25 February 2022

Tamara Bruckshaw
City of Sydney Council

Sent via email: tbruckshaw@cityofsydney.nsw.gov.au

Dear Tamara

Re: City of Sydney Affordable Housing Program - Review of Schedule A Criteria

Thank you for engaging Atlas Urban Economics (**Atlas**) to assist the City of Sydney (**the City**) undertake a review (**the Review**) of the criteria for a community housing provider (**CHP**) to be included in Schedule A of the City of Sydney Affordable Housing Program (**the Program**). At present, City West Housing (**CWH**) is the sole CHP at Schedule A.

City of Sydney Affordable Housing Program

The City has a long history of procuring affordable housing outcomes through development and the planning system. Historically affordable housing contributions were only required at Ultimo/ Pyrmont and later in the Green Square Urban Renewal Area; the application of the City of Sydney Affordable Housing Program has in recent years been expanded.

Effective 1 July 2021, inclusionary zoning contributions are now required across the LGA with site-specific contributions additionally required through a planning agreement where there is a rezoning.

Since 2013, annual affordable housing contributions have ranged from $20 million to $40 million annually, a function of economic and market conditions. This could increase following recent expansion of the Program.

Clause 2.10 of the Program provides that CHPS that are registered under the National Regulatory Code as Tier 1 or Tier 2 providers may request to be added to Schedule A. The City will assess the CHP's request and carry out the following:

- Consider any potential impacts of adding a provider on the outcomes of the schemes, i.e. whether adding a provider would likely increase or decrease the number of affordable housing units resulting from the scheme.
- Consult with DCJ (Department of Communities and Justice).
- Consider the impact on the programming and business planning of CHPs already listed on Schedule A.
- Develop a strategy for how dwellings or funds are to be divided amongst multiple providers.

Clause 2.10 notes that under s7.33 of the *Environmental Planning and Assessment Act 1979*, the Minister may make a direction as to whom should receive an affordable housing contribution.

In June 2021, Bridge Housing (**Bridge**) submitted an application to the City to be included in Schedule A.

Affordable Housing Stock in Sydney LGA

Almost $270 million in contributions has been collected since the inception of the Program, with approx. 85% ($228 million) collected over the 2013-2021 period.

There are approx. 1,328 affordable housing dwellings in the Sydney LGA (as at 1 July 2021), with almost two-thirds of these (859 dwellings) built from developer contributions collected under the Program.

Table 1 summarises the revenue received by CWH from developer contributions as well as the count of affordable housing dwellings (where stated) over the 2013-2021 period, the latter extracted from a review of CWH's annual reports.

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Table 1: Extract from City's Data and CWH Annual Reports, 2013-2021

Year	Revenue from Contributions ($'000)	% of Total Revenue	Affordable Housing Count
2013	$14,951	58%	547
2014	$47,446	80%	
2015	$25,511	62%	635
2016	$23,124	47%	
2017	$54,863	78%	
2018	$31,133	65%	724
2019	$16,791	47%	894
2020	$30,106	65%	
2021	$20,189	56%	893
Total	**$264,114**	**64%**	**893**

Source: City of Sydney, CWH

Notwithstanding the receipt of more than $264 million in affordable housing contributions over the 2013-2021, a relatively modest amount of affordable housing stock was added (346 dwellings) over the eight years. This is conceivably a function of CWH's governance structure which prevents it from taking debt without the consent of the NSW Treasurer. Any development is therefore funded from equity (cash reserves).

In December 2020, CWH was removed from the provisions of the Government Sector Finance Act, enabling it to now leverage its significant unencumbered asset base to borrow to fund its development pipeline.

According to the FY2021 annual report, CWH's current assets are in the order of $242 million. The current asset balance sheet is substantially greater compared to FY2014, in which current assets were in the order of $144 million.

Development Pipeline

The City tracks social and affordable housing stock through its annual housing monitors, particularly housing that is funded/ enabled by the City (whether through affordable housing contributions, subsidised land sales, etc.). According to the City's tracking, CWH's pipeline of affordable housing developments is expected to deliver more than 400 residential units over the next five years (to 2027). The $286 million pipeline will be funded from CWH's cash reserves, these projects being:

- Waterloo - 75 apartments (DA approved, commencing September 2022)
- Green Square - 250 apartments (planning underway, subject to completion of Ashmore Connector Road, estimated commencement mid-2023)
- Alexandria - ~90 apartments (DA approved, estimated commencement early 2025)

In CWH's submission to the City in response to Bridge's application to be added to Schedule A, CWH outlined its future development projects to 2031. **Table 2** is sourced from the submission which does not differentiate buildings which are located in the Sydney LGA and those that may be outside. Some of these dwellings are understood to be expected to be built on land not as yet identified/ secured.

Table 2: CWH Future Development Projects, 2024-2031

FY	New Dwellings	Number of Buildings
2024	90	1
2025	383	2
2026	90	1
2028	75	1
2031	75	1
Total	**713**	**6**

Source: CWH

CWH estimate that $428 million will be required over 10 years to deliver the planned 713 apartments.

Matters for Consideration

We make a number of observations and suggest various matters the City should have regard to in considering the specified criteria for a CHP to be included in Schedule A.

Enabling the CHP Sector

The 'opening up' of Schedule A for capable and qualified CHPs brings with it a number of benefits, including:

- Contestability and innovation to drive better outcomes for Affordable Housing.
- Opportunity for the City to use its funds to leverage the equity and debt capacity of 'strong' CHPs to increase affordable housing stock.
- Providing assistance to CHPs gain development momentum through the certainty of annual funding.

Tier Registration of CHPs

Clause 2.10 notes that Tier 1 and Tier 2 CHPs are eligible to apply for inclusion in Schedule A. The appropriate qualifications and track record brought by applicant CHPs, including status of registration with National Regulatory System for Community Housing (NRSCH) is critical. Among the criteria used by the NRSCH to register CHPs is 'development scale'.

A Tier 1 registrant is, *inter alia*, involved in "ongoing development activities at scale". The NRSCH notes that 'development scale' is set relative to the national market, the size of which will be influenced by a range of factors, notably the economic outlook and funding opportunities, The assessment of development activity by registrars will take into account:

- The number of units involved
- The costs and financing arrangements
- Complexity of the development(s)

Whether a provider's development programme is 'ongoing' is assessed against the existence of a committed forward program (e.g. contract or agreement to meet development targets, well advanced plans for sites that have been acquired possibly with development approvals).

Tier 2 CHPs are those who operate at more moderate scale, undertaking "small-scale development activities".

The principle of economies of scale is relevant here; CHPs with larger development operations will expectedly enjoy cost advantages due to their scale of operation compared to CHPs with smaller development operations. The appropriation of funds that leverages economies of scale would result in 'more bang for buck' for development contributions received.

More detail of the NRSCH tiered registration criteria is stated in Schedule 1.

Operational Matters

We suggest the application of funds is subject to the following considerations:

- Funds are 'ringfenced' for application in the Sydney LGA.
- Adoption of the Program's rent-setting principles, that rents are no more than 30% of a household's gross income.

  While some CHPs adopt a rent-setting policy of charging a discounted market rent (74.9%-80%), these CHPs typically balance rent-setting with appropriate 'matching' of accommodation. This means households that are, as much as possible, offered housing that suits their circumstances and that they can afford (i.e. rent at ≤30% their gross income).
- While the 'opening up' of funding availability to more CHPs will diversify delivery and market risk and provide the opportunity for greater affordable housing outcomes, it is necessary to acknowledge a potential perverse outcome where CHPs (funded by the Program) inadvertently compete and 'bid up' the price of development opportunities.

  Information sharing and collaboration between CHP recipients would be important to avoid this.

Implementation of the Program (which applies inclusionary zoning across the LGA and site-specific requirements for planning proposals) would likely result in larger volumes of contributions over time. The collection of contributions is directly dependent on economic and market conditions, and can therefore be challenging to predict with certainty. Rationalisation of the Ultimo/ Pyrmont program with the rest of the LGA will additionally contribute to potential higher receipts.

Review of Potential Impacts and Criteria for Inclusion in Schedule A

This section reviews the application by Bridge against the matters listed in Clause 2.10 of the Program and makes recommendations for the City's consideration.

Affordable Housing Outcomes

Bridge is a Tier 1 CHP who owns/ manages 3,587 dwellings for Low to Moderate income households in 20 LGAs. A small proportion of the dwellings are owned and operated as affordable housing (approx. 15%) with the remainder managed for other organisations as social housing (mostly) and affordable housing.

Bridge proactively increases the properties under its management for Low to Moderate income households through:

- Tenders to manage properties on behalf of property owners (including councils, LAHC).
- Securing the transfer of properties through Property Transfer Programs.
- Purchase of properties to operate as social or affordable housing.
- Purchase of development sites and development of new dwelling stock.

Bridge have a development division who are responsible for the securing of development opportunities and delivery of new dwellings. Bridge maintains a corporate debt facility through a loan with NHFIC which provides long term debt at low rates.

Inclusion of a CHP like Bridge (with more than 3,500 properties under management) in Schedule A would not only provide opportunity for increased housing stock, it would also provide opportunity for Bridge to bring its management experience to the operation of completed dwellings.

Subject to the considered transitioning of funding to avoid disruption to CWH's development pipeline, the inclusion of other CHPs in Schedule A will enable greater opportunity for debt funding leverage and increase of affordable housing stock.

It is acknowledged that procuring development sites in the Sydney LGA is expensive and challenging. Enabling CHPs with the capability for site acquisition and development will diversify the risk and lead to greater affordable housing outcomes.

DCJ Perspective

DCJ declined to comment however noted its support for contestability and competition in the market so that best possible supply outcomes are delivered.

Programming and Business Planning of CWH

Until recently, CWH has been largely reliant on funding to grow its equity base, being unable to take on debt. This is evidenced by its current funding structure - approx. 66% of CWH funding is received from local government (in large part contributions received from the City), 23% from rental income and 10% from Commonwealth and state governments.

In December 2020, CWH was removed from the provisions of the Government Sector Finance Act that prevented borrowings without the consent of the NSW Treasurer. It is now able to leverage its significant unencumbered asset base to secure debt funding, including from NHFIC. This represents a valuable opportunity for CWH to scale its dwelling stock more rapidly than it has in the past.

According to the City's tracking research, there is 400+ dwellings in the pipeline that could be delivered to 2026. According to CWH's submission however, there are 700+ dwellings in the pipeline to 2031. We note that some of these dwellings are likely located in areas outside the Sydney LGA.

Relevantly, it is important to ensure CWH's business model is able to transition in a manner that minimises delivery risk to its development programme. While steps will need to be taken by CWH to review its funding structure and framework to leverage its significant unencumbered asset base, equally important will be for the City to ensure amendments to Schedule A do not inadvertently result in pipeline disruption for CWH.

Appropriation of Funds among CHPs

The broadening of the Program across the LGA which will also leverage urban renewal for Affordable Housing outcomes provides the City with a unique and valuable opportunity to enable/ build resources and capacity in the CHP sector.

It would be important for the City to maintain support to CWH in a critical time of transition, though it conceivable that contributions receipts would facilitate providing support to CWH *and* other CHP/s. Priority funding could be provided to CWH where the first $20 million each year is allocated to CWH in the short term. This would represent the 'smoothed' historical funding (removing 'extraordinary' years of 2014 and 2017 where ~$50 million was collected/ allocated to CWH).

The issue of funds allocation across multiple CHPs should have consideration to the following factors:

- The importance of certainty to CHPs for business and development planning. Accordingly, setting of fixed allocation of funds (subject to contribution receipts) at say $10 million would provide some degree of certainty for CHPs.
- Quantum of funds allocated is impactful, recognising the delivery risks associated with the diluted acquittal of funds.
- Priority access to funds by CWH in the initial years (to 2027) to a specified annual amount (say $20 million), with the balance of contributions receipts to be appropriated in annual tranches of $10 million per CHP.
- Post-2027 and following majority completion of CWH's current development pipeline, consider reducing the priority funding allocation to CWH to $10 million per annum. CWH could still have priority to receive the first $10 million each year, with the rest of the funds appropriated to other CHPs in minimum annual tranches of $10 million. The City should limit admission of CHPs to provide certainty to incumbent providers and avoid an inadvertent dilution of funds.
- Until such time the Pyrmont Peninsula Place Strategy is implemented into the City's planning framework and the Program is expanded to replace the current Ultimo/ Pyrmont affordable housing program, receipts from the latter Program could continue to be appropriated to CWH. Contributions collected in the Ultimo/ Pyrmont area would be included in the tally of $20 million per annum (to 2027) and $10 million per annum (2027 onwards).

Additional Considerations for Clause 2.10 Criteria

- Applicant CHPs should provide a business plan to demonstrate how funds received from contributions would build upon their track record and achieve realistic Affordable Housing targeted outcomes.
- Inclusion of CHPs in Schedule A is an opportunity for the City to leverage Tier 1 CHPs with a track record of procuring development sites and who undertake ongoing development activity. Demonstration of this track record is critical.
- Funding from the Program should not be the only/ major source of funds; CHPs should be able to source opportunities within a business framework that would be complemented by funds from the Program.
- A financial health check would be prudent as part of the evaluation criteria. An accounting and finance specialist could advise on the parameters/ metrics of relevance to consider in the financial health check.
- Following a CHP's inclusion at Schedule A, undertake periodic review (suggest every 4-5 years) to analyse the patterns of contribution receipts, review effective use of the funds by incumbent CHPs, review continued eligibility to receive funding and consider applications from applicant CHPs (if any).

We trust the City finds the foregoing helpful as it undertakes a review of the Schedule A criteria. Please contact the undersigned should you need to discuss or require further information.

Yours sincerely

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SCHEDULE 1

National Regulatory System for Community Housing

The National Regulatory System for Community Housing (NRSCH) is a regulatory system to support growth and development of the community housing sector. A tiered registration system based on risk is used; different levels of regulatory monitoring apply to providers based on the scale and scope of their community housing activities.

Table 3: Tier Registration, Eligibility Requirements

Tier	Eligibility	Performance Requirements
1	• Incorporated as company limited by shares or company limited by guarantee under Corporations Act • Demonstrated control over any affiliated entity arrangements • Meets evidence requirements	Tier 1 providers face the highest level of performance requirements and regulatory engagement, reflecting the fact they are involved in activities that require them to manage a higher level of risk based on: • Operations at large scale; any serious non-compliance has the potential to impact on large numbers of tenants and assets. • Ongoing development activities at scale; any serious non-compliance has the potential to affect the viability of the provider.
2	• A body corporate created through state/ territory of Australian government legislation: ◦ Company limited by shares ◦ Company limited by guarantee ◦ Corporations incorporated under Corporations (Aboriginal and Torres Strait Islander) Act 2006 ◦ Co-operatives or incorporated associations under state/ territory legislation ◦ Other bodies created through other state/ territory or national legislation • Demonstrated control over any affiliated entity arrangements • Meets evidence requirements	Tier 2 providers face an intermediate level of performance requirements and regulatory engagement, reflecting the fact they are involved in activities that mean they manage a risk lower than Tier 1 providers but higher than Tier 3 providers based on: • Operations at moderate scale; any serious non-compliance has the potential to impact on moderate numbers of tenants and assets. • Small-scale development activities; any serious non-compliance has the potential to affect the viability of the provider.
3	• A body corporate created through state/ territory of Australian government legislation: ◦ Company limited by shares ◦ Company limited by guarantee ◦ Corporations incorporated under Corporations (Aboriginal and Torres Strait Islander) Act 2006 ◦ Co-operatives or incorporated associations under state/ territory legislation ◦ Other bodies created through other state/ territory or national legislation • Demonstrated control over any affiliated entity arrangements • Meets evidence requirements	Tier 2 providers face a lower level of performance requirements and engagement, reflecting the fact they are involved in activities that mean they manage a lower level of risk based on: • Operations at smaller scale; any serious non-compliance has the potential to impact on smaller numbers of tenants and assets. • No ongoing development activities or one-off and/ or very small scale development activities.

Source: NRSCH