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DO PUBLIC PRIVATE PARTNERSHIPS FACILITATE AFFORDABLE HOUSING OUTCOME IN QUEENSLAND?

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Abstract

Internationally, Public Private Partnerships (PPPs) are becoming a fashionable supplement to traditional public sector funding models for delivering public infrastructure and related services by using private funding (Broadbent & Laughlin, 2003; Edwards & Shaoul, 2003). The Queensland government released a PPP policy in September 2001 with the aim of improving 'value for money' in public infrastructure and service delivery projects, including housing. As a consequence of the reduction of Commonwealth government funding for housing, these partnerships with the private sector are seen as providing an opportunity for the supply of affordable housing.

This study aims to identify current problems in implementing PPPs in affordable housing by conducting open interviews and literature searches. PPPs become a specious attraction for the public sector. No affordable housing projects have been implemented using the PPP framework in Queensland because of the restrictive definition of PPP projects. Moreover, the contradiction in traditional investment decision-making criteria between public and private sector has impeded the implementation of PPPs. Accordingly, PPPs may not facilitate increasing the supply of affordable housing without major guideline changes.

Keywords: Public Private Partnerships, Affordable Housing, Housing Supply, Queensland, Australia

1. Introduction

Public Private Partnerships are an arrangement for facilitating more effective outcome between public and private sector organisations (Broadbent & Laughlin, 2003). The Queensland government has recognised the potential for using this approach to achieve value for money for public infrastructure and service delivery projects, including housing projects. In September 2001, it released a policy document (State Development, 2002a), which was expanded in August 2002 through a series of guidance materials. This initiative is in line with current proposals under the Commonwealth State Housing Agreement (CSHA) which requires state governments to pursue PPPs as an option (Department of Housing, 2003b).

The lure of PPPs has been recognised for a number of years with the National Housing Strategy recommending further research since 1991 (National Housing Strategy, 1991). Despite a number of initiatives in this area, private sector involvement has been sporadic

and limited with co-operation extending to little more than cases of swapping government land for affordable housing construction by the private sector, for example.

This study is aimed at identifying issues relating to stakeholders' problems in implementing Public-Private Partnerships for affordable housing. However, prior to a discussion of these issues there is a need to clearly identify the terminology, as the review of literature suggests that there has not yet been a widely recognised definition of the terms.

2. Public Private Partnerships

This section provides a brief history of Public Private Partnerships and general as well as specific definitions are discussed. Although various terms have been used for addressing private sector involvement in public infrastructure projects, they reflect a similar purpose. The benefits and threats of partnership agreements are discussed to highlight the partnership outcomes.

The private sector has participated in many public infrastructure projects over the last 30 years or so (Carroll & Steane, 2000). Private sector participation has also been referred to as Private Finance Initiative (PFI) and Public Private Partnerships (PPP) but the latter is the more commonly used term (Melbourne University Private, 2003).

In Australia, the Commonwealth government has introduced a private financing policy which has been extended to each state's partnership policy under different names, for example, Partnerships Victoria, Privately Financed Projects for New South Wales and Public Private Partnerships for Queensland, South Australia and Western Australia. Northern Territory is also developing a similar policy (English & Guthrie, 2003; Melbourne University Private, 2003; Richman, 2003a).

At the international level, the Canadian Council for Public-Private Partnerships defines PPPs as:

'a cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards' (The Canadian Council for Public-Private Partnerships, 2003).

HM Treasury in UK stated that PPPs bring 'public and private sectors together in long term partnership for mutual benefit' (Crown, 2000). The Queensland Department of State Development defines PPPs as 'a risk-sharing relationship between the public and private sectors to deliver timely public infrastructure and related non-core services' (State Development, 2002c, p.2).

McQuaid (2000) classifies the main benefits of partnerships into three groups. The first advantage is to increase the available resources in each organisation, with resources not only limited to financial aspects, but also to skills, information and power. The second benefit is that partnerships may increase each organisation's effectiveness and efficiency and lead to higher productivity. Finally, the increased opportunity for the participation of

other stakeholders in policy development will lead to a greater legitimacy for policy-implementation decision (McQuaid, 2000).

Besides the benefits, McQuaid also discussed partnership threats. Managing a partnership is difficult due to the incorporated nature of partners in the partnership. In the implementation process, the parties do not value the diversity of philosophy of other partners and do not share equal benefits, risks and power. Transparency in the partnerships is very important to reduce the potential conflict in partnerships, but it is often found to be lacking (McQuaid, 2000).

The Queensland government has been interested in attracting private financing in public infrastructure projects since 1992. However, the development of policy (September 2001) and guidance materials did not eventuate until August 2002. The policy only applies to major infrastructure projects where ‘the expected capital value will exceed \$30 million or the net present value (NPV) or the strategic priority will exceed \$50 million during the term of the contractual relationship’ (State Development, 2002b, p.5). The Minister of State Development has appointed an Infrastructure Partnerships Taskforce to coordinate PPP projects, to provide advice and assistance throughout the process of developing PPPs from preliminary assessment to final closure.

The Queensland government uses the same guidelines for all major public infrastructure projects, including economic infrastructure and social infrastructure. Social infrastructure that requires government subsidy (such as schools, hospitals, prisons, affordable housing and other public buildings used to provide services which were user pays) are insufficient to satisfy investors’ required rates of return on the project (Halligan, 1997). Prior to discussing the application of PPP for affordable housing, the next section will illustrate the issues in the affordable housing arena.

3. Affordable housing issues

This section addresses more specifically two aspects of the affordable housing discussion: firstly, the identification of a common definition of the very term ‘affordable housing’ and, secondly, the structural problems which inhibit the supply of new affordable stock.

Affordable housing has various definitions and discussion in this paper uses the American and Australian definition.

‘As a general rule, housing can be considered affordable for a low- or moderate-income household if that household can acquire use of that housing unit (owned or rented) for an amount up to 30 percent of its household income’ (Miles, Weiss, & Berens, 2000, p. 293).

Households who pay more than 25 per cent of their income on rental housing and are in the lowest 40 per cent of the income distribution range are to be considered in financial housing stress (National Housing Strategy, 1991). They may have difficulty having enough money to buy other essential needs such as food, clothing, transportation, medical care and education (National Housing Strategy, 1991; United States Department of Housing and Urban Development Affordable Housing, 2003).

The Queensland Department of Housing has a very complex definition of affordable housing. There are six categories that need to be satisfied when providers deliver affordable housing: appropriateness of the dwelling, housing and social mix, tenure choice, location, quality of environmental planning and design and cost (Department of Housing, 2001a). In summary, affordable housing should fit the household needs and should be well located in relation to services, employment and transport and the cost for housing should not be more than 30 per cent of income.

The housing system is a complex set of interacting tenures and sub-markets (Badcock & Beer, 2000). The tenure categories are owner-occupation, private rental, public rental and community housing. The sub-markets can be categorised by housing type, condition and location. In Queensland, affordable housing is classified into two categories: social housing and private housing. Social housing receives direct subsidy from the government and includes public housing and community housing. Whereas, private investors provide the other types of accommodation such as boarding houses, caravan parks and private rental houses and units.

The Commonwealth government has reduced the funding for delivering new public housing stock as well as maintaining and upgrading existing stock (Department of Housing, 2003a). Moreover, housing prices are being escalated by indirect taxes and by land shortage (Housing Industry Association Ltd, 2003). Both the public and private sector have the same problems in providing affordable housing construction. The government does not provide attractive assistance to increase the affordable housing supply. On the other hand, the private affordable housing stock has been declining because of the upgrading of older houses for the higher end market segment especially in the high land value area.

Demand for low-income housing has increased because of two major reasons. Firstly, the workers' ability to access housing has declined due to constraints on income; that is rent increases have not been equally matched by increases in income. Furthermore, because many people have shifted their working status from full-time to part-time, their income is less certain. The other evidence of great demand for low-income housing is the number of people on the waiting list for public housing (Department of Housing, 2003a).

Some researchers have explored the possibility of increasing the supply of affordable housing by stimulating private sector involvement in affordable housing projects. Affordable Housing National Research Consortium has completed some studies on finding solutions to affordable housing problems in Australia which recommended proceeding with a direct government subsidy for private (debt) investment in affordable housing (Berry, 2001). Similarly, a recommendation was suggested in the community housing sector using private finance to deliver community housing in Australia to increase the supply of community housing (Brian Elton & Associates & National Community Housing Forum (Aust.), 1998). The involvement of the key stakeholders in increasing the supply of affordable housing is discussed in the next section.

4. Application of Public Private Partnerships for affordable housing

After exploring the nature of Public-Private Partnerships and some affordable housing issues, this section will investigate the possibility of applying partnership agreements for

increasing the supply of affordable housing. Both supports and constraints of partnership building are discussed. Finally, the lack of application to real projects has been demonstrated as the real implementation problem.

This preliminary research is focused on open interviews of key stakeholders in affordable housing development. Three groups of key stakeholders have major roles in the affordable housing system: government, the private sector and non-profit organisations. The main objectives of the initial interviews were to obtain a comprehensive picture of the major players' roles and their opinions on the possibilities of building Public Private Partnerships for affordable housing management by determining the strength of each organisation in this arena.

The management of affordable housing is not only a matter of design and construction but also the long term operation, maintenance and asset management process. In the construction process, the State Housing Authority and Project Services (Department of Public Work) have been working together in producing public houses and community houses. Private builders and developers are generally more efficient in constructing houses. The private sector consortia are more successful than the governments in shifting risk and at achieving value for money (English & Guthrie, 2003). The profit-oriented organisations have been forced to search for innovative ways to produce efficiently for survival in a competitive market.

In the asset management area, the Queensland State Housing Authority has been developing an effective system for public housing since 1992. A performance measurement system (Property Standard Index (PSI)) and decision support system software have been developed in collaboration with the Construction Research Alliance between QUT and CSIRO (O'Shea, Then, & Tucker, 2000). This system allows the Queensland housing authority to optimise the limited funding allocated for the maintenance and upgrading program.

Queensland Community Housing Coalition (QCHC) is the peak body of community housing organisations which are specialist in tenancy management. The organisations are generally recognised as being good at tenancy management, although other stakeholders may have doubts concerning the transparency of their tenant selection. Moreover, these organisations could manage affordable housing more cost effectively than either government agencies or the private sector, due to their privileged tax status. QCHC has explored the possibilities of building successful community/ private affordable housing initiatives (Queensland Community Housing Coalition, 2003). Moreover, Earl suggested the collaboration between private and community sectors will enhance the supply of affordable housing for the aged (Earl & Regan, 2003).

Local government has also been involved in affordable housing initiatives by providing relaxation of the planning regulation for affordable housing projects. The developers who gain higher density bonuses because of rezoning have to pay contributions for affordable housing. This affordable housing contribution is based on a similar system used in Sydney and other big cities in the UK, Canada and the USA, as part of inner city development. The funding will be used to build affordable housing in the inner city area. However, these collaboration initiatives have been frozen due to a lack of state government approval, a condition that will hopefully be resolved by the end of the year (Richman, 2003b).

Each stakeholder has worked individually within their organisation using traditional methods and policies. Moreover, each stakeholder has its own interests and expertise in specific stages of producing and managing the affordable housing asset. Furthermore, a lack of trust and confidence with other stakeholders has constrained innovation and partnership options. This lack of coordination among stakeholders has seriously constrained the development of affordable housing in Queensland. They need to work across boundaries to be able to coordinate and to optimise the resources and to maximise affordable housing outcomes (Sullivan & Skelcher, 2002). However, the best practice in certain areas as an individual player might not work well in a partnership context.

Both affordable housing and PPPs will be very important issues for the Department of Housing in Queensland in the near future. The Department of Housing has emphasised the partnership initiatives in its Strategic Action Plan (Department of Housing, 2001b). One of the key performance measures for the Department under the proposed 2003-2008 Commonwealth State Housing Agreement (CSHA) is the increasing private and community sectors and local government involvement in social housing (Department of Housing, 2003a).

The guideline under which the Queensland PPP system operates is currently so restrictive (in terms of acceptable project identification and funding parameters, for example) that there are no projects which can fall within its ambit. However, partnerships defined in a broader context, might be suitable for affordable housing. Thus, the Department of Housing does not limit the type of partnerships to those between two parties (public and private sectors) and not only under a PPP type of agreements (Department of Housing, 2003b).

From the preliminary interviews, no stakeholder was very keen to apply Public Private Partnerships for affordable housing for many reasons. For example, the benefit is inadequate to attract the private sector entering affordable housing projects; PPPs are too complicated for non profitable projects; players have no confidence using it without learning from success stories from other projects and the traditional procurement methods and short term partnership agreements are still preferable to long term options such as PPPs.

One of the major incentives for increasing the affordable housing supply is tax benefits or government subsidy in other forms. State and local governments only gain a very small percentage of tax income because Federal government absorbs 80 per cent. Therefore, without Federal government support, affordable housing will not be attractive for most developers.

In summary, the stakeholders still exercise their traditional roles and adopt traditional concepts for housing developments; the private sector requires reasonable financial return from its investment and the government wants to tightly control affordable housing development to maintain maximum social benefits. The contradiction between investment decision-making criteria of government and the private sector has impeded the implementation of partnerships. Each party wants to minimise risk and maximise return on its investment.

5. Conclusion

The widening gap between demand and supply of affordable housing in Queensland has provided an opportunity for both the public and private sector to find innovative ways to increase the supply of affordable housing. PPPs are one way proposed by researchers and government. Although policy and guidelines are ready to support partnership initiatives, a lack of application to real projects is the real implementation problem.

The Queensland state government has too restrictive a definition of PPPs, thus affordable housing projects cannot fall into this scope. Moreover, the private sector requires other benefits and more incentives to deal with lower cash flow return from affordable housing tenants. The contradiction between investment decision-making criteria of public and private sector has obstructed the implementation of partnerships.

PPPs may not be a suitable way to facilitate the increasing supply of affordable housing without major changes and a more comprehensive approach. However, partnerships in a broader context might be suitable for affordable housing projects.

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