

REPORT OF PROCEEDINGS BEFORE

**SELECT COMMITTEE ON SOCIAL, PUBLIC AND
AFFORDABLE HOUSING**

INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING

BRIEFING

EVIDENCE OMITTED BY RESOLUTION OF THE COMMITTEE ON 12 MAY 2014

At Sydney on Wednesday 12 March 2014

The Committee met at 10.00 a.m.

PRESENT

The Hon. P. Green (Chair)

The Hon. J. Barham (Deputy Chair)

The Hon. R. H. Colless

The Hon. S. Cotsis

The Hon. M. R. Mason-Cox

The Hon. G. S. Pearce

The Hon. P. T. Primrose

TIM WILLIAMS, Chief Executive Officer, Committee for Sydney, before the Committee:

CHAIR: Welcome to the initial briefing for the Select Committee on Social, Public and Affordable Housing. The purpose of this morning's briefing is to inform the Committee about the key issues being examined by this inquiry. It is an opportunity for members to put questions to the experts and consider their responses in a more informal setting than tomorrow's public hearing. This morning the Committee will hear from representatives of the Committee for Sydney and from the City Futures Research Centre at the University of New South Wales. This afternoon the Committee will undertake a visit to the Sirius Housing complex in The Rocks to meet with residents and hear their views and experiences of social housing. We are pleased to hear from the stakeholders who have volunteered their time to assist the Committee. On behalf of the Committee I offer my thanks.

This morning's briefing is private; however, today's proceedings will be transcribed by Hansard reporters and may be published by the Committee. The Committee also will consult those delivering briefings regarding publication of the transcript. Of course, it goes without saying, but I ask all members to turn off their mobile phones, or at least put them on silent, for the duration of the briefing. I welcome our first witness, Mr Tim Williams, who is the Chief Executive Officer of the Committee for Sydney. Thank you for attending. Would you like to make an opening statement?

Dr WILLIAMS: Yes. I have a presentation. However excellent it is, I will not personally be able to see it because I brought the wrong glasses. I am delighted and also honoured to be here. As you can tell from my accent, I am a recent arrival on these shores, although my wife is from Sydney. I have been here three years. I am going to prompt some questions because I think it is great that you are having a briefing session in a very uncontentious manner because there are lots of issues around us and not all of them are resolved. There are lots of different views, some of which are grounded in fact, and some ideological on all sides and this is a good opportunity to try to clear some of the kind of intellectual confusion out of the way. I hope I can help and not add to your intellectual confusion.

My background coming into this: I was an adviser to five United Kingdom Cabinet Ministers consecutively on housing. I sometimes give speeches saying the entire British GFC housing crisis was my responsibility, but I was there and I learned quite a lot, so we can talk about that. I helped create a new agency in the UK, which is a bit like the urban growth one you have. It had a massive budget and also took the social housing funding money into this agency. I ran the relationship of community housing providers [CHPs] for the Government and, indeed, the private sector. I was the guy, the Sherpa, who would go out and find out what the private sector was thinking, what the CHPs are up to. But we also are their regulator. I think there has been a bit of a revolution in the UK and it is not all transferrable, but some of the issues are, around community housing providers becoming big players through regulation, stock transfer, inevitably, and we will talk about that, the leverage they got out of this process and some of their own innovation.

But essentially we created a mass industry and it was not just the last Government. When Margaret Thatcher was the Prime Minister in 1988 was the big decisive moment in creating this big industry of the CHPs. One of the biggest now, L&Q, started in 1963 with 32 people putting in a small investment. They now have 70,000 homes worth billions. Along the way they have acquired involvement in low cost home ownership and a whole gamut, including private housing. We call them registered social landlords, but they are still regulated CHPs. They are very innovative and they have grown enormously on the back of a kind of public-private partnering and regulation and stock transfer.

The Hon. RICK COLLESS: Are rents actually regulated as well?

Dr WILLIAMS: Yes. They have various kinds of stock, but they have a core of about 50,000 units that are regulated rent stock—the equivalent of CHP over here in terms of that. I did not know they were quite as small as that, actually, but that is one of them. Just to show that this is still in play: places for people grew from 5,000 in the 1940s actually to 140,000 units—that figure there is wrong now. It is a big borrower in the market. It went for a \$100 million finance package. It has done bond issues of its own. Although it has become a big property player and has its own private properties—its own private rented—it is still a regulated body. I am just saying that there was an innovation. It did not just come from the CHPs; it came from government viewing them as a potential deliverer, I think. Just a bit more on the background before we go further, I was the Chief Executive of the Thames Gateway project in East London, which is a big housing and urban renewal. Believe it or not, that is the Olympic site. Shows you what transformation can do. I was the adviser to Lend Lease on the

Olympic Athletes Village. We built a mixed tenure community and Lend Lease is in partnership with the social housing provider to do that. It has all kinds of tenures in that place, including shared ownership and private rented. So we have a partnership between the public sector, private sector and a social housing provider.

Moving to Sydney, there are many familiar, often global, companies: PricewaterhouseCoopers, Deloittes, KPMG, but not just the big end of town. We have the Opera House and a number of not-for-profit housing providers at this point in time balancing the Stocklands and Lend Leases that we have. So it is a mixed bag and we like it that way because we are not representing anybody. My Chair is Lucy Turnbull and, basically, we provide a kind of advocacy for the city to prompt discussion; so no representing any particular sector. We do reports. I did one on Sydney's economy, which I think the title sums it up pretty well. Sydney is great for Australia because of its economy, but it is also creating something of a divide within the city. Our priority is the top one that brings me here today, "Managing the growth of Sydney planning housing and governing a global city." I have written on housing in Australia. I think some of you will have seen this report, "Homes for All" that I wrote when I was the Chief Executive of the Committee for Sydney—had just started—but it was issued by the McKell Foundation. But it is my work and some of the ideas that have been out in discussion I will raise today.

I have interest in this because I grew up in a public housing estate in Wales. I went to a meeting recently where they were talking about social impact and how you assess it. I said that in my mining village, when I went to my school in that estate, if they liked you they let you live. So I have very advanced views on these subjects. I come from the background; I am really interested in it personally but also professionally. It is a very great honour to be here and I do not think you should have expensive consultants advising you because Kipling said it all about what a good start should look like, which is what are we doing: why, when, how, where and who. I might challenge on public housing because I do not think we can answer all those questions. Essentially, "What is it for?" is one of the questions we ask in our document I submitted. If you wish, I will talk about it all.

What is the Government's vision for public housing and the future of tenants in it? It is a big international question; it is not just a question for Australia or New South Wales. I think there is lots of confusion now. When I was in that public housing estate, it was a general needs housing: 70 per cent of the housing in that mining community was public housing. We were not separate from the people in other tenures, either culturally or economically. It has become special needs housing almost everywhere because we stopped building it. We ration it and therefore we almost demand that people are sad, mad or bad to go into it because it is essentially special needs housing, which is rationed. I think there is a really big public policy question about what is it for and who is it for. It would be good if this inquiry did some thinking about that.

The second thing is that I do not think we are clear in the committee but also generally: What roles could government see the community housing providers playing going forward in the management or delivery of social and affordable housing? What is their vision for that partner? It is not clear to me at the moment. I think there is an opportunity to have a discussion—and this is a good opportunity—about what role do you want them to play, the same as they do now or expand it? I do not think it is clear. I think there are opportunities, but I do not think it is clear. The next one is almost as interesting. I think this term "affordable rented" is a contested term. I do not think there is enough clarity about what it is or is it a good thing? Should governments be involved in enabling it to happen? I think they have to in a city like this, but I am sure it is all to be disputed. I just ask the question.

I think related to it is whose role is it to promote this? Does the Government see a need for it? There is a discussion to be had about whether part of the problem is that affordable housing sounds contentious, but everybody wants to do something for key workers in this city. Can we in housing terms and what does that look like? I think the final thing is that there are a number of private sector lenders and partners of not just CHPs who are trying to come together and offer some innovation. They have put in unsolicited proposals to the Department of Housing, all of which have been rejected as not fitting the frame for an unsolicited proposal, to which I think we have to say maybe there is a problem with the unsolicited proposal framework or maybe we should start soliciting proposals rather than suggesting people kind of make it up.

Let us go to some need—recent stuff. This is the latest demograph for international survey. We well know this stuff really, but there is some further proof of affordability challenges in Sydney and the cost of living makes us sort of third in the world at this point in time. So it is not a surprise that our market is heating in housing. On requires nine times, maybe 10 now, the average salary to get a home in Sydney. It gets interesting at this point: look at that. This is the difference between Sydney and Melbourne in house prices by distance from

the CBD. That has become a critical factor in unaffordability. So it is not just generally unaffordable; it is specifically unaffordable because of the increasing importance of CBDs in our economy. This is very interesting: the knowledge economy is a centralising force in economic terms. It is clustering closer to CBDs and making the premium for having proximity to the CBD increase. Manufacturing decline is a geography too. Manufacturing has been declining in Western Sydney: well-paid working-class jobs declining, if you like, and knowledge jobs rising. It has been shaping the city's housing demand.

The Committee can see that it is sharper in Sydney than in Melbourne. Melbourne is a much easier place to develop housing in; it is a bigger challenge than Sydney. This is where it needs people. The estimate I did for Homes for All is that 70 per cent of 35-year-olds and under cannot access home ownership in the city at the moment, and it has doubled as a problem in a generation. So basically home ownership is becoming something that middle-aged people and older do—38 to 40 is becoming the average age. It is not everybody, but that is the average age at which people are buying a home, particularly in that close to CBD area. Interestingly, it is getting older basically. House size: the top one is Australia. Despite the boom in apartments, when we actually build a house they are the biggest in Christendom. There may be a cost issue around that as we are thinking of it. This is interesting and good news on the one hand.

Whereas three years ago we were only producing 14,000 homes per year, in the past three years—this is a real tick—it has doubled virtually, and it is on a good track but it needs to be 40,000. In 2010 when we did the last of the previous iteration of the metropolitan strategy it was meant to be 40,000 by this time, so we still have a long way to go. The bottom line is the one that you are allowed not to believe—the housing market does not work in a supply and demand way very easily. So we have increased the proportion of homes, we have doubled home production but house prices went up 13 per cent in a year. So those people who think that you can build your way to affordability, it is much more complicated than that because it is as much to do with the access to finance as it is to the number of homes or the size of homes.

The Hon. RICK COLLESS: Can I just ask a question on the 13 per cent? Some figures I saw a couple of years ago showed that the average price increase per annum in Sydney between the year 1990 and the year 2000 was 15 per cent?

Dr WILLIAMS I doubt it. I am not sure. I would have to look at that but normally—

The Hon. RICK COLLESS: Perhaps a better parameter to look at would be the affordability in terms of the multiples of annual salary?

Dr WILLIAMS: In which case that would show us going from three to nine. I think that is true but my point is—and it is an interesting one—that normally in a market you think if you produce a lot more the price drops. That is what people think—namely, if you can build a lot more you will drop the price. It is not that easy in our market. Part of the reason is that 98 per cent of all homes in the market already exist. So even if you build 2 per cent or 3 per cent more in a year, which is quite good going, it does not really have a big effect on house prices. I think where there is an interesting debate is whether you can localise. For example, the prices in Melbourne Docklands for units are about half what they are in Carlton. So there is an issue about whether you can actually pour a shedload of houses into a place and drop the price, but generally it is difficult.

CHAIR: In the 1950s the component of land price as opposed to house was about 12 per cent of the total package.

Dr WILLIAMS: Yes, it has gone up.

CHAIR: I do not know what the recent percentage is but it has got to be well over 60 per cent, 80 per cent land price and 20 per cent for the house.

Dr WILLIAMS: Yes, it is over half.

CHAIR: Land is not changing the outcome because it is expensive.

Dr WILLIAMS: Yes.

CHAIR: So I would not be surprised that we are not seeing a shift.

Dr WILLIAMS: Yes, but it is fascinating because you say to people you can build a lot more but not necessarily drop the price. They think potatoes drop in price if you produce more; it is not that kind of market. It is the availability of money, which is an independent variable sometimes—interest rates and all that kind of stuff. You need to produce a lot more is what I am saying.

The Hon. JAN BARHAM: In doing this are you looking at unoccupied?

Dr WILLIAMS: Could you continue the question a bit more, please?

The Hon. JAN BARHAM: There are a lot of unoccupied homes or properties that exist. Melbourne has just done an unoccupied study.

Dr WILLIAMS: Yes, and there is a lot of under-occupation as well with generational shift and so on.

The Hon. JAN BARHAM: So there are a lot of properties that no-one is living in, they are just investments.

The Hon. SOPHIE COTSIS: That they own?

The Hon. JAN BARHAM: Yes, they are owned. They are being delivered, built as residential dwellings.

Dr WILLIAMS: You mean empty?

The Hon. JAN BARHAM: Empty, unoccupied. They have been bought not with the purpose of providing housing, but they have been bought for investment.

Dr WILLIAMS: Essentially we saw the same in England in 2005 where they were in advance of demand. I think what I am saying is that there is a bit of a loose relationship in this market between supply and demand. The independent variable is cash, and there is a lot of it about. In Melbourne they reckon 70 per cent of new homes are coming from Chinese investment in apartments. It is kind of interesting. So I think yes to producing lots more, but that will not necessarily solve your affordability problem. Smaller lot size is a good thing and we think no minimum lot size would be good in the planning system. There is over regulation around sizes. I know there is controversy around that but I think—

CHAIR: Tim, when you say no minimum—

Dr WILLIAMS: Sorry, even I need a minimum.

CHAIR: —there are identified precincts where that would be.

Dr WILLIAMS: Yes, I think that is the point. Then I think it plays to the discussion with the developers of the regulations for the developers around what the expectations are in certain areas. I think that would work.

CHAIR: Then floor-space ratio comes into that as well.

Dr WILLIAMS: And whether you can do inclusionary zoning and that sort of stuff. Essentially lot size is an issue but in this context, you need to try and make housing affordable for sure but it is quite difficult.

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The Hon. RICK COLLESS: The private housing market would collapse, would it not?

Dr WILLIAMS: Yes. So I am just saying as a former political advisor it is a very complex issue in a democracy where home owners have the vote and where they have got used to thinking of houses as a commodity rather than a home to be honest. The next thing is quite interesting. Some 22 per cent of Australians own 55 per cent of properties partly because of various tax incentives but also because self-invested super plays into this now. People are now getting two or three homes; it has become quite an Australian phenomenon. I am

not saying it is a bad thing, I am just saying that it is really worth understanding. There has been quite a last 20-year thing of people getting two or three units, as we have seen—families, small families and not big owners.

The Hon. SOPHIE COTSIS: But that is with their super.

Dr WILLIAMS: Yes, and it is partly related to the phenomenon we are seeing of home ownership dropping. It is related because they are slight squeezing out. You know, I make no judgement. I am more interested in the fact that people should understand that this is an interesting fact. Another interesting fact is that 51 per cent of the homes forming in Sydney have one child or no children. This is a really big fact in the demographic shift of all cities, and it is happening to our city. The Grattan Institute asks whether we were producing the stock in the places—

The Hon. JAN BARHAM: But that relates to the fact that it is difficult for people to move and the empty nest phenomenon?

Dr WILLIAMS: Yes.

The Hon. JAN BARHAM: That is why Grattan has proposed—

Dr WILLIAMS: I think also—and this is very interesting—Lucy Turnbull is really quite interested in and worried about the intergenerational equity issues. Home ownership is becoming something for older people. I do not think it is all to be solved in your work but I am just putting it out there as the context. This is also very interesting about Sydney. If you put a line through Parramatta north-south two million people now live west of that line. That is a phenomenal number and I do not think people in Sydney get it. My wife is from Lane Cove. I can tell you that she has no perception of anywhere west of Lane Cove. That is an amazing fact about Sydney and our economy does not actually reflect that, as I will show. What that one-third, two-third is that we are not producing enough jobs to balance the homes in Western Sydney.

The Hon. RICK COLLESS: That is within the Sydney basin?

Dr WILLIAMS: Yes. The problem for the west at the moment is in a sense that we are producing a lot of homes westward—I will give you the number—the number is 70 per cent of housing permissions in Sydney at the moment are west of Parramatta. Some 70 per cent of housing permissions—that is, development applications, are currently west of Parramatta, and that is the official department figure. That is for a lot of reasons but let's just say that the issue in Western Sydney is jobs and housing bands, and that affects affordability to some degree. This is just an interesting way of showing why Sydney is a challenge and Melbourne is less of a challenge. As a context, the dark blue is effective job density. Essentially more people in Melbourne can access more jobs, more quickly than in Sydney but also more people are living within that lighter blue area in Melbourne. Effectively what that means is that you can access more jobs. You are living in areas which can access more jobs in Melbourne than you can in Sydney.

The Hon. GREG PEARCE: I do not follow that.

Dr WILLIAMS: Sorry, it is my eyes. I will have to explain closer.

The Hon. SOPHIE COTSIS: When you are talking about access are you talking about transport access or the availability of jobs?

Dr WILLIAMS: Sorry, essentially Sydney's challenge, of course, is that Sydney's CBD is to the far east of the city. That is not an optimal place if you want to achieve a 360 degree access to labour markets and indeed the houses. In fact what this also shows is that more people are able to live in easier access to jobs and the CBD than here. We fizzle out here. Remember, two million people live west of Parramatta.

The Hon. GREG PEARCE: I do not know. If I look at your chart there it tells me that there are more people in Melbourne in the 10- to 20-kilometre ring than there are in Sydney.

Dr WILLIAMS: That is what I am saying. Sorry, I did not explain very well. This shows that more people are living and able to access jobs within that area than here.

The Hon. RICK COLLESS: The dark blue is jobs density?

Dr WILLIAMS: The dark blue is jobs density. So basically there are too many people over here unable to access in one hour these jobs. So essentially our geography is different and our challenges are different.

The Hon. JAN BARHAM: You are saying that the jobs issue—

Dr WILLIAMS: Underpins some of the heating of our economy issue because people are going east for jobs. Melbourne has got a more benign sort of scenario. I was up at 5 o'clock this morning. I could not have explained that as well as I normally do, never mind. Here we go. Essentially it is a very different challenge economically and spatially. So Sydney needs different kinds of interventions. So our CBD being to the far east as opposed to the centre is a major challenge in terms of overheating.

The Hon. JAN BARHAM: I know you said you are a recent arrival, but have you looked at the history? The City of Sydney looked at this some 15 to 20 years ago and did the Living City program to try to bring more people in.

Dr WILLIAMS: Yes, more and more people are living there. It has hugely increased. It is now an international phenomenon, and I think that is a good thing. Just to finish off the economy, amazingly half the jobs in Sydney in the past five years were only in three LGAs. That shows that although there has been jobs growth it is very geographically focused and that is why there has been lots of overheating in specific places. It is quite a striking statistic I think. This is what it is in Sydney. The darker areas are the kind of lower income areas. I rush to say that that is not necessarily a permanent state of affairs; that is just what it looks like at the moment. But it raises the question that if 30 years ago you bought a house in Liverpool it would be one-third of what it cost in Mosman and now it would probably be one-eighth of what it cost in Mosman. The gap in terms of social mobility is an interesting question as to whether there is a gap opening up. Anyway, it is not my area of expertise but I think it is really interesting.

Essentially the force driving this is houses have been going west and knowledge jobs have been going east in the city. So I have mentioned that. Now I am going to get to the housing stuff. A very interesting phenomenon happening is that the knowledge-job economy is driving people to live closer to CBDs. Forty years ago wealthy people sought a suburban existence. What are they doing now? Part of the overheating in the inner west and the North Shore and other places is actually that older people are not retiring to Port Macquarie, they are renting out their big house and they are buying a small house in the inner west. It is a big phenomenon. It is not just young people who want to get to the facilities in the CBD. There are two demographics chasing the same areas at this point in time.

In America they call it the Great Inversion, which is to say the move back towards closer to CBDs. Now, Sydney is a bit different. Here we go. All these forces led me to say that Melbourne will overtake us as the biggest city by 2050 but I am deemed to be a pessimist. Number one, which is what you are showing and I thank you very much, is political leadership to prioritise housing. It is one of those things because a big proportion of society is relatively content with housing because their house values are going up. It has never been as big a political issue as it should be I think. Younger people I do think feel excluded from this discussion and from supply. I do think this is a very big issue.

The Hon. GREG PEARCE: Supply or ownership?

Dr WILLIAMS: Interestingly, I think there are pressures on all tenures because of this lack of supply. I am a big supporter, I hope you agree, with planning reform and I am a big supporter of what the Government is trying to do with planning reform because I think we need more housing of all tenures. With ownership there is particular discussion about intergenerational equity because there is pressure on all tenures at the moment.

The Hon. JAN BARHAM: There is concern that young people are being pressured out of the system. Is it that they cannot buy—

The Hon. GREG PEARCE: Correct.

The Hon. JAN BARHAM: —or that they cannot access housing? It is the thing about us fitting differently to the rest of the world where lifelong rental is viewed as okay but we are all hung up on ownership?

Dr WILLIAMS: I do not know the answer to this one. There is a chicken and egg issue here.

The Hon. JAN BARHAM: I think it is cultural.

The Hon. GREG PEARCE: That is part of it.

Dr WILLIAMS: What I think is happening is that the reduction in supply we have had and the difficulty of accessing it, mixed with changes in culture and demography—there are two things going on—means there has been less supply than we have needed, although that is slowly being addressed but also demography has changed; families sizes have reduced. There seems to be an international phenomenon of people accepting smaller units closer to economic activity. That seems to be an international phenomenon but it is a chicken and egg problem. Are young people feeling excluded because they have given up even trying to think about buying or do they not wish to buy? I think there is a moot point between those two. Both those could be true. Culture could have changed and some people are saying that it is not even worth bothering.

Let me give you an interesting point. The number of households forming in Australia has dropped, according to the official statistics. What we think is happening is that younger people are staying at home longer and whether or not that is a choice is an interesting question. I made a number of suggestions looking at the levy system and I am a believer that stamp duty is a bit of a problem, although State governments inevitably like it because of the income it brings in and I do not think that is going to change any day soon. I think there is a real discussion to be had about whether the incentives we have in the system encourage demand but not supply—negative gearing, capital gains, all that stuff, and self-invested superannuation. If I was confident that they were increasing the supply I would be fine, but I am just not sure about that. I think you could end up having more money chasing the same number of funds. I do not know. It is a good discussion.

The Hon. SOPHIE COTSIS: You are talking about providing incentives to boost supply.

Dr WILLIAMS: At the moment they boost demand.

The Hon. SOPHIE COTSIS: They boost demand so the first home owners grant—

Dr WILLIAMS: It is interesting. I do not think that boosts supply at all. I think it actually raises the cost of housing, oddly. I think there are some perverse incentives in the system and I think that is an interesting one because it was with good intentions. But I suspect it adds \$7,000 to a house.

The Hon. JAN BARHAM: And the rest.

Dr WILLIAMS: I am not saying it is easy; I am just saying that some of the incentives in the system boost demand, that is, for the 22 per cent to get 55 per cent of homes. It is in my interest to have two or three units. That is an incentive that the system gives me. If we then worry about fewer people having home ownership, there may be a link between those things. We need nationally to look at incentives for demand.

The Hon. SOPHIE COTSIS: For supply.

Dr WILLIAMS: Incentives for demand and also how they affect supply. I am glad the Committee is looking at what public authorities are in effect up to and we were very keen that you do so. I am not hearing very much at the moment about the better use of public assets, that is, is there discussion to be had about how public land could be used—lazy assets could be used, and not just to sell them. You could sell them to the private sector, that is fine—you would get some income out of that—but you could also partner with the private sector and community housing providers to get results that you would not necessarily get by just selling, for example, affordable housing products long term. I want to talk about that. There is the housing system and I am very glad that you are doing affordable, public and social because there are links between all these things.

The Hon. JAN BARHAM: And homelessness.

Dr WILLIAMS: Indeed. But also because of the difficulty of getting into housing of any tenure, richer people are now renting and that is forcing lower income people into rental further out from the city, et cetera, et cetera, and that is putting pressure on waiting lists. There is a link between these things; they call it the housing continuum. I am keen to break down the walls. New thinking and new money is required. I return to the Committee's questions and I will conclude in about five minutes.

What is the vision? Clarity please and it would be helpful if this inquiry could prompt that discussion. What role do we see for government in relation to the CHPs and whose role is it to ensure that more affordable rented and shared equity homes are available? And then, are there new models? We do not think there is enough cash in the existing public housing system. If you have 110,000, or whatever the number is, it takes an awful lot of money to bring those up to standard. There needs to be an internal review as to how much is required and how many, but it is a lot of money, and also how much money would there then be to produce new public housing, social housing or indeed affordable housing?

The Hon. GREG PEARCE: That conflicts with your written submission in which you state on page 6, "the good news is that those calling for reform are not calling for new public money to be spent"?

Dr WILLIAMS: No, I am just saying I do not think you have enough cash to actually invest in your existing homes.

The Hon. GREG PEARCE: You say that somewhere else as well?

Dr WILLIAMS: No, there is no contradiction, if I may say so. What I am saying is that you do not have enough cash in the public housing system.

The Hon. GREG PEARCE: I agree with you.

Dr WILLIAMS: No. Maybe it is the way it is written. It is not about a new grant that is required. I think new private sector finance can come into the system to fill the gap. Thank you for asking for that clarification. We think a big stock transfer program needs to be discussed. It was the game changer in the United Kingdom—stock transfer from public housing to community housing providers was a big game changer in the United Kingdom, bringing new money into public housing and social housing and enabling the CHPs to become entrepreneurial providers of affordable housing products, subject to regulation.

The Hon. JAN BARHAM: But is that not happening already? That has been the program of transfer.

Dr WILLIAMS: It is much slower than I think people expected three or four years ago. There was a government target three or four years ago which we say in the submission we would like to see reinstated, which is a 35 per cent transfer to CHPs on public housing.

The Hon. SOPHIE COTSIS: But housing providers have an obligation to build more housing?

Dr WILLIAMS: Yes, it depends on how you do it. We have seen from the discussion yesterday that there are stupid ways of regulating as well as intelligent ways of regulating. In the United Kingdom there have been no such examples because regulation has been very strict. Regulation is at the heart of a transfer but you can actually enable them, not only to manage not just existing public housing properties but to leverage their resources. They have extra capacity to leverage than the public housing sector.

The Hon. GREG PEARCE: To pick up that point, it has been asserted that this transfer is good. Where is the United Kingdom evidence to that effect? Also, what is the measure of the success of that transfer, other than making very rich certain community housing properties?

Dr WILLIAMS: Rich is an interesting thing. They are effectively very entrepreneurial and they are delivering public benefit.

The Hon. GREG PEARCE: I am not disputing that. What are the measures?

Dr WILLIAMS: I was involved in the regulation of the sector and by return I will read into the record, if you do not mind, the research that was done in the United Kingdom about the beneficial impact on tenants both in terms of the amount of investment in their homes from self-transfer, the social capital investment in people that resulted because of the transfer and the overall satisfaction of tenants plus the satisfaction in the private sector lending community with the regulated stock transfer vehicles that were created. So it is a full house literally of satisfaction productivity as opposed to the inertia that there is in a monopoly public housing-private system where they are not as entrepreneurial—and you know this from your own experience—so I am

not saying, "Just accept as read"; I am saying it is worth exploring very deeply in this inquiry. This is the fundamental issue.

The Hon. GREG PEARCE: Is not the fundamental difference that in United Kingdom the sources of revenue are much greater, in other words, there are much bigger subsidies for rental accommodation coming from councils and government? That is the difference.

The Hon. JAN BARHAM: And the council thing is an interesting, one having been through the local government experience. The whole idea of public land being held by local government, which is charged with responsibility to deliver affordable housing is an real devolution but they do not have the skills, time, energy or the option available to transfer to a community housing provider and establish a relationship where it is built and local government has a responsibility to the community to get a return on the investment. There could be a sharing of the ultimate return by way of rent, which could deliver more localised housing and address local needs, whether it is smaller housing directly suited to single-parent families or aged people. The model needs to be reviewed to ensure the criterion is correct and to consider what land is available, what local government holds and whether that addresses the need?

Dr WILLIAMS: I agree with that because it is not just State government public land, but I return now to the question. I understand that and I think that is the nub issue in terms of the amount of subsidy available. I have seen models over here that have been submitted to the State Government where a bank and infrastructure provider, for example, put in a bid with a CHP that have effectively said, "If you give us 100 units for 30 years on lease regulated, the income streams from that plus Commonwealth rent assistance—"

The Hon. RICK COLLESS: That would be funded by the private sector?

Dr WILLIAMS: Yes.

The Hon. GREG PEARCE: It is a model.

Dr WILLIAMS: One of the models which I think fills more of the gap on subsidy that you are looking is a longer lease. I think part of the problem at the moment is that we transferred to CHPs for three, four or five years, whatever it is. Banks are not that interested in that but with a model that says it is like a public-private partner [PPP], without the grief, that it is essentially a lease of 30 or 40 years—

The Hon. JAN BARHAM: So the title stays?

Dr WILLIAMS: The title stays with the State Government, I think that model does elicit more resource. The issue then becomes regulation. If you go down that model I think you could end up with a returned stock to the State Government that is in a better condition than when it was transferred, but it is about regulation.

The Hon. GREG PEARCE: I think we need to explore the longer term. All of the models that are based on National Rental Affordability Scheme [NRAS] were flawed.

Dr WILLIAMS: That one was not.

The Hon. GREG PEARCE: Because you cannot expect the Federal Government will continue to pay NRAS.

Dr WILLIAMS: No.

The Hon. GREG PEARCE: And you cannot expect that the Federal Government will let NRAS blow out to cover two-thirds of the property market so that model is good.

Dr WILLIAMS: The model that I just mentioned is not based on the NRAS.

The Hon. GREG PEARCE: The market reality is that this Government put out to the private sector a PPP at Bradbury in 2011-12 which completely failed; not only that, the one at Bonnyrigg, which everyone has been very proud of in the past, has fallen over.

Dr WILLIAMS: Let us not have a debate. I can tell you my views on that. Number one, the model was not based on the NRAS. Whatever comes out of this, I think almost a very big single idea is: what can you get out of a longer lease transfer? By the way, I think the Airds-Bradbury thing and Bonnyrigg were not designed properly and therefore are not models that one should follow. The model that I just mentioned involves an infrastructure provider. What is really interesting is that the rates of return require—and this was not understood by the people before your time who designed Bonnyrigg—that if you are a developer the proportion internationally that you want returned is 22 per cent return on capital employed.

This is not a manufacturing process; this is a planning risky process." I want 22 per cent return before I will build a brick". If you are an infrastructure provider in a PPP space, which is about knowable incomes—and this is why some of them have fallen over because they have muddied the waters—you want 12 or 14 per cent return. What they were asked to do in Bonnyrigg was basically take a developer risk but get a PPP return and that outdrew one provider into the market. That is not the way to do it. It is not an Aunt Sally; it is a learning curve. We have learnt that that is not the way to do it. Do I think that there are other models involving tendering leases? I do. I think we need to look at it as a non-ideological way of serving public benefit.

The Hon. GREG PEARCE: It would be useful if you had the time if you could give us the longer term lease model.

Dr WILLIAMS: I have got one.

The Hon. GREG PEARCE: In an anonymised fashion.

Dr WILLIAMS: I would like to do it anonymised. I have got that.

The Hon. GREG PEARCE: So that we can actually have something to look at.

The Hon. JAN BARHAM: And an analysis of the failings of some of those other models.

Dr WILLIAMS: I could do that on two sides of A4, if you want that?

The Hon. JAN BARHAM: Yes.

Dr WILLIAMS: I think what is good about that is it is a generic model; it is not a proprietary model. It is obvious. I think it just needs will to experiment with it.

The Hon. JAN BARHAM: The point I make is when you say the developer return expectation is 22 per cent because of risk, if you eliminate the risk, you know exactly where you are putting it and why; the demand is there.

The Hon. RICK COLLESS: That is the public-private partnership model, basically.

The Hon. JAN BARHAM: That is right.

Dr WILLIAMS: Yes, but the public-private partnership model was oversubscribed and really complicated. I do not know if you know this and I cannot remember what the figure was but there was a 2,500-page contract for Bonnyrigg, I think. We do not have to do it that way at all. Also, in terms of the difference of risk profile, if you are a builder who is building for somebody else taking a land risk, you might make money on 6 per cent or 7 per cent, but if I am taking a land risk I will want my 22 per cent.

The Hon. JAN BARHAM: That is why I have an interest in local government being a real player. They offer up the land.

The Hon. SOPHIE COTSIS: That is right.

The Hon. JAN BARHAM: They have done all the work—the analysis, the strategies and they know what they are community is—and they are meant to do those long-term projections.

Dr WILLIAMS: We are in agreement and I think there is a second thing. There is a generic model that should be looked at. The second thing is that there is a general principle here about some innovative public-

private partnering and not being ideological either from a little Left or Right perspective about this, which I do not think is the issue. The issue is that if you have public assets, some of them can rationally be solved and some of them should be partnered where you put the land into a partnership deal over 30 years. I just think it would be good to open up the debate about good models between the public and private sector.

The Hon. JAN BARHAM: But you will have to convince people it will be good for them.

The Hon. SOPHIE COTSIS: Can I ask you why you think government cannot do what you are talking about. Why do you think government cannot be efficient?

Dr WILLIAMS: It is interesting this. Somebody once wrote, "There is nothing so monopolistic as a state monopoly", and contestation is an issue. I grew up on a public housing estate and I have to say to you that I do not think it was ideal and lots of ways. Local government had so many other things it had to spend money on other than housing and it was very difficult to get any attention to your complaints, really, because it was just not the way it worked. Internationally we discovered that the best way to look at this is: How do we deliver public benefit in whatever provider approach we have? I think we should be very open-minded about who provides but very clear about what is provided. I think you could have a regulatory process that enables that.

Let me just give you a thought about the regulatory process, which I have not mentioned. At the moment the State Government regulates community housing providers but in a sense I am not sure how public housing is regulated and the relationship between these two things. For example, one of the devices we had in the United Kingdom for creating a level playing field was something we called the Decent Homes Program, which essentially set a challenge to whether it was a public housing provider or a community housing provider to reach a national standard or an agreed standard, whomever the provider was. If they could not reach that standard, it triggered a ballot of tenants as to a new provider. It was a very contested and interesting model of achieving change because it was driven by focusing on tenants and their needs, but the provider could change. I think that is an interesting model, which I think we should look out over here.

The Hon. SOPHIE COTSIS: But that can also be corrupted.

Dr WILLIAMS: Any system can be corrupted.

The Hon. SOPHIE COTSIS: Yes. Can I take you back to the point you made about the contestability model. The Hon. Jan Barham made a point about local government having a whole range of services to provide. This is why we have housing and the State Government providing housing as a housing provider and manager of tenants and services. It is the State Government's business to be responsive and to deal with the issues of getting people back on their feet and getting a job.

The Hon. JAN BARHAM: Should be.

Dr WILLIAMS: Yes.

The Hon. SOPHIE COTSIS: When the former Government looked at outsourcing, for example, maintenance of public housing, you can look back at that and see the difference in the last few years and ask: Has that been an efficient way of managing taxpayers money?

Dr WILLIAMS: I take the point. Let me respond to that one. You can have your big cultural revolution and you can have your outsourcing massively to a community housing provider sector. That is one way of looking at the world. But even if you do not do that, or even if you do partly that and you have still got 70,000 homes left in public housing, are there things you should be doing? The split in a sense is a form of split between a client and a contractor but there has been an attempt to under the former Minister's regime to have kept the architecture right about these things. I think we need more contestation and accountability within the public housing system as well. Some outsourcing discussions are worth having. Maybe there is a discussion around some regional geographical variations. There are 110,000 homes held centrally.

The Hon. SOPHIE COTSIS: There is no one size that fits all

Dr WILLIAMS: But at the moment there is a one size fits all, which essentially is run as a big fiefdom. It is always worth looking at what will make it more accountable and more effective.

The Hon. SOPHIE COTSIS: You are saying break it up?

Dr WILLIAMS: It is interesting. If you want to look at making things accountable, there are a number of ways of doing it. I thinking having more power to tenants is one and I am very keen on that. They can challenge their provider. I like that as a model. I think it is a both liberal and left-of-centre model. It is very interesting. It puts power back into the hands of tenants. But you can have more bureaucratic top-down interventions as well, which is around trying to enforce accountability and responsibility. Some people have mentioned to me that maybe there is a way of having a kind of geographical decentralisation of some aspects of the public housing system.

The Hon. JAN BARHAM: I understood that that is what the Government is doing now with the contracting out of the maintenance services anyway at a regional level. But my interest is more that housing is about people.

Dr WILLIAMS: Yes.

The Hon. JAN BARHAM: I understood that in the United Kingdom—and I know in Western Australia they are doing the program and I think Tasmania is trying it—there is an uplift issue. I grew up in privately owned housing within a Housing Commission area. I watched as people were skilled—my dad was great handyman and people used to come and get advice from him—but the fact is that now someone makes a phone call and then waits for someone to get back to them. The idea that you build pride and you can actually give people a sense of worth and value through that process of home ownership and pride allows governments to stop relating to the bricks and mortar and start relating more to the people about how you deal with that.

Dr WILLIAMS: I agree with that.

The Hon. JAN BARHAM: In Claymore I am really interested in those areas that have fallen away because there are perhaps not enough human social programs going on at the same time, just bricks and mortar.

Dr WILLIAMS: Can I respond to that because in my submission I say something about this. Come back to the evidence about this. Partly because large bureaucracies are driven by so many things and they know that they have to manage houses, it is quite difficult to get the integration and the sense of mission in public housing around developing the social capital of people in public tenancies. I think individuals have that. I think the system itself finds that difficult. I think that there is more evidence that community housing providers have been leveraging their assets not just to manage the home but to intervene a bit more in the social development of the people.

The Hon. JAN BARHAM: Yes.

Dr WILLIAMS: But there is a fundamental challenge. I got into trouble in the United Kingdom when I was advising one Minister. I wrote a speech for somebody called Caroline Flint and it said that given that public housing was rationed, there has been a race to the bottom to get into it. Literally, there is a perverse incentive to get into it. You have to show how poor and desperate you are. Then you are in it, and you find it very difficult to get out of that. We thought there should be a something-for-something deal for 18-year-olds going into community housing, such as, "Are you going to commit yourself to be on a program of qualifications and job interviews", but also support what they need—much more of a package, rather than leave it to fester. I got into trouble because the community housing providers, who told me that it was a good thing, then attacked me in public. But it is the right approach.

However, I put it to you that it is much more difficult. I think there is a housing continuum that the community housing providers are involved in managing where they take the best ones—I think St George and a number of them in Sydney are the good ones—they look at the individual and they actually have a discussion with this person what their ambitions are in housing terms. They help them go along the housing continuum. There is a lot of evidence that the best community housing providers are taking people along the housing continuum from totally rented into, if you like, private rented, shared equity and affordable. There are good case studies. I do not think it is happening so much—it cannot happen—in public housing because public housing is a closed off part of the continuum whereas I think it should be part of and understood to be linked to other forms of housing tenure. Community housing providers, because they manage other forms of housing tenure, have that approach. I think that is a fundamental value that is worth looking at.

The Hon. GREG PEARCE: I think it is a very important point that the community housing providers are in a sense able to cherry-pick the best tenants. That does make a big difference.

The Hon. JAN BARHAM: Yes.

The Hon. GREG PEARCE: The other point that is not made in your submission is that the community service providers effectively have used housing that so far has been transferred over to them for affordable housing, not social housing.

Dr WILLIAMS: Exactly.

The Hon. GREG PEARCE: Firstly, they have not actually reduced the waiting list at all and, secondly, they are getting higher rentals, so yes they should.

Dr WILLIAMS: That is a regulatory issue. I mean, you could do it better.

The Hon. GREG PEARCE: Yes. The other part of that is that, when the transfers have occurred, there has been a cost to the State because the land has been provided for nothing.

Dr WILLIAMS: Okay.

The Hon. GREG PEARCE: The revenue that could come from selling the land is actually lost and not reinvested in the State system.

The Hon. JAN BARHAM: That is my point for local government too—that they have to get something back.

Dr WILLIAMS: There are two things about that. These are good points. The first is that regulation is partly the issue because we are so new at this business and we do not quite have some of the structures in place. You could perfectly well say in the business plan of a transfer, "We are very keen for you to do 20 per cent affordable housing but you have to do a number of social units." In the model that I will read into the record it is whatever you like, really, but essentially it is investment in existing housing, more social housing and some affordable units. The question is almost a philosophical one: What role do you think government should play in enabling this affordable housing stock to be created, which is obviously a benefit for some individuals who are not as needy as those in social housing? That is a philosophical issue.

I do not think you have a choice. I think that key workers, particularly in this city, need some products. I think we are almost the only State at this point that does not have a dedicated key worker product. Actually, it is unusual so would like you to look at that. I think also it is very attractive in terms of the we literally would be saying, as they are saying in the United Kingdom, police, fire, essential services have got a track—first homebuyers as well.

The Hon. JAN BARHAM: That is right.

Dr WILLIAMS: I think it is a philosophical discussion: What role do you want government to play in enabling that to happen, particularly when its own land is at stake? There was a second point you made and I have lost it.

The Hon. GREG PEARCE: The land.

Dr WILLIAMS: Yes, the land.

The Hon. JAN BARHAM: My point was going to be when some of that housing is provided. What is the time frame? Is it in perpetuity, or is it 10 years? If it is only 10 years with a development bonus, then that is easy money and in 10 years time you have the same problem, if not a greater one.

Dr WILLIAMS: Yes, I acknowledge that. Look, I am not going to be dogmatic about it either way. If some of that works the 10 years, that is good, but if you want something longer—which I think you should—then you should look at these models. But to come back to the land thing, you forgo the receipt now and that is a decision you make. It is a rational discussion to be had. But you get the land and you keep the land and some of

the models that we are talking about, so the land is not alienated, and you get back the units in a better condition. Why? Because you will regulate them to ensure that that will happen.

I do think that part of the mindset here is that we are thinking about regulation as it is now as opposed to what it should be, which is partly to create a better market of providers and more contestation in the business of serving public housing tenants but also in leveraging that to provide more diverse tenures. I do not think it is a negative. What community housing providers can do is sometimes called cherrypicking, but I think it is more about actually working with the people they have. I do not think there is any time or resource in public housing to work along that continuum. The business model of community housing providers with private sector help enables that to happen, but you need to regulate for it. The regulation should be setting out some of the things that clearly you expect the community housing providers to do, rather than just receive your stock.

The Hon. MATTHEW MASON-COX: Would you be able to provide us with some details on best practice regulation?

Dr WILLIAMS: I would.

The Hon. MATTHEW MASON-COX: Particularly with the new model you are proposing—the long-term lease model.

Dr WILLIAMS: I would love to do that. I have to say to you that I once helped to create a regulator, which lasted two years. A new government came in and completely reconstructed it.

The Hon. MATTHEW MASON-COX: Some of us have had that experience.

Dr WILLIAMS: I do not think I am an expert.

The Hon. MATTHEW MASON-COX: A lot of what you have been saying has been implemented in the United Kingdom in one way or another, and clearly a lot of lessons have been learnt in that process.

Dr WILLIAMS: They are not all transferable, but it is the kind of discussion needed, I think.

The Hon. MATTHEW MASON-COX: But through your own experience in your current role, you no doubt have an understanding of some of the unique differences that Sydney and New South Wales have.

Dr WILLIAMS: Yes.

The Hon. MATTHEW MASON-COX: And clearly you have an understanding of the Commonwealth-State structure as well and some of the interlocking that occurs on that front.

Dr WILLIAMS: Yes.

The Hon. MATTHEW MASON-COX: I would be interested in understanding how you think the State regulatory regime should work, and how that might work in relation to the Commonwealth sphere as well.

Dr WILLIAMS: I just want to talk about one thing—and I realise that you will kick me out at some point. It has helped the market. In England, Lend Lease borrows more expensively than Places for People. It costs Lend Lease more to borrow in the United Kingdom than Places for People, which is a social housing provider. I know this because I have regulated the one and I have worked for the other. How did that happen? The answer is that the regulatory framework is a national regulatory framework that has not changed very much in about 40 years.

The Hon. MATTHEW MASON-COX: Right, so it is safe as houses.

Dr WILLIAMS: There are two things about banks: they love the "knowability" of it.

The Hon. MATTHEW MASON-COX: And they like the long term.

Dr WILLIAMS: They like the long term and the credit committees give it the tick. They do not think it is an idiosyncratic, bespoke proposition with somebody they do not know. At the moment, it is an

idiosyncratic, bespoke proposition with somebody they do not know. To add some flavour to this, the bank—which I will not name, but it is a big bank in Australia—has a board commitment to spend \$2 billion on affordable housing, but finds it difficult to find a product in which to invest. Because of the model of bringing in an infrastructure provider, in a sense to provide some recognition that this model fits the kind of infrastructure model they know, it has reduced the risk as far as the bank is concerned to invest in that sector.

The Hon. MATTHEW MASON-COX: Absolutely.

Dr WILLIAMS: That is critical to me.

The Hon. MATTHEW MASON-COX: It is like debt securitisation.

Dr WILLIAMS: It is exacted like that.

The Hon. SOPHIE COTSIS: My big concern is accommodation for workers.

Dr WILLIAMS: Key workers.

The Hon. SOPHIE COTSIS: You have emergency services, nurses, police and then we get into the services, like hospitality. In the next five to 10 years we will have an increase in the number of hospitality workers, particularly with the casino, the convention centre and a number of other developments. A lot of these people do not earn six figures. They are lucky, with penalty rates and shiftwork, to earn \$55,000 to \$60,000 a year. Many are either in shared accommodation or have to travel from the Central Coast or Western Sydney. If you rent a one-bedroom unit in the city, you are lucky if you only pay rent of \$350 or \$400 a week. I do not know whether we need workers quarters or cottages. We did have workers cottages for a long time.

Dr WILLIAMS: An interesting point was raised earlier about subsidy levels, and the key worker issue is partly about them. It is more expensive to do key worker housing at the heart of the city than it is to do social housing at the edge of the city. That is an issue. There is the lazy use of public assets, and we should be a bit more inventive. I have a very obvious proposition. Partly because I have worked in government I know tackling the silos between departments is the answer to this. When you are building the northern beaches hospital, why can't there be 300 units for the nurses or medical staff, the key workers?

The Hon. RICK COLLESS: They used to have them; they were called nurses' quarters.

CHAIR: It might be good to take that as a question on notice and give us a reply.

The Hon. JAN BARHAM: Because the planning department does not allow that. That is another debate, I know.

Dr WILLIAMS: My point is that beyond that kind of thinking there are some pretty obvious things that we could do with public assets.

The Hon. MATTHEW MASON-COX: If we had the planning bill we could fix it.

The Hon. SOPHIE COTSIS: You guys are trying to remove housing affordability.

The Hon. JAN BARHAM: If you put some decent things in there, we might.

CHAIR: Given the time, you might also want to take my question on notice. What is your view of the Government's current policy on using unoccupied rooms or charging for extra rooms?

Dr WILLIAMS: That is a great question to ask as I leave the room. That is the Exocet.

The Hon. SOPHIE COTSIS: It is Paul's pet project.

CHAIR: I was also raised in public housing and I appreciate that the Government lent a hand when our family needed it. I find it complex that we have 20,000 families needing extra rooms, but at the same time we appreciate the rights of an individual.

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Dr WILLIAMS: My quick response is you have to think through those issues. That might not be the right way to do it, but there are issues around incentivising individuals who live in private properties that are too big for them. We do not have anything for them either, so there is a broader discussion.

CHAIR: Recently I was in the United Kingdom talking about affordable housing and I was told about a bidding initiative in which clients bid for properties within the system. That allows clients to have some ownership of negotiating a different size of residence. Are you aware of this latest initiative?

Dr WILLIAMS: I think I know what is. I grew up in a hereditary council house—my great-grandparents took it in 1923 and it is still in my family as my cousin lives in it. He is on his own and it is a three-bedroomed house. There are issues about flexibility in the tenure and the offer, and I agree with that. It is not easy territory; we need to produce a lot more small units going forward to fit the demography.

CHAIR: I understand that, but I wondered if you were familiar with the system.

Dr WILLIAMS: I am not sure. My last point is on shared ownership. I think there is not enough emphasis on how we do this. It also fits well with key workers who want to get on the housing ladder. There are models.

CHAIR: Thank you for your attendance, Dr Williams. We could have spent another couple of hours with you. You have shared invaluable knowledge with this committee which will be a real gift for us in trying to do right by the disadvantaged people of New South Wales who are trying to buy property.

The Hon. SOPHIE COTSIS: Hear, hear! We may invite you back.

The Hon. GREG PEARCE: We talk about these things for hours, so we may have to get you back.

CHAIR: The Committee has resolved that the answers to questions taken on notice be returned within 21 days. The secretariat will contact you in relation to the questions you have taken on notice. Finally, Dr Williams, can we table your presentation?

Dr WILLIAMS: Yes, that would be good.

(The witness withdrew)

(Short adjournment)

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VIVIENNE MILLIGAN, City Futures Research Centre, University of New South Wales,

HAL PAWSON, City Futures Research Centre, University of New South Wales, and

JUDITH YATES, City Futures Research Centre, University of New South Wales and University of Sydney, before the Committee:

CHAIR: I welcome you to this private briefing, which will be transcribed by Hansard and may be published by the Committee. The Committee will consult about publication of the transcript with those who deliver briefings. Please proceed with your presentation.

Professor PAWSON: I will begin the presentation, which brings to the fore some of the points in our submission, and I start by thanking the Committee for inviting us to speak to you. We are pleased to have an opportunity to follow up on our submission.

The Hon. RICK COLLESS: Would you mind if we ask questions during your presentation?

Professor PAWSON: It might be better if we present and that is followed by questions. You may raise questions about our submission and have points about other things.

Associate Professor MILLIGAN: Please clarify what you meant when you said you may publish the proceedings. Do you publish them either in their entirety or not at all—if we get into frank discussions, for example?

CHAIR: You need to indicate if you do not want something published and we will keep that off the public record.

Professor PAWSON: I have a few words to introduce our presentation. We are coming from the position that most Australians are well housed. The housing market is more stable or has shown resilience and stability that is not true in a number of other countries. So we certainly are not coming from a position that there is a kind of crisis situation or a dysfunctional system that is above all others. Having said that though, there are constraints on access to affordable housing that are affecting a large and growing number of people. This is a bigger issue in New South Wales than in other parts of Australia, particularly in Sydney. Even for home owners who are in a relatively strong position, risks are attached to being over-gearred in a market where there is an argument that the assets they are living in are overvalued. That creates some risks. Attention needs to be paid to that area. We see housing policy as quite a problematic area for governments, partly because of the constitutional arrangements in Australia, which mean that there is a split between State and Federal levels about responsibility for housing matters. That does not make it easy to reform or fix problems.

We also recognise that there is an enduring cross-party consensus that housing should be primarily a market-provided commodity in which the State has a very limited role. However, market failure means that governments do have to take some interest in this area, we believe, even if market provision is basically the assumption about how housing should be provided. We note from a huge body of research evidence, especially produced by our colleague Dr Yates, that the structural affordability problem has been increasingly to the fore or becoming an increasing issue over a long period, really right back to the 1980s—ever since then it is an issue that has been becoming more acute. Most of the measures of housing stress show a more acute problem in New South Wales than elsewhere. Some indicators of that are set out clearly in the Auditor-General's report on public housing, which I think is one of the platforms for this inquiry.

We have 60,000 households on the waiting list, 28,000 people who were counted as homeless in the 2011 census and, more recently, figures from City of Sydney show that even within its very small council area, 350 people are registered or recorded as sleeping rough—and that is a quickly increasing number, 26 per cent up in the last year. There are some problems. There are responsibilities for government at both levels, especially at the State level. Governments do have powers, land use planning and some tax settings that are relevant to the housing system and can be used to rebalance or to make the market work better. We recognise that there is a need for expanded supply to help moderate prices to make housing more affordable. Expanding supply is a part of that. But that needs to be supported by tax provisions that discourage overconsumption housing as well, we believe, and remove barriers to mobility.

We believe that governments can and should intervene more actively than has been true historically, both to facilitate affordable housing developments and also to preserve and enhance the existing stock of social housing or the affordable housing asset that is mainly composed of public housing. I will hand over to my colleague Vivienne Milligan to talk about how governments can boost affordable housing supply through facilitating private investment and through land use planning measures. Vivienne then will pass back to me to talk a bit about enhancing the existing public housing asset and how that can be rescued from its current condition.

Associate Professor MILLIGAN: What I am going to speak about relates specifically to term of reference (g). It is based on work that all of us, others we collaborate with and other universities have been doing over about 10 years to really look at how modern housing systems address the supply of affordable housing, which is increasingly recognised as an endemic problem in a lot of advanced economies.

The Hon. GREG PEARCE: Could I just interrupt for one second: you both have used the term "affordable housing" several times?

Associate Professor MILLIGAN: Yes.

The Hon. GREG PEARCE: You do not mean that in the planning sense or affordable being income levels; do you mean generally?

The Hon. MATTHEW MASON-COX: Including social housing?

Associate Professor MILLIGAN: Yes. In the paper I gave a definition. I was just going to refer to that. We use it generically to mean housing that is priced below the market for people who cannot afford market housing. Some forms of affordable housing may have very deep subsidies and be very low priced, such as public housing, and then other forms allowable under the National Rental Affordability Scheme would have a different price but still would be below market. We are using it as government assisted but privately provided housing that needs a target group. I hope that is clear enough. That is what we have been looking at. The traditional form of affordable housing was, of course, government-funded either through capital or lending public and social housing. Forms of public and social housing exist at very different levels in every economy we have looked at because housing has played a very different role in welfare systems in different countries. You have quite low rates of public housing in countries, such as Australia, New Zealand, Canada and the United States, and much higher rates in the United Kingdom and western Europe.

What is common in all those situations is that the public capital pool for continuing the supply of social housing, if you like, has become scarce. Governments have been debt averse, so public lending also has disappeared. Every country has faced the challenge if they are a growing society with continuing affordability problems of how to supply affordable housing if it is not to be directly through government financing. That is what we looked at. Many examples have emerged and become quite established and proven in their performance over the last couple of decades. One of our reports goes into these in some detail. I will just cite the sorts of countries I am talking about to give you a feel for the diversity. The first one on my list, because it is an "A" and because it is like Australia in name, is Austria, which has had what is called a housing construction convertible bond that has driven investment from both institutions and individuals into affordable housing since 1993.

Austria stands out as being able to keep up its supply of affordable housing using primarily that mechanism but coupled to other State level and municipal mechanisms. The United States has had the low income housing tax credit since 1986 continuously. That has attracted significant private equity investment and been robust over time. It took a dip during the GFC but then has come back with different forms of investors attracted to that instrument. France has had a long-running scheme to have both a component, if you like, of wages, like a tax on wages, and personal savings of individuals hypothecated for affordable housing. They have achieved significant levels—around 20 per cent—of below-market housing through that mechanism. The Netherlands has a very large social housing asset base off which it leverages: over 30 per cent of its housing is social housing. So it invested heavily in the past, but now it provides triple guarantees to housing associations who lend to add to that supply or to modernise that supply.

The United Kingdom shifted in the 1980s, I think, from the traditional model I described to one where government put in part capital in return for housing associations raising bank finance. The bank finance was serviced through a housing benefit payment to tenants. That has operated up until very recently as bringing in billions of dollars of funding for housing association investment in affordable housing. The UK Government has

austerity reforms happening at present, which has meant that that capital funding has dried up and some of its supporting measures. It now has turned to look at loan guarantees as an alternative mechanism and is starting to develop infrastructure and institutions around that. I think there are two messages from that. One is that there are plenty of examples of working models of co-financing—public and private co-financing of affordable housing. They are longstanding and it is possible to look at the outputs from those and learn about the strengths and weaknesses of them.

There are multiple ways of doing it. Different countries are going to have different pathways to that. They are not all adaptable to our situation. In the 2000s there was a wide stakeholder engagement with this issue. That really produced Australia's model, if you like, in 2008—the National Rental Affordability Scheme. It is like those other instruments: it is a public incentive to private investment. No doubt you will have some questions and comments about NRAS but, essentially, it was our attempt at a larger scale and in a different way to the past to move into incentivising private investment in affordable housing. Why would you want to do that? In the context of high and continuing needs and an inability of the social housing system to meet those needs, obviously bringing in private investment makes your public dollar go further. It is not necessarily more cost effective than public investment, but there are ways that that can be managed to make the cost as low as possible.

A lot of our research actually points to finessing, if you like, the mechanisms that will make such a strategy as cost effective as it can be, *vis-à-vis* public funding. Of course, if your incentives are targeted to new supply, then you are addressing supply shortages, which is a key critical issue. You are not recycling existing housing to a different client group, as some demand-site measures do; you actually are adding to supply. You also are able to have a range of products, not just social housing, that might address different capacities of people to pay and different needs. And you are able to target and associate what you want to achieve, where you want this productivity, with other objectives of government, which, for example, could be objectives to connect labour market participation to certain growth areas.

There are strong arguments for government being involved, which are both economic and social. In our view, informed I think by soundings we have taken with a range of experts, including a quite-intensive study last year that we published, we are in a position now where Australia needs to build on what we have started with NRAS. That does not mean not tweaking or not changing NRAS, but there has been a lot of momentum gathered: the institutional sector, the banks, the super funds and the financial advisers have looked at it and understand broadly what government is trying to do. Large-scale institutional investors have not quite yet jumped in the pond, as one of their representatives said to us, but we know the conditions under which they would. There is potential to break down the remaining barriers, and we discuss those in detail in our report.

If we are going to go down the path of NRAS, which is a national incentive, State governments have a very important part to play alongside that. Essentially, that comes down to land supply and planning, which I am going speak to in a minute. As I said before, there is a need to fine-tune and finesse the model. It was a good starting point, but perhaps more can be done around efficient fundraising, such as through a bond mechanism and having specialist intermediaries who are best placed to judge the veracity of projects and proposals—in other words, structuring the system so that it is efficient and cost effective. In terms of State governments, one of the things noticeable in the Australian context, *vis-à-vis* some comparative analysis I have done, is that the financing mechanisms, which often come from the national Government, and the planning policies of State governments do not articulate very well. That is absolutely critical here.

It is no good having a planning policy if there is not a financing instrument to support the construction and delivery of the housing. It is no use having a financing instrument if you cannot get the sites in the areas where it is going to give a return to investors and be appropriate for the needs of tenants. The two have to articulate. State governments have a big responsibility to think about how their planning policies not only generally add to the supply of housing affordability in the market but also facilitate the inclusion of forms of sub-market more affordable housing. The reason that planning mechanisms are valid for that I think is because there is uplift which is earned by a land owner when governments make planning decisions, when they densify or when they release areas for housing. There is a potential for affordable housing to be seen as an infrastructure contribution in that regard. That is the essential argument that underpins that model. In New South Wales there have been attempts to do that over a number of years.

The Committee would know of examples at Pymont, Ultimo, Green Square, Carlton and United Breweries site and in some local governments where there have been particular policies for the inclusion of affordable housing. I think the difficulty at the moment in getting a sufficient response, and a response in a

changing and dynamic market, is that those sorts of instruments have been used sporadically and they have been not particularly ambitious in terms perhaps of what can be achieved. So they do not add up to a sufficient response at scale. Apart from planning policies, government land itself is very critical. That is both land, for example, that public housing is currently located on that has potential for densifying and other government land holdings that are suitable for residential development. The Government can lead here by investing its own land in projects that will produce an outcome of both affordable and market housing. There are some very good examples in Western Australia of that happening at present under the present Government, which I am happy to come back to. In terms of land, it is not necessarily the case that the land has to be gifted.

One of the happy outcomes of having, for example, an institutional investment model might be that the institutional investors are only interested in the revenue stream from the housing and the land can be in government or community ownership for the long run. So the Government retains its equity, gets the benefit itself of future capital gain but is a partner in development where the construction operation is privately financed. I think that is an important point to take away. There are other things that the States can do, which we sort of set out in the report—for example, institutional investors are looking for scale and they are looking for diversity. They do not want all their sites in one location or one type of housing. This may mean a coordinated approach across jurisdictions where packages are put to the market that involve a number of sites in a number of jurisdictions that give scale, that give a mixed portfolio to institutional investors. So collaboration of that kind could be important.

They also want to be able to go to one location or another and know that the terms and conditions are going to be the same. So getting harmonisation around taxes and charges, for example, will make a big difference to the efficiency of this. Other things that fall strictly in a State ambit are things like whether there are some different arrangements for land tax where affordable housing has been provided. At the present an individual unit of affordable housing would probably be exempt from land tax because of its value, but multiply units held in institutional ownership would not be. That is perhaps not intended in the design of the policy but it would make a very big difference to the attractiveness of the investment. I will sort of leave it there as an overview of the messages that are covered in more detail in the submission and associated reports about a vision for, if you like, and a packaging of an affordable housing strategy.

Professor PAWSON: Finally, if I may, I would like to say a few words about the existing public housing stock and its condition and how that might be addressed. As is made very clear in the Auditor-General's report, the current situation is a serious problem. It is a problem that is only getting worse and needs to be tackled. It is the kind of problem that governments are able to turn a bit of a blind eye to for a period of time but eventually it will reach a crisis situation. That might not be immediate but it is certainly coming. There is a need to recognise the problem and the audit report does not make any bones about that.

So it is a system that has been progressively run-down over a long period of time. It is a system where the obligations that have been placed on public housing to house only the most disadvantaged and lowest income groups have reduced the income available to the system to keep it afloat. Therefore it remains afloat only by feeding off itself really, only by asset sales and by deferring indefinitely essential work. Even in those circumstances it is using some of the capital grant that comes from the Commonwealth under the National Affordable Agreement—intended as financing for new, additional housing—to prop-up the finances of running the system. There is not any treasury incentive to add new monies to supply because every new unit is making another loss, it is just adding to the loss. So that incentive is not built-in.

Although there is not a very robust comparative standard across the country, there is a tenant-reported measure of unsatisfactory conditions which shows 32 per cent of New South Wales public housing as being below a minimum standard, and that is the highest proportion of any state in Australia. So staff are demoralised and tenants get a raw deal under the current circumstances. The community as a whole is going to have to recognise that it is a problem that cannot be ignored forever. How to deal with that? One route to dealing with that—again very much taking a leaf out of the book of a number of other countries—is to restructure social housing so that it is provided not directly by the State but through the not-for-profit sector through—what are called in our terminology—community housing providers.

One of the arguments for doing so is that that management style is very different to that traditionally seen in public housing, it is a much more responsive and participative style. They are in a much stronger position to manage the asset effectively in the long term because they are insulated from electoral cycles, which create a lot of volatility for traditional public housing and make it very difficult to plan for the long term. Realising those kinds of benefits is something which would be achieved only partially by the management

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outsourcing of public housing, which is something that has happened to a degree already in New South Wales, and would need to ideally take place with full title transfer which would give much more scope for the recipient organisations to make best use of the asset and to run it in the best way.

The Hon. GREG PEARCE: Do you have any evidence from anywhere around the world that actually supports the assertion that the title transfer does in fact give better results?

Professor PAWSON: I think the strongest evidence is from the United Kingdom's experience of transferring our former council housing into not-for-profit ownership and in the process creating a system which is financially sustainable and is based on long-term business plans which make proper allowance for the need to maintain stock way into the future.

The Hon. GREG PEARCE: I think Professor Milligan pointed out that the United Kingdom model was essentially based on higher payments and that has now been stopped. So without those higher subsidies my concern is whether the assertion is still capable of being supported?

Professor PAWSON: It mainly rests on the ability of the not-for-profit providers to raise finance secured against the income from the revenue stream—from tenants rents—and that mainly rests on the ability to claim housing benefit, which is a similar provision to Commonwealth rent assistance. The Commonwealth rent assistance is the lower payment, is the smaller amount of benefit than housing benefit but it is very significant. It is probably about 50 per cent more than public housing rents.

The Hon. GREG PEARCE: That is the key, is it not? Something like 95 per cent or so of current public and social housing tenants are on benefits and are paying that lower rent, they are not getting NRAS levels of rent.

Professor PAWSON: That is absolutely critical, yes.

CHAIR: Professor, you mentioned long-term commitment from the CHPs. What sort of years are you talking about? Are you talking five, 10 or 20 years? What do they sign-up for?

Professor PAWSON: When it is a title transfer it is open-ended. It is not a contract over a limited period of time. It is a once and for all restructure.

The Hon. MATTHEW MASON-COX: Given that the financing focus is on the rental stream, could you not achieve the same thing by a long-term lease of 30 years, for example, rather than actually taking the title over to the community housing provider? So you keep the asset in the government's hands but you provide a long-term lease for whatever rental, maybe a peppercorn in some instances, in order to ensure that the focus is on the rental stream rather than the asset transfer?

Professor PAWSON: Potentially you could but I think the accountancy rules are the thing that come into play when you are assessing that kind of proposal because I think with the way that accountancy rules are changing over time that that kind of treatment would be viewed effectively as a title transfer under the sort of accounting regime that is coming into force.

The Hon. JAN BARHAM: I thought that was determined by the period of time.

Professor PAWSON: It is, yes.

CHAIR: One of the comments made was that if they could secure a longer-term thing then they could do far more with the opportunities that would arise to that degree.

Professor PAWSON: Yes, certainly a three-year management outsourcing is very limited in terms of what can be raised in finance from the banks.

Associate Professor MILLIGAN: And perhaps not only that. If you are running a business like a community housing organisation and you have a three-year control of a property then you are not going to make investment decisions in the long-term interests of the property. The incentive is wrong.

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CHAIR: Professor, just to clarify. Firstly, you are saying that the Committee should consider open-ended tenancies if we hand them over to the CHPs; and, secondly, if the Committee did not go with open-ended tenancies then you would probably concur with the thought that long-term agreements would be far better?

Professor PAWSON: Yes. The ability to raise the finance that a community housing provider has to raise is not something that as a black and white thing is only possible if you have title, not possible if you do not. The longer the—

CHAIR: What sorts of years would you suggest if it was not open-ended?

Professor PAWSON: Ten to 20 would be a lot better than the current one to three.

CHAIR: Would you do 30 years?

Professor PAWSON: As much as that possibly but, as I say, I think you are then getting into territory where accountancy conventions say that you would have to score that as if, it was disposal.

Dr YATES: I think that one of the other issues that needs to be borne in mind is that if they are relying on community housing providers to raise funds from the private sector, then institutions will lend on income stream but they require also some kind of collateral or some kind of backing. So you would have to have some very firm guarantee that that income stream was protected and that would actually act as a substitute.

The Hon. GREG PEARCE: The crucial point here is the quantum of the income stream, and the income stream that is currently provided to the majority of people in social housing would not be sufficient.

Professor PAWSON: Correct.

The Hon. JAN BARHAM: Unless there were other incentives that government, be it State and/or Federal, can provide.

The Hon. GREG PEARCE: It is called more money.

The Hon. JAN BARHAM: I am interested in the bigger picture—namely, the disadvantage issues, such as the ability to focus on where the greatest need is and where housing is not the only factor but you are looking at broader social things. The idea of uplift could be part of the incentivisation that once you provide the accommodation and then deal with those other disadvantage factors the benefits might be attributed by way of savings to government because of work that is being done by those organisations or collaborations that they have. I think the tools need to be looked at more broadly.

Professor PAWSON: Yes.

The Hon. JAN BARHAM: And that is what you have done with your disadvantage factors in here.

CHAIR: Social housing maintenance seems to be getting into a deeper hole as well so if they are handed over for 10, 20 or 30 years then the private sector would take on that burden and it would probably address those issues somewhat earlier than a government would, given that their assets are a part of that financial sustainability equation.

Professor PAWSON: Yes, I think the evidence from the United Kingdom is that being able to look at and have a cool, rational decision about how to make the best use of assets where you have a 20- or 30-year time horizon not the State election the year after next, that kind of pressure, then it is possible to make rational choices about which buildings should be reinvested in and which ones should be removed, and how the assets should be reconfigured in a way that is the most cost-effective. The current public housing architecture is not designed to give a cost-effective outcome.

The Hon. SOPHIE COTSIS: Are you saying that there should be an audit of public housing estates?

The Hon. GREG PEARCE: It has been done.

The Hon. SOPHIE COTSIS: All the estates current?

The Hon. JAN BARHAM: The Auditor-General said that there needs to be a proper estate strategy; the work was underway when that report was written.

The Hon. GREG PEARCE: Yes.

Professor PAWSON: Yes.

The Hon. JAN BARHAM: You were going to make a second point about the way forward. Do you believe that the narrowness at which government looks at these issues is part of the problem; that you are not delivering the broader things—social, community, employment issues need to be looked at rather than the silo effect?

Professor PAWSON: Very much so and I think the process of reconfiguring the system provides the vehicle to do that. The United Kingdom model of transferring property is not only one about refinancing and making sure there is money to maintain stock for the 20- or 30-year period but also built into other enhancements to the way that stock is managed and the way that organisations have a business-like way of operating. That creates a much better long-term outcome.

The Hon. JAN BARHAM: Do they not also deliver back to government, if they do their job well, savings in other expenditure in those areas around policing, hospitalisation, drug and alcohol, juvenile justice. If those things were married together, if you deliver one thing well, you can meet performance measures on other things? In the overall disadvantage it is the linkage that is interesting. If we set criteria that deals with linkages, we might get better outcomes for all society not just individual groups?

Professor PAWSON: Yes, and one of the components of the submission that we have not talked about so far and I am hoping some people will have had the chance to look at is the early part of the submission which looks at the spatial distribution of disadvantage and need as opposed to housing affordability which shows that it is in the interests of the productivity of cities to grasp this issue, to recognise that the way that the spatial distribution of employment is moving is completely counter to the suburbanisation of where poorer people are living. Increasingly, the concentrations of more disadvantaged populations are being pushed to the fringes whereas job growth is still primarily in the inner areas and that is becoming more and more of a drag on the productivity of cities.

The Hon. SOPHIE COTSIS: But you still have a high number of disadvantage, with people living on welfare benefits who are living in public and social housing in and around the city and there are a range of jobs available and specialist services to assist. Are you saying there is a dislocation, a silo, of government not being able to coordinate to assist people in that situation?

Professor PAWSON: It is partly because of the incentive system to encourage people to gain employment and improve their economic position is not there primarily because of the way that rents are matched to income so that if your income increases you gain only a very small amount of that benefit because your rent goes up commensurately. That is a problem that is one of the causes of the issue that you raise.

The Hon. SOPHIE COTSIS: Do you think that should change? If you are gainfully employed and you increase your hours, you pay increased rent. What is your view?

Professor PAWSON: This is not the way that social housing works in the rest of the world; in some countries it does. Australia is not unique here. It is quite fair to acknowledge that and there are many countries where rents are set to the property so that the price signals that consumers get are market driven. There is some advantage to that, partly because it means that if you increase your income you keep the benefit; it goes into your pocket, so there is more of an incentive to improve your economic position. I think there are a lot of advantages to systems where the rent is scaled to an individual property and you receive a benefit to compensate you for having a lower income, if that is the case, but not if you do not need it.

The Hon. RICK COLLESS: In situations where publicly and privately offered housing are in the same general area, are public rents in that situation governed by what is offered in the private market?

Professor PAWSON: The ceiling on public rents is determined by the rent for a comparable market property in the area so the relationship is there; it sets the whole framework.

The Hon. RICK COLLESS: With the investment by foreign entities in the Australian housing market, there have been instances where foreign investors have bought whole blocks of units off the plan, which basically prevents any local buyers getting in there. What impact is that having on public rentals?

Professor PAWSON: The impact of any form of higher income demand piling into a limited locality will be to raise the ceiling rents that could be charged in public housing for people who get into employment and are no longer entitled to the discount that they get on their rent.

The Hon. RICK COLLESS: Is there justification, probably offered at a Federal level, for a taxation disincentive to foreign investors to discourage them coming in and buying large tracts of housing?

Professor PAWSON: I do not think it is only foreign investors that are the problem here. It is an element of the problem but you could say, "Let's focus on that and target that specifically" and there might be a case for that but it really is not the main element of the problem. Something like \$200 billion a year are housing finance approvals and the proportion of that for overseas buyers is something like \$5 billion so it is a very small part—possibly quite important in certain localities but I think there are a lot of other issues that pump up demand or the price for rented housing and therefore potentially raise the ceiling level of rents in public housing which are a bigger issue.

The Hon. JAN BARHAM: But the media love the story.

Associate Professor MILLIGAN: Yes. The point I would like to add is that reform of rent is a big issue and it is something that was first proposed by the industry commission in the early 1990s and probably almost every inquiry since has referred to it. It needs to be contemplated, as you recognised, nationally and in terms of rethinking the design of the subsidy therefore that then supports low-income people because Commonwealth rent assistance is not related to a market. Once upon a time the maximum payment probably did have a fairly consistent relationship to what was happening to market rents but because that payment has not been increased in the way that rents have increased, there is now a big discrepancy, and the biggest discrepancy of course is in Sydney.

The Hon. GREG PEARCE: Which is why the National Rental Affordable Scheme [NRAS] take-up in New South Wales has been way down on the rest of the country?

Associate Professor MILLIGAN: Yes, that is right. Unless you have a purpose-designed subsidy payment to support your reform of your rent setting, you are likely to cause considerable disruption to people's affordability. The Henry report proposed a way forward on Commonwealth rent assistance [CRA] which involved pegging it to the lowest quartile of market rents, which would start introducing a differential that would cater to higher-cost locations.

The Hon. JAN BARHAM: You talked about Sydney being the market that is most affected.

Associate Professor MILLIGAN: And the North Coast.

The Hon. JAN BARHAM: Exactly.

Associate Professor MILLIGAN: And Cairns and Darwin.

The Hon. JAN BARHAM: And a lot of coastal communities have seen that change.

The Hon. GREG PEARCE: Only Greens and Nationals can live on the North Coast.

The Hon. SOPHIE COTSIS: That is right.

The Hon. JAN BARHAM: We have been living there for a long time, not like all the sea-changers. It causes problems when you have these bubbles of high property values but a majority low socio-economic community, so there is that shift. A similar thing happened in California with low-income people moving further and further away and having to travel for five hours to carry out their essential work. Should there not be a model that looks at rent assistance in different localities? We talk too much in generalities and dumb everything

down rather than examining the specifics of different localities and meeting their individual needs? Is it possible to do that using broader criteria? Has that been considered?

Associate Professor MILLIGAN: There is rent assistance in Australia as an income support payment and its origins were that it was a top-up for private renters because they did not own their own homes, and it was particularly targeted to older private renters. It has become more significant in terms of numbers of people and budget outlays over time but it was never designed for the purpose that we are talking about today, which is to underpin the provision of affordable housing for low-income people and to support private financing of some part of that provision.

The Hon. JAN BARHAM: But we are looking at the whole issue of affordability being not so public?

Professor PAWSON: And if it was designed to address those issues, then it would not be a flat rate; that is the point you are making.

The Hon. JAN BARHAM: That is what I am saying, yes.

Professor PAWSON: That is absolutely a problem.

The Hon. JAN BARHAM: So often we think there are simple answers to very complex questions.

Associate Professor MILLIGAN: If it is a bridge too far, and it possibly is in the Australian budgetary context to grapple with the whole problem of the housing support payment, one way of achieving what we are talking about here is of course that you target additional payments where you get additional outcomes, so if you want to achieve anchoring people in a labour market to an area that is too expensive, you target through your provision system key workers who are a certain type or you target an additional payment on top of CRA to cover the higher cost of provision in that area so there would be ways of doing that that are justified through the additional outcomes that are being achieved.

The Hon. JAN BARHAM: I thought that is where you were heading in your submission, with what we can now do with data and the Productivity Commission's report of "deep and persistent disadvantage" says the Government has to look at the data it collects, which indicates where policy and financing decisions should be made. We have reached the point where we can now do what historically we could not do but we need to have broad debates. Has there been any research or investigation to marry up those things and look at the broader social outcomes and the complex nature of it as we now have the ability to do it?

Associate Professor MILLIGAN: It is not something that we specifically have evidence on today but lots of people have looked at that.

The Hon. JAN BARHAM: You obviously have a lot of the data.

Associate Professor MILLIGAN: Back to the maps and the discussion we are having. That is why, if you have planning provisions in high-value areas where there is significant uplift when densification occurs requiring the inclusion of affordable housing and that is priced in accordance with the value the housing has in that location to the people you want to attract, like lower-paid workers, that is how you complement your existing arrangements.

The Hon. JAN BARHAM: I have seen a lot of research about keeping people. You are trying to keep a diverse community rather than having gentrification of areas. I thought someone might be working on collecting the data.

The Hon. SOPHIE COTSIS: I go back to rent as found in the Auditor-General's report. The concern brought to my attention is that tenants can increase their income, through increasing the number of hours of work, for example, but they are worried about rent increases or that they will have to move out of their homes. That is a huge concern and has been for the last two or three decades. In some places, such as Redfern-Waterloo and Western Sydney, 80 per cent or 90 per cent of people are not working and are living on welfare. We are punishing people who want to work, while we are trying to save money and spend less on community services.

Professor PAWSON: From the police budget, from the prisons budget, yes.

Associate Professor MILLIGAN: We agree. The National Rental Affordability Scheme has a different rent model and the community housing providers are now operating more than one rent model. That provides a pathway to diversify rents. In that sector rents are fixed at a percentage of market. That means it does not matter what your household composition is or if you are in and out of work, you just pay the rent. Eligibility for that scheme means that there has to be something like a 25 per cent increase in your income before your eligibility is affected. The income of lots of disadvantaged people is not suddenly going to become a lot greater: as you say, there are small opportunities and marginal amounts of change.

The Hon. RICK COLLESS: It removes the disincentive. You are saying if you get a few extra hours of work your rent is not affected.

The Hon. GREG PEARCE: It is specifically impacting the current social housing tenancy in New South Wales in a big way.

The Hon. SOPHIE COTSIS: I am concerned about families living in public housing with the father on a disability pension, the mum caring for him and the kids at university or working, so their incomes are taken into consideration when the kids are trying to get out and build a future. They should not be punished. You said a number of countries have fixed rents.

Associate Professor MILLIGAN: The most typical form of rent setting is a form of cost rent: what it costs to provide a unit of social housing. If that cost is beyond the means of a household the subsidy comes in. It is designed to have an outcome of the tenant being able to afford the housing. It is quite complex.

Professor PAWSON: It is typically based on the cost of providing the housing, the whole portfolio, but often structured so that there is a market-related element built in so market signals are provided—in other words, the rent charged is dependent on the size of the property and the desirability of the location. That is a perfectly normal approach.

The Hon. PETER PRIMROSE: People in Sydney would be paying higher rents.

Associate Professor MILLIGAN: The difficulty in bringing that in is if people cannot move. When you have a blocked system and change the pricing signals—we looked at this in relation to the industry commission—then people may think they cannot afford the rent but there is nowhere else to go because the system is shrinking not expanding and there is a trade-off between housing additional people who are needy and allowing people within the existing stock to adjust. It is the same as dealing with under-occupancy. You may put in a disincentive, but where do people go? Your system has to enable changes, which is the gist of our set of proposals. If you do not restructure the public housing portfolio—and these are big changes—you cannot get some other desirable outcomes: smaller housing, for example.

The Hon. SOPHIE COTSIS: You need a package of reforms, a combination of incentives and disincentives. At the moment 17,000 families cannot get access to a home and there is a proposal for a vacant-room tax. There are also older people living alone in family homes and they have been in those homes for about 30 years. They understand moving would help other families, but they do not want to leave the area as they are close to their families, their friends, their doctors and their social networks. It is about building smaller residences in the same location.

CHAIR: Minister Sartor in the last Government removed red tape from the granny flats regulations and a lot were built. I believe there is more capacity in the private sector and that capacity could be released with a reduction in red tape. Please comment about that and unoccupied rooms. Do you know how much unoccupied and underoccupied capacity there is in houses in New South Wales?

The Hon. RICK COLLESS: There are two aspects to that: individual units and rooms in large houses.

Dr YATES: At an aggregate level something like 10 per cent of dwellings are unoccupied, but most are holiday houses in locations where there are no employment opportunities. People would like to live in these areas but not to work there. There are also 2 per cent or 3 per cent that are unoccupied because they are part of the transaction process.

The Hon. RICK COLLESS: If you take out holiday homes, what proportion of houses are long-term unoccupied?

Dr YATES: Not much.

Professor PAWSON: Probably more than the rental institutes publish in their figures. Some work has been done in Melbourne using water consumption data. That work has revealed that in certain places—in Docklands, in particular—the real vacancy rates are much higher than the real estate numbers would suggest. That is possibly a local issue.

Dr YATES: Some of that is people with second homes or people who work and have properties in Sydney and in Melbourne, for example.

Professor PAWSON: The tax system does very little to discourage underuse of a property. That is a lever that is open to State Governments, unlike a lot of what we have spoken about. You have recognised that Commonwealth Rent Assistance is a key element of refinancing of public housing. State Governments cannot directly control that, but land tax is within the remit of State Governments.

Associate Professor MILLIGAN: And stamp duty.

Professor PAWSON: And stamp duty. The possible exchange of those two would potentially create more of a disincentive to make full utilisation of property and land.

The Hon. RICK COLLESS: When you talk about swapping those, are you implying there should be a land tax on residential property, the primary residence?

Professor PAWSON: This already exists in the Australian Capital Territory. There was a proposal in the Henry review that there could be a cost-neutral replacement of stamp duty by land tax.

The Hon. RICK COLLESS: Annual land tax? Stamp duty is one-off.

Professor PAWSON: Yes.

The Hon. RICK COLLESS: Would that not be a disincentive for people to buy a home?

Professor PAWSON: It would be a disincentive for people not to use homes they have. It would be a disincentive for speculation in land.

The Hon. RICK COLLESS: That is the case now. If you own two homes, one an investment property and the other your primary residence, you pay land tax on that above a certain valuation.

Professor PAWSON: If you use it for that, yes. I am not suggesting that should be discouraged but I am talking about a property that is left vacant and land that is left undeveloped. To go back to the point about expanding the stock of smaller housing, the inadequate supply of smaller housing makes it very difficult to resolve the underutilisation issue, which is a big issue in public housing. A way of giving developers an incentive to prioritise developing smaller units within a development, which the market does not provide, is also within the remit of State Governments.

The Hon. SOPHIE COTSIS: At the moment developers have to provide some affordable housing in new developments, do they not?

The Hon. GREG PEARCE: In some developments, yes.

The Hon. SOPHIE COTSIS: Is that not mandated?

The Hon. GREG PEARCE: It is for some but not across the board.

CHAIR: One way is floor-space ratio; if we gave planning bonuses for floor-space ratio. That is one way of determining whether a project qualifies. We heard earlier about minimum lot sizes being abolished in some precincts. If we want an improvement for developers there has to be a return. There is nothing wrong with giving a developer some fat in the investment.

The Hon. RICK COLLESS: That is right; otherwise they will not invest.

CHAIR: One way to do that is by allowing local government, when assessing such projects, favourable measures on floor-space ratio to fit in several smaller units. We have heard nearly 51 per cent of the population live in single dwellings. Now is a good time to get that measure into law.

Dr YATES: You have to make sure those units are allocated to those who need them. The difficulty is if you create an incentive these units could go to the aspirant children of wealthy households who want to move out of home. That is the advantage of having a community housing sector managing affordable housing.

CHAIR: That is a good point.

Dr YATES: That is the main reason to have affordable private rental accommodation. It is not because we do not have enough of it; the problem is how we allocate it.

Associate Professor MILLIGAN: If you want to look at where the planning instruments have been used most successfully to achieve more output of affordable housing, you would look at South Australia where for a number of years there has been a policy in operation that requires developers to meet price points where there are allocation rules around who lives in that housing. Both the market and the non-government sector have responded to that. They have been more successful at the top end of the affordable range than at the deep subsidy end, because there have not been enough other public subsidies or funding, except the National Rental Affordability Scheme. They like to boast that they have achieved more housing through that than through the Social Housing Initiative in their city.

It is a less costly market than Sydney, but there has been a change in attitude by the private sector as to what can be provided, because there is a very clear message about the price point and how to reach that price point. They have to negotiate on land, be clever about construction and change the form, design and mix of housing to meet this mandated target of 15 per cent of major sites and an aspiration of at least one third of that being for high need. Meeting these targets has been very difficult because everything needs to come together. No State government is building any public housing; they are not replacing what they lose. You have no churn in the system; you have no flow-through.

The Hon. GREG PEARCE: You make a couple of comments in your written submission in which you disagree with the implication in the audit report that the current funding envelope is sustainable. Do you have some numbers on that? Do you wish to expand on that for us because it is a fairly fundamental point?

Professor PAWSON: It is fundamental, yes. I think the project that Vivienne and I worked on last year looking at the feasibility of the wholesale transfer of public housing was not resourced to generate the kind of numbers that I think you would like, but it certainly made it very clear that the current system is underfunded and has been run down over a long period of time. There has not been any grasping of the nettle that significant amounts of money have to be put aside for future maintenance in 10, 20 or 30 years time. That has never happened in the public housing system.

Dr YATES: The KPMG report was done two years or so ago and basically did do the numbers. That is exactly the point they came up with: maybe in the short run you might get enough income from all the tenants to finance just a tiny little bit of expansion, but you will not get enough to undertake the essential maintenance and a lot of money is going to be required.

The Hon. GREG PEARCE: Could you give us that KPMG report? I do not have it. Have we got it?

The Hon. SOPHIE COTSIS: Yes, got it.

The Hon. GREG PEARCE: I cannot remember it; but if you have it, I should have it.

The Hon. SOPHIE COTSIS: When was that released?

Dr YATES: In 2011 I think.

Associate Professor MILLIGAN: I cannot remember which one.

The Hon. GREG PEARCE: A lot of my old records are in boxes at the moment.

Dr YATES: It is available online. It is a publicly available document.

The Hon. RICK COLLESS: Open the boxes.

The Hon. GREG PEARCE: No. I do not have the boxes.

The Hon. MATTHEW MASON-COX: In relation to managing our existing stock of social housing, a previous person who gave evidence spoke about the housing continuum and how people might move from social housing into affordable housing and into the private market. We spoke about under-occupied houses in the social housing area, which is one area. What about the situation in which you have somebody who gets a good job and who really should be in the private market, but there is no real needs assessment in relation to change of circumstances that occurs on a regular basis. Do you have any ideas about how you would get people out of social housing who should not be in there because their income is at such a level that they should be in the private market?

Associate Professor MILLIGAN: Traditionally, all housing authorities in Australia offered homeownership products, which were incentives. I think that—we obviously do not know—the numbers of people in public housing who could afford private housing are not many, and there not a lot of people who would stay in public housing if they have alternatives. There are a lot of negativities about the way that tenure works.

Professor PAWSON: The audit report takes a figure from Housing New South Wales based on the reviews it has been doing of people who have been initially given a two-year tenancy. At the end of that two-year tenancy, they have reviewed their circumstances and 2 per cent of them had improved their situation enough to be told, "You have to leave public housing." The audit report very explicitly says that this has been a disappointing outcome, or it has not delivered what was expected. Further attempts to squeeze out more people through a policing method are unlikely to bear a lot of fruit. The administrative cost of doing that is high. The point that Vivienne makes is a much more constructive one because it is about providing not so much the stick but more the carrot. Historically this has happened.

Associate Professor MILLIGAN: We might also say that the models overseas, where the community housing providers are the lead providers in this sector, they have tended to introduce other products because it is in their interests to be able to both be financially viable and to give their clients better housing choices. They have worked to provide shared equity products where they may own part of the property but where a mortgage becomes associated with the other part because someone has the capacity to service part of the cost. That would be an example. Those pathways can be created through community housing. There will be incentives to do so because they are not going to be able to make ends meet without being a lot cleverer at basically getting a match between what you can pay and not putting more of their very limited resource into cases where they have more capacity.

Dr YATES: Yes, but I think one of the points you need to make as well though is that the type of examples you are talking about are sectors that have something like 20 or 25 per cent of the market whereas in New South Wales we are talking about something that has 3 per cent of the market.

Associate Professor MILLIGAN: That is true.

Dr YATES: You do not have that choice and flexibility when you are dealing right at the bottom end. That is why the submission is talking about the need to create an affordable housing sector that is bigger than just that bottom tiny 3 per cent, which is always going to deal with, in the end, highly targeted multiple needs groups that do not have the kind of options that we are talking about.

The Hon. GREG PEARCE: Just put a final gloss on this issue of transferring the entire social housing/public housing stock to the community housing sector, the stuff that has already been transferred was basically funded by the Federal Government stimulus and supported by the National Rental Affordability Scheme, so the finances work out.

Associate Professor MILLIGAN: Yes.

The Hon. GREG PEARCE: In relation to the remaining stuff, though, which is 95 or 96 per cent occupied by people with multiple needs paying a quarter or 25 per cent or whatever it is of their social security benefits, is there really any scope for that stuff to be transferred to the community sector?

Professor PAWSON: Not—

The Hon. GREG PEARCE: Thank you.

Professor PAWSON: —without it being part of a package, no. For a start, it is something that could not be done without a Commonwealth-State agreement and negotiations and gauging the interest or the enthusiasm at the Federal level to achieve that outcome. I think that is somewhat unknown under the new Government. Under the former Government, there was certainly more than a tacit sign that that was a policy that was supported at the Commonwealth level.

The Hon. GREG PEARCE: Except that that they ran out of money.

Professor PAWSON: That was underpinned by the decision to target achieving 35 per cent of all social housing within the community housing sector. That was an acceptance that at least that amount of Commonwealth Rent Assistance would be acceptable.

The Hon. RICK COLLESS: Do you have any broad conceptual view of what the relationship should be between public, community and private housing that is offered in any given market?

Professor PAWSON: Our strongest case would be that there is an inherent benefit in having an affordable housing system with multiple providers operating in a contestable way with transparent efficiency so comparisons can be made through credible metrics. That does not exist at the moment. The benefits of that form of competition, if you had the data that underpinned it, would be an efficiency benefit all round.

Associate Professor MILLIGAN: The amount of money that has been taken out of the public and social housing system over nearly 20 years has been extraordinary. It accumulates, so what is not there in one year and would have been invested in new housing or upgrading is not there the next year and every year thereafter.

The Hon. GREG PEARCE: Reverse compounds.

Associate Professor MILLIGAN: It is not like a system where you are not increasing funding at the rate of costs or inflation. It has been very significantly defunded.

The Hon. RICK COLLESS: It has not been taken up by the private sector.

Associate Professor MILLIGAN: That is why we have the problem we have. We have really hit the wall. People for some time have been saying that we will not have a social housing system in Australia unless governments turn it around. It will cost more in the short term to do that, but once it is put on a sustainable footing—which is the principle behind the audit commission report—and when we modernise the stock to realign it with the needs and invest in that, you will have a going concern that might be attractive for governments to invest in.

The Hon. RICK COLLESS: Is it fair to say that the average age of public housing in New South Wales in particular would have reached its use-by date?

Associate Professor MILLIGAN: Most of us live in housing that was built before public housing was built. It is because it has not been maintained and modernised. It is only 50 years old.

The Hon. RICK COLLESS: If an investor bought a house, they would be prepared to knock it down and rebuild it. Forty years is their time frame they operate on. A lot of public housing would be older than 40 years.

Associate Professor MILLIGAN: The department knows the answer to all of that. A great deal was built in the seventies, as well as a significant supply built in the fifties.

The Hon. RICK COLLESS: A lot of country towns have public housing that is closer to 100 years old than to 40 years old.

The Hon. SOPHIE COTSIS: That was post-war resettlement. I read the State Government's submission in which it is stated that since the mid-1990s the Federal Government has not kept up with providing funds to State governments, particularly New South Wales, so we are playing catch-up while trying to address this issue. Anecdotally, a lot of older people, especially women, are retiring without sufficient superannuation and my concern is they are at risk of homelessness as they do not have savings to sustain private rental. What is your view on older people in this situation?

Associate Professor MILLIGAN: We would say that is a key emerging needs group that is a consequence of patterns of family formation and re-formation. It is also a function of declining rates of home ownership that Dr Yates has researched, so a cohort of people are reaching retirement without owning their own home. We have always assumed these people will own homes or be in public housing and therefore will not have high housing costs. There is now a cohort of people who have not been able to access public housing and this is likely to be a growing cohort. They either have achieved home ownership but lost their homes due to family breakdowns or they were never able to achieve ownership.

Professor PAWSON: The latest figures on this show that the rate of home ownership of the oldest cohort in the population has started to fall in the last five years. It has been falling for younger people for a very long time, as Dr Yates' research has shown, since the 1980s, and it has fallen a long way. Until very recently that was not true for the older age groups, but now that has started to happen. We are seeing the beginning of that increasing number of old people outside home ownership.

The Hon. RICK COLLESS: Is that a result of older people losing their homes through family breakdown or whatever, or younger people as they age not being able to quite get over the line?

Associate Professor MILLIGAN: Both. The policy implication of this discussion is that governments need to think holistically about rental housing policies. Clearly, the social housing system is not going to be the response and State governments have a lot of levers in relation to rental markets. One of the interesting discussions we have had with the institutional investment sector is that while we were very much focussed on their interest and capacity to come into investing in affordable housing if the returns were there, there is no reason they would not be interested in investing in a rental product more generally and improving therefore the supply of rental housing. In fact, it may be quite attractive because, again, it kind of spreads the risk between housing where the income is more constrained and housing where they can achieve a market return. It also would give them volume and scale.

This is the sort of aspiration that many countries have talked about: Can we get a different kind of investment pattern in the rental market? Mum and dad investors are very volatile; they sell for capital gain; it does not create a stable long-term rental product. We are going to need more of that, as you acknowledge, looking at whether you can get a different investor class interested in market provision. In New South Wales, Urban Growth (when it was Landcom) did some work on this and was very serious about the Government kickstarting something with sites where they would invite institutional investors to provide rental housing and they would provide a management framework for that. It did not quite happen at the time, but there is quite a lot of intelligence about how that could happen.

The Hon. SOPHIE COTSIS: Is that similar to the Defence Housing model?

Associate Professor MILLIGAN: Yes, in the sense that that is long-term provision. Defence Housing, as I understand it, largely relies on mum and dad investors. Perhaps that market is saturated. Perhaps there is not going to be a lot more of that. We are talking about scale here. We are talking about a gap between the role that home ownership and social housing traditionally played. We estimate that there at least five to 10 thousand units across Australia of affordable rental, plus maybe another 40,000 of market rental that is going to be needed to meet the supply shortages.

The Hon. JAN BARHAM: I apologise if this question has been asked and answered in my absence, but I had to attend to something. I am interested particularly in infill for regional areas. The Government submission refers to the secondary dwelling option. We are seeing more intergenerational living. I know of examples of women in their seventies and eighties living in a five-bedroom house and cannot do anything with

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it. Have you looked at this, at the potential for higher densities and families investing in intergenerational living? Have you answered that already?

Professor PAWSON: No we have not really covered that. One of the solutions to underutilisation of privately owned property is to try to make it easier for people to downsize. One reason that is difficult is that there is a tax on moving called stamp duty. That is one of the issues about stamp duty that is a problem, I think.

The Hon. JAN BARHAM: My situation refers to secondary dwelling or the opportunity for people to expand the capacity in their underutilised premises. They can remain in their community and take on board disability housing, aged housing, single parents or single individuals. Have you looked at that regarding marrying the unmet need, what the capacity might be and whether that is more localised?

Associate Professor MILLIGAN: One of the best mechanisms for that is having local housing strategies. One of the weaknesses of Australia's alignment of housing roles and responsibilities is that local government has very little capacity and expertise in this area.

The Hon. JAN BARHAM: Having spent 13 years in local government, my understanding is that local government has done a lot of the work but lacks the ability to implement.

Associate Professor MILLIGAN: Yes, that is true.

The Hon. JAN BARHAM: Because the creative planning is not allowed.

Associate Professor MILLIGAN: The bigger picture framework is not in place. Once you have a national framework and an agreed strategy between two levels of government, you need to empower local government then to say, "How do we use that in a locally responsive way?" It will produce a very different outcome in the North Coast to the inner city.

Professor PAWSON: I think empower and possibly oblige.

The Hon. JAN BARHAM: Yes.

Professor PAWSON: Your experience may not be very typical because I think there is probably a huge amount of unevenness in the capacity and activity of local governments. One of the reasons for that is that it is monetary.

The Hon. JAN BARHAM: I was a member of the National Sea Change Taskforce that looked at these pressures. I know that that experience is national.

CHAIR: Unfortunately, we have gone over time, but that shows the interest in this matter. Many people before us have held inquiries, but our desire is to just build another brick of hope and find some solution.

The Hon. JAN BARHAM: We are going to make change happen.

CHAIR: Many before us have tried to lay a successful foundation for social, public and affordable housing. No doubt now more than ever we need creative and innovative models, and government needs to assist us in all aspects of what that means, whether privatising community housing or even planning legislation. We appreciate your time today. We know you could have been anywhere, but you are here with us sharing your expertise. Hopefully, something of your heart will be reflected in our report and you will know that your time was worthwhile.

Professor PAWSON: Thank you very much.

Associate Professor MILLIGAN: Thank you.

CHAIR: If you took any questions on notice, the answers are to be returned within 21 days. The secretariat will contact you regarding those questions.

(The witnesses withdrew)

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(The Committee adjourned at 12.36 p.m.)
