

**Productivity Commission**

# **Human Services: identifying sectors for reform**

**Submission from the community housing sector**

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## Executive Summary

Australia's social housing system has been behind the curve in introducing competition and user choice, both in comparison to other human services such as disability support but also by international standards. The sector has suffered from fractured relations between the Commonwealth and States, and a lack of leadership by either. As a result, social housing has become a place where disadvantaged people are contained, rather than allowed to transition out.

Against this disappointing backdrop, there is one part of the social housing system that has seen the types of changes over the last two decades the Harper Review recommends. More contestability of funding. More housing tenure choice for users. Greater involvement of and partnership with the private sector. Greater transparency. More focus on outcomes. Greater efficiency in the use of scarce public funds. We're talking about the community housing sector.

While the sector supports our further growth as a way to promote competition and user choice, our submission to the Productivity Commission is not that of a special interest group looking for rewards. Community housing providers will not and should not become the only type of social and affordable housing landlords. Not-for-profits should, however, be able to grow to a scale where there can be true contestation with state agencies for the most efficient and effective resource application.

Greater competition can only work if there is a level playing field between public and community housing agencies in terms of funding, policy and regulation. Common rules of the game need to be applied consistently in all states and territories. Scale economies will help the efficiency not only of housing providers, but of organisations supporting their value chain. We need a national efficient market in housing finance and affordable housing development. National models have been shown to start working with the NRAS program, and are hard-wired into the design of the NDIS.

Policy makers need a clearer overview of housing market dynamics that differentiates between different parts of the housing continuum. A focus on social housing alone is too narrow. Degrees of user choice vary between housing products, as does the potential for private sector competition. We have already seen a significant role of for-profit organisations in social housing delivery, and this can continue. However, case studies in this submission from Britain show how careful regulation is needed, German examples highlight how full privatisation leads to poor

### Our top 10 recommendations

- The Inquiry's definition should be broadened from 'social housing' to 'non-market housing'
- 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
- Data collection needs to be transformed with a focus on outcomes, greater comparability and more transparency for users
- Public and community housing should be consistently regulated, and some funding allocated competitively by the Commonwealth
- Governments need to establish frameworks and funding for 'intermediate housing products' that enhance user choice
- Combining asset ownership and tenancy management leads to more efficient housing delivery though better asset management
- Web based social and affording housing advertising promotes 'choice based letting'
- Funding contestability between housing providers improves efficiency, but needs to be restricted or costs and burdens will increase

social and economic outcome, and US examples shows problems with 'housing vouchers'.

Community housing providers have led the way in treating applicants and tenants as customers. Even when social housing is severely limited, the fundamentals of the customer relationship can be embedded in service and quality standards. Through better use of web-based technology, building on a fundamental shift to greater transparency of consistently gathered and benchmarked data, social housing users can have far greater choice. Choice Based Letting in Britain offers a window on how social housing markets can more closely mirror private real estate's customer focus.

Growth funding contestability between larger community providers shows how the system can be made more efficient and social innovation encouraged. Cross-sector partnerships and collaboration are now common place. Larger contracts for social housing transfers and renewal frequently feature clear reviews of Social Return on Investment. We need these reforms to spread to public sector agencies, and for the Commonwealth to take the lead in system transformation.

**Why should social housing be a priority area for review by the Productivity Commission?**

- Non-market housing supported by Government is a key human service but one where competition and user choice has been modest
- The Commonwealth has initiated several inquiries and committees on the topic: we now need to move from words to action
- Community housing's transformation to a vibrant, growth sector with provider contestability shows how efficiency can improve
- New approaches to not-for-profit service delivery in housing could have parallels across the human services sector
- Community housing providers embrace well-planned change, so reforming social housing is more achievable than in health and education

## 1 Background and definitions

This paper has been prepared jointly by peak and industry associations representing the community housing sector nationally and at state level. Sections 2, 3 and 4 of the submission map the questions raised in the corresponding sections of the Productivity Commission's (PC) July 2016 Issues Paper.

### 1.1 What is community housing?

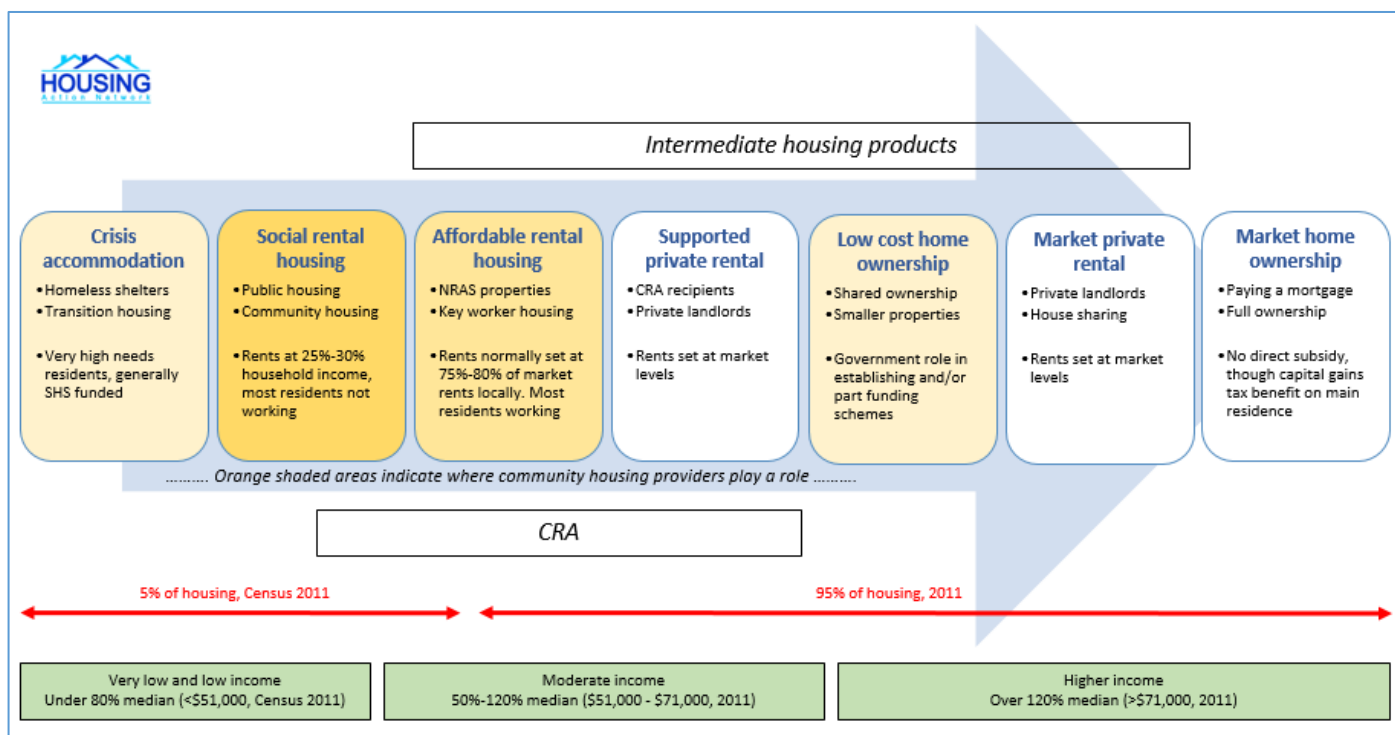
Community housing providers are not for profit organisations offering secure rental accommodation to lower income and special needs tenants across Australia. Together with public housing - which is owned and managed by State Government agencies - they form the social housing sector.

According to the PC's latest Report on Government Services, at June 2016 around 650 community housing providers managed 72,105 properties, or 18% of mainstream (non-Indigenous) social housing. All community housing providers manage tenancies, most manage assets and several own at least some of their assets. The sector is popular with tenants - who value more local, personalised service - and often with State Governments as providers' financial model allows growth of housing stock.

Community housing is a diversified sector. Most housing providers by number are small, managing fewer than 20 tenancies, often serving tenants with specialist needs or in more regional and remote locations. However, around 85% of tenancies are managed by the 30 largest providers with upwards of 1,000 tenancies each. As these organisations often raise private finance and undertake new social housing development, they are more closely regulated - as Tier 1 providers under the National Regulatory System (NRS) or as Housing Associations in Victoria.

## 1.2 The housing continuum

The infographic below shows the interconnected options across the wider housing system, ranging from crisis accommodation at one end to full home ownership at the other. Depending on personal circumstances and income, different people have different capacities and aspirations, and need varying entry and transition points along the housing continuum.



A well-functioning housing continuum needs sufficient property supply at all points to accommodate changing demand and smooth transition between housing options. At the same time, it should provide the right type of assistance for those who slip back due to changed circumstances. In general, higher income households towards the right of the continuum have more user choice, whereas at the left of the continuum public subsidies are higher, supply more limited and user choice restricted.

Public and community housing providers accommodate a range of residents other than the 'social rental housing' category in the housing continuum. For example, community housing providers operate in the orange shaded areas of the continuum, from crisis and transitional housing through to 'intermediate housing products' such as affordable rental housing and entry level home ownership.

## 1.3 Choice and competition in non-market housing

The emphasis on choice in conventional approaches to organisational competition assumes a perfect market place in which consumers make rational choices from a range of products and service available. It assumes perfect supply and price elasticity that follows the supply/demand imperative.

In human services, and in social housing especially, a perfect market does not exist. With a national waiting list of almost 200,000 applicants, a unique combination of short supply and high demand exists. However, price inelasticity is created by the low incomes of applicants for social housing and clear pricing limits on the level of rents that can be charged. Typically, households are judged to be in financial stress if their spending on housing exceeds 30% of income. Currently for many Australian

households this is well below the market rent level and Commonwealth Rent Assistance (CRA) subsidy is an essential 'market' intervention that allows consumers to compete in the private rental sector.

Competition in such an environment is almost impossible to provide and there is little scope for consumer choice. Typically, 60% of those allocated social housing in 2014-16 were homeless at the time of allocation. The offer of social housing is effectively a single opportunity to leave homelessness and would be tenants often accept housing far from their place of origin and any family support networks.

The true introduction of competition and consumer choice in social housing would require a major improvement of supply and a move to choice based letting strategies, currently not available to either the public or community housing sectors. Rather, housing allocation is an 'ambulance service' that responds to acute housing need amongst the most disadvantaged sections of Australian society.

## **2 Overview of housing within 'human Services'**

Safe, secure and affordable housing is a fundamental foundation for society. Without appropriate housing, people struggle to access the broader range of human services - healthcare, education and disability services. This is particularly true for lower income and disadvantaged Australians.

### **2.1 Defining 'social housing'**

The Inquiry's range of human services includes 'social housing' along with other categories such as community and disability services. We believe the definition needs both sharpening and broadening.

'Social housing', funded through the National Affordable Housing Agreement (NAHA) is closely entwined in terms of organisational delivery and user choice with:

- Crisis accommodation (funded mainly through Specialist Homelessness Services, SHS grants),
- Subsidies for lower income community housing, supported private rental and market private rental through CRA.

Government subsidies for the housing system have seldom fully achieved their goals of benefitting individuals and achieving fiscal efficiency. This is due to complex over-laying of NAHA, SHS and CRA funds. Housing options have become siloed, and transitions along the housing continuum challenging. Furthermore, user choice between different housing tenures has become severely restricted.

We recommend the PC use the term 'non-market housing' for the Inquiry rather than 'social housing', and frame a definition encompassing all parts of the housing continuum other than market home ownership. This will allow a better understanding of the inter-relationship between housing options.

### **2.2 Improving housing service delivery**

Community housing providers support the PC's provisional concepts of quality, equity, efficiency, responsiveness and accountability as conditions necessary for high quality human services. The difficulty is deciding what should be measured, how data is collected, comparability of data between service providers and degree of transparency.

#### ***Refining 'quality' measurement***

Government data collection has traditionally concentrated on inputs and outputs, not outcomes. For example, social housing landlords are measured on the number of tenantable properties available, and the level of occupancy, rather than the impact on individuals and communities of providing safe, secure housing to vulnerable individuals.

Transfers of tenancy management to community housing providers show ways of promoting outcome measurement. In 2013 and 2014 Tasmanian Government transferred 4,000 social housing tenancies to four not-for-profit landlords. As part of their contracts the community housing providers must produce:

- Outcomes based reporting.
- An independent Social Return on Investment (SROI) reviews every two years of the social, economic and environmental outcomes of the transfer relative to resources invested.

Further transfers from public to community housing will allow greater contestability for Government funding, and better measurement of community outcomes.

### ***Updating PC data approaches***

AHURI research shown in Case Study 1 highlights current challenges with the PC's measurement of the efficiency and effectiveness of social housing organisations. Part of the issue is methodology, part data quality and comparability.

Ideally the NRS regulator, through enhanced capacity recommended in Section 4.5 below, would be the main custodian of sector data - covering public and community housing. There also needs to be greater transparency - mainly achieved through using websites - and more timely presentation of information.

### ***Promoting accountability***

Community housing providers have pioneered moving 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.

The opportunities for participation and empowerment provided by the community housing sector can be seen as providing 'voice' channels within the housing system. They create important conduits to service improvement and organisational transparency in human services where real consumer choice can be difficult to provide.

### ***Improving tenant surveys***

Annual surveys are undertaken by the AIHW, with high level results summarised state-by-state for public and community housing. Response rates tend to be low, and the data are high level. A more informative approach influencing service delivery quality is that taken by the NSW Federation of Housing Associations which has a 'community housing tenant satisfaction and benchmarking club'. This covers 22 not-for-profit housing providers in NSW, Vic., Qld., SA and WA and allows detailed benchmarking based on standardised, detailed tenant surveys.

#### **Case study 1: Cost effectiveness data**

According to a 2015 AHURI report on 'Assessing management costs and tenant outcomes in social housing ...':

'Reliable measures of provider efficiency and effectiveness are fundamental in enabling governments to determine how best to deliver social housing services. As confirmed by this research, however, Australia's existing suite of official social housing performance measures is seriously inadequate in this respect and lags well behind other service realms' (p.1).

'Enhancing transparency on the costs of social housing provision and tenant outcomes should be a top priority for Commonwealth, state and territory governments ... In developing a more contestable and accountable social housing system, the scope for meaningful comparison between provider types and entities is a fundamental necessity' (p.65).

Tenant surveys are one of the best ways to determine the quality of social housing services. A consistent approach is needed across public and community housing, more detailed benchmarking and trend analysis, and greater transparency of the results.

### **3 Services best suited to reform**

We agree the factors shown in Figure 2 of the Issues Paper (p.10) are helpful for identifying human services best suited to competition, contestability and user choice. Recommendations on specific housing services are included in Section 4.

### **4 Competition, contestability and user choice**

As with many human services, the working of competition, contestability and user choice work differently depending on the nature of the service offered. In addition to our recommendation for a broader definition than 'social housing', we also believe greater nuancing is needed between how competition is brought to services along the housing continuum.

#### **4.1 Scope for improving outcomes**

The two most important areas we recommend focus on to promote the PC's three Inquiry goals are:

##### ***Social housing***

Although public and community housing landlords accommodate very similar tenants, on similar terms, in similar properties, the systems is fundamentally bifurcated:

- Community housing providers are regulated; public housing agencies are not;
- More comprehensive financial information is published for community housing providers than their public sector equivalents;
- Funding for community housing providers is determined by State Government, and often allocated on a competitive basis; for public housing agencies funding is from State and Commonwealth Governments and not awarded competitively.

While contestability has brought efficiencies to the community housing sector, it has not impacted public housing agencies who do not have to compete for funding either against each other, or with not-for-profits. It has been a regular criticism from the Commonwealth that there is little accountability or impact measurement from the \$1.9 billion (2014-15) paid to states and territories, mainly under the National Affordable Housing Specific Purpose Payment (NAH SPP).

A move to greater contestability for funding between public and community housing providers will enhance system efficiency. We recommend an initial portion of the annual NAH SPP - say 10% - is tendered direct by the Commonwealth to community housing providers. In time, further portions of annual funding could be open for bids from state housing authorities and providers - with both having to provide solid evidence of Social Return on Investment.

##### ***Intermediate housing products***

This term covers housing options between social housing and market rentals and home ownership (see housing continuum diagram). The continuum is not working in Australia. The private rental sector is often too expensive for low income groups, and supply is highly constrained. Few opportunities exist for people to move from expensive homelessness services into social housing. Once in social housing, tenants have difficulty finding private market alternatives due to low affordability, poor availability and nervousness of the insecurity of tenure in private rentals.



There are various intermediate housing products that could help low to moderate income households transition along the housing continuum. These include rent-to-buy, shared equity, community land trusts and low cost key-worker housing. To achieve scale, shared ownership and other intermediate housing products need a national legal and regulatory framework. This would give confidence to both financiers and potential shared owners. The Commonwealth could support with legislation, and seed funding, with administration and delivery at State level.

Suitably regulated intermediate housing products can be provided by for-profit, not-for-profit or public agencies. Greater competition in supply can be achieved, as well as enhanced user choice. For example, applicants could select between shared ownership products offered by various providers. New intermediate housing products will offer users more tenure choices than just renting or owning.

## 4.2 User characteristics

The relationship between landlord and tenant in non-market housing differs to private market rental in that it is more based on a relationship than transactions. Residents in crisis accommodation and social housing generally have higher needs, for example some face mental health issues, substance abuse, are re-building their lives after domestic violence or have uncertain income.

The role of social landlords is to sustain tenancies, with eviction a last resort. Good knowledge is required of the tenants' circumstances, and a flexible but firm approach for example if rent payments are missed. Regular contact and open communication is needed between the tenant, housing manager and often support worker. As a result:

- Higher needs tenants - towards the left of the housing continuum - need a closer and more trusting relationship with their landlord. This diminishes for lower paid workers in affordable rental accommodation, and is further reduced in private rentals. Therefore, the relationship between landlord and tenant varies between as well as within housing tenures.
- Lower needs affordable rental tenants have more of a transactional relationship with the landlord - signing the loan agreement, paying rent, inspections etc. This may be more suited to competition and user choice, and opened to a regulated for-profit sector. In England, for example, for-profit 'registered providers' mainly manage affordable rentals not social housing - and are regulated in the same way as not-for-profit landlords (Case study 2).

### **Case study 2: England's Homes and Communities Agency (HCA) promoting competition, transparency and value for money**

The HCA regulates all 'registered providers' of social housing in England - public (councils, including Arm's Length Management Organisations - ALMOs), not-for-profit (housing associations) and private. Monthly lists of housing providers are published online. As at 1 July 2016 there were 1,775 social housing landlords of which 1,548 are not-for-profit, 196 public sector and 31 for-profit. It is therefore easy to find up-to-date information on England's social housing landlords.

All social landlords annually submit on-line data to the HCA who publish on their website both aggregated and landlord level information. Larger housing providers with over 1,000 tenancies submit more comprehensive annual returns, and certain quarterly information.

One of the HCA's 6 roles as regulator is to 'ensure value for money in service delivery'. Both for-profit and not-for-profit social housing landlords annually publish a 'self-assessment of value for money'. This is designed to be transparent and accessible to stakeholders, including tenants. Data is benchmarked against sector averages, for example figures for management costs per social housing property.

For-profit social landlords have been authorised since 2010. Some have been set-up by Councils to reinvest profits into housing and Council services, others as housing association joint ventures. Some are subsidiaries of private companies, generally aiming at affordable not social housing, and some use inclusionary planning benefits (e.g. Pinnacle Spaces Ltd).



- In social housing, landlord/tenant relationships often work better with community housing providers. These organisations are more locally grounded, tailoring services to neighbourhood conditions. Housing managers and CEOs alike are more accessible and accountable. By contrast public housing agencies are large and can be impersonal - Housing NSW directly manage 122,000 homes and is one of the 5 largest social housing landlords in the world.

### **4.3 Nature of service transactions**

Potentially unbundling delivery of human services can promote greater competition and increase user choice. However, most aspects of non-market housing are already unbundled. For example, Governments tend to reinforce segregation between housing services and community services such that a user accesses them from different service providers. Few organisations provide both housing and community services, and where they do they are normally delivered separately. For example, Mission Australia Housing is a subsidiary of parent company Mission Australia.

We consider the current approach to unbundling housing from core community services - such as mental health support, works well and should be continued. Users have greater choice, and also face fewer risks if their relationship deteriorates with one service provider (they could change community service provider but remain with the same housing provider). Generally there is less flexibility in changing housing provider than community service provider.

Community housing providers have developed a number of value-added 'housing plus' type services that help sustain tenancies. These include education scholarships, computer classes, community events, social outings etc. Housing plus services are different to community services and do not need to be unbundled. The user generally does not pay, and involvement is optional.

#### ***Unbundling housing services***

The delivery of non-market housing involves various inputs/services:

- Tenancy management;
- Asset maintenance, and long term asset management and replacement;
- Property ownership;
- Property development and construction;
- Provision of funding for assets and development.

Initially community housing providers focussed on tenancy management on behalf of Government with asset management and ownership retained by public housing agencies. Over time most not-for-profits have taken responsibility for asset maintenance, and many of the larger organisations own some of the assets they manage and develop new housing.

Unbundling tenancy from asset management has a number of drawbacks. Assets managed under short term contracts - with 3 years being typical in NSW - limits the ability and incentive to strategically manage and maintain properties. Owned properties, by contrast can be more carefully planned for over the long term. There are also greater opportunities to sell and/or redevelop homes such that they better meet demand in terms of bedroom configuration and location.

Community housing providers are not able to sell properties they own without reinvesting further in social housing. Therefore the risks to ownership transfer are low - prior public investment is protected. We recommend greater asset transfer to not-for-profit providers, or as a minimum long term leases. This will improve sector efficiency with more strategically managed assets, and allow greater leverage of private bank finance used to develop new housing and clear maintenance backlogs.

### **Private sector competition**

For-profit companies play a considerable role in community housing's supply chain. Asset management is often coordinated in-house, though occasionally contracted to facilities management businesses such as Spotless (as with public housing). However, the trades work is almost always undertaken by multi-trade contractors or smaller local businesses. Property development is often contracted to private companies, as is nearly all construction work. Finance for new developments is now largely sourced from commercial banks not Government grants.

Hence the private sector already plays a considerable role in the delivery of social housing, in particular in areas where it benefits from scale economies and specialised knowledge. Social housing tenancy management is predominantly by public and not-for-profit agencies, though in some jurisdictions (notably not NSW) private real estate agents manage NRAS affordable housing.

There is no reason why private landlords should not be able to manage social housing, though they would need to be regulated the same way as not-for-profit landlords - as happens in England (see Case Study 2). However, given that tenancy management is a low margin business - even for market rentals - and social housing landlords need more staff to chase arrears, attend tenancy tribunals and repair damage, managing social housing is only marginally profitable. There has been a very slow entry of private companies into the English social housing market, most operate at small scale, and many concentrate on less demanding affordable rental tenants. The perils of full privatisation of social

#### **Case study 3: Privatisation problems in Germany**

From the 1990s onwards Government agencies and municipalities sold public housing to investors. This often led to rising rents, sales of desirable properties and poor maintenance. As noted in a July 2016 AHURI report on 'transforming public housing in a Federal context':

'By 2006 Dresden had sold 100% of its 168,000 public housing units to a single investor: Fortress. Soon after purchase, evidence emerged of Fortresses' non-compliant management of social contracts. The municipality sued the new owners for their failure to maintain the social charter governing the allocation and rent setting of the dwellings. The city tried to reclaim €1 billion from Fortress on the basis of misconduct including illegal rent-rises. Dresden's negative and costly experience ... has fuelled media criticism and a public backlash' (p.103)

Similar problems occurred in Berlin where 200,000 properties were sold in the 2000s but by the 2010s Berlin's public housing company had to start buying back many of the previously privatised properties from investors

housing are show in Case Study 3, based on German experience.

### **Housing choice vouchers**

In the US vouchers have been made available to certain lower income households to 'buy' rental accommodation from landlords. This approach has sometimes been suggested as a way to increase competition and consumer choice in Australia. However, it should be noted:

- US vouchers are severely restricted in number, with only 0.5% of the population receiving vouchers, and targeted to extremely low income households (average \$12,600 income pa in 2009). Not all eligible applicants receive a voucher, and there are long waiting lists.
- Having a voucher does not guarantee low-income household can use the subsidy. According to Alex Schwartz's 2010 'housing policy in the US', less than 70% of vouchers led to successful housing outcomes. Lowest success was achieved in tight rental markets with few vacancies - the typical position in Australian capital cities.

- Schwartz notes 'rather than serving as a way of deconcentrating poverty, [US] vouchers may be producing a reconcentration of poverty ... as housing markets heated up, landlords grew increasingly reluctant to accept rental vouchers' (p.203).

Challenges with a US-style voucher system led the Australian Industry Commission's 1993 'Public housing' report to conclude vouchers were not cost effective. Vouchers may push rents up, will not generate new supply and voucher administration costs are high. As noted on p.63 of the Commission's report: 'Housing vouchers and allowances cannot deliver the same standard of appropriate housing as public housing or for as low a cost in the long-run'.

#### 4.4 Supply characteristics

Non-market housing is characterised by demand exceeding supply. According to PC data, as at June 2015 some 191,000 applicants were on waiting lists for mainstream (non-Indigenous) social housing of which 55,000 were high needs. These waiting lists likely under-estimate underlying demand and would rise if potential applicants considered a realistic chance of being housed existed.

##### **Market signals**

Some but not all social housing applicants have choices where they live, or could choose between a 2 and a 3 bedroom property. Yet it is uncommon for clear, accessible information to be provided to social housing applicants to inform user choice. Two exceptions are shown in Case Study 4.

In the market private rental and home ownership sectors applicants can go to websites and make informed trade-offs between location, amenity and price. This provides efficient user choice.

Although in 2009 Housing Ministers agreed to integrate public and community housing waiting lists, the position is not uniform between jurisdictions. NSW, Qld., WA, the ACT and NT have integrated waiting lists. SA has a register that integrates multiple community housing waiting lists into a single housing register and Tas. uses a manual integrated system. In Vic., community housing organisations may fill some vacancies using the public housing waiting list.

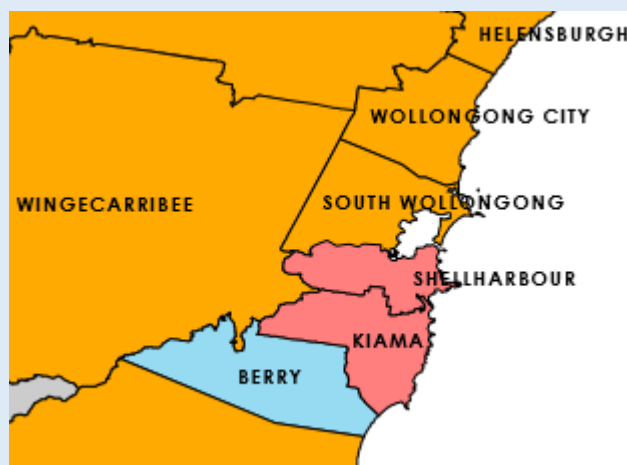
We recommend establishing a national website under Commonwealth auspices

##### **Case study 4: Market signals providing user choice in selecting social housing**

NSW Government publishes each year expected social housing waiting times by location and property type. For example, at June 2015 in Leichhardt/Marrickville the average wait time for properties of any bedroom configuration was over 10 years. 1,324 applicants are on the local housing register for 5,330 social housing homes, of which 219 become vacant each year.

An applicant in Leichhardt/Marrickville NSW could discover from the website that instead of waiting locally for more than 10 years for a 3 bedroom house they could move - perhaps nearer to other family members - and have an expected wait of up to 2 years in Moree.

NSW maps show waiting times in an understandable way: red (over 10 years); orange (5-10 years), blue (2-5 years):



South Australian Government has a more interactive website (<http://dcsi.maps.arcgis.com/apps/InteractiveFilter/index.html?appid=a87715fa077b443d93e75aa3213162a8>) showing public housing waiting times. For example, in Lower Elizabeth there are 531 public houses with 848 people registered for this type of accommodation, and an average of 33 properties vacant each year.

that shows in real time and simply the waiting times for social and affordable rental housing. This will require greater data standardisation between the States and common approaches to waiting list criteria (and coordination between public, community and in the future affordable rental waiting lists).

Improved transparency will considerably enhance user choice for applicants with greater flexibility on location. However, it will also provide better demand signals to social landlords as to where to deliver new social and affordable housing, and of what bedroom configuration. This will enhance system efficiency as a significant problem with current social housing is that it is often of the wrong bedroom configuration and not in the best location for transport, jobs or community services.

### **User choice**

Australian social housing applicants have little user choice of landlords. This is mainly due to housing stock shortages, restriction of most new allocations to high and very high need applicants, and long times spent on waiting lists encouraging applicants to take whatever is offered. It is extremely difficult for users to either determine which are the higher performing landlords, then be allowed a choice between the State Housing Authority and three community housing providers operating in the area.

Case Study 5 shows how 'Choice based letting' (CBL) works in England, using an approach for securing social housing more similar to finding a private rental property using real estate websites. A parallel example from Australia is a website for shared home ownership and subsidised entry-level full home ownership run by the WA Housing Authority ([www.openingdoorswa.com.au](http://www.openingdoorswa.com.au)).

British social housing - at 18% of all housing, is more plentiful than Australia, at least outside London. This provides a greater ability for CBL to work as the market is nearer equilibrium. However, the principles of CBL and the focus on better information provision and more informed user choice can be built on

We recommend a demonstration project for social housing CBL is promoted in Australia. This is likely to work best in regional and remote areas where social housing demand is lower than in capital cities. The scheme should cover public and community housing.

### **Service contestability**

Over the last decade the *growth* of the community housing sector has nearly always been on the basis of the competitive award of opportunities. Examples include tenancy management outsourcing (Tasmania, Queensland, South Australia), stock transfer (NSW), NRAS incentives, Nation Building properties, growth funding (NSW Social and Affordable Housing Fund, SAHF) and estate re-development (NSW 'Communities Plus' and South Australia 'Renewing our Streets and Suburbs').

#### **Case study 5: Choice based letting (CBL) in England**

In many council areas social housing applicants can approach the Council who will decide if the person is eligible. If so, they will receive a user name and password for the local CBL website, and can 'bid' (without cost) for local properties advertised by housing associations (not-for-profits) or Councils.

When the advert closes, the bids are sorted and checked. Each property is usually offered to the bidder with the highest priority, based on their needs banding and the length of time registered. If they turn it down, it is offered to the next person on the list. If the bid is successful, the landlord sets up an interview and if all goes well they will offer the property.

If an applicant decides the property is unsuitable, they do not have to accept it. But some CBL schemes may lower the priority banding if several offers are turned down.

As an example, an applicant for social housing in Manchester visits [www.homes.manchestermove.co.uk](http://www.homes.manchestermove.co.uk). A 1 bedroom flat in Ardwick was advertised by not-for-profit Your Housing Group with a closing date of 14 July 2016. By 13 July there were 91 bids. Applicants were provided with photos, a map, details of heating, pet policy, accessibility and nearby facilities.

Larger community housing providers compete through a tender process which ensures Governments have an efficient procurement approach. Competition promotes further professionalisation and growth in scale of community housing providers, leading to sector efficiencies. Contracts are awarded to bids that are innovative (financially and socially), demonstrate private sector collaboration, raise innovative funding, better monitor community outcomes and maximise outputs such as amount of social housing.

### **Limits to contestability**

Competitive procurement has benefits, but is not a universal panacea:

- Tendering which favours cost alone will lead to either poor quality *outputs* (such as properties located away from jobs and services, and too small or with inadequate thermal comfort), and/or *outcomes* (the housing provider may be financially constrained through over-borrowing, and only able to provide basic landlord services).
- Bidding costs can be significant, reducing the monies available for community housing providers to deliver social benefit. Schemes such as NRAS (which rolled out over a number of rounds) and the NSW SAHF (which is promised on a regular basis) reduce transaction costs.
- There are dangers in requiring community housing providers to bid competitively for core services. Housing provision is a long term business - assets have a typical life of 40 years - and landlords must strategically manage assets over more than a 3 year contract period. Relationships with vulnerable tenants are close, take time to build, and tenancy sustainability will be at risk if landlords change often.

The NRS and Victorian regulatory systems for community housing threaten loss of contract if a landlord fails, and as noted by the Harper Review this provides market discipline without the complexity and cost of full competition for core services.

- As shown in Case Study 6, there are growing criticisms of traditional competitive procurement approaches, and support for deeper collaboration between the not-for-profit sector and Governments.

Our view is that while competitive procurement should continue to play a role in allocating new resources to community housing providers, it should remain at the margin and become more streamlined, consistent and transparent. Governments should focus more on co-production and service design, adopting Public Social Procurement approaches.

## **4.5 Potential costs**

Users of non-market housing products have limited ability to pay more, especially towards the left of the housing continuum (crisis and social housing). It may take more time by users if they become more active in selecting housing products, though this can be minimised by:

### **Case study 6: Competitive procurement in NSW and Scotland**

NSW's 'Going Home Staying Home' (GSH) reforms that involved competitive bidding for all the State's specialist homelessness services in 2012-13 remain controversial with service providers due to cost, complexity and resultant loss of smaller service providers. For Government it also proved a costly procurement exercise, and led to more money being invested in the sector: an increase from \$134 million to \$148 million each year.

As noted by KPMG in their 2015 post-implementation review:

'New thinking on alternative procurement approaches is needed so that the benefits of co-design are not lost while still meeting probity concerns (Scotland and the UK's experience with Public Social Partnerships [PSP] provide a useful reference point on this regard).'

In Scotland a PSP is a strategic partnering arrangement which involves the not-for-profit sector earlier and more deeply in the design and commissioning of public services. PSPs differ from commissioning approaches as they start from the need to be addressed, not the services available.

- Making better use of web technology to provide more information, to present data in an easy to understand way (traffic light colour schemes etc.) and for the information to be accessed through smart phones without the need to download documents.
- Providing single access points for a variety of housing products. In Queensland, for example, there are 21 Housing Services Centres (HSC) each covering a distinct geographic region. These centres provide a full range of homelessness, social, affordable and market entry purchase advice and services. Decisions are made locally, reducing red tape and delays.

Establishing single gateways to housing services would enhance user choice, with HSC style centres or 'housing hubs' offering access to a variety of products. An applicant who was initially seeking social housing - but may be on a waiting list for a decade - could be directed towards affordable rentals or potentially private rental with CRA support.

By helping move people along the housing continuum, the housing system will work more effectively as more heavily subsidised accommodation will be occupied by very high needs residents. Those who can afford to should move to 'market' options requiring lower subsidisation.

### **Regulatory costs, burden and scope**

Approaches to community housing regulation were transformed with the recent move to the National Regulatory System (NRS). However, challenges remain:

- Vic. and WA are not in NRS. Although their approaches are 'aligned' with NRS, there remain barriers to entry and exit in these jurisdictions;
- States and territories influence how NRS is interpreted, for example deciding whether certain not-for-profits and Councils are encompassed. They sometimes also create barriers to entry through restricting funding to locally operating organisations;
- Compliance burdens are high, especially for smaller organisations;
- Very little organisation level information is available from the NRS website beyond business name. No performance data is shown, and it is not collated across the sector;
- Public housing agencies are not regulated under NRS.

Case Study 2 describes the contrasting regulatory system in England. It is a more uniform system - with no regional barriers to entry - and covers all organisations operating in the social housing sector - public, private and not-for-profit. High quality data collection and transparency provide better signals to users of housing services, and promote system efficiency through an explicit focus on value for money. Yet regulatory burdens are low, especially for 'smaller' providers.

We recommend fundamental reform to NRS in Australia 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.

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