

Enquiries: Gary Spivak, Port Phillip Council
Telephone: (03) 9209 6752
File Ref: 11/01/54-07

17 August 2009

The Hon John Brumby
Premier
Level 1, 1 Treasury Place
EAST MELBOURNE VIC 3002

Dear Premier

PLANNING MECHANISMS FOR AFFORDABLE HOUSING

As members of the Inner Melbourne Action Plan (IMAP) Implementation Committee, we write on behalf of the four Inner Melbourne municipalities of Port Phillip, Yarra, Melbourne and Stonnington to encourage you to include the capacity for planning mechanisms for affordable housing, such as inclusionary zoning, in the forthcoming *Victorian Integrated Housing Strategy*.

Since 2004 the Inner Melbourne municipalities have been collaboratively investigating a proposed Affordable Housing Overlay (inclusionary zoning scheme) for the Inner Melbourne Region under the Inner Melbourne Action Plan (IMAP). This included comprehensive consultant studies from SGS Economics and Planning and Biruu Australia.

The proposal, for developers to contribute cash or units for social housing through the development approval process, was documented in letters to Ministers Madden and Wynne on 23 July 2008. This was followed by a presentation to the Ministers on 11 September 2008 at Parliament House, and a further letter of 24 November 2008 addressing the issues raised at the briefing session. Throughout this process the councils' position has been to seek further investigation of the proposal in conjunction with the State Government.

IMAP councils believe that the forthcoming *Victorian Integrated Housing Strategy* should identify solutions to housing affordability that are suitable for the inner region as an established area of Melbourne. Such solutions need to maintain the current proportion of social housing given the significant housing growth projected to across the region under *Melbourne 2030* and *Melbourne @ 5 Million* and to maintain the social diversity of these areas, including low income wage earners (key workers) necessary for the local economy.

Whilst the solution to declining housing affordability will be multi-faceted, the Affordable Housing Overlay offers a model that can be simply and equitably applied (akin to existing provisions for open space contributions); can deliver the desired levels of social housing without material impact on development or a distortion of the housing market; is broad based, flexible and transparent so as to be fair and address the requirements of developers; and is consistent with current State Government policy by using registered housing associations as the vehicle to deliver and manage the social housing.

A summary of the Proposed Inner Melbourne Affordable Housing Overlay is attached. The Mayor of Port Phillip, as lead council under IMAP for this initiative, would be happy to discuss this proposal with you or provide you with copies of the letters or studies referred to in this letter.

I look forward to your consideration of this proposal and reply.

Yours sincerely

CR. FRANK O'CONNOR
Mayor of City of Port Phillip

CR. CLAUDE ULLIN
Mayor of City of Stonnington

CR AMANDA STONE
Mayor of Yarra City Council

CR. PETER CLARKE
Chair Planning Committee, City of Melbourne

Cc: The Hon Justin Madden, Minister for Planning
The Hon Richard Wynne, Minister for Housing

Attachment: Proposed Inner Melbourne Affordable Housing Overlay

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17 August 2009

The Hon Tanya Plibersek MP,
Minister for Housing, Minister for the Status of Women
PO Box 6022
House of Representatives,
Parliament House
Canberra ACT 2600.

Dear Minister

PLANNING MECHANISMS FOR AFFORDABLE HOUSING

As members of the Inner Melbourne Action Plan (IMAP) Implementation Committee, we write on behalf of the four Inner Melbourne municipalities of Port Phillip, Yarra, Melbourne and Stonnington to encourage you to include the capacity for planning mechanisms for affordable housing, such as inclusionary zoning, in the next version of the *National Affordable Housing Agreement (NAHA)*.

Since 2004 the Inner Melbourne municipalities have been collaboratively investigating a proposed Affordable Housing Overlay (inclusionary zoning scheme) for the Inner Melbourne Region under the Inner Melbourne Action Plan (IMAP). This included comprehensive consultant studies from SGS Economics and Planning and Biruu Australia.

The proposal, for developers to contribute cash or units for social housing through the development approval process, was documented in letters to Victorian Ministers for Planning, Justin Madden and Housing, Richard Wynne on 23 July 2008. This was followed by a presentation to the Ministers on 11 September 2008 at Parliament House and a further letter of 24 November 2008 addressing the issues raised at the briefing session. Throughout this process the councils' position has been to seek further investigation of the proposal in conjunction with the State Government.

IMAP councils believe that the next version of the NAHA should identify solutions to housing affordability that are suitable for the inner region as an established area of Melbourne. Such solutions need to maintain the current proportion of social housing given the significant housing growth projected to across the region under *Melbourne 2030* and *Melbourne @ 5 Million* and to maintain the social diversity of these areas, including low income wage earners (key workers) necessary for the local economy.

Whilst the solution to declining housing affordability is multi-faceted, the Affordable Housing Overlay offers a model that can be simply and equitably applied (akin to existing provisions for open space contributions); can deliver the desired levels of social housing without material impacts on development or a distortion of the housing market; and is broad based, flexible and transparent so as to be fair and address the requirements of developers. It also is consistent with current Government policy by using registered housing associations as the vehicle to deliver and manage the social housing; and compliments the National Rental Affordability Scheme as NRAS subsidies may target contributing developments under the Overlay, whereby the two initiatives could be mutually reinforcing.

A summary of the Proposed Inner Melbourne Affordable Housing Overlay is attached. The Mayor of Port Phillip, as lead council under IMAP for this initiative, would be happy to discuss this proposal with you or provide you with copies of the letters or studies referred to in this letter.

I look forward to your consideration of this proposal and reply.

Yours sincerely

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Cc: The Hon Justin Madden, Minister for Planning
The Hon Richard Wynne, Minister for Housing

Attachment: Proposed Inner Melbourne Affordable Housing Overlay

PROPOSED INNER MELBOURNE AFFORDABLE HOUSING OVERLAY

Endorsed Principles from IMAP Councils - Melbourne, Yarra, Stonnington and Port Phillip

1. That **there be an adequate social mix** to maintain social cohesion, cultural vibrancy and an efficient labour market (where lower income wage earners can be sourced locally).
2. That **social mix needs to be permanently embedded in successive developments** or the surrounding region in the same way as car parking requirements, heritage controls, solar access and stormwater retention requirements through the planning permit system.
3. That **new residential development is changing the conditions of the inner region** and currently focuses on the high end market. Without intervention, the proportion of affordable housing stock in the region will continue to diminish, given the level of projected housing growth. Therefore, **the development sector, in part, has responsibility to contribute to maintaining housing affordability.**
4. That to be equitable and address housing need the Overlay must be one of a number of policy settings or program interventions that target various segments of the broader housing affordability problem and that **shares the responsibility for social mix between the development community, the State and Commonwealth Government, each of which has vital part to play in addressing the broadening housing affordability problem.** Related programs in this context include home ownership grants, social housing capital expenditure, the proposed National Rental Affordability Scheme (Commonwealth) and the proposed Shared Equity Scheme (Victoria), all of which will complement the proposed Overlay. In addition, local government should investigate suitable incentives to developers to encourage affordable housing.
5. That the Overlay be **broad based** by targeting all residential developments (greater than one dwelling) and all private, commercial development (retail, office, industrial) but exclude demolition activity not linked with development across the region.
6. That the proposed Overlay be **transparent and predictable** with little scope for planning discretion so as to provide developers and local government with certainty while also being flexible in the form of contributions (largely cash-in-lieu or equivalent units set aside in development).
7. That contributions be set at a rate that seeks **to maintain or increase existing proportions of social housing** both within and above public housing income limits, **without materially inhibiting private investment or reducing housing affordability.**
8. That the Overlay **targets lower income, renter households** who have been the most affected by decreasing housing affordability.
9. That the **delivery mechanism** for contributions be **registered housing associations** under the Housing Act that have purposes to house lower income renters in perpetuity that have incomes well above public housing income limits with rents of up to 75% of market rents including low income wage earners unable to participate in the local labour market.
10. That a **regional collection and allocation system** for contributions be developed that is based on regional need priorities informed by IMAP Councils, housing associations and the Office of Housing.

Summary of the proposed Affordable Housing Overlay

1. This is a joint initiative of the IMAP Councils of Melbourne, Stonnington, Yarra and Port Phillip that seeks to increase the supply of affordable and social housing in Inner Melbourne.
2. It is based on policy under the Inner Melbourne Regional Housing Statement 2005 and Inner Melbourne Action Plan 2005. This initiative has been developed over the last 2.5 years with the assistance of SGS Economics and Planning and Biruu Advisory.
3. It seeks to investigate and develop an Affordable Housing Overlay as a form of inclusionary zoning to require developers to contribute to affordable housing through the planning permit process.
4. It seeks to maintain or increase levels of social housing over a 25 year period to 2033 to an agreed level so as to maintain social mix and sustainable and inclusive communities. Indicative modelling has been undertaken to demonstrate the cash-in-lieu rates/m² required to achieve various target levels of social housing, assuming that contributions comprise 50% of required funding, with the balance provided by other government sources, e.g. Existing joint venture programs, housing association leveraging and NRAS subsidies.

Target level of social housing	Additional units required to maintain this level	Total cost of providing the additional units @ aver. \$250,000/unit	Cash-in-lieu rates per square metre (for 50% funding) ¹
o Maintaining current social housing levels of 5.9%	7,730	\$1.93B	\$25/ m ²
o increasing social housing levels to			
6.6%	9,537	\$2.38B	\$31.04/m ²
8.9%	15,787	\$3.95B	\$51.39/m ²

¹ or equivalent value unit contributions within developments

5. The Overlay will be broad based in that it will operate over the whole inner Melbourne region as a 'level playing field' and target all residential development (>1 unit/dwelling), commercial and industrial development, excluding sole demolition.
6. The overlay requirements will have a minimum of discretion, be transparent, reasonable and consistently applied and create developer certainty across the region while incorporating flexibility in the form of contribution options (cash-in-lieu rates or equivalent value units in developments).
7. Market impact analysis by Biruu Advisory indicates that there will be no material impact from the contributions on investment or housing affordability for varied developments, i.e. 1.1 to 1.3% of the value of units. This impact will be difficult to distinguish from other background factors affecting the housing market such as inflation, land costs, building costs, location and taxation.

8. Contributions will be collected by a central funds manager and allocated to housing associations on a regional, strategic needs basis as determined by a Local Housing Plan to be prepared jointly by IMAP Councils, housing associations and DHS-Office of Housing that will identify priority target groups, housing types and locations e.g. activity centres. The Local Housing Plan will be informed by the recently launched Inner Melbourne Affordable Housing Needs Website funded by a \$100,000 DPCD grant. Go to: www.imrhai.com.au
9. Registered Housing Associations will use the contributions to provide an increased mix of affordable housing in perpetuity through an additional source of capital funding and enhancement of their growth capacity.
10. It is initially considered that the Overlay will require an amendment to the Victorian Planning Provisions to provide a planning control that will enable the IMAP Councils to initiate concurrent and consistent amendments to their planning schemes.
11. A preliminary consultation with individual developers found that they are broadly accepting if the proposal is introduced so long as there is a sufficient lead time, it is flexible on contribution types, developers are protected from ongoing obligations on tenancy management and support services and the Commonwealth, State and Local Government play their part in terms of improving planning processes and the identification and release of more development opportunities in the inner city region. These requirements are addressed by the proposal.
12. The proposal allows potentially for local government contributions such as car parking reductions for affordable housing and identified areas for higher density and affordable housing under Melbourne 2030 Structure Plans.
13. This is an ideal time for consideration of this initiative as it addresses the current crisis in housing affordability and complements State and Commonwealth policy on affordable housing:
 - Combines affordable housing objectives with planning mechanisms and seeks planning reform for greater efficiency in the supply of housing, consistent with the National Affordable Housing Agreement (NAHA)
 - Utilises housing association infrastructure and enhances their growth capacity consistent with the national provider and regulatory framework under the NAHA under the Victorian *Strategy for Growth in Housing for Low Income Victorians*.
 - Compliments State metropolitan planning strategies, i.e. *Melbourne 2030/Melbourne, Melbourne @ 5 Million* objectives in housing and activity centres and the objectives of the State Planning Policy Framework, clauses 12.06-2: Metropolitan Development-Affordable Housing and 16.05: Housing-Affordable Housing.
 - Can compliment the Commonwealth Government's National Rental Affordability Scheme as the Overlay and NRAS may mutually reinforce each other.