



NATIONAL SHELTER RESPONSE:

**PRODUCTIVITY COMMISSION
"INTRODUCING COMPETITION AND
INFORMED USER CHOICE INTO HUMAN
SERVICES: REFORMS TO HUMAN
SERVICES INQUIRY REPORT"**



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Introduction

National Shelter welcomes the opportunity to comment on the final Productivity Commission “Report into Introducing Competition and Informed User Choice into Human Services” (the Report). The Report contains some positives including calls for improved regulation across public and community housing, the separation of housing assets and tenancy management, improved tenancy supports and a supplementary payment for tenancy support. In keeping with the National Shelter submission to the review, these elements of the Report are commended. However, changing the eligibility criteria for Commonwealth Rent Assistance (CRA) to include all public housing tenants has the potential to jeopardise the National Housing and Homelessness Agreement (NHHA) as it is unlikely that the Federal Government will support a large increase in expenditure and continue to fund the States and Territories for social housing. National Shelter argues that the changes proposed in the Report would reduce the supply of social housing, cause low income households to be worse off financially by treating social housing and private market rental tenants equally and ultimately detract from consumer choice.

Assumptions create a fiction

At the heart of this inquiry is a fiction which is used to justify the thinking, conclusions and recommendations the inquiry ultimately finds. It is tempting to quip that Commissioner Stephen King is actually the fictional author of horror, suspense and fantasy atop the best seller list but that would be to trivialise the significance of the Report and the directions it would have Australia travel to improve human service delivery, funding and framing.

The fiction I allude to is that consumer choice is improved **only** through demand side assistance which ‘empowers’ consumers to “have greater control over their lives”, which “enables people to make decisions that best meet their needs and preferences, which in turn “generates incentives for providers to be more responsive to users’ needs and drives innovation and efficiencies in service delivery.”

National Shelter agrees that improved consumer choice is a good thing however, the singular lens of this approach ignores salient facts which are relevant to the provision of social housing.

Housing is Infrastructure

National Shelter contends that social housing and affordable housing more generally, ought to be considered as infrastructure, a view we have long held and was recently verified by Professor Duncan Maclenan in Making Better Economic Cases for Housing¹.

To make an obvious point we don't fund hospitals, water, sewage, roads, airports, police, defence, electricity, NBN and other essential services and built forms by waiting for consumers to demand them

or providing a consumer subsidy, we provide them as an essential supply and then try to ensure a degree of consumer choice around their usage, or not.

Competition and contestability become secondary elements within the infrastructure not the means of providing it in the first place. Human service provision can benefit from competition and contestability but it is a fiction to use the desirable consumer 'choice' as a justification for demanding service provision be provided only through this lens.

Our Housing System is Broken

Our comments on the Report are primarily around the social housing section. Our overall divergence can be found in one of the guiding statements the Productivity Commission uses as one of its key points that: "The **social housing** system is broken. A single system of financial assistance that is portable across rental markets for private and social housing should be established. This mechanism would provide people with more choice over the home they live in and improve equity. Tenancy support services should also be portable across private and social housing."

This major recommendation which guides the PC's approach to social and affordable housing comes with no critique of the market, its ability or record of providing affordable, let alone social housing, no analysis of available supply for lower income people, no analysis of how well social housing performs relative to other housing for the same cohort, no modelling of the overall or specific impact adopting this course would have. It simply states, as a fact, that social housing is broken.

¹ http://www.communityhousing.org.au/index_attachments/Main-report_revised_March%202018_28Feb.pdf

Introducing a single payment system of Commonwealth Rent Assistance (with a 15% increase), changing eligibility so that public housing tenants receive CRA and moving them to market rents, slyly avoids stating, that the NHHHA payment from the Commonwealth to the States should end. The quantum of NHHHA is roughly equal to making public housing tenants eligible, swapping NHHHA for CRA. Charging market rent would increase revenues to the States but they are then supposed to fund a high need supplementary payment. This is both complex and convoluted and assumes the States would find the additional expenditure.

National Shelter contends that our housing system is broken, distorted by perverse tax incentives, unable to return the value of publicly generated increases to land value to a social purpose, divided by access to jobs, opportunities, inflated by stamp duties, competition pressure from investors and with insufficient specific supply strategies.

Our social housing system has been deliberately undermined over twenty years by reduced funding from both the Commonwealth and States but still does a good job of housing the most disadvantaged members of our society.

National Shelter supports reform of social and affordable housing but prefers a strategy where government provides incentives to build the supply of social and affordable housing using private finance to establish a broader social and affordable housing system, redeveloping and growing existing public housing mainly through building the scale, capacity and capability of the not for profit sector.

Building more social and affordable housing available to low income households is our preferred means of creating consumer choice. Alongside this a single CRA payment system makes more sense.

Inequity

The Productivity Commission points to the fact that many households living with the same financial circumstances face far more expensive options in the private rental market and proposes to address this inequity by making social housing tenants equally worse off, albeit with a small increase in Commonwealth Rent Assistance (15%). The increased CRA, even with the proposed (non-existent and unfunded) supplement, would still see social housing tenants far worse off while doing little to alleviate the plight of the tens-hundreds of thousands of households currently in or forced into the private rental market.

All of these issues are a great pity because there are areas of the Productivity Commission's report that have merit.

The idea of a single payment system has appeal but would come at the expense of the current payment system the NHHA. The report itself is silent on NHHA but a single payment system implies the end of the NHHA payments to the States signaling the Commonwealth's retreat from housing, a role it has played since the inception of the Commonwealth State Housing Agreement in 1946. The Commonwealth has always been the major funding source for housing having entered the fray following the chronic housing shortage of the 1940's with rampant squalor, disease contributed to by overcrowded substandard housing, the needs of returning service personnel and the start of the baby boom. Commonwealth withdrawal of funding at this point, when homelessness is rising dangerously due to overcrowding would be disastrous. As the Australian Bureau of Statistics stated, "Most of the increase in homelessness between 2011 and 2016 was reflected in persons living in 'severely' crowded dwellings, up from 41,370 in 2011 to 51,088 in 2016".

Now is not the time to flag Commonwealth withdrawal. Now is the time for the Commonwealth to increase its involvement and contribution to leverage improved outcomes including from the States and which would really enhance consumer choice. Consumers may choose the market now, but they choose not to because it is expensive, poor quality, poorly located and often poorly managed. Public housing waiting lists demonstrate what thousands of housing consumers want - the choice of low cost social housing but it's just not available.

Welcome measures

National Shelter welcomes the Productivity Commission's calls for:

- the separation of asset management, tenancy management;
- the single regulatory framework across public and community housing;
- the call for greater tenancy support; and
- choice based letting.

These reforms are overdue and present challenges but are consistent with empowering consumers. The separation of asset and tenancy management has long been a hallmark of better policy and while this can also be done functionally within an organisation, recognising it will improve a tenant's ability to have "quiet enjoyment" of a lease without the pressure of asset management combined with tenancy management.

A single regulatory framework will remove the funder, regulator, provider anomaly that State housing authorities have whilst being a competitor/co provider of housing.

The call for greater tenancy support both in social and private market housing is well overdue and could build the valuable work already provided by tenant support services in their role preventing homelessness by working to continue current tenancies at threat.

The idea of choice based letting is supported but is difficult to envisage in a rationed social housing sector. It presents “Hobson’s choices” for tenants whose choices will be to leave the security of tenure offered by social housing for the private rental market, insecurity and poor availability in most markets. The Productivity Commission points out that not all markets are Sydney or Melbourne and other markets have greater affordability and availability. National Shelter argues that this premise is simply not true for people living on low incomes and some of our most expensive private rental markets are in Hobart, Brisbane, Darwin and Canberra.

Tenants deserve choice in properties and the ability to negotiate, dwelling types, locations and amenity, however the reality of social housing is no choice and in the private rental market to move to locations which do not have opportunities. Until the supply of affordable and social housing is lifted through a specific strategy the notion of choice based letting while desirable remains an elusive fictional element of the Report.

Consumer Choice

Consumer choice is critically important but National Shelter thinks it may be undermined if the recommendations of the Report are adopted as they are. Consumer choice can only occur if there is sufficient supply available at an affordable price, with sufficient financial support coming from income support/wages to meet affordability thresholds.

The Productivity Commission favours a “contribution to rent model, due to the balance of benefits and incentives it would deliver. This model would create a price incentive for tenants to choose the property that best suits their needs, whether that is in the private market, or in a choice-based letting system in social housing (section 6.5). This price incentive is not a feature of income-based rents. As rents for all properties (up to a rent cap) are set at the same level, tenants face an incentive to rent the most expensive property that government would subsidise, and have little incentive to resist rent increases by private landlords (Gibbons and Manning 2006).”

It assumes that with a contribution only, the tenant will make a genuine trade-off between the higher cost of some feature (location, size, standard, security) and price. Such optimizing trade-offs are only possible when price does not mean hardship or, conversely, when the benefit isn’t essential for well-being but unavailable at an affordable price.

But for most social housing tenants such trade-offs don't optimize choice; rather they are a lose - lose. Usually tenants will prioritise affordability because their after-housing income is such that higher housing costs will mean material deprivation – going without food, kids going without education requirements, household members foregoing necessary medical care etc.

If the Commission believes that consumer power will generate the supply response required and enhance or deliver consumer choice it should have recommended a proper increase to CRA to ensure affordability for recipient households. Instead they prefer a 'contribution' while exploring a false analysis of the incentives that households respond to at the lowest incomes and the trade-offs they are likely or willing to make, arguing tenants would choose the most expensive option govt would subsidise. Tenants will choose options which suit them and the elements they prioritise, especially within social housing will be community, affordability, security and in many cases accessibility.

Single Payment System

This report fails to understand the paucity of affordable rental housing currently available, in its call for a single payment system. The very modest increase to CRA is dependent on the Commonwealth finding additional money for CRA and then the States finding money for the supplement it calls for. Without knowing that States would fund or co-fund the supplement they then recommend another dual funding system CRA from the Commonwealth and a supplement co-funded by both levels.

There is no testing of the likelihood of States meeting additional supplementary payments, new social housing and no other approach is offered to build supply essential to consumer choice.

Extending CRA eligibility to social housing tenants might be a sensible approach if it weren't implicitly tied to the removal of the NHHA payment from the Commonwealth to the States. As an operational cost payment via tenants to establish equal treatment between households in different systems makes some sense, but charging market rents doesn't make any sense. The point of a rent based on income is to protect affordability absolutely, a conclusion recently endorsed by the Independent Pricing and Regulatory Tribunal in New South Wales.

The result of the single payment system would over time make all social housing tenants equally badly off as low indexation eroded the value of CRA. If the PC believes in equity it would avoid this dangerous suggestion.

National Shelter could not support this approach without extensive modelling of the impacts, perhaps by a reconstituted National Housing Supply Council or a thorough research by AHURI.

Conclusion

The report “Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services Inquiry Report, October 2017,” does not convince National Shelter that moving to a single payment system using CRA, while extending CRA to tenants in public housing is warranted.

National Shelter supports some key elements towards improving housing through, improved tenant support, separating tenancy management from asset management, the role separation of State housing authorities, common regulation, public reporting on provider performance, more contestability, more transparency and more choice for tenants. We would like further exploration and testing of the novel ideas raised in the report as many of these elements could be introduced without the single payment system, extending CRA to public tenants.

The cost of losing the NHHA would be too great a price to pay and there is no certainty States would pick up additional costs to build social housing, contribute to supplementary assistance or enhance head-leasing of private rental properties. Indeed, losing the NHHA may remove the one lever the Commonwealth has to negotiate outcomes from the States around social housing or indeed State tax reform, planning and other measures which might be negotiated with new Commonwealth contributions.
