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# Submission to Productivity Commission — Draft report: Introducing Competition and Informed User Choice into Human Services

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The Centre for Independent Studies (CIS) welcomes the opportunity to make a submission to this Inquiry, in response to the draft report by the Productivity Commission (PC) Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services, issued in June 2017.

The PC's draft report argues for important reforms to a number of areas of human services. This submission focusses on the following areas, reflecting the relevant work of the CIS:

- Social housing (Chapters 5 and 6)
- Remote Indigenous communities (Chapter 8)

## 1. Social housing

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The CIS recently released a research report, *Reforming Social Housing: financing and tenant autonomy* detailing the case for reforms of this sector. A copy of the report is attached. This section of the submission is based on the CIS research report and a submission to an inquiry by IPART in NSW into rent models for social housing.<sup>1</sup>

### 1.1. Challenges facing social housing

Social housing in Australia has numerous challenges; the CIS research report details many of these challenges (see Section 2), building on the challenges noted in the PC draft report (see Chapter 5). The challenges are summarised below, with sources indicated in the CIS report.

Public housing is beset with many problems, including:

- About 27% of tenants are not satisfied with their accommodation.
- Nearly 20% of dwellings do not meet a fairly undemanding adequacy standard.
- At least 20% of tenants are living in housing that is either too small or too large for their needs.
- With cost increases, declining rent, and declining government funding, public housing is arguably financially unsustainable.

Community housing performs better than public housing on many of these measures, but still faces important issues, particularly:

- Community housing has higher costs than public housing, probably due to lack of scale and greater spending on maintenance and additional services to tenants.
- Community housing providers face many difficulties in obtaining loans and finance.

The waiting list for social housing is long, with most tenants in Sydney waiting for more than 10 years to enter public housing, while experiencing substantial disincentives to work. Being in social housing also may discourage work, though the evidence on this is not clear-cut (see Section 1.6).

Social housing tenants have almost no choice over the dwelling they occupy. As noted in the PC's draft report (p147), a prospective tenant who rejects two, or sometimes even one, offered dwelling is usually sent to the back of the (very long) waiting list.

There are substantial inequities in the social housing system.

- Tenants in public housing receive at least 2.5 times as much assistance as the average person on rent assistance.
- It is essentially random if a new tenant is allocated a high-quality dwelling in a desirable location or a poor quality inaccessible dwelling.
- Public housing is treated very differently from social housing in many ways; including rent assistance, direct government spending, regulation and taxation.

The agreement under which the Australian Government funds the state governments for social housing, the National Affordable Housing Agreement (NAHA), has failed to meet most of its stated targets. Much of the NAHA funding is unlinked to performance and fails to encourage reform. Since the release of the report, the federal government has announced major changes will be made to NAHA to respond to the criticisms of the agreement.

These problems have been identified in numerous reports including by the New South Wales Auditor General, The Australian Government's Federation White Paper on Housing, the Henry Tax Review, and the PC.

## 1.2. PC Proposal

In response to social housing challenges, the PC draft report (in Chapter 5) recommends fundamental changes to the sector, proposing social housing tenants be charged market rents, offset by an increase in rent assistance. This approach would mirror the approach taken for Specialist Disability Accommodation under the National Disability Insurance Scheme, see the CIS research report at page 18.<sup>2</sup> The proposal was discussed in some detail in a report by the Industry Commission (IC) in 1993;<sup>3</sup> the IC report would usefully assist the PC with analysis of its current proposals.

The PC's draft report presents strong arguments in favour of this reform. However, many decision-makers may balk at this reform, as it may either entail large increases in government spending or large increases in out-of-pocket costs for social housing tenants.

For example, a draft report from IPART in NSW implies the gap between market rents and public housing rents is up to \$39,802 per year in Sydney.<sup>4</sup> In this case, existing tenants facing a move to market rents would either be greatly worse off, or require large increases in government rental subsidy. The PC's proposed 15% increase in rent assistance would only cover a tiny portion of this gap to market rents. The PC's draft report itself, in Boxes 5.1 and 5.3, provides examples where switching to market rents may make some tenants much worse off, even with a 15% increase in rent assistance.

Given these concerns, it seems unlikely that state governments will implement the PC's preferred model, despite the advantages it provides. Therefore, the PC should make additional recommendations for increased choice and competition in the sector without the full-scale adoption of market rents. It is acknowledged that this would mean the existing two-tiered approach to housing assistance would be retained (see PC's draft report, p154), but the differences between the two systems would be reduced.

The alternative reform proposed involves, in summary, the following changes:

- All new social housing tenants and all existing tenants who wish to move should be provided with informed choice over the dwelling they move to.
- All available dwellings in a region, from all housing providers, should be offered to prospective tenants in the choice process.
- The base rent for social housing tenants would, at least initially, remain as a fixed percentage of tenant income, but might be reformed over time based on further analysis.
- All housing providers will have the option to set differentiated rents (either rent discounts or supplements) for tenants involved in the choice process, potentially setting higher rents for better quality properties in preferred locations and lower rents for less desirable properties.
  - The rent differential would increase over time in line with inflation or other suitable measure.
  - There would be no initial increase in rents for existing tenants.
- A coordinating body would allocate tenants to properties in an equitable and efficient way, based on stated preferences of the tenants.
- Social housing providers who chose a differentiated rent would retain all the benefit of any rent supplement and wear all the cost of any rent discount.
  - Social housing providers will therefore compete with each other over price as well as location, quality and services.
- Tenants who wish to relocate would also face rent differentials on the property they move to. They will also be required to offer their own property for other tenants in the choice process, thus expanding the choices for other tenants.
  - However, there would be a safety net: if a tenant who wishes to move is offered a variety of properties but does not prefer any of them to their existing dwelling, they should not be forced to move.
- Over time, informed choice and differentiated rent should be rolled out to existing tenants, as long as tenants are provided with option(s) to move to other properties with equal or lower rent. If no dwellings are available with equal or lower rent, then the rent increase should be deferred.

- This will encourage tenants to move out of properties that are inappropriately large for their needs.
- To the greatest extent possible, government policies should apply equally to community and public housing, including tax policies, government subsidies, planning rules, and housing regulation.
- State governments should use contestability and competition in contracts with housing providers as further incentives for efficiency and service improvement.
- Public housing assets should be transferred to the community sector — not just the transfer of management alone.

These proposals are discussed in more detail below.

### 1.3. Housing providers should be able to set rent supplements/discounts

The base rent for social housing tenants would continue to be set in the current manner linked to income (see further discussion in Section 1.6 of this submission). However this would be modified by permitting social housing providers to charge higher or lower rents, for example they may choose to charge higher rents for larger, higher quality properties in more desired locations, and conversely lower rents in less desirable properties. This would not mean charging rents at market rates, but will move rents in a market-based direction, a key goal of the PC's draft report.

Other components of this reform are:

- Existing tenants who choose not to move would be protected from any rent increases — but housing providers could choose to lower rents for existing tenants.
- If Commonwealth Rent Assistance is paid to public housing tenants, as is recommended in the CIS research report (p13) and the PC draft report (p150), then public housing rents should rise by a commensurate amount.
  - More fundamental changes to the base rent amount are discussed in Section 1.6 of this submission.
- The rent differential charged by the social housing landlord would be a fixed dollar amount, for example \$5 per week, which would increase in line with inflation or another suitable measure.<sup>5</sup>
- There would likely be a role for state regulators (such as NSW's IPART) in monitoring rent differentials, particularly in regions with a small number of providers. Caps on rent surcharges are not preferred, but may be necessary to ensure overall community support for rent differentials.

The benefits of this approach include:<sup>6</sup>

- Social housing providers would be competing with each other over price as well as dwelling quality and services. This will provide additional incentives to providers to increase efficiency; reduce costs; reduce vacancy times; and improve quality, including through increased maintenance. Some of these benefits were noted in the PC's draft report (p168).
  - Price competition depends on there being a variety of providers in the relevant region. This emphasises the importance of the ongoing transfer of public housing to the community sector to promote competition within the sector, as discussed below.

- Some housing providers may be able to reduce costs enough to cut rents, encouraging tenants to relocate from other providers that provide expensive or poor quality dwellings. This will heighten the competitive pressures on existing providers.
- Rents may increase initially for new tenants to social housing; this may reduce the length of the public housing waiting list, which likely creates substantial employment disincentives.<sup>7</sup> This will also reduce bureaucratic costs and enable better targeting of social housing.
  - While rents may increase in the short term, price competition will limit the ability for prices to increase substantially, particularly if there are a number of providers in a region. And competition will drive sectoral efficiency, as noted above, which should then be passed on as rent reductions over the longer term.
  - New tenants entering social housing from the private rental sector would still likely face a reduction in rents, even if social housing rents increased: Public housing rents are, on average, \$9,444 per year below market rents.<sup>8</sup> As noted earlier, a report from IPART in NSW indicates the gap between market rents and public housing rents is much greater in Sydney, up to \$39,802 per year.<sup>9</sup>
- Housing providers that are able to reduce costs and (at least initially) increase rents will have improved financial sustainability, which is important given the financial problems facing the sector.<sup>10</sup>
- Tenants are likely to face rents that are somewhat closer to market rents, reducing the disincentives to leave social housing; in addition, the choice process would likely make it much easier to move to more suitable/cheaper social housing (see details in Section 1.5 of this submission). This will improve incentives for both tenants and landlords:
  - Households would be more likely to move for employment, family, or any other reasons.<sup>11</sup> This would address the concern raised in the PC draft report (pp152–3) that 13% of social housing tenants wanted to exit social housing, often due to dissatisfaction with their property or neighbourhood.
  - Higher rents on larger properties will encourage tenants to move out of properties that are too large for their needs, increasing the effective supply of public housing. In 2012, 16% of NSW public housing tenants were in houses that had more bedrooms than required.<sup>12</sup> This extra supply could be used to reduce the number of overcrowded dwellings or to provide extra dwellings to households on the waiting list.
  - The increased ability to move will heighten competition between providers, as tenants would much more easily leave poor quality dwellings. This will further encourage housing providers to improve maintenance and services.
    - This will also increase tenant satisfaction.
- The increased ease of moving would address a number of the problems raised in the PC's draft report including helping people who need to move quickly (see p153).

- Any movement in rents closer to market rents would reduce inequities in the current system:
  - At the moment, prospective tenants play a lottery with the qualities of public housing, with different tenants paying the same rent even with large differences in housing quality and location. Differentiated rents would reduce this inequity.
  - The substantial inequity between households in public housing, compared with similar households outside public housing, would be reduced.<sup>13</sup> Average rent assistance payments are more than 2.5 times the average recurrent cost of public housing.<sup>14</sup>

The arguments in support of tenant choice are presented in the CIS research report (p15) and the PC's draft report (pp168–9).

The PC draft report argues (pp187–194) that there is a need for substantially improved information relating to public housing. The CIS report similarly indicates the importance of providing information to tenants so they can exercise *informed* choice, see p14.

In summary, the benefits of tenant choices, combined with rent differentials, over the current system include:

- Reducing the problem of excess or inadequate demand for specific properties
- Potential for increased tenant choice, agency, satisfaction and closeness to employment/education/family.
- Increasing competition between housing providers to improve efficiency and quality of service, including through increased maintenance, while reducing costs
- Increasing incentives for efficiencies to be passed on to tenants
- Reducing the inequities in the current system.
- Potentially increased financial viability of providers
- Ability for tenants to move more quickly to alternative properties, and have better choices of new property. This will also improve incentives for both tenants and providers.

#### 1.4. Critique of an alternative model: tenant choice without differentiated rent

Another model, as proposed by IPART in NSW,<sup>15</sup> is to provide some housing choice for prospective tenants but not have differentiated rents. However there are significant issues with the IPART proposal, noted below, meaning it is recommended the PC does not move towards the IPART approach:

- Providing choice without differentiation of rents could easily result in excess tenant demand for the best properties and inadequate demand for the least desirable properties. As a result, choice may not work effectively.
- This problem may be why IPART has imposed added steps to the choice process meaning tenants are not offered properties that are 'unsuitable'.
- This restriction on choice would reduce the benefits of choice outlined in this submission, the IPART report, the PC draft report and the CIS report.
- The 'suitability' assessment would disregard the ability of tenants to make their own choice about property suitability.

- Assessment for ‘suitability’ is not needed if differentiated rents are used. Tenants would make their own choices — trading off dwelling quality with rent — and there would be substantially reduced risk that tenants all apply for the best properties.
- The private housing market, which covers more than 95% of dwellings in Australia,<sup>16</sup> does not involve a government ‘suitability’ assessment. It is unclear why this assessment should only occur for the tiny minority of dwellings in the social housing system.

The IPART draft report criticises some rent models including the PC’s proposal for a move to full market rents. IPART has also critiqued proposals for rent differentials; CIS has responded to IPART’s criticisms in a previous submission.<sup>17</sup>

### 1.5. Choice model

The substantial benefits of choice outlined above and in the PC draft report imply tenant choice should be as unrestricted as possible. As a result, the following approach to the choice model is recommended:

- All the properties available in a region in a particular period should be offered to tenants at the head of the queue. Tenants should be able to make up their own minds about which properties are suitable.
- Existing tenants who wish to relocate should be included in the choice system: they would offer up their own property for other tenants to move in, and simultaneously indicate their preference for another dwelling. They would also face a differentiated rent at the property they move to.
  - This should include a safety net: if a tenant who wishes to relocate is offered a variety of properties but does not prefer any of them to their existing dwelling, they should not be forced to move.
  - Including tenants who wish to move in the choice model will (substantially) speed up the choice process, encourage more public housing tenants to move out of unsuitable properties, increase the choices on offer, and increase competition between providers. It may also enable more tenants to move for family or employment reasons; and will address problems raised in the PC’s draft report (page 153) relating to people who need to move quickly.
  - Further work would be needed to develop rules for tenants who wish to move to a different social housing region.
- Choice and differentiated rents should be rolled out to existing tenants over time, with another safety net: if an existing tenant faces a rent increase, they should be offered the option to move to another property with equal or lower rent through the choice process outlined above. If there are no available properties in a region with equal or lower rent, then the rent increase should be deferred.
  - This may require some suitability assessment. For example, ensuring tenants with low mobility are not forced to move because of a rent increase to a property that is difficult to access.
  - The rollout of informed choice and differentiated rent to existing tenants over time will likely help reduce or eliminate the substantial number of properties with excess or insufficient bedrooms for tenants. The NSW Auditor

General indicated that 32% of public housing dwellings in NSW were inefficiently used in 2012, with 16% overcrowded and 16% underutilised.<sup>18</sup>

This proposed choice model involves tenants choosing properties through well-established processes that are used in other non-market allocation processes, for example allocating doctors to hospitals (see page 14 of the CIS research report).

In addition to giving tenants choice, housing providers could exercise choice over the tenants they receive. However, this has some risks, as there is the potential for some providers to discriminate against the most disadvantaged tenants.

#### 1.6. Link between social housing rent and tenant income

The existing approach is for social housing rent to be determined by income. There is a reasonable argument for this model which has the effective subsidy to tenants declining as income increases.

Nevertheless, this does create some disincentives. There are various views, with the PC's draft report (at p158) indicating the employment disincentive from social housing is negligible. However, the draft report fails to acknowledge other studies finding the disincentives are substantial, see the CIS research report at p7.

One important study finding an insignificant employment disincentives is a research report by the PC,<sup>19</sup> which argued that tenants in public housing did not have substantially lower employment rates when other factors are taken into account. However, the PC's research report only examined the impact of public housing tenancy on employment, not hours worked. So being in public housing may cause a reduction in hours of those working, but not a reduction in employment. The impact of public housing on work hours may be much more substantial than implied by the PC's work.

In addition, the PC's research report broadly supports the argument that being on the public housing waiting list discourages employment. This is consistent with the findings in a number of other studies, as discussed in the CIS research report on p7.

These concerns suggest a more detailed review of the social housing rent setting system is warranted, at least until social housing moves to full market rents. In addition, the problems mean it was appropriate for the PC to reject proposals for the existing social housing rent system to be extended to tenants in the private rental market (see p160).

#### 1.7. Transfer of public housing to community sector

The PC draft report argues for the transfer of public housing management to the community (not-for-profit) sector (see draft report, pp172–176). This would have benefits; as the PC notes, contestability of management should encourage increased efficiency and quality of service.

However, there are strong arguments in favour of a broader reform: the transfer of public housing stock to the community sector (see CIS research report at p17). While the PC expresses scepticism about title transfer (see draft report, p176), many of the supposed drawbacks can be addressed:

- Caveats could be used on the transferred property to ensure it remains permanently in use for social housing, and if sold the proceeds are similarly applied to social housing.
- The PC argues (p176) that the government can't replace an underperforming provider once housing title has been transferred. However:
  - State governments would still need to contract with the providers, as social housing will still need some level of government subsidy. States could use these contracts to address underperformance issues.<sup>20</sup>
  - The need for government intervention is reduced if tenants are able to exercise choice over provider, with underperforming housing providers losing tenants over time to better performers. In the longer term, poor performers would not be able to remain in business.

There are numerous other benefits of transfer of title (see CIS research report at p17); these benefits were generally not acknowledged in the PC's draft report. Some benefits include:

- The greater ability for private providers to manage assets strategically: they are more likely to redevelop poor quality or underutilised properties. While public housing authorities could redevelop, often they do not.
- Ownership transfer would result in increased scale for many community providers, driving ongoing cost reductions, efficiencies, and improvements in service delivery in the sector.
- Transfers to several providers will allow increased competition between providers, with all the benefits outlined earlier in this submission.

### 1.8. Structural reforms

Any differences in the treatment of public and community housing providers should be reduced or (preferably) eliminated so that public and private providers operate on a level playing field. Removing these differences would be consistent with competitive neutrality principles.<sup>21</sup>

There are a number of policies that affect public and community housing differently. These differences should be removed where possible. Firstly, Commonwealth Rent Assistance (CRA) should be paid on the same basis to private tenants and social housing tenants, as recommended in the PC's draft report (recommendation 5.1).

There are a range of other policies, levies and taxes that can apply differently to public and community sector. These differences should also be removed:

- GST
- Fringe Benefits Tax (FBT)
- stamp duty
- land tax
- council rates

- planning laws<sup>22</sup>

The PC should analyse these discrepancies and make recommendations in its final report to remove them where possible.

The PC's draft report argues for structural separation of state government roles (see Section 6.2), stating the government policy roles should be separated from the service delivery roles, and there should be consistent regulation across all social housing providers (see pp194–6). The CIS research report mounts similar arguments (see pp17–18).

There is a strong case for the structural separation of all of the three roles relating to social housing:

- public housing ownership and service delivery;
- housing policy; and
- regulation of social housing (public and community).

This structural separation would address potential conflicts of interest, increase consistency of treatment across different ownership types, increase contestability, assist with promoting competitive neutrality, and ease the transition of public housing properties to private ownership (as proposed above).<sup>23</sup>

State governments should also use competition and contestability in its contracts with community housing providers (see CIS research report at p18).

### 1.9. Reforming government spending on social housing

Consistent with the previous section, state government spending on social housing should treat public housing and social housing on a level playing field, including in the provision of government subsidies and support.

This may suggest there is a need for increased government spending on the sector. The PC's proposal for a 15% increase in rent assistance (see p150 of draft report) would also mean increased federal government spending.

However, there is not necessarily a need for this increase in government spending. Instead, the PC should explore various reforms of the sector to improve financial viability, avoiding the need for major increases in taxpayer funding, including the following:

- Transferring public housing to the private sector and encouraging mergers between community housing providers to drive scale in the private sector and hence its efficiency.
- Informed tenant choice for new and relocating tenants to provide substantial competition between providers, promoting efficiency gains.
- Use of contracting, competition and contestability in contracts with housing providers, also driving efficiency gains.
- Housing providers using differentiated rents to improve their financial position.

In addition, a number of important supply side reforms will reduce the costs of all housing, which will directly or indirectly improve the financial sustainability of social housing. The reforms include:

- Relaxing tight regulations on land supply and use.

- Accelerating lengthy planning and development processes.<sup>24</sup>
- Reducing excessive costs on development, including stamp duty, developer levies and building codes.

The potential cost reductions from relaxed planning laws are potentially very large. A study by Reserve Bank staff found that adding one extra storey to dwellings in a city with a population of 4 million would reduce housing prices by 13%.<sup>25</sup>

Reforms to these laws would be superior to further government intervention or spending. Further government spending is an unnecessary burden on taxpayers if it was caused by governments in the first place. In addition, subsidies can simply be capitalised into asset prices, as is often argued with the First Home Owners' Grant.<sup>26</sup>

### 1.10. Strengthening tenancy rights

The PC's draft report indicates that strengthening tenancy rights in the private rental market would "improve the net benefits of the draft recommendations" (p166).

However, there are some issues with this approach:

- Social housing tenants are amongst the most vulnerable members of society, so arguably have a greater need for security of tenure. This argument does not apply to the rest of the private rental market.
- Shorter term tenancies can provide greater flexibility, so are not necessarily detrimental to tenants. The current take-up of longer-term leases may not be significant, because shorter terms are preferred by both tenants and landlords.<sup>27</sup>
- Strengthening tenant rights — including through mandating longer-term leases — with no benefit to landlords, will act as a tax on rental properties, which will feed through to higher rents. In the longer term, the costs of this implicit tax will be fully borne by renters rather than investors.<sup>28</sup> This will disadvantage all the tenants who would prefer, for example, shorter term leases.
- The extent of the problem with security of rental tenure is not as great as thought. In 2013–14, only 7.5% of households stated the reason for their last housing move was being required to leave by the landlord.<sup>29</sup>

## 2. Remote Indigenous communities

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The PC's draft report closely aligns with the CIS's research focus on Indigenous service delivery and achieving better outcomes for Indigenous peoples, as part of our [Prosperity Project](#). The Prosperity Project is a program of research focused on practical measures that will enable Indigenous communities to improve outcomes and achieve meaningful and sustainable change. As part of this research, we are examining how an innovative service delivery approach, and a focus on co-accountability in evaluation, could lead to improved outcomes for Indigenous people. The CIS research report *Evaluating Indigenous Programs: a toolkit for change* outlines how evaluation could be embedded into program design to support greater accountability.<sup>30</sup> A copy of the report is attached. This section of the submission is largely based on the CIS report.

## 2.1. Principles for service delivery in remote Indigenous communities

The CIS agrees with the PC draft report's two principles for service delivery in remote communities — greater community voice and place-based approaches (p23). However, we believe the PC draft report has not clearly articulated the challenges in adopting these principles.

Although allowing for greater community control in the design and delivery of programs can help ensure programs suit local conditions, it should also be recognised that increasing community control over program design and implementation will not necessarily produce a 'perfect' program.<sup>31</sup> According to research conducted by the World Bank, while involving local people can have positive impacts on program outcomes, care is required; as in some instances programs can be controlled by local 'elites' and more disadvantaged members of the community can miss out.<sup>32</sup>

Moreover, while it is accepted wisdom that community-initiated programs have the greatest impact, few evaluations compare Indigenous community-managed programs with non-Indigenous managed programs to provide evidence on the comparative effectiveness.<sup>33</sup> Place-based approaches are important, and problems tend to arise when government or NGOs try to scale-up and replicate community-initiated programs. However, the unique nature of place-based approaches can make it hard to compare the effectiveness of different programs. This is because place-based programs are designed to align with the particular needs of individual communities, and any metrics recorded may not be readily compiled, or compared with those from other programs. Other researchers have also faced this issue in trying to establish examples of 'best practice' in Indigenous place-based programs. *Serious Whitefella Stuff* author Mark Moran found too many programs were being implemented for too few people; and that as a result it was difficult to source a control group of people who had not taken part in a program.<sup>34</sup> However, this does not mean Indigenous programs should not be evaluated, but that certain types of evaluation methodologies — such as random control trials (RCTs) — may not be suitable to use in Indigenous communities.

## 2.2. Learning lessons from history

We agree with the PC draft report's findings that certain lessons need to be drawn from previous government initiatives; in particular, that government must use flexible approaches and recognise the capacity for reform will vary across different communities (p240). It is commendable to recommend that successful programs require community involvement and buy-in; but how do you achieve this in communities resistant to change, or in communities where there is not the capacity?

We agree that changing the way governments make decisions to allow for greater community control will take time to implement, and that historically governments have sometimes over-reacted to the first signs of failure. We believe evidence about what truly works can be collected only through a process of trial and error.<sup>35</sup> Our latest report on Indigenous evaluation outlines a 'learning and development' approach to evaluation and program delivery, which we believe will help embed evidence-based policy into practice.<sup>36</sup>

Developmental evaluation is a relatively recent evaluation methodology that seeks to combine the rigour of evaluation with the flexibility and innovation of developmental approaches to social problems. The primary focus of developmental evaluation is adaptive learning to inform the implementation of programs or community development initiatives.<sup>37</sup>

A learning and developmental approach to evaluation involves moving away from simply monitoring and overseeing programs and is different from a government top-down technocratic approach, which might have strict accountability measures in place, but fails to recognise there may be better ways of delivering the program. Evidence also suggests organisations are more likely to engage with the evaluation process when it is presented as a learning tool to improve program delivery than when it is presented as a review or audit of their performance.<sup>38</sup>

An example of a good developmental evaluation is a recent report by Social Ventures Australia on the Matu Leadership Program (MLP).<sup>39</sup> The evaluation found the growth and development of the program's Leadership Group could not have occurred if the focus had remained on achieving fixed objectives. Although set outcomes and targets are often the cornerstone of evaluation, the success of the MLP demonstrates the unexpected positives that can arise from adopting a more flexible 'learning and developmental' approach.<sup>40</sup>

### 2.3. Toward a better model of service provision

We agree with the PC draft report's finding that one of the biggest barriers to improving outcomes in service delivery is implementation failure (p240). Our research found a distinct gap between evidence about a particular health intervention and evidence of how best to deliver that health intervention as part of a program. A review of Indigenous health projects in WA found although there was strong scientific evidence for the health interventions, the actual delivery of those interventions varied considerably depending on the skill and capability of the staff.<sup>41</sup> Research on 'implementation science' (how to implement evidence-based research into practice) has found it can take about 17 years for research evidence to be incorporated into health care practices.<sup>42</sup>

We also agree with the point in the PC draft report that: "implementation requires effective stewardship with governments engaging in a continual cycle of designing, delivering and improving services...and ongoing bottom-up consultation and engagement"(p25). People, and by extension programs, are not like an assembly line. Cookie-cutter solutions tend to fail. Unfortunately, rigid funding guidelines often prevent flexibility in implementation timelines and innovation in program design and delivery. Where there are national or state-wide programs, there needs to be a balance between maintaining program fidelity and allowing flexibility for local contexts. In this context, a learning and developmental evaluation approach may be helpful, as the main focus of this type of evaluation is understanding the activities of a program and how the program operates in different environments.

We concur with the point in the PC draft report that: "evaluation needs to be ongoing process embedded in program design" and the Commission's draft recommendation 8.5 to: "Invest in better systems to underpin service delivery by developing objectives, conducting community assessments and establishing evaluation and feedback systems." (p26 and p236). We believe that developing a co-accountability approach to service delivery and evaluation could help to ensure this happens. Adopting a co-accountability approach to evaluation would involve holding both the government agency funding the program, and the program provider delivering the program, accountable for results. The organisation receiving the funding must be held accountable for how they have spent the money and whether the program has achieved its desired outcomes, and the government agency must be held accountable for monitoring whether the organisation is meeting its objectives and work with them to improve their practices if they have not. An overarching evaluation framework could assist with the different levels of outcomes expected over the life of the

program and the various indicators needed at each level to measure whether the program is meeting its objectives. Feedback loops and a process to escalate any concerns could make sure government and program providers monitor one another, and program learnings are shared. In this way, evaluation will be embedded into the program design as part of a continuous quality improvement process. The government should provide funding to organisations for self-evaluation and funding for online data management systems to ensure data is collected and used to inform practice and improve program outcomes. If program providers are given the opportunity to provide input into the evaluation plan or framework, they are more likely to see the benefit of evaluation activities. Hopefully, instead of viewing evaluation as a negative process they may see it as an opportunity to learn. The regular collection of data via an online data management system will help develop an evidence base that will be beneficial, not only in helping organisations secure recurrent funding, but also in improving service delivery and ensuring client satisfaction with the program.

Evidence suggests that adopting a ‘learning by doing’ approach can be an accountable process.<sup>43</sup> For example, under the Malaysian government’s Performance Management and Delivery Unit (PEMANDU) a three-stage approach was developed that enabled initial Action Plans to be regularly updated depending on information received from those working on the ground. A distinctive feature of the PEMANDU was the way in which any implementation issues were dealt with by being ‘bumped up’ through a series of ascending steps: from an email to the relevant managers, to a closed-door meeting with the Minister. Under this approach, 70% of the initial Action Plans were revised during implementation. However, this did not mean the initial plans were necessarily wrong, as the final plans tended to build on what was in the original Action Plans rather than starting from scratch.<sup>44</sup>

#### 2.4. Consumer choice and funding of service provision

Although we agree with the PC draft report’s finding that: “increasing user choice is not...practical in most remote communities” (p24) we believe there is an option for increased consumer choice for Indigenous people at a regional level (similar to the regional approach in the Empowered Communities Design report).<sup>45</sup>

We agree with the PC draft recommendation 8.3 to: “Ensure commissioning processes have a strong focus on transferring skills and capacity to people and organisations in communities” (p236). We support an enabling model of governance in service delivery that promotes a gradual shift in decision-making power, behaviours, responsibilities and attitudes towards one that builds Indigenous leadership.<sup>46</sup> The Harvard Project into American Indian Development (incorporated into the philosophies of the Empowered Communities Design Report) shows sustained development occurs in Indigenous nations when they are empowered to develop their communities’ first-hand. This empowered approach is best implemented through a regionally-specific governance structure and through restoring an appropriate balance between Indigenous people and government.<sup>47</sup>

This type of model would ideally be led as an opt-in approach to enable those communities that have established decision-making structures to gradually implement and transition the decision-making approach. The implementation period would be followed by an ‘incubation’ period of support until full functions are vested with the community leaders.

Those communities that do not yet have established leadership structures should be enabled by the government to achieve this. This enabling period would involve significant public service cooperation and engagement with the community to foster a leadership structure. As with the established model, outlined above, the enabling period would be

followed by a transition period or ‘incubation period’ until the community became autonomous.

The ultimate outcome of this transition is to vest greater decision-making power in Indigenous communities to create a co-accountable approach to service-delivery management and outcomes. In this framework, the community holds the decision-making capacity as to how and where money is spent for additional services, according to each community’s individual needs. The federal and state governments could act as a single point of contact for the community to provide economic provisions and advice, but the ultimate decision-making capacity lies with the community.

We also support the Commission’s draft recommendation 8.1 to: “Increase default contract lengths to ten years”, as we believe this would allow for policy and programs to have longevity beyond the political cycle and for the impact of the programs to be measured (p236).

# The Centre for Independent Studies (CIS)

The Centre for Independent Studies is the leading independent public policy think tank in Australasia. Founded in 1976, our work is informed by a commitment to the principles underpinning a free and open society:

- individual liberty and choice, including freedom of association, religion, speech and the right to property
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<sup>1</sup> The CIS submission is available at: <https://www.cis.org.au/publications/submissions/submission-to-ipart-review-of-social-and-affordable-housing-rent-models/>

<sup>2</sup> The details of disability accommodation under the NDIS are available at: <https://www.ndis.gov.au/specialist-disability-accommodation>

<sup>3</sup> Industry Commission (1993) *Public housing — final report*, Section 5.3.

<sup>4</sup> IPART (2017) *Review of rent models for social and affordable housing — draft report*, p14.

<sup>5</sup> Other options include the rent differential indexed to wages, or indexed to the rent component of CPI. If the goal is to ensure tenants on income support do not get worse off over time, then indexing to inflation (CPI) would be the preferred method.

<sup>6</sup> The PC’s draft report mentions some of these benefits in passing (p 170).

<sup>7</sup> See Michael Potter (2017) *Reforming Social Housing: financing and tenant autonomy*, CIS Research Report, April, p7.

<sup>8</sup> see Michael Potter (2017) *Reforming Social Housing: financing and tenant autonomy*, CIS Research Report, April, p4.

<sup>9</sup> IPART (2017) *Review of rent models for social and affordable housing — draft report*, p14.

<sup>10</sup> See Michael Potter (2017) *Reforming Social Housing: financing and tenant autonomy*, CIS Research Report, April, Section 2.3.

<sup>11</sup> Public housing tenants are much less likely to move than private tenants, see Lucy Groenhart & Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231 (p45). This arguably increases household security, but at the cost of decreasing labour mobility and employment options.

<sup>12</sup> See Michael Potter (2017) *Reforming Social Housing: financing and tenant autonomy*, CIS Research Report, April, Section 2.2.

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<sup>13</sup> Gavin Wood, Miranda Stewart & Rachel Ong (2010) [Housing taxation and transfers — Final Report, Research Study for Australia’s Future Tax System](#), p114; and Ken Henry et al (2010) [Australia’s Future Tax System: Final Report, Section F5](#).

<sup>14</sup> See Michael Potter (2017) *Reforming Social Housing: financing and tenant autonomy*, CIS Research Report, April, Section 2.

<sup>15</sup> IPART (2017) Review of rent models for social and affordable housing — draft report.

<sup>16</sup> See Michael Potter (2017) *Reforming Social Housing: financing and tenant autonomy*, CIS Research Report, April, p3.

<sup>17</sup> The CIS submission is available from here: <https://www.cis.org.au/publications/submissions/submission-to-ipart-review-of-social-and-affordable-housing-rent-models/>

<sup>18</sup> See Michael Potter (2017) *Reforming Social Housing: financing and tenant autonomy*, CIS Research Report, April, p7.

<sup>19</sup> Productivity Commission (2015) *Housing Assistance and Employment in Australia*, Commission Research Paper.

<sup>20</sup> If performance was particularly poor, states could cut off funding, relocate existing tenants, not offer new tenants to the housing provider.

<sup>21</sup> Council of Australian Governments (1995) [Competition Principles Agreement](#), pp17–18.

<sup>22</sup> Tax differences between public and community housing are described in Hal Pawson, Vivienne Milligan, Ilan Wiesel & Kath Hulse (2013) [Public housing transfers: past, present and prospective](#), AHURI Final Report No. 215, Section 3.1.2; see also NSW Department of Family and Community Services (2014) *Social housing in NSW — a discussion paper for input and comment* at p37.

<sup>23</sup> Some of these arguments are mentioned in the PC draft report and the CIS research report.

<sup>24</sup> The regulatory issues relating to housing supply are considered in many other reports, including Productivity Commission (2011) [Benchmarking Report of Australian Business Regulation: Planning, Zoning and Development Assessments](#); and Wing Hsieh, David Norman and David Orsmond (2012) “[Supply-side Issues in the Housing Sector](#)”, *RBA Bulletin*, September Quarter.

<sup>25</sup> Mariano Kulish, Anthony Richards and Christian Gillitzer (2011) “[Urban Structure and Housing Prices: Some Evidence from Australian Cities](#)”, *Economic Record* 88(282).

<sup>26</sup> Saul Eslake (2013) [50 Years of Housing Failure](#), Address to the 122nd Annual Henry George Commemorative Dinner, The Royal Society of Victoria, Melbourne; and Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, pp169–173.

<sup>27</sup> NSW Fair Trading (2016) [Residential Tenancies Act 2010 — Statutory Review](#), 17 June, pp23–24.

See also: <https://www.reiv.com.au/news/library/news-policy/security-of-tenure-reiv-response.aspx>

<sup>28</sup> This is because investors will not accept a permanently lower rate of return on any investment, including through an implicit tax caused by mandating longer-term leases; they will exit the investment driving up the rate of return until it is back to the level before the implicit tax was imposed.

<sup>29</sup> ABS (2015) Housing Mobility and Conditions 2013–14, Cat No 4130, Table 3. This is the most recent data available.

<sup>30</sup> Sara Hudson (2017) Evaluating Indigenous Programs: a toolkit for change, CIS Research Report 28, June

<sup>31</sup> Jordan, K, and Fowkes, L, (2016) Job Creation and Income Support in Remote Indigenous Australia: Moving forward with a better system. Centre for Aboriginal Economic Policy Research, CAEPR Topical Issue NO. 2/2016, available at: [http://caepr.anu.edu.au/sites/default/files/Publications/topical/CAEPR%20Topical%20Issues%202\\_2016.pdf](http://caepr.anu.edu.au/sites/default/files/Publications/topical/CAEPR%20Topical%20Issues%202_2016.pdf) accessed 17 May 2017

<sup>32</sup> James, M, (2012) Designing evaluation strategies. In Australian Productivity Commission, (2012) Roundtable Proceedings. In Better Indigenous Policies: The Role of Evaluation. Canberra, 22–23 October 2012. Canberra: Productivity Commission available at <http://www.pc.gov.au/research/supporting/better-indigenous-policies/09-better-indigenous-policies-chapter7.pdf> accessed 17 May 2017

<sup>33</sup> Morely, S (2015) What works in effective community managed programs, Child Family Community Australia, CFCA Paper No. 32: Canberra available at <https://aifs.gov.au/cfca/publications/what-works-effective-indigenous-community-managed-programs-and-organisations> accessed 17 May 2017

<sup>34</sup> As above

<sup>35</sup> James, M, (2012) Designing evaluation strategies. In Australian Productivity Commission, 2012, Roundtable Proceedings. In Better Indigenous Policies: The Role of Evaluation. Canberra, 22–23 October 2012. Canberra: Productivity Commission available at <http://www.pc.gov.au/research/supporting/better-indigenous-policies/09-better-indigenous-policies-chapter7.pdf> accessed 17 May 2017

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<sup>36</sup> See Sara Hudson (2017) Evaluating Indigenous Programs: a toolkit for change, CIS Research Report 28, June, pages: 7; 17; 19; and 47.

<sup>37</sup> FSG. 2016. The Case for Developmental Evaluation, available at: <http://www.fsg.org/blog/case-developmental-evaluation> accessed 17 May 2017

<sup>38</sup> Fred Hollows Foundation, (2012) The Women's Development Project: Indigenous Australia Program Evaluation Report available at [http://www.healthinfonet.ecu.edu.au/uploads/resources/23392\\_23392.pdf](http://www.healthinfonet.ecu.edu.au/uploads/resources/23392_23392.pdf) accessed 17 May 2017

<sup>39</sup> Social Ventures Australia, (2017) The Martu Leadership Program Evaluation of a pilot program using the Social Return on Investment (SROI) methodology, available at <https://static1.squarespace.com/static/54e3fc54e4b08f2ad4349a65/t/58fd4da9d1758eec4bd06271/1492995520775/170420+Kanyirninpa+Jukurrpa+Evaluation+of+the+Martu+Leadership+Program.pdf> accessed 17 May 2017, page 20

<sup>40</sup> Social Ventures Australia (2017) The Martu Leadership Program Evaluation of a pilot program using the Social Return on Investment (SROI) methodology, available at <https://static1.squarespace.com/static/54e3fc54e4b08f2ad4349a65/t/58fd4da9d1758eec4bd06271/1492995520775/170420+Kanyirninpa+Jukurrpa+Evaluation+of+the+Martu+Leadership+Program.pdf> accessed 17 May 2017, page 20

<sup>41</sup> Holman, D, (2014) A Promising Future: WA Aboriginal Health Programs Review of performance with recommendations for consolidation and advance Government of Western Australia Department of Health available at

<http://ww2.health.wa.gov.au/~media/Files/Corporate/Reports%20and%20publications/Holman%20review/a-promising-future-wa-aboriginal-health-programs.ashx> accessed 17 May 2017

<sup>42</sup> Bauer, M, Damschroder, L, Hagedorn, H, Smith, J and Kilbourne, A. (2015) An introduction to implementation science for the non-specialist. BMC Psychology, 3:32, 1-12. available at: <https://bmcpyschology.biomedcentral.com/articles/10.1186/s40359-015-0089-9> accessed 14 May 2017

<sup>43</sup> Sabel, J, and Jordan, J, (2015.) Doing, Learning, Being: Some Lessons Learned from Malaysia's National Transformation Program. 1st ed. Washington: The World Bank Group available at <http://www2.law.columbia.edu/sabel/papers/CS-LSJ--DLB%20Malaysia%20PEMANDU--Final-190115.pdf> accessed 17 May 2017

<sup>44</sup> As above

<sup>45</sup> Empowered Communities, 2015, Empowered Communities Design Report, Wunan Foundation Inc,

<sup>46</sup> Empowered Communities Design Report p15.

<sup>47</sup> Empowered Communities Design Report p15, 20