Productivity Commission

Introducing Competition and Informed User Choice into Human Services: Identifying sectors for reform

Comments on Preliminary Findings Report from community housing industry associations

October 2016

Executive Summary

The community housing sector welcome the Productivity Commission's (PC) selection of social housing as key priority area for reform. The sector is ripe for reform, building on the successful growth of a contestable market amongst not-for-profit community housing providers over the last three decades.

Our key recommendations are to:

- Keep social housing supply issues and failures in the private rental market within scope;
- Move to a uniform, national and updated regulatory approach and contestable funding for all social housing providers, whether in the public, not-for-profit or private sectors;
- Promote user choice through better information, choice based lettings and personal housing plans;
- Better design service provider tendering to minimise costs and maximise outcomes;
- Broaden stakeholder involvement - including tenants - in the PC inquiries' next stage of work.

1 Introduction

Despite a considerable number of enquiries, commissions, task forces, Ministerial statements and research reports over the last two decades we continue to run the Australian social housing system much as we did in the 1990s.

Social housing properties originally built to house working families now perform a different role. Social tenants in 2016 predominantly have high and complex needs, are often single, older and rely on Government welfare payments. As a result, social housing landlords have to offer both 'housing services' (providing accommodation where there is market failure, when private rents are too high) and 'human services' (supporting higher needs tenants sustain their tenancies). For homes transferred from public to community landlords, the additional rent of around $60 per week per property is increasingly expected to cover improved housing services, some human services, increase housing stock and create thriving neighbourhoods.

User choice and competition are key features of modern society, including in human services, but have yet to feature significantly in social housing. Many people in both the community and public housing sectors see change is needed, and there is broad support for the main thrust of the PC's initial recommendations. However, despite the undoubted benefits a more user-friendly, contemporary social housing system could bring to many people's lives, true reform can only come through a better working of two aspects of overall housing system.

First, housing supply is a major problem in Australia, but the challenges with social housing supply are particularly severe. Over two decades very little social housing has been built, and waiting lists have accelerated. The housing currently in the system is often in the wrong location, of the wrong size, poorly connected to contemporary jobs and in need of significant maintenance. It is hard to offer true user choice when there is such a stark mismatch between social housing supply and demand.

Second, the 'housing continuum' in Australia is broken. Substantial chasms exist between social and private rental, and between private rental and home ownership. Through a lack of joined-up thinking by Governments at all levels we have created a system with powerful disincentives for people to leave social housing. As a result, tenant exits are low as residents cling to the only form of secure, longer term property rental available. We need greater availability of longer term private rental housing with secure leases, moderated rent increases and affordable/subsidised rents.

On a more positive note, the community housing sector has shown that greater contestability of funding, local leadership and social innovation can lead to better tenant outcomes. Community housing providers are the social landlord of choice, ranking highly on tenant satisfaction. Through careful financial approaches, tenancies managed in the community housing sector can result in a modest uplift in social housing numbers. By contrast, the public housing portfolio is shrinking.

Reforms are possible within the existing system through a combination of consistent regulation across the country of all social landlords, greater transparency of performance, enhanced outcomes measurement and a level playing field for public funding. This same rules of the game should apply whether a landlord is in the public, not-for-profit or private sectors. Competition works best when social landlords compete to offer the highest quality customer services, most innovative place making projects, deliver the best individual housing plans for tenants and promote cutting-edge innovative community building. Competition has to be about raising standards - not simply lowering costs.

2   Feedback on Preliminary Findings Report

This paper has been prepared jointly by peak and industry associations representing the community housing sector. Section 1 provides general feedback on the PC's September 2016 Preliminary Findings Report (the Report), Section 2 covers social housing and Section 3 provides advice on next steps.

2.1   General approach

The Report (p.2) outlines key points applicable across the human services sector. Feedback has been provided in the table below on social housing aspects:

Key point	Views	Social housing aspects
'Greater competition, contestability and informed user choice could improve outcomes in many, *but not all*, human services'	Fully agree ☑☑	Within the broader homelessness, social housing and affordable housing system, some services are more suited to informed user choice than others
'… reform could offer the greatest improvements in outcomes for people who use social housing [and 5 other areas]…'	Fully agree ☑☑	It is right that social housing is identified as a priority for reform. We believe it forms one of the top areas from the 27 initially proposed
'Informed user choice puts users at the heart of service delivery and recognises that, in general, the service user is best-placed to make decisions about the services that meet their needs'	Partially agree ☑	With social and affordable housing supply severely restricted, and waiting lists long, there are limits to user choice. However, many improvements are possible to the current bureaucratic approaches
'Competition between service providers can drive innovation and create incentives for providers to be more responsive to the needs and preferences of users'	Fully agree ☑☑	Well-designed procurement using competitive tendering to community housing providers (and between public and community housing) can increase social innovation and economic efficiency
'For some services, and in some settings, direct government provision of services will be the best way to improve the wellbeing of individuals and families'	Partially agree ☑	In some locations and for some tenant groups, public provision of social housing can continue. However, there needs to be a level playing field between public and community housing providers
'Government stewardship is critical. This includes ensuring human services meet standards of quality, suitability and accessibility, giving people the support they need'	Fully agree ☑☑	Community housing is already a regulated sector, ensuring high quality services. The National Regulatory System for Community Housing (NRS) can be enhanced, and applied to public housing
'High quality data are central to improving the effectiveness of human services'	Fully agree ☑☑	A benefit of devolving service delivery to community housing should be more transparency and accountability. Current NRS and public housing data quality and accessibility needs to be enhanced

3 Social Housing Issues

This Section provides feedback on the PC's analysis of and proposals for the social housing sector.

3.1 Comparisons to initial suggestions

The Report's feedback on social housing are assessed in the table below against the top 10 recommendations in the sector's July 2016 submission (NSWFHA et al., sub 235):

Sector recommendation	Adopted?	Comments
The Inquiry's definition should be broadened from 'social housing' to 'non-market housing'	☒	The PC has continued within their original terms of reference. We believe this will limit outcomes, in particular outcomes for the social housing sector. See Section 2.2 below
Different approaches to user choice and competition are needed for the various housing options along the housing continuum	☒	
More user choice and contestability between suppliers is possible with housing products aimed at moderate income households	☒	
Further transfers from public to community housing will increase contestability	☑☑	This is the most important approach to reforming the social housing sector, and has been strongly supported by the PC
Data collection needs to be transformed with a focus on outcomes, greater comparability and more transparency for users	☑☑	Data is consistently included as an issue within the Report. Most social housing applicants are personally capable of making informed choices, particularly with a personal housing planning approach. However, the current system gives little relevant information to make decisions
Public and community housing should be consistently regulated, and some funding allocated competitively by the Commonwealth	☑	The PC support a greater balance between approaches to public and community housing providers, though few details are given. This should be a focus of the next stage review
Governments need to establish frameworks and funding for 'intermediate housing products' that enhance user choice	☒	The PC consider this is not within their remit, and sufficient competition already exists. The sector does not agree, see Section 3.2 below
Combining asset ownership and tenancy management leads to more efficient housing delivery though better asset management	☒	This is not an addressed by the PC, though should feature in discussions over the next year. Transfers with title can help with, housing supply, housing choice and better strategic asset management
Web based social and affording housing advertising promotes 'choice based letting'	☑☑	Choice Based Letting is quoted by the PC as an example of good practice
Funding contestability between housing providers improves efficiency, but needs to be restricted or costs and will increase	☑	The PC agree on contestability, though as yet has not reviewed issues of the costs and complexity of bidding

Not only has the PC accepted the sector's view that social housing is a good area for reform, many of the more detailed suggestions have also been positively received. Other more detailed items will most likely form part of the next stage of the PC's review.

3.2 Understanding the social housing system (Report, s.3.1)

Key to delivering greater competition, contestability and user choice in social housing is understanding sector boundaries. The PC has used the logic of the DSS chart (right), included in the Report, p.64. Focus

is restricted to the top left social housing segment. As already noted, we believe the PC should take a more comprehensive approach that includes affordable housing and intermediate housing products (such as shared equity) as well as just social housing:

- A few but not all users can exercise tenure choice, for example a small minority of social housing tenants in jobs could select between social housing and subsidised private rental accommodation - if enough affordable and appropriately located private rental properties are available. The segments in the chart are therefore closely related;

- Community housing providers offer social housing, affordable housing - and in some cases are specialist homelessness service providers of crisis and transitional housing. Governments are also involved in delivery of some crisis accommodation, and affordable housing - for example the Western Australian (WA) Department of Housing;

- Focussing solely on social housing will reinforce 'siloed' approaches. Challenges with social housing are inextricably linked to problems with the broader housing system. For example, managing social housing demand relies on the private rental sector working effectively.

There is limited evidence that 'user choice and competition is already a feature of housing assistance such as affordable housing' (Report, p.63). Affordable rental housing such as NRAS properties are under-supplied, offering few choices between suppliers to applicants. Furthermore, data collection and visibility is poor - arguably worse than for social housing.
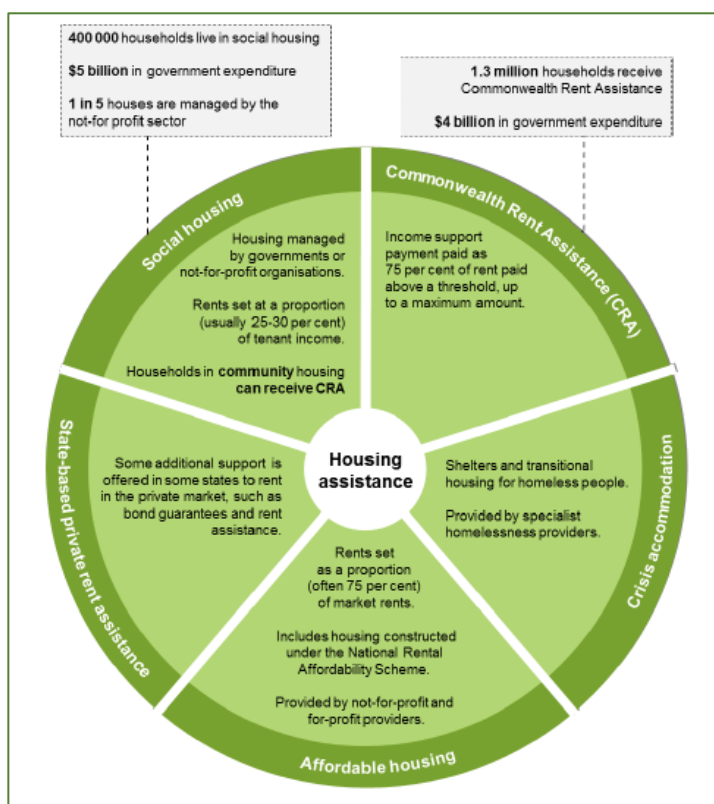
Community housing

The PC refer to 200 community housing providers under the 'national registration scheme' (report, p.63). However, the National Regulatory System for Community Housing (NRS) has not been adopted by the WA and Victorian governments, who continue to maintain separate systems, and as we note in Section 3.3 of this submission needs to be reviewed and improved.

A 2016 AHURI report 'Profiling Australia's affordable housing industry' identified 323 regulated community housing providers as at March 2016 across Australia. Of these, 40 are more business-oriented entities that raise private finance, procure housing and offer diversified housing services. Most in this group could accommodate further expansion and develop their own future capacity' (AHURI, p.1). The AHURI survey found the typical business orientated providers have assets of $316 million, over 2,000 dwellings in management and around 100 dwellings in a procurement pipeline.

The 'commercially orientated' community housing providers are the group most likely to lead a further move towards a contestably procured social housing market. Of the smaller organisations in the sector, some have the capacity to grow, others are best continuing to focus on specialised, complex and often

geographically distant tenant needs. The strength of the community housing sector is its diversity, yet this diversity means the PC will need a nuanced view on a move to contestability and user choice.

3.3 Scope to improve outcomes (Report, s.3.2)

The PC has correctly identified there are a large number of ways in which social housing is delivered, and how this could lead to better tenant and community outcomes.

Tenant choice

Several submissions to the PC inquiry, as well as prior research, confirms the poor level of consumer choice in social housing. As noted in the Report, 'the suitability of an allocated property can be a question of timing and luck' (p.68).

Community housing providers currently strive to provide choice, even with current regulatory and supply environment. They often provide more options and a more open process for applicants, and existing tenants wanting to move. Many community housing providers also offer a broad range of housing options, not just social housing - examples include crisis accommodation, private rent rolls, shared equity schemes and rent to buy products. This helps transitions along the housing continuum.

While as detailed in section 3.4 of this submission, Governments need to address the supply of new social and affordable rental housing, there are more straightforward and less costly options to improve user choice:

- **Market signals** could be improved through making waiting list data more readily accessible through web portals. Applicants might discover a shorter waiting time for (say) a 3-bedroom property if they move to one location rather than another. Alternatively, they could apply for a 2-bedroom property if a spare room was not needed for visiting relatives.

  There needs to be greater standardisation of waiting list data across states and territories to allow for easier inter-jurisdictional transfers. This will help match supply and demand, as well as allow applicants to relocate closer to employment, training or family support.

- **Choice based lettings** have been shown to work in several countries, including Canada, the Netherlands and Britain (Report, Box 3.3). We support the PC's promotion of this approach, and recommend a pilot project is established in one jurisdiction initially encompassing community housing providers before being extended to public housing. However, with the increasing proportion of social housing tenants having high and complex needs, there needs to be major investment in administration and capacity building to ensure the most vulnerable are not left behind due to inability to participate in application processes.

- **Personal housing planning** could become an option for new social housing applicants. The process would assess and responds to applicants' strengths and aspirations in the housing market. Where feasible it would identify barriers to entering particular housing tenures, and sets pathways beyond social housing. Plans would typically link-in services through written agreements and provides a new 'contract' with tenants to enhance responsibility and provide clarity around service and support responses.

Measuring quality

Figure 3.2 of the Report (p.67) highlights higher scores for community housing compared to public housing in terms of efficiency (property utilisation, property condition) and quality (tenant satisfaction score). Although this is positive, the sector noted in the July 2016 submission that there are a number of challenges with the current measurement of the efficiency and effectiveness of social housing organisations. Part of the issue is methodology, part data quality and comparability.

The AIHW tenant surveys on which the data in Figure 3.2 are derived are supplemented by a more detailed analysis of tenant satisfaction carried out annually by community housing providers. These typically show customer satisfaction scores in the 80% and 90% range. To facilitate user choice, this more in-depth surveying should be replicated by public sector landlords.

Service provider accountability

Transferring tenancy management to community housing providers promotes new and innovative outcome measurement. The 2012-13 Tasmanian transfer of 4,000 social housing tenancies to four not-for-profit landlords included outcomes based reporting and independent Social Return on Investment (SROI) reviews every two years. The proposed 2017 NSW transfer of 14,000 tenancies will require tenant satisfaction scores over 75% and:

> *'In transfer areas, program expectations for social housing outcomes include … having clear performance measures for measuring and reporting outcomes. As part of the Future Directions strategies, all [NSW] contracts for social housing assistance will include new performance measures linked to the Government's social housing outcomes'* (ARTD, Industry Sounding, 14 October 2016)

The further transfers from public to community housing supported by the PC will allow greater contestability for Government funding, and better measurement of community outcomes. And, as shown by the NSW approach, outcomes measurement can be used across current social housing portfolios not just the property portfolio transferred from public to community housing landlords.

More work will be needed to develop a comprehensive and workable outcomes framework for social housing which enables true comparison between all forms of social housing and between individual providers. It is true that data can be expensive to collect, outcomes (particularly social outcomes) can be hard to measure, and causation hard to attribute. However, contestability and choice will not be achieved if we rely principally on cost measures such as the annual cost of managing a tenancy, maintaining dwelling standards or the unit cost of delivering new social housing dwellings.

Ideally, an outcomes framework for social housing would balance outcomes relating to property management with those relating to tenancy management, tenancy support and promoting a diversity of future housing pathways. This would give tenants better information on which to make meaningful choices between houses and housing providers, and provide a clearer picture of the social and economic returns on investment to social housing investors and Government funders.

3.4   Factors influencing potential benefits of reform (Report, s.3.3)

The PC has sensibly identified many applicants for and users of social housing have the personal capacity to exercise choice between accommodation options, though a key constraining item is a severe shortage of affordable properties to choose between.

User characteristics

Community housing providers have a close connection to their tenants, and therefore understand well many of their needs and aspirations. Many organisations have moved beyond treating tenants as 'service users' and involved them in service design. Formally constituted Tenant Advisory Groups (TAGs) are common, and able to give direct input to landlord policies, community development schemes and strategic initiatives. Furthermore, tenants can be involved as TAG participants, volunteers, social event organisers and sometimes as company members. For housing cooperatives, members are the owners.

Practical experience in Britain and Australia suggests it can take time and careful planning to build tenant capacity. In cases where residents have transferred from public to community housing, tenants are often used to a more hierarchical landlord relationship and often do not expect to be involved in

decision making and exercise user choice. It can often take a number of years for TAG membership to grow, and for more tenants to play an active role. Younger residents, single parents and people whose first language is not English require more focussed attention to encourage engagement.

While applicants and tenants are capable of exercising choice, resources will be needed to make this happen. Housing providers will need to enhance their websites, provide written information, visit current tenants and hold forums. With choice based letting, using a smartphone app may be more effective than a website due to greater usage of the former technology.

Social housing supply

The Report (p.65) correctly notes there is no 'right' level of social housing. However, the trend in Australia over the last two decades has been for the absolute number of social housing dwellings to flat-line at around 400,000 during which time there has been a noticeable growth in total dwellings. The proportion of social housing to total housing in Australia is low by international standards, and falling.

While there are significant gains to be made by improving competition, contestability and user choice in social housing, reforms need to be in parallel with better designed and funded schemes to increase social housing supply. Transferring social housing to the community housing sector allows for both greater efficiency, and an ability to increase social housing dwellings. In contrast, if most social housing remains in the public sector the 25-year trend of a declining numbers of dwellings will continue.

More public investment will be needed in the short to medium term, whether by way of capital grants or loans or facilities to help leverage additional private capital. The challenge is to ensure that additional funds are closely linked to additional supply of social and affordable rental housing.

The PC identify ways of moderating social housing demand by improving the supply of affordable rental housing alternatives (Report, pp.72-73). NSW's 2016 'Future Directions' strategy proposes to support 60% more people to enter the private rental market by 20125 to help them enter into or transition out of the social housing system. This approach is welcome, though not a substitute for building new social housing. Around 90% of social housing residents' only source of income is welfare benefits, and it is unlikely they would be able to rent privately.

Landlord types

The community housing sector is strongly supportive of the PC's suggestion that not-for-profit organisations should play a larger role in social housing tenancy management. This approach would allow for greater user choice, competition and contestability.

We note the PC's statement 'for-profit providers could introduce further contestability and choice' (Report, p.73). There is already noticeable private sector involvement in social housing, for example through outsourced asset management. This is an area where the private sector can bring efficiencies, in part as the service is transaction based. In areas such as tenancy management and support, which is relationship based, the capacity of the private sector is less clear. If private sector organisations are to play a role in social housing, they should be required to register under NRS along with community housing providers and - we recommend - public housing agencies.

There are very few examples around the world of the use of commercial companies to manage social housing tenancies. The PC's examples of private landlord involvement are on the fringes of social housing management, and probably only have applicability to the 10% of tenants in employment. In Britain, despite many attempts by Government since the 1990s to encourage private sector companies into the market there are only two private sector companies accredited by the Social Housing Regulator to manage social housing homes.

3.5 Potential costs of reforms (Report, s.3.4)

The PC rightly identifies additional expense in their proposed social housing reforms for users and Governments (Report, p.74). However, it is important to note that moving to greater user choice will incur additional costs for social housing landlords. Not-for-profits rely mainly on tenant rent for income, generate only modest surpluses, and need to maintain a minimum net profit margin (EBITDA/revenue) to comply with the NRS financial performance standards. As a result, extra funding for the sector to build capacity will need to accompany the suggested reforms.

In addition, a review is needed of ways to make competitive tendering for social housing services work better. To date approaches have varied considerably, ranging from efficient to bureaucratic - the Logan property transfer 2012-16 is an example of complexity, politicisation, delays and eventual cancellation of the project. Complex bidding processes increase transaction costs, and limit the number of community housing providers who will bid for projects

4 Advice on Next Steps

The PC's identification of social housing as a priority for human services reform is welcome. While there is scope for considerable improvement in social housing delivery, there might be significant opposition. This could come from State Housing Authorities - who may wish to defend their business, and prefer a less transparent operating environment - and opponents of property transfer who may (incorrectly) view a greater role for community housing as 'privatisation'.

To increase the chances of a once-in a-generation social housing transformation, the PC should carefully plan the second-stage of the Inquiry over the next 12 months. Suggestions from the community housing sector are provided below.

4.1 Improve policy coordination

The PC's social housing reform suggestions need to align with four parallel current developments:

- An Affordable Housing Working Group was established in January 2016 under the Council on Federal Financial Relations. Their remit is to 'identify potential financing and structural reform models that increase the provision of affordable housing (social housing and housing in the private rental market)'. Submission to the Working Group closed in March 2016 and their report is expected by November 2016.

- Property transfer (in the form of management outsourcing of tenancy and asset management) is progressing in several jurisdictions, albeit at an uneven pace. South Australia is currently negotiating the final stages of a 4,000 home transfer, and NSW Government recently announced a tender for 14,000 transfers to community housing to be open to competitive tender during the first quarter of 2017.

- The Queensland Housing Minister recently stated opposition to property transfer, envisaging a radically different future for the state's community housing sector. The Minister's views have been contested within the research community and housing sector, though demonstrate how stock property transfer can become politically contested.

- Commonwealth Rent Assistance (CRA) is in urgent need of review. The demand for social housing will continue to increase until CRA is re-engineered to provide more support for low income households in the private rental market. Only a modest proportion of CRA goes to the tenants of community housing providers compared to those in the private sector.

To achieve social housing reform, a wider perspective needs to be taken on the problems with the Australian housing system - such as is being taken by the Affordable Housing Working Group. The PC need to both input to the Group's work, and be influenced by it.

4.2   Promote evidence based policy and consultation

We recommend the PC prepare an Issues Paper to inform the ongoing debate about social housing sector transformation. This could build on the detailed research already available, from AHURI and other research centres, but also review in more detail practical evidence. For example, much could be learned from a review of Choice Based Letting schemes overseas, and insights into the outcomes focussed approaches being built into contemporary transfer projects in Australia.

The NSW Federation of Housing Associations, supported by its members, is undertaking work on the strategic commissioning of social and affordable housing using a broad based reference group. The work is being coordinated by SGS Economics, and the results will be available to inform the PC.

Additionally, to date the discussions about 'user choice' have been conducted at a largely theoretical level. During the next stage of the PC's work, the tenants' voices need to be heard. Many community housing providers have formal Tenant Reference Groups where residents meet regularly to provide input to landlord services. These Groups could be encouraged to provide practical input to the PC.

Other stakeholders to involve in consultations on social housing contestability and user choice are mums-and-dads property investors, real estate agents, superannuation funds, banks, property developers and builders. This is important as the private sector market for affordable rental and ownership accommodation needs to transformed to moderate demand for social housing.

4.3   Focus on improving regulatory efficiency and impact

Greater competition can only work if there is a level playing field between public and community housing agencies - and potential private sector entrants - in terms of funding, policy and regulation. Common rules of the game need to be applied consistently in all states and territories, and across all social housing providers. This will help establish a national, innovative and cost-efficient market in tenancy management, housing finance and affordable housing development.

The second stage of the PC's inquiry will need to carefully consider social housing landlord regulation. Approaches to community housing regulation have been enhanced with the move in 2014-15 to 'national regulation' (NRS), with the system providing confidence to Governments that not-for-profit landlords are financially sound, robustly government and offer excellent tenant services. However, these changes are only the first step and several challenges remain:

- Victoria and WA have not joined the are not in NRS. Although their approaches are broadly aligned with NRS approaches, there remain barriers to entry and exit in these jurisdictions. A single regulatory system across all of Australia is needed in order to enhance consumer choice and Government contract contestability;

- States and territories influence how NRS is interpreted, for example deciding whether certain not-for-profits and Local Governments should be registered. They sometimes also create barriers to entry through restricting funding to locally operating organisations;

- The NRS framework needs to be reviewed - through a joint Government/sector initiative - to increase standardisation, with diminish the amount of discretion allowed to jurisdictions. As originally planned, a national agency needs to be established to ensure State-based regulators following similar approaches - in other words the regulators need to be regulated. Regulators should operate at arm's length to Government, with no links to public housing authorities;

- Compliance burdens are high, especially for smaller organisations. Following the approach used in England, the regulatory complexity could be reduced for low-risk, smaller community housing providers (classed as NRS Tier 3);

- Social housing regulation should focus on governance, risk and tenant service quality. Financial regulation should be more sophisticated ensuring that current ratio-based financial performance approach is not so prescriptive that it inhibits innovation;

- Very little organisation level information is available from the NRS website beyond business names. No performance data is shown, and it is not collated across the sector. In future this should be a key responsibility of the regulatory system, as is the case internationally and for other Australian regulated systems such as NDIS;

- Indigenous-run community housing organisations are not included in the NRS, which can inhibit the ability of these organisations to grow. Common regulation would allow more culturally sensitive housing services to be provided, empowering Indigenous communities;

- Most significantly, public housing agencies are not regulated under NRS.

We recommend fundamental reform to NRS with a single framework covering all states and territories, as well as encompassing public sector and community housing landlords. NRS needs a central agency that will collate and disseminate information, moving the regulatory focus from rules and regulations to transparency and promoting excellent landlord services.

High quality data collection and dissemination provides better signals to users of housing services, allowing a degree of user choice. Moreover, it promotes system efficiency through allowing a focus on comparative landlord economic efficiency, and effectiveness in achieving social policy outcomes.