

TRANSCRIPT

FAMILY AND COMMUNITY DEVELOPMENT COMMITTEE

Inquiry into the adequacy and future directions of public housing in Victoria

Ballarat — 2 March 2010

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The CHAIR — Thank you for appearing before the Family and Community Development Committee for this hearing of its inquiry into the adequacy and future directions of public housing in Victoria.

All evidence taken at this hearing is protected by parliamentary privilege as provided by the Constitution Act 1975, and further subject to the provisions of the Parliamentary Committees Act 2003, the Defamation Act 2005 and where applicable, the provisions of reciprocal legislation in other states and territories. Any comments you make outside this hearing will not be afforded such privilege.

We are recording these proceedings, you will be sent a copy of the transcript and you will be able to make minor adjustments at that stage. This is not a government inquiry; it is a bipartisan parliamentary inquiry. I invite you to make a verbal submission. At the outset please introduce yourself. Please restrict your verbal submission to about 20 minutes so the panel can ask questions.

Mr MARCHINGO — Thank you, Chair, and thank you, members of the committee. My name is Ken Marchingo. I am the chief executive officer of Loddon Mallee Housing Services which is Victoria's first registered housing association. It is also a vertically and horizontally integrated housing and homelessness organisation. Professor Michael Stone from the University of Massachusetts in Boston, USA, who is something of a world-leading expert on housing has said that in his travels and experience he has seen no other organisation with the depth and breadth of services for homeless people under one roof. I welcome the opportunity to make a submission to the parliamentary inquiry, and I trust that what I have to say is of some use.

I would like to give you a brief introduction of why we have come here today. I would like to discuss briefly a couple of things we think are closely related to your terms of reference, make note of a couple of things that are outside the reference and not follow them at all, and then give some specific answers to some of the questions posed in the terms of reference.

Loddon Mallee Housing has been operating as an integrated homelessness and housing provider since 1994. We have grown from a Bendigo-based organisation that had three houses and 1.5 staff, and we were also bankrupt at the time I took over, which I have to say was just a joy!

We have now turned that around and we are an organisation that employs more than 100 people. We have delivered more than \$110 million worth of net assets on our balance sheet in the last 18 months, and as I said, we employ more than 100 people — around 70 of them are involved in the direct support of homeless people. We are based in Bendigo and have offices in Mildura, Swan Hill and in Geelong. We provide our integrated service model to people in the Loddon Mallee region.

Currently we have over 300 affordable houses in our affordable housing portfolio. As we speak we have another 450 under development or construction across the state. We also manage more than 200 properties for the transitional housing program of the Office of Housing, and we are in the process of relieving some local government areas of their housing stock which they will be glad to get rid of and we will be glad to take over.

As a vertically and horizontally integrated provider of housing and homelessness services in the Loddon Mallee region essentially we operate two businesses, the first business being a homelessness business. It is where our heart is, it is where our passion lies, and it is also where we understand we cannot fix homelessness without addressing housing supply.

We run a full range of personal support programs from SAAP programs and PDRSS programs — and if you are not familiar with the acronyms they are psychiatric disability residential support services and the supported accommodation assistance program — and also community connections programs. I could go on with a list of about 20 acronyms, but I will skip that because I am sure you get the picture. The other part of our business is the registered housing association which is in the business of increasing affordable housing supply, and along the way we get to house the poor punters as well so that is a real bonus as well I suspect.

For us the supply business involves the construction of affordable properties not only in the Loddon Mallee region but across Victoria, and as a result obviously we run those properties in our core catchment area, and wherever else we contract the management of them out to other community housing providers. It is no dearer and no cheaper for us to do that, but it does give us an opportunity to support community-based providers across Victoria. There is some value in this notion of community housing.

As an integrated housing and homelessness service on a daily basis we are made aware of the linkages between the availability of affordable housing and the possible reduction in numbers of homeless people. When we house someone as part of our affordable housing program we initiate really what can only be called a vacancy chain that ultimately will benefit the person who is either homeless or at risk of being homeless or on a low income straddling the private market. When we house one person or one family in a new property effectively we house two. We house someone in the property that we have constructed; normally it is new, and we are the first ones to know who the tenant is and where they are coming from.

That gives us an opportunity to pass on that information within the system so that sometimes we can make a business case to a landlord about what might save them some time in vacancy costs, because we know a lot of people who need housing.

I think something that is not always understood about the affordable housing program is that while the Office of Housing requires us to take 50 per cent of our applicants off its public housing waiting list, and our figures tell us we are taking 58 per cent at the moment and I would gladly take 100 per cent of the waiting list if I could get the financial cohorts I need within the portfolio, we focus on the waiting list at our peril, because the majority if not all of the people we house are people who if they are not on the waiting list conceivably could be on the waiting list. We have both a preventative and a remedial strategy in the way we operate.

I think one of the fundamental issues for public housing, and the needs for housing in the wider low to moderate-income earners in the community generally, is that of a generalised inability for people to source safe, secure and affordable housing. There is no news there. But this is the fundamental plank that allows health outcomes, employment, educational training and other social outcomes to be built upon. I think the lack of affordable housing supply is the crucial matter for every aspect of public and social housing policy to consider. I would submit that everything else in terms of efficiency and best use of the government's limited resources will ultimately stem from or be affected by this lack of supply.

The view I put to you today is not the view of an academic theorist based generally on valid research to often narrow questions; it is not the view of an econometrician or a housing economist; it is a day-to-a view formed from a practitioner base — from people who are in the front line of the affordable housing crisis on a day-to-day basis. We have an interest in this because we are sick to death of saying to people, 'There is no room at this particular inn' on a daily basis. But equally as practitioners we are informed by the research and the work of so many in the academic and economic fields. We do not propose to be alarmist, but just quietly to provide you with the facts as we see them.

We submit respectfully that it would have been desirable to broaden the terms of reference to include supply-side issues. While not specifically within the terms of reference I would like to spend just a few minutes on that matter. LMHS believes that for any long-term view to be formed as to the adequacy of public housing and for it to be meaningful and for any debate on the management of demand-side issues to be relevant there must be bipartisan and serious discussion about the need for an increase in the supply of social housing. Just to clarify the supply-side shortage and to shed some light on the demand issue, we know that various studies such as the State of Supply Report by the National Housing Supply Council predicts something in the order of 871 000 properties that will be missing from the nation. Obviously a large proportion of them will be in Victoria.

We know the Rooming House Standards Taskforce has picked up that the majority issue there is simply a lack of affordable housing particularly for singles, and has proposed some significant and sensible changes.

We also know that widely in Western democracies around the world it is accepted that around about 20 per cent of the population will need access to subsidy of one form or another, whether it be capital or recurrent, in order to sustain housing costs in functioning economies similar to ours. Subsidy issues are important but are outside the terms of reference, and I leave that to other experts for another day.

One of the issues we have come to grips with as an integrated housing and homelessness provider is that the voice of the practitioner is not always heard. We are not convinced that publicly funded voices such as the peak groups are necessarily as independent in their opinions as some of the practitioners think. To that end Loddon Mallee Housing Services, with 20 other growth housing associations from around Australia, has formed an

industry association called PowerHousing Australia. Most of our members pay an annual fee 10 times what they would pay to belong to any other peak group which is a significant commitment we all make.

PowerHousing Australia commissioned a report from SGS Economics and Planning Pty Ltd titled 'A vision and plan for social housing in Australia' in July 2009. The vision and plan talks about the changing world of social and in particular public housing since the first CSHA was signed in 1945. The report estimates a need for 256 000 dwellings to meet the minimum needs of low-income earners within a decade or less, and there are some tables of the minimum targets contained within the document which I understand has been handed out. This is just to house those in most need.

We have a dire situation of 871 000 houses required; without housing the 100 000 homeless on any one night in Australia, that is predicted by the National Housing Supply Council. If we only look at those most in need, we think it is 260 000 out of that, particularly for low-income earners. I think you could probably take 20 per cent of all of those numbers as pertaining to Victoria.

Having made some comments about the direness of the situation, I should probably also point out that it is useful to provide some passing commentary on the leadership that the Victorian governments, both current and prior — as painful as it is for me to admit — have achieved.

The Kennett government successfully transformed the provision of crisis housing with the unpopular but absolutely proven successful transitional housing program. This reform increased the supply, shook out complacency and provided a pipeline for housing recovery for so many homeless people. What has almost brought that program to a slow stop is the lack of alternate exits. There is little point continuing to grow the crisis market response if there is no exit into longer term housing. That is not a reason to change the crisis program; it is a reason to look more closely at the exit bottlenecks, and that is a supply issue.

The current government has embarked on an alternate supply mechanism with the nation-leading, Strategy for Growth for Low Income Victorians, which has led to the establishment of the registered affordable housing associations. In this, Victoria led the nation, but with the changes to the environment in other states, particularly in New South Wales with the proposed mass transfer of stock and the ability for economic stimulus package properties to be leveraged after they are delivered by the housing associations there, I suspect we are seeing our lead erode.

Although this is not a forum for quibbling about elements of the market design or how Victoria might have driven this further and better, it is essential that the Victorian government commit to a longer term vision on the role and strategy of these rapidly growing entities that have been created that actually hold the keys to the kingdom, as it were, in a sense of what the solutions to the intractable problems of a lack of supply are.

There are opportunities to link housing associations into a wider sectoral and whole-of-government social policy response to both homelessness and housing issues for high needs and specific target groups. There are real economic realities to be faced in this. If not driven forward in a consultative bipartisan approach with a long-term view to the future, there are real dangers that the hard yards won to date in Victoria will be lost, as one of the real solutions could be lost and consigned to a footnote in housing history.

I want to turn to the issue of public housing waiting lists. Loddon Mallee Housing believes that lists are problematic. We think they create an expectation that someday a person will get to the top of the list and be housed and all they have to do is wait their turn, whereas the reality is that if you are a 'normal' punter, a low-income earner with no specific or complex issue, you will probably never be housed.

Waiting lists are not reflective of the overall community demand for affordable low-income housing for a few reasons. Firstly, our experience is that so many of the people we house have been scaremongered by the ongoing demonisation of both the poor by our prior federal government and of specifically public housing in fact or in fiction as featured by the tabloid media. So many of our people would rather live in insecure, ramshackle housing than commit themselves to a life of perceived misery and aggregated disadvantage in broadacre public housing estates. They just do not apply; they just do not register. When we point that out to them as an option it is often rejected outright.

Secondly, the ongoing targeting of public housing, perhaps combined with the first point, has effectively sent a message to lower to moderate income earners that public housing is only specifically for those with very high

needs. Perhaps it is the persona of this collective group in society that no matter what their circumstances are, they will often see their plight as being less worse than others. They do not sign up or put their names on the waiting list. They continue to exist in a peripatetic existence, moving from place to place at the mercy of an increasingly voracious private market.

Thirdly, people fall off the list, through frustration, through multiple moves, as people in precarious housing circumstances frankly have enough to do without trying to remember an Office of Housing application number and remember among the multitude of issues that they are dealing with the need to keep the office up to date with their multiple moves, often interstate as well as intrastate.

We think there are different ways of doing waiting lists. We actually think you should get rid of the waiting list because we think it sends all the wrong messages. We think the Office of Housing should have a version of a choice-based letting model where prospective tenants can choose a property that meets their needs in terms of location and size and one which is within their capacity to pay — that is, meeting the rental requirements for that property. It is conceivable in this day and age that you can have one site for every tenant to try to find housing and they will get a normal response if they are to use that site — they will get a yes or they will get a no.

At the moment putting your name on a never-ending list with no certainty that you will ever be housed is perpetrating a great injustice against people in great need. In terms of the impact on individuals and families of waiting times to access public housing waiting and how this varies within each segment, we think the significant impacts that public housing waiting lists have on individuals and families are twofold. First is the creation of false hope through the perpetuation of what for most is a myth that they will one day be housed in public housing, and the second is the stigmatisation and aggregation of disadvantage which is created when public housing is solely a provider of last resort.

With no feedback loops to people on the waiting list of the progress, or not, as the case may be, with their application is it feasible to suggest that people may let opportunities for housing pass them by in the expectation of eventually being housed? Our experience is that this is a resounding yes, and that is no service at all.

The CHAIR — I am conscious of the time. Can you summarise?

Mr MARCHINGO — Sure. I will leave you with one thought: as a housing association we are in business with our tenants. They are my customers. This is about the adequacy and standards of public housing. If I want to run my business as effectively as possible, I need to understand a few basic principles. I am selling something to my tenants that they want to buy, and their purchase is made every week, week in, week out, year in, year out, often for the rest of their lives.

This purchase for low-to-moderate income earners is the single biggest purchase they will make every week for the rest of their lives. If I am not offering them a sense of value, they will become disgruntled consumers.

At LMHS we offer outstanding amenity in design, and it covers off some of these things in the paper. Basically our rent collection is at over 100 cents in the dollar charged. Our vacancy rates or turnovers are almost nil. Our tenant-related damage is unheard of. When we ask our tenants what they like, they say they love their homes. This is a business proposition. My rental collection costs are low, my maintenance costs are low, my voids from vacancies are low and all of these allow me to run a much more targeted service.

Admittedly most of my stock is new, but it is not about the age of the stock, it is about the value proposition for what is fundamentally the largest purchase that customers are making, and if they are getting value for money and they feel that, it is a sound business model.

I suspect the issue for public housing is that the price point is not always clear and the transaction costs are sometimes expensive. People are prepared to pay for quality, amenity, location, security and so on within their means, but it must be a transaction of value, and one of the issues with public housing is that it is not. I have talked about the safety and location of Victorian public housing and public housing estates, and the impact of public housing need on groups, and some suggestions for the future. I am conscious that you are conscious of the time, so I am happy to take any questions.

The CHAIR — Thank you very much. Your largest project is the one in Carrum Downs, I understand?

Mr MARCHINGO — Tram Road, Doncaster, is probably the largest project in dollar terms, but the Carrum Downs project is significant, yes.

The CHAIR — Can you please shed some light or expand on that?

Mr MARCHINGO — There is a settlement called Tucker settlement, which has been managed forever by the Brotherhood of St Laurence. It comprises approximately 100 ramshackle fibrocement, run-down horrible places. I almost used a word I should not use in this company.

It has been used to house older people. The infrastructure is gone. All that remains of value are 17 hectares of land that the 100 units sit on. Our proposal is to take a small amount of the Office of Housing's money through the strategy for growth program and use that to redevelop the site.

We have just applied for planning now after some 12 months of working this up, and we will produce 100 replacement affordable housing units that will obviously be brand spanking new in a subdivision where we will hold around about 65 lots for those 100 units, and we will retail into the private market around 240 lots in a master planned community where the social housing will be completely indistinguishable from the private housing surrounding it.

It is a master planned community that does not put social housing in as a bolt-on; it is actually embedded in the fabric of the design at every level. We have instructed our designers and project managers to make this a development such that in 100 years time when people look back they will say, 'That was the best example of a housing estate of its time'. That is what we are aiming to do.

The CHAIR — So in the 17 hectares, you will demolish the 100 units and replace them with 100 units for those tenants, and in the balance of the area you will build 240 units for the private rental market?

Mr MARCHINGO — They will basically be sold to the private market. Whether they are held as homeowners' properties or whether they then put them on the rental market will be the domain of the buyer, but the covenants and the master plan design principles will ensure it is a quality development. Basically this form of development turns a development equation a little bit on its head.

The developer of an average property development needs to take around about 25 per cent plus out of their deal, because they have some deals that fail and they have a whole lot of costs. What we are doing is simply taking the profit and using that to generate the affordable housing.

The CHAIR — Elsewhere?

Mr MARCHINGO — No, it will actually pay for the majority of the affordable housing on site out of the development profits.

Mr SCHEFFER — Thanks very much for your presentation. I have not had time to look at your written submission yet but will do so in time. Can I come in on the 25 per cent equity requirement: a number of witnesses, including Mr Mactier previously, touched on that as a pressure point that on the one hand made it necessary for housing associations to select those tenants that were not the most vulnerable. That argument has been put, and I would like you to comment on that.

On the other hand it is proposed that the model should be more flexible so there could maybe be a sliding scale or no equity required at all. Could you comment on that range of things?

Mr MARCHINGO — Sure; let me deal with the hoary chestnut of housing associations creaming off the top end of the spectrum.

Mr SCHEFFER — It was not put quite so colourfully, but nonetheless.

Mr MARCHINGO — That is what it is often referred to as, I guess, colourfully, so I will give you a colourful response: it is absolute nonsense. There is a screaming crisis in the affordable housing markets in Australia and Victoria, and it is at every level of the private rental market. We have bidding wars going on when there are private rental properties up for grabs.

The average working punter can no longer afford to rent the average property in many locations in this state. I guess it is a question then of who can we house, how best can we house them and how best can we spread the subsidy that government delivers in what they give us to deliver affordable housing.

As the price of property is driven inexorably up by short-sighted and stupid policy over the last decade and a half, primarily federal government, we must face the proposition that we will soon get to a point where no matter what the level of funding that is provided by government, no level of borrowings on top of that will be sustainable unless we can somehow put a floor under the affordable housing market or the market generally.

It is not possible to put a floor under market forces, and that is why we have a constrained supply of affordable housing. We have too many people bidding for that property. That simply puts more pressure on successively higher income groups and pushes them into housing stress and housing crisis.

If we are able to house a mix of tenants in our portfolios, we achieve a number of goals. The first thing is we can take a look at what happens in public housing when you focus on housing those in most need, and we have now many estates that are effectively construed by some as no-go areas. We have many estates where we have aggregated disadvantage and poverty, but we have done something worse than that. We have taken aspiration and aspirational goals and aspirational role models out of the estates, and that is a travesty in my view.

We do not build estates, but we will have aggregations of properties in various places. If we simply fill up those properties with those in greatest need, we are simply creating a mini version of what I would rail against the public housing authorities for doing. Frankly I think it is stupid for us to take those in greatest need and put them all together.

What we want to do is create opportunities for people. We want to create a rent model so that if people's circumstances increase, their rent actually goes down in percentage terms, which removes the perverse disincentive that public housing has built into its rent model where people's income goes up, their rent goes up and there is a withdrawal from benefits.

We have constructed a rent model that turns that perverse disincentive on its head, and it is now an incentive. However, those people at the upper end of our portfolio, whilst they are paying 10 per cent below market rent, are still paying significantly more money than those on statutory incomes, who are paying 30 per cent below market rent. We have pegged our rent model to market rents so it is actually in touch with the way the real economy moves. We have created incentives in our rent model so that those people who can improve their circumstances, if they get to a point where they are no longer eligible, most likely will have the opportunity to purchase their own home and may have the opportunity to purchase one of ours. We are not going to be in the business of selling houses as part of our core business, but from time to time it makes sense to retire and transfer stock and then replace it.

We house three cohorts of people. Our rental, as I say, is different from every other housing association. A third of our clients who are on minimum statutory incomes — many of them with high needs, and some of them are from our homelessness portfolios — get 30 per cent off market rent. The upper third of our tenant cohort are people who are genuinely low-income workers and are struggling in the private market, and they pay market rent less 10 per cent. The middle third, roughly, are people who might be part statutory income and part wage, and they pay market rent less 20 per cent. This is a very good deal; it is part of a value proposition. It addresses the lack of aspirational mix that you would find where you aggregate these sorts of properties. It also creates, with the rent model, some incentive for people to move their circumstances forward. That was the first part of your question — and I have lost the second one already.

Mr SCHEFFER — I think you have probably covered it.

Mr NOONAN — Ken, thanks for your submission. It must be a busy organisation because, just looking at the statistics, you are essentially doubling in size in a very short period of time in terms of properties. I suppose my question goes to how your housing association has essentially been able to cope with that steady increase in volume in properties. I think you mentioned the Doncaster property. I am aware that at least in the metro area there have been some issues around community consultation and planning. You might integrate some of those challenges within the broader question about meeting the challenge of increasing your stock rather quickly.

Mr MARCHINGO — Loddon Mallee Housing sustained before the housing association model an average annualised growth rate year on year for more than a decade of 43.5 per cent. Every year we were 43 per cent bigger than we were the year before. Growth is one of our core criteria as an organisation. It is one of our core skills. Notwithstanding the challenges this housing growth brings to us, again our model is different from most. We contract a lot of stuff out. We have grown our organisational expertise. It is almost a management administrative function to be able to grow that fast.

There are issues with the leverage requirements, which was the second part of your question before. We, along with all housing associations, will face the ultimate reality that we could manage our debt better in the way we acquire our debt and the way that we service it; it will always be reflective of how much we need to take.

But in terms of the community consultation on projects, the VC 56 is a gift from God as far as we are concerned — the ability to fast-track affordable housing projects. The issue with Tram Road was purely political. Tram Road was a planned and permitted site before we purchased it.

Mr NOONAN — So it was to be built for a different reason, different tenants?

Mr MARCHINGO — No, it was built to be sold, as most apartment buildings are. With most apartment buildings the developer has a piece of land, gets a plan, gets a permit and either puts it on the market at that point as a planned and permitted site and takes a 20 per cent uplift on the value of the land — thanks very much, walks away and flies off to the Caribbean — or they will build the apartment block with a view to perhaps holding some apartments to rent themselves and selling the rest on the open market. The majority of apartment blocks are built for sale.

We just bought this apartment block as a planned and permitted deal. There was some reaction in the community once it became clear that it was going to be used for social housing, although unfortunately the term that was used erroneously in that case when there were some press releases issued was that it was to be for public housing. I can tell you that if I lived in Doncaster in that vicinity and someone was going to build a 98-apartment, 10-storey block near me for public housing, I would be concerned too.

I probably would not carry placards and run down the street, but I would be concerned because the history of public housing of recent times is that we aggregate people with high needs, and that is not smart. That is not what we are doing; we are going to have a mix of tenancies across a range of incomes, and we will create within that building opportunities to see people get up and go off to work every day and see people come home with a new DVD under their arm that it is actually in the box it came in.

Mr NOONAN — Whilst I am tempted to unpack ‘purely political’, I will stay away from that in the spirit of what this committee is about. Can you just talk through managing your debt, because I gather that over the journey you have used debt to expand your portfolio of properties? This is something that we are hearing more and more from housing associations. We had the Office of Housing director in, and we sought to understand what requirements you have as housing associations in order to essentially protect the public purse that is provided to associations to invest. Can you just talk us through the issue of debt and how you see your organisation managing that debt to the satisfaction, I suppose, of state and commonwealth governments, which invest very heavily in associations like yours?

Mr MARCHINGO — Yes, it is a real issue. There is the issue of what is the percentage of debt that you can hold. If you are going to meet, say, 20 to 25 per cent, then you need to have a mix of income groups and you need a portion of people at the outer end of your eligibility to be able to internally effectively cross-subsidise to make sure that you have got a product that meets everybody’s needs, and if it is affordable for everybody, you have got the cash flow to service the debt. Hence the problem with housing singles; singles generally are on very low statutory incomes and will not have the cash to service the debt, so there are problems there. However, as we build our portfolios and as we get larger projects under way and a bigger balance sheet we will be able to move on specifically singles developments, and we have done some of those at Loddon Mallee already.

The quantum of debt is largely set at 25 per cent and seems to me to be largely immutable in terms of any negotiation. I think the South Australian government did some work, and it thought 15 per cent was sustainable. The KPMG report that has been submitted to the federal government indicates that housing associations are — I

think the word is — operationally viable but not sustainable. That is the view of KPMG. There are a great many qualifiers and riders attached to that. You would have to arrange for the federal government to leak you a copy of the report to see the detail of the economics of that. It is a very, very good report, even though at this point it has not been made public.

Regarding the discussions about housing associations taking government funding without the requirement to leverage, for me, if I were in the director of housing's position, I would be asking why, because surely the director of housing can do that. If you are going to give my housing association some money to go and do something, you will want to see that there is something extra in that; you will want to see that I have got skin in the game — and I have got skin in the game. In fact the housing associations have more skin in this game than the Office of Housing. The Office of Housing is filled with people who are bureaucrats. They are hardworking, very talented — I used to be one of them but maybe not so talented; but they are, they are very hardworking, and they cop a lot of bad flack — but they do not have skin in the game. At the end of the day the government subsidises their role and their business. My directors' mortgages are on the line if we stuff this up on the way past, so our intention is not to do that. We have far more skin in the game proportionately than most people would realise.

Mr NOONAN — When you say 'skin in the game' you are talking about risk?

Mr MARCHINGO — Absolutely. The other issue about debt is not just the quantum. As our balance sheets grow the debt will simply be a percentage of that. The debt that we have acquired to date among the housing associations is effectively just standard credit funds or your mortgage debt, and some people are moving to corporate finance facilities. Our business is not well known, but we run an LVR of 25 per cent. If the average homeowner walks in with an LVR of 80 per cent, the banks fall over themselves to lend. We are unmistakably a good deal, as long as we can keep our cash flow ratios up over time. That could be challenging over time, particularly when we do not know what will happen with interest rates. That is why we have chosen a market rent-related income model, so we are actually protected to a degree from what happens in the market. If we were to go with the income-related rent, 25 per cent of income, there is no guarantee the incomes change as the external markets do, and we could end up in a world of trouble.

But in relation to where we source our cash from, if we look at what they did in Canberra, the government gave the Canberra housing company a line of credit at government rates; no housing association can get those rates. If we could get those rates, we would be able to build more housing. There are better ways to do the financing than simply saying, 'The market will prevail and we will fund 75 per cent'. There are much more mature ways of dealing with this that I think need to be looked at.

Mr NOONAN — Thanks.

Mr FINN — Just a very quick one. I was fascinated right at the beginning when you were talking about how you took over and things were not exactly rosy financially; I think 'bankrupt' was the expression you used. But now you have 100 employees and things have turned around. I am wondering how long it took you to turn it around. You at least partially answered this question, but I would like to fill in the holes, as it were. What business model allowed you to do that?

Mr MARCHINGO — Bernie, at the risk of being facetious I do not know that there is a term for this business model. Basically we had \$300 000 worth of debt in a business that was funded recurrently at \$130 000 a year, so we were in a world of trouble. We ran an op shop. We went to auctions all over Victoria late at night, we bought stuff, we put it into the temperance hall and we flogged it at vastly inflated prices to anyone who walked past. We also stripped out a couple of small funded programs that were not related to housing, and we went and aggressively targeted every available state or federal program that looked like it was connected to homelessness, because that is what we wanted to do. It took two and a half years to pay off the debt.

We paid off all of the debt — no creditor lost a cent out of this — and we have progressively built a business model that is about spending our operational staff's time dealing face to face with homeless people, providing the supports they need but also taking the intellectual and management grunt, for lack of a better word, and trying to find the structural policy drivers that we can begin to influence so that we can address some of the causal factors for why we have so much homelessness, why we have so many people in housing stress and, sadly, why it is going to get worse.

Mr FINN — I am loathe to use the word ‘prop’, but do you have any props? Do you cater for people who perhaps do not necessarily need social housing? I suppose you referred to this a little earlier when you were talking about cross-subsidies. I am wondering what percentage of your clientele actually needs — and I emphasise the word ‘needs’ — the services you provide.

Mr MARCHINGO — Yes, all of them. Again, I am not meaning to be facetious, but it is all of them. If you are an average low-income earner and you are paying more than 30 per cent of your income in rent, you are going to fall over at some point or important elements of your family’s life will suffer. We conducted a straw poll, if you like, just within a tenant reference group when the Victorian Auditor-General came to ask them some questions — we thought, ‘Rather than ask us questions, go and meet with our tenants and ask them questions’ — and we discovered to our surprise and almost amazement that out of this group of eight random tenants in our tenant reference group six of them had been homeless and yet four of them would probably have been considered to be in that upper limit of eligibility.

One of our tenants, who is heading towards the edge of what would be public housing eligibility — so still eligible for public housing, because all of our tenants are — had moved 26 times in about 11 years whilst trying to bring up a young family as a single parent and hold down a job. That person is one of these people who is at market rent less 10 per cent and in essence is subsidising people on statutory incomes. But if you just looked at that person, in no way could you say that was not a person in great need.

I think this is the thing: when we focus specifically on the people with high needs — and we have seen what happens when public housing does that over a generation to its own estates — we also sometimes fail to think about the aggregated cost through the rest of the system, whether it be health, education, justice or a whole range of other issues. In focusing only on the hole we kind of miss the doughnut, and there is a doughnut effect, if you like, with a great many people who are struggling on very low incomes who just cannot find somewhere to rent. I call them the houseless. We focus on the homeless, but we understand there is the houseless out there. Whenever there is a dip in the economy, we see more houseless people. If you have been in this game, as I have, for 26 and something years you can see the waves of houselessness versus homelessness washing through.

You can see the drug spikes and the various things that happen in the community over time. But the issue of housing associations perhaps taking the government’s money to house people who might not make the grade as those in most need, if you are using a public housing analogy, it is actually the wrong analogy because we have seen what public housing has done. It is great for the people who are in public housing by and large. By and large public housing does most things really well, but it is dilapidated, it is decrepit, it is going backwards and housing authorities are losing money hand over fist.

The indications are that with every new property that is handed over in Australia amongst state housing authorities they are all going to lose another \$5000 a year — on every new property that is handed over, and that is not even dealing with the run-down estates that in many cases have reached the end of their use-by date. There is a need to do this very differently.

The CHAIR — Thank you very much for your presentation.

Mr MARCHINGO — Thank you.

Witness withdrew.