COST BENEFIT ANALYSIS CHAPTER FOR JURISDICTIONS ON NATIONAL REGULATION OF NOT-FOR-PROFIT HOUSING PROVIDERS

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DELOITTE ACCESS ECONOMICS

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1 Cost benefit analysis

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) commissioned Deloitte Access Economics to provide a cost benefit analysis (CBA) for a Regulation Impact Statement (RIS) on a National Regulation System (NRS) for not-for-profit housing providers. The project was initiated in August 2011 with endorsement for the methodological approach from the Office of Best Practice Regulation (OBPR). Subsequently, jurisdictions requested further breakdowns of the analysis by jurisdiction. The jurisdictional breakdown is limited by data constraints, which are elaborated further below.

1.1 National context

1.1.1 Methodology

The net impact of the introduction of the NRS was estimated in terms of costs and benefits to various stakeholders – Australian and state/territory governments, and providers of different types defined by their scale and whether they operate across jurisdictions.

The costs and benefits are analysed for the two regulatory options presented in the Regulation Impact Statement—Option 1 (status quo) where each jurisdiction maintains their own regulatory processes; and Option 2 (NRS) where a nationally consistent regulatory system is enacted in one jurisdiction and adopted or applied by other participating jurisdictions.

Under Option 1, different standards, regulatory controls and regulatory processes would apply in each State and Territory and community housing providers operating in multiple jurisdictions would be subject to multiple regulatory systems.

Under Option 2, participating jurisdictions apply the same standards, controls and processes and community housing providers would be subject to a single regulatory system.

Under both Option 1 and 2, it is assumed that the future growth of community housing would be primarily driven by funding and policy decisions outside of either regulatory arrangements—albeit with different growth rates having different implications for costs and benefits.

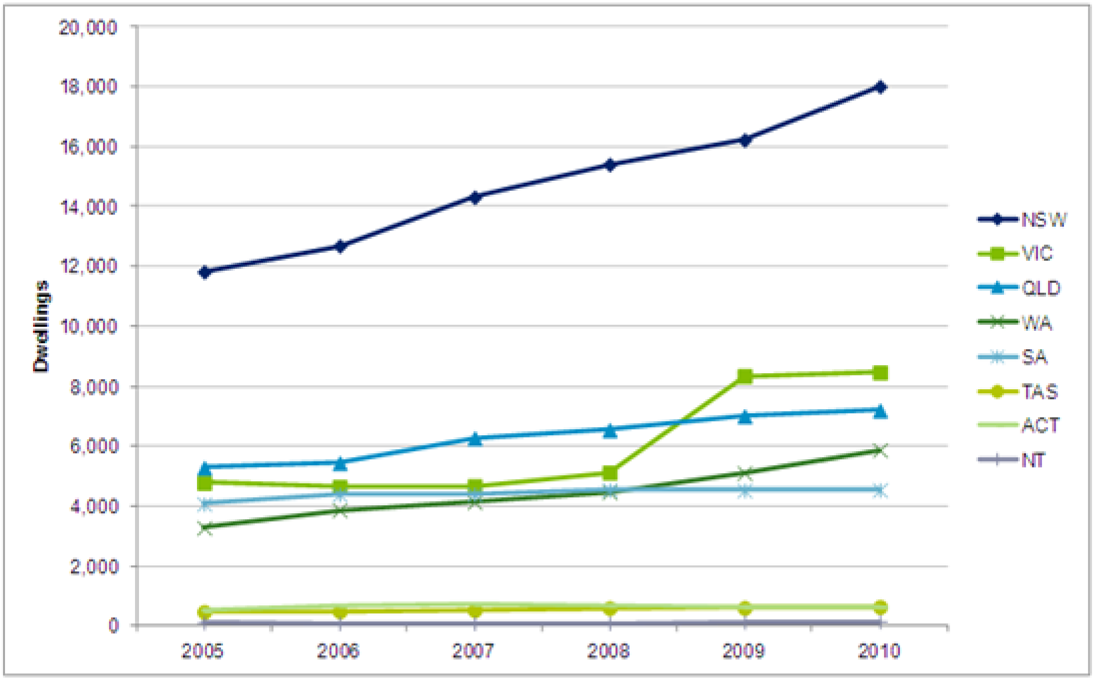
Information for this CBA was gathered from a number of sources, including desktop research, survey providers and interviews, and regulator workshops. Providers that might be expected to become tier 1 or 2 were surveyed to assess the quantifiable factors relating to cost and benefits of regulation. A selection of providers who might be expected to be tier 3 were interviewed in each jurisdiction to find qualitative factors unique to small providers that may impact on costs and benefits. The survey was web based and interviews were generally conducted by teleconference. The interviews involved at least one provider from each jurisdiction in each size tier, except for small jurisdictions where not all tiers were able to be represented. Multijurisdictional and Indigenous housing providers were also represented in the surveying.

Regulators were consulted during a workshop in Canberra on 21 September (convened by FaHCSIA). Expected costs for government, providers and the rest of society from the regulatory system were identified. The meeting also provided benchmarking for the expected regulatory changes in respect to their jurisdictions.

1.1.2 Historical trends

One of the most important parameters underlying estimated costs and benefits in this RIS is future growth in community housing stock. This growth is largely determined by government policies, where changes are difficult to predict. Chart 1.1 shows past trends in growth in community housing stock by jurisdiction.

Chart 1.1: Growth in community housing (dwellings) by jurisdiction, 2005 to 2010



Sources: AIHW (2011, 2010, 2009) for total dwellings, 2008-10. As the AIHW does not supply total dwellings prior to 2008, FaHCSIA special AIHW data request is used for total dwellings 2006 and 2007. Total dwellings are not available before 2006, so AIHW (2006) is used for total tenantable units in 2005.

Growth in community housing stock is driven by a large range of factors, including regulatory regimes. However, grouping jurisdictions by regulatory regimes may provide some indication of the impact of these regimes on growth. Over the period 2005 to 2010, "NRS like" jurisdictions (NSW, Victoria and the ACT) have grown at an average annual rate of 9.7%. Jurisdictions with other forms of regulation (Queensland, Western Australia and South Australia) have grown at an annual average rate of 6.9%. This places an upper bound on the impact of the NRS at around 3% per annum.[1]

If all jurisdictions adopted the NRS, and grew at the same rate as current "NRS like" jurisdictions, there could be an additional 11,563 community houses by 2021. (This

[1] Tasmania and the Northern Territory only use contracts to regulate their community sectors. Due to small base issues, their growth rates can fluctuate dramatically. For example, it is expected that the total in the Northern Territory in 2011 will be almost double the 2010 total. For the purposes of the model, they are grouped with jurisdictions that have regulations which are not "NRS like".

projection assumes that "NRS-like" states would continue to grow at their current rate under the NRS.)[2]

1.1.3 Benefits to government

Under the Nation Building Economic Stimulus Plan, the Commonwealth budgeted an average cost of $300,000 per social housing dwelling (with 'social' referring to public and community housing). However, due to leveraging by CHOs (among other factors), the actual average cost has been $271,400 per dwelling. This represents a saving of 9.53% on capital costs to government.

These capital savings to government are borne by CHOs instead. However, to the extent that these savings allow for more social housing to be provided for a fixed government outlay than would otherwise have been, overall there is considered to be a net benefit to society.

Based on historical trends, only around half of any growth in community housing is expected to be from new capital, with the rest coming from transfers of public housing stock and new head leases[3].

In summary, dollar values for benefits to government presented in this report are calculated on the basis of the following assumptions.

- Based on historical trends, 22% of future community housing growth will come from transfers of public housing stock, 24% will come from new head leases[4], and the residual 54% is assumed to be new capital.
- Each new capital community housing dwelling costs $300,000—growing by 7% per annum[5].
- Based on Nation Building experience, each new capital community housing dwelling provides a saving to government on capital cost of 9.53%, primarily through provider leverage.

1.1.4 Costs to government

Deloitte Access Economics sought information from regulators about their current costs of regulating community housing, as well as estimates of ongoing costs under the NRS

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[2] Earlier modelling had assumed that current growth rates in "NRS like" jurisdictions would have diminished in the base case as recent stimulus funding wore off, but would have continued under current rates with the NRS, because the NRS was assumed to facilitate additional government funding. However, some NRS jurisdictions considered that the impact of Nation Building on NRS growth rates was not large, and hence their current growth rates should continue under the base case. Conversely, most considered current NRS-like growth rates too optimistic even for Option 2. Accordingly, NRS-like jurisdictions now do not slow down under the base case, nor increase under Option 2.

[3] While head leases are counted as community housing stock, effectively a CHO only provides tenancy and management services on a dwelling owned or leased by the jurisdiction.

[4] Head leasing figure is based on AIHW data, which some states advise under-represents total head leasing, but is the only nationally available data source.

[5] Cost of $300,000 comes from amount budgeted per dwelling under the Nation Building (www.economicstimulusplan.gov.au/housing/pages/default.aspx). Increase in house prices is based on last decade average. However, it is not certain that these increases will be maintained in the longer term. As such, a smaller than 7 per cent increase in house prices would lead to a lower estimate for the Benefits to Government.

and adjustment costs to transition to the NRS.[6] The average cost reported by regulators was $180 per dwelling per year.

Table 1.1: Community tenancy units and regulation costs by jurisdiction

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Total tenancy units 2009	16,037	8,347	7,254	5,652	4,531	1,115	672	131
Regulatory costs, average last three years ($m)	2.4	1.7	1.6	1.2	1.1	0.0	0.2	0.0
Regulatory unit cost ($)	148	204	227	221	234	-	268	-

Note: AIHW uses total tenancy units as denominator when it calculates administrator costs per unit. Used here for consistency[7], Jurisdictions did not consider AIWH administrative costs reliable and supplied their own. AIHW administrator costs exclude capital costs. Regulators were asked to supply data for average costs of latest three years available, assumed midpoint is 2009[8]. Source: AIHW (2011), Communication with regulators. ACT advises that AIHW figures undercount its tenancy units.

Regulator costs under the NRS (Option 2) were calculated as the sum of ongoing regulator costs per dwelling (based on estimates provided by regulators of the percentage increase in regulator costs[9]). NRS regulator adjustment costs for establishing new systems and processes are also included—and assumed to be spread over the first three years of implementation. This is again based on estimates provided by regulators of the adjustment cost per dwelling.

1.1.5 Benefits to providers

Providers were surveyed on expected costs and benefits of the NRS. However, it was difficult to estimate costs and benefits accurately, since it was only possible to give providers small portions of work-in-progress regulations for them to use in estimating the impacts of the NRS on their operations. Because providers did not have access to full and complete regulations (as well as sufficient time to digest such) survey questions were mostly ordinal than cardinal e.g. asking whether the NRS might have nil effect, minor effect, or significant effect on costs - rather than asking for a dollar value.

Of the broad principles underlying the NRS, the tiers of registration and the independence of the Registrar were seen as net benefits by providers. Providers also reported benefits in the ability to attract finance and grow housing stock. Providers who currently operate in multiple jurisdictions, or aspire to in the future, believed that the proposed NRS would be beneficial. The complaints mechanism, and registrar powers were both reported as increasing compliance costs and simultaneously reducing benefits.

Of reported benefits, only borrowing cost reductions are directly quantifiable. However, even here, because of the above limitations, it was considered more reliable to use (cardinal) historical evidence than (ordinal) survey responses. Accordingly, the model assumes that the NRS will lead to similar interest rate savings to Australian providers as

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[6] Figures are as at January 2011, source: www.economicstimulusplan.gov.au/housing/pages/default.aspx

[7] Nationally, there is a 97% correlation between dwellings and tenancy units.

[8] Years covered where not specified in most cases, but as this report was commissioned before the end of 2010-11 financial year, it was assumed that 2010-11 figures were not used in the averages.

[9] Where NRS-like jurisdictions did not provide an estimate, estimates were based on (weighted) average of other NRS-like states. Where other jurisdictions did not provide an estimate, Australian averages were used for that jurisdiction.

did the introduction of a similar regime in the UK[10]. Specifically, that is 60 basis points[11]. Sensitivity testing was also done at 30 basis points and 100 basis points on a national level and can be found at section 1.4.

1.1.6 Costs to providers

The average NRS-like jurisdiction provider reported spending $108,056 a year on compliance costs, compared with only $55,563 for other providers. Conversely however, the average NRS-like jurisdiction respondent managed 1,305 houses, compared to the average "other" with 621 houses. Thus on a per house basis, the average NRS-like jurisdiction provider spends $83 a year on compliance, while the average "other" spends $90.

On the 0-1-2 scale (representing respectively "nil/minimal" "minor" and "significant" change) the average NRS-like jurisdiction respondent reported 0.82 on expected cost increases, and the average other respondent 4.10. Participants were advised that a "significant" change would be one of 5% or greater. On this weighting, NRS-like jurisdiction providers would expect a 2.0% increase in compliance costs under the NRS, while their other counterparts would expect a 10.3% increase in ongoing costs.

On a per unit basis, this translates to an increase from $82.80 to $84.49 for NRS-like jurisdiction providers, and from $89.54 to $98.72 for other providers. These are not large increases ($1.69 per year, and $9.18 respectively). In total over the decade, these costs only amount to $2.8 million.

In terms of the RIS options, it is assumed that under Option 1 (Status Quo) provider costs would remain at about $83 per property for providers in NSW, Victoria and the ACT (that currently have NRS-style regulatory systems) and $90 per property in other states and territories. Under Option 2 (NRS), costs would rise to about $84 per property in NSW, Vic and Act and $99 per property in other states and territories.

1.2 Growth scenarios

Given the difficulties of attempting to predict political decisions, regulators, government agencies and the Office of Best Practice Regulation Review (OBPR) agreed that instead of trying to forecast the actual future number of community houses, a more appropriate approach would be to analyse costs and benefits of the NRS over a range of plausible scenarios. That is, for any policy and funding setting, the key question for the CBA is whether growth would be higher under the NRS (option 2) than would otherwise be expected under the status quo (option 1).

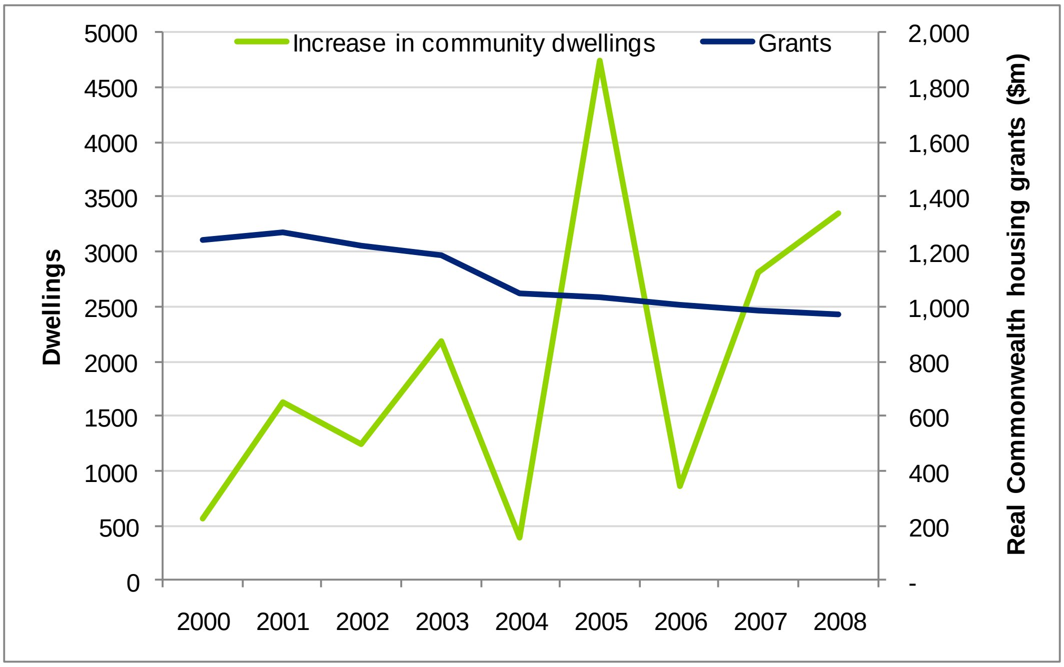
The level of public support provided to community housing is determined by (essentially unpredictable) political decisions, rather than (relatively predictable) market forces. For example, Chart 1.2 shows that while Commonwealth support for state and territory social

[10] It appears that to some extent, banks were prepared to lend to UK providers because they perceived providers had an implicit government guarantee. Jurisdictions argued that the UK situation may be different, as no formal guarantees had been offered in Australia. However, no formal guarantees were offered in the UK either, and banks may (or may not) perceive that governments would be unwilling to let a provider of community housing fail.

[11] Sensitivity testing is conducted around this figure, using a lower range of 30 basis points and a higher range of 100 basis points. The results indicate that overall cost benefit ratios are not strongly sensitive to interest rate savings.

housing has remained relatively constant at around $1 billion annually, the amount that jurisdictions spend on additional community housing in any given year fluctuates greatly.

Chart 1.2: Commonwealth social housing grants and increase in community dwellings



Note: CSHA funding only (no NRAS or Nation Building)
Source: FaHCSIA.

Essentially, two main scenarios are used. The first assuming policy and funding settings where there is 2% additional investment in community housing (reflecting the bottom range of historical jurisdictional growth). The second scenario assumes settings that led to increased investment of 6% pa (reflecting long-run growth in non-NRS-like jurisdictions).

For each of these growth scenarios, a range of possible impacts of the NRS on housing stock growth were modelled. Based on the intended objectives of the NRS, this leverage factor is related to:

- Reduced regulatory costs for providers operating across jurisdictions.
- Greater economies of scale that flow through increased consolidation and partnership arrangements across the community housing sector.
- Greater leverage though lower financing costs.
- Greater likelihood of future Australian government incentives to accelerate growth of the community housing sector under a national regulatory system.

Based on historical differences between NRS-like and other jurisdictions above, this leverage factor could be up to 3%. This would translate into Option 2 growth rates of 3% under scenario 1 and of 9% under scenario 2. For sensitivity testing, the leverage factor was varied between 0.5% and 3%.

- Scenarios where the NRS would achieve zero growth are not modelled, due to division by zero issues in the model. However, as quantifiable benefits are linked to growth, and there are fixed adjustment costs, with zero growth impact, the NRS would not confer net benefits.

Under these assumptions, if base growth in community housing stock was only 2%, and the NRS only contributed an 0.5% increase (that is, to 2.5%), the net benefits of the NRS over the decade to 2021 would be $33.6 million, with a BCR of 2.8 to 1. That is, even using the most conservative assumptions, the NRS is worth undertaking from a national point of view (Table 1.2).

Using a base growth rate of 6%, and a midpoint NRS impact of an additional 1%, then total national benefits are $124.3 million over the decade (or around $12 million a year), and the BCR is 6.2 to 1.

Finally, using the most optimistic projections, where base growth of 6% plus NRS impact of 3% brings the whole country up to recent NRS-like jurisdiction's growth, the benefits rise to around $448 million over the decade, and the BCR is a very high 13.8 to 1.

Table 1.2: Difference between Option 2 (NRS) compared to Option 1 (Base - no change) ($m)

[See Explanatory Note 1]

Scenario	**Govt costs**	**Govt benefits**	**Provider costs**	**Provider benefits**	**Total net benefit** (total benefit - total cost)	**Total BCR**
Growth pa under Option 1 & 2	Difference between Option 2 (NRS) and Option 1 (Base-no change)					(ratio of total benefits to total costs)
Growth scenario 1: Option 1 (Base - no change): 2% pa growth in community housing dwellings Option 2 (NRS) Additional growth above Option 1 of 0.5% pa (1A); 1% pa (1B); 2% (1C); 3% pa (1D)						
1A Base: 2% NRS 2.5%	$16.7m	$43.4m	$1.9m	$8.8m	$33.6m	2.8
1B Base 2% NRS 3.0%	$18.7m	$88.7m	$2.0m	$17.8m	$85.9m	5.2
1C Base 2% NRS 4.0%	$22.9m	$185.5m	$2.1m	$36.8m	$197.4m	8.9
1D Base 2% NRS 5.0%	$27.3m	$291.0m	$2.2m	$57.1m	$318.6m	11.8
Growth scenario 2: Option 1 (Base - no change): 6% pa growth in community housing dwellings Option 2 (NRS) Additional growth above Option 1 of 0.5% pa (2A); 1% pa (2B); 2% (2C); 3% pa (1D)						

Scenario	Govt costs	Govt benefits	Provider costs	Provider benefits	Total net benefit (total benefit - total cost)	Total BCR
2A Base 6% NRS 6.5%	$18.9m	$61.3m	$2.3m	$11.3m	$51.3m	3.4
2B Base 6% NRS 7.0%	$21.4m	$125.2m	$2.4m	$22.9m	$124.3m	6.2
2C Base 6% NRS 8.0%	$26.7m	$261.3m	$2.51m	$47.4m	$279.5m	10.6
2D Base 6% NRS 9%	$32.2m	$409.3m	$2.64m	$73.4m	$447.8m	13.8

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community housing leverage. Provider benefits represent lower borrowing costs.

Explanatory Note: Interpretation of CBA scenarios

Each CBA scenarios in Table 1.2 (and subsequent jurisdictional tables) represent the difference between costs and benefits under Option 2 (NRS) compared to Option 1 (Base – No change).

Given that costs and benefits are dependent on the future number of community housing dwellings, two sets of growth scenarios are analysed—one where community housing is projected to grow at 2% pa (growth scenario 1) and another with growth of 6% pa (growth scenario 2). Within each growth scenario, four different comparisons are made between Option 1 (Base – No change) and Option 2 (NRS)—each assuming an additional amount of growth under Option 2 compared to Option 1.

For example in Scenario 1A, community housing dwellings are projected to grow at 2% pa for 10 years under Option 1 (Base) and at 2.5% pa under Option 2 (NRS). If there were 46,000 houses in 2011, under Scenario 1A there would be about 2,800 additional dwellings in 2021 for Option 2 compared to Option 1.

	CH dwellings (2011)	CH dwellings (2021)	Growth over 10 years
Scenario 1A			
Option 1– 2% growth pa	46,000	56,100	10,100
Option 2– 2.5% growth pa	46,000	58,900	12,900
Difference (Option 2 – Option 1)			2,800

In Scenario 1A in Table 1.2, these 2,800 additional community housing dwellings translate into:

- Additional costs to government of $16.7m over 10 years (based on a higher unit regulatory costs and adjustment costs under the NRS)
- Additional benefits to government of $43.4m over 10 years (based on savings to government on unit capital cost primarily through provider leverage)
- Additional costs to providers of $1.9m over 10 years (based on higher unit compliance costs under the NRS)
- Additional benefits to providers of $8.8m over 10 years (based on lower unit borrowing costs under the NRS)

In Scenario 1A in Table 1.2, the 'Total Net Benefit' is the sum of the total benefits ($43.4m + $8.8m = $52.2m) less the total costs ($16.7m + $1.9m = $18.6m) – that is, $52.2m - $18.6m = $33.6m.

In Scenario 1A in Table 1.2, the 'Total BCR' (Benefit Cost Ratio) is the total benefits divided by the total costs – that is, $52.2m divided by $18.6m = 2.8 times more benefits than costs.

1.3 Jurisdictional context

Different jurisdictions have different definitions of community housing. Different jurisdictions have different dates for latest available official figures. AIHW data for 2009-10 (Table 1.3) is used to give a common comparison point for the jurisdictional analysis that follows.

Table 1.3: Number of dwellings in mainstream community housing, by state and territory, 2009-10

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
No. of dwellings	18,005	8,465	7,197	5,878	4,544	1,103	638	145	45,975

Source: AIHW (2011). Notes. Based on AIHW analysis of National Housing Assistance Data Repository 2009–10. No household data are available for mainstream CH in NT. AIWH (2011) does not provide a formal definition of community housing, but is presumed to use the same definition consistently across jurisdictions.

1.3.1 New South Wales

NSW community housing market

Community housing providers currently manage around 28,000 properties in NSW. There are 233 registered community housing providers, with 28 large providers managing 90 per cent of the housing stock (with some individual providers managing around 3,000 properties) in NSW.

NSW Regulatory environment

In May 2009, new statutory regulatory arrangements for community housing providers in NSW commenced with all providers required to be registered, and assigned a registration class, by May 2011.

The Housing Regulation 2009 prescribes high level performance outcomes in a Regulatory Code. The Housing Regulation sets out four classes of registration, with regulatory requirements under each class proportionate to the scale of the organisation's operations. The four classes of registration are: (1) Growth Providers, (2) Housing Providers, (3) Housing Managers, and (4) Small Housing Managers.

Past growth rate and explanation of the different drivers of this growth

The NSW Government's strategy for the growth and development of community housing, Planning for the Future, has provided the policy framework for the transfer of tenancy and property management of social housing from Housing NSW, to a number of not for profit community housing providers.

Planning for the Future's headline target is to grow community housing from 13,000 to 30,000 homes by 2016. This target is expected to be achieved ahead of schedule.

The recent growth in community housing has been achieved through capital investment by the NSW and Australian Governments. Most significantly, 90 per cent of the Nation Building and Economic Stimulus Plan funded properties are being managed by community housing providers, with title either having transferred or targeted for transfer.

The second major source of growth has been through a program of transferring management of properties from Housing NSW to community housing providers. This has been a key strategy to grow the sector and enhance its viability. In NSW 4,500 properties have been transferred to the community housing sector between 2004-05 and 2009/10.

Costs and benefits for NSW

A breakdown of the CBA by jurisdictions highlights that NSW achieves a higher positive cost benefit ratio than the national CBA for all scenarios. While the breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that NSW achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 4.3:1, is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 18.9:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

As NSW's regulatory system is already similar to the NRS, ongoing compliance cost increases would not be large. Also, as a large jurisdiction, there would be large future growth benefits (against fixed adjustment costs.)

Table 1.4: NSW CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	NSW Govt costs	NSW Govt benefits	NSW Provider costs	NSW Provider benefits	NSW Total net benefit	NSW Total BCR (ratio)
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	4.2	15.9	0.3	3.2	14.7	4.3
Option 1: 2% **Option 2: 3%**	4.8	32.5	0.3	6.5	34.0	7.7
Option 1: 2% **Option 2: 4%**	6.1	68.0	0.3	13.5	75.2	12.9
Option 1: 2% **Option 2: 5%**	7.4	106.7	0.3	20.9	119.9	16.6
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	5.0	22.5	0.3	4.1	21.3	5.0
Option 1: 6% **Option 2: 7%**	5.8	45.9	0.3	8.4	48.2	8.9
Option 1: 6% **Option 2: 8%**	7.3	95.8	0.33	17.4	105.5	14.7
Option 1: 6% **Option 2: 9%**	9.0	150.1	0.35	26.9	167.6	18.9

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

There are a range of factors in the NSW context that will influence whether the modelled net benefits translate to actual net benefits for government and providers—in particular the extent to which the NRS:

- Influences NSW government policy in continuing to support the growth of the community housing sector.
- Influences the Australian government to fund additional incentives to accelerate growth of the community housing sector.
- Reduces regulatory costs for NSW CHPs operating across jurisdictions (noting that currently only 3 providers that operate in NSW also operate in other jurisdictions—although this number could increase under the NRS).

1.3.2 Victoria

Victoria community housing market

The community housing market in Victoria operates under a robust regulatory framework that has helped build a housing sector that grows affordable housing for the Victorian community.

The sector has grown under the regulatory environment, as it has provided a high degree of confidence and assurance to both Government and other stakeholders that registered housing agencies are able to deliver quality services to their tenants.

Following the first registrations in 2005, there has been substantial reform in the community housing sector, as all community housing providers that wanted to continue to manage government owned housing or receive capital funding for new housing sought to achieve registration. Victoria's registered housing sector is now significant and diverse – from moderately sized housing cooperatives to large multi-service housing providers and strong housing associations with large housing portfolios.

As at 1 July 2011, there were 42 registered housing agencies consisting of nine housing associations and 33 housing providers that:

- own, manage and develop affordable rental housing;
- provide a range of housing support and assistance to clients;
- are viable businesses partnering with both government and the community; and
- have met registration criteria and meet ongoing regulatory compliance against performance standards.

Victoria Regulatory environment

On 1 January 2005, the amendments to the Housing Act 1983 introduced a new system of regulation for non-government rental housing agencies in Victoria. The amendments also established the Registrar of Housing Agencies with two main functions; the registration of rental housing agencies; and compliance and performance monitoring of registered agencies. To be registered, organisations must meet registration criteria and demonstrate the capacity to meet gazetted Performance Standards. The Registrar undertakes annual assessments of registered agency compliance and performance against the Performance Standards.

Past growth rate and explanation of the different drivers of this growth

In Victoria, there have been some notable State Government policies that have supported the provision of affordable housing options through partnerships with registered housing agencies, including:

- the Government's Strategy for Growth for Low Income Victorians (Strategy for Growth);
- funding initiatives, including $300 m housing association growth strategy in the 2007-08 state budget;

- the transfer of stock assets to housing associations in 2008, with eight housing associations receiving some 550 properties worth in excess of $175m; and
- an increased number of Government owned assets being head-leased to the sector for long term housing.

Further, it is expected that housing agencies leverage the Government's capital commitment through borrowings and third party contributions, resulting in increased affordable housing options. For many projects involving registered agencies, Government funding was leveraged by agency contributions of at least 25 per cent of the overall project costs.

Victoria’s robust regulatory environment and the confidence in the sector that it has created, has produced a robust foundation for State and Commonwealth Government funding initiatives. This was clearly illustrated when the Nation Building – Economic Stimulus Plan was introduced across the country, and over 50 per cent of the $1.16 billion funding for additional social housing units in Victoria were delivered through registered housing agencies rather than directly by Government, attracting some $189 million of leverage.

Housing associations and the sector in general have continued to grow since the creation of Victoria’s regulatory framework in 2005, with the average annual growth in housing stock from 2005-2010 being over 14 per cent. In addition, the total assets held by the sector have grown to a substantial $1.8 billion in 2009/10.

Investors, such as the National Australia Bank and MECU (Members Equity Credit Union) has been working with the community housing sector over the past five years and have invested in a number of projects which have increased the supply of affordable housing for people in need. Victoria’s robust regulatory environment has successfully facilitated independent investors and increased leverage opportunities for registered housing associations.

Costs and benefits for Victoria

While the following breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that Victoria achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 1.7:1, is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 9.4:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

Victoria reported relatively high adjustment costs, especially given that it already has a regime similar to the NRS. Also, because of low survey responses, it was not possible to differentiate provider leverage by jurisdiction, and the national average was applied to all states and territories. This may overstate the benefits to Victoria of joining the NRS, as Victoria currently already achieves high rates of leverage. (That is, it has already captured a larger proportion of NRS leverage benefits than the national average.) Finally, as with some other jurisdictions, full range of estimates for regulatory costs under the NRS was not available, resulting in averages being substituted.

Table 1.5: Victoria CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	Victoria Govt costs	Victoria Govt benefits	Victoria Provider costs	Victoria Provider benefits	Victoria Total net benefit	Victoria Total BCR (ratio)
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	5.8	8.3	0.1	1.7	4.0	1.7
Option 1: 2% **Option 2: 3%**	6.2	16.9	0.1	3.4	13.9	3.2
Option 1: 2% **Option 2: 4%**	7.2	35.4	0.1	7.0	35.1	5.8
Option 1: 2% **Option 2: 5%**	8.2	55.5	0.2	10.9	58.1	8.0
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	6.6	11.7	0.2	2.2	7.1	2.1
Option 1: 6% **Option 2: 7%**	7.1	23.9	0.2	4.4	21.0	3.9
Option 1: 6% **Option 2: 8%**	8.3	49.9	0.17	9.0	50.4	6.9
Option 1: 6% **Option 2: 9%**	9.6	78.1	0.18	14.0	82.4	9.4

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

1.3.3 Queensland

Queensland community housing market

Of the 335 housing providers registered under the Housing Act 2003 (Qld), 319 providers manage approximately 11,600 social housing dwellings. The remaining organisations deliver housing related support or private housing assistance products.

There is significant diversity in the Queensland social housing sector, including:

- Organisations managing small numbers of properties under one program, through to large organisations managing over 500 properties, under multiple funding streams.

- Organisations whose relationship with the department commenced in the 1980s or earlier, through to services funded in the last five years.
- A wide variety of body corporate and auspicing arrangements including local governments, church based groups, not-for-profit community organisations and housing co-operatives with varying levels of voluntary input.
- The establishment over the last 5 to 10 years of housing companies with larger portfolios, a number of which were formed through consolidations.

Providers operate across the State's diverse regions delivering services to a range of communities and target groups, including

- Local Governments delivering housing services particularly in rural and remote communities
- Indigenous Councils and Indigenous Community Housing Organisations focussed on delivering housing services to indigenous communities in remote and urban settings.
- Metropolitan and regional city based providers
- Some providers with focus on particular client groups
- Some providers, particularly church based organisations, with a presence across regions and throughout the State.

Table 1.6: Growth in Queensland community housing

Category	31 Dec 2005	30 June 2011
Properties	7,070	11,574
Providers	450+	335 registered with 319 delivering social housing and approximately 50 Indigenous Community Housing providers that remain outside the existing State regulatory system

Source: Queensland Government

Queensland Regulatory environment

Registration of Housing Providers commenced with the introduction of the Housing Act 2003, and is required for delivering services funded by the department.

The Queensland regulatory system contains a number of features consistent with the proposed national system. Key differences are that there is no separate Registrar role or distinction between regulatory and funding responsibilities, nor is there any distinction in types of registration.

The Housing Regulation 2003 prescribes requirements for registered providers, covering Financial Management, Governance, Service Delivery, Tenancy and Property matters. Requirements in these areas support the application of a number of consistent processes including eligibility, application and allocation policies, rent requirements and asset management planning. Providers of longer term and transitional housing are required to house eligible applicants from the housing register (the single waitlist for all social housing).

The Housing Regulation and funding policy supports the State Government's integrated service delivery framework for housing - the One Social Housing System that has been in operation since 2006. A fundamental principle of the system is that clients are offered assistance matched to their level of need for the duration of their need.

Indigenous Community Housing Organisations were funded by the Australian Government under the Community Housing and Infrastructure Program. Many of these organisations continue to operate outside the state-based funding and regulatory requirements established under the Housing Act 2003.

Past growth rate and explanation of the different drivers of this growth

The Queensland Government's funding relationship with community housing providers began more than 30 years ago with the provision of grants to Co-ops. Co-operative funding was a precursor to the Long Term Community Housing program, which is now one of a suite of social housing programs that includes crisis, transitional and affordable housing. The department has traditionally funded providers through capital grants for construction, leasing State-owned social housing, or through recurrent funding to lease properties from the private rental market.

Since 2005, the number of properties managed by providers has almost doubled from approximately 7,000 properties to almost 12,000. This coincided with the emergence of a number of larger providers managing over 500 properties.

The growth of larger-scale Housing Companies is largely due to a strategy encouraging consolidation of existing organisations and the recent injection of significant capital funding through the Nation Building Social Housing Initiative. A reduction in the number of registered providers between 2005 and 2011 was largely due to reforms introduced in 2008 that significantly reduced the number of local governments in Queensland.

Future Growth

The Department of Communities is giving consideration to new policy and funding settings that leverage off a national approach to regulating social housing. A greater role for the non-government housing sector is envisaged under these settings along with new forms of government and private investment. For Queensland this potentially means transferring the management of some of the State's portfolio to registered providers, and for the transfer of title to be considered for providers that demonstrate they are performing at the highest levels.

These future delivery and funding settings will continue to focus on responding to regionally identified needs and to receive funding providers will need to demonstrate the ability to deliver quality services that address those needs.

Costs and benefits for Queensland

While the following breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that Queensland achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 2.8:1, is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 12.8:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

The costs and benefits to Queensland of implementing the NRS are close to those for the national average. To some extent, this reflects the fact that estimates for regulatory costs under then NRS were not available, and national averages were substituted.

Table 1.7: Queensland CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	Queensland Govt costs	Queensland Govt benefits	Queensland Provider costs	Queensland Provider benefits	Queensland Total net benefit	Queensland Total BCR (ratio)
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	2.5	7.2	0.6	1.5	5.6	2.8
Option 1: 2% **Option 2: 3%**	2.9	14.7	0.6	3.0	14.2	5.1
Option 1: 2% **Option 2: 4%**	3.7	30.8	0.6	6.1	32.5	8.5
Option 1: 2% **Option 2: 5%**	4.6	48.3	0.7	9.5	52.5	11.0
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	2.8	10.2	0.7	1.9	8.5	3.4
Option 1: 6% **Option 2: 7%**	3.3	20.8	0.7	3.8	20.5	6.1
Option 1: 6% **Option 2: 8%**	4.3	43.3	0.77	7.9	46.1	10.0
Option 1: 6% **Option 2: 9%**	5.4	67.9	0.81	12.2	73.8	12.8

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

1.3.4 South Australia

SA Community Housing market

South Australia's Community Housing sector consists of organisations which are either registered and regulated under a combination of prescriptive legislation and contractual funding arrangements, or those which are regulated solely through contractual funding arrangements. [12]

The SA community housing sector is a mixed market of small volunteer-run organisations, small community-based associations and larger companies. Funding arrangements vary from a small portion of lease products to 100% Government-funded properties (with title held by providers) and most recently expansion of the private-public partnerships model with social and affordable housing providers.

At 30 June 2011, 92 registered organisations held title to 5,096 Government-funded community housing properties (Debenture[13] and Stimulus housing products – see Table 1.8). Funding agreements for these allocations are made under the SACCH Act and combined, they determine and control the use of the asset (including tenant eligibility parameters, disposal of the asset etc) and use of income derived from the asset (e.g. maximum rent settings, capital contributions returned to government, retention of operating allowances by organisations).

In recent years however, the South Australian Government has made a number of policy decisions to guide funding of social and affordable housing through contractually-based partnerships with NGOs, which has seen much funding allocated to organisations which operate outside of the SACCH Act. Increasing professionalism in a number of larger providers who are more readily able to access third-party finance and have increasing development capacity has lead to the use of alternative regulatory arrangements. At 30 June 2011, an additional 15 non-Government organisations (not registered under the SACCH Act) held title to 832 partially Government-funded properties which are regulated through contract only. This number of properties will significantly increase over the coming years through NRAS and state-based funding programs targeting high performing organisations irrespective of their registration under the SACCH Act.

South Australia has undertaken small amounts of stock transfer from Public Housing to Community Housing providers over throughout the sample period below, but this has not had any significant impact on growth rates.

SA's current regulatory environment for community housing

Community Housing in South Australia has operated primarily under the *South Australian Co-operative and Community Housing Act* since 1991. This legislation establishes a comprehensive and robust framework for the regulation and operation of the community housing sector in SA. The functions of the legislation include:

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[12] For the purposes of the NRS consultation cost-benefit analysis, Community Housing providers in this paper refer to all organisations registered under the SACCH Act, non-registered NRAS providers which provide social and affordable housing and non-registered Affordable Housing Innovations Fund providers which provide social and affordable housing.

[13] Debenture refers to a funding arrangement under which properties are 100% funded by Government and transferred to community housing providers but Government retains a financial "charge" over the title to the value of the property. Should an organisation breach the SACCH Act or funding agreement, as a last resort, Government can call-in the charge and have the property transferred to Government or another registered provider.

- Incorporation of housing co-operatives;
- Registration of housing co-operatives and associations;
- Funding parameters (including statutory instruments of security);
- Establishes regulatory scope and powers (including comprehensive investigation and intervention powers similar to a registrar); and
- Enables wind-up of organisations.

While South Australia does not have a role appointed as "registrar", the legislative-based regulatory system has many components which make it highly comparable to the "NRS-like" jurisdictions.

In addition to those organisations which are registered, funded and regulated under legislation, South Australia funds and regulates some housing NGOs solely through contractual arrangements. Contracts vary in length, scope and regulatory powers depending on the program with which they are associated.

Funding solely through contracts rather than registration and funding under the SACCH Act has been undertaken for a variety of reasons, determined on a program-by-program or project-by-project basis. These policy decisions to fund outside of a highly prescriptive regulatory system are made to allow for:

- Ability to fund new players[14] without the need to be regulated under prescriptive legislation;
- Increased flexibility in the types of partnerships able to be entered into; and
- The need to fund one-off projects.

There are also a very small amount of Government-owned properties in SA leased to, and managed by NGOs. These figures have not been included in the growth figures provided below.

Number of CHOs

At 30 June 2011, South Australia funded:

- 92 registered Community Housing Providers; and
- 15 non-registered Community Housing Providers (including Affordable Housing Providers)

Past growth rate and explanation of the different drivers of growth

Traditional community housing ("Debentured") has been funded primarily through NAHA (and previously through CSHA) which has provided minimal, but constant growth of the sector. As can be seen above, the significant growth in SA since 2006 has resulted primarily from one-off capital injections from Commonwealth and State funding.

[14] It should be noted that some "new players" sought to register under the SACCH Act but were ineligible due to their corporate structure and/or principle constitutional purposes.

While average annual growth is approximately 5.6% over the stated period, it is clear that this is unlikely to be a continuing trend without additional capital funding from the Commonwealth. Growth prior to Stimulus and NRAS might be more appropriately estimated at approximately 3%.

Historically, in South Australia, the allocation of properties or the distribution of funding has not always required registration under the regulatory system. While registration under the SACCH Act is sometimes a condition of funding arrangements, registration under the SACCH Act does not guarantee growth. This is demonstrated above in the growth attributable to the AHIF, NRAS and National partnership Agreement funding sources. South Australia has consciously made a determination that providers in receipt of these forms of funding need not necessarily be registered under the SACCH Act.

Inclusion of affordable housing has seen rates of growth increase in both the number of housing outcomes delivered as well as the total number of providers. These providers are increasingly becoming more professional in their operations, accessing third party debt-finance to fund developments and partnering with State Government to increase total numbers of social and affordable housing outcomes.

Table 1.8: Past rate of growth in SA Community Housing sector (dwellings)

	Debentured (NAHA)	NBESP	AHIF (NAHA)*	NRAS*	NPA*	Total	Annual Growth Rate
2006/07	4460					4460	
2007/08	4538		55			4593	0.03
2008/09	4537		100	27		4664	0.015
2009/10	4552		155	149	22	4878	0.046
2010/11	4510	67	286	518	28	5409	0.109
2011/12^	4520	607	438	553	103	6221	0.15
2012/13^	4530	617	458	869	103	6577	0.057
2013/14^	4540	617	458	1203	103	6921	0.052
Average Growth Rate p.a.	0.22%					5.6%	5.6%

Notes: NPA = National Partnership Agreement. *A further breakdown of these figures to identify registered and non-registered providers was not able to be provided in the required timeframes

^ Predicted growth has been included for the years 2011/12 to 2013/14 as a "best guess" of future funding sources in SA. This does not represent confirmed policy positions of the SA Government regarding growth of the Community Housing sector.

Source: South Australian Government

Some of the most notable programs delivered by South Australia which have contributed to growth of the sector in the past or are expected to contribute to future growth include:

- NAHA:
  - NAHA funding has historically been provided on a per capita basis.
- AHIF:

- SA's funding policy agenda is further demonstrated above in the Affordable Housing Innovations Fund programs. This State-based funding program was targeted at high capacity organisations, regardless of whether they were currently registered community housing organisations, based on development proposals made by the NGOs.
- The Affordable Housing Innovations Fund (AHIF) was established in 2005 to facilitate the delivery of innovative affordable housing solutions to low to moderate income South Australians. The main objectives of this program included:
  - Developing investment strategies, in collaboration with government, private, local government and community partners to maximise value for money and to address the strategic housing priorities of South Australia.
  - Implementing workable housing solutions not previously undertaken by Government, which may have valuable demonstration and expansion potential.
  - Contributing to a diverse portfolio of responses across a number of target groups, tenures and locations.
  - Providing a greater diversity of housing options that match the changing community profile.
- Proposals were assessed against criteria such as organisational capacity, financial viability, innovation and strategic fit and eligibility for grant funding was not restricted to registered community housing organisations. Government's financial and policy interests are protected through contractual arrangements and security on title, rather than through regulation.

- NBESP:
  - The Nation Building Economic Stimulus Plan (Stimulus) afforded a large one-off injection of growth into the community housing sector. A policy decision was made in South Australia to only distribute these funds to organisations currently, or willing to be, registered under the SACCH Act. While this was a condition of funding, the primary reason for funding these organisations over others was demonstration of their financial and organisational viability. Ability to leverage against these additional properties and the capacity of these organisations to house high-need clients were determining factors in allocations.
- NRAS:
  - The National Rental Affordability Scheme (NRAS) is a Commonwealth Government initiative that provides funding to increase the supply of affordable rental dwellings, reduce rental costs for low to moderate income households and encourage large scale investment and innovative delivery of affordable rental housing. In South Australia, NRAS has been funded and regulated outside of the traditional community housing regulatory system.
  - Proposals were assessed against a standard framework including criteria on demonstrated need, organisational capacity, financial viability and access to

transport and services. Registered community housing organisations were eligible to apply under the scheme but it wasn't a compulsory requirement. NRAS is governed by specific legislation, regulations and policy guidelines which covers both non government and private industry providers.

- Stock Transfers:
  - No conclusive policy decision has been made regarding transferring future bulk amounts of public housing stock to community housing.
- Leverage
  - Housing organisations have opportunities for leverage of properties to which they hold title.
- Redevelopment of Housing SA medium density sites
  - Details are yet to be announced but it is intended that not for profit housing organisations will have the opportunity to become project partners in the redevelopment of older medium density sites belonging to Housing SA.
- Review of Supported Tenancy Scheme
  - The future operation of the supported tenancy scheme in South Australia is under review. One potential option under consideration is for the properties (up to 900) to be transferred to the ownership of the not for profit sector.

Costs and benefits for South Australia

A breakdown of the CBA by jurisdictions highlights that South Australia achieves a higher positive cost benefit ratio than the national CBA for all scenarios. While the breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that South Australia achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 4.8:1, is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 18.0:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

Table 1.9: SA CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	South Australia Govt costs	South Australia Govt benefits	South Australia Provider costs	South Australia Provider benefits	South Australia Total net benefit	South Australia Total BCR (ratio)
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	0.8	4.5	0.4	0.9	4.3	4.8

Growth assumptions	South Australia Govt costs	South Australia Govt benefits	South Australia Provider costs	South Australia Provider benefits	South Australia Total net benefit	South Australia Total BCR (ratio)
Option 1: 2% **Option 2: 3%**	1.0	9.2	0.4	1.8	9.7	8.1
Option 1: 2% **Option 2: 4%**	1.5	19.2	0.4	3.8	21.2	12.4
Option 1: 2% **Option 2: 5%**	2.0	30.1	0.4	5.9	33.7	15.1
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	0.8	6.3	0.4	1.2	6.3	6.2
Option 1: 6% **Option 2: 7%**	1.0	13.0	0.5	2.4	13.8	10.2
Option 1: 6% **Option 2: 8%**	1.6	27.1	0.48	4.9	29.9	15.0
Option 1: 6% **Option 2: 9%**	2.3	42.4	0.51	7.6	47.2	18.0

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

1.3.5 Western Australia

WA community housing market

At 30 June 2011, 189 Community Housing Organisations (CHOs) owned or managed 7,836 properties.

WA Regulatory environment

WA implemented an administrative regulatory system in 2008 to regulate not for profit CHOs. The administrative regulatory function is supported by policy and contractual control frameworks.

WA assesses and registers CHOs against the following three tiers of registration: (1) Growth Providers; (2) Preferred Providers; and (3) Registered Providers. There are currently six Growth Providers (two of which operate cross-jurisdictionally), 13 Preferred Providers and 16 Registered Providers. Registration criteria are premised upon the National Community Housing Standards. Full registration against any of the three tiers has a specified term of 3 years, following which the registration is reviewed in full.

WA has established Community Housing Agreements in order to protect government assets and the rights of tenants under the system of transferring assets to registered CHOs.

Past growth rate and explanation of the different drivers of this growth

Under its Affordable Housing Strategy 2010-2020, the WA Government has set a target of providing at least 20,000 additional affordable homes by 2020. Of these 1,000 are to be provided through Community Housing Organisations. This involves the transfer of public housing units to community housing providers (under asset transfer and head leasing arrangements), which will position the sector to leverage expanded portfolios to achieve the additional housing stock.

WA began transferring housing property titles to CHOs in 2010-11, when 1,041 properties were transferred. To date, 1,184 titles have been transferred to CHOs. Of these properties, around 90 per cent were funded by the Australian Government under the Nation Building and Economic Stimulus Plan.

Western Australia has principally effected transfers of housing stock to community housing management under contracts. Of the 7,836 properties under sector control, 4,783 are managed under head lease agreements, 1,041 are owned by providers and 2,012 are Joint Venture properties.

Costs and benefits for WA

While the following breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that WA achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 2.9:1, is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 13.1:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

WA did report a full range of regulatory adjustment and ongoing compliance costs under the NRS – with a substantial amount of detail by category. However, these costs for WA were not consistent with other jurisdictions, probably because WA included additional categories (for example legislative drafting and sector education). Other jurisdictions did not provide the same detailed breakdown, therefore it was not possible to tell what jurisdictions may (or may not) have included. Accordingly, it was considered appropriate to use national averages for WA. This contributes towards WA's BCRs being close to the national average in most cases.

Table 1.10: WA CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	WA Govt costs	WA Govt benefits	WA Provider costs	WA Provider benefits	WA Total net benefit	WA Total BCR (ratio)
Scenario 1						

Growth assumptions	WA Govt costs	WA Govt benefits	WA Provider costs	WA Provider benefits	WA Total net benefit	WA Total BCR (ratio)
Option 1: 2% **Option 2: 2.5%**	1.9	5.6	0.5	1.1	4.4	2.9
Option 1: 2% **Option 2: 3%**	2.2	11.5	0.5	2.3	11.1	5.2
Option 1: 2% **Option 2: 4%**	2.8	24.0	0.5	4.8	25.4	8.7
Option 1: 2% **Option 2: 5%**	3.5	37.6	0.5	7.4	41.0	11.2
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	2.2	7.9	0.6	1.5	6.7	3.4
Option 1: 6% **Option 2: 7%**	2.5	16.2	0.6	3.0	16.0	6.1
Option 1: 6% **Option 2: 8%**	3.3	33.8	0.60	6.1	36.0	10.2
Option 1: 6% **Option 2: 9%**	4.1	52.9	0.63	9.5	57.6	13.1

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

1.3.6 Tasmania

Community Housing Overview (as at July 2011)

In summary Tasmania has around 90 community housing organisations (excluding Local and State Government who are out of regulatory scope) managing up to 2000 properties or individual tenancies. Around 850 of these are Community Tenancies, where the organisation provides maintenance, tenancy management and support in public housing properties. The community housing sector in Tasmania currently represents around 15% of the total social housing sector. The scale of providers can be referenced by the fact that about 40% hold less than 10 properties; 75% less than 20 properties and 90% less than 50 properties. Only three providers manage around 200 units of accommodation each.

Growth

Community Tenancies historically represent properties transferred in respect of their management, generally under a lease arrangement. Some have been in place for over a decade and there has been slow and gradual growth since. There are instances of title transfer but these are generally ad hoc and are unable to be tracked to measure growth.

The Nation Building Economic Stimulus Package properties have been the main growth area over the past two years and there are 480 units of accommodation transferred to the sector. A further 50 units are expected to be completed by April 2012.

The National Rental Affordability Scheme (NRAS) has also contributed to growth in the sector with 73 properties currently tenanted and a further 256 expected to be added to the community housing sector progressively to 2015 through NRAS 4.

The major source of future growth in the community housing sector in Tasmania is expected to be through a new program of stock transfer to the sector which entails 4000 properties by 2014.

Regulatory environment

Tasmania does not currently have a regulatory system and manages the sector administratively via lease or funding agreements. In terms of the cost impact of introducing the National Regulatory System it should be noted that it is Tasmania's intention, at least in the first instance, to put in place a regulation requirement for only Tier One or growth providers. The benefit of moving to a regulatory system should also be noted for the Tasmanian context, in terms of contributing to the 'health' of providers and assisting in keeping them operational versus the cost of a provider going under.

Costs and benefits for Tasmania

While the following breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that Tasmania achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 1.6:1 is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 14.3:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

While Tasmania's BCRs are close to the national average, it is in a unique situation regarding the NRS as it plans to utilise the services of an interstate lead registrar. The estimated costs of so doing is around $100,000 a year, but this has not been finalised, and may considerably affect outcomes.

Table 1.11: Tasmania CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	Tasmania Govt costs	Tasmania Govt benefits	Tasmania Provider costs	Tasmania Provider benefits	Tasmania Total net benefit	Tasmania Total BCR (ratio)
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	0.7	1.1	0.1	0.2	0.5	1.6

Growth assumptions	Tasmania Govt costs	Tasmania Govt benefits	Tasmania Provider costs	Tasmania Provider benefits	Tasmania Total net benefit	Tasmania Total BCR (ratio)
Option 1: 2% **Option 2: 3%**	0.7	2.3	0.1	0.5	1.9	3.3
Option 1: 2% **Option 2: 4%**	0.7	4.7	0.1	0.9	4.8	6.8
Option 1: 2% **Option 2: 5%**	0.7	7.4	0.1	1.5	8.0	10.6
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	0.7	1.6	0.1	0.3	1.0	2.2
Option 1: 6% **Option 2: 7%**	0.7	3.2	0.1	0.6	2.9	4.4
Option 1: 6% **Option 2: 8%**	0.7	6.7	0.12	1.2	7.0	9.2
Option 1: 6% **Option 2: 9%**	0.7	10.4	0.12	1.9	11.4	14.3

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

1.3.7 ACT

ACT community housing market

Six providers have been registered in the ACT to date, one in the Affordable Housing tier and five in the Community Housing tier. As at 30 June 2011, registered providers managed approximately 800 dwellings.

There are another four providers either with current applications or seeking to apply.

One registered provider and another under assessment are based in NSW.

The majority of providers manage dwellings on lease from government. One growth provider owns 240 rental properties and is continually increasing this number through development.

Of the remainder, one provider manages 374 dwellings, while the next largest manages 100 tenancies in approximately 50 dwellings. The smallest provider manages 11 tenancies, just under 40% of which are in the provider’s own dwellings.

ACT Regulatory environment

The ACT introduced a regulatory framework for Community and Affordable housing providers in 2008 through amendments to the Housing Assistance Act 2007. The powers are vested in the Commissioner for Social Housing.

Implementation commenced in 2009 and the first provider was registered in April 2010.

Part 4A of the Housing Assistance Act 2007 empowers the Commissioner for Social Housing to register, de-register, monitor and intervene in the operations of not for profit housing providers. The powers to register providers and monitor their continuing compliance with the eligibility criteria are delegated to the Registrar, Not for Profit Housing Providers.

The ACT's framework has two tiers: an Affordable Housing provider tier which is for those organisations predominantly engaged in development and acquisition while the Community Housing tier is for those organisations predominantly engaged in managing tenancies and properties.

The majority of regulatory effort is directed to the Affordable and large Community housing providers.

Past growth rate and explanation of the different drivers of this growth

The Affordable Housing Action Plan 2007 included measures to support an expansion of the community housing sector to provide housing for Canberrans on low to moderate incomes, but not eligible for public housing.

Under the Plan, the ACT Government agreed to support Community Housing Canberra (now CHC Affordable Housing), as a not for profit affordable housing provider, through: the transfer of title for 135 dwellings valued at $40 million; a $3 million capital injection; access to a revolving finance facility at government interest rates, initially of $50 million and now expanded to $70 million; direct grants of land; transitional payments of up to $250,000 per annum for three years and land tax and duty concessions.

CHC is in turn required to increase the supply of affordable housing for purchase and rental by 470 dwellings within 5 years and 1,000 dwellings within 10 years.

CHC was established in 1998 as a company limited by guarantee by the ACT Government as a vehicle to increase the size and scale of the community housing sector in the ACT.

Historically the expansion of community housing had been achieved through direct stock transfers from the public housing system without overall growth in housing stock.

29 properties were transferred to another provider on lease in 2007, two of which have now been redeveloped to increase the number of dwellings to 31.

A focus of Phase II of the Affordable Housing Action Plan is the provision of housing for older persons. 77 community housing managed dwellings have been completed in 2010-11 for older persons.

Costs and benefits for ACT

A breakdown of the CBA by jurisdictions highlights that ACT achieves a higher positive cost benefit ratio than the national CBA for all scenarios. While the breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that ACT achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 11.5:1, is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 21.4:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

The ACT achieves very high BCRs from moving to the NRS. To some extent, this reflects low adjustment costs. The ACT is both a jurisdiction which is already like the NRS, which reduces relative adjustment costs. It is also a small jurisdiction, which reduces absolute adjustment costs.

Table 1.12: ACT CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	ACT Govt costs	ACT Govt benefits	ACT Provider costs	ACT Provider benefits	ACT Total net benefit	ACT Total BCR (ratio)
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	0.1	0.7	0.0	0.1	0.7	11.5
Option 1: 2% **Option 2: 3%**	0.1	1.4	0.0	0.3	1.5	14.9
Option 1: 2% **Option 2: 4%**	0.2	2.8	0.0	0.6	3.2	17.7
Option 1: 2% **Option 2: 5%**	0.3	4.5	0.0	0.9	5.1	19.0
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	0.1	0.9	0.0	0.2	1.0	13.7
Option 1: 6% **Option 2: 7%**	0.1	1.9	0.0	0.4	2.1	17.3
Option 1: 6% **Option 2: 8%**	0.2	4.0	0.01	0.7	4.5	20.1
Option 1: 6% **Option 2: 9%**	0.3	6.3	0.01	1.1	7.1	21.4

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

1.3.8 Northern Territory

NT community housing market

At 30 June 2011, the Northern Territory community housing sector, as identified by AIHW from public housing administrative data, comprised 34 unregistered non-government organisations with a combined portfolio of 248 properties. All identified organisations manage leased public housing properties to provide accommodation for special needs tenants. Eight of these organisations manage 66% of housing stock, with the largest provider having a portfolio of 53 dwellings.

In addition, Northern Territory non-government organisations manage or own an unidentified number of other tenanted dwellings. This information is not recorded in AIHW reports as there is no current requirement for the registration or reporting of community housing in the Northern Territory.

The proposed NT Affordable Housing Rental Company, an independent not for profit company that is to be established by agreement between the NT Government and the preferred proponents, is likely to be the first Northern Territory provider of affordable rental housing for low to moderate income households.

NT Regulatory environment

Northern Territory community housing is currently unregulated.

Past growth rate and explanation of the different drivers of this growth

The Northern Territory community housing sector, as identified in AIHW reports, has grown from 87 dwellings in 2006 to 248 dwellings in 2011, an annual growth rate of 23% over five years. The major source of growth has been through a program for the leasing of Territory Housing properties to non-government organisations with special needs clients.

The NT Government’s Housing the Territory initiative provides the policy framework for the future growth of affordable housing provision by not-for profit organisations. Under this initiative the Affordable Housing Rental Company will commence operations with a portfolio of 35 owned dwellings and 10 managed public housing dwellings.

Costs and benefits for NT

While the following breakdown summarises costs and benefits for government and providers, caution is needed with the interpretation of these findings because of the small sample of providers and the sensitivity of the analysis to both different growth assumptions and estimates of regulator costs.

Within these limitations, the analysis highlights that NT does not achieves net positive benefits from the NRS under all scenarios. The benefit cost ratio (BCR) is positively associated with both higher initial growth conditions, and larger NRS impacts. The smallest BCR, of 0.2:1, is associated with the lowest initial growth rate (2% per annum) and the smallest NRS impact (additional 0.5%). Conversely, the largest BCR, of 1.9:1, is achieved under the highest base growth rate (6%) and NRS impacts (additional 3%).

Because the Territory has very few houses, this leads to high ongoing unit regulatory costs. However, in the Northern Territory's case, the low growth scenario is not relevant. The announced increase to 248 houses in 2011 will of itself – even if there are no further new houses for a decade – push the Territories growth rate above 6% for the rest of the forecast period. And, as modelled, at base growth of 6%, if the contribution of the NRS is above 1%, then the Territory does return a positive BCR.

- As noted above, costs and benefits for all jurisdictions are not modelled on 2011 statistics because not all jurisdictions were in a position to provide same. However, if the NT's 2011 figures had been used, the extra houses would have driven down unit costs, and it is likely that BCR's would be positive with a 1% contribution from the NRS.

- Because the NT has not made a formal decision about registrars, future costs are difficult to anticipate. Following discussions with participants, it is assumed the NT will adopt an interstate lead registrar, and that this will cost around $100,000 a year.

Table 1.13: NT CBA scenarios – Option 2 (NRS) compared to Option 1 (no change) ($m)

Growth assumptions	NT Govt costs	NT Govt benefits	NT Provider costs	NT Provider benefits	NT Total net benefit	NT Total BCR (ratio)
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	0.7	0.1	0.0	0.0	-0.6	0.2
Option 1: 2% **Option 2: 3%**	0.7	0.3	0.0	0.1	-0.4	0.4
Option 1: 2% **Option 2: 4%**	0.7	0.6	0.0	0.1	-0.1	0.9
Option 1: 2% **Option 2: 5%**	0.7	0.9	0.0	0.2	0.3	1.4
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	0.7	0.2	0.0	0.0	-0.5	0.3
Option 1: 6% **Option 2: 7%**	0.7	0.4	0.0	0.1	-0.3	0.6
Option 1: 6% **Option 2: 8%**	0.7	0.8	0.01	0.1	0.2	1.2
Option 1: 6% **Option 2: 9%**	0.7	1.2	0.01	0.2	0.7	1.9

Note all figures are in net present values. Both government and provider costs are the fixed cost of implementing the NRS, and ongoing compliance costs. Government benefits represent increased housing per dollar of budget outlays due to community leverage. Provider benefits represent lower borrowing costs. See Table 1.2 and accompanying text for further explanation.

1.4 Sensitivity Testing

As the survey responses were not sufficiently robust to enable calculation of expected NRS interest rates savings for providers, historical savings from a similar scheme in the UK were used. The model used the midpoint of estimates of UK savings (60 basis points). Sensitivity testing has been conducted using the high (100 basis points) and low (30 basis points) estimates for UK savings. BCR results are not particularly sensitive to interest rate parameters – Option 2 still remains the preferred outcome in all scenarios. The difference in NRS benefits to providers over the decade ranges between around plus or minus $5 million under low growth / low NRS impact scenarios, to around plus or minus $40 million under high growth / high NRS impact scenarios.

Table 1.14: Australia CBA scenarios, Option 2 (NRS) compared to Option 1 (no change) with NRS 30 basis point reduction in provider borrowing costs ($m)

Scenario	Govt costs	Govt benefits	Provider costs	Provider benefits	Total net benefit	Total BCR
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	16.7	43.4	1.9	4.4	29.2	2.6
Option 1: 2% **Option 2: 3%**	18.7	88.7	2.0	9.0	77.0	4.7
Option 1: 2% **Option 2: 4%**	22.9	185.5	2.1	18.5	179.0	8.2
Option 1: 2% **Option 2: 5%**	27.3	291.0	2.2	28.7	290.3	10.9
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	18.9	61.3	2.3	5.7	45.7	3.2
Option 1: 6% **Option 2: 7%**	21.4	125.2	2.4	11.5	112.9	5.7
Option 1: 6% **Option 2: 8%**	26.7	261.3	2.5	23.8	255.9	9.8
Option 1: 6% **Option 2: 9%**	32.2	409.3	2.6	36.9	411.4	12.8

Table 1.15: Australia CBA scenarios, Option 2 (NRS) compared to Option 1 (no change) with NRS 100 basis point reduction in provider borrowing costs ($m)

Scenario	Govt costs	Govt benefits	Provider costs	Provider benefits	Total net benefit	Total BCR
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	16.7	43.4	1.9	14.5	39.3	3.1
Option 1: 2% **Option 2: 3%**	18.7	88.7	2.0	29.5	97.5	5.7
Option 1: 2% **Option 2: 4%**	22.9	185.5	2.1	60.9	221.4	9.9
Option 1: 2% **Option 2: 5%**	27.3	291.0	2.2	94.4	355.9	13.1
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	18.9	61.3	2.3	18.7	58.7	3.8
Option 1: 6% **Option 2: 7%**	21.4	125.2	2.4	37.9	139.3	6.9
Option 1: 6% **Option 2: 8%**	26.7	261.3	2.5	78.3	310.5	11.6
Option 1: 6% **Option 2: 9%**	32.2	409.3	2.6	121.3	495.8	15.2

One of the principle benefits (from available data) of the NRS is reduced government outlays from provider leverage contributions for new capital. This is based on the historical experience of the NRS to date, of 9.5%. Sensitivity testing is conducted at levels 50% higher than this, and 50% lower.

The results indicate that overall BCRs are more sensitive to changes in leverage rates than they are to changes in interest rates. At under low growth / low NRS impact scenarios, the BCR varies by around plus or minus one, and under high growth / high NRS impact scenarios, the BCR varies by around plus or minus six. However, Option 2 still remains the preferred option under any scenario. Moreover, these leverage figures may be conservative. Both the Victorian and Western Australian governments encourage (potential Tier 1) providers to leverage equity at up to 25% of the value of new assets[15]. And the median leverage level reported by providers in the survey was in fact 25%[16].

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[15] http://www.fahcsia.gov.au/sa/housing/pubs/homelessness/sustainable_community_housing/Pages/context.aspx

[16] This figure only includes providers which supplied leverage details, who tended to be the larger providers. However, the NRS is an opt-in scheme, and these providers would be the most likely to join.

Table 1.16: Australia CBA scenarios, Option 2 (NRS) compared to Option 1 (no change) with leverage at 50% below historical levels($m)

Scenario	Govt costs	Govt benefits	Provider costs	Provider benefits	Total net benefit	Total BCR
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	16.7	21.7	1.9	8.8	11.8	1.6
Option 1: 2% **Option 2: 3%**	18.7	44.3	2.0	17.8	41.5	3.0
Option 1: 2% **Option 2: 4%**	22.9	92.7	2.1	36.8	104.6	5.2
Option 1: 2% **Option 2: 5%**	27.3	145.5	2.2	57.1	173.1	6.9
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	18.9	30.6	2.3	11.3	20.7	2.0
Option 1: 6% **Option 2: 7%**	21.4	62.6	2.4	22.9	61.7	3.6
Option 1: 6% **Option 2: 8%**	26.7	130.7	2.5	47.4	148.8	6.1
Option 1: 6% **Option 2: 9%**	32.2	204.7	2.6	73.4	243.2	8.0

Table 1.17: Australia CBA scenarios, Option 2 (NRS) compared to Option 1 (no change) with leverage at 50% above historical levels ($m)

Scenario	Govt costs	Govt benefits	Provider costs	Provider benefits	Total net benefit	Total BCR
Scenario 1						
Option 1: 2% **Option 2: 2.5%**	16.7	65.1	1.9	8.8	55.2	4.0
Option 1: 2% **Option 2: 3%**	18.7	133.0	2.0	17.8	130.2	7.3
Option 1: 2% **Option 2: 4%**	22.9	278.2	2.1	36.8	290.1	12.6

Scenario	Govt costs	Govt benefits	Provider costs	Provider benefits	Total net benefit	Total BCR
Option 1: 2% **Option 2: 5%**	27.3	436.5	2.2	57.1	464.1	16.8
Scenario 2						
Option 1: 6% **Option 2: 6.5%**	18.9	91.9	2.3	11.3	82.0	4.9
Option 1: 6% **Option 2: 7%**	21.4	187.8	2.4	22.9	186.9	8.9
Option 1: 6% **Option 2: 8%**	26.7	392.0	2.5	47.4	410.2	15.0
Option 1: 6% **Option 2: 9%**	32.2	614.0	2.6	73.4	652.5	19.7

1.5 Summary

As the NRS is expected to confer net benefits to nearly all jurisdictions under nearly all modelled base case growth rates and NRS growth impact combinations, it should be implemented.

Thus, Option 2 is the preferred option.

References

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