

City of Sydney submission to Australian Government Productivity Commission draft report on reforms to human services, June 2017

Introduction

The City welcomes the opportunity to comment on the Australian Government Productivity Commission's draft report, *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services*.

This submission focuses on recommendations to increase user choice and contestability in social housing. Social housing is an area of direct concern to the City of Sydney as a local government authority. Housing diversity is critical to Sydney's global competitiveness and liveability and its social and economic sustainability.

Affordable, appropriate and safe housing for all is a fundamental human right and a fundamental responsibility of government. The City recognises the myriad challenges with NSW and Australia's social housing systems. The solution that is urgently needed is greater investment by Commonwealth and state governments in these systems sufficient to provide an increased supply of social housing stock and a recognition that this constitutes essential urban infrastructure. In the City's view, this asset-building approach is the most sustainable approach to continuing to deliver safe and secure housing for people in our society who are disadvantaged – for the long term.

In this context, increasing Commonwealth Rental Assistance Scheme (CRA) without increasing the supply of social housing properties is not a sustainable solution, particularly given the unaffordability of market rents and the large rental gap that needs to be subsidised to enable people to live in the private market.

In the Sydney metropolitan area and surrounds, less than 1 per cent of properties available to rent in the private market are affordable to those on the lowest incomes.¹ It will take far more than a 15 per cent increase in CRA to address this dire market failure. The only sustainable solution to this issue to increase social housing supply – ie the development of new assets. Short term subsidies for market rents is not a viable or sustainable solution in the short or long term and it does not deliver 'choice.'

The City fundamentally opposes the proposal to abolish income-based rents and charge market rents for social housing. The high cost of housing in Sydney, even with the proposed 15 per cent increase to the CRA, puts market rental well beyond the means of people receiving Commonwealth income support payments – along with many low-to-middle income earners. It will effectively exclude social housing tenants from the inner city, removing rather than providing 'choice.'

We recommend that State and Commonwealth Governments develop comprehensive housing policies backed by funding and coordination with partners to increase housing supply and diversity across the continuum. Specifically, we urgently recommend governments to commit to a five-year plan with numerical targets to increase the supply of social and affordable housing as a more equitable and effective way to increase consumer choice. Increasing the supply of affordable rental housing provides an essential 'rung on the ladder' towards private market housing, creating pathways for people to exit fully-subsidised social housing. It should be noted that many people with

¹ <http://www.anglicare.asn.au/research-reports/the-rental-affordability-snapshot>

high and complex needs will require ongoing support and might never be able to exit the social housing system.

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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).² This includes an estimated 9,716 social (including public) housing dwellings and 845³ 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 – a 50 per cent increase on its 2011 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 per cent of these are social housing properties.⁴ This is equivalent to nearly 9,900 social housing tenancies.

In terms of the housing market, between 2005 and 2015, median rents for a two-bedroom unit increased by 70 per cent – nine times faster than average earnings. The majority (84 per cent) of lower income households in the city are in housing stress.⁵

² Source: City of Sydney Floorspace and Employment Survey 2012 and City data on residential development. Figures current as at June/July 2014.

³ 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.

⁴ The ABS Census may underestimate social housing. It has been speculated that this occurs because social housing tenants are reluctant to self-identify.

⁵ [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>

Definitions of social and affordable housing used by the City of Sydney⁶

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.

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.

Guiding principles

The City suggests that the following principles and considerations underpin the recommendations to reform Australia's social housing system:

- **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; and ensuring this basic social need is met requires an absolute policy and funding commitment. Increasing rents for those on the lowest incomes is absolutely the wrong approach to addressing 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

⁶ *ibid.*

reduce the need for substantial subsidies from government to provide this critical social infrastructure on an ongoing basis.

- **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 housing supply. Investing in social housing supply 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.

- **Investing in the affordable housing system is a critical part of this equation:** 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.

A serious commitment by the NSW Government to the growth of the affordable housing system 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.

Access to affordable housing 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 highly-respected annual Rental Affordability Snapshot,⁷ which illustrates the unaffordability of the market across metropolitan Sydney and surrounds to the lowest income earners.

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

Response to draft Recommendations 5.1 to 5.4

The stated purpose of this review is to ‘introduce competition and informed choice’ into the domain of social housing. However the current reality is that the term ‘choice’ is an anathema in the context of government-subsidised housing in NSW.

There are an estimated 80,000+ people on the social housing waiting list in NSW⁸ – with many more in need but not bothering to register due to stated waiting list times of up to 10 years in the inner city. For those who are living in social housing, the majority have complex needs and face multiple disadvantages. The use of the term ‘choice’ in government policies and strategies for this sector of the community is a misnomer, as their ‘choice’ of housing tenures – and indeed in myriad aspects of their lives – is severely limited by their very low incomes and limited access to opportunities.

The types of social/ subsidised housing ‘choices’ discussed in this paper are an even greater misnomer in the context of the lives of people living in or trying to access social housing in the inner city of Sydney. Given current and rising market rents, a 15 per cent increase in CRA will be utterly insufficient to enable current or prospective tenants – the lowest income earners – to live in inner Sydney. This situation stretches throughout the Sydney metropolitan area, as is well evidenced by Anglicare’s annual Rental Affordability Snapshot – the latest of which shows that only 6 per cent of dwellings across the entire Sydney metropolitan area and surrounds are affordable to households on government benefits.⁹

The City is concerned there are no details of how the ‘high-cost housing payment’ will be funded and administered by state governments. We believe placing the onus on current and future tenants to demonstrate their need to live in more expensive, inner-city locations is unfair and onerous, and we are concerned that many tenants will be unable to satisfy this requirement.

The NSW Government’s current and recent sales of social housing in Millers Point, Dawes Point and the Rocks – dislocating long-established close-knit communities – is an illustration of communities suffering an absolute lack of choice at the hands of the state.¹⁰

Relocated residents have had no success in arguing their need to remain in the inner city – as the NSW Government has set out its position on the sales of inner city housing funding more units on the fringes, where land is cheaper. It is hard to conceive of the NSW Government’s current line on this issue changing. It fails to recognise the importance of sustaining socio-economic diversity in the inner city – underpinned by social and affordable housing supply – or the importance of avoiding entrenching spatial socio-economic disadvantage across the Sydney metropolitan area.

Recommendation 5.1 – Enhance Commonwealth Rent Assistance

The City welcomes – in principle – the proposal for the Australian Government to increase CRA to address the disparity in the relative value of rents to inflation, however the increased amount proposed is grossly inadequate in an inner city or even metropolitan Sydney context. High rental inflation relative to the Consumer Price Index (CPI) over the past ten years means that, even with CRA payments, many tenants are in housing stress. This is particularly the case in Sydney where rent

⁸ NSW Auditor-General, 2013 (forecast for 2016 waiting list), Report on the Performance Audit of Housing NSW and NSW Land and Housing Corporation: *Making the best use of public housing*

⁹ <http://www.anglicare.asn.au/research-reports/the-rental-affordability-snapshot>

¹⁰ See Morris, A., 2017, ‘The Removal of Millers Point Public Housing Tenants in Inner Sydney by the NSW Government: Narratives of Government and Tenants,’ *Urban Policy and Research* (<http://dx.doi.org/10.1080/08111146.2017.1335194>)

prices have increased at nearly double the rate of CPI (58 per cent compared to 28 per cent from 2007 to 2017).¹¹

For this mechanism to be effective however, CRA increases for those in need must reflect the reality of local housing markets. This is essential to avoid entrenching spatial socio-economic disadvantage through the forced location of lower income earners to city fringes, dislocated from job opportunities and services.

The Commission's proposed CRA increase of 15 per cent is too low to redress the existing disparity in indexation, especially in high growth and high cost areas such as Sydney. We support the Australian Council of Social Service (ACOSS) call for a 30 per cent increase in the CRA maximum rate to reduce housing stress for low income renters.¹²

In the context of variable housing markets, the City is concerned that the proposal to index CRA to national rental prices will disadvantage tenants in metropolitan Sydney – particularly inner Sydney, which has the highest rental prices in Australia.

To address this disparity, we recommend CRA is indexed according to locality to account for regional variations in housing market rents.

Recommendation 5.2 – Market-based rent for social housing

The City does not support the recommendations to abolish the current income-based proportional assistance model and charge social housing tenants market rent.

Affordability can only genuinely be measured according to a households' ability to pay, whatever the housing market conditions. That is why the affordable housing programs operating in this City of Sydney are on the basis of rents being capped at less than 30 per cent gross household income. In the inner city, where the investor-driven rental markets is far beyond the realms of affordability for lowest income earners, 20 per cent below-market rent caps (as are in place in other parts of the NSW community housing sector) are still above lower income households' ability to pay.

In this context, the long term consequences of the proposed rent-pegging policy will be detrimental to social housing tenants, Sydney's economic growth and productivity, and the social and economic resilience of the wider Sydney metropolitan area. It will effectively expel recipients of government-subsidised housing to Sydney's fringes – as the City has made clear in recent submissions to the Independent Pricing and Regulatory Tribunal of NSW's (IPART) Review of rent models for social and affordable housing.¹³

The City has grave concerns about the impact on Sydney's inner city community of the proposed pegging of social housing rents to market rents. High housing costs are already the biggest source of financial stress for many households, particularly those on low incomes. Around 90 per cent of social housing tenants are reliant on government income support payments. Given Sydney's high and rising market rents (see the City's [Housing Issues Paper](#)¹⁴ and [Housing Audit June 2016](#)¹⁵ for recent data),

¹¹ <http://www.pc.gov.au/inquiries/current/human-services/reforms/draft/human-services-reforms-draft.pdf> p161

¹² Australian Council of Social Service (2017) *Budget Priorities Statement 2017-18*, ACOSS, Sydney, p71

¹³ City of Sydney submission to NSW IPART Review of rent models for social and affordable housing, 2017

¹⁴ [City of Sydney Housing Issues Paper](#), 2015, <http://www.cityofsydney.nsw.gov.au/vision/towards-2030/communities-and-culture/affordable-housing#page-element-dload>

¹⁵ http://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0004/264442/Housing-Audit-June-2016.pdf

we question the capacity of this group to sustain market-based rental tenancies in the city, even with an proposed increase to CRA.

Introducing market-based social housing rents will have severe adverse social consequences – dislocating long-established communities and reducing access to jobs and services for those already facing multiple disadvantages. Forcing the lowest income earners and the most disadvantaged to Sydney’s fringes will undermine socio-economic diversity in the inner city and further entrench geospatial socio-economic inequality across the Sydney metropolitan area.

People who are disadvantaged will increasingly be ghettoised in fringe suburbs of our cities, compounding their hardship through increased transport costs and greater difficulty accessing jobs and services.

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 per cent of market rent) rather than to incomes (as the City’s affordable housing programs do – 30 per cent of income being the cap applied, with regard to the definition of housing stress) has resulted in affordable housing developments being unaffordable to their target tenant base and needing to be reduced.

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 linked to consumer price and wage indexation, will inevitably leave social housing tenants worse off. If this proposal is implemented, the City strongly advocates the Commonwealth Government to increase income support payments to a level that provides a decent standard of living and ensures no one lives in poverty.

The City has reservations about the proposed ‘high-cost housing payment’ to be funded by State and Territory Governments. The NSW Government’s sale of public housing in Sydney’s Millers Point, Dawes Point and the Rocks illustrates the high risk that inner city social housing tenants living in ‘in-demand’ properties will not be compensated to allow them to remain in their homes, further entrenching geospatial inequality in our cities.

The high cost of housing in Sydney combined with historic underfunding of the NSW social housing system raises doubts about the state government’s commitment or capacity to adequately fund social housing tenants to cover the cost of market rental housing, particularly in expensive areas such as Sydney. If implemented, governments must guarantee that social housing tenants will not be financially worse off as a result and that the existing number of social housing places in the inner-city will be maintained to preserve socio-economic diversity and vibrancy.

Recommendation 5.3 – Choice-based letting for social housing

The City supports the principle of user choice and choice-based letting for tenants entering into and transferring between social housing properties. However we do not agree with the Commission’s conclusion that giving tenants choice to access private rental housing will increase the availability of social housing for those most in need. This is due to the lack of affordable market and non-market housing across Australia.

The chronic undersupply of affordable rental housing is illustrated in Anglicare Australia’s most recent Rental Affordability Snapshot.¹⁶ It shows that at a national level only 6 per cent of dwellings

¹⁶ Anglicare Australia (2017) *Rental Affordability Snapshot*, Canberra, <http://www.anglicare.asn.au/docs/default-source/default-document-library/rental-affordability-snapshot-2017.pdf?sfvrsn=4>

surveyed were affordable for households in receipt of government income support payments. This situation is worse in NSW and Greater Sydney, where only 26 properties out of 13,447 (0.20 per cent) were affordable and appropriate for households on income support payments.¹⁷

This situation is not new or unusual. Over the eight years of Anglicare’s research, rental stress in Australia has been consistently bad or gotten worse. The report concludes that for most people living on a low income in Australia, ‘...there is almost nothing available on the market that could be a place to call home.’¹⁸

Australia has a shortfall of housing supply, estimated to be over 500,000 rental dwellings that are both affordable and available to the lowest income households.¹⁹ The City recognises that Commonwealth and NSW governments have progressed some initiatives to increase the supply of affordable housing, such as finance bond aggregators and affordable housing funds. However these measures are limited and will not deliver the scale or size of investment that is needed to meet current or future demand.

The City would like to see a clear commitment from Commonwealth and NSW Governments to ensuring there is adequate safe, secure and quality social housing and affordable housing supply to meet need. 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.

Without such an investment in the supply of social housing and affordable market and non-market housing, choice-based letting will be a hollow offering for tenants on low-incomes. Already we are seeing the impacts of the chronic lack of affordable housing manifest in the rising numbers of people who are experiencing homelessness. The City’s February 2017 Street Count recorded 948 homeless people in our local area, including 433 sleeping rough and others in temporary and crisis accommodation and hospitals.²⁰

To provide real choice to tenants, the Commonwealth must not only deliver substantially increased affordable housing stock, but it must also improve rental standards and tenancy regulation. Tenants in the private rental market face insecurity of tenure and in a demand-driven market often lack the power to enforce their rights to the maintenance of safe and secure accommodation. Any move to expose social housing tenants to the private rental market must also be accompanied by reforms to the Residential Tenancies legislation nationally to provide better protection for tenants and longer-term tenancies.

Recommendation 5.4 – Contestable social housing property management

The City supports the recommendation to make the management of social housing properties contestable and open to all providers on a staged basis. The City believes the community housing sector is the future of social housing. The City supports the divestment of public housing assets to the community housing sector to enable providers to leverage assets for growth and expansion. However, the sector in NSW faces similar financial viability challenges to those of state government, and will need continued government subsidies in the short-to-medium term.

¹⁷ *ibid*, p67-68

¹⁸ *ibid*, p26

¹⁹ National Housing Supply Council (2013), *State of Supply Report 2012*, cited in Australian Council of Social Service (2017) *Budget Priorities Statement 2017-18*, ACOSS, Sydney, p66.

²⁰ <http://www.cityofsydney.nsw.gov.au/community/community-support/homelessness/street-count>

Concluding comments

The City urges the Productivity Commission to review its social housing recommendations with regard to the fundamental recognition of social housing as *non-market* housing supply – systems which by their nature and *raison d'être* cannot be governed and operated through a market lens. Building the supply of social and affordable housing is the most sustainable, evidence-based long-term solution to improving outcomes for disadvantaged people and our community as a whole.

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.

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. Proposed state and territory high-cost top-up payments are unlikely to fully ameliorate these impacts, leading to increased spatial inequality in our cities and regions.

Increased tenant choice is a valid objective, but the real solution lies with an absolute commitment by government – through policy and funding – to increased investment in social and affordable housing infrastructure as underpinning Australia's sustainable social and economic growth and resilience.