

10 March 2009

**MELBOURNE AFFORDABLE HOUSING – PROPOSED
MERGER WITH HOUSING CHOICES AUSTRALIA**

Division Community and Culture

Presenter Colleen Lazenby, Manager Community Safety and Wellbeing

Purpose

1. To inform Council of the proposed merger of Melbourne Affordable Housing with Housing Choices Australia and associated implications for the City of Melbourne.

Recommendations from Management

2. That the People and Creative City Committee:
 - 2.1 endorse the proposed merger of Melbourne Affordable Housing with Housing Choices Australia;
 - 2.2 endorse the completion of relevant legal documentation in relation to the transfer of the Drill Hall site to the merged entity otherwise in accordance with the resolution of the Council of 18 December 2007; and
 - 2.3 note the Council Administration will work with the new organisation to identify key requirements of the relationship.

Background

3. In April 1998 Council recognised the need to maximise the availability of public funds for affordable housing through new sources of funding including State Government, corporate and philanthropic contributions. As a result it resolved to establish the Inner City Social Housing Trust as the cornerstone of its social housing policy.
4. Subsequently the Inner City Social Company Ltd (“the Company”) was independently constituted and registered as trustee to the Inner City Social Housing Trust and the Inner City Social Housing Fund. On 22 December 1999 approval under section 193 of the *Local Government Act 1989* (“the Act”) was granted to Council to participate in the State Government funding program through establishing a separate company.
5. Council committed \$1 million to the establishment of the Trust. The final instalment was paid in July 2002. As founder of the Company, Council appointed the first members and the Board of Directors. The Constitution of the Company empowered the Company's Board to manage future appointments to the Board independent of Council. While Council no longer nominated representatives to the Board of the Company, a board position continued to be provided for a Councillor to represent City of Melbourne.

6. Ecumenical Community Housing (ECH) was established in 1999 by Ecumenical Housing Inc as a special purpose community housing organisation to provide a vehicle through which churches in Victoria could enter into a joint venture with the Victorian Government in the development of affordable housing for sustainable communities.
7. ECH assumed responsibility for the management of the Community Housing properties in the Ecumenical Housing Trust (EHT) under the trusteeship of Ecumenical Housing Inc. Forty of the forty-eight properties in the Trust (Ebsworth House and Guildford Lane Melbourne) were part of the Postcode 3000 Affordable Housing Project. The Postcode 3000 Affordable Housing Project was the City of Melbourne's earlier approach to the establishment of social housing and a precursor to the establishment of the Inner City Social Housing Trust and Fund.
8. In 2002 ECH negotiated an in-principle agreement to implement a partnership with the Office of Housing (OoH) that would result in the development of \$13.3 million of community housing through joint initiatives between the OoH and the Churches over the next five years. This partnership involved the commitment of both capital and recurrent funding from the OoH and was conditional on ECH merging with another community housing organisation, which could demonstrate the support of the Churches and a viable long-term business plan.
9. On 20 February 2003 at a joint meeting of both Boards, a Heads of Agreement was executed committing Ecumenical Housing and the Inner City Social Housing Company to be merged by 30 June 2003. The merger was completed within the agreed timelines and the new entity of Melbourne Affordable Housing was created. At its meeting in July 2003, Council agreed to execute a deed of novation in relation to the Postcode 3000 project which allowed for the forty properties which were part of the Ecumenical Housing Trust and the City of Melbourne Postcode 3000 project to be included in the transfer of properties to the new organisation named Melbourne Affordable Housing.
10. In 2002 the Victorian State Government adopted an "Affordable Housing Policy" which included a commitment to invest a further \$70 million in the Social Housing Innovations Program over the next four years and the creation of four new Affordable Housing Associations. Melbourne Affordable Housing (MAH) was registered as a Housing Association in 2004 with a mandate to develop affordable housing options in the inner metropolitan region of Melbourne. This registration as a Housing Association enables MAH to access State Government social and affordable housing funds.
11. MAH has grown significantly and now owns or manages 283 affordable housing units and has commitments for a further 298 units with another 498 units in the pipeline.
12. The City of Melbourne's role with Melbourne Affordable Housing company and the trusts, of which it is a trustee, is now limited to the provision of funding, in accordance with the usual budget application process, and other support services:
 - 12.1 in December 2007 Council agreed to sell the Drill Hall site, which had an estimated value of \$6 million, to Melbourne Affordable housing for \$10.00; and
 - 12.2 occasional provision of assistance with planning matters, organisational promotion (bus tours) and use of facilities and funds for housing week activities.
13. An MAH board position continues to be provided for Council representation and this was most recently filled by David Wilson as a Councillor. At its meeting on 24 February 2009, the Council nominated Councillor Kanis as its representative on MAH.

14. MAH proposes to merge with Housing Choices Australia. This arises at a historically important time in the Australian community housing industry. Both the State and Federal Government have established a united proposal to substantially increase funding for the provision of much needed social and affordable housing in Victoria. Significant amounts of funding will be available to registered housing associations to develop affordable housing projects over the next two to three years.
15. As a result of this significant funding increase it is anticipated that the size and complexity of affordable housing developments will substantially increase. This will require creation of not for profit housing companies which have the organisational structure, governance and financial arrangements to ensure optimal affordable housing outcomes over the next two to three years.
16. Housing Choices Australia (HCA) is the trading name for a community housing group which includes Supported Housing Ltd., the Singleton Equity Housing Limited and the Disability Housing Trust (DHT). Disability Housing Ltd is the company that acts as trustee for DHT. Housing Choices Australia is a socially committed, commercially competent provider of quality affordable housing with a specialist capability for meeting the needs of people with a disability.
17. Housing Choices Australia aims to address the particular circumstances of people and families and provide housing indistinguishable from others, set in inclusive neighbourhoods and be a force for social equity. HCA currently owns or manages 623 housing units/dwellings; has 105 units in current development and a further 62 units in the pipeline.
18. The proposed merger of MAH and HCA provides a timely opportunity for MAH to take its organisational capacity to the next level to secure the best housing outcomes from the current State and National housing policy environment.

Key Issues

19. MAH and HCA have undertaken discussion and due diligence investigations over the past six months. A merger agreement outlining the structure of the proposed new entity was agreed and signed by both organisations on 24 December 2008. A precondition of the merger is that both MAH and HCA gain acceptance of the merger agreement from all stakeholders. Endorsement of the merger by Melbourne City Council, as a key stakeholder for reasons outlined, is required.
20. Key issues for consideration in the proposed merger are the continuing security of the Inner City Social Housing Trust funds and the ongoing process for transfer of the Drill Hall site to MAH within the context of the new entity.
21. The merger documents outline the initial legal structure of the two entities. Melbourne Affordable Housing and Supported Housing Limited will form a joint company structure and become a registered entity. It is proposed that the Inner City Social Housing Trust (ICSHT), Inner City Social Housing Fund (ICSHF), Singleton Equity Limited and Disability Housing Limited are likely to cease as entities in the future while the Ecumenical Housing Trust and the Disability Housing Trust would be retained.
2. City of Melbourne previously provided funding of \$1 million to the Inner City Social Housing Trust and is in the process of transferring ownership the Drill Hall site (valued at \$6 million) to Melbourne Affordable Housing. Further clarification is required as to the proposed position of these resources in the new organisational structure. The merger document indicates that in the future it is likely that the organisation will be further developed to operate at a national level developing affordable housing across Australia.

22. The Administration will work with the new organisation to identify key requirements of the relationship between the Council and that entity, including, ensuring that the intentions of the ICSHT and the ICSHF funds are met in the new entity.

Time Frame

23. MAH approached the City of Melbourne to seek endorsement of the merger on 16 January 2009. An urgent decision is required of Council on this issue as the initial agreement between MAH and HCA signed on 24 December indicates that approval of key stakeholders is required by 1 March 2009. Officers have met with the Chief Executive Officer of MAH and the schedule of Council committee meetings was explained.

Relation to Council Policy

24. The issues and recommendation in this report are consistent with the *Social and Affordable Housing Framework 2006 – 2009; the Homelessness Framework 2007 – 2009 and the Disability Action Plan 2006 - 2009*

Finance

25. At 30 June 2008 MAH had net assets in excess of twenty million dollars and working capital of approximately \$800,000. As trustee of the Inner City Social Housing Trust and Ecumenical Housing Trust MAH manages group assets of \$55 million, annual operating revenues of \$2.2 million and working capital of \$2.1 million. MAH has managed capital expenditure projects totalling \$20 million over the past three years and has plans for development in excess of \$75 million over the next two years.
26. As at 30 June 2008 HCA had net assets of \$77 million including as trustee of Disability Housing Trust net assets of \$1.6 million, and working capital of approximately \$2.6 million additionally, DHT has unearned income of \$53 million to be applied to the Shared Supported Accommodation (SSA) project over the next three years (to be progressively shown on the balance sheet). HCA has undertaken capital projects to the value of \$7 million over the last three years and is currently funded for a further \$18 million in SSA projects, has plans for \$210 million of housing projects in the 2008/2009 financial year and the \$440 million over the following two years.
27. Both CEOs are confident that financial analysis will demonstrate cost efficiency savings for each organisation as well as strengthened management capability and improved governance outcomes as a result of the merger.
28. Whilst no direct financial impact is identified for Council in the proposed merger, it is important that processes are in place to secure the principle objective of continued provision of affordable housing in Melbourne in the structure of the new organisational entity.

Legal

29. Legal advice has and will continue to be supplied as required in respect to the issues discussed in the report including the Drill Hall project.

Sustainability

30. The continued success of a viable housing association contributes to affordable rental housing outcomes in Melbourne, a key factor in the social and economic sustainability of the City.

Comments

31. The proposed merger of MAH and HCA into a new organisation has the potential to establish an entity which has the necessary organisational capacity, to respond effectively to the challenges of industry growth and the creation of a commercially sustainable housing company to take advantage of the emerging affordable housing opportunities.
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FINANCE ATTACHMENT

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There are no direct financial implications associated with the recommendations contained in the report.

The Drill Hall transfer is yet to be finalised however assets associated with the facility totalling \$2.770 million have been identified as “held for sale” in the City of Melbourne Balance Sheet.

Joe Groher
Manager Financial Services

LEGAL ATTACHMENT

MELBOURNE AFFORDABLE HOUSING – PROPOSED MERGER WITH HOUSING CHOICES AUSTRALIA

The report identifies the Council's historic connection with the formation of the Inner City Social Company Ltd.

Legal advice has and will continue to be supplied as required in respect to the issues discussed in the report including the Drill Hall project.

Kim Wood
Manager Legal Services