ABN 11 090 448 918

10 July 2017

Commissioner Stephen King
Human Services Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne Vic 8003

Dear Commissioner

Re: Human Services Inquiry

Thank you for the opportunity to make a submission to the Human Services Inquiry.

The Interim Report recommendations regarding social housing constitute an interesting suite of demand side reforms, consistent with the terms of reference. Linking together a number of individual reform measures into a 'reform package' and assessing their potential dynamic impact is a useful contribution to housing policy development. Moreover, there is considerable evidence to support the recommendations (see below).

The key limitation to the recommendations, however, is that insufficient account is taken of supply side constraints. The well-documented and established facts regarding the supply shortages of social housing and of affordable and available private rental housing are such that the likely success of the 'reform package' is very low. The contribution of the Inquiry recommendations to policy development in social housing will be far greater if this constrained supply context is more clearly recognised and addressed, even though the terms of reference may not extend directly to these issues.

Whilst there may be some merit in demand-side reforms in social housing being undertaken to maximise the utility of existing supply, the likelihood is that these reforms will fail to be implemented or realised until supply-side constraints are resolved. Recent Federal Budget initiatives will begin to address the lack of social and affordable housing supply and I would encourage the Inquiry to situate their final recommendations within this context.

As stated above, the Australian Housing and Urban Research Institute (AHURI) has undertaken a significant body of research relevant to social housing reform. A summary of some key findings is provided below (Attachment 1), including in relation to:

- individualised, choice-based housing assistance and choice based letting
- demand side housing assistance
- supply side housing assistance
- accessing and sustaining private rental tenancies

- contestability in tenancy management.

A bibliography (Attachment 2) is provided including direct web-links to the AHURI reports. AHURI research is free to download from www.ahuri.edu.au.

If there is any way we can be of further assistance, please contact me directly on 03 9660 2300. We look forward to reading the review final report with interest.

Yours sincerely

Dr Ian Winter
Executive Director

Attachment 1: AHURI evidence base
Attachment 2: Bibliography

The AHURI evidence base is explored below in relation to the social housing sector.

User choice and contestability in social housing (Ch. 5)

The AHURI Inquiry into individualised housing assistance (conducted by Jacobs, Hulse, Stone and Wiesel) supports the Productivity Commission's position that the current distribution of housing assistance is inequitable. The researchers concluded that housing assistance is:

- insufficient to offset affordability and related issues for many households in receipt of [CRA]

- not nuanced in terms of household need

- not sufficiently widely distributed to support households in need of housing assistance across housing tenures and does not cover those who do not receive income support (Jacobs, Hulse et al. 2016:11,13).

The Productivity Commission's Human Services Inquiry outlines two main aspects of choice, choice between social and private rentals, and choice within social housing. Jacobs et al. caution "[i]n practical terms, it is difficult to exercise choice in the private rental market due to shortages of affordable accommodation. Only government investment in addressing supply shortages will increase the choice for very-low-income and vulnerable households" (Jacobs et al. 2016:1).

AHURI research, whilst supporting housing choice, highlights the shortage of affordable and available homes for very low to moderate income households (Stone 2015, Hulse 2015, Ong 2017). Analysis demonstrates the increased role of the private rental sector both in tenure share (26% in 2011) and in length of tenure with an increased proportion of renters, around a third of all private renter households, renting for 10 years or more (Stone 2013). This is attributed to "increasing affordability pressures affecting the capacity of households to enter into home ownership, coupled with a highly targeted allocations policy in social housing" (Stone 2015:1).

Research for the AHURI Inquiry into individualised housing assistance conducted by Stone found that for individualised, choice-based housing assistance provision to be effective the following conditions are necessary:

- adequate levels of system resourcing to achieve genuine choices of assistance and support options

- encouragement of genuine choice rather than models of conditionality and obligation in which housing assistance is embedded

- assistance and advocacy to negotiate any increase in housing assistance choices, particularly those that are market-based, for households with high and complex needs (Stone 2016:3).

Stone also emphasises the importance of accessing and sustaining private rental tenancies for 'disadvantaged' or vulnerable tenants. For example, those susceptible to economic shocks due to limited financial reserves; and those who have experienced critical life events (e.g. housing stress; labour market difficulties; migration; loss of partner; and disability, injury or illness) that undermine their capacity to rent. Stone found that to sustain tenancies in a tight, lightly regulated and sometimes precarious private rental sector, tenants require support with points of access to housing, maintenance of tenancy and housing exit/transitions (2015).

In addition to the research outlined by the Productivity Commission (PC) on successful implementation of choice based letting in the Netherlands and the UK (p169), Hulse investigated how introducing more choice in access to social housing could work in the context of greater service rationing. While supportive she warns that for most people, choice is severely constrained by demand outstripping supply (2007:72). However her research supported transferability of the model to Australia as long as submarkets, lower volume and the cost of resourcing—including developing, implementing and operating reforms such as common housing registers and choice-based lettings—were taken into account (2007:61-62). Her research included examining a choice based letting pilot project in Whyalla (South Australia). Hulse found that for not for profit operators, "the biggest barriers to successful implementation [of choice based letting systems] are inability to embrace a cultural change which views households as consumers and active bidders rather than passive welfare recipients, and the procurement and implementation of quite complex hardware and software systems" (2007:2).

Groenhart and Burke found that mobility within and from public housing is low and has declined over the 15 year period 1996-2011 identifying that in 1996 the five-year mobility rate for all residents in public housing for Australia was around 42 per cent, but by 2011 it was down to 27 per cent. This was seen as mainly due to the relative unaffordability of the private rental market (2014: 57) coupled with low vacancy rates which constrain ability to transfer within public housing.

Demand side housing assistance - financing

The PC objective of enabling housing choice across different tenures via portable housing assistance with a deeper subsidy for higher needs tenants is supported by AHURI research. Jacobs et al., using the NDIS as an example, argue that a rent assistance system could be "based on individualised rather than standardised flat rates" (2016:25) but would benefit from being tenure neutral, applying to home purchase as well as renting in the private market and social housing. To be more equitable, assistance could also have a wider application than people on income support, and include low paid working households (Randolph 2007).

AHURI research supports the utility of CRA (Wood, Ong et al. 2014) and the increase of CRA to address affordability constraints with differential rates based on regionality (Meluish 2004). Wood et al.'s analysis of the effectiveness of CRA from 2001–11 found that CRA provided a very effective safeguard to eligible clients over the decade (2014:39) however the "program's effectiveness as a defence against affordability stress seems to have tailed off toward the end of this timeframe" (2014:40).

More recent modelling work conducted by Wood et al. forecast a 61 per cent increase in the number of households eligible to receive CRA from 2011 to 2031. The research determined that about half of the predicted increase is due to demographic changes, with the other half due to an increase in private rental housing's tenure share (Wood, Cigdem-Bayram et al. 2017:1).

As a means of increasing housing choice the PC explores a headleasing model (p171) which could enable the introduction of longer term leases. Wood et al. modelled a secure leasing scheme, e.g. for five years, as an alternative form of housing assistance. They determined that this would provide more stable housing for vulnerable households that are eligible for public housing but currently reside in private rental (Wood, Cigdem-Bayram et al. 2017:1). However, to encourage private landlords to participate in the scheme, offering an incentive would be required. A rental subsidy based on 'loss of value' is suggested and "governments

would be required to pay private landlords an incentivising premium of $14,891 or, on an annual basis, $3,498 in each year of the five-year lease" (Wood, Cigdem-Bayram et al. 2017:1). The modelling included the condition that secure lease tenants would continue to be eligible for CRA payments.

The PC recommends charging market rents for all social housing tenants (p160) supplementing CRA with a high cost housing payment. While AHURI research does not specifically examine charging market rent to all public housing tenants in Australia, international research identified that the housing benefit in the UK which previously covered up to 50 per cent of market rents has been now reduced to 30 per cent of market rents resulting in housing benefit recipients having a more limited choice of rentals than previously (Jacobs, Lawson et al. 2015:10).

In the application of demand side assistance AHURI research acknowledges the complexity of measuring housing affordability highlighted by the PC (p159). Rowley and Ong support broadening measures of housing affordability to consider housing market and housing needs assessment stating "housing stress [cost:income ratio] is too narrow a measure of housing affordability and fails to assess the outcomes of affordability constrained decisions to consume housing" (2012:82). They support that the residual method (Burke et al. 2011) can help quantify an affordable rent, while quantifying the supply needed to deliver diverse and affordable housing for low to moderate income groups is also required (2012:14). They assert that "[a]ffordability can only be improved through a significant reduction in market rents and prices, direct housing subsidies to households or, more realistically, through large scale new housing supply (2012:84).

Contestability in tenancy management

The PC favours contestability in tenancy management and increased diversity in provision (p.172). Pawson (2013) as cited by the PC, and the AHURI Inquiry into affordable housing industry capacity (Milligan, Pawson et al. 2017) explore public housing transfers to the community sector in detail. Jacobs et al. agree that private sector (in addition to community housing) provision may increase choice and options for clients (2016:27) and that competition amongst service providers can have beneficial effects in terms of efficiency and reducing costs (2016:30). They argue that there are risks with managing client demand across the sector within complex pathways, and caution that increased competition leads to resources being spent on marketing and branding, along with high costs in establishing a regulatory regime to monitor service standards (2016:16,30).

Groenhart and Burke argue that currently "…the tight rationing of public housing, the small size of the sector and the fact that it charges market equivalent rents for moderate-income earners resident in public housing means that it does not offer an effective competitive sector to private rental" (2014:19).

Supply side housing assistance

The PC argues that there is a need to address rental affordability and increase the choice of housing available (p.164) citing a shortfall in affordable housing in the bottom quintile (Hulse 2015). They reference Victorian initiatives to speed up planning approvals and land supply, as well as the new Federal schemes to create a bond aggregator and new national housing funding agreement to address these concerns.

Jacobs et al. advocate that any further enhancement of demand-side housing assistance in the private rental sector should be accompanied by measures to increase the supply of housing to low-income households (2016:4). Jacobs et al. argue that "in view of the compelling evidence about the serious shortage of affordable rental housing for this group, such a strategy would need to be accompanied by supply-side measures and involve governments at all levels. The federal government would need to consider how its taxation powers could stimulate additional low rent supply and also financing mechanisms to stimulate investment in new supply" (Jacobs et al. 2016:3).

While demand side assistance is important in addressing housing need for low income Australians, access to and availability of affordable housing supply remains a key to enabling choice. Until the addition of the 'bond aggregator model', supply side interventions have been limited to National Rental Affordability Scheme (NRAS) and the Social Housing Initiative (Jacobs 2016 et al., Rowley and Ong 2012).

Rowley et al.'s research into subsidised affordable rental housing found that the NRAS model, subsidising rents to 20 per cent below market levels, not only increased the number of suburbs accessible to income-eligible households but, if such a discount were available to all eligible households, would lift a third of them out of housing stress (2016:1). While acknowledging the program's shortfalls such as administration difficulties, the research identifies NRAS "as an effective supply stimulus, delivering tens of thousands of units in a relatively short timeframe" (2016:1). The research found that diversity was a major success of NRAS with a wide range of dwelling types delivered (apartments, town houses and detached dwellings) with dwelling sizes ranging from studio apartments to four-bedroom houses (2016:83). Rowley et al. propose that: any new program needs clear and measurable targets and objectives, and must demonstrate long-term commitment of government to secure the confidence of the investment sector (2016:1). They believe that it should run alongside alternative affordable housing investment options, such as a financial intermediary designed to secure low-cost funding for the community housing sector (2016:1). They state "[a] subsidised affordable rental scheme, combined with planning mechanisms to deliver land for affordable housing and measures to build the capacity of the community housing sector, could deliver a significant supply of dwellings to help tenants transition from social housing into the private rental market" (2016:2).

A recent AHURI Inquiry which looked at housing supply responsiveness found that:

> Most of the growth in housing supply has been taking place in mid-to-high price segments, rather than low price segments. Unfortunately, we are not witnessing a trickle-down effect whereby households buying new housing free up vacancies in the established housing stock that housing stressed households are able to move into at lower prices and rents. Consequently, research studies confirm that low-income households continue to experience growing difficulties accessing low cost housing. Housing in low-priced segments is presumably more affordable, but less than 5 per cent of approvals were in the bottom 20 per cent of the house and unit real price distribution in 2005–06, and this remains the case almost a decade later in 2013–14. Hence, the housing supply issue is more nuanced than commonly thought, as there seems to be structural impediments to the trickle-down of new housing supply (Ong, Dalton et al. 2017:2).

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