

Partnerships for Sustainability in the NSW Co-operative Housing Sector

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Executive Summary

New South Wales faces a crisis in housing affordability. Funds for public and community housing through the Commonwealth State Housing Agreement have declined, while the demand for that housing is greater than ever. At the same time, government has moved towards delivering its services on a more integrated basis, one that recognises the value of working in partnership with communities, and which recognises the importance of individual and community capacity building in redressing social exclusion. This changing context presents both new challenges and new opportunities to housing co-operatives in New South Wales.

This report was commissioned by the Association to Resource Co-operative Housing (ARCH) to draw on Australian and international experience in order to consider possible models for the future of the New South Wales co-operative housing program.

Co-operative housing offers a unique model of tenant empowerment and community development. The evidence internationally and within Australia suggests that co-operative housing is more capable of generating social capital – that is, networks of trust and reciprocity – than other forms of social housing. Enhanced social capital delivers a range of benefits to co-operative housing residents. These include personal skills development amongst co-operators, better social support systems, improved physical environment and more active participation by tenants in the communities in which they live.

A number of key factors influence co-operative success and the ability of co-operative housing sectors to grow and deliver broad community benefits.. These include: the opportunity to recruit socio-economically diverse tenant groups with a genuine desire to participate; adequate financial and organisational support; approaches which manage risk while recognising co-operative autonomy; and government structures that both support and acknowledge the distinct contribution of co-operative housing.

In reviewing international and interstate government strategies to support co-operative housing, a number of themes emerge. Governments have been able to facilitate the development of housing co-operatives on a large scale through specifically designed programs, and through policies that encourage tenant management, control and purchase of public housing. However, to the extent that sectors have built up around these programs, they may also become somewhat dependent on them. A strong network of sector based organisations, or community based organisations with a strong emphasis on co-operative formation, has proven an important factor in the development of resilient and innovative co-operative housing sectors.

The New South Wales program currently faces some constraints. It is characterised by dependence on a single funding and support model. Such dependence is exacerbated by the leasehold, rather than freehold, arrangements upon which the program is based.

This report considers the available evidence of the advantages and challenges to the New South Wales co-operative housing program. An exploratory survey conducted for this project tentatively supports a finding that the social, personal and community benefits found in housing co-operatives elsewhere exist within the current NSW

program. There are strains emerging in the sector arising from the administrative load on co-operators, at least some of which is probably disproportionate to the size and nature of the co-operatives. NSW housing co-operatives are concerned about their ability to continue to draw on a mix of skills and incomes to maintain the sustainability of their organisations.

A more profound problem arises from the failure of the current program to recognise and reward the voluntary efforts of co-operative housing managers. There is a basic inequity in a program that asks tenants to fulfil the functions of housing managers, but fails to address their basic needs for security of tenure and greater control of housing assets and surpluses.

The report identifies a range of strategies to support co-operatives within the context of the current program, and goes on to suggest a rethinking of the objectives and potential of the program. Four alternative title and equity models are developed, and their relative advantages and disadvantages discussed. Finally, a range of alternative financing strategies are suggested for consideration. In order to ensure sectoral sustainability, and meet the diversity of needs of co-operators within the program, a mix of two or more title models, and multiple funding strategies, may be preferable to the adoption of a singular approach. Whatever arrangements are adopted, it is important for growth and sustainability that they explicitly build sectoral capacity, particularly the specialist skills required to finance, manage and develop new housing co-operatives.

In seeking to enhance the existing program, genuine partnerships between government and the sector need to be developed, and an effective balance between risk factors and co-operative autonomy must be struck. Sustainable re-visioning of the NSW program will require both sectoral and political support.

List of Recommendations

As part of this report, the following list of recommendations are proposed. The recommendations cover two broad areas: first, recommendations for improvements to the current program and, second, proposals to expand and regenerate the program. The recommendations appear here in the order in which they appear in the body of the report.

1. Government support should be given to attempts within the NSW co-operative housing sector to develop appropriate arrangements to provide services to co-operatives on a contractual basis. It is important that service providers have a clear understanding of co-operative structures and objectives and/or a 'co-operative orientation'. Co-operatives should be able to use their surpluses to help establish such organisations/arrangements.
2. ARCH should encourage the NSW Office of Community Housing to review current record keeping and reporting requirements, to ensure that the effort required is proportionate to the objectives and in keeping with the co-operatives' size and tenant organisation status. Where possible, accountability frameworks should be simplified.
3. The NSW Government should consider giving greater prominence to the achievements of co-operatives in achieving benefits for their communities and their members. The program provides models of community building which would be valuable to policy makers across government portfolios. Promotion of the theory and practice of housing co-operatives would appear to benefit the Department as well as providing some greater confidence in the sector that their approaches are supported
4. It is recommended that ARCH encourage the NSW Department of Housing to redefine and rearticulate the role of co-operative housing in New South Wales as:
 - Co-operatives are human institutions. Investment in co-operatives makes sense if the objective is to address the need of prospective tenants to build social networks, to build their own capacity, and to integrate within their communities. One of the key roles of the co-operative housing program should be to address social exclusion and to facilitate improvement in the personal and social circumstances of tenants.
 - Capacity built through co-operative formation can be extended to non-housing objectives. Co-operative housing should be seen as playing a role in broader community development.
 - The achievement of greater control by tenants of public housing estates should be one of the objectives of the co-operative housing program. It should be acknowledged that this will not necessarily result in full tenant management, but there should be support for the creation of tenant organisations, and a framework that allows this process to go as far as tenants are willing or able to take it.

- Co-operatives require stability in their membership. Housing co-operatives cannot be built out of short-term tenancies. The co-operative program should be aimed at long term, secure, affordable housing.
- Co-operatives have been very successful in addressing social exclusion where they have brought together common language/cultural communities, or communities with a shared experience (eg disability). Co-operative housing can play an important role in addressing the need for socially supportive housing amongst groups who wish to live together and who might otherwise be marginalised.
- Co-operatives work best where they encompass a mix of skills and (generally) incomes. They have been successful at enabling people who cannot afford to buy their own home to achieve some of the benefits of ownership. Co-operative programs can be most effectively used in a way that combines broader housing affordability objectives with addressing the needs of potential public housing tenants.

This redefinition of the role of co-operatives in meeting social/public goals provides the basis for looking at the other dimensions of a possible partnership between the sector and government.

5. It is recommended that ARCH seek the following changes to the operational guidelines of the NSW Co-operative Housing Program:
 - the offer of extended leases (eg 25 years) or transfer of title be made to housing co-operatives;
 - co-operative ownership of surpluses be acknowledged; and
 - in negotiating a basis for any equity arrangements, the unpaid labour of co-operators be given a value at least equivalent to the value that would have been placed on them had they been provided by another entity.
6. It is recommended that:
 - the current limitations on expenditure of surpluses be altered by the Department of Housing to allow spending on community activities, including loans and small donations; and
 - the NSW Government consider how the Departments of Housing and Urban Affairs and Planning might support the development of local investment vehicles to extend community development efforts and, over the longer term, to provide a potential source of funds for housing co-operative development.
7. It is recommended that:
 - The role of co-operative housing in addressing affordability be explicitly acknowledged in the co-operative program. It is proposed that the NSW Department of Housing work with the co-operative housing sector to find ways of supporting the supplementation of CSHA funds through other funding sources (including a possible up front contribution by higher income earners) to create new affordable housing.
 - A pilot affordable housing co-operative project be developed.
8. It is recommended that:

- The sector determine, in discussion with the Department of Housing, the most appropriate vehicle or vehicles for development of sector capacity in the areas of financing and development of new co-operative housing.
 - A range of possible partnerships between housing co-operatives, with councils or other organisations, be identified and that detailed feasibility studies be done on a small number. This will require funding support for a sector-based worker for a period to undertake the consultation and develop a short list, and funding for detailed feasibility analysis (possibly through the AHS).
9. It is recommended that:
- The NSW Department of Housing work with ARCH to develop a strategy to build linkages between the co-operative sector and tenants and providers across NSW social housing; and
 - Through this process a longer term strategy to support development of appropriate tenant control models in public housing be developed.
10. It is recommended that the four models proposed for structuring title and equity relationships within the sector and between co-operatives and the government be the subject of consultation within the co-operative sector, and between the sector and the NSW Government to assess their viability and levels of sectoral and political support.
11. It is recommended that ARCH, in consultation with the sector, initiate development of a framework to support a new co-operative housing pilot which:
- is conservative in its assumptions about the capacity of co-operatives to sustain loan repayments over the long term;
 - includes a 25-30 year payback period; and
 - allows for sharing of risk between the co-operative and the government - in particular the risks of volatile interest rates, substantial change in income mix within the co-operative; and significant change in Commonwealth rent assistance policies.
12. It is proposed that the State Government participate in negotiations with private lenders/investors and consider the provision of support through guarantees or similar assurances to lenders in order to minimise the cost of loans. The development of financial skills within the sector through secondary co-operatives or similar bodies, and the establishment of a track record for lending should reduce or eliminate this need over time.
13. It is recommended that the State Government adopt a strategy to support the development of community based financial institutions which may engage in affordable housing initiatives as well as broader community development activities

Chapter One – Background and Context

1.0 Introduction

In current policy debates around social housing in Australia, co-operatives are often considered to be simply one of a number of types of housing manager. As the emphasis on the importance of tenant participation pervades the social housing sector, many of the distinctive characteristics of co-operatives are submerged in general discussions about community housing. The marginalisation of co-operative housing in debates about social housing in Australia reflects the lack of a strong co-operative tradition in urban Australia (aside from the important role of co-operatives in financing housing through co-operative housing societies). Policy makers across government often have little exposure to co-operative organisations or experience of their successes. But not only are housing co-operatives significant providers of community housing in Australia, co-operative housing is also a form that is vitally relevant to contemporary concerns about community capacity building, social enterprise and development of genuine partnerships between communities and government.

This report was commissioned by the Association to Resource Co-operative Housing (ARCH), the housing co-operative sector's peak body in New South Wales. The purpose of the report is to draw on Australian and international experience to identify and review possible models for the future of the New South Wales housing co-operative program, and in particular, explore the relevance of title and equity to these models.

This study was undertaken by the Australian Centre for Co-operative Research and Development (ACCORD). ACCORD is a joint initiative of the NSW Registry of Co-operatives, University of Technology, Sydney and Charles Sturt University. ACCORD is Australia's research and strategic development organisation serving co-operatives, mutuals and the wider social economy.

The key findings of the report are:

- Co-operatives can deliver a range of benefits to social housing including cost effective housing management and high levels of tenant participation and satisfaction with housing. Most importantly, the co-operative housing form delivers social and personal benefits to co-operators through the building of social capital within tenant communities. The mobilisation of social capital combats social exclusion, improves the physical housing environment, and extends community development benefits to the neighbourhoods in which the housing co-operatives operate.
- Government support is necessary to the development of co-operative housing aimed at low income people. The most effective programs provide a combination of funding support with involvement in underwriting or otherwise managing risk. However a mix of funding sources appears to contribute to the diversity and long term resilience of the sector.
- There are many benefits associated with housing co-operatives which manage, but do not own their property. However, title and equity play an important

part in achieving co-operators' goals of autonomy, security of tenure and self-sufficiency. Limiting the role of co-operatives to housing management also limits the opportunities for co-operatives to contribute to the broad range of government goals in housing, such as mobilising private capital and generating new housing forms. Political/bureaucratic support is necessary to ensure that government requirements for entry to, and accountability within, the social housing sector are manageable for tenant run organisations. Development of secondary organisations to support co-operatives is an important part of a sustainable sector.

This report argues that, while changes can be made to the current program that will improve it, there is a need to rethink the role of the co-operative housing program to maximise its contribution to broader government objectives. In particular, the capacity of co-operatives to contribute to the housing and community development agendas of government is highlighted. Some strategies to achieve this are proposed.

The final section of the report considers in greater detail the alternative options for title and equity for housing co-operatives, and the ability of housing co-operatives to attract finance from sources outside the current program.

1.1 Methodology

A web search and literature review were used to gather material about the range of domestic and overseas co-operative models and reported costs and benefits. Primary material about a number of co-operative programs (eg operating guidelines, legislation) was acquired and analysed. Unstructured interviews were conducted with a small number of government officers and sector informants to add to the understanding and evaluation of different co-operative housing programs.

Additional material about New South Wales co-operators' perceptions of the program in that State was gathered through semi-structured interviews with key informants from a small sample of housing co-operatives.

On the basis of analysis of the literature, policy documentation and interview data, the final section of the report suggests some directions for the co-operative housing program in New South Wales.

1.2 Definitions

In this report, the following terminology is employed:

Affordable housing is used here to describe housing that is affordable to people on low to moderate incomes in that it requires that they spend no more than 30% of their income on housing. Affordable housing includes housing that is purchased or rented. The New South Wales Affordable Housing Strategy targets those whose incomes fall below the median income for the State (\$36,500), but who are unlikely to be able to access public housing (NSW Dept of Urban Affairs and Planning, 1999).

Social housing is used here to include both community housing and public housing. The simple definition adopted here is that proposed by the Victorian Council of Social Service; that is, "rental housing financed, owned and managed in ways that ensure this housing meets social objectives and social obligations" (cited in Bissett, 2001: 7).

It should be noted however, that, while in housing co-operatives, co-operators generally rent from their co-operative, they also own the co-operative which may in turn own the property. The distinction is clear in law, but the duality in this position has important implications for the co-operative housing form. The other difficulty in this definition arises from the residualisation of public and community housing. While in many countries social housing includes housing for moderate income earners, in Australia it is increasingly targeted at the poor and groups with special needs.

Public housing is that owned and managed by the public sector.

Community housing is used to refer to housing provided through non-government, non-profit organisations. Community housing may be owned, in part or full, by these organisations, but is more usually owned by government and managed by non-profits.

Co-operative housing is housing owned or managed by a co-operative. A more detailed description of the different forms of housing co-operative, and of the co-operative form itself is given in section 2.1, Chapter Two.

1.3 Background to social and affordable housing provision

Over the past decade low-income households¹ have found it increasingly difficult to purchase or even to rent dwellings in Australia. In fact, in most city locations, particularly Sydney, low-income households have very little choice on the location and dwelling type in which they can afford to live. This limited choice means that these households are forced to live in dwellings that are not appropriate to the needs of household members. For example, the dwelling may be located a considerable distance from where employment opportunities are available.

A recent report by the Australian Housing and Urban Research Institute (AHURI) indicates that a growing number of low-income households have to pay more than 25 to 30% of their pre-tax income in rent or mortgage payments (Berry et al, 2001). According to the National Housing Strategy, this implies that they are experiencing 'housing stress'. The negative impact of housing stress on education, health, employment and family stability can compound the social and economic vulnerability of those affected. The AHURI report points out that a major factor behind the decline in affordable housing has been real prices and rents of dwellings increasing at a significantly faster pace than real incomes in inner city locations across Australia. It argues that rent assistance to low-income households has failed to alleviate the situation, particularly as rent assistance is standard across all locations (Berry et al, 2001).

The ability of governments to reduce housing stress through the provision of rent assistance and public housing, where large waiting lists exist, has proven to be insufficient.

To the extent that public housing is provided in Australia, it has its own problems. The role of traditional public housing, in the form of large scale estates, in the creation of communities of exclusion and despair has been well documented and recognised by policy makers, researchers, and housing advocates alike. In keeping

¹ Often defined as households being in the lowest two nominal income quintiles (bottom 40%).

with the NSW Government's broad social justice agenda, the Department of Housing has recognised the importance of restructuring housing arrangements to redress mistakes of the past and ensure the development of strong sustainable communities. The Department has committed to a community renewal agenda, which is being implemented in rural and urban public and community housing developments, and in collaboration with other government service providers.

Some of the key elements of the New South Wales Government's vision for successful community building on its public housing estates include:

- improved physical environment;
- socio-economic mix;
- safer environments, free from high levels of anti-social behaviour;
- residents as "active partners with housing managers in making the neighbourhood clean, safe and settled places to live";
- delivery of services that meet the spectrum of residents' shelter and non-shelter needs; and
- strong connections with the local community (NSW Dept of Housing, 2000)

Chapter Two – The Experience of Co-operative Housing

2.0 Introduction

There is a range of international academic and government literature which systematically evaluates co-operative housing formed in the context of government co-operative housing programs. In this section, key findings from that literature are reported.

2.1 What is a housing co-operative ?

The International Co-operative Alliance (ICA) defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”. Co-operatives are based on seven international principles. These are: voluntary and open membership; democratic member control; principal member economic participation; autonomy and independence; education, training and information; co-operation amongst co-operatives; and concern for community (ICA, 1995).

Within this general framework, a housing co-operative is an enterprise formed to meet the housing needs of its members. Housing co-operative types vary in two key ways – whether the co-operative owns the housing; and the nature of share ownership, ie. whether it is nominal or whether it has some significant relationship to the value of the property.²

There are several different types of housing co-operatives. These are:

- Market rate co-operatives – the co-operative share prices are determined by the market. Co-op members retain full individual equity, which they may reclaim through resale, or which they may pass on to their heirs. In many cases, members may purchase additional shares (or dwellings) within the co-operative, which they can rent out at market rates.
- Limited equity co-operatives – co-operative share prices are allowed to rise at a limited rate, to ensure that the affordable nature of the co-operative is preserved.
- Common equity or nonprofit co-operatives – co-operative share prices are nominal and equity in the co-operative is held in common by its members. That is, co-op members retain no individual equity.
- Leasing co-operatives- the co-operative headleases its property from a government, private or community sector body and subleases to co-operative members, who collectively manage all aspects of the property. Members have no equity, as they are tenants.

² In this discussion, the focus is on co-operatives that maintain an ongoing role in delivery of the housing, rather than co-operative housing societies (or building societies) which are involved in financing and/or building housing.

- Tenant management co-operatives – these are similar to common equity rental co-operatives, except that tenant management groups may manage all or only some aspects of the property. Tenant management co-operatives have gained some popularity in Britain, where they have been largely established to revitalise large scale public housing estates.

Internationally, all of these forms of co-operative housing have played some role in social housing provision. In Australia, the three co-operative types which have contributed to community housing have been common equity, leasing and limited equity co-operatives. In NSW, the co-operative housing program which forms part of community housing is based on a leasing model, where housing is owned by the government.

2.2 Benefits of effective co-operative housing

The literature reviewed is consistent in citing that, where appropriately resources and supported, co-operative housing delivers a range of benefits to co-operative members and the broader community. In the following sections, these benefits are considered in detail with reference to the literature.

2.2.1 Improved physical environment and safety

In 1998, Saegert and Winkel reported a survey of tenants in 487 buildings providing housing for people on very low incomes in Brooklyn New York. They compared survey results across social housing providing by governments, private landlords, community organisations and tenant co-ops. They found that co-ops had significantly better scores on building conditions, crime and building security than other housing types (Saegert & Winkel, 1998: 34). Social capital was found to be higher in co-operative housing and positively affected building quality (Saegert & Winkel, 1998: 48).

In 1992, the Canadian government published a comprehensive evaluation of the three Canadian federal co-operative housing programs (Canadian Mortgage and Housing Corporation, 1992). They found that over 90% of tenants surveyed were satisfied with their housing. Tenants rated co-operative housing more highly than public, private rental and Canadian housing in general. Around half perceived improvements in security/crime (Canadian Mortgage and Housing Corporation, 1992: 18-19).

In the United Kingdom, the accounting firm, Price Waterhouse, was commissioned by the then Department of the Environment to review different forms of housing management (Price Waterhouse, 1995). The study paired a range of tenant controlled organisations with comparable housing estates which were considered to be amongst the best performing. They found that, in general, tenants of tenant controlled organisations were more satisfied. Tenant controlled housing managers were much faster to respond to maintenance requests (for example, three days compared with 33 days in one case). Tenants reported lower problems with crime and graffiti (Price Waterhouse, 1995).

In a series of evaluative reports on Scottish housing, analysis of rent arrears, repairs and rental allocations combined with tenant surveys were used to compare the performance of housing transferred into community ownership (in almost all cases as co-operatives) with other forms of housing manager (see Clapham & Kintrea, 1994;

Clapham et al, 1996; Scottish Homes, 1999). The formation of co-operatives was found to have led to better, more effective, housing management. Tenant satisfaction increased after transfer to co-operative ownership, although it was also found to be high on a publicly owned estate which had made a heavy investment in tenant participation.

Co-operatives can give tenants greater control over the design of their housing. Where this is the case, the literature reports significant benefits for people with disabilities in producing housing that is specifically designed to accommodate people with particular types of disability, and in producing co-operative housing which achieves universal access (See, for example, Cooper & Rodman, 1992).

2.2.2 Socio-economic and personal benefits to co-operators

Saegert and Winkel comment that:

In almost every co-op we have studied closely, residents also provide encouragement and practical assistance to each other in pursuing higher education and employment opportunities. It is also common for some co-op residents to use the skills they learn by running a building to advance both their education and their employment status (1998: 48).

In a separate study, they reported a strong link between involvement in a tenant co-operative and a sense of personal and political empowerment (Saegert & Winkel, 1996).

The Price Waterhouse (1995) study found that tenants in tenant managed organisations were more likely to participate in their housing (despite government policy encouraging tenant participation across all housing forms) and more likely to identify skills acquired through their housing.

In the Canadian study, two thirds of tenants perceived improvements in their housing (over previous housing experiences) in community involvement and participation in decision making. Over 67% of residents said that they had acquired one or more skills through participation in the co-operative (Canadian Mortgage and Housing Corporation, 1992: 18-19).

Similarly, in a qualitative study of social exclusion in tenant controlled social housing in some of the most deprived areas of Britain, Clapham et al (2000) found that tenants felt that they were solving the problems confronted by their communities or had a stronger sense of control over their neighbourhoods which meant that they did not feel 'socially excluded'. In Scotland, tenants of co-operatively held housing reported an improved sense of community spirit in their housing (Clapham et al, 1996).

A 1998 survey of South Australian community housing tenants found that 49% of co-operative housing tenants reported that living in the co-operative had improved their lives a lot, and a further 25% said that it had improved a little (cited in South Australian Centre for Economics, 2000). Sixty two percent strongly agreed that tenants had become more confident about themselves and their abilities, a further 20% agreed. Around 70% felt that it was true that tenants gave each other help and support, that there was a strong sense of belonging/friendship, and that there was a lot

of sharing of resources and time. In most areas, housing association tenants also agreed with these statements, although co-operative tenants agreed more strongly in the areas of mutual support and self-confidence.

There is evidence that co-operatives can also facilitate integration of people who might otherwise be marginalised because of language, age or disability. In many cases, this is achieved by facilitating integration with communities outside the co-operative, which itself may be comprised of people with shared experiences and needs (See Chernets, 1995; Cooper and Rodman, 1992; Elton and Associates, 1995).

2.2.3 Strong connections with local community

There is less consistency in the identification of the benefits to the broader community produced through co-operative housing. The CHMC study found that the focus of the co-operatives tended to be internal - with only 8% of co-op managers describing their co-operatives as very active in the community, and around 40% describing their involvement in the community as 'active' (Canadian Mortgage and Housing Corporation, 1992: 58).³ However another Canadian study suggests that neighbourhoods with housing co-operatives tended to experience a growth in community services over time as empowered tenant groups put pressure on civic leaders (Danseureau, 1993).

The Price Waterhouse (1995) study found that over half of the tenant management organisations were involved in broader community renewal efforts. These ranged from assisting older members of the community to the establishment of a skills development centre. The report found that even the least successful organisations on measures like rents and arrears had made an "important contribution" to community renewal (Price Waterhouse, 1995: 124). Another UK survey found that 8% of respondents had members who were involved in the establishment of credit unions, 4% in food co-ops, and 5% in worker co-operatives (Lambert & Bliss, 2001: 24).

Clapham et al (2000) found that members of many tenant controlled organizations were actively engaged in local community initiatives, including leisure and recreation programs, local school support, local governance, and community economic development. However, the smaller co-operatives considered in the report were more likely to be focussed on building the community within the co-operative.

The study of Scottish co-operatives also identifies significant efforts within co-operatives to address community problems. However, it warns that, given the magnitude of the problems faced in many of the communities, these efforts required additional support (Clapham & Kintrea, 1994: 36).

These studies support anecdotal evidence from the NSW program, where a number of well established co-ops are highly involved in local community activities, as both leaders and participants. Such activities include: voluntary aged care initiatives; development of universally accessible built environments, hosting of international students and rural visitors seeking employment opportunities, and liaison with social service providers to improve service delivery and type. Members of successful co-

³ Note that the report does not aggregate data across the three programs studies - so that where figures are presented in the text they represent an estimated average based on separate figures for the three programs.

operative housing ventures in Australia and overseas consistently report that participation in the management of their housing improves their skill levels in a range of areas, and leads to greater confidence to maximise educational and labour market opportunities and participate in the broader community. In short, co-operative housing provides a vehicle for a range of renewal efforts which benefit not just the members, but the communities in which they are located.

2.2.4 Cost effectiveness of co-operative housing

Co-operative housing, supported by appropriate resources and policies, generates positive housing and non-housing outcomes for tenants and for their communities. But at what cost? While there is no recent published evaluation of the NSW scheme, a number of the studies reviewed considered the relative costs of co-operative housing.

The Price Waterhouse (1995) study evaluated management performance and value for money in tenant controlled social housing compared with other forms of social housing. They considered average cost of repairs, vacancies and arrears, quality of housing and maintenance strategies. On both management performance and value for money measures, most tenant controlled management organisations performed better than their counterparts. The one form of tenant management organisation that did not perform better than its comparator was the estate management board. A number of reasons for this were identified, including the restrictive operating agreements with local authorities that prevented the organisations implementing their own policies and procedures. In other words, it was the form of housing that was least autonomous that was least cost effective (Price Waterhouse, 1995: 116-118). The study also found that the smallest organisations delivered best value for money (Price Waterhouse, 1995: 120).

The 1992 Canadian government study found that the operating costs of co-operative housing (excluding any subsidy effects) were less than those of non profit and public housing by up to 50% (Canadian Mortgage and Housing Corporation, 1992:64).

Clapham and Kintrea's (1994) analysis of transfers from Scottish local authorities reinforces findings that smaller, tenant controlled organisations offer best value for money in terms of housing management. They do, however, question the basis for decisions to transfer housing out of the public sector in the first place, arguing that, if minimising public expenditure was the only measure, over the long term it would have been cheaper to retain and make further investments in public housing stock than to privatise the housing.

Saegert and Winkel in their comparison of different housing programs concluded that the greater level of social capital in co-op housing compensated to some extent for a lower investment of financial capital – in other words limited dollars went further in the context of a co-operative (Saegert & Winkel, 1998: 52).

In 2000, the South Australian Centre for Economic Studies prepared a cost benefit analysis of the South Australian co-operative housing program for the Statutory Authorities Review Committee of the South Australian Parliament. This study found that the total average per dwelling operating costs for co-operative housing was slightly lower than the average for public housing (South Australian Centre for

Economic Studies, 2000: 41). This calculation including attribution of the full costs of the government bodies that administer the programs. The administration of the co-operative housing program was more costly to government, reflecting "the nature of co-operative housing (ie. self-management and associated training needs) and because of its lack of economies of scale (relative to [the public housing authority]" (South Australian Centre for Economic Studies, 2000: 42) But this additional amount was offset by lower maintenance costs, rates and insurances.

The general conclusion that can be drawn from the range of material available is that co-operative housing often has higher start-up costs, and requires some level of support (eg training), but these costs are offset by lower maintenance and operating costs in the medium term. In addition, the non-housing benefits associated with co-operative housing, such as improved security, decreased vandalism, social interaction, skills acquisition generate real savings across the broader set of government expenditures.⁴

2.3 Key vulnerabilities of co-operative housing

While effective co-operative housing delivers a range of benefits to individual members and the broader community, there are a number of factors which can impact negatively on this housing type and, indeed, undermine sectoral capacity to deliver these benefits. The key vulnerabilities identified in the literature are outlined below.

2.3.1 Tenant selection

Studies of co-operative housing consistently demonstrate that co-operative control over tenant selection is important in ensuring organisational survival (See Canadian Mortgage and Housing Corporation, 1992; Clapham et al, 2000; Rohe, 1996). Some of the most successful co-operatives are formed by groups with a common cultural background or common experience (for example people with particular types of disability) (Chernets, 1995; Sazama, 2000; Elton & Associates, 1995). Willingness on the part of tenants to participate in the running of the co-operative is an important factor for successful co-operatives in selecting their tenants. Where tenants are forced to turn to co-operative housing because they have no other choices they are more likely to fail (Barwick & Hamilton, 1993; Elton & Associates, 1995).

Rohe's (1996) study of three cases of conversion of public housing to co-operatives in the United States illustrates this problem. The housing authority which managed the conversion was required to maximise the number of existing tenants who participated. In an effort to achieve this, they tended to oversell the financial benefits of co-operatives and failed to clearly identify the obligations of membership to prospective co-operators. Co-operative members did not have strong sense of ownership of their housing and many were unwilling to participate in the running of the co-operative. The inadequacy of the selection process is identified in the report as one of a number of factors which led to the failure of the co-operatives to deliver real improvements in the quality of life of residents.

⁴ While analysis of these is not the subject of this study, the cost benefit analysis of the Department of Housing commissioned Neighbourhood Improvement Program illustrates the potential savings to government through even small improvements.

A recent survey of British housing co-operatives suggested that turnover rates in co-operatives that were required to take tenants nominated by the local housing authority were generally higher than those of co-operatives with significant control over tenant selection (Lambert & Bliss, 2001)

The New South Wales review of 'special needs' co-operatives highlights this problem in its discussion of youth co-operatives . The co-operatives were established because they represented the most viable option for achieving quality housing, but the lack of life skills of the co-operators and their generally very high non-housing support needs meant that the co-operatives did not succeed (Elton & Associates, 1995) Similarly a review of Victorian housing co-operatives for women found that problems arose where women with high non shelter needs joined the co-operative because it appeared to be the only viable housing alternative (Barwick & Hamilton, 1993).

Tenant selection is also closely associated with another factor which has underpinned co-operative housing - that of socio-economic mix. Internationally and in Australia, housing co-operatives have successfully delivered housing to low income earners within the context of mixed income communities. This has contributed to affordability through ability to cross subsidise lower income earners and to manage rental income through tenant selection. It has enabled co-operatives to recruit co-operators with skills that they need, and it has contributed to the social and personal benefits of co-operative living by enhancing co-operators access to diverse social and professional networks. This does not mean that co-operatives which are solely for very low income earners will necessarily fail. Even where co-operatives are able to choose a mix of incomes, many in fact house predominantly or solely low income earners. Understanding of, and commitment to, co-operation appears to be the single most important factor in choosing new co-operative tenants who will contribute to co-op sustainability. In order to make this commitment effective, however, tenants must also have the capacity to contribute. Those facing extreme disadvantage may have limited capacity to contribute where they are struggling meet the demands of day to day living.

As governments attempt to more closely target funds for social housing to those most in need, co-operative control over tenant selection has come under pressure. While income mix was initially seen as a key benefit of the programs, both the Victorian and South Australian co-operative housing programs have recently been altered so that all future places must be offered to public housing eligible households. Under recent South Australian legislative amendments rent premiums have been introduced for householders above the income and assets threshold, partly in order to encourage them out of co-operative housing.⁵

Pressure on co-operatives to house people from general public housing waiting lists, who may not be willing or able to participate in co-operative housing, is a key threat to the viability of housing co-operatives.

⁵ However it is worth noting that eligibility varies from State to State - SA, for example, has a reasonably generous income threshold, whereas Victoria has quite stringent income and assets tests.

2.3.2 Inadequate support / failure of management

Studies of co-operative housing repeatedly refer to the importance of support, particularly (but not exclusively) in the start up phase of co-operative development. Training of both directors and general members is critical, as is assistance in putting together operating budgets and maintenance strategies. In the Rohe (1996) case study, the housing authority delivered some training to directors, but it was clearly inadequate. Major items were left out of one co-operative's operating budget which worsened an already precarious financial situation. They also failed to train co-operators or to help them understand their obligations. Rohe suggests that the most successful approach to co-operative housing development is for organisations with specific expertise in co-operative development to work with tenants in designing the program (Rohe, 1996). The importance of specific expertise is reinforced in other studies, including Confederation of Co-operative Housing review of secondary service provision to UK housing co-operatives (Lambert & Bliss, 2001; Sazama, 2000; Saegert & Winkel, 1998).

But even where secondary co-operatives or other resourcing bodies exist, attention must be paid to their capacity to provide effective support. As third sector organisations play an increasingly important part in delivery of what were once government services, there is growing pressure on those organisations. If the scale of expectations is too high, or the skills base is not available to them, they may fail, and, in doing so, lead to the failure of some of the organisations they support. Sazama (2000) uses the example of the Foundation of Housing Co-operative Services in the United States which collapsed under the pressure to increase the rate of development of affordable housing co-operatives by developers who failed to understand the time involved in developing the human institutions that underpinned them (2000: 588).

2.3.3 Financial problems

Generally, concerns that co-operatives will be more prone to financial problems seem unwarranted. Sazama reports lower default rates for co-operatives than other rental properties in the US context (Sazama, 2000: 594). The Lambert and Bliss survey of 152 UK co-operatives found only four of the one hundred and fifty two co-operatives surveyed had a deficit (2001: 17).

The problem most frequently identified in the literature arises where a new co-operative is confronted with the need to make major capital investments in their property. This has been a real problem in a number of the public housing transfer programs, where insufficient allowance was made within the transfer program for rehabilitating housing or modifying it to meet the needs of the tenant group (Rohe, 1996).

Other problems have emerged through poor management practices, and where co-operatives have not been afforded flexibility in rent setting (Canadian Mortgage and Housing Corporation, 1992: 31).

Provided that co-operatives have good management support and have some financial flexibility, they appear to perform as well as other housing providers. However, because they are generally made up of low income households, they may have problems dealing with changes in the financial environment, or major capital

requirements. This is particularly the case for new co-operatives which have not had time to build up a reserve fund.

2.3.4 Government approach

Most accounts of co-operative housing highlight the critical nature of the relationship between co-operatives and governments.

While most government supported co-operative housing programs have involved long term agreements between the government and individual co-operatives, these agreements have come under pressure, and have sometimes been legislatively overridden.⁶ Changes in government policy have led to sudden withdrawal of support for existing co-operatives, attempts to 'reinterpret' long term funding agreements and resource intensive legal battles.

Gray (2000) highlights what appears to be a frequent difference between policy and practice in housing departments in attitudes towards tenant control. In an analysis of resident control in US federally subsidised affordable housing, she notes that, despite policy support for resident control, regional Housing and Urban Development managers want to deal with experienced housing managers. They cite the complexity of the funding arrangements and the need to ensure that public funds are spent in an effective and accountable manner as reasons for this approach. The approach taken by staff meant that tenant control was resisted and sometimes defeated by a bureaucracy that claimed support for its goals. The Housing Corporation in the UK has been similarly criticised for its requirement that registered social landlords demonstrate their capacity to manage housing – again, a practical barrier to new co-operative formation.

The preference for professional housing providers over tenant controlled housing organisations may be reflected in policy and in practice, or it may be a practical consequence of the administrative and accountability structures within which non-government housing providers operate. Awareness of these issues and proactive development of supportive human and administrative structures is important to co-operative development and sustainability.

2.4 Summary and conclusions

Based on the literature, the key benefits that co-operative housing can deliver are:

- improved tenant satisfaction;
- cost effective management, which is responsive to tenant needs;
- safer, better maintained housing environment;
- greater social support within the co-operative;
- personal empowerment and skills development within tenant group; and
- benefits to the local community in which the housing is situated.

Critical factors which underpin these benefits are: a level of autonomy for the co-operative in choosing tenants; a socio-economically diverse tenant mix; adequate training and support for tenant co-operators; financial stability and a financing framework that supports affordability; supportive and responsive government.

⁶ For example, in South Australia unilateral changes were recently made to funding agreements by legislation; in one Canadian province agreements were recently completely abolished by legislation.

The social, personal and environmental benefits associated with housing co-operatives mirror the objectives of housing providers across the public and non-government sectors. They are similar, for example, to those identified in the NSW Department of Housing's vision for successful community building on public housing estates. These objectives reflect an awareness that provision of shelter is not enough, and that, in fact, some of the traditional forms of housing provision contribute to social exclusion.

What is significant is the extent to which co-operatives are more successful in achieving these objectives. The studies that compare outcomes across different housing types tend to suggest that housing co-operatives are more likely to generate social capital. Saegert and Winkel (1998), for example, note that, while non-co-operative housing developed by non-government providers can generate social capital, it does so less consistently than co-operatives. The studies by Price Waterhouse (1995) and by Clapham and Kintrea (1994) support this finding.

The relative success of co-operative housing appears to be grounded in the fact that co-operatives are concerned not simply with housing, but with creating what Sazama (2000) refers to as "new human institutions". Effective co-operative development is a process of developing individual capacity and developing the capacity of a group to work together. This capacity building approach has a 'multiplier' effect for the individuals involved and the communities they live in. As Robert Putnam (2000) suggests, the opportunities to engage with others in a way that creates networks of trust and reciprocity (social capital), provides the basis for local community regeneration and enhanced personal health and well being.

Social capital enhances resilience. The literature describes the enhanced capacity of co-operators to resolve problems emerging in their own environment, and the sense of empowerment and worth that this brings to people who marshal little in the way of financial resources.

There is an important distinction to be made between co-operative management and tenant participation. Many housing providers have tenant participation policies, but only some of these empower or build capacity amongst tenants. As David Rodgers (1999) has pointed out, many such policies address tenants as consumers of housing - which may (or may not) lead to better housing services, but does not assist the development of tenants as individuals or as a group.

Co-operative development requires a considerable investment in training and supporting people to build new human institutions. They need to be able to build these institutions by recruiting people willing and able to contribute. Like any low income community, they also need financial and policy stability. Where these conditions are met, co-operatives are well placed to generate strong, healthy communities.

Chapter Three – Government’s Role in Supporting Co-operative Housing

3.0 Introduction

As discussed in the previous chapter, government plays an important role the development and success of co-operative housing. In this chapter, some examples of Australian, Canadian, United States and United Kingdom government programs that have directly and indirectly supported co-operative housing are summarised. The advantages and disadvantages of these programs are considered.

3.1 United States

The co-operative housing sector in the United States is diverse, and the government programs that have supported it either directly or indirectly are similarly diverse. This section describes some of the programs and institutions that have played a significant role.

Co-operative housing in the United States was initially developed by working people using European mutual assistance models to build and finance low cost housing. Unions played a particularly important role in developing and advocating affordable housing through co-operatives throughout the 1920s and 1930s, and again in the 1950s. Pensions funds were a particularly important source of finance for co-operative initiatives (Sazama, 2000).

A post-World War II housing shortage, combined with a focus on the needs of poor communities, led to increased federal involvement in affordable housing in the 1960s, which continued through the 1970s. The Below Market Interest Rate loans that operated through this period stimulated non-government investment in affordable housing, including co-operatives. This program provided government insurance for loans amortised over a period up to forty years. Restrictions aimed at ensuring affordability applied for the duration of the loan. Sazama (2000) estimates that the combined effect of these provisions was equivalent to a subsidy of around 30% (2000: 587). The program was successful, creating an estimated 58,000 dwellings (Sazama, 2000: 576). Many co-operatives formed under this program were limited equity co-operatives, with heavily limited growth in share value. The co-operatives’ mortgages had penalties for early repayment, to ensure the continued operation of affordability restrictions.

This program ceased in the mid-70s with the adoption of a strategy based on rent supplements. From this period direct provision of federal funding for affordable housing became less significant. The most significant source of federal funding for affordable housing now comes via the substantial tax breaks for private corporate and individual investors in private rental housing (Sazama, 2000: 592). Co-operatives have had some difficulties in obtaining this funding directly because tenant co-operators are not considered renters – but where this has been overcome, this is an important source of direct funding.

Since the 1980s, privatisation of public housing in the US has produced a significant number of new co-operatives. The federal Home Ownership and Opportunity for

People Everywhere (HOPE) program extended tenants' rights to buy public housing to non-profit organisations including co-operatives. Grants were made available to assist in the planning for these purchases (Van Vliet, 1998: 91). Forfeited or abandoned buildings have also been made available to new housing co-operatives under 'reprivatisation' programs of State and City governments, notably in New York (Saegert & Winkel. 1998).

The decline of direct spending on affordable housing in the United States, combined with tax incentives for investors and limited rental subsidies, has led to the development of a range of non government, non profit organisations which play an important part in the development of affordable housing (CMHC, 1999). These include Community Development Corporations, Mutual Housing Associations and community land trusts.

Community Development Corporations are non profit organisations with a strong neighbourhood/community focus. In 1989, a sample survey of cities with more than 100,000 people found that 95% of them had at least one CDC (Vidal, 1997). The sector is growing, and its per CDC production is also growing (Vidal, 1997: 4). Most CDCs are involved in the development and provision of affordable housing, but most also engage in a range of other community development activities that complement their housing work. These include provision of tenant placement, childcare, job placement and small business lending. The community development focus of CDCs has led many to support the development of co-operative housing. They have also expanded into a range of more commercial development activities, like redeveloping shopping areas and commercial spaces, and properties for home ownership as development of low cost rental housing becomes more financially risky.

Mutual housing associations are similar in many ways to co-operatives. However, day to day management of many aspects of the housing is deal with by paid, professional staff (Gray, 2000). Mutual housing associations are generally formed from a number of housing sites, with a single management structure comprising a professional staff and a management board elected by members, who are all tenants of the properties. Tenants maintain control of the Board. They are also asked to contribute voluntary labour to the management and/or upkeep of their property. Training and support for participation is a key part of the model. MHA's combine economies of scale and the benefits of professional management support with a strong emphasis on resident control. However, they are susceptible to staff takeover, and the multi site structure may limit the effectiveness of real resident control over living environment.

Another US community based affordable housing initiative that is of interest is the community land trust. Community land trusts are democratically controlled non profit organisations that own land in order to secure it for community purposes (Institute for Community Economics [online]). Ownership of the land is retained, but buildings on the land can be owned by the people who use them. The land may be leased for a period (eg 99 years) with the lease containing provisions that limit the sale price of the buildings to a formula based amount that reflects the owner's investment, and that limits the sale to low income earners and/or the trust itself. One of the key proponents of the community land trust model is the Institute for Community Economics, which maintains a revolving loan fund to assist community land trusts and other non profit housing providers to acquire capital. It also provides

technical assistance to those organisations, which helps secure its investments. It raises funds by borrowing at low rates from “social investors” – principally individuals, but also foundations, institutions and government.

Vidal (1997) highlights the important role of three national financial intermediaries in raising finance for the range of different affordable housing organisations. These organisations provide a focus for potential community development investors or philanthropists. They have created a financial pool from which they lend or make grants to CDCs. Their scale and expertise has enabled them to win the confidence of investors and to create new financial tools for investment in community development. Their experience also highlights a critical gap in the Australian environment – that of the community development financial institution (“CDFI”).

Efforts to develop affordable housing in the United States have been sporadic and indirect. In his discussion of the lessons from US experience, Sazama (2000) identifies a number of difficulties that have emerged from its very decentralised form. The most critical problem has been a basic underinvestment in affordable housing. Co-operatives have been left to ‘sink or swim’, an approach that risks homelessness and financial loss for already disadvantaged people. Lack of government support has also been reflected in extremely bureaucratic processes, which have disadvantaged co-operatives that are simultaneously trying to manage the purchase and/or rehabilitation of buildings, and development of the social foundation for their co-operative.

However, the advantage in the decentralised approach has been the development of a more diverse range of co-operative or resident controlled models, and of a network of third sector organisations with financial and technical expertise to support them.

Another strength of the US approach is its use of housing as a “way in” to addressing a range of community development needs.

3.2 Canada

Since the 1960s, there have been three federal government programs to promote affordable co-operative housing in Canada. The most recent of these ceased in the early 1990s in the context of a general withdrawal of federal government support for social housing. The most successful program, in terms of promotion of co-operative housing growth, combined federal government loan guarantees with a interest rate supplement that capped the rate paid at a gradually increasing rate. Loans were amortised over a maximum 35 years. High interest rates through the early eighties prompted the abandonment of this scheme (Danseureau, 1993).

The most recent scheme was the Index Linked Mortgage scheme (ILM). Again, this program was based on the government facilitating private sector loans to co-operatives. The government insured the loans and developed the ILM instrument. It also provided a supplement to cover the difference between market rent and the cost of the new development, and rent supplements to low income households. The index linked mortgages are designed on the basis of two key ideas : that payments are most difficult at the beginning of the mortgage period; and that there is a market for investments that offer a guaranteed real rate of return. Mortgage repayments (generally amortised over a 35 year period) are based on a fixed rate of return on the

borrowings. The interest rate is then adjusted periodically to reflect the inflation rate (ie to maintain the real value of the return). But the annual change in payments is set at 2% less than inflation (what is described as a 'planned tilt') – this makes initial payments higher than what they would have been under a fully indexed mortgage, but less than a standard mortgage. The Canadian government also provided interest free loans to support the development phase of projects (similar to the NSW government's Affordable Housing fund). Ninety-four percent of these loans were repaid.

From 1985-1990 10,255 dwellings were developed through the ILM program, less than half the number developed in the five preceding years under the previous co-operative housing program. While the program became less affordable, in the sense that rents were set at market rather than lower end of market rates, the number of very low income households housed under the newer developments increased. The Canadian Government's evaluation of the programs found that the ILM program was 38% cheaper than the one that preceded it. It also found that the ILM significantly reduced the risk of default over other possible mortgage models (including a standard equal payments mortgage model).

Since the abolition of the ILM program in the early 1990s, there has been little indication of co-operative housing development. A Canadian Housing Mortgage Corporation document on alternative tenure identifies two examples of shared equity projects – where personal equity is built up by tenants over time through rent payments and voluntary labour. These initiatives appear to have been sponsored by State and municipal governments (CMHC, 2000).

While Canada has a strong network of community based development organisations, the co-operative housing sector organises itself through federations at the provincial level which have combined to form the Canadian Housing Federation as a national peak body. These organisations are not directly involved in raising finance, although they engage in bulk purchasing / negotiations with suppliers. They also facilitate education and training for member organisations. The federations have been critically important in representing the sector in its dealings with different levels of government, and are currently strongly advocating a return to involvement in affordable housing by the Federal government.

The Canadian government was able to support the development of a large number of affordable and successful housing co-operatives through its co-operative housing program. It appears that the ILM program, in particular, did this in a way that minimised recurrent supply side subsidies.

However, the withdrawal of these programs appears to have brought growth in co-operative housing in Canada to a halt. Government involvement, even by way of tax incentives, appears to be critical to the development of new housing co-operatives. But the Canadian experience also suggests that the development of third sector organisations with financial and technical expertise should be a goal of co-operative housing programs, in order to improve their resilience.

3.3 United Kingdom

Limited equity co-operative housing developed, financed and owned through co-operative housing societies played a significant role in housing working people in

Britain through the 1960s and up until the mid 1970s. A series of government decisions from 1980, and a rise in housing prices, promoted the break up of this housing into separate owner-occupied dwellings. Common equity co-operatives flourished briefly in the early 1970s with the introduction of the Housing Association Grant which provided subsidies for social housing (Price Waterhouse, 1995).

However, the most significant policy changes that have affected co-operative housing over the last two decades have been those designed to transfer social housing production and ownership out of the public sector, and to mobilise private sector investment in social housing.

In England, the Housing Corporation was established initially to create a market for social housing investment and to regulate the new private/NGO social landlords. The Housing Corporation provides capital funding (about half) for the establishment of new housing. This level of capital funding has made it almost impossible for new co-operatives to form, as costs cannot be covered by affordable rents for several years (Lambert & Bliss, 2001; Larkin & Lawson, 1998). The issue of affordability in the context of the low level of capital funding has moved the Housing Corporation to more closely scrutinise rent levels, although there is no evidence that the problem has been solved. In addition to the financial barriers, co-operatives have confronted other obstacles to formation and registration within the social landlord system. For example, they are required, in order to register, to demonstrate a competence to manage - which is difficult for tenant groups that are trying to form a new co-operatives. Clapham and Kintrea (1994), amongst others, have suggested that, in general, the Housing Corporation has taken a position that ranges from neglect of to hostility towards housing co-operatives.

Perhaps the main source of new development in housing co-operatives has been in response to the range of legislation designed to break up ownership and decentralise management of local authority housing. In England, legislation giving tenants the right to choose their landlords, and requiring councils to put management functions out to tender sparked the development of tenant management co-operatives (tenant co-operatives which take over some or all aspects of management large scale estates) and estate management boards (which are made up a mix of tenants, councillors and council staff).

The process of decentralisation of council housing has played out somewhat differently in the different political environment in Scotland. From the mid 1980s, Scottish Homes embarked on a transfer program of public housing to a range of non-government owners - predominantly housing co-operatives. As in England, there were severe restrictions on the capacity of councils to borrow to fund much needed repairs. The co-operatives formed by Scottish Homes tenants were motivated by a desire to increase the level of investment in their homes rather than a commitment to tenant control. However, the process of discussion and proposal development itself led to a strong commitment amongst tenants involved to taking over the estates (Clapham et al, 1996). The number of tenancies managed is generally larger than those managed by Australian co-operatives (ranging from under 50 to over 2500), and former Scottish Homes staff have been transferred with the property to work for the co-operatives. The principal funding for the purchase was Scottish Homes, but

private finance has also been obtained. At the same time rents are less than tenants would have paid as tenants of Scottish Homes (Scottish Homes, 1999).

Shared ownership arrangements are also common in the UK, although not generally through co-operatives. Under these arrangements households can purchase a minimum 25% share in a property, with the option to increase their share over time. The remainder is owned by a housing association, which charges cost rent on the portion that it owns (Larkin & Lawson, 1998).

The rise of private and third sector social landlords in England has developed with a primary emphasis on raising private funds and only secondary interest in community development/resident empowerment. The sector has had some success in adapting to this environment, a process facilitated by formation of secondary bodies and partnerships with local government and other community organisations. The development of new co-operatives on public housing estates has reinforced the relevance of co-operative models to community renewal projects.

3.4 Australian co-operative housing programs

Housing co-operatives have some presence in every State in Australia. Many emerged under the Local Government and Community Housing Program. Most Australian housing co-operatives hold title to their property, although in States like Western Australia there is a mix of leasehold and freehold.

Co-operative housing programs in Australia are most mature and developed in the states of South Australia and Victoria. Before going on to a detailed examination of these states' programs, it is worth mentioning initiatives in some other states. In the following chapter, the NSW program is discussed in detail.

3.4.1 Queensland and Tasmania

Co-operatives have played a significant role in social housing in Queensland. A 1987 study by Helen Wallace and Ken Butler traces the early history of their formation. The study paints a picture of a variety of different formations and funding sources. One co-operative, for example, had sourced a significant amount of members funds. While 80% of funding was through the LGCHP program, most co-operatives also had private bank loans, secured with the assistance of a Queensland government housing worker who negotiated with the bank. They drew on a range of voluntary support from lawyers, accountants and community members and used a variety of small scale fund-raising methods (eg garage sales) to supplement their rental income. While the Queensland government secured these properties for low income housing through caveats, it appears that there was relatively little detailed regulation of the co-operatives operation, and, indeed, a general government disinterest in their formation (Wallace & Butler, 1987).

The position for co-operatives forming under the current Queensland Department of Housing Long Term Community Housing Program is quite different. Co-operatives can access capital funds under the this program. No recurrent funding is provided. Title is held by the co-operative, and the government's interests is secured through a first ranking mortgage. No repayments are required. The property may be purchased by the co-op from the government at market value less the value of any improvements/contributions over and above those made through collection of income

based rent. The funding guidelines attached to the program are very prescriptive and include provisions requiring rent to be set at the rate charged to public housing tenants, use/repayment of surpluses, amount to be set aside for maintenance, etc.

The Tasmanian co-housing scheme is structured somewhat differently. In that state, the government has initially provided 100% of the capital funding required for the housing, with a requirement that the co-operatives repay 20% within a reasonable time of the property being acquired. Co-operatives hold the housing in trust for the government. Upon sale of the property they must repay 80% less capital improvements etc. Up to 20% of tenants can be non-public housing eligible. Rents must be income based and "affordable", but are not limited to 25% of income. Co-operatives have been able to borrow using standard mortgages from banks. This process has involved the State government, and in particular, the government has been required to affirm that the bank loans rank over the government's interest. One co-operative has been able to access a .9% discount rate (Bartlett, personal communication, 2001).

3.4.2 Victorian Common Equity Housing Program

The Victorian government has supported two types of housing co-operative development: a rental model, in which co-operatives rent from the government (similar to the New South Wales program), and a program to support common equity co-operative housing, in which ownership is held in the sector (the "CERC" program). The CERC program is administered by Common Equity Housing Limited (CEH) under an agreement with the Department of Human Services Office of Housing. CEH is an unlisted public company whose shareholders include the common equity housing co-operatives (CERCs) to which it leases. Its Board has majority representation from the CERCs plus three directors with technical/financial skills.

The Department provides two types of funding to CEH:

- capital funding to purchase or build housing; and
- rental rebates to enable reduction of rents to an income based threshold (currently 25%).

CEH holds the title to the property and sub-leases to rental co-operatives. At 30 June 2000 there were 1,557 tenantable units held by CEH with a value of approximately \$160 million. The government holds a mortgage over the portfolio. There is some debate over the nature of the government's interest - CEH consider the capital funding to be a non-repayable loan, while the government asserts an equity holding. The government has not been represented on the Board since it decided that that there was potential for conflict of interest between a director's role and the government's role as regulator.

CEH also raises private sector loans. Over its life, the percentage of funding through private loans has been around one third. However, more recently, and as an outcome of the settlement of a long standing law suit, substantial private debt was transferred from the private sector to the government. This move incurred break costs of \$300,000, but did not reduce interest payments on the loans – some of which are as high as 9.75%. Interest payments currently approximate the amount of rental rebate paid to CEH. There is strong private sector interest in lending to CEH.

Rents are based on cost and include components for the administration of the scheme and for loan repayment. The government provides a rental rebate which ensures that householders pay no more than 25% of their income in rent. One of the tensions that has emerged relates to the possibility that rents could be set at a higher rate than necessary, which would result in no increase in rent for many tenants, but an increase in rebate income for CEH. CEH estimate that their rents are at about 80-90% of market rents, which would suggest that this has not occurred. However, this issue has led to increasing scrutiny of CEH and conflict between the government and the sector.

Another key feature of the funding agreement with the Government is the elimination of measures to ensure socio-economic mix. Since 1998, all new tenants have been required to be public housing eligible. In addition, funds have been tied to provision of housing targeted at special needs groups.

In the 1990s, during the period of the Kennett government, relations between the CERC sector and the government disintegrated. Capital funds were frozen while the program was reviewed and while a court battle over stamp duty was played out. CEH maintains a strongly independent stance, despite their significant level of dependence on government support, and their role in program implementation.

The CERC program has been able to support up to 35% of capital costs through private borrowings and has built a significant co-operative housing presence in Victoria, which continues to grow. The program has been successful in building the level of financial and technical expertise in the sector. The ambiguity about CEH's role as program provider/sector representative appears to have caused some problems.

The program has not generated diversity of funding/title models in the sector, although the availability of sector based expertise suggests some potential to develop new models.

3.4.3 South Australia

Community housing in South Australia has been dominated historically by co-operatives, although a balance between the numbers of housing associations versus co-operatives has gradually developed.

Co-operative Housing is regulated under the South Australian Co-operative and Community Housing Act 1991. This legislation establishes the South Australian Community Housing Authority, or SACHA (previously Co-operative Housing Authority), and the South Australian Development Fund. The Authority regulates and the operation of housing co-operatives (including inspection functions that in most jurisdictions would be functions of the Registry of Co-operatives). It administers the fund, which exists to support the construction, redevelopment, or provide other financial assistance to community housing bodies, including co-operatives.

Where co-operative housing is subsidised by SACHA, it can secure its interests by a statutory charge over the property (s65), and it may also exercise a first option to purchase from the co-operative should the co-operative decide to sell. SACHA's practice is to use a debenture agreement which is secured against the property. The

agreement requires that co-operatives pay a monthly amount to cover the cost of the scheme, including cost of finance. This is calculated as an amount based on the value of the property, indexed by CPI, and limited by the requirement that tenants not pay over 25% of their income in rent. It is discounted, according to a set formula, where tenants hold investment shares in the property. The return to SACHA through this capital component is between 2 and 2.5% on their investment. In addition to the capital component of rent, tenants pay a fixed amount for major maintenance, and an amount that reflects the operating costs of the co-operative (including insurances, rates). Each component of rent is fixed, and closely approximates real expenditure. The capacity of co-operatives to generate surpluses is limited to savings that they can make in the operating expenses (approximately \$26 per household per week). Under recent changes tenants above an income and assets threshold who remain above that threshold for three years will be required to pay a 'premium' on their rent. The rate of premium has not yet been set.

Under South Australian legislation, housing co-operatives can issue investment shares to their members. Shares may be allocated against particular properties or against the whole of the property owned by the co-operatives. Shares can be issued to tenant members only, unless SACHA agrees otherwise. Purchase of investment shares can only be made a condition of membership if the members unanimously agree. Shares are not transferable. They are issued in parcels of no less than \$1000. They attract no dividend, but they reduce rent (that component of rent that is paid to SACHA) and they are redeemable at a value that reflects the capital growth of the co-op. Charges cannot be created over investment shares unless regulations are created authorising their creation for specific purposes. In evidence before a Parliamentary Inquiry into SACHA, a community housing representative described the investment shares as "poor value, and prohibitively expensive" and, to date, no investment shares have been purchased.

South Australia's Group Self-Build scheme allows co-operative formation through participation in building new housing. The difference between cash cost of housing production and market value is recognised as 'sweat equity'. This can be used as deposit towards a private purchase, or it can be used to buy investment shares in a rental housing co-operative. South Australia also has a scheme similar to the UK shared ownership scheme. This allows households who have borrowed through Homestart Finance to retain their equity in their home but obtain relief from repayments through participation in a rental co-operative.

Although SA housing co-operatives hold title to their properties, the full market value is secured via the government held debenture. While, in theory it may be possible for co-operatives to pay down part of this amount, affordability of private mortgage repayments has been, and is likely to remain, prohibitive.

South Australia's co-operative housing program has built a relatively large sector. The model has been applied to Group Self-Build and Homestart and there is interest in exploring limited equity models. SACHA's role appears to have dominated the sector, and this role has often been positive, presumably in part because its structure requires sector involvement. It is possible, however, that this has inhibited the development of sector capacity capable of generating models for greater independence from government.

3.5 Lessons from overseas and interstate experiences

Caution must be exercised when making policy comparisons between international and interstate experiences and the NSW program. The different tax, policy, and institutional frameworks that operate in different countries clearly limits any straightforward adoption of programs. While Australian examples are more relevant, they are also limited by different histories, and, more importantly, what are often radically different housing markets. There are, however, some general conclusions that can be drawn from this analysis which provide important insights into the possibilities for New South Wales:

- Government sponsored co-operative housing programs have been able to produce affordable co-operative housing on a large scale. Where governments have not directly provided capital grants as part of these programs they have been involved in a range of activities to control risk to co-operators and to facilitate negotiations with lenders. Every co-operative social housing program considered has also involved direct assistance to low income households.
- The experience in Australia and in Canada suggests that large scale programs have an homogenising effect on the housing co-operative sector. That is, they tend to produce a sector based on a single model of housing. When the government program is withdrawn, existing co-operatives may continue, but production is likely to cease. However, the CEH model in Victoria is an example where the program has built capacity within the sector itself which may lead to greater independence over the long term.
- The strong network of intermediaries and support organisations in some of the overseas examples has generated diverse sectors, and has structurally linked affordable housing to a range of other community development activities. At the same time, the decentralisation of housing policy, in the United States for example, has led to duplication of development effort and, in some cases, a "sink or swim" approach to low income housing.
- Co-operative formation has also been promoted through legislation which extends rights afforded prospective home owners to housing co-operatives. The extension of 'rights to buy' legislation is one example; the extension of tax benefits to available to other homeowners in North America is another.
- Co-operative development on public housing estates, provided it has been well supported, has highlighted the contemporary relevance of co-operatives to current concerns for community capacity building.

These themes provide a basis for consideration of the New South Wales co-operative housing program in the next chapter.

Chapter Four – NSW Co-operative Housing Program

4.0 Introduction

This chapter describes in some detail the New South Wales program under which housing co-operatives are formed. It analyses the program and identifies some of the tensions that have emerged between the sector and government through its history. Documentary material and interviews with key informants from the sector have been used to develop this account.⁷ The chapter goes on to provide a profile of the sector and reports on some of the benefits and difficulties that have emerged from a number of investigations, including a small scale survey done for this report.

4.1 The current arrangements

The New South Wales co-operative housing program was established in 1985. It was initiated under the Federal government's Local Government and Community Housing Program – a program which attempted to foster a community development approach to housing, rather than a traditional welfare approach. In this section the program is described as a co-operative housing program, although it may be more correctly defined as a sub-strand of the NSW Community Housing Program.

The arrangements governing the co-operative housing program are spelled out in operational guidelines and in the standard headlease agreement. Housing stock under this program is owned by the NSW Land and Housing Corporation and leased to the co-operatives, which in turn lease to tenant-members.

Under the guidelines of the program, a maximum of 35% of non-public housing eligible tenants are able to join the housing co-operative. Rents are set at a maximum of 25% of gross household income or market rent, whichever is lowest. Commonwealth rent assistance payments are considered as part of income by the co-operative.

Operating costs must be paid in full from the rents collected by the co-operative. These costs include: council and water rates; covering for vacancies and arrears; legal costs; insurance; cyclical maintenance; training, etc. Within these categories there are guidelines and limits on expenditure – for example, up to \$1000 or 1% rental income is allowed for training. Under leasing arrangements with the NSW Land and Housing Corporation, the co-operatives' responsibilities include: maintaining the property to the required standard; checking the income and assets of members to assess their ongoing eligibility for housing; secure and maintain insurances; provide an audited set of accounts. By contrast, the new leasing program for community housing provided by housing associations has allowances of between \$1000 and \$3000 per unit (less for organisations providing more than 100 dwellings) to cover administration costs (Bissett, 2001: 39).

While one of the stated aims of the community housing program is the provision of secure tenure, five years is the maximum lease available from the Corporation.

⁷ An interview was sought with the Office of Community Housing but a nominee was not provided within the timeframe of this project

Some co-operatives, particularly those that have been established over a longer period, have been able to generate surpluses. The operating guidelines state that, subject to the written approval of the Office of Community Housing, these surpluses, and any interest on them, can be allocated to:

- the purchase of additional stock by the co-operative;
- leasing of additional stock by the co-operative; major upgrades or modifications to existing stock or stock acquired through transfers; using the funds as a sponsor contribution for the acquisition of new stock under the Special Projects Fund or any other suitable program;
- ...the repayment of grant funds and equity in accordance with the common equity arrangements (when further developed).

The Association to Resource Co-operative Housing (ARCH) was established in 1985 with government support to assist in the development of the co-operative sector. ARCH is an association of housing co-operatives, registered under the New South Wales Co-operatives Act. Membership of ARCH is voluntary. ARCH is funded by the Department of Housing to provide training and support to co-operatives. It develops policy and advocates on behalf of the sector. It also has a specific government mandated role in assessing proposals for new co-operatives before they go to the Office of Community Housing.

4.2 Tensions within the program

Support from the State government for housing co-operatives appears to have waxed and waned over the course of the co-operative program's history. On occasion, housing co-operative formation has been strongly resisted.⁸ The Office of Community Housing, which is responsible for the program, has at various stages shifted between Departments, which may explain some of the frustrations in the sector at progress in addressing key issues. Two areas that have been the focus of some tension are the issues of ownership of co-operative property (and associated issues of security of tenure) and control of co-operative surpluses.

4.2.1 Ownership and equity

Most housing co-operatives in Australia hold the title to their property. New South Wales is alone in sponsoring only a leasehold form.⁹ However, the development of arrangements to support co-operative ownership has been a key demand of the sector over the history of the program, and the State Government's commitment to this objective has been restated and renewed at various stages. The 1996 standard headlease, and the New South Wales Co-operative Housing Strategy (1997/8-1998/9) make it clear that the parties anticipated progress towards this development. In fact, until 1996, co-operative tenants paid a higher proportion of their income in rent in recognition, they believed, of the fact that the properties would eventually transferred to the co-operative (Darcy, 1996)¹⁰.

8 As identified in the 1991 Inquiry by the NSW Ombudsman's Office

9 Western Australia has moved to a leasehold model, but there remain a significant number of co-operatives that own their properties, and joint ventures are a key growth area.

10 The date of the change to 25% rent limit has not been confirmed, but is based on information from a leader of the sector.

While there was agreement that ownership arrangements should be modified, the reasons for wanting this change were different. The NSW Office of Housing Policy's housing strategy states that:

In a declining funding environment there is a critical need to broaden the funding base available to community housing organisations. The development of models which can support this is therefore a priority issue. Over time, common equity, shared equity and mixed equity arrangements will be progressively developed.

The co-operatives' goals in pursuing equity were focused on issues of autonomy, recognition of their 'sweat equity' and security (Shellshar, interview, 2001).

At least some co-operators perceive a policy shift away from the development of altered equity arrangements (Shellshar, 2001: 82). However, it is unclear whether in fact there has been a change in the government's position or whether resources have simply not been applied to the task of developing these new arrangements.

4.2.2 Control of surpluses

While program guidelines clearly contemplate the reinvestment of surpluses to expand the co-operative or purchase equity, the reality has been somewhat different. There has been lack of clarity around issues of ownership of surpluses and definitions of surpluses (Shellshar, interview: 2001). Expenditure is subject to approval by the Department, and these are currently processed through the normal application procedures applying to community housing – a process which takes six months.

The current guidelines for the Partnerships in Community Housing Program, which is the State's key community housing joint venture program, do not allow surpluses to be counted as equity. The contribution can be reflected in an extended lease.

The impact that the availability of a surplus has on success through these processes is unclear. What is clear is that failure to develop equity participation for co-operatives has meant that surpluses have not been applied to increase co-operative ownership of housing stock to the extent possible.

The prospect of being able to spend co-operative surpluses to expand the co-operative, to benefit the sector, or to engage in other activities beneficial to the co-operative and its community, is an important incentive for co-operators to participate in the running of their housing and to reduce costs. It is seen as a key benefit of a co-operative program which, unlike other programs in Australia, does not provide any direct ongoing financial support to the running of the co-operative. Recent proposals for legislation that would enable the Department of Housing to 'capture' these surpluses would have removed any such incentives, and may have heightened concerns about the lack of co-operative control over surplus funds.

4.3 Profile of NSW co-operative housing

The NSW Office of Community Housing collects extensive data on community housing in the State which provides a general picture of the sector and the tenants it houses.

At June 1999, 47 registered housing co-operatives operated in New South Wales, housing 794 tenants.¹¹ Approximately 50 more tenants are part of a co-operative not reflected in these figures because it is incorporated as a company.

1998/9 figures indicate that, compared with the NSW community housing sector overall, co-operatives:

- are more likely to house people from non-English speaking backgrounds (37% compared with 24%);
- are more likely to house singles and to house couples or groups with children. Housing associations house more single parent households;
- are more likely to be wage earners (32.6% compared with 10.1%); and
- have higher proportions of tenants with wages less than \$199 per week (38.5% compared with 29.2%) and above \$800 per week (5% compared with 1.5%).

Eleven percent of households report that they spend more than 25% of their income in rent (compared with 2.5% of households in community housing in NSW)

Co-operatives tend to be small. The average number of tenancies managed by co-operatives is 15, compared with an overall State average of 35 (National Community Housing Forum, 1999: 50-51).

4.4 Successes and problems in the current program

There is very little available material that evaluates the New South Wales co-operative housing program. In this section, the outcomes of three studies are summarised, and the findings of a small scale survey conducted by ACCORD for this project are reported.

4.4.1 Brian Elton and Associates, 1995, "Co-operative Housing Program in Australia – Targeting, Auspicing and Resourcing"

In 1995, the New South Wales Office of Housing Policy commissioned a small scale study of co-operatives that house 'high needs' groups in New South Wales, where high needs was defined as high housing need along with other indicators of social and economic disadvantage (Elton & Associates, 1995: 2). The study focussed on the appropriateness of targeting co-operative housing to high needs groups, adequacy of auspicing arrangements, and resourcing needs of emerging co-operatives.

The study found that the co-operatives based on common cultural background, the co-operatives for people with disabilities and the student co-operative were all running well. Initial support from community organisations had been important in each case, but the co-operatives were moving towards (or had achieved) a level of self-sufficiency. The youth co-operatives, however, were characterised by high turnover, major disputes between tenants, unwillingness or incapacity to deal with administration, inappropriate housing and a general lack of the sense of ownership and control that characterises better performing co-operatives.¹²

11 Unless otherwise specified, all figures are taken from the NSW Office of Community Housing 1998/9 Data Collection Results.

12 This finding is consistent with a Queensland study (Thompson, 1998), which suggested that while youth co-operatives were possible, they needed to be supported by full-time workers.

The study found that, in most cases, successful co-operatives had not required auspicing, although they had required the support of skilled workers – particularly where assistance was required in dealing with language barriers. The co-operatives were critical of the assistance provided by the Department of Housing and by ARCH. The perception of ARCH's role was confused by their part in the bureaucratic assessment process. Some co-operators raised concerns about the accessibility of training to people not skilled in English (although those who had been through more recent training were more positive). Co-operatives found the length and the complexity of the application process frustrating and demoralising. Its outcomes, in terms of appropriateness of housing, were not always positive. The Department of Housing was generally criticised for lack of consistency and appropriateness in its support for applicants.

Some time has elapsed since this study was undertaken, so the currency of its findings about dealings with the Department and with ARCH are questionable. Youth co-operatives have not been initiated since this study, and those that existed have moved to become associations with greater support. What this study does reinforce, however, is the success of co-operatives in meeting the needs of some target groups – in particular people from ethno-culturally diverse backgrounds and people with disabilities, and therefore their relevance even in a more targeted community housing program.

4.4.2 ARCH review of management support needs of co-operatives (Van Reyk, 2001)

In 2001, ARCH commissioned a study of the management support needs of NSW housing co-operatives. The study involved a survey and focus groups. Although only a small number of co-operatives have been studied at this stage, the results highlight a range of concerns with the current co-operative housing program. The study found that:

- pressure through the funding process to select high needs tenants was undermining the co-operatives ability to form viable, sustainable co-operatives;
- longer standing members were experiencing burnout;
- younger co-operatives (those that had more 'high needs' members) felt that their membership had less capacity to deal with housing management and the housing bureaucracy;
- administrative burden was out of proportion to the size of the co-operatives;
- co-operatives reported difficulty in finding contractors willing or able to do work for them (particularly small maintenance jobs, but also financial and administrative work);
- there was great frustration at the failure to resolve ownership of surpluses and to develop new equity arrangements – and this was contributing to the increasing reluctance of co-op members to volunteer their labour;
- there was concern about co-operatives vulnerability to changes in public policy and fears for security of tenure; and
- there was a general perception that the Department of Housing did not understand or support the co-operative model.

This study was aimed at identifying the management support needs of co-operatives, and therefore did not explore the benefits and positive aspects of the current program

or of living in co-operative housing. It does raise a series of concerns, both in terms of sustainability of the workload experienced by co-operatives, and their perceptions of the Department of Housing.

4.4.3 Shellshear, 2001, Case Study of a Tongan Housing Co-operative

Karine Shellshear (2001) conducted a detailed study of a Sydney based Tongan housing co-operative based on extensive tenant interviews. The study confirms that, in this case at least, co-operative housing has produced similar benefits to those identified in the overseas studies reported above.

The co-operative members were strongly supportive of the program. Key elements identified included:

- the setting of rents based on income - which were identified as relieving households of many of the stresses and insecurities of renting in the private market;
- location of housing near other institutions of importance to that community - for example the church; and
- autonomy in key areas like tenant selection, management of tenant problems and ability to house adult children, even when they had left home for a period.

There was a strong sense amongst tenants of ownership and autonomy, with comments such as, "A landlord is like a big boss - when we moved into a co-op we became our own boss. Every body is a boss here...there's a big difference - we are more confident - we know we can live here forever." (Shellshear, 2001: 82). On the other hand, the co-operators also expressed frustration about the lack of formal recognition of this ownership:

With common equity - when the Government changed the policy to a rental co-op, our hopes were dashed. They took away the hope of low income people by not letting us buy in. Whatever happened to the great ozzie dream ? (quoted in Shellshear, 2001: 82)¹³

While some tensions were also identified - problems of rent arrears and some not pulling their weight - these were taken on as problems to be solved by the co-operative. Tenants saw themselves as actively controlling their environment, not as victims (Shellshear, 2001: 63)

Shellshear states, "The research suggests that there were fairly profound changes to people's quality of living, to their sense of well being, their feelings of security and stability, the opportunities in their life. Then, for some ...there were changes to their sense of personal identity, in terms of feeling more a part of Australian society." (2001: 93). The research also found that the benefits of cultural continuity and strong supportive networks at home, enabled the co-operative members to engage in their broader communities. The range of community activities participated in included assisting other co-operatives to form, participation in local gardening competitions, volunteering at schools, performing at senior citizens venues and in Carnivale (Shellshear, 2001: 91).

¹³ Note that it is not clear that the NSW government has rejected common equity model

4.4.4 ACCORD survey of NSW housing co-operatives

In this study, one member each from six housing co-operatives were surveyed over the phone using a brief eight item questionnaire. All members surveyed had an active role in managing the co-operative. The co-operatives were selected to achieve some representation of the sector's diversity with regard to age, ethnicity and gender. The aim was to gauge member perceptions of the benefits and difficulties of co-operative housing and the importance (or otherwise) of property ownership in this equation. The survey is indicative only, due to the very small sample size.

4.4.4.1 Benefits

As can be seen from Table 1, respondents identified a range of benefits that accrued to them as a result of their co-operative housing experience. Reported benefits cluster around 3 categories: housing, social and personal development, and skills development. These benefits were found to be distributed evenly across the surveyed co-operatives. All respondents reported experiencing all categories of benefits, that is; they felt as though the co-operative had been beneficial to their housing situation, their perception of themselves and their social environment, and to their development of valuable personal and vocational skills.

One respondent mentioned that, as a result of living in a co-operative, she had been offered and had accepted a scholarship to do a Bachelors degree at an interstate university.

Table 1 : Reported Benefits of Co-operative Housing in NSW

| Categories | Components | Number of Responses |
|------------------------------------|---|---------------------|
| Housing Environment | Control over management and maintenance | 4 |
| | Secure Tenure | 2 |
| | Quality Housing | 2 |
| | Accessible housing | 1 |
| | Increased Affordability | 3 |
| Social/personal Development | Individual empowerment/confidence | 6 |
| | Improved Interpersonal Skills | 2 |
| | Improved social networks/Sense of Community | 4 |
| Skill Development | Management or Business Skills | 5 |
| | Self-sufficiency | 2 |
| | Leadership/community development skills | 2 |
| | Computer Skills | 1 |

4.4.4.2 Difficulties

Three of the six respondents reported difficulty in getting other co-operative members to participate. In only one co-operative did this appear significant enough to undermine general satisfaction with the co-operative, and dissatisfaction with the co-operative structure.

In most cases the key problems identified arose out interactions within the group. However, most respondents also indicated that they felt confident of being able to manage these problems themselves with the resources they had available within the co-operative. They regularly resolved tension and conflict through open discussion, occasionally involving an external mediator, but more often, limited to the co-operative members themselves. A number of respondents indicated that their role in problem-solving within the co-operative was important to the development of their own interpersonal skills.

Two respondents reported difficulties in their dealings with government in relation to their housing. Both identified the process of building/expansion of co-operatives as an area of frustration and lack of responsiveness. One identified a series of problems arising from a perceived lack of understanding of and respect for co-operatives as a model distinct from public housing. The administrative load associated with Departmental requirements was also a source of frustration.

Table 2: Reported Difficulties of Co-operative Housing in NSW

| Difficulties | Number of Responses |
|---|----------------------------|
| Interpersonal | 2 |
| Not enough sharing of load | 3 |
| Pressure to conform | 1 |
| Separation of Personal & Professional Relationships | 1 |
| Rent Collection | 1 |
| Co-operative vs Neighbourhood Interaction | 1 |
| Dealings with Department of Housing | 2 |

4.4.4.3 Comparison with other experiences of housing

When asked to compare their experience of living in the co-operative with previous housing experiences, four out of six respondents indicated that they were far more satisfied with co-operative housing. One of the co-operative members reported that, in response to a survey of its own members on this point, all members reported that their co-operative housing was more satisfactory than any other form of housing they had experienced. One respondent reported that while there were advantages to co-operative living, the management burden was too much where it was not shared equitably among members.

4.4.4.4 Ownership

Respondents were asked whether it mattered to them who owned the housing that they lived in. Three respondents supported co-operative ownership and linked it with achievement of the co-operatives' goals of greater self-sufficiency, autonomy and security of tenure. One respondent was emphatic in his support for the current leasing model saying that in his aged persons' co-operative, the financial strain would be an

impractical burden. Two respondents identified co-operative control of surpluses as crucial, although one of these was unsure about the importance of ownership.

4.4.4.5 Community involvement

Five out of six respondents reported their members had been involved in community activities beyond the co-operative.

Community activity took many forms and existed at the individual and at the co-operative level. Co-operative involvement in community activities included: teaching the community about co-operatives by conducting a regular on-site social function; membership of neighbourhood watch; and church activities. Two co-operatives were involved in council planning processes. One co-operative was involved in a key leadership role in a local community development network. Individual member contributions included: volunteer work for neighbourhood centres; involvement in a choir; involvement in the organisation of community events; and joining political parties. Members of an Aboriginal housing co-operative joined the boards of other Aboriginal organisations. Respondents reported that, in most cases, community involvement was widespread within the co-operative membership.

4.4.4.6 Conclusion

While limited in scope, this study supports a conclusion that housing co-operatives are delivering positive outcomes for tenant-co-operators in their housing, their personal skills development and their sense of social and community connectedness. It highlights the level of work that is required of co-operative leaders to manage relationships inside the co-operative. The study reinforces the importance of a sense of control for co-operators. For most, this sense was linked to ownership or control over surpluses.

4.5 Conclusion

The New South Wales co-operative housing program provides affordable housing for a relatively small number of people, almost all of whom are on low incomes. While the initial capital outlay for each co-operative is high, the ongoing costs of supporting them is minimal. The co-operatives themselves receive no recurrent funding from the NSW government.

There is evidence that the benefits of co-operative management to the individuals involved and to the communities in which they live are considerable. While co-operative housing is approached as 'welfare housing', its outcomes are very different from those associated with a traditional welfare approach. The extent to which these benefits translate into broader community savings cannot be quantified here, but it is reasonable to assume that the financial benefits are substantial.

However, there are also some signs of problems. There is a sense of frustration associated with dealings with the Department of Housing. This is felt by individual co-operatives in their attempts to negotiate the accountability requirements of the Department, in the formation process and attempts to use surpluses to expand. But there is a more general concern that the efforts of co-operatives are not being acknowledged, and that there is little value placed on the co-operative model.

Some of the support needs of co-operatives (particularly the newer, 'high needs' co-operatives) are not necessarily being addressed – language barriers in accessing training and physical barriers to dealing with maintenance issues are two examples. The ARCH member survey, in particular, suggests that the administrative and management burden is weighing heavily on many co-operatives. An example given is the requirement that co-operatives adopt an accrual accounting system. While this may be 'best practice' in housing management terms, the burden that it places on small co-operatives seems disproportionate to its benefits to them or the scheme. No account is taken of the cost of this type of burden to achievement of other objectives - in particular the personal, social and community benefits of co-operative living.

The pressure to house high needs groups has meant that newer co-operatives often have higher support needs, or different support needs (eg. training in different languages) that are not necessarily being met. For established co-operatives pressure to provide targeted housing solely for low income earners feeds a sense of vulnerability to government policy change.

A sense of ownership is important to many co-operators, which reflects the value placed on autonomy and control over the housing environment. The ongoing failure to resolve the issues of title and equity under the co-operative housing program, and the associated issue of surpluses generated by co-operatives is a cause of dissatisfaction for some (but not all) co-operators. The idea of owning co-operative properties, and surpluses generated is linked to co-operators' desires for security in their housing, and aspiration towards self-sufficiency. At the same time there is a significant group of co-operators for whom the additional risk and responsibility associated with ownership of the properties may be too great. This is probably true for most co-operatives housing aged people who are not concerned at the potential impact of changes in income for their security of tenure.

While the co-operative program has been vital to the establishment of a sector in New South Wales, the sector is now dependent on this government program for growth. The NSW co-operative sector is characterised by a single model of housing and a single funding source. The program has not built sector capacity in a way that would support development of new financial models. Growth has been slow, and will probably continue to be slow in the current constrained financial environment.

Given the fit between the government's community building objectives, and co-operative approaches to housing, it seems surprising that the model is so marginalised.

Chapter Five – Renewing Co-operative Housing in New South Wales

5.0 Introduction

This chapter suggests some changes to the current co-operative housing program that might help address some of the problems currently experienced by housing co-operatives. It goes on to suggest that, in order to achieve greater benefit from the co-operative models, it is necessary to rethink the role of the program. This chapter draws on the idea of government-community partnerships as a framework for analysing the current co-operative housing program and for suggesting a repositioning of co-operative housing models within government policy frameworks.

5.1 Addressing sustainability issues within the existing co-operative housing sector

Key sustainability issues that confront the co-operative housing program at present are the administrative/management load and the inability to find appropriate contractors; frustration with government processes; tenant selection; and lack of recognition of sweat equity.

5.1.1 The role of secondary organisations in managing workload

Secondary organisations which provide services to co-operatives can play an important role in reducing the burden on volunteer co-operators.

In England, housing co-operatives are supported by a network of service providers which includes secondary co-operatives and housing associations. The importance of their role was highlighted in a recent review commissioned by the UK Confederation of Co-operative Housing (Lambert & Bliss, 2001). These organisations generally provide their services on a fee for service basis, with fees set at an amount based on the Housing Corporation's management and maintenance allowances (Lambert & Bliss, 2001: 16). Services include management of finances, rent collection and arrears, repairs and maintenance and administration of tenancies. They may also hold joint waiting lists for co-operatives that they work with, provide training and induction services and dispute resolution. Most co-operatives use service providers to perform the range of financial and administrative tasks associated with co-operative management, but preserve those tasks associated with the human institutions (eg. tenant selection and induction, disputes) for themselves.

The review of secondary service providers (Lambert & Bliss, 2001) found that, while services are provided on a fee for service basis, the most effective support organisations also provided proactive help. They saw their role as assisting co-operators to make the model work. Those organisations that had a commitment to co-operatives and the principles that underpin it were seen as providing a much better service (whether they were secondary co-operatives or housing associations with a co-op orientation).

As the resourcing body to the NSW sector, ARCH plays a small role in the provision of training to co-operative managers and members. However, ARCH is by no means resourced to provide the suite of secondary services which would enhance the current

program. Further, given ARCH's roles in facilitating the program and advocating for the sector, it would not be appropriate that they take on this function.

Recommendation One

Government support should be given to attempts within the NSW co-operative housing sector to develop appropriate arrangements to provide services to co-operatives on a contractual basis. It is important that service providers have a clear understanding of co-operative structures and objectives and/or a 'co-operative orientation'. Co-operatives should be able to use their surpluses to help establish such organisations/arrangements.

5.1.2 More responsive government processes / structures

The current trend in community housing is towards the development of national standards and accountability frameworks. This raises issues for housing co-operative managers, many of whom already feel that the standards applied are inappropriate for the scale and nature of their organisations. To enable these organisations to continue, current record keeping and reporting requirements can be reviewed to ensure that the effort required is proportionate to the objectives and in keeping with the co-operatives' size and tenant organisation status. Where possible, accountability frameworks should be simplified.

It should be noted that co-operatives are already regulated by the NSW Department of Fair Trading through the Registry of Co-operatives. An effort should be made by the two Departments to ensure an alignment of reporting frameworks and remove duplication of responsibilities between the two bodies.

To the extent that the NSW Government is proposing to move towards stronger performance measurement of the sector, the distinction between co-operatives and professionally staff housing bodies should be recognised. The extent to which democratic processes within the co-operative can address performance issues should be acknowledged. Rather than increase monitoring of processes (which makes the burden on tenants heavier) allowing co-operatives to use their surpluses to pursue their objectives should be considered as a means of providing incentives to more cost effective management.

Recommendation Two

ARCH should encourage the NSW Office of Community Housing to review current record keeping and reporting requirements, to ensure that the effort required is proportionate to the objectives and in keeping with the co-operatives' size and tenant organisation status. Where possible, accountability frameworks should be simplified.

5.1.3 Improved recognition of co-operatives' social and economic contributions

While co-operators in New South Wales pay rents equivalent to those that they would pay if they were public housing tenants (and historically paid more), they perform tasks that would generally be performed by paid housing managers. The Office of Community Housing currently places an economic value on housing management within the context of the headleasing program for housing associations. Allowances range from \$1000 to \$3000 per dwelling per annum for providers managing 100 dwellings or less. Because of the size of most co-operatives, they would sit at the higher end of this scale. Co-operators report spending many hours per week working

to manage their housing, and some require a minimum number of hours of work from their tenants.

Security of tenure is considered by many to be one of the key ways of recognising the voluntary labour of co-operators. But the tenure of New South Wales co-operatives is very limited. The very success of co-operatives in facilitating personal benefits for co-operators may make that tenure less secure. While current socio-economic mix provisions in New South Wales provide a 'buffer' where co-operators achieve income mobility, the trend in community housing is away from income mixing. Some co-operators fear that improvement in their personal circumstances will lead to eviction (NSW co-operator, personal communication: 2001). Transfer of title would provide greater security and would recognise this effort. Long term agreements (eg 25 years) which provide some certainty might achieve this objective.

At a less tangible level, the government should consider giving greater prominence to the achievements of co-operatives in achieving benefits for their communities and their members. The program provides models of community building which would be valuable to policy makers across government portfolios. Promotion of the theory and practice of housing co-operatives would appear to benefit the Department as well as providing some greater confidence in the sector that their approaches are supported.

Recommendation Three

The NSW Government should consider giving greater prominence to the achievements of co-operatives in achieving benefits for their communities and their members. The program provides models of community building which would be valuable to policy makers across government portfolios. Promotion of the theory and practice of housing co-operatives would appear to benefit the Department as well as providing some greater confidence in the sector that their approaches are supported.

5.1.4 Redefining the role of co-operative housing in New South Wales

NSW housing co-operators have expressed frustration at government's perceived failure to recognise their contribution. But to some extent this failure reflects a problem in articulating the role that co-operatives can and do play in social housing. This problem is not unique to co-operatives. It has plagued the community housing sector. Community housing has been variously promoted as enabling greater non-government investment, creating transparency through separating housing provision from housing regulation, providing greater choice for tenants, addressing non-shelter support needs of tenants and facilitating greater community involvement in addressing social housing need. At the same time, concerns have been raised about the efficiency of community housing compared with public housing. The equity of different targeting and waiting list arrangements has been questioned. The quality and capacity of community housing providers has come under scrutiny.

Within these broader set of claims and counter claims about community housing, it is possible to identify a range of areas where co-operatives can work with government to achieve social goals. This contribution is directly linked to the unique form of co-operative housing and the evidence of the benefits that arise from this form.

Recommendation Four

It is recommended that ARCH encourage the NSW Department of Housing to redefine and rearticulate the role of co-operative housing in New South Wales as:

- Co-operatives are human institutions. Investment in co-operatives makes sense if the objective is to address the need of prospective tenants to build social networks, to build their own capacity, and to integrate within their communities. One of the key roles of the co-operative housing program should be to address social exclusion and to facilitate improvement in the personal and social circumstances of tenants.
- Capacity built through co-operative formation can be extended to non-housing objectives. Co-operative housing should be seen as playing a role in broader community development.
- The achievement of greater control by tenants of public housing estates should be one of the objectives of the co-operative housing program. It should be acknowledged that this will not necessarily result in full tenant management, but there should be support for the creation of tenant organisations, and a framework that allows this process to go as far as tenants are willing or able to take it.
- Co-operatives require stability in their membership. Housing co-operatives cannot be built out of short-term tenancies. The co-operative program should be aimed at long term, secure, affordable housing.
- Co-operatives have been very successful in addressing social exclusion where they have brought together common language/cultural communities, or communities with a shared experience (eg disability). Co-operative housing can play an important role in addressing the need for socially supportive housing amongst groups who wish to live together and who might otherwise be marginalised.
- Co-operatives work best where they encompass a mix of skills and (generally) incomes. They have been successful at enabling people who cannot afford to buy their own home to achieve some of the benefits of ownership. Co-operative programs can be most effectively used in a way that combines broader housing affordability objectives with addressing the needs of potential public housing tenants.

This redefinition of the role of co-operatives in meeting social/public goals provides the basis for looking at the other dimensions of a possible partnership between the sector and government.

5.1.5 Promoting equality and recognising the different contributions of the parties

The NSW Department of Housing recently described itself as "work[ing] in partnership with the community to supply and sustain safe, decent and affordable housing for people on low incomes." (NSW Department of Housing, 2000) This aspiration fits with the government's broader commitments to developing the capacity

of communities to co-operate to achieve social, economic and environmental goals. Doyle (1998) identifies the critical features of effective community partnerships as being: a joint investment of resources - including human, physical and financial assets; appropriate attention given to issues of power and equality; and recognition that partners may bring quite different resources to the partnership, but that these contributions are equally valued.

The failure to recognise the specific value that co-operatives bring to social housing is a fundamental problem with the NSW community housing program as currently constituted. Some community housing providers can bring land, cash, or property development expertise to the community housing environment. But housing co-operatives are self-help organisations whose members are overwhelmingly low income. The most important contribution that tenant co-operatives make is their commitment to contribute their labour to manage and improve their housing environment. This represents a substantial investment of time and effort.

As identified above, housing management tasks undertaken in the non-government sector have a monetary value that is recognised. The cost of government provision of equivalent services can also be given a tangible value.

At the moment, this investment secures only limited tenure in affordable housing. Tenure is limited by the length of the co-op lease – which is limited to a maximum of five years - by being subject to change in government policy, and subject to changing personal circumstances of individuals.

That the current relationship does not reward the contribution of tenant co-operators reflects a failure to attend to the underlying relations of power. If the co-operative program is to genuinely empower tenants, and to work on a partnership basis, it must recognise the investment of tenants both symbolically and tangibly. In particular, it must address concerns about security of tenure, but it must also acknowledge tenant-co-operators' efforts in generating a surplus through their work.

Recommendation Five

It is recommended that ARCH seek the following changes to the operation guidelines of the NSW Co-operative Housing Program:

- the offer of extended leases (eg 25 years) or transfer of title be made to housing co-operatives;
- co-operative ownership of surpluses be acknowledged; and
- in negotiating a basis for any equity arrangements, the unpaid labour of co-operators be given a value at least equivalent to the value that would have been placed on them had they been provided by another entity.

5.1.6 Acknowledging role in community development

The idea that co-operative development fosters community development is an important part of any strategy that includes co-operative housing. But while community development approaches have informed the community housing program, it remains an implicit rather than explicit goal.

In the United States these goals are linked through the network of third sector providers which can access the Community Development Block Grant program which provides funds for both housing and broader community development objectives (O'Regan & Quigley, 2000).

In the United Kingdom neighbourhood regeneration efforts have been directly linked to secondary service provision to, and support for new co-operatives (eg. Coin Street).

A number of strategies can be implemented to reinforce the link between co-operative development and community building:

Recommendation Six

It is recommended that:

- the current limitations on expenditure of surpluses be altered to allow spending on community activities, including loans and small donations; and
- the NSW Government consider how the Departments of Housing and Urban Affairs and Planning might support the development of local investment vehicles to extend community development efforts and, over the longer term, to provide a potential source of funds for housing co-operative development.

5.1.7 Co-operative housing as a means of addressing broader affordability

Compared with other forms of Commonwealth/State Housing Agreement funded organisations, housing co-operatives have a greater proportion of tenants in both the highest and lowest income categories (National Community Housing Forum, 1999: 77). The New South Wales co-operative housing guidelines currently recognise the value of income mixing. However income mixing objectives are being compromised by the practical pressure of a program with very limited funds and with increasing demand for housing. In practical terms, tenant selection for new co-operatives is dominated by the need to demonstrate increasingly high levels of disadvantage to receive a capital allocation. As a result, newer co-operatives are finding it harder to find the skills from within their membership to manage their co-operatives.

The dilemma for housing co-operatives that wish to maintain their socio-economic mix arises from the failure to date to find effective solutions to the broader affordable housing crisis. Housing co-operatives need government support, but support provided through the Commonwealth/State Housing Agreement is increasingly targeted to individuals in the most extreme need. In order to remain viable, co-operatives need to be able to have a mix of these people and others on moderate incomes – those who fall into the group targeted by the State Government's affordable housing strategy.

The capacity of co-operatives to access the Government's affordable housing fund is limited at this stage because of the nature and level of funding available through this program. However, the development of partnerships with local and State government to pursue opportunities to develop affordable housing should be supported. Initiatives like the recent formation of the Brisbane Housing Company (modelled in part on the City West Housing Authority) could lead to the development of co-operative housing if that is part of their brief.

Affordable housing co-operatives could also draw on their higher potential income base to supplement government investment through development of limited equity / mixed equity models.

Whereas tenants' shares in common equity co-operatives are generally nominal, limited equity co-operatives cover some or all of their capital costs through issuing shares to their members. Ongoing affordability of the housing is secured through limiting share growth (for example to CPI). In the United States the purchase cost of a membership share tends to be around the amount of rental bond.

In Sydney, and in much of New South Wales, the affordability problem for even moderate income earners is so severe that the entry costs to limited equity housing would be prohibitive without significant government support. Given the large number of renters on moderate incomes who pay more than 30% of their income in rent, this option could well provide reasonably cheap, more secure accommodation for moderate income households.

Recommendation Seven

It is recommended that:

- The role of co-operative housing in addressing affordability be explicitly acknowledged in the co-operative program. It is proposed that the NSW Department of Housing work with the co-operative housing sector to find ways of supporting the supplementation of CSHA funds through other funding sources (including a possible up front contribution by higher income earners) to create new affordable housing.
- A pilot affordable housing co-operative project be developed.

5.2 Organising for growth

The Victorian government recently commissioned a report aimed at identifying strategies to maximise the impact of the government's proposed investment in social housing. The Social Housing Innovations Project (SHIP) report prepared by Bissett (2001) argues that community housing provides opportunities to maximise social benefits as well as mobilise finance from a range of sources. It proposes a strategy to build capacity within the community housing sector to finance and develop new housing and the formation of new housing associations where necessary to take on a role not dissimilar to that performed by community development corporations in the United States. Underpinning this strategy is the adoption by the sector of a set of accountability frameworks including training and prudential standards, standard structures and agreements. Development of larger scale organisations (for example through mergers or new development) is identified as important to ensure economies of scale and development of specialist skills.

Bissett's report is an important one for the co-operative sector to come to terms with. It is important because it clearly identifies the challenges to organisational capacity that the sector would have to face if it were to expand its role. But it is also important because, to the extent that it suggests that social housing must accommodate government demands for increased professionalisation, scale and more standardised

arrangements, this may contribute to the increased marginalisation of co-operative housing.

If co-operatives are to diversify their funding base or to expand into development of new co-operative housing, one of the key problems that they face is one of scale. Larger scale organisations are able to employ specialist staff, exercise greater power in negotiations with government and with suppliers, and to manage risk across a larger income and assets base. This provides comfort to financing organisations, and reduces risk to tenant co-operators arising from mismanagement.

It is also often suggested that larger organisations are less costly to run. This is an important point made in the SHIP report. However, as the report itself suggests, this is not necessarily the case in small voluntary organisations like co-operatives. In fact, the weight of international evidence in the area of co-operative housing suggests that, despite their scale, smaller co-operatives are more cost effective housing managers. That smaller co-operatives are more likely to be successful in building 'human institutions' is suggested by the fact that they tend to have higher levels of tenant participation and tenant satisfaction (Price Waterhouse, 1995; Clapham & Kintrea, 1994; Sazama, 2000). So, while larger organisations can achieve economies in purchasing highly specialised skills (like property development skills) and finance, they are less efficient in harnessing the social and economic benefits of co-operatives. Internationally and interstate, a range of strategies have been adopted to deal with these problems of scale.

Victoria's Common Equity Housing is an umbrella organisation which owns housing which it then leases to management co-operatives. It is large enough to employ specialised staff, negotiates with government and with lenders. CEH is controlled by its members through majority representation on its Board. The CEH model is most readily adapted to the framework outlined in the SHIP report.¹⁴ However, the role and operation of CEH is complicated by the fact that it is the sole program delivery body for common equity co-operatives in Victoria.

CDS Co-operatives is the largest of the UK group of co-operative support organisations (Lambert & Bliss, 2001: 7). It is a secondary co-operative. Its operations have varied through its 30 odd year history. For a time it operated on a similar basis to CEH Ltd, owning housing which it leased to co-operatives to manage. It now provides a range of services to around 76 co-operatives. These services include: development (including design, project management and raising private finance); general housing management services and training and development (Larkin & Lawson, 1998: 35). A key role for CDS is in auspicing the development of new co-operatives by working in partnership with local government to develop the housing, then working with tenants for 12-18 months to establish the co-op once the tenants move in (Larkin & Lawson, 1998: 35). CDS has also developed the Co-operative Housing Finance Society which provides a guarantee to lenders of up to 12 months interest. It charges a fee of 0.5% of the loan amount plus a .25% interest rate premium. The guarantee offsets the disadvantages faced by co-ops because of their substantially smaller size.

¹⁴ Bissett himself has suggested that the housing association model accommodates a CEH type umbrella for smaller co-operatives (personal communication)

The Vermont Co-operative Housing Federation in the United States is a secondary co-operative which does not own the title to properties held by co-operatives, but which has the right to intervene in their affairs if they have serious management or financial problems. This provides some comfort to potential lenders, but also preserves a larger measure of autonomy in the co-operatives themselves (Sazama, 2000: 598)

In Denmark, a different model has emerged (Larkin & Lawson, 1998). Danish housing associations are run by boards majority controlled by tenants, although they are formally co-operatives. These housing associations obtain finance through three non-profit mortgage institutions which are controlled by the housing associations. In addition, they are required to contribute to two mutual guarantee funds. The first fund enables an organisation to call on up to 60% of its contributions to cover major capital works, and also provides funds to housing associations experiencing financial difficulties. The second covers building defects where recovery from the builder is not possible.

It is significant that in each of these models, a sector capacity to pursue alternative financing and new development is built up. This capacity does not exist in NSW at present, and its development should be a priority. Clearly, the size of the NSW sector does place some limits on its capacity to support secondary development co-operatives; the development of specific mortgage institutions is certainly out of reach. However, it is important to consider the development of sector based financing institutions as a long term objective. A model in which a secondary body holds title and/or significant capacity to intervene in the affairs of co-operatives holds the most hope for attracting private lenders. However, the process would have to be carefully managed to ensure that the 'human institutions' and the value (economic and social) they bring are not damaged in the process. The principle that co-operation must be voluntary should be preserved throughout the development process.

The range of strategies that might be pursued by co-operatives include:

- voluntary mergers and development of secondary co-operatives;
- development partnerships with other housing providers involving one or more co-ops, or co-operatively owned organisations; and
- development partnerships with councils

In each case it is clear that a strong support for co-operative development must be embedded in the structure. In each case, one of the key objectives should be to build long term development capacity within an organisation with a co-operative orientation.

Recommendation Eight

It is recommended that:

- The sector determine, in discussion with the Department of Housing, the most appropriate vehicle or vehicles for development of sector capacity in the areas of financing and development of new co-operative housing.
- A range of possible partnerships between housing co-operatives, with councils or other organisations be identified and that detailed feasibility studies be done

on a small number. This will require funding support for a sector-based worker for a period to undertake the consultation and develop a short list, and funding for detailed feasibility analysis (possibly through the AHS).

5.3 Co-operative housing program as part of broader strategy for social housing in New South Wales

Successful co-operatives have very high levels of tenant participation and leadership from within the tenant community. They provide a unique opportunity for government to forge relationships that genuinely empower tenants. The role of co-operative housing should include contributing to the development of best practice in empowering communities and forging genuinely innovative relationships between government and community members. Rodgers (1999) suggests that the challenge is to provide a framework in which tenants are encouraged and assisted to take on more responsibility, within the limits of their capacity and wishes. He identifies a spectrum of possibilities, ranging from tenant consultation, to tenant control of some or all management services, through to tenant ownership co-operatives. This capacity building approach seems an appropriate one to adopt in considering a framework for future co-operative development in New South Wales. The valuing of tenant participation and control is already evident in much of the literature emerging from the community renewal projects on NSW public estates, but there is currently no sign of direct links between the housing co-operative sector and these strategies.

The current resourcing arrangements for the sector (through ARCH) are not sufficient to sustain a more active role in co-operative development across social housing forms at present (particularly if the sector is also developing options for greater financial independence). However, the NSW Department of Housing should work with ARCH to develop a medium term strategy to build capacity to achieve this objective, possibly by drawing in co-operators from successful existing co-operatives.

Recommendation Nine

It is recommended that:

- The NSW Department of Housing work with ARCH to develop a strategy to build linkages between the co-operative sector and tenants and providers across NSW social housing; and
- Through this process a longer term strategy to support development of appropriate tenant control models in public housing be developed.

Chapter Six – Financing Co-operative Housing

6.0 Introduction

It has been proposed that a key feature of a renewed co-operative housing program in NSW is the development of new arrangements for allocation of title and equity between the government and housing co-operatives. This chapter identifies the advantages and disadvantages of some of the more relevant models that are available. It goes on to consider some of the issues involved in developing a framework to supporting increased private funding of co-operative housing, and to identify some possible sources of funds.

6.1 Alternative title and equity models

A number of alternatives are available to the Government and the sector to alter the current arrangements. In this section, these are briefly described and assessed in terms of their capacity to address the concerns of the co-operative sector for security and self sufficiency, their impact on social benefits and organisational sustainability, and their orientation towards growth.

Model 1 : Title transfers to co-operative, government interest secured by way of non repayable mortgage secured over whole of the asset. (effectively, a grant)

The simple transfer of title would meet some of the demands of co-operators for greater security of tenure, although the sense of security would be greater if they could purchase part of the property. It would symbolically recognise co-operators' contribution by making the co-operatives owners rather than renters (although individual households would continue to rent from the co-operative). The Government could reflect the value of the mortgage or debenture on its balance sheet. However, this approach is not growth oriented, allowing neither co-operative borrowing nor repayment of funds to the government.

This model most closely resembles that applied in Queensland.

Model 2 : Title transfers to co-operative, government interest secured by mortgage or debenture income stream to government based on capacity to pay.

This would enhance security and symbolically recognise contribution through ownership. A formula could be devised based on income mix in each co-operative to determine the repayment level. It is suggested that this should be set in a way that allows co-operatives to retain a significant amount of their surplus. There is some possibility of growth in this model because of the capacity of the government to recycle the income into further housing. Control of rents at the co-operative level would not generally be required under this model because the return to the government is directly linked to capacity to pay.

However, this model may not be attractive to many co-operatives because it does not necessarily benefit the sector overall. The additional strain on co-operatives' finances (which also reduces co-operative autonomy and sense of self-sufficiency) may be seen by some co-operatives as too high a price to pay. Unless the reinvestment of revenue into co-operative housing was guaranteed, this approach could further

undermine the position of co-operatives in the sense that the contribution of co-operatives could continue to go unrecognised.

This model most closely resembles that applying in South Australia.

Model 3. Title transfers to co-operatives, encouragement is given to raise private finance through limited subordination of government interest.

This model would be welcomed by some co-operatives, for whom greater independence from government is worth the greater risks associated with private finance. It is likely to be attractive to the older, successful co-operatives with a higher proportion of market rent payers. For these co-operatives, it would enhance the sense of security and ownership in housing. This model could also be used to support the development of new, affordable housing oriented co-operatives if the community housing program could be modified to enable these to be developed.

There is potential for growth through government reinvestment of freed up capital. Again, the proposal is likely to receive greater support from the sector if the link between funds 'repaid' and co-operative development is clear. However, the need to ensure that the risk of default is minimal will mean that the amount borrowed by individual tenants is limited. It should be anticipated that the value of the property is likely to be the subject of some negotiation between the parties – co-operatives would anticipate some recognition of their contribution to property management over the years. Given the historical link between rent paid and the idea of equity participation, they are also likely to expect that any surpluses be able to be applied to the partial repayment.

If this model is to be adopted it will require considerable support for the co-operatives in moving to a higher risk environment. There are risks to organisational sustainability because of the increased responsibility of individual co-operatives. The development of a support organisation would be required. Some co-operatives may want to merge or to form secondary co-operatives to hold title to the property. The broader community benefits of co-operatives may be constrained because of increased focus, at least in the short term, on internal management.

Government involvement in negotiations with private financing bodies is likely to be required, and a guarantee or some other form of assurance should be considered.

This option would require greater flexibility in rent setting so that co-operatives can manage changes in repayments. It does, therefore, have some risks in terms of affordability. These should be minimised through careful assessment of the co-operatives ability to pay at the outset.

Model 4. Title transfers to co-operative controlled second tier organisation, which is encouraged to raise finance for new development

In this model a group of co-operatives would combine to form a secondary co-operative structure (which could in fact be a company like CEH in Victoria) on the basis that title would be transferred to that organisation. The model would address some security concerns, but would come at the cost of individual co-operative

autonomy. To secure non-government funds for growth, the secondary co-operative would access at least part of the rental income paid by co-operative tenants.

Risks to individual co-operatives would also be less (although loss of autonomy also reduces their capacity to individually manage risk).

This model has a stronger growth orientation because of the greater capacity of the secondary organisation to raise funds and access rental surpluses. Because funds are retained in a co-operatively held body, there is likely to be greater support for this approach than other alternatives that require contributions to be made direct to government.

Control over rents would be required, but the risks to affordability would be less than under Model Three because the risk would be spread across a wider group of co-operatives. To the extent that the secondary body takes on some of the management tasks in the co-operatives, this option may facilitate greater social/community benefits (although retention of some surplus in the co-operatives or in the secondary body would also be important to this goal).

As is apparent, these models have different strengths and weaknesses. It has been argued that sector resilience is enhanced by diversity in the models that it encompasses, and for that reason the possibility that different models would operate in New South Wales should be accommodated. One of the critical issues is that the model build, rather than damage sector capacity and partnerships, therefore:

Recommendation Ten

It is recommended that the four models proposed for structuring title and equity relationships within the sector and between co-operatives and the government be the subject of consultation within the co-operative sector, and between the sector and the NSW Government to assess their viability and levels of sectoral and political support.

6.2 Supportive framework for private funding

The available information about co-operative housing programs in Australia and internationally suggests a number of key areas where government assistance is important.

6.2.1 Assistance in developing affordable, managed interest rate loans, in providing grants or government loans

It must be recognised at the outset that capital grants or non-repayable government loans will be required to substantially fund co-operative development.

The North American housing co-operative programs were based on private lenders; for example, the ILM program delivered sufficient returns to attract investors while at the same time achieving certainty for co-operatives in their repayments. But standard mortgage funding arrangements have not facilitated the growth of affordable housing co-operatives. Government support for the development and marketing of new types of mortgage funding arrangements would be required if private lending were to become a central feature of any new approach. But even if this occurred, the crisis in affordability within the New South Wales housing market means that affordable

housing for low income earners will need to be substantially subsidised by government.

Assuring lenders. While loans can be secured against existing properties, government can support more affordable loans and the development of new housing by offering some type of assurance to lenders. In the North American cases, this was by way of insurance or government guarantee. In Western Australia, the government has agreed to offer a “deed of right of first refusal” or “put option” - which allows a certain period for the government to step in and prevent foreclosure on the mortgage.

Ability to manage rental income. Flexibility to manage rental income through setting rents and through recruiting tenants with greater capacity to pay is critical where co-operatives are subject to fluctuations in major costs like interest repayments.

Rent supplements. The availability of income supplements for low income households is critical to maintaining affordability and manageability of any repayments to private lenders. In the Australian context, co-operatives should, and lenders may seek some assurances about the future of rent assistance payments, or about what will be done if Commonwealth government policy in this area changes.

6.3 Issues in attracting private funds

Overseas and Australian studies on funding low-cost housing support the use of a mixture of public funds and private funds to raise finance. Accessing private funds will alleviate the cost burden on government. However, it would be extremely difficult to rely only on private funding as a source of funds due to the lower returns that investments in low-income housing mortgages generate compared to the returns on other forms of housing investment. The lower returns arise from the difficulty housing co-operatives have in repaying mortgages at the normal market rate. Private investors may also not regard the low return as being matched by low risks.

The lack of past history on the viability of funding housing co-operatives makes it difficult for investors to gauge whether providing funds for low-income housing is riskier than other residential mortgages. To overcome the low return/high risk perceived by private investors, the Government could provide cash outlays in order to fund the gap between the return on normal residential mortgages and the return on low-income housing mortgages. Additionally, it could provide some income and/or tax subsidies. One example is to allow Commonwealth rent assistance to still apply to eligible recipients and exclude State government stamp duty and land tax.

Different models for attracting private investment in community and affordable housing have been canvassed in a range of papers, most recently, the substantial report released by the Australian Housing and Urban Research Institute.

There are several avenues through which private funds can be raised to purchase dwellings:

1. Retail loans from financial institutions – Government funds may be required to supplement the mortgage payments provided by housing co-operatives. Government guarantees over mortgage payments may also be required.
2. Debt securitisation – Private funds can be raised through the issue of mortgage backed bonds. Bond issues were used previously in the late 1980s to finance

low-income ownership of homes. However, since then the secondary market for residential mortgage backed securities has grown significantly. Home loan originators, such as RAMS, have used securitisation to enter the market for home loans and forced other financial institutions to adopt securitisation as a lower cost fund source than deposits for home loans. Additionally investors are using mortgage-backed bonds as an alternative to investing in fixed interest government bonds. The number of government bonds issues has been declining as governments move to achieve budget surpluses. As with retail loans the marketability of these mortgage backed bonds may require a government guarantee and a need for interest payments to be subsidised by the government.

3. Leasing arrangements - Dwellings can be purchased or constructed and then leased to the housing co-operative for a period that recognises the long-term tenancy requirements of a housing co-operative, say 20 to 25 years. The lessor could be the government or a group of private investors who have purchased the dwellings and are leasing them back to the housing co-operative. The joint venture between the NSW Department of Housing and AMP through PEP1 and PEP2 involved a leasing arrangement.

There are two types of private investors who have the potential to be attracted to financing affordable housing, including co-operatives.

1. Superannuation funds - They regard a stable fixed income stream as an attractive investment in their portfolio.
2. Ethical Investors - They invest in order to earn an acceptable return as well achieve several desirable goals. These goals are in terms of improving some social or environmental factor in the economy. Consequently, they are willing accept a return that is lower than the normal risk adjusted rate of return. There has been considerable growth in the USA of investors branching out into ethical investments. Investor interest has also increased in Australia with several Australian mutual and pension funds including ethical investments, such as equity in environmentally friendly companies, in their portfolios. Affordable housing has the potential to be developed as an attractive ethical investment.

Recommendation Eleven

It is recommended that ARCH, in consultation with the sector, initiate development of a framework to support a new co-operative housing pilot which:

- is conservative in its assumptions about the capacity of co-operatives to sustain loan repayments over the long term;
- includes a 25-30 year payback period; and
- allows for sharing of risk between the co-operative and the government - in particular the risks of volatile interest rates, substantial change in income mix within the co-operative; and significant change in Commonwealth rent assistance policies.

Recommendation Twelve

It is proposed that the State Government participate in negotiations with private lenders/investors and consider the provision of support through guarantees or similar assurances to lenders in order to minimise the cost of loans. The development of financial skills within the sector through secondary co-operatives or similar bodies, and the establishment of a track record for lending should reduce or eliminate this need over time.

6.4 Other sources of funds

In addition to drawing on traditional public sector and new private sources of finance, the co-operative housing sector could utilise its existing assets base, draw on other state government funding sources, and develop new partnerships with local government and the community sector.

6.4.1 Maximising Socio-Economic Mix

Housing co-operatives would benefit from having a mixture of low-income households and households earning a higher income level as tenants. The higher income households would be required to pay the lower of 25% of their nominal income or market rent. This cross subsidisation of lower-income households would reduce the level of government subsidisation on mortgage payments.

This issue does raise another risk. Income mix may not always be in the control of the co-operative. Its members' incomes may fall, or it may find that it cannot recruit members with higher incomes when required. These risks should be considered and measures identified that might limit risk.

6.4.2 Contribution from tenant co-operators

Most co-operatives require that members purchase a share in the co-operative. In current NSW housing co-operatives this share is nominal. However, there are many examples of co-operatives where the purchase price of the share is significant, or where it represents part or all of the value of the dwelling.

Individual equity participation via shares linked to market value can allow householders to move into home ownership and to close/diminish the wealth gap between home owners and non-home owners. If the value of shares increases in line with the market, there is a real opportunity for people who cannot raise a mortgage on their own to participate in the capital growth of their housing. This model might also enable some degree of recognition of sweat equity as through group self build, or through additional capital contributions from those who have some capital to contribute (as in co-ownership schemes in UK). The difficulty is that, over time, the value of shares often increases out of reach of many low income people.

Limited equity co-operatives limit the growth in share value (for example to CPI) to preserve affordability. In the US amount of share tends to be around amount of rental bond (ie four weeks rent). This amount is likely to be prohibitive for many current co-operators. But for the large number of private renters on moderate incomes who pay more than 30% of their income in rent, a limited equity model could well provide reasonably cheap, more secure accommodation for moderate income households.

6.4.3 Extension of home ownership rights to co-operatives

One of the important factors in the development of the co-operative housing sector in the United States is the availability of a range of tax and other benefits available to other home owners. The New South Wales and Commonwealth governments also offer a range of benefits to encourage home ownership which could be explored as a means of increasing tenant equity in co-operative housing.

The Commonwealth government's First Home Ownership Grant Scheme offers \$7,000 to first time home buyers, and a further \$7,000 to those who are purchasing new housing (the latter to be phased out). There would appear to be an argument that for those households that have no immediate prospect of purchasing a home in their own right, this right should be extended to make it possible for them to access affordable rental housing within a limited equity model.

The current stamp duty exemption for public housing tenants could also be applied to housing co-operatives.

6.4.4 Affordable Housing Program

The Affordable Housing Service in the New South Wales Department of Urban Affairs and Planning provides seed funding for feasibility studies to assist local councils develop detailed proposals for the provision of affordable housing on land they either own or control. It also provides as interest free loans to cover part of the cost of construction. Funding under the program requires that the applicant party make a contribution, and that the project be able to mobilise a significant amount of private funds.

The NSW Government's Affordable Housing Strategy is explicitly concerned with the development of partnerships between local government and the private sector to deliver affordable housing. Given this emphasis on partnerships, it is appropriate that the possibilities of forming partnerships with local government to develop co-operatively owned affordable housing be explored.

6.4.5 Partnerships with local government

Local governments have played a variety of roles in supporting the development of affordable housing. The Victorian Social Housing Innovations Project notes that all councils that made submissions were of the view that financial responsibility for social housing rests with the State government (Bissett, 2001: 24). However, as that report notes, many councils are actively involved in affordable housing strategies. In New South Wales, the Affordable Housing Strategy has a focus on local government as key initiators of new affordable housing developments. Examples of local government involvement in NSW and other states include Waverley Council's use of planning bonuses as an incentive to the development of affordable housing units within larger developments, provision of land as part of a joint venture in the City of Port Phillip, and Brisbane City Council's participation in the Brisbane Housing Company initiative (NSW Department of Urban Affairs and Planning, 2001). The tendency in these development is for management of the housing to be taken on by an established housing association, in return for which the association receives a management fee, or receives some or all rents on the affordable housing units.

Local government is an important potential partner for co-operative housing development.

In order to make the most of these opportunities co-operatives have to counter the issue of the councils wanting managers with formally established management track records. The most likely strategy appears to be through secondary co-operatives, however an alternative approach may be to use an established co-operative in the area (perhaps one which is moving away from a very low income base) to undertake initial management of the new housing.

6.5 Development of new types of community and housing development finance organisations

On a broader level, there should be consideration of the type of support that the government could give to community-based development funding initiatives.

In the UK and the US, housing initiatives have been closely linked with a range of other neighbourhood based strategies. These include micro-lending, skills development and neighbourhood regeneration.

An example of this type of endeavour is the Aston Reinvestment Trust in Britain (www.reinvest.co.uk). It was established in 1997 as co-operative. It issues non-tradeable shares to its members in return for their investments of from £250 – £20,000. It operates on one member one vote basis. It pays little or no dividend and promises only that up to 3% may be payable once the fund builds up. Aston is not a bank, and offers neither security or high returns. According to its web site, it currently has 150 members and has raised £1.5million from public and private sources. Aston lends to small business and social enterprises in its area, aiming to support jobs growth and community improvements by lending to those who cannot access finance through mainstream lenders. Its funding comes from a variety of sources including member funds and government (local, national and the European Union).

The development of local investment funds based in disadvantaged areas has played a key role in community regeneration efforts elsewhere. Support from key NSW government departments (like the Department of Urban Affairs and Planning and the Department of Housing) should be able to mobilise funds from councils, and would encourage housing groups (like co-ops) to invest also.

Recommendation Thirteen

It is recommended that the State Government adopt a strategy to support the development of community based financial institutions which may engage in affordable housing initiatives as well as broader community development activities.

6.6 Conclusion

Co-operative housing currently plays only a limited role in the provision of community housing in NSW. Yet, the range of empirical and anecdotal evidence from around Australia and overseas is consistent in demonstrating the capacity of co-operatives to deliver good quality, cost-effective social housing which also contributes significantly to capacity building of individual co-operators and the communities in which they are involved. In a policy environment where there is

increasing recognition of the importance of tenant control and empowerment to redress socio-economic disadvantage, the time is ripe to enhance the existing co-operative housing program in this state, and to draw on the expertise of co-operators in community renewal initiatives across the social housing sector.

The current co-operative housing program has identifiable benefits for co-operators, but fails to adequately address some co-operators' need for tangible and symbolic acknowledgement of their contribution. In seeking to enhance the existing program, genuine partnerships between government and the sector need to be developed, and an effective balance between risk factors and co-operative autonomy must be established. Sustainable re-visioning of the NSW program will require both sectoral and political support.

In this report, a range of international and interstate examples have been discussed in order to develop four title and equity models which may be considered in NSW. A number of local and overseas innovations in public, private and community sector funding of affordable housing have also been discussed, in order to illuminate options for alternative finance which may be explored in NSW. A key observation drawn from the experiences reviewed is that programs that support only one model tend to homogenise co-operative housing sectors, leaving them vulnerable to significant erosion where this support is withdrawn or radically revised. A mix of two or more title models, and multiple funding sources, may be preferable in order to ensure sectoral sustainability, and meet the diversity of needs of co-operators within the program.

Whatever funding arrangements are adopted, it is important for growth and sustainability that they explicitly build sectoral capacity, particularly the specialist skills required to finance and develop new housing co-operatives. Given the nature of the NSW housing market, and the experience of international co-operators, it is unlikely that full economic self-reliance can be achieved.

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