Quality Standard - SHQS and the English Decent Homes Standard (DHS). While the Federation is not advocating the adoption of either they provide examples of what we believe is necessary in NSW in order to give assurance that properties are well maintained and subsidy and tenant rents are well spent.

We understand that a structured network of regional and local teams operate within FACS to administer maintenance contracts. However, as no information is publicly available to ascertain the consistency of processes or standards across NSW public housing.

Since 2012, the Federation has developed a standardised tenant satisfaction survey service now utilised by an increasing number of CHPs across Australia. The model is based on the UK's STAR survey (Housemark 2013) and involves mail-out questionnaires comprised of a range of core and optional questions for tenant self-completion. By 2015, 22 predominantly larger providers across four jurisdictions were subscribing to this service. In addition to measuring satisfaction with services overall there are additional questions to drill down beneath the headline figure to satisfaction with maintenance services and property condition.

In addition and as we noted earlier community housing providers across Australia are now benchmarking operational performance via the Federation's House Keys service. The information compared includes property condition, maintenance contract performance and financial performance. In House Keys: Operations Aggregate Report House Keys - year 1, published by the Federation in January 2016 aggregate performance across the NSW community housing participants is available. The table below summarises the asset management results from the publication.

Indicator	NSW CHPs (23)
Percentage of properties meeting state standard	85.80%
Percentage of urgent repairs completed within jurisdictional limits	97.41%
Percentage non-urgent repairs completed within jurisdictional limits	90.59%
Percentage of tenants satisfied with maintenance services	80.27%
Percentage of tenants expressing satisfaction with the condition of the property	86.45%

The Federation would be keen to work with the public housing teams to encourage their participation in both the Tenant Survey and Benchmarking products. We believe this would be a positive step in driving up standards overall and allowing the exchange of positive practice that exists in both sectors. We have already encouraged attendance by LAHC at the Federation's quarterly asset management and development network and hope participation will be strengthened further.

e) Statutory obligations on tenants to take care of properties and report maintenance needs in a timely fashion

We do not have access to information to comment in detail on this area. The Federation notes that the combination of allocations being focused on the most vulnerable, possible low rates of tenancy sustainment for some household types and poor property condition will make tenancy management challenging. Good quality tenancy management will involve for example;

- A comprehensive new tenancy process - emphasising responsibilities, new tenancy visits
- Accessible services
- Well trained staff available to receive and diagnose repair requests over the phone
- A responsive maintenance service with appointments easy to make
- Options for tenants who cannot afford to pay upfront for repairs
- A cost effective and fair way to charge and recoup repair costs
- A good end of tenant process
- Periodic home visits

On the latter point, maintenance problems can grow quickly where tenant visits are not conducted regularly and tenant abandonment can incur major vacant restoration costs.

Public housing tenants also do not pay bonds like private renters or community housing tenants do and it is welcomed that Future Directions suggests a scheme will be introduced.

f) Measures to meet the special maintenance requirements of aged and disabled tenants

The Federation understands that the needs of aging and disabled people are generally well met in public housing as well as community housing. The problem lies across the whole social housing portfolio, that the shortage of fully accessible dwellings is likely to grow as demand grows due to the aging population. No reliable information on future demand is available and this must be of concern

There is also concern about the ongoing maintenance of aged and disabled clients' properties. Special adaptations use non-standard fixtures and generally require more frequent servicing. This ongoing cost will have an impact on service delivery. An example being air conditioning installation and yearly servicing costs which has a budgetary allocation of \$385 per property per annum.

Of interest to the Inquiry will be the fact LAHC has commissioned advice to assist social housing providers in New South Wales to respond appropriately to the needs of people with disability. The project is stimulated by the introduction of the National Disability Insurance Scheme (NDIS) and the need to define roles and responsibilities in relation to the provision of modified housing. A particular area of enquiry in relation to the work is the scope of obligations to provide 'reasonable adjustments' in keeping with the requirements of the Disability Discrimination Act and the proposed principles underlying the NDIS. In this context, the project is intended to provide an evidence base and strategic guidance to assist providers to respond appropriately to clients' needs. The work will:

- Assess the current costs and scope of activities to provide modified homes being undertaken by social housing providers operating in NSW;
- Consider the obligations of social housing providers in New South Wales to provide modified housing in the light of a review of relevant literature and examination of legislative and policy requirements;
- Undertake financial, operational and strategic analysis to inform consideration of key issues;
- Make recommendations for appropriate practices and provide guidance to assist housing providers to meet their obligations having regard to the financial and policy context within which providers operate.

Community housing providers have had an input into this work which is uncompleted.

The Inquiry Panel may however wish to recommend the government does commission work to examine property transfer practices by examining key processes and drivers, namely 1) asset valuation methodologies, 2) property transfer risks, 3) capital management opportunities and 4) asset management factors.

Conclusion

The community housing industry is committed to delivering a viable social housing system. Excellent asset management is the component of the housing system for which governments retain direct responsibility and into which substantial public subsidy – albeit arguably insufficient – continues to be directed. We believe there are more efficient ways to manage social housing. The community housing industry has a demonstrated capacity to grow to meet new challenges.

The Federation and its members are not complacent and recognise that securing improvements where financial constraints exist will not be easy. Introducing clear property standards, publicising information and effective oversight will be necessary.

We support the continued growth and development of the social housing sector and are eager to help and work with the government deliver a viable social housing system.

For further information, please contact Wendy Hayhurst, on 02 9281 7144 or by email WendyH@communityhousing.org.au.

Yours sincerely,

Wendy Hayhurst

Chief Executive Officer

NSW Federation of Housing Associations