NT Shelter Submission to the

Community Housing Growth Strategy 2021-2030 Discussion Paper

14 May 2021

NT Shelter welcomes the opportunity to provide our feedback to the NT Community Housing Growth Strategy 2021-2030 Discussion Paper, *A blueprint for transformation and growth March 2021* ("the Discussion Paper").

About Us

NT Shelter is the Northern Territory's peak body for housing and homelessness. We advocate on behalf of our members for affordable and appropriate housing for all people of the Northern Territory, especially those with low incomes, vulnerable and disadvantaged in the housing market. NT Shelter strongly supports efforts and initiatives that deliver better outcomes for those unable to access to affordable, safe and appropriate housing.

Acknowledgement

NT Shelter is supportive of the newly incorporated Aboriginal peak housing body, Aboriginal Housing NT (AHNT). We recognise and support their mandate to advocate for self-determination and community control of Aboriginal housing. Moreover, they are well placed to outline what is needed to secure the development of a viable community housing sector for the many town camps and homelands across the Northern Territory.

To that end, we confine our submission to the urban stream aspects of the Discussion Paper.

Introduction

Client demand for Specialist Homelessness Services (SHS) in the Northern Territory is increasing each year at an alarming rate. Trends in recent years in relation to the number of young people presenting alone are particularly concerning. Coupled with a rate of homelessness 12 times' the national average, the severe and growing level of unmet housing need underscores the urgency for securing an increase in housing supply.

The NT Government's own estimate of the shortfall in social and affordable housing is 8,000 to 12,000 homes. Our assumption is that approximately 6,000 of these are in urban areas. In effect, current supply is approximately 50% of what is needed, excluding future changes to population or levels of poverty.

However, there are no signs there will be direct investment in new urban social and affordable housing from either the Commonwealth or Territory governments in the near term. Of real concern is the absence of any future supply plan whatsoever. Regardless of whether this is driven by a lack of interest, a lack of political will, or a lack of capacity on the part of the respective governments, there is insufficient priority being given to boosting the supply of low-cost, affordable housing. Until there is sufficient available stock at a discount to prevailing market rents, systemic issues in terms of rental stress, housing unaffordability and homelessness will remain.

We cannot expect free market dynamics to deliver property that is priced appropriately for low-income earners. At the present time, the failure of the market to supply sufficient social and affordable housing, and insufficient government intervention to address the supply shortfall, means that the housing needs of many of Australia's most vulnerable people are not being met. We are seeing this translate into ever growing pressures for the homelessness sector, with commensurate adverse impacts on mental health, chronic illness, education, employment, family violence, interactions with the justice system and poverty.

Community Housing Providers, on the other hand, are well positioned and motivated to fill the void, provided the conditions stack up commercially and the necessary supporting measures are provided. The Discussion Paper presents a welcome opportunity to reframe the conversation and reform the way in which social and affordable housing provision is done, and in a way that enhances public value and social and economic outcomes.

As outlined in the Discussion Paper, social housing that is managed by not-for-profit CHPs can deliver better social, asset quality and economic dividends compared to state government public housing systems. This is due to greater operational efficiencies achieved through operating models and tax concessions, better customer service for clients, the ability to attract Commonwealth Rent Assistance (CRA) revenues, philanthropic interest and reduced liabilities for state governments.

Community Housing Providers in the Northern Territory are well placed to develop, manage and own social and affordable housing. Our submission, which follows, outlines what is needed to set up the strategy for success and emphasises the need to proceed without delay.

Support for a Community Housing Sector Growth Strategy

The provision of social and affordable housing is being increasingly seen across Australia as key social and economic enabling infrastructure. Here in the Northern Territory, the Territory Economic Reconstruction Commission has noted the vital role that social and affordable housing plays as a catalyst for population growth, vibrant communities, and a stronger economy. It has recommended that the NT Government support the growth of the community housing sector.

The release of the Discussion paper is therefore timely and important. With a 23% growth in urban public housing wait list applications over the past two years and a falling supply of social housing stock, there has never been a more important time to identify alternative approaches for social and affordable housing provision.

Not-for-profit Community Housing Providers (CHPs) that are registered here in the Northern Territory provide the best prospects for improved service delivery and asset performance, better outcomes for tenants, and opportunities for renewal, redevelopment and an increase in net available stock.

We understand that approximately 86% of the Northern Territory Government's public housing assets are greater than 30 years of age, with deferred property maintenance on many of the assets. Recent announcements have been made that public housing complexes are to be demolished (Moulden) or redeveloped (The Narrows). There are also significant pressures on the Government from constituents in the community impacted by antisocial behaviour in neighbouring public housing premises. This is resulting in calls for a "de-densification" of public housing in various precincts which will, in turn, place further properties at risk of demolition or private sale.

A further reduction in the total number of social and affordable dwellings in the Northern Territory is precisely the last thing that is needed right now.

In an environment where government is not managing public housing well and averse to increasing urban stock, growing the underweight community housing provider segment in the NT represents our best prospects for meeting housing need and must be pursued as a matter of urgency. The CHP share of social housing is a mere 6.9% in comparison to the CHP national average share of social housing of 20.7%[1]. In Tasmania, the registered CHP share is in the vicinity of 40%. The NT is a late adopter in this respect and there is certainly plenty of upside.

For these reasons, we strongly support the strategic policy approach to support and grow the community housing sector. A stronger community housing sector will also provide a range of benefits in terms of better services for tenants, cost efficiencies through management of tenancies at scale (and better utilization of fixed costs per asset), and improved asset management.

The Discussion Paper has clearly set out a range of benefits and advantages that can be realised by growing the community housing sector. It is not our intention to restate those benefits in this submission. Rather, our emphasis will be on setting out what we see as the elements, principles and actions for effectively growing existing, registered CHPs here in the Territory in a manner that represents Value for Territory and is consistent with other key priorities of the Government, including its commitment to local decision making and supporting local business.

We also put up, for consideration, a specific, low risk and easy to implement proposal consistent with the notion of "fast tracking" the growth in the community housing sector here in the Territory, albeit in a way that respects and supports current market participants committed to building their businesses but who, to date, have had little opportunity to do so. This is despite these providers having geared up for potential growth and demonstrating capacity and performance in the seven NRSCH areas.

[1] Productivity Commission Inquiry Report, *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services*, No.85, 27 October 2017, page 171

A Low-Risk Option for Government

Non-government organisations that are registered under the National Regulatory Scheme for Community Housing (NRSCH) and who have successfully maintained registration due to satisfactory completion of compliance and performance assessments are mature operations, well established and professionally run. While private companies can be registered as CHPs, non-profit CHPs operate for charitable purposes and reinvest operational surpluses back into their businesses, thereby generating more scope for capital upgrades, community building, increasing tenant skills through education and capacity building, and growing their housing stock through development.

The performance expectations placed on registered community housing providers under NRSCH are more onerous than non-registered "housing providers" and state and territory housing authorities. For example, registered CHPs have asset replacement schedules and proactive maintenance programs while public housing properties are often run down through deferred maintenance. Registered CHPs are also expected to have properties turned around on vacate within 14 days, or 42 days if more substantial maintenance is required. The current performance of the NT Government on their urban properties is in excess of 80 days, resulting in poorer asset utilisation, less revenue from rent and increased overcrowding and homelessness.

Registered CHPs in the Northern Territory have highly qualified, skills-based boards with strong governance and risk oversight, a commercial focus, strong connections with the property development and private business sectors, as well as connections to philanthropy. This presents opportunity for leveraging public private partnerships, financial and in-kind co-contributions, and excellent value for money.

Existing CHPs have already demonstrated their capacity to collaborate with other partners (including government) and deliver large scale infrastructure development. The extensive Town Camp upgrades undertaken by Yilli Housing in conjunction with Power and Water Authority are a case in point.

Transitioning increasing responsibility for housing delivery, maintenance, tenancy management and community building to registered CHPs represents, in these respects, a low risk to Government.

Important not to Overcomplicate

The Discussion Paper refers to "fast tracking" the transformation and growth of the community housing sector. It is critical that the Government not overengineer or overcomplicate procurement and contestability processes. Interest in projects from banks and other partners will wane if processes are cumbersome and untimely. It is unlikely the first iteration of a public housing stock transfer (PHST) program will be perfect. A sensible balance needs to be struck between program design, risk mitigation and implementation timeframe. There are already concerns amongst stakeholders that stated timelines are unlikely to be met.

The efficacy of growth strategy initiatives can be evaluated over time but it is important to make a start, even on a small scale to demonstrate early wins. Our proposal sets out what we see as initial easy wins. If pursued over the coming six months, the community housing sector will have greater confidence in the commitment of government to transform and grow the sector.

Implementation delays will directly result in lost CRA revenue for the Territory. This leads to longer lead times for economic development, a loss of Commonwealth subsidies readily available, and a lack of movement towards increased housing stock.

Program Objectives

We consider the proposed NT community housing growth objectives are reasonable and well framed. Feedback to discussion paper questions 1 and 2 was provided at the consultation sessions. We don't have any additional remarks to make regarding the objectives themselves.

However, there is a need to be realistic about timeframes for achievement of the more aspirational objectives in respect of stronger communities, breaking the cycle of multi-generational disadvantage through targeted access to education and training programs et cetera. The sector supports these objectives and believes that they are appropriate for inclusion. Registered CHPs in the Northern Territory know the intrinsic challenges typically faced by their clients, have well deserved positive reputations in their respective communities, and are best placed to deliver whole of site approaches and community renewal. These are big responsibilities and will be more readily achieved as increased scale drives greater capacity for investment and renewal. This won't happen overnight and needs to be done in a phased approach.

The sooner that we can commence the process of strengthening the balance sheet and cash flows of our registered providers (and hence their capacity to leverage against these for the purposes of securing finance), the sooner we can start moving towards achievement of these objectives.

Considerations and Key Principles for Growing the CHP Sector in the NT

The following considerations and principles are vital for successfully growing the community housing sector in the Northern Territory. They are prerequisite conditions for PHSTs as well as other elements necessary for mitigation of risk and building capacity for growth and scale.

1. The participation of interstate CHPs, including Tier 1 CHPs, in contestable PHST programs is inconsistent with the NT Government's commitment to LDM and supporting the development of the community housing sector here in the Territory. For this reason, it is strongly opposed, except in cases where it is undisputed that existing registered CHPs domiciled in the NT do not have the financial or organisational capacity to manage a particular opportunity. An example is where a large public housing complex is slated for redevelopment and no current CHP in the Northern Territory has the capacity to attract sufficient finance or adequately manage project risk due to scale.

2. Locally registered CHPs may enter into joint venture arrangements or partnerships with interstate CHPs where they consider it appropriate and sensible to do so. Under no circumstances should the NT Government award a contract to an interstate CHP where there is no partnering agreement with a locally registered CHP and a clear exit strategy. This is to ensure that local capacity is developed but not at the expense of retained earnings being transferred out of the Territory[2].

[2] Note that 60% of the NT's existing registered CHPs are locally auspiced, Aboriginal owned organisations. They operate in a unique environment, responsive and answerable to their community. Understandably, they have concerns regarding risk of loss of intellectual property, management and community control if a junior partner in a relationship with an interstate Tier 1 provider.

3. There should not be any further demolition of existing public housing assets without first exploring all opportunities for site renewal and redevelopment for social and affordable housing purposes with the local community housing sector.

4. A careful balance is needed between a desire to "fast track" growth and a manageable, staged approach that builds confidence and reduces exposure to financial, reputational and other risks for both NT Government and sector organisations alike.

5. A well designed and implemented PHST ensures that there is a detailed level of knowledge and confidence on the part of the community housing provider as to what they are taking on. This means the presentation of relevant data relating to the condition of site assets and tenant demographics, and any other relevant issues e.g. neighbour complaints etc. Opportunities for due diligence will be key before lease agreements are executed.

6. Taking on stock through management or title transfers presents risks to CHPs. It is incorrect to assume that CHPs will be eager to receive each and every asset offered for transfer. Eligible organisations will not participate if the offer is not commercially viable or presents unacceptable risk. Public housing provision is loss making for the NT Government but the extent of this loss is unclear. Caution is needed to reduce the risk of financial loss and improve the prospects that stock offered up for transfer is taken up by providers.

    a. If old stock and/or stock with deferred maintenance expenditure is transferred under a long term management lease, a capital grant will be necessary to ensure the asset doesn't fall into a condition which is beyond economic repair.

    b. Despite the ability to generate CRA enhanced rents and various concessions through charitable PBI status, operating margins for CHPs managing public housing assets under a management are generally modest but can also be negative. This is particularly the case given the age profile and condition of NT public housing stock, uncertainty regarding the requirement or otherwise from local councils to pay rates (significantly higher than other States relative to land value and smaller lots), and the various client cohorts with multiple and/or complex needs. Community Housing Providers have a regulatory obligation to ensure their business and operating models are financially viable and therefore will not put themselves in situations where surpluses are spent fixing up properties which have extensive maintenance liabilities, or which are beyond economic repair. An operational subsidy would be necessary in this instance to ensure the CHP has the capacity to generate the required long term positive cash flow. Alternatively, a capital grant would be required to enable the CHP to upgrade and attract the benefits of GST exemptions.

    c. On the other hand, transfers of newly built properties would likely not require any operational subsidy or capital grant.

    d. Infrastructure audits commissioned by NT Government (i.e. structural, electrical and plumbing) on a reasonable sample size of properties aged 40 years or more would be required for due diligence.

    e. Title transfers are a potential financial liability for CHPs. Examples of areas of high risk include the structural liabilities associated with the condition of the asset, site remediation costs and potential easements, planning restrictions, development costs and risks (including approvals, site preparation and demolition of existing buildings), building costs, and variations in land and resale values according to location. There are notable instances of where this has occurred in the Northern Territory and in other jurisdictions, where the community housing provider has had to write down the value of impaired assets. This, in effect, impacts their ability to leverage these owned assets.

f. Interest in title transfers will be greater where there is an opportunity for redevelopment or increasing yield by leveraging against those properties. Proximity to services and acceptable land values would be important considerations in this respect.

g. In future, stock transferred (management lease or title transfer) for the purposes of social and affordable housing under PHST programmes would ordinarily be allocated to NT based, registered CHPs. In most instances this will represent best value for the Territory given the professional management of social and affordable housing is their mission, the strong regulation of CHPs under the NRSCH (i.e. confidence for Government in their capacity to comply and deliver outcomes) and access to lower cost debt finance through NHFIC.

7. Stock transfer programs should be conducted on the basis that there is no net loss of social housing stock in the respective region. Over time, registered CHPs will be well placed to deliver innovation and product mix including social housing, affordable housing, private rental or private sale. This, however, should not be at the expense of a diminution of net social housing stock.

8. If, despite their charitable status, Councils are not willing to grant rate exemptions to registered community housing providers, the Northern Territory government will need to continue meeting rate obligations for properties transferred by transfer or title to CHPs or, alternatively, provide a commensurate level of subsidy or reimbursement.

9. Appropriate due diligence involves accurate and, as far as possible, complete details regarding the assets proposed for transfer. This includes:

   a. Type of dwelling
   b. Location
   c. Number of bedrooms
   d. Age of asset
   e. Known maintenance liabilities
   f. Tenant and household member demographics and known risks
   g. Rent revenue received by Government
   h. Priority tenant groups
   i. Complaints received regarding anti-social behaviour etc.

10. CHPs are independent, well governed social purpose businesses and need to have the discretion to manage their own portfolios, regardless of whether they are leased or owned. It is important that government relationships with providers are in accordance with the Funding Deed and also align with the enabling framework of the NRSCH. This provides assurance to Government and ensures it does not “micromanage” operational decisions

concerning maintenance, development or divestment (provided that the amount of net social housing stock is not reduced). This enables CHPs to be entrepreneurial and responsive to community need[3].

11. NT Shelter and its members are keen to work with NT Government to co-design a workable process, including program outcomes and evaluation, to ensure that the strategy delivers Value for Territory.

12. The Northern Territory Government should adopt a policy where future land releases or development incorporate a requirement for mandatory inclusionary zoning where 20% to 30% is for social and affordable housing. They should be managed or developed by a registered CHP[4].

Categorisation of organisations

At the present time there are five registered community housing providers in the Northern Territory, four of which operate within the urban stream. A number of other non-government organisations are currently at various stages of applying for registration through NRSCH or considering doing so.

Organisations have different motivations for seeking registration.

(i) '**Growth CHPs**' - Several organisations have been established for the purpose of being expert providers of community housing – this is their core purpose and mission. These organisations specialise in tenancy management, property management, asset renewal and community building. In order to be sustainable and achieve their potential, scale and pipeline are essential. Scale and pipeline certainty are necessary for leveraging opportunities to attract finance and ultimately deliver more social and affordable housing. Organisations in this category, typically Tier 2, have been through at least one round of NRSCH compliance and up to 4 compliance assessments, so have continually maintained the 7 performance areas. These can be referred to as *growth CHPs.*

(ii) '**Ancillary CHPs' -** There are circumstances where organisations may decide to pursue NRSCH registration for reasons other than growth.

Some organisations elect to seek registration for quality purposes and achieving a level of operational excellence in what they do. Their core business is providing specialist case management support programs to clients, which in some cases can include supported accommodation, and are keen to ensure they are doing this to a high standard. Significantly growing the number of housing assets that they manage is not their objective *per se*, although they may identify occasional, small scale opportunities that stack up commercially.

Some non-government organisations' core business is in the area of specialist case management support, but they may also provide supported accommodation programs as part of a broader service offering. These organisations may decide to pursue NRSCH registration on the basis that they feel they will be shut out of future opportunities to participate in housing stock transfers or other Government programs aimed at

[3] NSW Federation of Housing Associations, *Large Scale Property Transfers: Position Paper*
[4] Research undertaken by National Shelter and others outlines how inclusionary zoning has generated supply and partnerships. This is a model that is adopted in the UK including London, whereby the price of land on inclusionary zone sites is built into financial modelling.

developing more housing (e.g. land releases for SDA or otherwise). Some currently have IHAS housing stock and may aspire to increase the number of houses available, on a modest basis, to meet the demand of their particular client cohort.

It is critical for NT Government to recognise the NRSCH national legislation and rationale for this regulatory system being adopted across jurisdictions and not compromise or undermine the standards or performance requirements of registered CHPs.

The NT Government needs to be clear around its intentions for eligibility for future stock transfers and other community housing growth initiatives. There is little point in organisations pursuing NRSCH registration if, ultimately, stock is only transferred under title or management transfer to growth CHPs.

Mapping out a Sensible Path

Generally, separation between tenancy management and support services is considered to be preferred practice insofar as it provides greater choice and control of service providers to tenants. On this basis, and in the interest of generating greater operational scale for registered CHPs, organisations that provide both tenancy management and client support services, and whose core business is not housing, should enter into partnership arrangements with a registered CHP to separate these functions.

However, a pragmatic approach should be taken in some instances via a secondary stream of government support for long established, mission driven non-government organisations whose businesses are well positioned to deliver a project(s) that results in the supply of improved or additional housing outcomes for Territorians. In these instances, the allocation of public housing assets, land or other assistance would occur where there is demonstrated economic and social value for the Northern Territory. This recognises situations where non-government organisations with strong balance sheets and demonstrated capabilities are in a position to pursue development opportunities but need access to discounted land or assets in order to reduce the costs of debt finance. In these cases, organisations would still be expected to have given careful consideration as to whether better public value would be achieved by partnering with a registered CHP to provide the tenancy and property management services.

Some existing non-government organisations already provide effective accommodation and support services to clients. These organisations are specialists in providing a quality level of overall service, including supported accommodation, to a niche client group (e.g. mental health). They can attract other funding streams to meet the needs of their core business client groups.

An example is the release of vacant land for the purposes of SDA accommodation. Organisations that are not registered CHPs will also benefit from opportunities to access additional housing stock, albeit on a far more modest basis than growth CHPs. Strong business cases that seek access to free or heavily discounted land for purchase, or permission to improve yield by demolishing IHAS property and supplying additional housing through increased density, should be considered on their merits.

Risk of Dilution

It is vital that social and affordable housing growth potential is not diluted by having a stock transfer program split up amongst an unnecessarily large number of CHPs. The best prospects for increasing the supply of additional housing is when growth CHPs have more properties in their portfolio, not less. For example, a transfer of 2,000 properties amongst four growth CHPs provides far greater opportunities for growth than when split amongst ten registered providers in total.

NT Government "Affordable Housing" Assets

The current situation, whereby the management of designated "Affordable housing" assets is undertaken by profit making companies operating outside of the NRSCH system, is misaligned with NT Government's strategic directions and objectives. This represents a lost opportunity for any surpluses within this program to be reinvested into social and affordable housing by not-for-profit registered CHPs.

At the present time there are two registered CHPs in the Northern Territory that are already delivering outcomes with NRAS properties and registered and approved NRAS providers with the NT and the Commonwealth. Leveraging this expertise and capability this is an obvious quick win.

Industry Development Plan

The areas for capability development that are outlined in the Discussion Paper are, as noted, consistent with the *National Industry Framework for Community Housing* published by the National Regulatory System for Community Housing Project Directorate in January 2014.

These outcome areas remain pertinent in 2021 but it should be noted that these have been developed against a national context. Consideration needs to be given to particular circumstances, challenges and needs in the Northern Territory's context, particularly in respect of small, regional locations where issues such as workforce development may require a tailored approach. For example, the current lack of access to a Certificate IV in Community Housing presents challenges with building workforce capability. Recruitment and retention of key staff in regional and remote areas will also present challenges.

Some objectives will not be achievable in the short or immediate term. An example is the degree of scale that is required before it is viable for CHPs to have an in-house development team. In NSW, a registered CHP considered it could not justify an in-house team until assets under management exceeded three thousand. It will therefore take time before local registered CHPs are able to develop in-house or brokered development and construction capacity.

Importantly, this does not mean that partnering with an interstate Tier 1 registered CHP is the answer. Territory based registered CHPs already have significant local partners for construction and development activity. More to the point, it is completely unrealistic to expect an interstate Tier 1 can readily apply their national development modelling without local context and expect to get good outcomes.

While good governance, risk management and strategic planning, and regulation outcomes are important elements of an industry development plan, it is important to note that existing locally registered CHPs have strong existing capabilities and have demonstrated successful performance against these areas for many years. Although the current registered CHP sector is small, organisations are well managed and have strong governance and oversight through highly skilled and professional boards.

Finally, an NT-based industry association auspiced by the Community Housing Industry of Australia (CHIA) would provide benefits in building the CHP brand and capability in the Northern Territory. This could include tailored industry development programs and strategic initiatives to assist with investment attraction and finance.

Proposal

PHASE 1 – EASY WINS (by 31 October 2021)	• Transfer DTFHC owned affordable housing stock to registered Growth CHPs (that are also an NRAS 'Approved Provider') under a property title transfer arrangement. • Transfer DTFHC headlease affordable housing stock to registered Growth CHPs (that are also an NRAS 'Approved Provider') under a management contract arrangement. (**568 properties – headlease and affordable combined**) • Subject to agreement of current NGO "custodian", 20 year management leases over industry housing (IHAS) properties to 'growth' registered CHPs* on equal share basis with nomination rights for custodian (**546 properties**) • In recognition of the typical lag between demolition of public housing complexes and commissioning of new housing (e.g. John Stokes Square), provide an operational subsidy to Darwin based registered CHPs to head lease sufficient private rental properties to house residents displaced by demolished public housing stock, or equivalent numbers next on wait list (**100 properties**)
PHASE 2 – BUILDING SCALE AND CONFIDENCE (by 31 January 2022)	• Transfer first tranche of public housing assets to 'growth' registered CHPs* on equal share, uncontested basis, 20 year management leases. **(1,000 properties).** • Option for current NGO "custodian" of IHAS properties to be given first right of refusal to purchase the property at fair value. Unencumbered transfer of freehold title for the purposes of redevelopment – subject to no net loss of social housing stock. • Long term management lease (20 years) awarded to successful NT registered 'growth' CHP* for John Stokes complex following tender (**76 properties**) • Management of urban GEH stock transferred to 'growth' registered CHPs* on equal share, uncontested basis, 20 year management leases (**763 properties**)
PHASE 3 - REFINEMENT AND GROWTH (by 31 January 2023)	• Second tranche of public housing assets to 'growth' registered CHPs* on equal share, uncontested basis. Option of 20 year management leases with operational subsidy or title transfer of assets. **(2,000 properties).**
PHASE 4 - ACCELERATION (by 31 January 2024)	• Major complex redevelopment – Tomaris Court and Shier Street

** Participants are non-government, "growth" CHPs that have successfully completed at least one annual NRSCH performance and compliance assessment.*