Productivity Commission

Reforms to Human Services: Issues Paper

**Comments on the December 2016 Issues Paper report
from community and affordable housing industry associations**

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Executive Summary

The community housing sector continues to support the Productivity Commission's (PC) assessment that social housing is key priority area for selectively introducing further principles of competition, contestability and informed user choice. The sector is ripe for reform, building on the successful growth of a contestable market among not-for-profit community housing providers over recent years.

Key recommendations

Failures in the **broader housing system**, and the severe imbalance between the **supply and demand** of social housing, make significant reforms to competition, contestability and user choice difficult.

The best prospects lie in a whole-of-system approach which **carefully coordinates** initiatives across all levels of government, the not-for-profit and for-profit sectors and which tackles the tax, welfare and housing assistance programs in a coherent way. Our leading recommendations are:

Competition

- More clearly differentiate the **state government** roles as funder, regulator and provider of social housing

- **Expand the community housing sector** through facilitating access to cheaper finance, contestable transfers of social housing management and title, and development opportunities such as transfer of government land

- Improve **data collection, analysis and transparency** to allow public agencies and social housing users to differentiate between landlords and make informed choices

- Support **title transfer** to registered community housing providers to leverage growth, enable more flexible service provision, and offer more scope for user choice and responsiveness to tenant needs

Contestability

- Substantially reform the **National Regulatory System** (NRS) for community housing to cover all social housing landlords, be truly national, and focus more on users and service quality

- Better **disaggregate community housing services** - including non-shelter outcomes - and explicitly include these in funding agreements and social housing transfer contracts

- Move to an **evaluation culture**, enabling better understanding and knowledge sharing of housing delivery innovations and policy changes

User choice

- **Involve users** in designing reforms of social housing delivery and regulation, and formalise their ongoing role across public, not-for-profit and private landlords

- In consultation with stakeholders, establish a policy trial for **Choice Based Letting** which, based on overseas evaluations, looks able to improve user choice and improve system efficiency

- Place **less focus on changes to eligibility, allocations and rent setting**. If changes are to happen they should be on the basis of carefully designed, independently evaluated policy trials

Next steps

Our suggestions in respect of the next steps for further developing concepts around social housing initiatives, once submissions for the Issues Paper close, are:

- Evidence quoted in our submission can be emailed to the PC

- Further information based on evaluations currently in progress can be supplied in due course

- Holding a PC round-table with peak bodies and leading community housing providers would allow current reform proposals to be discussed in more detail

Overview

This is the third submission to the PC from the community housing sector. The seven participating organisations are peak and industry associations operating at state or national level. They work either directly for member community housing providers or - in the case of Shelter organisations - more broadly as advocates for affordable housing and on behalf of service users.

The PC has asked for 'evidence, such as relevant data and documentation' to support our views. We have included full references in this Report, and summarised leading research in *Evidence Check* text boxes. Empirical Australian research on some of the areas of interest identified by the PC is limited, therefore overseas evidence has been consulted where necessary. There is a focus on Britain as its community housing (housing association) sector was transformed through introducing private finance and contestability from the late 1980s and user choice from the 2000s.

This submission uses headings based on the Requests for Information (RFI) in the Issues Paper. We have responded to the first RFI in Section 1 and all RFIs in Section 4 (RFIs 5 to 10).

RFI 1: Human Services Characteristics

The Commission is seeking feedback from participants on whether figure 1 reflects the characteristics that should be taken into account when designing reforms to service provision for the six priority areas considered in this inquiry. What other characteristics should the Commission consider?

While generally in agreement with human service characteristics in Figure 1, we suggest:

Service users

- An additional characteristic required is the ability of users to access these services from the private market, encompassing whether a market exists, and whether the user can access/pay for it. This is important because the need for social housing exists as a safety net because of private market failure

Service providers

- 'Workforce capability and capacity' should be extended to 'workforce, management and governance capability and capacity'

Government stewardship

- An additional characteristic is the need for greater separation of the government functions of owner, funder, regulator and/or service provider. Role confusion in Government needs to be addressed as it is currently a major source of tension and impedes competition

- The wording on mitigating and allocating risk needs to also reference the risk to providers of policy instability. For example, government initiated changes to allocation policies or rent settings can impact housing providers' income streams, and put at risk private financing arrangements

RFI 5: Current System Effectiveness

The Commission is seeking information on the current effectiveness of the social housing system in improving outcomes for tenants

5.1   Whether users are placed at the heart of service delivery and what could be done to address this

The current social housing delivery system is not user-focussed. Much of the property portfolio is in poor condition, with a considerable unfunded maintenance liability. Properties are often poorly located and configured compared to current demand. Tenants and applicants are not treated as 'customers'. Furthermore, there are insufficient ongoing mental health and other support programs for tenants which will impact on their ability to exercise choice.

Social housing demand far exceeds supply, with applicants having little choice on the type and location of property - if they are lucky enough to receive an offer of housing. In most jurisdictions, once in the social housing system tenants have little ability to relocate between areas, and transfers between landlords are rare. There is little publicly information available on landlord quality, so users cannot make informed choices.

> **Evidence Check: Current Australian user choice**
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> '… the concept of competing for customers is alien in a field where demand inherently exceeds supply. Thus, even in areas where multiple social housing providers are present, prospective tenants in urgent need for housing have little choice but to accept the first tenancy offered, on whatever terms specified. More realistically, perhaps, the 'greater choice' facilitated by a multi-provider system may be more a matter of expanding the options available to governments in, for example, selecting potential recipients for funding or other assistance' (Pawson & Wiesel, 2014: p.353)

Key ways to place users at the heart of service delivery are:

- Redesign the regulatory system to cover <u>all</u> social housing landlords in <u>all</u> jurisdictions and include rules on user choice and flexibility (for example with transfers between landlord and property), tenant engagement, customer charters and performance transparency. See Section 9.6

- Investigate the introduction of Choice Based Letting. See Section 6.1

- Provide better information to prospective and current tenants about housing availability and provider performance. See Section 6.2

- Evaluate other options for introducing user choice in assistance and/or services. This could include more input into the design process on modernisation schemes, personal housing planning, offering other types of assistance to facilitate moves to the private rental sector

- For tenants who need support as well as a housing subsidy, introduce tenant support agreements with new and current tenants that specify those support needs (such as pathways to training, employment and more independent living options) and set out how they will be addressed. The cost of such of such tenant support needs to be properly funded

- Develop outcomes frameworks. For example, Tasmania management transfers require a calculation of Social Return on Investment. In NSW, a Social Housing Outcomes Framework will in time apply to public and community housing landlords to ensure user-focussed objectives are being achieved (NSW Government, 2016: p.13). The Federation has commissioned independent research from the Centre for Social Impact at the University of NSW on developing social housing indicators

5.2 Whether current arrangements, including the eligibility criteria and the type and level of assistance, enable equitable access to social housing

Existing social housing approaches are inefficient, ineffective, not uniform across the country and often fail to provide equitable access. Application procures are complex, especially for vulnerable groups, and as a result some high needs applicants fall into homelessness. We highlight three issues:

- Waiting lists are long, due to both lack of supply (relative to demand, and as a proportion of total housing stock) and a mismatch of property type between demand and supply. As at June 2016 just under 200,000 applicants were on the social housing waiting list, of which 69,000 were in greatest need (Productivity Commission, 2017). There needs to be both more supply and a reconfiguration of existing social housing. However, making changes to reduce those eligible to reduce the waiting list is not an option we support and will not solve the problem

- There are roughly twice as many low-income people renting privately as there are renting social housing, yet the financial subsidy received by private renters through CRA is low and many recipients remain in rental stress even as the assistance is out of kilter with real life rents. Increasing assistance to those renting privately should reduce demand for social housing, as could providing longer-term leases in private rental

- There are other factors which mean that even tenants who do gain access to the social housing system are not necessarily treated equitably. For example, the limited supply of social housing makes it difficult to match tenants with suitable housing that matches their family profile and meets other needs such as access to child care, or public transport

> **5.3** There is poor coordination between the largely-Commonwealth funded welfare system and largely-state based social housing systems work in practice5.3   The roles and responsibilities of governments and non government providers, including who is best placed to provide support to households to sustain a tenancy, and to exit the social housing system when they have the means to do so.

Australian state government social housing providers are likely to continue as social housing landlords for the foreseeable future, and to co-exist with non-government providers. This is common practice internationally. The main issue is for there to be clear agreement between the Commonwealth and states on the definitions of - and separation of the various roles - of governments as:

- Funders of social housing

- Policy makers on matters such as social housing eligibility and rent structures

- Providers of social housing

- Regulators of community housing

Social housing by definition exists to address market failure in the provision of affordable and appropriate housing for certain individuals. It needs public subsidy, therefore there is likely to be an ongoing government role in funding and policy setting. In a contestable model, however, this needs to be completely separate from the role of delivering social housing.

Furthermore, the role of regulating social housing needs to be separated from other government roles, ideally located in a different department and run at arm's length. Reforms in New Zealand show how this type of separation can be established to support a more competitive social housing landlord market.

> **Evidence Check: New Zealand clarifies the role of government**
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> In 2012 New Zealand moved to a market based approach to social housing to create a contestable, efficient system. The Ministry of Social Development (MSD) took responsibility for (1) running waiting lists, determining eligibility and making allocations, and (2) purchasing social housing availability from the Government social housing landlord (Housing NZ - a Crown corporation set up by act of parliament) and community housing providers.
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> MSD is the national government agency running benefits and pensions, so can closely align the housing and welfare system. They strategically match tenants with properties, and use procurement to supply more of the housing types and locations most in demand.
>
> Community housing regulation is handled through a third government agency - the Ministry of Business Innovation and Employment. This agency also runs building and housing policy.

There is a lack of publicly available evidence on the performance of both public housing and community housing landlords, and remedying this information deficit is a necessary precondition for increasing competition between providers and enhancing user choice. However, independent research found Australian community housing providers 'had progressively refined housing management activities and procedures to better support their tenants with a primary aim of preventing rent arrears and tenancy complaints … For large, resource-strapped [public housing agencies] such functions had become more marginalised' (Pawson et al., 2015: p.2).

Unbundling services

Contractual arrangements between governments and housing providers should unbundle the additional costs of sustaining tenancies and supporting exits to private accommodation from the baseline costs of tenancy and property management. These outcomes, along with community development and other non-housing outcomes, are different functions and need to better specified in procurement arrangements. Community housing landlords have advantages over government agencies as they:

- Are more locally based, nearly always covering smaller geographical areas than State Housing Authorities. Approaches can be more easily personalised and locally tailored
- Can form close and flexible relationships more easily built with local and regional service providers, employers, training agencies and real estate agencies
- Have greater access to volunteers and philanthropic donations, especially for higher needs groups

RFI 6: Allocation Models

The Commission is seeking information on models used to allocate social housing that could increase choice of home for users, and the benefits and costs of these models

6.1   Whether increased choice would lead to better outcomes for users, both by allowing them to exercise their preferences over where they live, and by encouraging housing providers to be more responsive to their needs

Australian social housing applicants are offered few choices, mainly as a result of demand for social housing far exceeding supply. Would allowing user choice between public and community housing providers make an impact given waiting lists are long?

Research from Britain suggests that users do benefit, even in areas where public (council) housing transferred to a single housing association operating in the same area such that 'arguably there have been important contestability service benefits for tenants rather than more choice. Restructuring former council housing need not have much of an impact on competition at all' (Gibb & Trebeck, 2009: p.387).

Choice based letting

By contrast, in countries such as the Netherlands and Britain, Choice Based Letting (CBL) has become common over the last decade and a half. We recommend the application of CBL in Australia is further investigated, and potentially trialled through a series of pilot programs.

England's approach to CBL - which is described in Section 6.5 -has been evaluated through several independent studies by university researchers over a number of years which have assessed impact on applicants, landlords and the social housing system. The *Evidence Check* shows the approach has been

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Evidence Check: Does Choice Based Letting (CBL) work?

In 2004 researchers at the Universities of Bristol and Cambridge noted:

'Consumer feedback indicates that the pilots achieved their aim of establishing more open, transparent and simple systems that are perceived to offer choice … The pilot programme demonstrated that it is possible to change general perceptions of social housing and modernise access' (Marsh et al., 2004: pp.6-7)

A 2006 research project on the approach's long term impact by Heriot Watt University found:

'Choice-based lettings represents a radical departure in the traditionally rather paternalistic world of social housing … Typically, CBL generates improved tenancy sustainment and this is testament to the effectiveness of the system in better matching people to properties and improving service user satisfaction with letting outcomes' (Pawson et al., 2006: p.187)

Finally, a 2014 report by Professor David Mullins on a CBL 'Home Choice' scheme in North Yorkshire found:

'Customer surveys present a generally favourable perception of Home Choice in relation to the amount of choice that the system offers. Most applicants, whether successful or not, valued the opportunity to browse and select from available properties. The proportion of successful applicants who believe the process had afforded them at least some choice is higher under the new system than the previous one' (Mullins, 2014: p.7)

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beneficial to applicants and tenants - even those who are unsuccessful with their first choice of property.

Housing providers become more responsive to user preferences, as these preferences are more explicit and users can exercise trade-offs such as reducing waiting times for social housing by compromising on location or type of property. Research in Britain indicated a move to CBL led to social housing landlords investing in extra staff training to help explain choices available to applicants so they can make an informed choice, making their websites more 'user friendly', and moving more staff to customer facing roles (Pawson et al., 2006: p.154).

6.2   What information and other supports should be provided to tenants to enable them to exercise choice

A CBL system uses web based technology adopting an approach for securing social housing similar to finding a private rental property using real estate websites such as www.realestate.com.au. A parallel example website from Australia is used for shared home ownership and subsidised entry-level full home ownership run by the Western Australia Housing Authority (www.openingdoorswa.com.au).

Web based systems for social housing allocation may need additional support for applicants. Landlord staff require training, and there needs to be publicity about the new approach, phone support and flyers in community locations. Specific and targeted assistance will be required for applicants whose first language is not English, or who have learning difficulties.

Providing social housing tenants with information about private market rental availability and cost may also help them optimise their choices. For example, in some regional towns private rentals may be cheaper than income-based rents in social housing and prospective tenants may choose to trade off greater security for less financial outlay.

States could establish generally consistent websites that show - in real time and simply - the waiting times for both social and affordable rental housing. This will require greater data standardisation between the states and common approaches to waiting list criteria. There will also ideally be coordination between public, community and - in the future - affordable rental waiting lists.

Improved waiting list transparency will considerably enhance user choice for applicants providing greater flexibility on location. 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.

More information could be made available on landlord performance. Embedding a new and updated version of the National Community Housing Standards as a core part of the regulatory arrangements and promoting the quality standards 'tick of approval' is one way to inform users and drive provider performance. Consideration could be given to making available the NRS regulatory reports should be public documents on the regulator's website, or following Victorian practice of publishing de-identified information on complaints management, performance measures and property data. While it is unlikely most social housing applicants will read these reports, the media and tenants' groups might publicise excellent or poor performance and this will become known within local communities.

Finally, tenant choice about housing tenure should not be distorted by rationed access to ancillary services. People should not need to be in social housing to access services such as tenant support, financial counselling or community mental health care. Separating the provision of housing from the provision of ancillary services enables users to make choices about who provides their accommodation and who delivers their other services.

6.3   Complementary reforms that would be needed to capture the benefits from increased user choice

Practical changes such as a common waiting list could be made in Australia even is a full CBL system is not introduced. For example, although in 2009 Housing Ministers agreed to integrate public and community housing waiting lists, the position is not uniform between jurisdictions. NSW, Queensland Western Australia, the ACT and Northern Territory have integrated waiting lists, with Tasmania's including the homelessness sector. SA has a register that integrates multiple community housing waiting lists into a single

housing register and in Victoria, community housing organisations may fill some vacancies using the public housing waiting list.

6.4   Whether the allocation model may need to differ between regions and user groups

Current Australian allocation approaches are uniform at state level, but differentiated between states. A better approach could be to:

- Establish a uniform high-level national social housing allocations approach. For example, this may incorporate standardised hierarchies of housing need. This will help create a more competitive social housing landlord market, and assist trans-jurisdiction transfers where communities have developed across state boundaries such as South East Queensland and northern NSW.

- States could be divided into allocation regions, similar to the English CBL approach (see Section 6.5). Queensland and Victoria have long established human services regions, and NSW has moved in this direction in recent years. Regional allocations would provide flexibility in regions with particular housing issues - for example the Northern Territory and regional Queensland

Models may need to differ between allocation regions, though the fundamental design architecture should be the same. Regional and rural areas tend to have lower social housing supply and demand, so more flexibility might be needed around, for example, single people occupying a three-bedroomed property. Cultural and family structure issues need to be considered for Indigenous households. Critically the design of such a system should involve all key stakeholders including the community housing industry.6.5   International approaches to increase user choice of home, the applicability of these models in Australia and, where it would be beneficial, how they could be implemented here

Choice Based Letting (CBL) developed in the Dutch city of Delft in the late 1980s, soon spreading to the rest of the Netherlands during the next decade and via a 2001 pilot project to Britain. CBL replaces a points-based needs driven waiting list system with one where users apply for available properties.

In British local government areas where CBL operates, housing applicants approach the council who will decide eligibility. If deemed eligible, they will receive a user name and password for the local CBL website, and can 'bid' without cost for local properties advertised by public or not-for-profit housing providers.

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 the successful bidder turns the property down, it is offered to the next person on the list. If the bid is successful, the social housing 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, though some CBL schemes may lower the applicants' priority banding if several offers are turned down.

As show in the *Evidence Check* in Section 6.1, CBL works in Britain for both users and the social housing system in a variety of housing markets - although it should be noted Britain has around four times the rate of social housing compare to total housing. CBL could likely bring similar benefits to Australia, though as with all approaches to social housing the impact of reform will be impacted by shortages of supply.

RFI 7: Supply Constraints

The Commission is seeking information on how best to address supply constraints in the social housing system to enable households to have a genuine choice of home

7.1   Whether eligibility criteria for entering, and remaining in, social housing are targeting those most in need of support

Priority housing applicants in greatest need comprised 75% of new public housing allocations across Australia in 2015-16 and nearly 84% of new community housing allocations (Productivity Commission, 2017: Table G.2). The system therefore targets those most in need of housing support. However, the downside to this approach is the creation of a highly residualised system built on a legacy of social housing

estates built between 1950 and 1980 with concentrated areas of social disadvantage, reduced social landlord rental income, and property underutilisation (NSW Auditor-General, 2013: p.28).

Due to the highly residualised Australian approach to social housing, characterised by supply shortages and rationing allocations to high need applicants, approaches to eligibility to remain in social housing work poorly:

- Exits from social housing are reducing, with residents remaining longer in the system. In NSW, 50% of social housing tenants have been resident for more than a decade (NSW Government, 2016: p.8)

- There may be disincentives to obtain employment as this may end eligibility for social housing and/or welfare benefits Several states have introduced fixed term tenancies, but these have had little impact. In NSW only 30% of tenants are on fixed term leases and only 2% of those on 2 year leases were found to be ineligible at review date and left social housing (NSW Auditor-General, 2013: p.34)

Tightening ongoing social housing eligibility criteria will only work if there are suitable alternative affordable housing options. In Section 7.4 below the *Evidence Check* illustrates the NSW yet-to-be-evaluated approach to transitioning lower-need residents out of social housing that, if properly funded and implemented, could help ensure current social housing properties are occupied by those most in need.

Financial pressures are not the only reason people seek social housing. Demand for social housing reflects lack of choice in the broader housing market, particularly for people with disabilities who need accessible accommodation or those with very large families who cannot find suitable accommodation, even at market rent. Social housing need not be the primary response for these renters if alternative strategies are employed to support them in the private market.

Finally, whatever approach is taken to eligibility the consequences of further residualisation of social housing should not be ignored particularly where this housing is concentrated on large mono tenure estates.

7.2 The extent to which community housing providers can contribute toward increasing the stock of social housing (and, to the extent that this has already occurred, the factors underlying successful outcomes for eligible households)

In 2016 AHURI identified 40 at-scale commercially skilled community housing providers that over the last decade or longer have raised private finance to co-invest in new social housing development. These organisations 'have the industry-specific skills and organisational capacities to manage and absorb substantial growth' (Milligan et al., 2016: p.3). Community housing developers benefit from:

- An ability to raise private finance not on the public balance sheet, at increasingly competitive interest rates and for longer periods than when the market was first established

- Certain tax advantages not available to private or public sector developers

- Access to various grants, philanthropic contributions and planning opportunities often not available to developers and/or governments

- Development surpluses being recycled as no dividends are paid to investors

Due to community housing providers' tenants being

> **Evidence Check: Leveraging to build new social housing**
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> In 2014 Westpac provided $61 million debt finance to a new non-for-profit organisation SGCH Portfolio, a subsidiary of NSW's largest community housing provider SGCH (formerly St George). As Westpac Institutional Bank's Head of Government and Education noted:
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> The landscape is now being reshaped by the growing role of CHPs. We are beginning to see signs that the sector is evolving along similar lines to the UK; a mature market with total borrowings in excess of GBP40 billion … Westpac is working with the CHPs and the State Governments to explore the optimum way for this sector to source the capital needed for the growth' (Westpac media release, 24 October 2014)
>
> SGCH Portfolio holds the 1,181 properties owned and managed under the SHI plan and others. They plan to build 275 new social and affordable homes over a 10 year period.

eligible to receive CRA, somewhat higher rents can be charged while still keeping net household expenditure on housing costs below typically 25% or 30% of household income. As a result, and encouraged by several state governments, community housing providers have been using these additional cashflows to:

- Co-fund development projects, as shown in the *Evidence Check*, or

- Reduce the maintenance backlog, or

- Deliver schemes building community cohesion or helping transition social housing residents into training, work and private rental accommodation

> **Evidence Check: Deloittes on leveraging**
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> A review undertaken by Deloittes based on a Victorian analysis confirmed 'data provided by the sector to Deloitte Access Economics suggest that community housing can provide a sustainable social housing model that can lower the direct cost to Government of providing additional affordable housing to low income families through leverage (Deloitte Access Economics, 2011: p.iii). However, the review also identified that 'A stable policy framework with adequate long-term funding initiatives is also required to reduce risk premia on lending rates' (ibid, p.21).

The size of the mainstream community housing sector has risen from 30,103 properties in June 2006 to 80,225 in 2016, and the sector's share of total social housing has risen from 8% to 19%. Together with the 17,467 Indigenous Community housing dwellings, community housing makes up nearly 23% of all social housing (Productivity Commission, 2017: Table 17A.3). The increase is due to tenanted transfers, new build properties either financed by community housing providers or funded under the Social Housing Initiative (SHI) of the Nation Building Economic Stimulus Program, properties developed under the National Rental Affordability Scheme (NRAS) and tenancy management contractual outsourcing post-2012.

Leveraging ability

While governments in Tasmania and SA have focussed enhanced cashflows from stock transfer towards mainly asset renewal, the focus in others - specifically NSW and Victoria - has been to encourage development of additional social housing.

In **Victoria**, a 2008 title transfer of 575 properties already managed by community housing providers included a 15% growth target - that was met. Later, the SHI provided grant funding for community housing organisations to construct thousands of social housing dwellings between 2008 and 2012. These grants required the sector to fund 25% of project costs and most organisations opted to raise debt finance from banks. The ability of the sector to leverage private finance translated to an additional $166 million, resulting in the construction of 623 more dwellings than if directly grant funded (KPMG, 2012).

Independent research by Sphere Company in 2010 on the leveraging ability of the SHI transfers in **NSW** estimated a 250 dwelling community housing portfolio has potential to grow by between 10.8% and 20% over 20 years (Shelter NSW, 2010: p.15). Parallel modelling by the same firm of leveraging in **South Australia** in 2013 assessed a portfolio of 500 dwellings would deliver growth of between 5% and 10% over a

10-year period, depending on the tenant profile, rent setting policy, council rates concessions, cost of finance and access to free land for property development. Of note is that while leveraging is constrained by the income stream required to service debt, without title transfer to any of the 500 properties in the portfolio, growth was negligible - 0.4% over 10 years (Sphere Company, 2013).

The most comprehensive **national** leveraging analysis to date was published in December 2016, based on modelling 1,000 social housing dwellings over 30 years (Pawson et al., 2016a: pp.50-55). It showed:

> **Evidence Check: AHURI on transfers**
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> 'The broad conclusion to be drawn from the … analysis is that it confirms the earlier Sphere Company finding that, on reasonable assumptions, the factoring in of CRA-enhanced rent revenues can be expected to generate a modest operational surplus - sufficient to eliminate moderate maintenance shortfalls over the medium term and to underpin limited stock expansion … Where government opts to actively facilitate the development of new and replacement social/affordable housing through transfer, it appears possible that such outputs may be substantially expanded in scale' (Pawson et al., 2016a: p.54)

- If properties remain in the public sector there will be a $30 million deficit after 30 years. This is the amount needed to fund backlog maintenance

- If transferred to community housing, the portfolio will have a $40 million surplus after 30 years after all backlog maintenance has been cleared

- In the community housing transfer scenario, surpluses could be reinvested to produce 113 new social homes (of which a net 42 would be additional)

- Large maintenance backlogs and/or government requirements to undertake significant community development activities will diminish the scope to develop new additional social/affordable housing

- If government supported a specialist finance intermediary to lower the cost of borrowing by 2% and provided land for free, leveraging totals could rise from 113 to 557 (on the 1,000 portfolio)

New properties developed by community housing providers are generally part of mixed-tenure, mixed-income schemes. This allows social, community and market housing to be seamlessly integrated. Social housing residents face less stigma, and mix with a more diverse group of neighbours than on traditional mono-tenure housing estates. Community housing landlords carefully design the location and configuration of new social and affordable housing so it better meets the needs of local applicants.

Underoccupancy

The current public housing stock suffers from underoccupancy. Dwellings built in earlier decades were typically targeted to working families, but are often now occupied by only one or two residents. Lack of suitable smaller properties makes it challenging to encourage downsizing. As shown in the *Evidence Check*, community housing providers can use new social housing supply to help address under-occupancy - which is running at around 7% of public housing in Queensland.

> **Evidence Check: New supply and better targeting**
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> Caggara House, Brisbane comprises 57 one bedroomed apartments located near to shops and public transport was developed by community housing provider BHC in partnership with the Queensland Department of Housing and Public Works. Opened in 2015, the project offered a real choice to seniors who were under-occupying public housing dwellings in the local area by providing housing designed with their future needs in mind. This either freed up family sized accommodation for households who really need this, or allowing the decanted sites to be re-developed where this provided better value.
>
> The project is being evaluated by the University of Queensland in a three year longitudinal study. The interim report to be published in March will show overwhelmingly positive outcomes.

7.3	The role of the private housing market in providing homes for households in need of social housing, and the costs and benefits of reforms to unlock this potential (examples could include social housing providers leasing properties from the private sector or providing assistance to households to access the private rental market)

Private landlords are already supported to play a major role in housing lower income Australians, making a contribution to moderating demand for social housing. In 2015-16 Commonwealth expenditure on CRA to assist households access the private rental market was $4.4 billion, compared to $1.8 billion for social housing assistance and homelessness programs. Around 1.36 million households received an average $3,251 per year in CRA, with around 94% of CRA recipients tenants of private landlords and 6% community housing providers (Productivity Commission, 2017: p.G3)

Community housing providers in some states headlease a portion of their social housing from private landlords. For example, NSW Government headleased 5,800 properties at an annual subsidy cost $66 million in 2015-16. A similar scheme has recently been introduced in the Northern Territory, and in Tasmania headleasing is used to secure properties for those escaping domestic violence. While headleasing could be used to increase social housing supply, it can have disadvantages if not carefully structured:

- It is less cost effective than conventional social housing. The PC's predecessor noted 'the provision of housing services is more expensive through headleasing than through public ownership of stock' (Industry Commission, 1993: p.67)

- In some markets headleasing diminishes the availability of affordable private sector rentals, placing greater pressure on the social housing waiting list. However, in other markets, demand for rentals is very high and it can he challenging to obtain properties that can be headleased

- Headleases are usually only for a couple of years. The property owner might not renew, forcing the tenant to relocate which incurs costs and endangers the tenant's links to community and support services. Capital cities rents have increased significantly in recent years, and headlease renewals need to be reset with higher rent payments

7.4	The adequacy of current support provided to help tenants transition out of social housing, what could be done to improve this support, and who should provide this support

The Australian social housing system has traditionally placed more emphasis on entry than exit. Social housing was often seen as a 'right for life', and still is by some residents despite a general move to renewable leases for new social housing residents.

NSW is one of the few states where a multi-layered transition approach has started to be adopted, both increasing the supply of affordable rental housing and easing the move out of social housing. In future public and community housing landlords will have to report on successes with transition, with a targeted increase of 5% above current levels.

All social housing landlords can improve staff training, provide more information and support to tenants who might transition, and partner with real estate agents, support agencies and groups such as those improving financial literacy. However, for transitions to work at scale there needs to be a high level of public investment and Government coordination. See the *Evidence Check* for current NSW proposals.

Community housing providers have a good track supporting tenants transition out of social housing, especially if they manage an affordable rental portfolio. The community housing sector turned over 18.3% of its total dwelling stock to new tenants in 2015-16 compared to just 6.6% turnover in public housing (Productivity Commission, 2017: Tables 18.5, 18.6 and 18.7). However, contractual arrangements should separate out the services/outcomes being procured and transparently negotiate costs of bundled services where this occurs. Tenancy management, tenancy support, community development and achieving tenant outcomes are different functions. This is one area where outcomes-based funding or impact investing

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Evidence Check: NSW aims to transition people out of social housing

NSW Government's *Future Directions* social housing initiative is introducing various approaches to helping lower needs tenants exit the social housing system by:

- Social landlords identifying an 'opportunity group' of residents who can be helped to become more independent so they no longer require social housing and welfare benefits. The target is a 5% increase in successful transitions

- Developing education and training options to support the 'opportunity group' transition

- Producing 23,000 new and replacement social housing and affordable rental dwellings through harnessing the skills of the community housing sector. Note however that the 10,000 or so additional social homes to be built over a decade will still fail to fully meet backlog and additional demand

- Increasing by 60% people supported to move to the private rental market through (1) Rent Choice - a rental subsidy for up to 3 years (2) private rental brokerage service (3) bond and advance rent loans (4) help with rent arrears (5) Bond Plus - a landlord rent guarantee for tenants in hardship

For the remaining higher need 'safety net group' of social housing residents, the NSW Government advises greater wrap-round support will be provided (NSW Government, 2016).

principles might be usefully considered.

RFI 8: Financial Support

The Commission is seeking information on models that could be used to provide financial support to social housing households. This includes consideration of:

8.1   How the level of support to social housing tenants should be set and the benefits and costs of each model, including its effects on incentives for households to obtain or maintain employment, fiscal implications for governments, and its effects on outcomes for service users

Background IPART inquiry

Australian social housing rent settings are generally based on income rather than household characteristics such as size or amenity of the property, or be related to the market rent for the property as is the case for NRAS funded affordable rental housing. Currently in NSW these issues are being debated (IPART, 2016).

However, as noted by the University of NSW, 'The deep and intensifying shortage of social and affordable housing provision in NSW creates an overwhelming constraint on attempts to restructure the social housing rent setting system to optimise utilisation of resources and to achieve other desirable outcomes. Similarly, the system's chronically underfunded condition, the understanding that proposed changes must be revenue-neutral, and the 'out of scope' status of Commonwealth Government policy settings all severely restrict any freedom of manoeuvre in terms of reform directions' (Pawson et al., 2016b: p.2).

Issues with the IPART review have also been raised as to the project's wide scope, short timescale, and lack of integration with other initiatives - including the PC's inquiry and the Commonwealth coordinated Affordable Housing Working Group (Federation, 2016: p.8). Changes to rent setting are unlikely to be a 'silver bullet' solution to a range of complex, inter-related issues.

Rent setting approaches

For social housing residents, income based rent settings are likely to remain the most appropriate approach:

- The system is more straightforward to administer and clearer for tenants than a segmented system

- For most low-income renters, unaffordable rent - for example more than 25% of household income - can cause material deprivation such as poor health outcomes, hardships and poverty. See the *Evidence Check* with examples from England

- As tenant incomes rise, income based rents can lead to a withdrawal of subsidy while allowing the tenant to stay in the same home

- Although 55% of social housing teants are of working age, a relatively small proportion can enter the workforce. There are complex considerations around workforce participation, with some studies suggesting stable

> **Evidence Check: Market rent settings in England**
>
> Since 2011 the Government set the rent for some new social housing tenancies at 80% of market levels. During 2016 Government proposed but later abandoned a proposal to force social housing landlords to charge full market rents where household incomes were above £40,000 in London or £31,000 elsewhere. Social landlords had been and continue to be able to voluntarily charge market rents for these income groups since 2012.
>
> Based on a longitudinal survey of 5,000 people over an 18 year period, and a projection of how their circumstances could change in the future, the researchers estimated 25% of the population would be in poverty by 2040. However, if social housing moved to rents being set at 65% market levels another 1.3 to 1.5 million people or 2.5% of the population would be in poverty by 2040:
>
> 'Poverty rates are sensitive to the way in which social rents are set. If they move further in the direction of market rents, which is a means of levering in additional private sector funds in order to support new build, then poverty rates are likely to rise' (Stephens et al., 2014: p.68)

housing can have a major positive impact on workforce participation and employment outcomes,

while others suggest that the intersection of income-based rents with income support payments creates strong disincentives to work

- Amenity based rents, for example charging more for larger and better located properties, are not appropriate given the constraints on social housing stock and the lack of user choice

- Fixed Discounts to market rate rents will not work effectively for social housing tenancies as rentals are particularly high in most metropolitan areas, and low income renters will not be able to pay

The true cost to Government of different rent setting models depends on the complex interaction of the housing assistance, income support and taxation systems - as well as the levels at which subsidies are set. Both income based rents and rental subsidies should - if well designed - be relatively robust approaches to targeting assistance to people most in need of assistance.

Housing and support

Supportive housing models underpinned by Housing First and Rapid Rehousing are where intensive support is provided to establish and sustain high-needs tenancies, focussing on any life domain that directly or indirectly impacts on a tenancy. Supportive housing includes assertive outreach, or more persistent styles of working in the context of serious vulnerability.

Approaches carefully coordinating housing and support have been used through 'Common Ground' schemes in Queensland, NSW, Victoria, South Australia, Tasmania, the ACT and overseas. They have been evaluated and show improved returns on investment through a reduction in take up of emergency and other services with the provision of adequate support to sustain housing.

A University of Queensland evaluation showed Brisbane Common Ground successfully assists chronically homeless people to maintain secure housing and improve their health, well-being, social and economic outcomes with the community saving $13,100 annually per tenant through savings from services used by the chronically homeless (Parsell et al., 2015: p.4).

8.2	The potential for support to differ across households, groups and regions, or to change depending on the length of tenure

The introduction of NRAS funded affordable rental properties has introduced a new category of housing for low to moderate income households. Eligibility is set just above that for social housing, and rents at a minimum 20% discount to market. However, although NRAS settings are uniform across the country, states have taken differing approaches to eligibility and rent setting on other affordable rental schemes.

Low to moderate income households are more likely to be able to pay more than 25% of household income without risking poverty. Therefore, an intermediate rent setting - between social housing income based rents and private sector market rents - is appropriate. However, we recommend:

- Uniformity of the *structure* of affordable housing eligibility and rent setting across the country, though with rent subsidised related to average market rents

- Streamlining data collection on average market rents, making rent calculations easier

- Investigating tapering housing assistance as incomes rise, using an approach that will minimise disincentives to improving employment prospects, such as delayed withdrawal of assistance or progressively increasing the amount of income held in the rental assessment

- Considering ending eligibility for affordable rental housing once household income reaches a certain percentage of regional median income levels (for example, NSW currently use 120%). This would need to be fully evaluated before being introduced

Little will be gained by devising a regional housing assistance approach. Often the geographical divide between metropolitan and regional areas is contested, and changes over time The ABS remoteness classifications are not a useful guide.

Length of the tenure is not a good guide for rent setting. Social housing residents already have ongoing income and eligibility tests. While fixed tenure leases have symbolic value, as noted in Section 7.1 they have not resulted in NSW in a significant number of existing residents exiting social housing.

8.3	The equity implications of having different models of support applying across social and private housing

All Australian residents, regardless of tenure, receive housing support. The Grattan Institute estimate the annual cost of homeowner assistance was $36 billion in 2012-13, or $6,100 per household, through capital gains tax exemption, no imputed rent, the pension asset test and land tax exemption (Kell, 2013). Most assistance is differentiated by tenure, with CRA a rare exception although as noted in Section 7.3 some 95% is awarded to private renter households.

There remains a logic in differentiating housing support between social and private housing due to the nature of residents accommodated. Social housing is a tenure providing a home for residents who frequently have support needs too, and at only just over 4% of total tenure can be designed separately to the 96% of housing in the private sector. Government needs to carefully coordinate social security benefits, preventing unanticipated outcomes such as welfare and poverty traps.

RFI 9: Selecting Providers

The Commission is seeking information on the effectiveness of current arrangements to select community housing providers and whether greater contestability could improve the effectiveness of service provision. This includes information on:

While it is important to design procurement processes which facilitate the selection of providers best positioned to deliver the best outcomes for tenants this is only one element of a well-designed commissioning process. The Federation and CHFV have appointed SGS Economics to carry out a member funded project to put forward an approach for the strategic commissioning of social and affordable housing. Although concerned primarily with the supply of new homes, the principles would equally apply to services. The report will be available in April 2017.

It is also important that State Governments use procurement processes that adequately contemplate the near and longer term costs of housing provision and fairly identifies respective roles and responsibilities. Community housing providers need to have certainty from government on their assets, therefore short term leases (often 3 years in NSW) or expired leases (as in some cases in Queensland) should be avoided. Furthermore, arrangements that quarantine surpluses within a program (as in Queensland), or pay surpluses back to government (as with the fixed payment in South Australia) should be avoided.

The AHURI research into property transfer methodologies referred to on p23 will be a useful source of evidence for the Inquiry on this topic.

9.1	The relative performance of community and public providers in delivering good outcomes for tenants, and in meeting policy objectives set by governments

The PC's analysis of landlord performance is shown in the *Evidence Check*. As noted by AHURI, poor quality and sometimes non-comparable data from public housing agencies limits the use of this information. However, on a high-level analysis:

- Public and community housing providers largely house the same types of tenants: community providers do not 'cherry pick' easier to accommodate tenants
- There is no clear differentiation of landlord efficiency and effectiveness between sectors

- Community housing tenants are - and have been consistently for a decade - more satisfied than

> **Evidence Check: Social landlord performance**
>
> The PC's annual Report on Government Services provides independent social housing landlord performance data across various indicator types (Productivity Commission, 2017)
>
> - *Equity*: measures the gap between service delivery outputs or outcomes for special needs groups and the general population. Public and community housing rank equal in terms of new allocations to people in greatest need
> - *Effectiveness*: reflects how well the outputs of a service achieve the stated objectives of that service. Dwelling conditions are 8% points higher in community housing (89.3% vs. 81.0%)
> - *Efficiency*: reflects how resources (inputs) are used to produce outputs and outcomes. Net recurrent costs are higher in community housing (but distorted by NSW data), occupancy rates lower, rent collection rates similar
> - *Outcomes*: location, affordability and overcrowding vary between the two landlord types, though community housing scores significantly higher with tenant satisfaction (79.7% vs. 72.7%)
>
> However, AHURI has raised concerns: 'We conclude that the existing social housing 'efficiency measure' (published in the long standing Report on Government Services (ROGS) series) is of little value in calibrating expenditure on management activities. Especially through its inclusion of both discretionary and non-discretionary expenditure items the relevant net recurrent cost per dwelling indicator is too broadly defined to serve this purpose .... Moreover, because of its 'black box' character it is not possible to probe the factors contributing to what appear to be implausibly large variations across jurisdictions and between provider types' . (Pawson et al., 2014: p.2)

those in public housing. This is clear evidence the sector is delivering good outcomes for tenants

System sustainability needs to be considered when assessing whether public and community housing landlords are meeting policy objectives. As noted consistently in recent Auditor General reports, the public housing system is *not* sustainable (Victorian Auditor-General, 2012; NSW Auditor-General, 2013; Queensland Commission of Audit, 2013).

9.2   Where the management of public housing has been transferred to the community sector, whether the arrangements for selecting providers have resulted in providers that are strongly focused on improving tenant outcomes, and if not, how these arrangements could be improved

Over the last decade transfers to the community housing sector have nearly always been based on a competitive award of opportunities. Examples include tenancy management outsourcing in Tasmania 2012-14, South Australia 2015-18 and NSW 2017-20. Larger community housing providers compete through a tender process, bidding either alone or through a consortium that might include organisations from the private sector.

All successful transfer package winners in the programs detailed above have a commitment to improving tenant outcomes. However, arguably this is not due the way the tender was structured, rather it accords with their social mission. Bidders need to detail their skills in a range of areas, from tenancy management, development and managing previous transfers to tenant engagement. Weighted evaluation criteria are not revealed by Governments, and few questions are asked of ways to improve tenant outcomes.

Contestability can deliver innovation and efficiency if managed through a well-designed procurement process, outcomes are clearly specified, housing providers given flexibility about how they deliver those outcomes and are supported by a well-designed regulation and compliance regime. However

- Tendering which favours cost alone will often not deliver added value to tenants and communities
- Bidding costs can be significant, reducing the monies available for community housing providers to deliver social benefit. Schemes which roll out over several identical bidding rounds reduce costs

- Community housing providers require capabilities in collaboration, coordination and service integration to meet the needs of tenants. It is a risk that procurement processes impact negatively on the potential for collaboration

- Procurement processes might override and undermine local and regional services that have achieved a level of decentralisation and local responsiveness. For example, in a vast State like Queensland, decentralisation and local responsiveness have created unique responses to very localised challenges

- As shown in the *Evidence Check*, there are growing criticisms of traditional competitive procurement approaches, and support for deeper collaboration between the not-for-profit sector and government agencies

> **Evidence Check: Competitive procurement approaches**
>
> NSW's 'Going Home Staying Home' 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.
>
> 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)' (KPMG, 2015: p.19)
>
> 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.

Our view is that while competitive procurement should continue to play a role in allocating new resources to community housing providers, it should become more streamlined, consistent and transparent. Governments should focus more on co-production and service design, adopting Public Social Partnerships approaches. The procurement process needs to include a more explicit focus on:

- The quality of properties being transferred in management outsourcing contracts

- Tenant outcomes, with the costs of delivering value-added services such as supporting pathways into employment factored into the contract price.

9.3	What factors governments should consider in selecting service providers, including the types of providers that can best provide social housing, and the minimum scale of provider needed to efficiently provide social housing

Landlord types

Social landlord services could be provided by organisations in the public, private or not-for-profits sectors:

- *Public sector*

  State Housing Authorities should in theory achieve scale economies through managing large portfolios, though comparable information is in short supply. However, larger portfolios also bring challenges with costs of complexity, particularly managing properties dispersed across large geographic areas. Very large social housing organisations can be unresponsive to tenant needs, inflexible, hierarchical and bureaucratic.

  Like community housing providers, public housing agencies do not pay tax, but they have less favourable treatment of GST. Commercial borrowing is classed as public debt, therefore managing social housing in the public sector is likely to limit the sources of additional funding in an era of budgetary restraint and concern over state credit ratings. Several other sources of funding such as Commonwealth grants (e.g. NRAS), local council land donations and philanthropic donations will not be available to public housing agencies.

- *Private sector*

  Commercial companies can deliver high quality customer service and achieve economies of scale in many sectors of the economy. There is no technical reason why private landlords could not manage social housing, though they would need to be regulated the same way as not-for-profit landlords - as happens in England (see the Evidence Check in Section 9.6).

  Private sector companies pay income tax, and cannot receive donations. Private companies have shareholders, who expect a business' surplus to be distributed to them or used to build equity

  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 some efficiencies, and the service is transaction based. In areas such as tenancy management, which are relationship based, the role of the private sector is less clear.

  As shown in the *Evidence Check*, there have been challenges overseas where full privatisation has taken place. A better approach is to use nuanced approaches to regulation, described in Section 9.4 below.

  > **Evidence Check: German privatisation problems**
  >
  > 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 2016 AHURI report:
  >
  > *'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'* (Lawson et al., 2016: p.103)

- *Not-for profit sector*

  A key motivation for diversifying social landlords is the belief that superior tenant and neighbourhood outcomes can be achieved by community based landlords because of their ability to offer a more responsive and personalised service delivery model than public housing. Not-for-profits have capacity to develop resident influenced approaches to service delivery, and their mission to provide additional community or social supports that are designed to promote wider social and economic benefits for disadvantaged tenants.

By way of comparative example, 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 social housing privatisation are show in the *Evidence Check*.

Community housing provider scale

Our recommendation in Section 9.6 is to transform NRS into a truly national system that covers all states and territories and all social landlord types - public, not-for-profit and (potentially) for-profit. All providers of front-line social housing services should be registered, and bidding for tenancy transfers or funding should be dependent on obtaining and retaining NRS registration.

There is no agreed minimum or optimum size for a community housing provider. As shown in the *Evidence Check*, British research highlights there are clear differences in estimated optimum size between tenancy management organisations, and those undertaking development.

Based on unpublished data sourced by the Housing Action Network from 2015-16 annual reports, 28 Australian community housing providers manage over 1,000 tenancies with the largest running 6,200 tenancies. A further 7 housing providers manage 800 to 1,000 tenancies. Therefore around 35 community housing providers are of the 'optimum scale' indicated in the *Evidence Check*.

> **Evidence Check: Optimum 'growth' provider size**
>
> In an influential statement by the Commonwealth during discussions on the move to NRS, it was suggested 'the emerging industry view appears to be that the ideal size for sustainable growth is 5,000' (Australian Government, 2010: p.20).
>
> This 'ideal size' of 5,000 properties under management is not derived empirically. The number may have been taken from a British analysis, shown below. This was based on a 'tentative hypothesis' of business efficiencies not detailed costings (CIH, 2007).
>
> | Activity | Optimum tenancies |
> |---|---|
> | Housing management | 1,000 - 5,000 |
> | Procurement | 500 - 2,000 |
> | Development | > 7,000 |
> | Full financial skills | > 5,000 |
>
> As the authors of the above 2007 British report comment, community housing providers 'have to think about economies of scale in different ways for different functions' (ibid, p.7). A follow-up 2012 report based on regression analysis noted 'cost, performance and size are not directly linked … scale does not automatically provide efficiency' (CIH, 2012: p.5).
>
> Professor Hal Pawson, author of much of the relevant community housing research in Britain and Australia, summarises analysis to date: 'I think all you can say is that there is a theoretical case for economies of scale in this industry and an unsubstantiated belief among many professionals that the optimum size of a housing association may be in the range 5-10,000' (*personal communication*, 17 January 2017).

Transfer packages from 2012 to as currently proposed have varied in size from 600 to 2,100 properties. There is no magic number for the right transfer size. A more important consideration is whether the properties are in a cohesive geographical area - such transfers maximise opportunities for place making and community development. We suggest a minimum transfer of 600 tenancies provides efficiencies for transferor and transferee organisation, though a maximum of 1,500 works best given the current scale of most community housing providers. As the industry grows, so the maximum transaction size will increase.

9.4	What the role of community housing providers should take in addition to tenancy management - for example, whether community housing providers could offer services to help tenants maintain their tenancy or to improve the health and education outcomes of tenants, or whether this should remain a role for government

Currently most community housing provider already provide additional services to tenants, or act as conduits to services provided by other largely not-for-profit organisations. While arrangements with support agencies are usually formalised, approaches to additional services by community housing providers are often are informal and based on the organisations' social missions and practical experience in what works best, rather than forming part of funding agreements with state governments. Examples include:

- Tenant support visits, identifying individual support needs, preparing case management plans and making referrals to support agencies
- Managing tenancies at risk due to rent arrears or antisocial behaviour
- Supporting tenants engage with scholarships, access training or employment
- Tenant engagement in local communities, and participation in landlord service planning
- Direct provision of community services. Note that this is more common where a community housing organisation is part of a wider community services group - Mission Australia, Anglicare etc.
- Assisting tenants transition to other housing tenures -private rental, shared ownership etc.

AHURI research found larger community housing landlords typically incur around 19% of their total housing management expenditure on these activities (Pawson et al., 2015: p.30). Also as detailed in the *Evidence Check*, these additional services are often not acknowledged by government or funding providing.

While community housing providers should continue to provide additional services, we recommend these be made explicit in funding agreements and broader policy statements. With tenancy transfer and social housing renewal schemes, sufficient cashflow needs preserving so these additional services are properly funded.

> **Evidence Check: Additional services**
>
> As noted by AHURI: 'Within the social housing sphere there is a growing sense that inherent within the social landlord role is the promotion of longer term, 'non-shelter' opportunities and outcomes for tenants …
>
> Arguably, this remains to be explicitly stated by Governments and regulators …
>
> Furthermore, in a highly resource-con strained environment, it is unclear how such additional services can or should be funded' (Pawson et al., 2015: p.63)

9.5 The data needed to ensure that service providers are responsive to the needs of users and accountable to taxpayers

AHURI research shown in the *Evidence Check* 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. It is not possible to determine value for money for taxpayers.

Ideally the NRS regulator could become the main custodian of social housing sector data - covering public and community housing. Duplication with the AIHW and PC data collection and NRS should be eliminated. Greater transparency is needed, for example through public allowing access to social housing landlord regulatory reports accessed via the NRS website.

> **Evidence Check: Performance data comparisons**
>
> According to a 2015 AHURI report, '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' (Pawson et al., 2014: 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' (*ibid*., p.65)

Annual tenant surveys are undertaken by the AIHW, with high level results summarised state-by-state for public and community housing. Response rates are low, and the data analysis high level. A more informative approach is that taken by the Federation which launched 'HouseKeys' - a 'community housing tenant satisfaction and benchmarking club'. This benchmarks 40 not-for-profit housing providers in NSW, Victoria, Queensland, South Australia and Western Australia and on over 100 indicators based on standardised, detailed tenant surveys. Further information on the project can be supplied to the PC on request from the Federation.

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.

9.6	The suitability of the National Regulatory System for Social Housing, and whether revisions are needed to this system to support contestability

The NRS provides confidence to Governments that not-for-profit landlords are financially sound, robustly government and offer excellent tenant services. However, it is only the first step and challenges remain:

- Victoria and Western Australia have yet to join NRS. Although their approaches are broadly aligned with NRS, their exclusion increases the compliance burden on providers operating across multiple jurisdictions

- States and territories influence how NRS is interpreted, sometimes creating barriers to entry through restricting funding to locally operating organisations

- Compliance burdens are high, especially for smaller organisations

- Councils (including Indigenous Councils in some jurisdictions) cannot register under NRS although some provide community and affordable housing

- 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

- Few Indigenous-run community housing organisations have registered under the NRS

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

The NRS framework needs to be reviewed through a joint Government/sector initiative to increase national consistency and strengthen regulation. As originally planned, a national agency should be established to ensure state-based regulators follow similar approaches. The agency would collate and disseminate information, moving the regulatory focus from rules and regulations to transparency and promoting excellent landlord services.

Evidence Check: England reforms regulation

Professor Martin Cave's influential review of English social housing regulation criticised the then current system for being fragmented by housing provider type, not concerned about tenants, over-regulated and not encouraging landlord efficiency (Cave, 2007). In a submission to the inquiry, the Government's Audit Commission noted:

'The Cave review presents the opportunity to establish a regulatory framework that looks at the community housing domain increasingly as a market. Such an approach will take time to establish itself and to support far more active customers, whether they are tenants, shared owners or leaseholders. With customer power, people benefit from competition as well as initiating and sustaining it' (ibid, p.45)

In 2008 England moved to a 'single domain' approach to regulation covering all types of social housing landlord. As at 3 January 2017 there were 1,760 landlords: 198 councils, 1,525 community housing providers and 37 for-profits.

The sector is also taking a lead with self-regulation and practice improvement. In NSW, the Federation is piloting 'In depth assessments' to test community housing providers' governance arrangements, financial viability, and approaches to risk management and mitigation. The English regulator's approach is being adapted for use in Australia and two NSW community housing providers will be participating in the trial. The Federation will be working with Australian based consultants who have a sound understanding of the context and current issues, and real expertise in the areas being assessed.

A fundamental reform to NRS would introduce a single regulator covering *all* social and affordable housing landlords in all states and territories. This follows the basic approach to regulation used in England - see the *Evidence Check*. A single national regulatory system will enhance consumer choice and government contract contestability. Regulators should operate at arm's length to government, and be separate from the public housing agency they will also regulate.

9.7   The benefits and costs of title transfers versus management transfers

Most transfers from public to community housing around the world involve title transfer - examples include Britain, the Netherlands and New Zealand. Australian transfers have largely been management only, though there have been exceptions historically, including through the SHI, and more recently in Tasmania.

The benefits of title transfers are:

- Community housing providers can better strategically manage their asset portfolios, and become more innovative and entrepreneurial
- Title transfers facilitate cheaper borrowing for portfolio expansion, to the extent which can be supported by the rental income stream
- Community housing providers are more able to work at arm's length to government, and less tied in to the political cycle
- State governments no longer have responsibility for structural asset maintenance and replacement
- There are stronger incentives to maintain asset values and consider redevelopment opportunities to maximise asset use
- Borrowing secured against assets is likely to be cheaper than unsecured debt
- There can be a progressive move to title transfer, with a staged approach. Recently in Tasmania limited title transfer followed successes under tenancy management outsourcing contracts

Potential costs and issues with title transfers include:

- Transaction costs when title changes to the community housing provider
- Lower asset holding by state governments, with a perceived potential impact on credit ratings. However, in an AHURI report respondents considered there would be minimal negative impact as rating agencies understanding the impaired nature of public housing assets (Pawson et al., 2013: p.62)
- Asset transfers are likely to be accounted for as a deduction against income. Furthermore, social housing asset values might be over-stated by Governments, resulting in a write-down
- Public assets would be protected both by regulation and by state governments retaining a caveat on title of the transferred asset, at least for a specified period such as the expected useful life of the asset, or 30 years

The policy benefits on title transfer are the scope for creating a more contestable community housing sector, and a strong likelihood of delivering more new social housing dwellings. However, as noted in the

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Evidence Check: Benefits of title transfers

Professor Pawson, is a 2013 AHURI report, noted 'there is a strong public policy case for ownership transfers under robust regulatory arrangements and that transfers restricted to 'management outsourcing' transactions can generate only limited gains' (Pawson et al., 2013: p.58)

In 2013 independent consultants were commissioned by the peak body for South Australian community housing to model the additional benefits of asset transfers. On a 500 property transfer, maximum portfolio growth on an extra 75 dwellings could be achieved if between 10% and 20% of asset titles were transferred:

'The conclusion of our study is that the approach to the issue of title transfer should be pragmatic rather that ideological. Government policy on title transfer should not be a matter of "for or against" but a matter of how much title transfer is required to maximise dwelling growth and provide as many opportunities as possible to people in need of affordable housing' (Sphere Company, 2013: p.3)

Evidence Check, not all property titles need to be transferred to achieve maximum leveraging benefits.

The community housing sector has taken a proactive approach to building knowledge on best practice transfers from public to community housing. Industry body PowerHousing Australia has commissioned AHURI to review legal arrangements, public housing asset conditions, valuation methodologies and economic (and property) risk. The Federation and CHIA are on the reference group, and the report will be published by March 2017 - in time for the PC's further evaluation of title and management transfers.

RFP 10: Implementation

The Commission is seeking information on the factors that need to be considered when implementing reforms to increase competition, contestability and user choice

10.1 Roles of users and providers in the process of designing the social housing system and in informing ongoing improvements

The social housing system is complicated, particularly in the way it inter-relates to the benefit and taxation systems. Fundamental changes are needed, but need to be carefully considered. However, this should not be a top-down approach, therefore the following need to be involved in designing the new system:

- All three levels of government - the Commonwealth, states (as funders) and local councils
- NRS and other community housing regulators
- Public and community housing providers - best accessed through peak and industry bodies
- Tenants, tenant bodies (such as Tenant Unions), Shelter and community housing Tenant Advisory Group members

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 Commonwealth's Affordable Housing Working Group. The Group was established in January 2016 under the Council on Federal Financial Relations with a remit to 'identify potential financing and structural reform models that increase the provision of affordable housing (social housing and housing in the private rental market)'.

Ongoing steering of the social housing system is best achieved through a National Body responsible for NRS - as originally suggested when NRS was being established. The National Body could have a user group with representatives of social housing landlords and tenants.

10.2 Rules needed to support effective service provision, including the regulations needed to ensure service quality and to protect social housing households

The revamped NRS system outlined in Section 9.6 should be responsible for ensuring high quality service provision by public, not-for-profit and (potentially) for-profit social housing landlords. NRS regulation could take a greater role in ensuring landlords promote and measure user involvement, along with continuing to monitor risk and governance. Furthermore, the National Body would enforce greater transparency through making regulatory reports available on their website, and collating and publishing sector-wide analysis.

10.3 Data needed by governments to evaluate the effectiveness of reforms and design ongoing improvements to the system

We support AHURI's detailed recommendations on improved social housing measurement and data collection approaches, summarised below:

- Enhanced transparency on the costs of social housing provision and tenant outcomes
- Revised approaches by the PC on their Report on Annual Services
- Aligned data approaches between the PC and NRS
- Improved measurement of tenant satisfaction between social landlords and AIHW

- Measurement of tenancy sustainability by larger community housing providers
- Increased public information on larger community providers (Pawson et al., 2015: pp.64-67)

10.4 Costs of reform on users, providers and governments, and how reform could be implemented to minimise these costs

The costs of reform will depend on the options chosen to increase user choice and increase competition. Most financial reform costs and benefits will flow to Commonwealth and state governments through the social housing, income support, taxation, correctional services and health budgets. As the benefits will be for governments, it will be for governments to invest up-front in system changes. However, where possible the reforms should use market principles to encourage co-investment from other funding sources.

Moving to greater user choice will incur additional costs for community housing landlords in areas such as IT, staff training, implementation of new quality systems and conducting trials and evaluations. This could have a major impact in particular on smaller providers who play a significant role in niche housing provision and in regional areas or with spatially sensitive housing responses.

Community housing providers relying on rental income streams 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 suggested reforms.

10.5 Role for policy trials in the reform process, including what reforms would be best suited to trialling before full implementation

While trials are an important way forward, they need to be combined with robust, skilled, independent and transparent evaluation starting at the earliest possible stages of a project. Many aspects of the NDIS trials have been successful, including a collaborative approach between government and the sector, and openness when not all has progressed to plan. Social housing reform could learn from these approaches.

Not all elements of housing reform are suitable to be trialled. For example, a move to incorporate state housing authorities under NRS could be made without a trial - although data collection and systems issues still require a carefully planned roll-out. Choice Based Letting would be suitable for a local trial, ideally selecting a metropolitan and regional location.

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