

Social Housing in NSW: A discussion paper for input and comment

Submission by **Serco Australia Pty Limited**
19 February 2015

Creating a sustainable social housing system is an essential step in providing fairness, opportunity and pathways to client independence. What measures are required to create a sustainable housing system?

A sustainable system is one which delivers a targeted set of citizen outcomes over time, within the envelope of the allocated resources. Against this definition, the performance of the current social housing system in NSW indicates a system which is not in a sustainable position across a range of metrics:

- It is consuming more resources than are allocated - deficit of \$143 million against total income of circa \$1 billion and an estimated funding deficit for maintenance of \$330 million p.a. The prospect of the allocation increasing materially appears remote and there are contrary indications at a Federal level;
- There were 59,500 approved applicants on the Register at June 2014 with the waiting time for general needs applicants of approximately 4 years. Demographic factors are projected to increase the number of eligible individuals based on an extrapolation of trends and with the access to housing being exacerbated by above inflationary increases in housing costs, particularly close to major employment centres;
- The average tenure has increased to 12 years with exit rates dropped to 6.9%. It is essential that individuals and families are able to transition through social housing provision if the cost of meeting demand is not to rise exponentially. The likely consequence is that the waiting list will otherwise continue to rise; and
- The current system for allocating benefits has created a perverse set of incentives which do not consistently encourage the engagement of individuals to achieve independence. Studies highlight the inter-generational trends which exist in social housing in terms of the significantly lower academic achievement of young people as compared with the national average, particularly in the areas of concentrated social housing. Changes have been made to the Succession of Tenancy policy which previous to that gave a right for the next generation to take over tenancy extending the social housing for life situation to it being an inherited expectation. The need to reduce demand for social housing can only be addressed if the root cause issues are addressed which as we discuss can only be effectively achieved through outcome designed and monitored co-ordinated interventions which are supported by appropriately sophisticated Case Management tools.

Building Blocks of a new sustainable system

We see the following three areas as fundamental to the Department leading a strategic programme of activities to achieve greater sustainability. We see these activities as being very much interlinked and co-dependent.

1. Efficiency

The social housing system has predominantly been managed based on financial metrics i.e. budgets rather than economic metrics i.e. outcome metrics and value for money. There are some important recent initiatives which are seeking to change that approach.

Significant inefficiency in the distribution of assets and services has accrued over time as the service has been incrementally and tactically developed in response to increasing pressures with short-term planning horizons. In particular, the efficiency of the housing infrastructure has deteriorated as it has not been effectively managed to respond to changing patterns of demand or opportunities for more efficient provision. Inefficiency also exists in the distribution of services which are either inhibited by 'monopolistic constraints' in the case of the State Housing Authorities or compromised by being delivered at below economic scale within the NGO sector.

The extent of the inefficiency is likely to be significant but is difficult to analyse due to limited access to the required data - either because it has never been prepared or is difficult to access. This is an issue that was highlighted in the Auditor General's report in which he emphasises that:

'The value of such strategies and policies will be enhanced by the comprehensive comparison of public housing funding against other forms of housing assistance, comparison of value for money between programs, and analysis of the overhead costs of operating various programs. With such an evidence base and greater transparency, decisions can demonstrate that limited resources are being used cost effectively'.

Eliminating inefficiency must be the first priority and greatest opportunity for the Department and which can only be effectively planned for and implemented if there is a robust analysis of current efficiency - where resources are being consumed and the levels of output being delivered, measured in terms of the targeted social outcomes being achieved. The historic performance measurement system by contrast has been primarily focussed on the condition of the assets and the level of costs being incurred in the service.

There is substantial benchmarking data which we believe could be accessed to support benchmarking the efficiency of the current service model and its various components. We would encourage this analysis to be undertaken at a simple, high level basis initially to allow the areas of greatest opportunity to be identified and targeted. An interesting piece of analysis is for example to compare the average cost of accommodating one tenant in the Social Housing System with the cost of accessing comparable accommodation in the private rental market. This requires the costs of 'other services' being provided to be extracted from the total cost of the service and which can also then be analysed.

Addressing efficiency gaps is a time critical action as resources need to be diverted to transitioning activities and investment in the future model of assets and services which deliver better value for money.

Designing an effective implementation strategy is inevitably challenging when fundamental change is likely to be required. The Department will need to define the resources and expertise required to deliver the resultant programme, identify where those capabilities exist and determine how to contract for them where they are not available within the government sector.

Significant programmes of public service reconfiguration with the objective of delivering better value for money have been undertaken by governments in some of Serco's key markets and we have been one of the leading service provider organisations engaged in such programmes. Government departments have delivered the entirety of, or components of service transformation through contracts with NGOs. These have been most successful where:

- The governance arrangements to be designed to provide assurance across the whole programme in terms of the various components, the different providers and across many years. This is progressively resulting in more collaborative / partnership based arrangements between government and NGOs with programme delivery and risk management being a joint responsibility through active and ongoing collaborative management. This is essential where significant change is required as is the case in Social Housing and where it is impossible to specify and therefore contract for all of the activities at the beginning of a programme which may take 5 to 10 years to implement, during which time inevitably other factors will also have changed. There are some good examples where government has already progressed its contracting arrangements, such as the Commonwealth Governments Job Services Australia contact structure. What this looks like in practice are framework agreements which allow specific initiatives to be progressively defined and contracted for;
- The contractual arrangements to be defined in terms of the desired outcomes allowing NGO management the flexibility to innovate in the way that these are achieved. If maximising citizen independence is the primary service objective it must be reflected in the contractual provisions. As an example, Serco contracts around the world in our custodial services to reduce recidivism, this being the primary service objective for most people given custodial sentences. Such contracts incentivise us to innovate to deliver more effective services;
- Sufficient scope of management control is given to NGOs to enable them to redesign the assets and services to deliver the contracted outcomes without undue constraints. Clearly this needs to be balanced against government's ultimate responsibility for providing the services and the risks associated with change programmes; and
- There has been a stable policy landscape. An interesting and potentially valuable attribute of longer term contracting arrangements is that they create a boundary to the service and the initiative which insulates it from disruptive influences including those which are politically initiated. There needs to be stability to allow organisations to plan and invest resources in longer term projects - both NGOs and government. One of the criticisms of the social housing sector has been the lack of long term planning which has left a void for short-term 'experimentation'. This is the area we explore in the next section.

The opportunity to participate in the NSW social housing programme should be made open to all forms of capable entities, for profit and not for profit with government maintaining a key role in defined areas. Competitive tendering has been shown to be the most effective means of stimulating innovation and for driving efficiency although the success of such processes will vary significantly depending on the procurement capabilities of the government teams. Competition needs to be harnessed as a continual lever to increased efficiency and not just at the point that contracts are tendered and there are a number of ways that this can be achieved.

The Department should also assess how it attracts the most capable providers of assets and services given the relatively limited involvement of for profit NGOs in the sector currently. This includes identifying a pipeline of both capital and operational subsidy over extended periods of time to enable investment in innovation and resources to address cost issues in the market.

Finally, the design of the programme of activities needs to be reflective of the scale of the challenge and change required. Pilot projects can be an effective way of testing alternative solutions but they must be at sufficient initial scale and readily scalable. Developing contracting models and capabilities to migrate pilot programs into full scale initiatives is currently a critical capability gap of Government and the market.

2. Developing the strategic vision

Government needs to set the strategic vision for services, particularly where:

- There are multiple providers in a relatively complex, multi-faceted service delivery model;
- There is a need for significant and co-ordinated change; and
- Where the NGO market is relatively immature and the government has an objective of promoting market development.

Serco believes all of these factors are characteristic of the social housing system. There have been a significant number of initiatives implemented by government over the past 10 years targeted at delivering better outcomes and improved efficiency. Our observation, shared by others, is that these have been more tactical in nature and not designed to address the core structural issues which are undermining the service currently (as commented on above).

What is needed is the development of a 'blueprint' for the future system which is designed to be affordable on a sustained basis (which may include on-going subsidy from government), responsive to change and which delivers consistently high levels of value for money (outcomes per unit of input). Defining the gap between the blueprint and the current system will allow a coherent programme of initiatives to be developed. It is clear that there is no 'silver bullet' to deliver sustainability. It will also highlight the level of resources that will be required. Multiple levers will need to be combined over an extended period of time to get to the desired end point. As such a bilateral, agile but focussed approach to service design and measurement is relevant.

The current engagement with NGOs through the Premier's Innovation Initiative and other forums should provide a valuable insight into the capability and ambition of these organisations. The design of the future state blueprint must be distilled by the Department from this engagement and its own analysis and then clearly communicated once comprehensive government support and commitment has been confirmed. As the commissioner of services, the Department must provide clear leadership.

Valuable information can be gathered from other jurisdictions where governments have been tackling very similar structural challenges. There may however be regulatory issues which have taken them down paths which are not relevant in NSW. In the UK for instance, the commitment within the EU to manage public sector debt within parameters has meant that government has had to look for off-balance sheet mechanisms to allow investment to be undertaken - through CHPs.

One of the issues that Government needs to reach some clear definition of is what its own long-term role should be within the system and in particular what level of delivery should be retained. In this respect Government should consider options to include participating as a manager, service delivery agency as well as partner to other delivery entities.

Government should not shy away from its capability to act as a market manager in enhancing and disrupting delivery capability in the market. In doing so, it can bring together NFP and for profit providers to address systemic challenges of the market.

Government can facilitate market development through initiatives such as (a) clear signalling of objectives, (b) creating an environment of contractual certainty, (c) establishing a pipeline of pilot programs of sufficient scale to sustain investment by the sector, (d) developing capability to bring pilot programs to scale, (e) creating open and accountable reporting structures to stimulate performance and (f) facilitating cross agency (whole of Government) and cross sector engagement around housing recipients to enable effective case managed outcomes. In collaborating effectively with the market and stimulating market activity the existing perverse view of probity across government in its external engagement needs to be addressed to ensure information flow and engagement.

3. Across-government design and delivery of citizen focussed service delivery

Individuals and families accessing social housing are presenting with increasingly complex challenges to independent living linked to health, education and family breakdowns. As we have commented above, there is undoubtedly scope for enhancing the value for money in the delivery of services to achieve better social outcomes for those who find themselves needing support. This will not however deliver a sustainable system (unless there was a significant increase in resources) without the demand factors being addressed more effectively.

In other markets Government are developing ways of working more effectively across departments to deliver co-ordinated services which collectively achieve better outcomes for citizens. An example is the 'Total Place' programme in the UK which was designed to deliver better outcomes for the 30,000 families in the UK who were identified as consuming the greatest aggregated public sector resources. Inter-departmental agreements were put in place to pool budgets to achieve portfolio funding to support the design and delivery of collaborative service pathways. Government departments have partnered with organisations such as Serco to design and deliver these projects in partnership.

There is significant scope for greater co-ordination across government which needs to break down silos of activity between government and also between state and federal initiatives. There is also clear evidence of innovation and improvement arising from open data schemes. Making appropriate data accessible across the network, including performance and satisfaction measurement, will stimulate collaboration and innovation.

Some of the current activity appears to be designed with the primary objective of maximising opportunities in the funding mechanisms including access to CRA or tax concessions of not for profit entities when it may be more productive if there was a more collaborative approach taken across State and Federal domains which maximises the value for money across the public sector as a whole.

Central to the success of whole of government programmes are:

- Mapping the route to greater independence and the potential of individuals and families;
- Creating mutual obligation with the citizens to secure their commitment to increasing their independence through economic activity;
- Enabling customisation of programs and provision of safety nets for individuals attempting change; and
- Sophisticated case management capability to co-ordinate, track and monitor progress over extended periods of time. The issues that are being confronted within the social housing sector are reflective of both current and intergenerational issues. To break some of these systematic participation issues requires methodologies and tools which support sustained interventions.

This approach not only supports sustainability but also fairness in directing services and resources to individuals who take an appropriate level of responsibility for their own lives and livelihood.

Concluding thoughts

Serco, with our partners in the social housing market, recognises the challenge that the Department for Family and Community Services faces and in particular the need to implement substantial change in the configuration of assets and services to materially improve value for money. We believe that government will benefit from combining their own capabilities with those of the NGO sector but that the existing CHP sector does not currently have the scale and risk taking capacity to be able to deliver the requisite scale and pace of reconfiguration and investment needed to reverse the system wide metrics.

We therefore advocate that one of the models that the Department considers is similar to the initiative in the UK where new organisations were created known as Arms Length Management Organisations or 'ALMOs'. These ALMO's enable transformational activity to be undertaken within a new organisational structure which harnesses the expertise and resources of transformational NGO partners to manage resources, develop programmes and implement change to deliver financial and service metrics against which they are performance managed.

The model is predicated on Government retaining strategic control and in particular the housing assets would remain on the government's balance sheet but the ALMO would have the ability to move housing assets in and out of the portfolio provided that there is no reduction in the number of tenants who are housed and that number is progressively increased.

As in the UK, the scope of this model is to deliver the structural change that is necessary to reverse the negative trends and to deliver at the end of the contract a system of services and assets which has progressed materially towards the government's 'blueprint' and to facilitate a range of long term options for government and the system. Supporting the development of the CHPs by contracting for their specialist capabilities would be a key part of the transitional scope. The ALMO would need to be of sufficient scale (circa 20,000 existing dwellings) to allow the strong economies of scale around asset reconfiguration and borrowing to be realised and to make a meaningful contribution to the system as a whole.

For this type of proposal to be evaluated against other options available to the Department, a pre-requisite is for FACS to complete the value for money analysis of the existing system and to develop an evaluation framework which allows a robust comparison of proposals based on how each will support the timely progression towards sustainability and the Department's evolving vision for the future. In assessing value for money more focus should be placed on being able to measure and report on social value analysis as a key indicator to achieving improved social outcomes. Such analysis should facilitate improved social impact investment, provide a platform for valuing innovation and potential to bring programs to scale.

Further information or contact

Tim Catterall
Business Development Director, Serco Australia Pty Limited
Tim.Catterall@serco-ap.com.au