

21 December 2016

Our Ref: 2016/660528

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

To Whom it May Concern,

Submission on the review of rent models for social and affordable housing issues paper

Please find attached the City's submission on this issues paper, which suggests fundamental principles and considerations to frame and guide this review.

Our submission sets out our broad policy positions with regard to the future of the state's social and affordable housing systems. It provides a perspective on the government's approach to the governance and funding of the social housing system for the purpose of ensuing adequate supply to meet current and forecast need.

The City would like to see a clear commitment from NSW Government to ensuring that there is adequate safe, secure and quality social housing and affordable housing supply to meet need. This must be the fundamental basis for this review and for the implementation of the wider *Future Directions for Social Housing* strategy.

The City welcomes the opportunity to comment on this issues paper and we look forward to participating in forthcoming stages of the review.

Should you wish to speak with a Council officer about this submission, please contact Allison Heller, manager social strategy by telephone on [REDACTED] or by email at [REDACTED]

Yours sincerely

Monica Barone
Chief Executive Officer

Encl.

City of Sydney submission to IPART: *Review of rent models for social and affordable housing* – Issues Paper, November 2016

Introduction to the City of Sydney's submission and policy position

The City welcomes the opportunity to comment on IPART's Issues Paper – *Review of rent models for social and affordable housing*. We look forward to participating in forthcoming stages of the review.

At this initial stage, this submission does not seek to provide detailed technical responses to proposed rental and eligibility models, but rather suggests fundamental principles and issues to frame and guide this review.

It sets out the City's broad policy positions with regard to the future of the state's social and affordable housing systems. It provides a perspective on the government's approach to the governance and funding of the social housing system for the purpose of ensuring adequate supply to meet current and forecast need.

The City would like to see a clear commitment from NSW Government to ensuring that there is adequate safe, secure and quality social housing and affordable housing supply to meet need. This must be the fundamental basis for this review and for the implementation of the wider *Future Directions for Social Housing* strategy.

Rising levels of homelessness and rough sleeping in the inner city and across the state demonstrate the failure of Australian state and federal governments to meet their fundamental responsibility to the community of ensuring there is adequate safe and secure shelter available for all.

The need for investment in social housing is the result of the failure of the private market to deliver housing for all people across the socio-economic spectrum.

Meeting this challenge requires an absolute policy commitment and a strong funding commitment with it.

It is clear that in a wealthy country such as Australia, rising rates of homelessness and rough sleeping are the result of economic policy decisions and heavily attributable to decades of underinvestment in the social housing system; they are not due to a lack of wealth resources.

In this vein, the City welcomes IPART's recognition that shelter is one of the most fundamental human needs. The City considers it to be a fundamental role of government to ensure all members of society have access to safe and secure housing as a critical social safety net.

The City categorically opposes policy changes that will effect rent rises for social housing tenants and diminish their ability to live in the inner city.

This is the basis for our submission.

City of Sydney context

The City of Sydney Council is the authority for the City of Sydney Local Government Area (LGA), NSW ('the City'). The City comprises central Sydney (Sydney CBD), The Rocks, Millers Point, Ultimo, Pyrmont, Surry Hills, Woolloomooloo, Kings Cross, Elizabeth Bay, Rushcutters Bay, Darlinghurst, Chippendale, Darlington, Camperdown, Forest Lodge, Glebe, Alexandria, Beaconsfield, Centennial Park, Erskineville, Newtown, Redfern, Rosebery, Waterloo and Zetland.

As of June 2016, there are estimated to be a total of 105,860 dwellings in the City (not including boarding house accommodation, student accommodation or aged care services).¹ This includes an estimated 9,716 social (including public) housing dwellings and 845² affordable rental housing dwellings. Social housing dwellings are generally concentrated in precincts located in Surry Hills, Redfern, Waterloo, Woolloomooloo and Glebe.

More than 205,000 people live within the City's boundaries, which cover 26.15sq.km, sharing the space with about 22,000 businesses. The median age of City residents is 32. The median weekly household income of City residents is \$1,639.

The City's population is forecast to reach approximately 300,000 by 2031 – more than double its 2001 population. Notably, existing development approvals indicate that much of the residential population growth is expected to occur within the next seven years.

The City is currently one of the highest ranked local government areas in terms of absolute numbers of social housing tenants. According to the 2011 ABS Census data, more than half of the City's resident households are in rental dwellings, and by the City's estimation, approximately 10% of these are social housing properties.³ This is equivalent to nearly 9,900 social housing tenancies.

In terms of the housing market, between 2005 and 2015, the median sales prices of strata properties (predominantly units) in the City of Sydney increased by 76.5%. Non-strata properties (predominantly terrace houses or separate dwellings) increased by 126.9%. Over the same period of time the median rental price of units increased by 66.7%. Rental prices for houses increased by 107.5%.

Between 2013 and 2014, sales prices for dwellings in the city grew by 11.6%, nine times faster than average earnings.

The median rental price for a two-bedroom unit in 2014 was \$720 per week, compared with the state median of \$480 per week. A gross household income of \$120,000 per annum is needed to rent this two-bedroom unit to avoid being in housing stress - paying more than 30% of income on housing.

Definitions of social and affordable housing used by the City of Sydney⁴

Social housing (including public housing)

Housing rented to people for whom an eligibility test is applied, including people on very low incomes or income support, or who are disadvantaged in other ways. This housing is primarily accessed through the state government housing application system. It includes public housing owned and managed by the state government, along with housing owned and/or managed by CHPs, and Aboriginal housing owned by the Aboriginal Housing Office.

¹ Source: City of Sydney Floor space and Employment Survey 2012 and City data on residential development. Figures current as at June/July 2014.

² This figure excludes boarding houses and student housing delivered through the private market, for consistency with the definitional parameters of the City of Sydney Affordable Rental Housing Strategy.

³ The ABS Census may underestimate social housing. It has been speculated that this occurs because social housing tenants are reluctant to self-identify.

⁴ [City of Sydney Housing Issues Paper](http://www.cityofsydney.nsw.gov.au/vision/towards-2030/communities-and-culture/affordable-housing#page-element-dload), 2015, <http://www.cityofsydney.nsw.gov.au/vision/towards-2030/communities-and-culture/affordable-housing#page-element-dload>

Affordable (community rental) housing

Rental housing delivered and managed primarily by community housing providers (CHPs) for very low to moderate income earners, particularly targeted at key workers who are essential to a city's economic and social diversity.

Key workers include but are not limited to:

- Essential services workers such as teachers, nurses, ambulance drivers and other emergency services workers
- Hospitality and tourism sector workers such as cleaners, baristas, waiters and restaurant managers
- Essential infrastructure workers such as bus drivers, train drivers and road maintenance personnel
- Cultural and creative sector workers such as artists, actors and musicians.

Rent is typically equivalent to less than 30 per cent of the gross income of very low to moderate income households (in the bottom 40 per cent of the household income range) and/or 20 per cent below market rent.

Perspectives on the current state of the social housing system

Social housing is a necessity for the most vulnerable in our community. At a time when private housing in the inner city is becoming virtually inaccessible to those on lower incomes and affordable rental housing supply is not keeping pace with demand, the NSW social housing system is now faced with a waiting list of tens of thousands of people across the state.

Once a safety net for the most disadvantaged in our community, the Auditor-General had projected there would be more than 86,000 on the waiting list by 2016. Existing social housing residents, often facing mental or physical health or other issues, are not receiving the social supports they need to help them exit the welfare system and are often living in poor quality, deteriorating housing. Those on the social housing waiting list are not receiving adequate social services supports that prevent them from entering the social housing system in the first place.

Inadequate social housing supply, in terms of quality and quantity, coupled with inadequate service delivery to improve tenant capacity, has increasingly serious economic and social impacts on individuals and communities. In the inner city, socio-economic polarisation is growing between those in social housing estates and surrounding, gentrifying neighbourhoods, posing a risk to community cohesion.

These issues are reflective of a broader housing affordability and diversity crisis impacting on Sydney's economic and social sustainability. This crisis is exacerbated by the failure of successive state and federal governments to address these issues in a proactive and comprehensive manner.

This policy failure is reflected in the unsustainability of key elements of the NSW Government's current approach to the social housing system, which includes a lack of commitment of funding adequate to cover repairs and maintenance of housing stock; the sale of high value inner city properties to fund operational deficits, and lack of a transparent and holistic strategy for property assets.

In this context, the City welcomes the NSW Government's publication of the *Future Directions for Social Housing in NSW* strategy, albeit we are concerned about certain aspects of the strategy, particularly the rent setting and eligibility criteria being examined by IPART through this review.

Principles and considerations for the review of rent and eligibility models

The City suggests that the following principles and considerations frame and guide IPART's review:

- **Social housing represents critical social infrastructure for the lowest income earners and most disadvantaged in our society.** Providing it is a fundamental responsibility of federal and state governments; it requires an absolute policy and funding commitment to ensure this basic social need is met. Increasing rents for those on the lowest incomes is absolutely the wrong approach to this issue.
- **Provision of social housing cannot be made profitable, or even economically viable – in pure economic terms.** Providing housing for the lowest income earners – many of whom are living on limited social security benefits payments – requires substantial investment by governments.

Social housing was by definition established to operate outside the market. While it is sensible to examine rental and eligibility criteria models that may make the system more financially sustainable, the social housing system cannot be viewed from a market lens and its governance and development cannot be pegged to the private housing market. Social housing rents are limited by tenants' ability to pay. No rental model will reduce the need for substantial subsidies from government to provide this critical social infrastructure on an ongoing basis.

- **This issue of proposed pegging of social housing rents to market rents is one of grave concern in the inner city.** Given current and rising market rents (see the City's [Housing Issues Paper](#)⁵ and [Housing Audit June 2016](#)⁶ for recent data), pegging social housing rents to the market will effectively expel many or most social housing tenants from the inner city.

This would have severe adverse social consequences – dislocating long-established communities and reducing people's access to jobs and services – the very pathways to opportunity the NSW Government's *Future Directions* strategy promotes. Forcing the lowest income earners and the most disadvantaged to Sydney's fringes, as such a rent-setting policy will undoubtedly do, will undermine socio-economic diversity in the inner city and further entrench geospatial socio-economic inequality in Sydney. People who are disadvantaged will increasingly be ghettoised in fringe suburbs and face significant daily transport costs to access areas of jobs growth.

The long term consequences of such a rent-pegging policy will be wide ranging and detrimental to the economic growth and productivity, social stability, and success of Sydney as a global Sydney and the social and economic resilience wider Sydney metropolitan area.

It is noted that community housing providers have informed the City of situations whereby pegging their rents to the market in Sydney (the NSW Government permits CHPs to charge up to 80% of market rent) rather than to incomes (as the City's affordable housing programs do – 30% of income being the cap applied, with regard to the definition of housing stress)

⁵ [City of Sydney Housing Issues Paper](#), 2015, <http://www.cityofsydney.nsw.gov.au/vision/towards-2030/communities-and-culture/affordable-housing#page-element-dload>

⁶ http://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0004/264442/Housing-Audit-June-2016.pdf

has resulted in affordable housing developments being unaffordable to the target tenant base.

This scenario is applicable in a more extreme way when it comes to social housing. Introducing a system for social housing rents, whereby rents are linked to the housing market, but social benefits-based incomes are fixed at a national level, will inherently fail in areas where social housing is most needed – particularly in the inner city.

The City categorically opposes the introduction of market-based rent models for social housing that would increase rents for social housing over CPI, or would differentiate rates of rent with regard to the location of property.

- **Cost benefit analysis of providing safe and secure housing for the most disadvantaged, versus inadequate supply, should be an integral part of this review.** This should analyse the knock-on impacts and costs to the health and justice systems and the wider economy of damage to people's wellbeing, resilience and access to opportunities associated with inadequate or poor quality supply. Investing in the supply of social housing is recognised as a more cost effective approach with regard to society and the economy in the long term.

This cost benefit analysis should consider the benefits of social housing tenants being housed in close proximity to health services. In fact, many of the tenants in the public housing precincts in the City of Sydney were originally relocated there because of their need for specialised health services and treatment.

Linked with this issue, it must be recognised that investing in the construction of social housing infrastructure – ie new social housing dwellings in areas well-located in relation to jobs, public transport and other services – should be a priority.

Temporary support models set out in this Issues Paper, such as provision of access to subsidised leases in the private market, represent solutions that are costly to government in the short term – particularly given current market rents in Sydney – and do not contribute in any way to the ongoing sustainability of the social housing system in the way that development of new property assets can. These private rental subsidy products should be recognised as temporary responses to the current social housing waiting list and supply crisis – not sustainable solutions.

- **The City questions the definitions of social and affordable housing that have been applied to frame this review.** The City is aware that these definitions, consistent with those applied by the Greater Sydney Commission in District Plans for Sydney, is a shift from long recognised definitions. The new definitions reframe what was traditionally defined as social housing (housing for very low to low income earners and others who are disadvantaged) as affordable housing. Affordable housing is now defined as housing for very low to low income earners – rather than low to moderate income earners.

This definitional shift is a fundamental issue which raises questions as to the NSW Government's commitment to social housing supply and to supporting the supply of affordable housing for low to moderate income earners.

Moderate income earners are no longer represented in this equation – yet many, as we know, are now absolutely locked out of the housing market in Sydney and desperately need

subsidised housing to assist them in moving up the continuum into market housing, or to avoid living in housing stress or crisis.

Additionally, if the underlying purpose of this reframing is to seek the delivery of more housing for very low to low income earners by community housing providers (CHPs), this will be extremely challenging without additional subsidies and support from government to that sector. The viability of CHPs' business models relies on them predominantly housing low to moderate income earners. If they are increasingly required – through this redefining – to meet the housing needs of very low income earners and the most disadvantaged on behalf of government, their businesses models will be rendered unviable without substantial additional subsidies.

- **With regard to eligibility criteria for social housing**, the *Future Directions* strategy discusses an 'opportunity group' who may be transitioned to 'housing independence' (read as private market housing). Given that 90% of social housing tenants are on some form of social security benefits as their main source of income - the City questions the scale of this 'opportunity group' and how much of an impact this will actually have on the future viability of the system.

It is clear that the vast majority of current social housing tenants will continue to require access to heavily subsidised social housing. Raising social housing rents in this context will require close collaboration between state and federal governments with regard to the housing and benefits systems, to avoid these people being placed in greater financial stress and unable to afford fresh healthy food and other daily essentials that support health and wellbeing.

- **If social housing rents are considered to be unsustainably low, this issue can only be addressed through collaboration between state and federal governments**, as it is at the intersection of federal government's setting of social security benefits payments and rent-setting by state government. Given benefits are the primary source of income of more than 90% of social housing tenants, rents cannot be raised if tenants' ability to pay is not concurrently raised – an outcome opposite to that currently indicated by federal government policy.
- **Investing in the affordable housing system is a critical part of this equation**: the City welcomes this review's holistic consideration of social and affordable housing supply systems. Currently, the NSW community housing sector has been severely hampered in terms of sustainable growth and development strategies by an uncertain and constantly shifting policy environment.

Key state government strategies and initiatives to enable this sector to realise its potential have been scrapped in recent years, including the divestment of state property assets to CHPs to leverage for growth, and the National Rental Affordability Scheme. The sector is currently awaiting certainty on the implementation of the Social and Affordable Housing Fund (SAHF), which has been delayed.

A serious commitment by NSW Government to the growth of the affordable housing system in NSW is inextricably linked with the sustainability of the social housing system. Affordable

housing is an essential component of the housing continuum that provides a critical link from social to private market housing.

It is essential for the productivity of Sydney's economy and its success as a global city. A city that functions on the basis of lower paid workers making increasingly lengthy commutes to access jobs is ultimately unsustainable and will be detrimental to Sydney's economic growth.

It is the housing tenure to which the so-called 'opportunity group' in social housing could be realistically transitioned, given they could not viably be transitioned straight into the private market, at least in metropolitan Sydney. Clear evidence of this is provided in Anglicare's annual highly-respected Rental Affordability Snapshot,⁷ which illustrates the unaffordability of the market across metropolitan Sydney and surrounds to the lowest income earners.

Concluding comments

The City of Sydney urges IPART to undertake this review with regard to the fundamental recognition of social and affordable housing as *non-market* housing supply – systems which by their nature and *raison d'être* cannot be governed and operated through a market lens.

The City also urges that, in this context, the review be undertaken with a view to close collaboration between state and federal governments being essential to solve the issues raised, which lie at the intersection of the social housing and social security benefits systems.

The most vulnerable in our community should not be made to pay for the failure of the housing market. The majority of social housing tenants' incomes are fixed by federal government at a national level – with no account taken of areas in which these tenants are best located, commonly for access to health and other social services.

On this basis, a result based on an issues framework that merely concludes that public housing rents should increase would be inequitable, inefficient, ineffective and short-sighted.

While the raising of social rents can obviously increase the pure financial viability of social housing, it would need to be matched by an increase in subsidies and social security payments, to avoid resulting in even greater financial hardship for tenants.

Rent increases, without commensurate income increases, will directly impact reductions in tenants' necessary health, food and education expenditure – with resultant damage to their health and wellbeing, and knock-on costs to the economy and society.

The ongoing viability of the social and affordable housing systems is a complex issue. And while a range of rental and eligibility models may ameliorate some of the aspects of this question, the real solution lies with an absolute commitment by government – through policy and funding – to investment in social and affordable housing infrastructure as underpinning NSW's sustainable social and economic growth and resilience.

The City looks forward to the opportunity to participate in future stages of this review during March and April 2017. The City also looks forward to commenting on the details of the review upon the publication of the draft report in early 2017.

⁷ <http://www.anglicare.asn.au/research-reports/the-rental-affordability-snapshot>

