



1st Floor,  
Claisebrook Lotteries House,  
33 Moore St., EAST PERTH 6004  
Ph: (08) 9325 6660  
Fax: (08) 9325 8113  
Email: [sheltwa@opera.iinet.net.au](mailto:sheltwa@opera.iinet.net.au)

## **SUBMISSION TO THE MINISTRY OF HOUSING TASK FORCE**

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## **SUMMARY OF VIEWS**

### **Competition Reform and Competitive Neutrality**

- The National Competition Policy stipulates that competition reform is to be implemented only where the benefits outweigh the costs. Where it is implemented, it needs to take account of social welfare and equity considerations, including community service obligations.
- The definition and measurement of social outcomes has a direct bearing on the capacity to determine whether the benefits to the community of implementing competition reform outweigh the costs.

### **Creation of the Office of Policy**

- The separation of policy from operational functions is essential to the development of broad social housing policy.
- An iterative process of monitoring and evaluation is critical to informing the development of policy and providing feedback on its implementation.
- Consumers and the non government sector often have little or no housing choice, organisational resources or policy influence. The Housing Advisory Committee (HAC) is a vital mechanism for ensuring that the views and interests of low income consumers are represented in this process.

### **The Interrelationship and Formation of Business Units**

- A lack of clearly defined and often conflicting objectives in housing authorities results in an inability to measure performance. This in turn leads to a lack of transparency and accountability with the public having little if any capacity to determine whether services are delivered in an effective and efficient manner. Unless there is a capacity to clearly delineate between different roles and functions in the Ministry there will be an inability to determine whether its obligations to the community are being met or whether services are delivered in an effective and efficient manner.
- The formation of business units needs to be undertaken in order to create transparency and accountability, with clear delineation between functions associated with the provision of social housing programs, and those areas used to generate revenue for the CSHA matching funds requirement.
- While Shelter WA does not necessarily favour any one structure over another, it strongly advocates for the need to clearly identify and separate the policy/regulatory function, the operational arm and those areas associated with land development for the purposes of generating matching funds under the CSHA. This will result in increased transparency and therefore an ability to measure outcomes delivered to housing consumers in Western Australia.

## **BACKGROUND**

### **Shelter WA**

Shelter WA has operated since 1979 as an independent, community managed organisation which seeks to integrate the views of consumers and community groups as a means of representing those views on housing issues and policies.

The work of Shelter WA is directed towards the elimination of homelessness and housing related poverty and to ensure that every person has access to secure, adequate and appropriate housing at a price within their capacity to pay.

Shelter WA is committed to the presence and extension of choice in the articulation of Government housing policy and therefore to the availability of a range of housing options for low income and special needs housing consumers.

In order to achieve these objectives, Shelter WA undertakes a range of activities including:

- representing community views on a range of Ministerial Advisory Committees;
- publication of information sheets; newsletters; and reports on housing related matters;
- conducting surveys and consultative forums on the impact on housing policy on community agencies and consumers; and
- responding to a range of housing policy issues.

### **Housing in Western Australia**

Until recently public and private housing tenures have operated independently of each other and have in the most part, serviced the needs of different groups within the community. Over time this distinction has become increasingly blurred as the public and private tenures have begun to service a broader range of customers. Specifically, Homeswest has extended its programs to include a range of home ownership schemes as an alternative form of housing and through their redevelopment programs have involved themselves in the sale of a portion of properties to 'non Homeswest customers'. At the same time, increasing numbers of low income consumers are accessing the private rental market as a tenure of last resort as public housing is increasingly targeted at *those most in need*.

To date, housing functions in Western Australia have resided in the State Housing Commission (Homeswest) and have therefore been restricted to public housing related matters with little if any integration across housing tenures.

The capacity to define housing need in Western Australia and develop an understanding of the complex relationship between the various tenures is fundamental to the development of broad social housing policy and providing well targeted strategies for housing assistance.

It is within the context of providing the Minister with broad housing advice that the formation of the Ministry of Housing has been announced which is expected to *better balance the needs of the private housing industry in Western Australia*

*with the provision of affordable housing and land.* There is clearly a need for the development and implementation of housing policy and programs across all tenures and Shelter WA welcomes the implementation of reforms aimed at achieving this objective.

This submission focuses on three of the Terms of Reference, namely:

- the Application of Competitive Neutrality;
- the Creation of the Office of Policy; and
- the Interrelationship and the Formation of Business Units.

### **COMPETITION REFORM AND COMPETITIVE NEUTRALITY**

In 1995 the Council of Australian Governments (COAG) agreed to a set of competition enhancing principles which formed the basis for the development of a National Competition Policy which is reflected in a range of legislation, agreements and documents.

Significantly, *competition is not about the pursuit of competition per se, rather, it seeks to facilitate effective competition to promote efficiency and economic growth while accommodating situations where competition does not achieve efficiency or conflicts with other social objectives.*<sup>1</sup> The importance of social objectives is further highlighted in the National Competition Principles Agreement which stipulates that a number of factors be taken into consideration, including *social welfare and equity considerations, including community service obligations.*<sup>2</sup>

While there is a recognition that competition reform needs to take account of social welfare and equity considerations, very little detail is provided as to how this should occur.

Both the definition and measurement of social outcomes have an enormous impact on the capacity to determine the extent to which they are effected by competition reform. The definition of social outcomes needs to take into account the variety of beneficiaries and contributors towards housing policy outcomes. In *Identifying The Outcomes of Social Housing Systems*, the beneficiaries are described to include an individual in direct receipt of certain housing rights, housing allowance, tax benefits, or accommodation. However, as a consequence of receiving these benefits, the individual's immediate social network may also benefit. For example, the children of parents who are securely housed. This concept extends to the wider community who benefit indirectly from the social outcomes of housing policy.<sup>3</sup>

It is axiomatic that some mechanism for measuring performance (including social welfare and equity considerations) is a necessary precursor to understanding if in fact government is achieving desired outcomes. In *Use and Misuse of Performance Indicators*, Shelter SA draws attention to some of the pitfalls of performance measurements, particularly in relation to the indicators used to measure social housing objectives. The paper argues that positive measures may be used as an indicator of success when in fact the business is not achieving its most important objectives and it is therefore essential to link performance measures to the strategic objectives of the business. To highlight

this, the paper examines the Performance Indicators (PIs) in relation to the objectives outlined in the Commonwealth State Housing Agreement (CSHA).<sup>3</sup>

The objectives of public and community housing assistance as outlined in the CSHA are that it be:

- affordable - that is, housing costs for a household, after taking into account housing assistance, do not exceed agreed benchmarks related to income;
- secure - that is, housing assistance is maintained in accordance with need and which, if changed, continues to meet needs, and agreed outcomes for consumers;
- appropriate - that is, provide a range of forms of housing assistance to meet the different needs of consumers;
- provided so as to maximise value for money; and
- provided in a way so that consumers have a choice between different forms of assistance and between different providers of assistance.

It further states that public rental housing provided to consumers will:

- be located to give access to necessary services, facilities and employment opportunities in accordance with life cycle needs;
- be of an adequate size and amenity for the household;
- be co-ordinated with any support services that a household may require; and
- provide for security of housing tenure subject to residential tenancies legislation and other applicable legislation, however if a consumer is required to move from one dwelling to another, a choice of dwellings and locations appropriate to the consumer's needs will be provided.<sup>5</sup>

The Performance Indicators (PIs) in public and community housing, as detailed in the Report on Government Service Provision, are divided into indicators of effectiveness and efficiency with effectiveness further divided into sub-categories of quality, appropriateness, accessibility and affordability. (Refer to Appendix 1) It is of concern that neither the sub-categories nor the PIs mirror the objectives as outlined above. Specifically, indicators of security, location and co-ordination of support services are conspicuous by their absence.<sup>6</sup> In addition Shelter SA raises a number of concerns regarding the measurements used to calculate the indicators. For example, the Community Service Obligations indicator measures the level at which government subsidises tenants, that is, the difference between the market rent for the property and the actual rent charged. The impact on social outcomes varies enormously according to what indicator of success is used. For example, if housing authorities are more closely targeting those most in need, this measure of subsidy may go up (get worse, cost more) while actually providing a good housing outcome for the tenants involved.<sup>7</sup>

Before applying competitive neutrality to the business operations of the Ministry, it is incumbent on government to demonstrate that the benefits outweigh the potential costs. This analysis must be undertaken with due regard for the impact on social outcomes (in their broadest sense) and utilise appropriate measures and indicators.

## CREATION OF THE OFFICE OF POLICY

There have been a range of recommendations aimed at separating the purchaser (the agent who decides what will be produced), from the provider (the agent who delivers the agreed outputs or outcomes). Both policy and regulatory functions are core to the role of the purchaser - the development of policy informed by comprehensive research forms the basis for articulating what needs to be produced and a strong regulatory capacity enables organisations to determine whether the outcomes are in fact being produced.

In order to create clarity which in turn leads to efficiency, the Mant report, the Industry Commission and the Independent Commission all argued for the separation of policy from operational functions.

The benefits of the separation as recommended in these reports includes:

- minimising the potential for a conflict of interest arising out of an incapacity for staff to adequately regulate their own activities;
- reducing the possibility of the purchaser being 'captured' by the provider by having to rely on advice from those with a vested interest in the outcome;
- facilitates contestability and competition because there is little incentive for the exiting provider to become more efficient; and
- enhanced accountability through the purchaser having more control over the setting and monitoring of standards.<sup>8</sup>

The creation of the Office of Policy is a vital step towards both providing broad social housing policy advice to the Minister and also clearly separating the policy and regulatory functions from operational areas. Comprehensive research into housing need and the complex relationship that exists between the various tenures is a vital precursor to the development of policy capable of meeting housing need in Western Australia. Given that research informs policy, it would be logical to link these functions by extending the role of the Office of Policy to include research. The information kit provided states it is *envisaged that the Office of Policy will comprise a very small unit of two or three officers ...* While there are a number of options for conducting and/or accessing research including outsourcing and contracting in, it is difficult to see how two to three staff would be capable of either managing such a process or conducting the research themselves. Until such time when the details are finalised regarding how the research function will be fulfilled, it is not possible to determine the staffing requirements to resource this work.

The development of policy occurs within a hierarchical context. Philosophically policy can be described as the WHAT and WHY and planning as the HOW. Each level of policy development occurs within the context of higher order policy. For example, whole of government policy is implemented through the development of policy at a whole-of-industry level. Whole-of-industry policy is implemented through the development of policy within a department/ministry context and so on. (Refer to Diagram 1) One of the benefits of creating an Office of Policy is that it separates the administrative/operational and strategic policy functions of the Ministry. Within the hierarchy of policy development, the Office of Policy is clearly responsible for whole-of-sector policy development, the implementation of which will result in the development of policy within the

operational areas of the Chief Executive Officer. The Information Kit states that the function and role of the Office of Policy includes *CSHA and Commonwealth/State relations*. Further clarification is required to distinguish between administrative and strategic policy activity within this function. It would be appropriate for administrative related activity to reside under the auspice of the Chief Executive Officer with links to the Office of Policy to facilitate the effective flow of information.

Within the hierarchy of policy development, there is a danger that the relationship between different levels of policy become blurred which can result in policy being developed in a vacuum without a clear understanding of where it fits within the broader perspective of government policy.

Processes and systems for monitoring and evaluating policy are essential to ensure that clear links are maintained between each level of the hierarchy. This is an iterative process that informs both the development of policy and provides feedback on the implementation of policy throughout the system. (Refer to Diagram 1)

The monitoring and evaluation function needs to be clearly articulated within the Ministry and could either form part of the Office of Policy or placed in an alternate location. In addition, the contribution of the ministerial advisory committees to the ongoing monitoring and evaluation of policy needs to be articulated in the structure.

If an overarching objective of the formation of the Ministry of Housing is to provide advice to the Minister across broad housing issues, the Office of Policy is critical to influencing such a change. The capacity for the Office of Policy to implement the desired change will depend on a number of factors including the level of expertise of staff within it and the critical mass created by the number of staff employed. Given the potentially difficult task faced by the Office of Policy, it will require the appointment of staff with extensive experience and skill in the development of strategic policy. In order to attract the necessary calibre of staff, the positions will need to be set at a senior level with at least one executive position.

The issue of the number of staff employed by the Office of Policy has been referred to previously and regardless of the potential for a range of methods of resourcing this unit, there is a need to establish a critical mass capable of implementing the desired reforms.

There are a range of sectoral interests in housing policy, however there are conflicting interests and uneven impacts on housing policy with low income housing consumers often having little or no housing choice, organisational resources or policy influence.<sup>9</sup> To date, a number of Ministerial Advisory Committees have been formed to meet the Minister's need for broad based consultation and advice. In particular, with its broad representation from community organisations, the Housing Advisory Committee (HAC) is an important mechanism for ensuring that the views and interests of low income consumers are represented.

This process needs to continue as an avenue for:

- providing independent advice to the Minister;
- as a mechanism for informing the development of policy and programs within the Ministry's structure; and
- as a mechanism for contributing to the monitoring and evaluation of policy.

Further clarification of the reporting and communications mechanisms between the Office of Policy, the Advisory Committees, the CEO, the Board and the Minister will need to be developed as the structure is finalised.

### **THE INTERRELATIONSHIP AND THE FORMATION OF BUSINESS UNITS**

The lack of clearly defined objectives has been the subject of a number of reports including the national Industry Commission and the Mant Report into Housing in New South Wales. The Industry Commission highlighted a range of problems associated with the lack of clearly defined and sometimes conflicting objectives in housing authorities. It was argued that this resulted in an inability to monitor and measure performance and therefore resulted in a lack of accountability and transparency with the public having little capacity to determine whether welfare goals are being achieved and whether services are provided effectively and efficiently.<sup>10</sup> This view is echoed in the Western Australian Report of the Independent Commission to Review Public Sector Finances (1993) which referred to conflicting and unclear objectives of Government Trading Enterprises (GTEs) which impairs the ability to maximise efficiency.<sup>11</sup>

*Where transparency is lacking, performance becomes difficult to measure. Without agreed performance measures, accountability suffers. Without clear goals and appropriate performance measures, there is no way to determine the effectiveness of a housing policy. Failure to determine effectiveness means that efficiency becomes at best irrelevant, at worst unknowable.*<sup>12</sup>

There are a number of possibilities for clarifying and/or separating functions within the housing portfolio, either within one department/ministry or across several different organisations. Other states have implemented a range of options within different combinations of department structures including the separation of tenancy and property management and the separation of the purchaser and provider.

Unless there is a capacity to clearly delineate between different roles and functions in the Ministry there will be an inability to determine whether its obligations to the community are being met or whether services are delivered in an effective and efficient manner.

While Shelter WA does not necessarily favour any one structure over another, it strongly advocates for the need to clearly identify and separate the policy/regulatory function, the operational arm and those areas associated with land development for the purposes of generating matching funds under the

CSHA. This will result in increased transparency and therefore an ability to measure outcomes delivered to housing consumers in Western Australia.

The proposal to establish separate business units needs to be undertaken within a logical framework that clearly identifies those units associated with social housing programs and those associated with other functional responsibilities.

The CSHA clearly indicates that housing assistance should be provided *in a way so that consumers have a choice between different forms of assistance and between different providers of assistance*. Within the draft structure, the provision of social housing is identifiable in elements of the following categories:

- community housing;
- public rental;
- rural housing;
- Aboriginal housing;
- Housing Procurement;
- and Residential Land.

While Home Ownership does not incorporate the tenancy/property management functions traditionally associated with housing provision, it provides an alternative tenure of housing within a service delivery context. In the draft structure, Rural Housing stands alone with no relationship to other areas of rental housing provision. The rationale for this is not clear. In addition, Community Housing Programs clearly represent an alternative form of housing provision to Public Rental and should therefore operate as a separate business unit.

The Residential Land business unit appears to incorporate areas of land and property development that have conflicting purposes. According to the Ministerial Review into the Western Australian Land Authority Act 1992 Homeswest's current land development program serves a multitude of purposes including:

- the provision of serviced building lots for estate redevelopment programs and spot purchases under the public housing program;
- the production of residential lots at the lower end of the price range to ensure that its Keystart applicants are satisfied; and
- to raise funds to meet the Commonwealth State Housing Agreement (CSHA) matching funds requirement.<sup>13</sup>

There is a clear conflict of interest between the social housing obligations as a houser of last resort and that of land developer for the purpose of generating revenue to service the CSHA matching requirements. The separation of land development to meet social housing objectives and for the purpose of generating a profit is further clouded by the fact that a significant proportion of lots produced from the redevelopment programs are being sold to non 'Homeswest customers'.<sup>14</sup>

The Ministerial Review into the Western Australian Land Authority Act 1992 estimated that Homeswest utilises less than one third of residential lots for its

rental housing programme, the remaining two thirds used to service the Keystart program and as a mechanism for raising matching funds for the CSHA.<sup>15</sup> On the premise that the CSHA matching funds are obtained from an alternative source to Homeswest, the report clearly recommended that Homeswest's involvement in land development be restricted to that which services public and welfare housing requirements.<sup>16</sup>

The Industry Commission was unequivocal in its recommendation that state housing authorities should not be involved in land development or land banking, however if they are, transparency requires that any transactions between the two activities needs to be explicitly identified and separately funded.<sup>17</sup>

The conflict between objectives of land development as contained within the Residential Land business unit leads to the lack of transparency that was the subject of the Industry Commission report. A logical alternative is for the matching requirements to be met by the consolidated fund, as is the case in several other states including Queensland, New South Wales and South Australia.

If the matching funds are to be provided from within the Ministry of Housing, it requires a clear delineation between land development activity undertaken as part of the public housing program and that undertaken in order to meet CSHA matching requirements. One possibility for achieving this is through the creation of separate land development business units with clearly articulated and measurable objectives.

As stated previously there are a number of possible alternatives for separating and clarifying the various functions of the Ministry. Given that Shelter WA has focused only on specific areas of the Terms of Reference, the attached structure is only for the purpose of highlighting our views and should not necessarily be seen as a model for a Ministry.

**ONGOING CONSULTATION**

The information kit clearly indicates that the material presented is in draft form for the purpose of seeking comment and feedback from a range of stakeholders. However, it is difficult to respond in the absence of a context for the proposed changes and it would have been enormously beneficial to have been provided with some background information on the broad rationale for the development of the Ministry and details about how the draft structure was developed. Shelter WA acknowledges the commitment to consult with stakeholders and is pleased to be able to provide comments at this early stage of the implementation of the Ministry. In addition, Shelter WA would welcome the opportunity to have further input as the Task Force progresses this matter.

## REFERENCES

1. Report by the Independent Committee of Inquiry into National Competition Policy, 1993, p 6.
2. Ibid, p 15.
3. Lawson, J Identifying The Outcomes of Social Housing Systems, April 1998, p 6.
4. Shelter SA, Use and Misuse of Performance Indicators in Public and Community Housing, 1998, p 3.
5. Commonwealth State Housing Agreement, 1996, pp 9-10.
6. Shelter SA, Use and Misuse of Performance Indicators in Public and Community Housing, 1998, p 6.
7. Ibid, p 10.
8. Clarifying the Exchange: A Review of Purchaser/Provider Arrangements, Resource Management Improvement Branch, Department of Finance, 1995, pp 12-22.
9. Lawson, J Identifying The Outcomes of Social Housing Systems, April 1998, p 7.
10. Industry Commission into Public Housing, 1993, Vol 1, p 72.
11. Report of the Independent Commission to Review Public Sector Finances, 1993, Vol 2, p 10.
12. Industry Commission into Public Housing, 1993, Vol 2, p 175.
13. Ministerial Review: Western Australian Land Authority Act 1992, 1997, p 27
14. Ibid, p 27.
15. Ibid, p 12.
16. Ibid, p 26.
17. Industry Commission into Public Housing, 1993, Vol 2, p 166.

Diagram 1.



