



5 August 2020

Mr Peter Achterstraat AM  
NSW Productivity Commissioner

Emailed to: [ICReview@productivity.nsw.gov.au](mailto:ICReview@productivity.nsw.gov.au)

Dear Mr Achterstraat,

## **NSW INFRASTRUCTURE CONTRIBUTIONS REVIEW – ISSUES PAPER SUBMISSION**

### **1. INTRODUCTION**

City West Housing (CWH) appreciates the opportunity to provide input into the NSW Productivity Commission's *Review of Infrastructure Contributions in New South Wales Issues Paper* ("Issues Paper"). We welcome this holistic review as a step towards the NSW Government delivering a reformed infrastructure contributions system for the State and are pleased to note that issues relating to affordable housing are included in the review.

Since 1994, CWH has successfully partnered with all levels of government to realise its vision of *"building stronger communities and improving people's lives through the provision of affordable housing"*. CWH has extensive experience developing, owning and managing some 900 affordable rental properties in NSW, particularly areas of high demand such as the City of Sydney local government area (LGA), and has recently expanded into the Bayside LGA with the acquisition of two adjacent land parcels in Rockdale.

This submission includes a brief description of the City of Sydney's affordable housing contributions program, and CWH's history and operations as a recipient of the City of Sydney's affordable housing contributions, to provide context for the submission's comments. It then draws on our longstanding experience to provide recommendations for how the infrastructure contributions system should continue to recognise and support community housing providers (CHPs) to deliver more cost-effective and high-quality affordable rental housing.

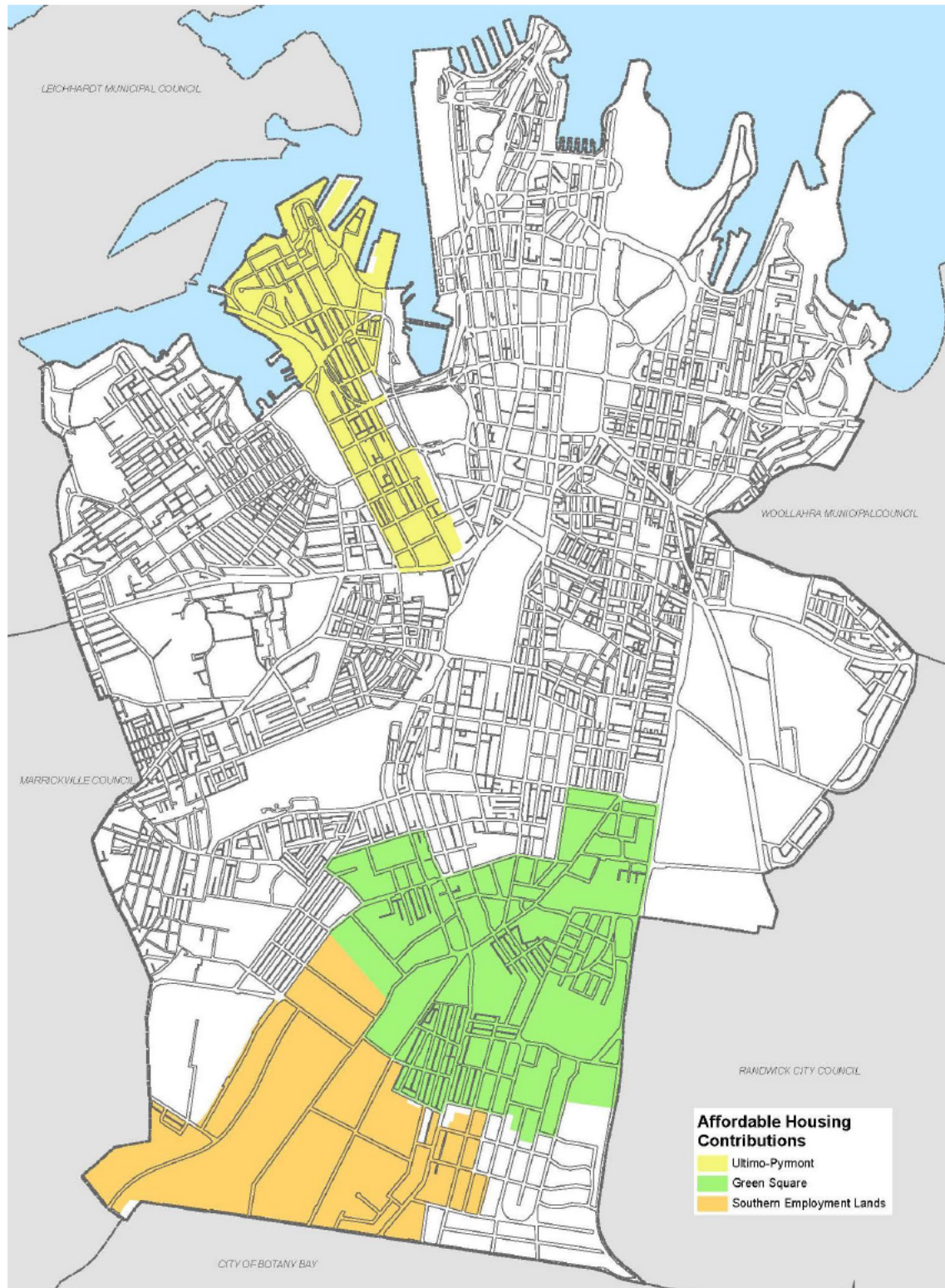
### **2. CITY OF SYDNEY'S AFFORDABLE HOUSING CONTRIBUTIONS PROGRAM**

The City of Sydney's affordable housing contributions program ("Program") form a condition of development consent and are implemented through the following legislation:

- [Environmental Planning and Assessment \(EPA\) Act 1979](#) identifies the provision of affordable housing as a function of Council and section 7.32 of the Act allows for the collection of contributions for affordable housing.
- [State Environmental Planning Policy \(SEPP\) No. 70 Affordable Housing \(revised schemes\)](#) identifies that there is a need for affordable rental housing in the City of Sydney (it has recently been expanded to all NSW LGAs). The SEPP also defines affordable housing for the purposes of these schemes.
- [Sydney Local Environmental Plan \(Sydney LEP\) 2012](#) contains controls for the calculation, provision and management of affordable housing contributions. The LEP also identifies any development that is excluded from making a contribution under the schemes. This LEP is enacted by the EP&A Act and SEPP 70.

The provisions of the environmental planning instrument prevail where there is an inconsistency between this Program and any environmental planning instrument applying to the same land.

Under this Program, most development in Ultimo-Pyrmont (City West), Green Square and the Employment Lands (under separate programs) requires the developer to make a contribution towards the cost of providing affordable housing (see map below where the programs apply).



**City of Sydney's Affordable Housing Contributions Program Map<sup>1</sup>**

<sup>1</sup> City of Sydney, *Affordable Housing Contributions Map*, June 2015:  
[https://www.cityofsydney.nsw.gov.au/\\_data/assets/pdf\\_file/0010/237187/Affordable-Housing-Contributions-June-2015.pdf](https://www.cityofsydney.nsw.gov.au/_data/assets/pdf_file/0010/237187/Affordable-Housing-Contributions-June-2015.pdf).



The redevelopment of these areas has increased land values, which has increased the cost of buying or renting homes, making them beyond the reach of low to moderate income households. Providing affordable housing ensures people living in low to moderate income households can continue to live and work in the city, thereby helping their communities to be more diverse, strong and resilient. Affordable housing may be provided in-kind or instead as a monetary contribution. The contribution total is calculated on the basis of the total floor area that would otherwise be required to be dedicated for affordable housing. An on-site contribution is calculated as a percentage of the total floor area of the development. Monetary contributions are indexed yearly according to the relevant program<sup>2</sup>.

As the City of Sydney's recommended affordable housing provider, CWH receives the affordable housing contributions and has used those funds towards the development and operations of affordable housing within the City of Sydney LGA.

### 3. ABOUT CITY WEST HOUSING

In 1994, the NSW Government established CWH as an independent not-for-profit housing provider. The initial focus was on developing and delivering affordable rental housing as part of a mixed residential community in the Ultimo/Pymont area for people on very low to moderate incomes. As a result of its initial success, CWH expanded its operations to Green Square and now owns and manages affordable rental housing across the City of Sydney.

Today, CWH is a Tier 1 registered community housing provider (CHP) with a strong development capability and a commitment to service delivery. CWH develops, owns and manages affordable housing for the long term. Our ongoing investment in the areas in which we operate, and the support we provide to our residents across a range of income groups to help them access the benefits of living close to jobs, support networks, and other amenities, helps us contribute to inclusive communities and the functioning of our city.

Earlier in 2020, CWH finalised two new developments in the City of Sydney LGA – in Glebe and Forest Lodge (pictured below) – which have brought the number of affordable rental apartments we own and manage to 894. These and CWH's other developments in the City of Sydney would not have been possible without some form of subsidy. The affordable housing contributions received make it possible for CWH to deliver affordable rental housing in the City of Sydney in perpetuity and cap the rents any eligible household pays at either 30% of gross household income or 74.9% of market rent, whichever is lower.



**Blackwattle in Glebe (99 apartments)**



**Ironbark in Harold Park, Forest Lodge (75 apartments)**

In terms of our future growth plans, over the next five years, our project development pipeline will see us deliver more than 400 additional apartments, housing some 1,000 new residents within Sydney.

<sup>2</sup> City of Sydney, *Affordable Housing Contributions*, April 2017: <https://www.cityofsydney.nsw.gov.au/development/strategic-plans-planning-controls/affordable-housing-contributions>.

## 4. ISSUES PAPER ON AFFORDABLE HOUSING

Our long-standing experience in developing affordable housing, and the challenges in securing funding and opportunities for the delivery of additional affordable housing, have informed the comments and recommendations made in this submission.

### GENERAL COMMENTS & RECOMMENDATIONS

CWH supports the review's high-level principles for consideration – efficiency, equity, certainty and simplicity – and appreciates that the NSW Government has the difficult task of balancing these principles in undertaking this infrastructure contributions reform.

Similarly, CWH supports the goal of the review to deliver a set of recommendations that will:

- fund the infrastructure needed to support our growing communities
- lead to an infrastructure contributions system this is simple to understand, transparent and principles-based
- meet the objectives of certainty and efficiency to support our stakeholders and boost investment in New South Wales.

CWH is pleased the Issues Paper refers to affordable housing and how infrastructure contributions currently assist in the delivery of affordable housing, which is primarily associated with the first goal above.

**Expanding the supply of affordable housing is more critical now than ever, and planning mechanisms that helps CHPs to fund and deliver more high-quality affordable rental housing will not only be welcomed by the community housing sector, but more importantly, our residents and their communities.**

The Council for Economic Development of Australia estimates that our nation requires around 20,000 extra affordable rental dwellings each year.<sup>3</sup> This need is especially urgent in high-cost housing markets like Sydney, where lower income workers often struggle to access housing that is affordable close to where they work. It is also worth highlighting that there are strong links between stable, well-located housing affordable housing and quantifiable economic benefits.<sup>4</sup>

CWH strongly supports recent affordable housing sector advocacy on the need for investment in affordable housing, which could play a dual role:

1. providing critical economic stimulus and jobs growth; and
2. helping to meet the growing community need for secure housing for very low to moderate incomes, including the growing number of people suffering acute economic hardship as a result of the recession in which we now find ourselves.

**We urge NSW Government to better recognise – in the review and provision of recommendations in relation to the infrastructure charges – affordable housing as not just social but economic infrastructure.** This would rightly recognise its role in supporting social and economic sustainability, and, in the words of AHURI: *“its foundational role in people’s lives, including access to safe, adequate, affordable and appropriate housing being critical to health, wellbeing and social and economic security.”*<sup>5</sup>

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<sup>3</sup> Committee for Economic Development of Australia (CEDA), *Housing Australia*, August 2017.

<sup>4</sup> City Futures Research Centre at UNSW, *Strengthening Economic Cases for Housing Policies*, February 2019.

<sup>5</sup> Australian Housing and Urban Research Institute, *A conceptual analysis of social housing as infrastructure*, from the AHURI Inquiry – Social housing as infrastructure, February 2019; Committee for Economic Development of Australia (CEDA), Op. Cit.; NHFIC, Op. Cit.

A recent City Futures Research Centre Paper confirms that the cost/benefit ratios for housing investments for low- and middle-income households in appropriate locations is at least on par with transport and other infrastructure investments. The Paper notes that when “*very long-term investments are made, such as housing and transport infrastructure, the possibility of evolutionary and emergent effects on the economy cannot be discounted.*”<sup>6</sup>

A 2018 report by SGS Economics which focussed on developer contributions for affordable housing<sup>7</sup> found that there is clear justification for using the planning system to support an increase in social and affordable housing:

1. Using value capture on the basis that the community should share in the land value uplift which is created when planning regulations allow increased development (value sharing); and
2. Considering affordable and social housing in the same way as contributions to open space, parking, water-cycle infrastructure and heritage conservation are required as essential requirements for sustainable neighbourhoods.

The report concluded that these two approaches can and should be applied in tandem.

It is important that affordable housing is recognised as infrastructure investment. The NSW IPART Review of Rent Models for Social and Affordable Housing (2017) recognised the value of affordable housing as an infrastructure investment with potential economic returns. The cost to Government of delivering the Better Housing Outcomes scenario modelled in the City Futures Research Paper (i.e. 125,000 additional affordable housing dwellings over a ten-year period) was \$7.27 billion, significantly less than the quantifiable productivity gains resulting from this investment.<sup>8</sup>

A change in classification and mindset would encourage greater financial investment in social and affordable housing supply and facilitate wider public acceptance of affordable housing as well as development industry support for affordable housing contributions across NSW.

**This review should be part of a coordinated approach within NSW Government to ensure there is a system that incentivises the delivery of all housing typologies, including subsidised housing, that is simple to understand and provides certainty and efficiency to stakeholders.** For example, we recommend this infrastructure contributions review be coordinated with the NSW Government’s Housing Strategy. CWH also responded to the Housing Strategy Discussion Paper which had its public consultation period end recently on 24 July 2020.

## **SPECIFIC COMMENTS & RECOMMENDATIONS**

This section focuses on those sections of the Issues Paper relating to affordable housing, both in terms of funding and challenges to delivery, and seeks to provide input to help inform NSW Government in answering questions posted within the Issues Paper.

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<sup>6</sup> City Futures Research Centre at UNSW, *Strengthening Economic Cases for Housing Policies*, February 2019.

<sup>7</sup> SGS Economics and Planning, *Development contributions for affordable housing: theory and implementation*, March 2018.

<sup>8</sup> Ibid.



## SECTION 7.32 AFFORDABLE HOUSING CONTRIBUTIONS

### Issue 3.10: Affordable Housing

Affordable housing contributions are made on top of other infrastructure contributions. The percentages are determined individually, and each scheme must demonstrate the rate does not impact development viability.

- Is provision of affordable housing through the contributions system an effective part of the solution to the housing affordability issue? Is the recommended target of 5-10 per cent of new residential floorspace appropriate?
- Do affordable housing contributions impact the ability of the planning system to increase housing supply in general?

We strongly support the provision of affordable housing through the contributions system as an effective part of the solution to the housing affordability issue. CWH can provide a relatively unique insight into the impact of affordable housing contributions. Section 2 of this submission summarises the City of Sydney's Affordable Housing Contributions Program and Section 3 of this submission outlines the success of this Program in enabling the City's recommended affordable housing provider, CWH, to deliver and manage almost 900 affordable housing apartments to date. SGS Economics in their 2018 report<sup>9</sup> describes the Ultimo-Pyrmont and Green Square affordable housing inclusionary zoning schemes as 'an exemplar' (page 8) and suggests that similar inclusionary requirements could be applied in other LGAs which proponents could readily factor into their feasibilities.

As a result of the City of Sydney's Affordable Housing Program, CWH now owns and operates around 90% of the affordable housing within the City of Sydney LGA. Other CHPs who do not receive the City's affordable housing contributions, have been constrained in their ability to develop affordable housing within this LGA. Compared to areas further out from the inner-city, the limited number of appropriate and available development sites and increased competition for the purchase of sites within this LGA are significant contributing factors. Nevertheless, the main reason that other CHPs are not able to develop as much affordable housing within this LGA is that the site purchase and development costs are so high as to be prohibitive. Affordable housing, as a subsidised product, requires subsidies, and the more subsidies CHPs can receive, the more affordable housing our sector will be able to develop and provide our communities.

**The recommended target of 5-10 per cent of new residential floorspace in areas identified for rezoning is a good start, but more is needed for the CHP sector to meet affordable housing demand and provide key housing infrastructure.** Affordable housing is an integral part of NSW's social and economic infrastructure and affordable housing and contributions towards affordable housing need to be prioritised like any other type of infrastructure and infrastructure contributions. While the current target is a good start, it lacks enforceability, requiring the affordable housing contributions to "not impact the viability of development in that area". All infrastructure contributions can affect the feasibility of development projects depending on a range of factors, including the price a developer has paid for land. A fixed rate of contribution applied to total floor area for both residential and non-residential development provides absolute certainty, has proven to work in the City of Sydney LGA and could work elsewhere.

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<sup>9</sup> Ibid 7.

## INFRASTRUCTURE CONTRIBUTIONS EXEMPTIONS

### Issue 4.10: Current Issues with Exemptions

Exemptions from contributions are complex as they are set out across a range of planning documents and are inconsistent across contribution mechanisms.

- Given that all developments require infrastructure, should there be any exemptions to infrastructure contributions?
- Is it reasonable to share the cost of 'exemptions' across all of the new development rather than requiring a taxpayer subsidy?
- Are there any comparative neutrality issues in the providing exemptions for one type of development, or owner type, over another?

**Affordable housing should be exempt from paying infrastructure contributions.** As stated above, affordable housing provides subsidised rent to residents and can only do so off the back of a range of subsidies to help fund its development. Almost all CHPs are not-for-profit organisations and all CHPs depend on funding (planning concessions, density bonuses, grants and subsidies) in order to develop affordable housing and continue to operate and manage affordable housing.

CWH has benefited from City of Sydney's policy allowing affordable housing to be exempt from infrastructure contributions and rates, which has helped us develop affordable housing. In return, this has helped the City of Sydney work towards reaching their affordable housing targets. Without subsidies like the exemption from paying infrastructure contributions, there would be less affordable housing. There may also be a detrimental impact on the quality of accommodation and housing services. Affordable housing is critical infrastructure and anything that can be done to help CHPs deliver more affordable housing benefits the broader economy.

A consistent and clear approach allowing exemptions for affordable housing needs to be applied across all levels of government to ensure the NSW Government can meet the ever-increasing demand for affordable housing and their affordable housing targets.

## WORKS-IN-KIND AGREEMENTS

### Issue 4.11: Works-in-kind Agreements and Special Infrastructure Contributions

Works-in-kind agreements can realise savings and efficiencies, but they can result in infrastructure being provided out of the planned sequence and prioritise delivery of some infrastructure (such as roads) at the expense of other infrastructure (such as open space and biodiversity offsetting).

- Should developers be able to provide works-in-kind, or land, in lieu of infrastructure contributions?
- Developers may accrue works-in-kind credits that exceed their monetary contribution. Should works-in-kind credits be tradeable? What would be pros and cons of credits trading scheme?
- What are implications of credits being traded to, and from, other contributions areas?

**CWH raises concerns with works-in-kind agreements where private market housing developers develop affordable housing, and counsels that CHPs are bettered equipped to develop affordable housing that is fit-for-purpose and, ideally, held in perpetuity for that purpose.** Build-to-sell developers have drivers around profit and generally have little or no experience in developing affordable housing. In comparison, affordable housing providers have the required property development and management experience to develop affordable housing that prioritises design and construction principles for the residents and their needs (e.g. household type flexibility, liveability, accessibility) as well as the long-term operations and maintenance considerations (e.g. quality materials and construction that are robust, safe, durable, and easy and cost-effective to maintain) that are sustainable for the CHP to manage.

It is worth highlighting that although developers have had the option of providing on-site affordable housing as part of the City of Sydney's Affordable Housing Contributions Program, to our knowledge, all developers required to provide the contribution have opted to provide the monetary contribution instead. This is also CWH's preference as it is easier and more cost-effective to use monetary contributions to manage affordable housing, compared to the costs and operational issues if we had to manage affordable housing apartments in strata-titled apartments.

We recommend monetary contributions for use by CHPs, rather than on-site developments, as the key way to ensure affordable housing that is high-quality and fit-for-purpose with long-term maintenance and building management being the key driver for design and construction. Dedicated fit for purpose affordable housing developments still contribute to diverse communities, as demonstrated by the CWH model where affordable rental apartment complexes sit alongside high-end private market complexes. If non-CHPs are to develop affordable housing, CWH recommends that it is a requirement for the CHP that will be managing the affordable housing to be consulted to provide design and development input prior to development consents being issued to ensure the product is fit-for-purpose.



We welcome the opportunity to participate in the Productivity Commission's consultation process, and look forward to providing further input and insights as the Commission refines policy and legislative recommendations to reform the NSW infrastructure contributions system, and in turn, support the sustainable growth and social and economic development of NSW.

Yours sincerely,

[Redacted signature]

[Redacted contact information]