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INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING

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Committee for Sydney submission on the Inquiry into social, public and affordable housing

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1. Introduction

The Committee welcomes this inquiry

The Committee for Sydney is an independent think-tank and champion for Sydney whose aim is to improve economic and social outcomes across Greater Sydney through developing effective policy to be implemented by the key decision makers in the public and private sectors. Its members come from across the public, private and not for profit sectors and across Metropolitan Sydney. Ensuring that the communities of Sydney have access to the housing they need and can afford, but also accordingly that our businesses have access to the employees they need for us all to flourish, are core priorities of the Committee for Sydney.

Housing stress and affordability in Sydney are increasingly cited by our member enterprises as challenges to staff retention and attraction and the Committee's recent joint research with the NSW Government on Sydney as a Global Talent Hub found some evidence that housing affordability was acting as a deterrent to our attractions for talent from outside Sydney. There is indeed evidence that Sydney unlike Melbourne loses a proportion of its working population between their late 20s and late 30s due to high housing costs and lack of appropriate stock and that this is one of the trends which will lead to Melbourne replacing Sydney as Australia's largest city by mid-century.

The Committee therefore welcomes this opportunity to discuss the future of public, social and affordable housing in New South Wales. It also is a chance to highlight the innovation that is underway in these sectors that could, with some further public policy flexibility, imagination and urgency, help reduce the significant housing stress being experienced at this time. With such innovation and flexibility the Committee believes that much needed new investment can be secured to support growth in the supply of social and affordable housing and indeed of other housing products such as shared home-equity schemes for first time buyers and Key Workers currently priced out of ownership in Sydney's housing markets and indeed finding it increasingly difficult to rent.

This new supply and range of housing products are urgently needed to help meet the diversity of housing needs, to support social mobility and indeed the vitality of the Sydney economy itself.

We also as a society need to come to a view as to the purpose of public housing as currently provided, what alternatives there are to the way it is provided – and to whom – and what policies or actions are we adopting to ensure that tenants currently in public housing are enabled to transition into other tenures along the 'housing continuum' (such as into affordable private rental, shared equity and perhaps ownership over time) as appropriate .We stress that the NSW Government needs a clear vision for the future of public housing and the tenants now in it.

There is a 'housing continuum': Sydney needs more housing and a variety of tenures to meet need and support growth

The Committee has supported the NSW Government's planning reforms as essential to unlocking the supplies of market housing required in our global city, to meet the demand for private rented accommodation and indeed the demand for home-ownership. As importantly, though not always understood, increasing the supply of homes for ownership will also have a beneficial collateral impact on the demand for other types of tenure in what has become known as the 'housing continuum'.

That is to say it will reduce some of the demand for private rented accommodation from that increasing proportion of our society currently unable to buy – who would have been able get onto the housing ownership ladder in previous eras. That pressure – from that growing group on average or just above average incomes who want to be homeowners but are yet now unable to buy in one of the most expensive cities in the world – is currently raising rents and forcing lower income tenants further and further away from private rented homes in higher value locations. This in turn is squeezing some people out of the city or onto social housing waiting lists. So, ultimately, the knock on effect of increased supply of market homes can be felt at the other end of the housing spectrum, in reduced pressure on social housing waiting lists.

We need housing to be more affordable as an outcome but we also need more ‘affordable housing’ and ‘shared equity’ schemes as products

However, the solution to the housing affordability problem in Sydney is s not simply one of building more homes. Evidence from a number of academic reports and experience over the years has shown that even a significant increase in annual house building rates will not necessarily bring average house prices down. This is because prices of homes are set by the existing and not new supply given that the former make up more than 98% of all homes available in a year and the latter less than 2%.

Moreover, the relative availability of liquidity and leverage, influenced by interest rates and tax policies, shape demand and thus contribute to prices, indeed, while housing supply has dramatically increased in Sydney since 2011, dwelling prices have also increased – in 2013 they went up no less than 13%. Population increase did not account for that increase: currently cheap finance was more decisive with much of the leverage being in the hands of existing home-owners buying several properties to let for rent.

So, from an affordability perspective, while the number of new houses that are built is important, it is also the type and tenure of new houses that matters and on what terms they are available. While we need more homes of all kinds to be produced, in the Committee of Sydney’s view a greater proportion of any new housing built must be ‘affordable housing’ (both in terms of sub market rental, shared equity schemes and other forms of ‘low cost home-ownership’), particularly, in our view, for Key Workers. More will be said on this later in the submission.

New initiatives for those unable to buy but who receive no assistance: and a priority for Key Workers

Although there are already policies in place in NSW to cater for those who qualify for assistance with their housing costs, there is a gap between such people and those who are able to afford market prices and rents. There are an increasing number of people in the middle – they have been called ‘intermediates’ – on moderate incomes who are increasingly finding it difficult to access appropriate housing within many parts of Sydney, particularly close to centres of economic activity.

Sydney’s group of such intermediates is a bigger proportion of society than found in any other Australian city. There is no public policy in policy to meet the needs of this group who essentially consist of those who cannot afford to buy or rent suitable market housing but who are not eligible for assistance with their housing costs.

While this group is much larger than those who might be deemed ‘Key Workers’, the Committee believes that this latter group is an appropriate target for public policy and support and for a creative partnership between the public and private sectors to supply Key Worker housing – and at the centres of our economic life, not at the fringes of Sydney, and in mixed communities not enclaves of social housing only.

The reasons the Committee takes a 'mixed communities' view are partly economic and partly social.

Further, we need to have more of that affordable housing at the heart of our city to support our economy and the integration of our community.

Cities function best by having access to deep pools of labour and a wide range of skills close to centres of population and economic activity. A successful local economy is dependent on local services of all kinds, from public sector services such as health, education, fire and police, to private sector services ranging from business and financial services right down to cleaning and security. Yet if the supply of local labour is constrained by a shortage of housing that is affordable to local people, there is a very real danger that the local economy will be adversely affected and further growth will be unsustainable.

Cities which force workers essential to the running of an advanced economy – not just the police, medical staff or teachers we need but also office cleaners, shop assistants, baristas and, increasingly, even reasonably well paid staff in high value added employment – to have a 75 minute commute, have lower productivity than more integrated cities, and a frankly unsustainable business model. And faced with such commutes and the lack of affordable housing, evidence shows that Sydney loses a proportion of such workers to other more 'liveable' cities or regions. We need to enable Sydney to house and retain such workers – and at the heart of the city not its edges.

At the same time, a city which has quite separate districts for one income group close to economic opportunity as opposed to another remoter from it and creates few possibilities for mixed communities will nurture division and disadvantage and inhibit social mobility. The international evidence is that social, educational and economic outcomes and social mobility for lower income families are better in a mixed community with a range of higher earners living alongside and with their children rubbing shoulders at the local schools. Sydney is quietly and worryingly becoming the kind of city where such interactions are become the exception and not the norm.

The inquiry is timely and crucial: NSW Government needs to act

Hence we regard this inquiry as both timely and crucial to help us identify the innovations in policy and provision across a wide band of the housing spectrum from public and social housing through to affordable rented and shared equity models that will enable us to meet diverse housing needs, and, support a dynamic economy and strengthen the social capital and equity of our city.

The inquiry is timely not least because it is now three years into the life of a government with a significant mandate for change. Yet while other state governments have brought forward radical reform proposals for the future of public, social and affordable housing, there has been little innovation or desire for transformation evidenced in the policies and actions of the NSW government in these areas.

While housing waiting lists grow, the need for investment in the fabric of existing public homes increases while resources reduce, and housing stress increases across the spectrum, there has thus far appeared to be little appetite for change of the radical kind the we are seeing in

Queensland, WA and SA among those charged with managing the public housing system, regulating the community housing providers or shaping affordable housing policy.

And yet it was the NSW Auditor General who said in his critical 2013 report that 'it is crunch time for public housing in NSW. The government must make difficult decisions about public housing priorities'. The inquiry is an opportunity for the reform-minded among those overseeing the NSW public, social and affordable housing briefs to respond to that call to action.

The good news is that those calling for reform are not calling for new public money to be spent. Rather, the call is for clarity of vision, urgency, a spirit of openness to policy innovation and flexibility and a new partnership between the public, private and not for profit sectors.

2. The Committee for Sydney asks

- What is the Government's vision for public housing and the future of tenants currently in it?
- What role does the Government see the Community Housing Providers playing going forward in the management or delivery of social and affordable housing, including shared equity products?
- Whose role is it to ensure that more affordable rented and shared equity homes are available? Does the government see a need for new housing solutions for Key Workers?
- Are there models or innovations which can lever in new private investment in existing public housing and support the building of more social and affordable housing than currently achievable under 'business as usual' in NSW?

1. What is the Government's vision for public housing and the future of tenants currently in it? Clarity around what and who is it for – and for how long?

We seek greater clarity from government about their vision for public housing, the future of the stock currently under the management of the Department of Housing and their objectives in relation to the existing and future tenants of public housing. There has been some silence on these issues since 2011 though in reality no recent NSW state government has a had a clear vision about the role they see public housing playing in the overall housing system or the contribution they think public housing makes to the lives of its tenants.

'What is the purpose of public housing and who should have access to it?' are fundamental questions which need to be clearly answered. Is it only for the very poor and needy and for the long term – in some cases this means consecutive generations of families – which is the default position of the current model which rations the scarce and indeed eroding supply of public housing and essentially makes it a race to the bottom to access it? Or is meant to be a short term support enabling tenants to subsequently access other forms of housing and 'staircase' out of public housing into for example shared equity, private rented or indeed home-ownership?

That is: is public housing a destiny – where the cycle of dependency is reinforced and disadvantage is concentrated in a highly residualised population – or is it part of a journey along the 'housing continuum' which can break the cycle and de-concentrate disadvantage? De facto it has been the former with the eligibility criteria for access to highly rationed public housing ensuring that it is only the very poor, unemployed and those suffering from a multiplicity of factors of deprivation and social exclusion that can secure a key to this tenure.

Review eligibility criteria

Means tested rent-setting policies further channel and maintain the very needy in this stock. It is scarce 'special needs' housing which as currently provided reinforces those factors of deprivation and locks people out of access to the rest of the 'housing continuum'. The current eligibility criteria create a perverse incentive to be as needy as possible to be deemed appropriate for entry to the tenure – and then the incentives act to keep tenants in that condition, or indeed worsen their outcomes over time. Current eligibility criteria, combined with a shortage of supply and concentration of disadvantage, create a 'race to the bottom' for the tenants in it. This was never the objective of public housing policy.

The Committee is clear that whatever happens in terms of funding or the management of public housing, eligibility criteria for accessing it must be completely redesigned along with rent setting policies so that it serves a broader sector of the community, encourages aspiration and reinforces social mobility in our city.

Further progress along the 'housing continuum': re-design role of public housing authority from 'rowing' to 'steering'

In our view however, such progress comes not just from a change to eligibility criteria or even new investment creating further stock so that there is less rationing and the perverse consequences which flow from it.

It needs an ending of the monopoly provision/management of public housing – and indeed a change in the government role from 'rowing' (direct delivery) to 'steering' (overseeing delivery by others, adding their own funding to public money) - and the encouraging of competing or contesting models delivering public benefit in a regulated environment. Moreover, such 'competitors' or alternatives must have the capacity the public housing authorities lack of addressing diverse housing needs across more of the housing spectrum or continuum.

The current monopoly provider simply cannot progress or transition people through the housing system –from social to subsidised affordable rented, to private market or even to shared equity and outright purchase. Only those models that depart from the monopoly of a dependency model can break the cycle which we would suggest is an objective consistent with the values of the NSW Government.

They also offer new opportunities for that increasingly large group currently locked out of the market but not eligible for social housing. The Community Housing Provider sector – particularly those whom the regulator deems to be Class 1 – with the capacity, resources and systems that can be trusted to deliver, is the key existing alternative model. What is the NSW Government view of this sector?

2. The Role of Community Housing Providers?

Whether or not public housing authorities in NSW have a clear vision for their tenants or the skills to support it, it is clear that they don't have the resources to invest in the fabric of the homes currently under their management let alone in the development and future of their tenants. The NSW Auditor General 's Report was unequivocal on the matter.

Of course, we have seen other State governments in the nation setting out a clearer vision of the future of public housing and indeed in some cases taking a radical view that the combination of a lack of public resources for investment and clear evidence over a long period of residualisation of tenants in this form of housing, leads to the need to exit from the current monopoly provider of public housing.

Queensland is for example reviewing bids at the moment to transfer the management of its 4,850 homes at Logan entirely to a Community Housing Provider – with bidders being asked to show how they would not only invest in existing stock but leverage the management income streams and other funding to deliver additional new social and affordable stock as well as some market housing in a new mixed community.

More radically, Queensland has set out its ambition to see 90% of public housing managed by Community Housing or other non-government providers by 2020. South Australia has responded to this radicalism with its own decisive shift in this direction. The Committee for Sydney sees the Queensland action as a turning point – a game-changer – in the policy discussion in Australia and looks to see what the response of the NSW Government will be. It is also of course not merely an example to follow; it is a galvanising threat potentially to the availability of Commonwealth Rent Assistance in other states as the existing COAG agreement currently sets a cap per state of 35% of public housing being managed by the CHP sector, not 90%: unless there is a speedy policy response by the NSW Government there is a danger of that resource being syphoned to Queensland or otherwise less available to other states in due course.

Resource crisis leading to paradigm shift: understanding the ’push’ and ‘pull’ factors

The logic and the burning platform of depleted public resources which have driven the Queensland initiative do not simply apply outside NSW. Underpinning this paradigm shift in Queensland and elsewhere are ‘push’ and ‘pull’ factors.

First there has been honest assessment of the inability of the public sector from its own resources to achieve the investment the homes and the tenants require: the push factor. We would add: in the UK the setting of a tenant focussed ‘Decent Homes’ standard which all social housing has to reach –whether managed /owned by public housing authorities or by CHPs – has pushed stock away from those providers unable to deliver to the quality required: with tenants able to change providers by a ballot. Such an approach has merit here as well as internationally.

[In some parts of the UK this capacity to change providers has led to ALMOS taking on the stock. These are Arms’ Length Management Organisations with strong local government and community involvement at board level. Such an innovation should be explored here as it provides more contestation than the current monopoly model in NSW and can also take a regional form, linking public housing better to the community in which they are situated and providing better accountability to tenants than a large state-wide structure. However, the UK ALMO model remains on the government balance sheet and doesn’t bring-in any extra private finance.]

Added to this is the ‘pull’ factor of the unique ability of Community Housing Providers to access Commonwealth Rent Assistance as well as other federal grant opportunities (such as NRAS) combined with the demonstrated capacity of the highly regulated Class 1 larger, more professionally managed providers to raise significant private finance to support their program and to partner privet developers able to offer economies of scale. This means more homes and better outcomes - a bigger bang for the public buck with little risk because of effective regulation. The record of achievement suggests what a bigger program to CHPs of transfer of title or management income and responsibility might deliver.

International evidence of benefits

This is not an abstract or highly speculative matter. We have seen what the sector can do here and internationally when the program is of sufficient scale. The UK has transferred full title of 50% of public housing to regulated CHPs over the last generation and seen public investment more than matched by private funding so that every government dollar levers in another private one: the bigger CHPs can borrow more cheaply in the UK because of effective regulation and the scale of their operation than the major private house-builders. Outcomes have measurably improved, as has tenant satisfaction. The path is clear.

That path includes at its core the capacity CHPs have to enable tenants to move out of one tenure or type of provision into another along the housing continuum, as need and circumstances change. The commitment to this social mobility model, much more in evidence in Australia than in the UK, makes the need to exploit the possibilities of the CHP model even more pressing and obvious.

CHPs 'whole of portfolio approach' helping social mobility and meet diverse needs

Unlike with public housing authorities, CHPs can and must be further encouraged to take what has been called a 'whole of portfolio approach'. This is where CHPs can work with the aspirations of tenants strategically to enable them to move on along the continuum because the CHP manages or delivers a broader range of housing tenures and types than that provided in monopoly public housing. The Class 1 CHP model has at its core the mixed portfolio – from social housing of the traditional model, through sub-market rental for intermediate income earners to shared equity and on to purchase. This is not just a 'housing need' model. It is a social inclusion/mobility model of a very Australian kind, where the diverse business models of social, affordable and for sale housing are blended and public funding /private finance leveraged together. At its best, the CHP model creates mixed income, mixed tenure and mixed communities. This is simply not achievable under business as usual models.

Given this analysis, there has been a lack of momentum by the NSW Government in its relations with the CHP sector in recent years. Although there has been some small-scale transfer of stock for CHPs in NSW to manage since 2011, there has as yet been no commitment to a large-scale program of transfer of properties to manage let alone transfer of title.

Need for transfer on long leases – and a return to the COAG 35% target

We note in passing that while in the UK transfer of complete title was at the heart of the extra private leverage achievable by CHPs, several of our members in finance and affordable housing have been developing models which successfully leverage income from the transfer of the management of properties – and do not require title transfer – as long as the leases of such arrangements are not short term as they tend to be at the moment. Real efficiencies can be gained through longer term leasing – say 20 and 30 years, subject to regulation – which can combine the best of outsourcing and PPP approaches without some of the limitations or transaction costs of such models. (Many such models have been submitted as unsolicited proposals to Government. All have failed largely because housing proposals seem not to fit easily the criteria for unsolicited proposals. This is a process failure which is preventing reform and progress and which needs urgent attention. More will be said on this in the 'further innovation' section below).

The previous Federal government worked through COAG with state governments to agree an approach which foresaw 35% of state government public housing stock being under CHP management. This would mean that tens of thousands of public housing units /homes in NSW would ultimately come into the CHP sector, enabling the sector to leverage the income streams, Commonwealth Rent Assistance, other grant funding and private finance to both invest in the existing homes and, with the right approach, add new homes to the housing stock. It is difficult to understand why the same approach could not be proceeded with under this government. Accordingly the Committee calls for a re-assertion of the 35% target by the NSW Government and for initiatives to be put in place to initiate a large-scale program of transfer on a longer lease model.

Essentially with the right model of transfer – on a longer lease but with the title retaining in the public sector – CHPs can deliver huge added value. And by title/land remaining in department and thus government ownership, no issue arises for credit agencies or AAA rating.

Remove barriers to innovation and promote the public interest in new ways

The barriers to such innovation are difficult to understand. Effective regulation will minimise the risk to tenants and the public purse (as it has done so in the UK). Some of the barriers may just be tradition or reluctance to change. There may be real concerns about the capacity and systems of some of the CHPs but the regulator/Housing Department in NSW have already identified a group of bigger Class 1 growth providers which do have enhanced capacity on which further responsibility and stock can be focussed: no-one is saying that the 35% target should be met without due diligence as to the capacity and systems of the CHPs to be entrusted with such management responsibilities, oversight of stock or care of tenants.

Again, there may be a real concern that the public sector may be left with the hard to let tenancies and that the CHP sector may just cherry pick attractive lettings and locations. Existing tenants in public housing may also fear that their homes will not see the investment required once transferred to a CHP. Such transfer should only be to CHPs with the scale, capacity and governance to handle a significant portfolio of transferred properties and to play a responsible role as a long term partner to the Government and indeed to tenants.All these fears can be assuaged though effective regulation and enforceable contracts. The issue is the will to see change.

Further thoughts on transfers, re-designing the state public housing authority and the need for a level playing field in regulation

There may be a case of transferring significant concentration of public housing in a location to a CHP with significant connection to the area and with significant assets already in that area. The Department should at any rate be looking to looking to the redesigning of its own structures to over time become more of a commissioner/overseer/regulator of the management of public housing by its regulated agents rather than a direct provider (which is the direction of travel in Queensland). It may be looking to separate its provider function from its management function (as has been attempted with mixed results in the UK, with its local Arms Length Management Organisations which have taken on the management of local public or 'council' housing.)

Whatever the design and whoever the provider, social housing providers (whether CHPs or Department) should of course be subject to the same regulatory regime on a level playing field. And just as in the UK, if a provider regularly fails to meet the required standard (a statewide or national Decent Homes Standard)there should be a process of regulatory intervention leading to mandatory transfer to another provider, with tenants having the right to be involved in selection). In the UK, CHPs, Public Housing Providers and local Arms Length Management Organisations must all show how they can achieve the Decent Homes Standard – and trigger transfers to another provider who can if they cannot. Such a device and such a regulatory level playing field applicable to all social housing providers should be applied in NSW.

The redesign of the Department as a commissioner not provider could also lead to a decentralisation whereby the commissioning function was exercised below the state wide level where it currently sits. This could ensure closer cooperation with local providers and greater accountability to tenants and indeed greater alignment with economic objectives for the specific area.

The Committee believes the opportunity would arise such a re-design for a Sydney housing commission to work in partnership with the emerging sub regional planning structures proposed for Sydney by the Department of Planning & Infrastructure which will also be where affordable housing targets for a sub region – and collectively for Sydney – may be identified and agreed.

3. Whose role is it to ensure that more affordable rented and shared ownership homes are available? Does the government see a need for new housing solutions for Key Workers?

In our view there is confusion over whose responsibility or role it is to make progress in affordable rented accommodation and shared equity products. Indeed, the confusion might be not just over who – which department of government– should lead in this area, but whether or not government, its agencies, its regulated CHPs or its public land should be supporting schemes which support the 'housing careers' not of the very poor but others in the housing continuum experiencing housing stress. The Committee takes the view that the NSW Government must take a leading role – in a 'one government' response to affordable housing and not the current 'fractured silo' approach – in enabling these products to emerge, in partnership with the private sector and the CHP sector. Partnering may involve in some cases simply regulatory reform and a long term strategic focus to encourage this niche market to grow. It could take the form of subsidy. It might mean public land being provided at low or in some cases nil cost to aid affordability. These are matters for the Government to determine and to explore with CHPs and the private sector. Whatever form the Government involvement in this market takes, whether steering or rowing, we are clear that it has a role.

We stress that at the moment the NSW Government is alone among Australian states in not promoting a scheme for shared equity/ownership products targeted either at intermediate renters currently unable to access full homeownership or key workers who also are the focus in some schemes in Australia and internationally of affordable housing products. It also has no coherent view at the moment of the desirability of government supported or enabled affordable housing or whether it wishes to incentivise the private sector to develop a market for these products – or how it might do so. This cannot be right.

Part of the confusion is about the very role of government to which the Committee makes a general proposition: public-private partnering of some kind is usually required to make cities function best and that's as true of housing as of any other key infrastructure or service in complex city environments. Again, this doesn't have to mean direct provision. It can mean a supportive policy focus or effective regulation to reduce risks or just clarity and a long-term perspective to attract the private sector to create a new market.

Need for policy clarity

The lack of policy clarity at the moment may also stem from the institutional barriers between siloed departments. Partnering between the public and private sectors can achieve little where there is insufficient partnering between government departments – especially if they have land or possess some other vital ingredient for success such as planning tools.

This is another way of saying that for there to be innovation in public, social and affordable housing there has to be a breaking down of partitions between key government departments, particularly the NSW Department of Family and Community Services, Land and Housing Corporation, Department for Planning and Treasury. All need to be aligned, particularly if there are to be new shared equity models or affordable housing on public land or via public-private structured finance type vehicles (see below).

Government must take a positive role in incentivising affordable housing schemes and a new wave of estate renewal schemes

In addition, the very role of government as an entrepreneur in the affordable housing/shared equity space needs re-invigorating as at the moment the impression is being given that it is not seen as the housing agencies' role to enable affordable or key worker or indeed mixed portfolio/mixed tenure housing to be developed on public land or deploying public resources. CHPs for one example experience regulatory rigidity over delivering market based housing products when they are essential to progress in enabling shared equity schemes, affordable rented and other tenures more conventionally associated with CHPs.

In a mature highly regulated Community Housing Framework such as in the UK, none of this would be questioned. In addition, UK estate renewal schemes on public housing lend conventionally involve redevelopment, densification and diversification of tenures with a mix of social, affordable and market housing with the private sales subsidising the whole mixed development – and providing opportunities for shared home-ownership. Class 1 CHPs and partners in the private sector are ready and able to help government sweat its assets better, utilise its land more efficiently and deliver improved outcomes for communities across the housing continuum if they are enabled to do so and given both greater clarity from government about what the direction of travel is in this area of policy and greater flexibility for providers in delivering the objectives.

Affordable housing and the planning system?

Greater clarity is also required on what place affordable housing has in the planning system. This is currently in flux as are the wider planning proposals. Clearly the Government has felt that to have a planning requirement for a levy on development to include either a proportion of affordable or social housing on site or the equivalent contribution offsite, simply added to the developers' equation and might actually reduce delivery of housing – including social and affordable – overall. There is a danger of this and the Committee has stressed its desire to move away from an over-burdensome approach on the development process alone to contribute necessary infrastructure. We do think that too much is expected of developers in terms of infrastructure contribution – and usually too early in the process when upfront cash is required by public authorities ahead of development returns – and other funding mechanisms need to be explored including community levies, local government rate regimes and value capture approaches.

However, developers have always been willing to pay their share of necessary infrastructure in balanced regime. The issue here is to ensure that social and affordable housing are counted as necessary infrastructure in a well-balanced city but that an obligation to contribute to this 'infrastructure' doesn't come on top of all the other 'developer contributions'. The emerging sub regional planning structures are where infrastructure planning and appropriate contribution regimes are to focus and this discussion will be taken up at that level in due course. The Department of Planning and Infrastructure is reviewing its approach to affordable housing in the planning system as of writing. It should have some strategic priority in both regional and sub regional planning and could form a sub set of the overall housing targets for an area.

Towards government clarity on affordable housing – and new initiatives around Key Worker housing

The Committee, in addition to calling for CHPs and private sector partners to be encouraged by the NSW Government to innovate in delivering better outcomes from public land and grant and for support to be offered for mixed tenure /mixed income programs, also makes a simple plea: that the NSW Government and all relevant agencies in this space have greater clarity and uniformity of policy on the importance of having a suite of shared equity and affordable housing products in NSW – and on what role they see Government (across departments)as playing.

Key Worker housing can involve a range of products from below market rental units, through discounted market housing to shared ownership products. Given that the main difference between key worker housing and traditional affordable housing is that key workers are more likely to be able to contribute to at least part of their housing costs and they are likely to aspire to owner occupation which is something they could achieve in other, less expensive, parts of the country, the Committee sees the need for a specific public policy innovation in NSW around Key Worker housing secured through shared ownership.(Of course, such a scheme could be linked to a sub market rent scheme supported by a CHP for example which a Key Worker converts to a shared ownership scheme when circumstances allow.).

Such a scheme would bring NSW into line with other Australian States which all offer a Key Worker product and with some of the best practice internationally, such as in the UK which has an advanced Key Work suite of products.

The basic idea of the Shared Ownership schemes available in the UK typically to first time buyers and Key Workers is that the buyers can purchase a share of the property using savings or a mortgage and pay rent on the remaining amount. By owning larger shares of the property, the rent price comes down, and more shares can be bought whenever the buyer would like to. This gives a freedom to buy as much of the property as the buyer wants, or to continue paying rent in order to build up their savings. Depending on the specific model, the Government, CHP or a private sector partner will own the remaining share of the value of the property and charge rent on that percentage.

Although schemes have certain eligibility criteria in common though each of the key worker job sectors have their own criteria. Eligible Key Works includes, teachers, police, nurses and other health works, probation and prison service workers, firefighters, and defence force members. There is typically a cap on household income of applicants of no more than £60,000 per annum.

The Committee for Sydney strongly urges the NSW Government public housing authorities to work with Department of Planning & Infrastructure, CHPs, private sector lenders and indeed all government departments owning public land, to develop and pilot Key Worker housing products in Sydney. Key Worker housing can be provided by employers of key workers, using their own land, providing an opportunity to live close to where they work: nurses and key health workers in hospital grounds for example.

Seeking such affordable housing contributions from employment sites also seems particularly relevant in the key worker context and public employers should be encouraged by the NSW Government to develop housing on their own land. it should also include tenures such as shared ownership and equity and other low cost housing such as discounted market housing. This is because key workers aspire to home ownership and therefore rented housing can only provide a short-term solution.

The barriers to this are often Treasury rules mandating departments achieve the most profitable end use and sales price for their land, making affordable housing schemes difficult to realise in such locations. Treasury rules need to be reviewed so that obtaining the highest value on the open market for public land appropriate for Key Worker schemes is not the sole criterion of success and that a broader appraisal framework is applied to enable such schemes to progress.

4. New models and innovations to lever in new private investment: what is the appetite of NSW Government to explore or pilot them?

We add immediately that in our view what is required of government is innovation and clarity of purpose more than extra resources. Indeed, our approach is fundamentally about enabling government to sweat its existing assets better through a new partnership with the Community Housing sector, developers and those who do now or will finance social, affordable and shared ownership products. Innovation needs to be encouraged by the NSW Government (across all relevant departments and agencies including UrbanGrowth NSW but also all those with a land bank) in various forms of partnering between the public sector, the CHP and the private sector.

We add that some housing products for the intermediate market – for example some shared ownership models – do not require delivery by the public sector and may need shallow or even in some case no subsidy. There are examples of shared ownership products where the share not owned by the purchaser is provided by either the public or the private sectors. Sometimes all that is needed is the right regulatory or institutional framework to prompt CHP or private sector involvement. And some new private rented models reviewed by the Committee, which yet can provide longer-term security to tenants than is conventional in that tenure, require little or indeed no subsidy.

Of course there are other models which require active involvement from the public sector in terms of using its own land assets. What is needed is for the Government to explore what role it wishes to take and to explore innovation. Inaction is not en effective policy.

This, in conclusion, takes us back to the issue of the new models and innovations required to bring real momentum and which might lever in new private investment to the social and affordable sector. And what is the appetite of the NSW Government to explore or pilot them?

3. Conclusion: suggested initiatives and innovations

- **The first is the biggest yet easiest and has already been identified.** It is worth repeating. The biggest reform to which the Government should commit itself and the one which will lever in most new private finance to social and affordable housing is this: **to reinstate the prior government commitment to transfer the management or title of up to 35%** of public housing stock to CHPs with the scale, capacity and governance to handle a significant portfolio of transferred properties, subject to appropriate regulatory diligence and oversight and sufficient length of leases. Such transfers could take a number of forms including that a CHP with a strong regional capacity and identity takes on all the public housing in that region: but we stress there is more than one way of doing a significant transfer program and the Government will need to exercise imagination and flexibility with due diligence.
- **This commitment to transfer will create momentum, innovation and a scale**. It can transform the sector and deliver investment in existing homes, more new housing, affordable and shared equity homes (not just social homes) **and better outcomes for tenants** than currently achievable. These better outcomes will be achieved partly through social capital investment by CHPs, partly through CHPs providing tenants with pathways from social lettings along the ‘housing continuum’ and potentially into shared or outright ownership and partly through the enabling of more ‘mixed communities’ which all evidence we have seen shows are in the best interests of tenants and indeed the community.
- **The transfer of properties on longer leases than currently – we seek 30 year leases as contrasted with the usual 3 year agreements - is a key innovation** as both CHPs and those who provide finance to them, and would provide more if the right environment were created by Government have said to the Committee. The current short termism suppresses the capacity of CHPs to leverage and the appetite of the private sector to fund thirty year transfers and income streams – subject we repeat to appropriate regulatory oversight and intervention where required to protect the public interest and indeed tenants – create a much more attractive proposition against which to lend.
- **Such a PPP-length scenario (without some of the complexity) also enables new entrants to come into the finance market for affordable, shared ownership and social housing to bring their new models and products to bear on the sector.** And like PPP-type arrangements the ownership of land transferred is retained by the public sector and use of it returns to the Government after the due period. This is a device which should reassure those who worry that transfer in any way affects credit agency ratings. Properly structured, it will not.
- **We have been impressed in this context by the work done by several members of the Committee for Sydney** which includes collaboration between the Government, a CHP, a bank and in an innovative fashion, an infrastructure finance provider with a background in PPPs and other structured finance models. **This shows how much extra investment can be delivered** in existing stock, new development of further stock and more mixed communities can be delivered without any extra cost to Government over existing financial commitments.
- **This work has shown that banks would be more confident in and expand their investment program in, the sector, if longer-term transfers of public housing to**

CHPs became the norm. We stress how such a long-term approach and structure would attract the attention and co-investment of infrastructure financiers as partners to CHPs and banks, and how this too would strengthen confidence in the CHP sector and this market. It has been pointed out that some student accommodation developments have been structured and financed this way also so there are precedents to follow. **We call on the Government to explore and pilot such new approaches or relevant structures** which can be imported from successful ventures in other markets.

- **We also call on them to design an 'unsolicited proposal' framework which does enable innovative affordable and social housing initiatives to be backed by Government in the way the current framework simply doesn't seem to allow**.
- **And of course in addition, it should now be developing a 'solicited proposal' approach to enable the Class 1 providers and their private sector development and finance partners tender for the tranches of homes from the 35% CHP transfer target** when that is re-instated. Better still, it would use that that tender process as a competition for CHPs and partners with the best 'added value' propositions who can show how long term transfers will be leveraged to provide now just effective management of stock and tenant interests, but also tenant development along the housing continuum, additional social housing stock, additional affordable and shared equity housing and potentially homes for outright sale.
- **The tender process or a separate tender might also ask CHP bidders to show what outcomes they could achieve in partnership with the private sector in larger estate renewal schemes in specific locations.** The Government needs to clarify its objectives in relation to estate renewal. **There is confusion in the market at the moment,** following challenges at Bonnyrigg and the stalling of Airds Bradbury as to what the Government's intentions are in relation to estate renewal and in what form if at all (and where) it will go forward. **Such uncertainty must end** though all agree that the structure and tender process for such estate renewal projects need to be greatly changed and simplified – and the right risk/return profile clarified – if a mature market for estate renewal projects is to be established.
- **The Government needs to grasp its role as a market maker for affordable, shared ownership and Key Worker housing** – and be flexible if determined about its role. We have seen how other states and governments internationally have taken the lead, and we strongly urge the NSW Government to follow suit, particularly in developing intervention and products around Key Workers and shared ownership.
- **The Government needs to explore with members of the Committee for Sydney and others active in this space the new models of partnering between the public, private and not for profit sectors being developed by them. These hold out the prospect of a model that is financially self-sustaining and can build and maintain social and affordable dwellings without the need for additional capital or recurrent subsidies from the State.** Based on leveraging long term secure tenancy rental streams such models can achieve their objectives in social and affordable (Key Worker) housing without transfer of land/property by the State and without the contract being treated as an 'on balance sheet' finance lease. The model uses private debt and capital to fund development that is scalable, repeatable and value for money. The members involved in such models have been in discussion with Government and are keen to engage further to achieve innovation and impact in the public interest.
- **Other innovations might include** diverting the ineffectual first-time homebuyers'

subsidy – which probably adds to the cost of a home – to shared ownership products. Perhaps, NSW should emulate what the ACT has recently done which is for Treasury to agree to provide new investment in affordable housing schemes which is to be re-paid from the proceeds of development: that is, it is not a grant.

- **The Government should also review how bond finance has been attracted into affordable and social housing in several international jurisdictions** to bring long-term, cost-effective lending into the sector. In the UK the bigger CHPs are regularly accessing bond finance directly and the smaller ones are able to collaborate to access smaller tranches of bond finance under a bond-wrapping mechanism called the Mortgage Finance Corporation. This is a not for profit vehicle originally created by the CHPs and co-sponsored by Government which acts as an intermediary between the finance markets and the sector. The NSW Government should explore in partnership with CHPs and the finance sector to what extent access to bond finance would aid affordable /social housing providers here Government and what combination of regulatory innovation and institutional architecture is required to create the optimum condition for success.
- **Note that it is effective and fair government regulation, innovation, and institutional robustness which have created the confidence** of investors in the UK in this sector: not just grant or rental streams though the latter are clearly attractive to institutional investors there – so why not here?

Above all the NSW Government has to act decisively and innovatively in this space, working with its partners in the CHPs and the private sector, remembering always that imperfect action is preferable to perfect inaction.

Appendices

Committee for Sydney Priorities 2014

1. Managing the growth of Sydney: planning, housing and governing a global city

To achieve the planning system and governance needed to maintain Sydney's success, deliver the homes and jobs needed, promote intergenerational equity and realise the full potential of Western Sydney

2. Keeping Sydney moving: an integrated transport network for a global city

To improve connectivity and access across Greater Sydney, achieve a safe, affordable and reliable 24/7 public transport network, and support the delivery of major infrastructure and transport projects

3. Protecting and enhancing the appeal of Sydney: liveability and loveability

To promote Sydney's competitive advantage and offer in the arts, culture, sport, business events, hospitality and tourism – and the policy, environment and infrastructure they need to prosper

4. Competitiveness and productivity for the city and the nation: promoting Sydney's key economic sectors

To support Sydney's role as Australia's leader in financial, professional, business and ICT/digital services, highlight its contribution to national productivity and promote it as an attractor of global investment and talent

Our members

Accor

AECOM Australia Pty Ltd

AEG Ogden

Allens Linklaters

Amber Infrastructure

AMP Capital

ANZ Banking Group Limited

APN News & Media

Art Gallery of NSW

Arup

Australian Rugby Union (ARU)

Australian Turf Club (ATC)

BlueCHP

Bouygues Construction Australia

Bridge Housing

Brookfield Office Properties

BT Global Services

Business Events Sydney

Cisco

City of Sydney

Clayton Utz

Clean Up The World

Compass Housing Services

Darling Harbour Alliance

Deloitte

Department of Planning and Infrastructure

Destination NSW

DEXUS Property Group

Echo Entertainment

Elton Consulting

Evolve Housing

Football Federation Australia

Frost Design

Harbour City Ferries

HASSELL

HillPDA

Huawei Technologies

Imagination

Investa Property Group

Ivany Investment Group

KJA

KPMG

Leighton Contractors

Lend Lease Development

Liverpool City Council

Macquarie Group

Macquarie Graduate School of Management

MatthewsFolbigg Lawyers

McKinsey & Company

Meriton

Merivale

Minter Ellison

Mirvac

Museum of Contemporary Art

National Rugby League Limited

Newgate Communications

News Corp Australia

NRMA Motoring & Services Ltd

Park Hyatt Sydney

Parramatta City Council

Payce Consolidated

PCG

Penrith City Council

Plenary Group

Powerhouse Museum

PricewaterhouseCoopers

Qantas Airways Ltd.

RedBridge Grant Samuel

Sealink Travel Group

SME Association of Australia

St George Community Housing

Stockland

Sydney Airport Corporation

Sydney Festival

Sydney Harbour Foreshore Authority

Sydney Opera House

Sydney Ports Corporation

Sydney Swans

Sydney Theatre Company

Sydney Writers' Festival

TalentPartners

Tardis Group (Rockpools)

Transdev

Turnbull & Partners

University of Technology, Sydney (UTS)

University of Western Sydney

UTS: Centre for Local Government

Virgin Australia

Westfield Group

Westpac

WSROC

Y&R Brands

What makes us different

The Committee for Sydney is an independent voice and champion for the whole of Sydney, developing policy and expertise for Australia's global city. We are an alliance of strategically minded international and Australian businesses working with key public and not for profit organisations. Our members include major companies, strategically significant local governments and key cultural, sporting and marketing bodies. We represent no one sector or interest but we share one passion: Sydney and the role it plays as Australia's global city. We seek to bring all parts of the city together so that Sydney can 'collaborate to compete' more effectively. Our members work with our experienced board and team to shape our advocacy and events program. We stimulate discussion, provide expertise for decision-makers and promote action on the issues which really matter for Sydney. We have become a 'go-to' organisation for government, and firm allies of those pursuing the bold reforms that Sydney needs, for the benefit not just of the State, but of the nation. We are ambitious for our city and we build effective collaborations with those who share that perspective. While seeking practical solutions to immediate challenges, we develop 'big city' long-term thinking and aim to be visionary – always looking to identify the next set of issues to be tackled or opportunities to be exploited, to ensure that Sydney retains and grows its competitive, global status and key economic role for Australia.

Given Sydney's economic importance to Australia the Committee's agenda matters not just for Sydneysiders, it matters for the nation.

How we work

Our members are at the heart of everything we do:

Advocacy

- We work together with members to deliver proactive, creative and sustained advocacy on key issues for Sydney

Collaboration

- We build coalitions around the reforms and projects that matter
- We provide members with an effective conduit for communication with government and a voice in the public arena – and promote the kind of public/private partnering which is essential to the success of any great city

Research

- Using our own team's resources and expertise and that of our members, we do original research which has traction with decision makers and which provides important insights for members: our submissions and reports are influential

Engagement

- Our members provide strategic input into informed, in-depth policy development supported by research and best practice
- We provide events and networking opportunities with key decision-makers, in the public and private sectors
- We organise Taskforces around our priority areas to engage members, provide thought leadership and help identify actions that can be delivered by members or by government

Communication

- We publish our research, position papers and submissions
- We have an effective engagement with the media
- We enable a better civic dialogue to take place on the future of Sydney