



Shelter NSW Update

NSW State Budget 2019

1. Overview

The 2019-20 NSW State Budget has been variously described as “smart”,¹ “sensible”,² “responsible”,³ and “well-rounded”,⁴ a consistent set of reactions from several interests and commentators. Whereas the New South Wales Council of Social Services describes it as a “missed opportunity to tackle social issues and reduce disadvantage across the state”.⁵

The Budget headlines are impressive enough: a promised \$93 billion spend on infrastructure while retaining an \$802 million surplus (and projections of average surpluses of \$1.7 billion per annum over the next four years), demonstrating sound management of the state’s finances. But as we take a closer look at what this spending will or won’t deliver, we can see that, despite any possible claim to the contrary, responding to housing unaffordability and increased levels of homelessness remain a low priority for the NSW Budget. Much of the work and investment in this area are occurring off-budget, reflecting longer-term shifts in housing policy that have been gathering momentum under the 2016 *Future Directions for Social Housing* strategy.

However, due to the continued reduction in detail being provided in the annual Budget Papers and other records, the impacts of this policy shift are becoming increasingly difficult to assess and account for.

On the other side of the equation, reliance on housing and property related revenue continues to be a strong feature of the NSW Budget. For a number of years transfer duties and land taxes have combined to dominate the state’s taxation revenue, although payroll taxes are generally the state’s largest single source of tax-based income. The current budget expects transfer duties to contribute \$7.4 billion, with a

¹ Committee for Sydney (18th June 2019)

² Property Council of Australia (18th June 2019)

³ Insurance Council of Australia (18th June 2019)

⁴ Urban Taskforce (18th June 2019)

⁵ NCOSS 2019/20 Budget Analysis (27th June 2019)

further \$4.2 billion to come from land tax, in 2019-20; by comparison payroll tax is forecast to deliver \$9.4 billion.

The heavy reliance on revenue derived from housing and property makes the NSW Budget highly sensitive to changes in housing market conditions. The current downturn in house prices and transaction volumes is clearly playing on the bottom line: the projected \$802 million surplus in the 2019-20 Budget has been written down since the 2019 Pre-election Budget Update, and this includes \$173 million lower than forecast from transfer duties.

The Budget Papers anticipate growth in residential transfer duties at the rate of 8.8% across the forward estimates (the four-year forecast to 2022-23) “largely driven by the expected return to average transaction volumes”. This is on the back of monetary and fiscal policy that is outside of the State’s control: interest rate cuts, relaxed credit restrictions, the end of uncertainty around housing related tax concessions and personal income tax changes at the federal level. Should this “expected return to average transaction volumes” fail to materialise it is likely that further write-downs will be required, throwing some doubt over the projected surpluses in the forward estimates (averaging \$1.7 billion p.a.). On the other hand, a better-than-expected recovery will result in a windfall.

As home-ownership rates continue to decline and homelessness continues to rise, it remains worth noting that our State’s finances appear inextricably linked to the continued performance of a housing market that has become increasingly difficult for many citizens to access and participate in. Despite this, there is a continued reluctance to make any significant changes to policy, or investment in new programs at a scale that would offer relief to those for whom home-ownership remains elusive, or indeed impossible.

2. Infrastructure and services, but not housing

The Budget Papers boast a record level of spending on infrastructure at \$93 billion over the forward estimates. This includes \$7.3 billion on delivering 190 schools, \$10.1 billion on delivering over 40 hospitals, \$10.4 billion on supporting water, energy and housing, and \$55.6 billion on delivering 3,500 road and rail projects. Note the language of *delivering* when it comes to health, education and transport related projects, and *supporting* when it comes to water, energy and housing. Likewise, when it comes to investment in frontline services more teachers, police and nurses are promised, but meeting the need for housing services does not rate a mention. This is a reasonable indication that emerging “housing as infrastructure” arguments are yet to gain traction within Government, and another reminder that newly commissioned social housing and related services are being delivered primarily through off-budget measures.

Nevertheless, an acknowledgement that infrastructure investment creates social benefits by “improving the quality and efficiency of government services and enhancing social connections” is included in the Budget Infrastructure Statement; and “social housing and mental health infrastructure to support those in need, including protecting the vulnerable and creating opportunities to improve their lives” is given as an example. This is perhaps a few steps removed from the “Social housing as infrastructure” envisaged

by Lawson et al in a recent AHURI Report,⁶ and it demonstrates that research exploring the economic cases for housing⁷ has not yet achieved high levels of influence beyond academic and advocacy circles. But this inclusion in the Infrastructure Statement is something the social and affordable housing sector – in both its government and non-government components could look to build upon in ongoing advocacy for greater investment in social and affordable housing.

3. Outcomes budgeting

The 2019-20 NSW State Budget has well and truly embraced “outcomes budgeting”, wherein it is “not just the finances that matter, but how success will be tracked and how citizens will be kept informed throughout delivery”. For the Stronger Communities Cluster, under which the (newly formed) Department of Families and Community Services and Justice sits, the appropriate “state outcome” is listed as *Provide a safe and affordable place to live*. The description given is “providing assistance for people unable to access or maintain appropriate housing, including homelessness services”. Other related outcomes might include *Build inclusive communities*, *Breaking the cycle of disadvantage*, *Enable people with disability to live independently*, although as we will see it is not always clear which outcome particular programs or services are to be supported under, and in what specific terms.

Inclusion of 2018-19 Budget spending under one outcome or another was described in Shelter NSW’s journal *Around the House* as “a matter of art or whimsy”, following a lament that “broad outcomes are meaningless in evaluating the usefulness of any spending; and ad hoc inclusions tell us nothing about what is being spent.”⁸ By way of explanation, it is useful to compare the current budget against a couple of previous ones. For instance, the 2009-10 Budget Papers include 23 pages of information recorded against the Housing Minister’s portfolio and include information about strategic directions along with budget line items and related data down to about a dozen Service Measure levels. By 2014-15 the Budget Papers were a little more streamlined but still included, for example, a breakdown of spending down to eight Service Group levels within the Department of Family and Community Services. By comparison the 2019-20 Budget Estimates merely note items like “operating expenses”, “grants and subsidies”, “appropriation revenue” and “sales of goods and services” for the Department of Family and Community Services and Justice within the Stronger Communities Cluster. Further detail is included in an unrelated website where highlighted spending is listed under the appropriate “outcome”,⁹ and in a series of downloadable two-page highlights packages that we expect will be made available via the department’s webpage in due course.¹⁰ These highlights are far from comprehensive, but they do provide some high-level indications of how some money is to be allocated across the departmental, program and service levels.

Avid readers and interrogators of NSW State Budget analyses may be wondering if that’s all there is – surely further details will be provided in a sector-wide briefing for organisations linked in to the

⁶ AHURI report available at <https://www.ahuri.edu.au/research/final-reports/306>

⁷ City Futures report available at <https://cityfutures.be.unsw.edu.au/research/projects/strengthening-economic-cases-housing-productivity-gains-better-housing-outcomes/>

⁸ Farrar, A, *Now you see it...* Around the House 111 (Spring 2018), p 5-7

⁹ Budget Outcomes website available at <https://www.budget.nsw.gov.au/outcome-budgeting>

¹⁰ See, e.g., <https://www.facs.nsw.gov.au/resources/publications/budget-2018-19-fact-sheets>

Department of Family and Community Services and Justice? Won't this at least be provided to the Peaks? Alas, no... at least, so we are informed. For the most part this is because these higher levels of detail just aren't being reported anymore. But it is also a reflection that the bulk of current social and affordable housing initiatives are off-budget projects, funded through finance innovations such as the Social and Affordable Housing Fund, or just good old-fashioned "asset recycling".¹¹ Without significant changes to Government policy, this is likely to continue into the foreseeable future.

Lack of detail in the budget notwithstanding, we can at least review some "expected FACS outcomes" for 2019-20, as indicated in the two-page highlights package.¹² These are:

- 34% youth moving from specialist homelessness services to long-term accommodation
- 75% Rent Choice households exiting Rent Choice and not returning over 12 months for further help
- 1800 households successfully transitioning out of social housing
- 98% occupancy of NSW public housing

It is not clear how these outcomes are determined, or what opportunities exist for clients, services or advocates to contribute to discussion around the setting of these priorities. It is also not entirely clear how each of these outcomes is to be pursued, or which budget spending measures they are associated with. Finally, it is worth noting that meeting these desired outcomes will rely heavily on the broader housing system pulling in all the right directions; including the private rental sector that is often ill-equipped or simply unwilling to accommodate social housing "graduates". The private rental system operates under tenancy laws that remain unfair for tenants, and there's no indications that this is changing anytime soon through policy reform or budget allocations.

4. Getting to the detail

Revenue

In terms of housing specific revenue, we have already noted the income estimates from property transfer duties and land taxes. We have further reflected upon how this income is not being used, even in part, to resolve or mitigate problems that have emerged within and on account of housing market conditions over recent years.

Where there is money to spend on housing support and assistance initiatives, it comes from the Commonwealth Budget allocation under the National Housing and Homelessness Agreement (NHHA). The NSW Budget Papers record the amount of \$484 million for 2019-20, in payment under the NHHA. This is consistent with Commonwealth Budget estimates. There are no new National Partnerships relevant to housing that New South Wales is a party to, and all related funding from the Australian Government is included in the NHHA. The NHHA requires the states to "match Commonwealth homelessness ... funding set on a dollar for dollar basis during each financial year",¹³ however the NSW

¹¹ Selling assets and reinvesting the proceeds

¹² Not yet published as at July 13th, but provided in hard copy at NCOSS post-budget breakfast 2019

¹³ See NHHA at http://www.federalfinancialrelations.gov.au/content/housing_homelessness_agreement.aspx

Budget Papers do not provide any breakdown of these funds or indicate exactly where the relevant parts of the NHHA payment are matched by state funds.

It is worth noting here that New South Wales is currently servicing a large housing related debt to the Australian Government. This is in the amount of just over \$800 million, with repayments of principle and interest at around \$95.5 million for 2019-20. This has particularly come to light since the Tasmanian Senator, Jacquie Lambie has negotiated the possible retirement of social housing related debt for Tasmania in exchange for her support in the Senate for the Australian Government's income tax reforms.¹⁴ While this does not offset against the NHHA grants it is still a significant liability that the NSW Budget must account for, and we estimate that for each dollar received in NHHA grant funding for housing services and assistance, around twenty cents is due to the Commonwealth. However, the NSW Budget Papers do not provide any specific details on this amount, and the exact origin of some of this debt is not entirely clear.

Expenditure

There is no new capital expenditure earmarked for housing related projects in the NSW Budget. There are, as we have touched on, numerous commitments made towards infrastructure projects that could have some impact on local housing markets. This could be through enhanced connectivity to other parts of the city or state, and increased availability of nearby services, which may result in increased demand for housing in areas that are set for such improvement and could have an impact on house prices at the local level. It could also lead to zoning changes and increased residential density in those areas in the medium to long term. Whether or not this leads to increased housing affordability is unwise to predict, as various other conditions will almost certainly come into play on that question; although it is unlikely to produce housing that is affordable to very-low and low income households without further policy intervention at both state and local government levels.

Under the Budget Outcome "Provide a safe and affordable place to live" in the Stronger Communities cluster, the NSW Budget Papers report "\$1.0 billion in 2019-20 in continued funding towards a range of homelessness and social and affordable housing programs". No further detail is provided.

The Social Housing and Homelessness Budget Highlights package also reports this \$1.0 billion overall investment to support vulnerable people who are experiencing homelessness or in social housing, which compares to \$1.1 billion in both the 2018-19 and 2017-18 budgets.

This \$1.0 billion is broken down into further highlights as follows:

- **\$210.1 million** for Specialist Homelessness Services, including temporary or crisis accommodation and referral services such as Link2Home (compared to "\$280.7million for homelessness initiatives, including \$202.8 million for specialist homelessness services such as

¹⁴ For details refer to

https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2019/July/State_and_territory_housing_debts

Link2Home” in 2018-19; and “\$198million for specialist services and critical referral services such as Link2Home” in 2017-18)

- **\$84 million** to enable Community Housing Providers to head-lease properties (compared to \$83.4million in 2018-19; and \$81million in 2017-18).
- **\$12.1 million** to support the NSW Homelessness Strategy – prevention, identifying root causes, early intervention (as this relates to a new strategic document, there is no specific comparison in previous budget highlights)
- **\$248 million** for crisis and prevention: programs and initiatives for specialist homelessness services (with no specific comparison in previous budget highlights). It is not clear how or where this differs from the \$210.1million figure reported above.
- **\$25.8 million** for temporary accommodation for people in need of emergency assistance (with no specific comparison in previous budget highlights, although this has previously been described by FACS as a “demand driven” cost and should not be regarded as new money)
- **\$11 million** for Social Impact Investment (compared to \$20million in 2018-19; but no comparison for 2017-18)
- **\$15.1 million** for programs to empower people to break the cycle of disadvantage through parenting, health, education, work and training (compared to \$19million in the 2017-18 budget highlights; but no comparison for 2018-19)

5. Off-Budget Highlights

Land and Housing Corporation

The NSW Budget Infrastructure Statement records amounts against the Land and Housing Corporation for both New Works and Works in Progress. New Work includes Asset Improvement for 2019-20 of \$131 million, with no indication of amounts spent on similar work in previous years. A further amount of almost \$21.3 million is included for New Supply, with a total spend of almost \$28 million over the forward estimates. Works in Progress includes the amount of \$174 million for New Supply between 2017 and 2029. While this is not disclosed in the Budget Papers it is assumed these amounts reflect committed funds that are available to the Corporation through its asset recycling scheme, including sales of property in Millers Point and The Rocks, and receipt of rents and water charges from tenants.

The Budget Papers also records that the softening property market has led to a reduced spend on property acquisition by the Land and Housing Corporation, in the amount of \$440.5 million. While some might regard this as a saving, the papers note it has “reduced the forecast asset sales available for reinvestment”.

Teacher Housing Authority

The NSW Budget Infrastructure Statement records the amount of \$4.3 million for New Houses to Meet Demand Growth in 2019-20, with a total spend of \$6.25 million to 2022. No further details are provided.

An additional \$0.5 million is allocated for upgrading the Authority's website in 2019-20.

Social and Affordable Housing Fund

No details are provided in the Budget Papers for the SAHF other than that it is managed by TCorp and has increased to \$1.2 billion from \$1.1 billion since it was established in 2017. Other sources provide some detail on the two phases of SAHF;¹⁵ a third phase has not been announced and is not currently anticipated.

Landcom

The NSW Budget Papers record that Landcom has “met its goals of releasing 500 first home buyer lots and delivering 5-10 per cent affordable housing on all new projects”. Reports indicate that the affordable housing component of projects associated with Sydney Metro development will be available for a minimum of ten years, after which time they may be sold into the private housing market.¹⁶

6. Understanding social housing supply: a study in confusion

As can be seen, keeping track of new social housing supply measures by reference to the NSW Budget is becoming increasingly difficult. The flagship program for delivering new and renewed social housing across New South Wales, Communities Plus,¹⁷ is not even mentioned in the 2019-20 NSW Budget Papers by name. It has long been assumed that a distinction exists between Communities Plus projects and projects that are funded through the more general asset recycling program, because Communities Plus projects are intended to be self-funded. This means that Land and Housing Corporation “New Supply” initiatives outlined in the Budget Infrastructure Statement may or may not relate to projects being delivered under the Communities Plus banner, although the 2017-2029 timeframe for completion fits, as they could also relate to properties being funded by, for example, the proceeds of sale of property in Millers Point and The Rocks.

This has recently been called into question. The attendant confusion highlights how the lack of detail in the Budget Papers, and other official sources, are affecting advocates and practitioners' ability to keep track of social housing policy outcomes, particularly regarding new supply.

The Communities Plus website states “the program will deliver up to 23,000 new and replacement social housing dwellings, 500 affordable dwellings and up to 40,000 private dwellings”. Critically, it says:

Offering an innovative approach to social housing growth, Communities Plus is based on an asset management framework that leverages the value of the existing portfolio to accelerate supply. Communities Plus will redevelop LAHC land by engaging private sector developers and community housing providers to design, fund and build social, affordable and private housing.

¹⁵ See <https://www.facs.nsw.gov.au/about/reforms/future-directions/initiatives/SAHF>

¹⁶ See <https://www.thefifthestate.com.au/innovation/residential-2/landcom-to-deliver-affordable-housing/>

¹⁷ See <https://www.communitiesplus.com.au/>

As each development is completed, new social housing properties are handed over to LAHC as payment for the land, making the program entirely self-funding.

On July 5th 2019, shortly after the Budget Papers were published, the new Minister for Water, Property and Housing issued a press release that referenced the Communities Plus Program.¹⁸ It announced the delivery of 102 new dwellings across several regional areas in New South Wales, to be funded with \$41 million from the sale of property in Millers Point, and to be delivered under the Communities Plus Program. This appeared to contradict the rationale of self-funded development that is the hallmark for Communities Plus.

On seeking clarification by various government officials on the announcement Shelter NSW was advised that the Communities Plus banner relates to *all* development of Land and Housing Corporation assets including those that are funded through the proceeds of asset recycling. If this is so, then estimates of new social housing supply outcomes that are based on the separation of these schemes will need to be revised down. Shelter NSW will investigate this further to be clear on the Program objectives and parameters and to understand the quantum of additional social housing units which will be delivered through Communities Plus as well as other funding strategies. Its critical to ensure we get the numbers right and don't end up double counting.

7. Indexation of funding for services

As has been reported by our colleagues at the New South Wales Council for Social Services, the indexation rate for FACS funded community services – a built-in increase that is meant to ensure funding keeps pace with inflation – is set at 1.75% in the current budget's forward estimates. This is despite a mandated national wage increase of 3% per year for employees under the Social, Community, HomeCare and Disability Services Award, and a general recognition that a significant part of services' running costs are related to staffing costs. Clearly funding is not going to keep pace with increased costs at these levels, and to make matters worse the effects of this indexation will compound over time.

This comes at a time when services are already stretched, and will place significant pressure on organisations to reduce the level of services they provide. Any such reduction will occur in the context of increasing demand for housing support and assistance that is not being matched by spending on new programs and services in the budget. All things considered, this will accelerate the decline of state funded housing support and assistance.

When the Greater Sydney Commission's *A metropolis in three cities* recommended the introduction of Affordable Rental Housing Targets (ARHT) at 5-10% of the uplift created by rezoning, subject to viability and other considerations, it prompted a simple question: how many affordable homes is that likely to deliver across Sydney?

¹⁸ See <http://www.urbanaffairs.com.au/downloads/2019-7-4-2.pdf>