

INNER WEST

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Affordable Housing Policy

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Original version prepared for Inner West Council by Judith Stubbs & Associates

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Cover photo – Residential building containing nine affordable housing units owned by Council in Marrickville.

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This version supersedes all other policies addressing affordable housing of Inner West Council, Ashfield Council, Leichhardt Council and Marrickville Council.

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1 Rationale for strong planning interventions to create affordable housing

1.1 Overview

This part sets out background information that provides a context for Council's *Affordable Housing Policy* (AHP), set out in Part 2 below. It sets out a definition and benchmarks for affordable housing in accordance with relevant legislation. The evidence indicates that there is clear justification for Inner West Council to actively seek to increase the supply of affordable housing through its planning instruments and policies. This is related to:

- (a) the large number of local people in housing stress which is ever growing
- (b) the loss of affordable housing and associated displacement of historical populations through ongoing gentrification
- (c) current and projected levels of unmet need for affordable housing.

Increased competition for land and housing resources through household formation, demographic change and in-migration of wealthier groups will continue to exacerbate the need for affordable housing in the future.

Due to the failure of the market to provide affordable housing for very low and low income households, and for many moderate income households, the AHP principally focuses on strong interventions through the planning system and the direct creation of affordable housing on public land through development and management partnerships.

1.2 What is affordable housing?

Housing is generally considered to be 'affordable' when households that are renting or purchasing can meet their housing costs and still have sufficient income to pay for other basic needs such as food, clothing, transport, medical care and education. 'Affordable housing' has a statutory definition under the *NSW Environmental Planning and Assessment Act 1979*, as being housing for very low income households, low income households or moderate income households.

'Very low-income' households are defined as those on less than 50% of median household income, 'low-income' households as those on 50-80% of median household income, and 'moderate-

income' households as those on 80-120% of median household income for Sydney Statistical Division.¹

As a commonly used rule of thumb, housing is considered to be affordable where households pay no more than 30% of their gross household income on rent or mortgage payments. This is often regarded as the point at which such households are at risk of having insufficient income to meet other living costs and deemed to be in 'housing stress'. Those paying more than 50% of gross income are regarded as being in 'severe housing stress'.

1.3 Why does affordable housing matter?

There is a common misconception that 'affordable housing' refers only to social housing. Social housing is secure and affordable rental housing for people on very low to low incomes, often with special needs. It includes public, community and Aboriginal housing.

Many current and future residents of Inner West are likely to fall outside the eligibility criteria for social housing but would need to spend more than 30% of their gross household income on rent or mortgage payments to live in the Inner West Local Government Area (LGA). This includes a young person seeking to live near where they grew up, a recently separated or divorced person with children for whom conventional home ownership may no longer be economically viable, households dependent on one (or even two) low or median waged worker, or an older person on a reduced retirement income.

Lack of affordable housing affects the quality of life of individual families by requiring them to sacrifice basic necessities to pay for their housing. It also has a serious impact on employment growth and economic development in an area through the loss of young families and workers in lower paid essential service jobs which can adversely affect local economies and is contributing to labour shortages in some areas of metropolitan Sydney.

This can contribute to a lack of labour supply among very low to moderate income earners who are essential in providing various services including childcare, aged services, health care, tourism, hospitality and emergency services, but whose wage increasingly does not allow them to access housing close to where they work. Affordably priced housing is thus an important form of community infrastructure that supports community wellbeing and social and economic sustainability, including a diverse labour market and economy, and strong and inclusive communities.

¹ As defined in *State Environmental Planning Policy No. 70 – Affordable Housing (Revised Schemes)* (SEPP 70). The provisions of SEPP 70 have been consolidated into Part 2 of *State Environmental Planning Policy (Housing) 2021* (Housing SEPP) which commenced in NSW on 26 November 2021.

The location of affordable housing is a key issue in terms of social equity and sustainability. Providing for a mix of affordable housing for different target groups in well-located areas provides for social mix and reduces the potential stigma that can be associated with such accommodation. Locating such housing close to transport and services also provides for the needs of key groups including those with a disability and the frail aged by reducing car dependency and the cost of transport, which can be a significant impost on very low, low and moderate income households² and on the environment.

1.4 Insufficient affordable housing in Inner West

The ongoing loss and non-replacement of affordable housing through gentrification and redevelopment in conjunction with the current and projected degree of unmet housing need in the Inner West LGA provides a strong rationale for intervention in the housing market through the planning system.

Analysis of key socio-economic indicators provides clear evidence of significant demographic change in Inner West including:

- rapid gentrification, displacement and exclusion of more disadvantaged and vulnerable people from the Inner West LGA. This process has occurred over at least the past decade in the former Marrickville and Ashfield LGAs, and for at least two decades in the case of the former Leichhardt LGA; and
- the failure of the market to provide for the needs of very low, low, and moderate income workers and other more vulnerable groups in an increasingly expensive housing market.

The more recent gentrification of suburbs like Sydenham, Tempe, St Peters, Ashfield, Dulwich Hill and Lewisham, and the longer-term displacement of more disadvantaged people from suburbs such as Newtown, Petersham and Balmain, are particularly evident from the research¹ that supports this AHP. The loss of very low income households in the Inner West LGA was four times greater than that for Greater Sydney from 2001-11, with the former Leichhardt LGA experiencing the greatest proportional losses of lower income households. Overall, the former Marrickville LGA has experienced the most rapid gentrification in recent years, although the former Leichhardt LGA is the most 'gentrified' in terms of income, education and occupational status of its residents, having experienced major social change over a far longer timeframe. The ongoing loss of lower income and younger workers on very low to moderate incomes is an issue across the LGA.

² See for example Gleeson, B. and Randolph, B. (2002) 'Social disadvantage and planning in the Sydney Context', in *Urban Policy and Research Vol. 20(1)* pp101-107; and Kellett, J. Morrissey, J. and Karuppanan, S. (2012) 'The Impact of Location on Housing Affordability', *Presentation to 6th Australasian Housing Researchers Conference*, 8-10 February 2012, Adelaide, South Australia.

Table 1.0: Number and proportion of households in rental stress in Inner West LGA compared to Greater Sydney³

	Inner West LGA	Greater Sydney
Very low income households (less than \$875 per week)	77% (4,812 households)	74% (116,091 households)
Low income households (\$875-\$1,400 per week)	74% (3,568 Households)	75% (72,792 households)
Moderate income households (\$1,400-\$2,100 per week)	46% (2,308 Households)	44% (40,423 households)

Source: ABS Census 2016, JSA calculations

Table notes:

- (1) excludes Negative and Nil Income
- (2) results obtained using centres of income and rental payment bands

Table 1.1: Number and proportion of households in mortgage stress in Inner West LGA compared to Greater Sydney⁴

	Inner West LGA	Greater Sydney
Very low income households (less than \$875 per week)	59% (698 households)	65%
Low income households (\$875-\$1,400 per week)	56% (806 households)	60%
Moderate income households (\$1,400-\$2,100 per week)	34% (945 households)	34%

Source: ABS Census 2016, JSA calculations

Table notes:

- (1) excludes Negative and Nil Income
- (2) results obtained using centres of income and rental payment bands.

As indicated in the tables above, the very high rate of housing stress among very low and low income households (both rental and purchase) is also a key consideration, particularly in relation to the increasing rates of housing stress over the past decade among low and moderate income

³ JSA, *Draft Affordable Housing Contribution Scheme: Inner West Council*, April 2021, p. 29.

⁴ Judith Stubbs & Associates, *Draft Affordable Housing Contribution Scheme: Inner West Council*, April 2021, p. 30.

households in suburbs that were once more affordable. Together with mobility data, which shows the movement of lower income households and lower status workers out of the LGA in search of more affordable housing, the high rate of homelessness and the relatively low rate of social housing (3.5% in the Inner West LGA compared with 5% for Greater Sydney) provides a compelling rationale for intervening in the market to create affordable housing through the planning system.

The market is not providing new affordable housing for the vast majority of very low, low and moderate income households who need it in the Inner West LGA and is not replacing existing stock of housing that is affordable to these groups as it lost through gentrification and redevelopment.

Virtually no strata products (the lowest cost form of accommodation) are affordable for purchase through the market for very low, low, and moderate income households anywhere in the LGA. At best, some small strata products in cheaper locations *may* be affordable to the very top of the moderate income band. No houses or two or three bedroom strata dwellings are affordable to any very low, low or moderate income households, so that families with children are entirely excluded from affordable purchase in the LGA.

The vast majority of households needing **affordable rental housing** in the LGA are also excluded from affordable rental through the market. The only affordable option for very low income households are lower amenity boarding house rooms in a few suburbs; while low income renters can only affordably rent a studio or one bedroom apartment in a few suburbs. Moderate income renters can affordably rent a two bedroom apartment in *some* suburbs, and so are somewhat better catered for, but again family households with children are excluded from larger housing options.

Given that newly built dwellings are likely to be more expensive than older dwellings, and that there have been significant increases in housing cost in real terms in recent years, it is likely that housing will become even more unaffordable in the LGA in the future.

The evidence indicates that the vast majority of those needing affordable purchase and rental housing in the LGA are unlikely to have their needs met through the market without strong planning intervention to create affordable housing.

1.5 Local affordable housing gap

The local affordable housing gap refers to the gap between affordable housing need and supply over a specified period. Council's Our Inner West Housing Strategy provides an estimate of the affordable housing supply gap between 2016 and 2036. It indicates that without intervention and encouragement of diverse affordable housing supply, the estimated theoretical supply gap between 2016 to 2036 would grow from 8,198 to 9,715 dwellings.

This means that an estimated 571 affordable dwellings, or other affordable rental accommodation such as boarding rooms available at an affordable rental rate, would need to be delivered per year to meet all housing need (estimated homelessness, households in housing stress) by 2036. Around 57% of all dwellings approved annually would need to be affordable housing to meet the estimated demand given Inner West currently approves approximately 1,000 dwellings per year.⁵

The local affordable housing supply gap indicates that the market has not been delivering sufficient affordable housing to meet the needs of very low and low income households in the Inner West community. This situation is unlikely to change unless Council takes action to help increase affordable housing supply, such as stronger intervention through the planning system, as well as the direct creation of affordable housing on public land through development partnerships. The LHS emphasises that these actions “need to be supported by State and Federal government policy initiatives to trigger a step change in the supply of affordable housing.”⁶

1.6 Policy context for affordable housing

Council is obliged to ‘promote the delivery and maintenance of affordable housing’, in accordance with Object 1.3(d) of the *Environmental Planning and Assessment Act 1979 (NSW)*. When assessing planning proposals to rezone land or change development standards, Part 3 of the Department of Planning, Industry and Environment’s *A Guide to Preparing Planning Proposals* requires Council to consider whether:

- the planning proposal gives effect to the objectives and actions of the applicable regional, or district plan or strategy (including any exhibited draft plans or strategies)
- the planning proposal gives effect to a council’s endorsed Local Strategic Planning Statement, or another endorsed local strategy or strategic plan.

The objectives and actions of the relevant plans and strategies as they relate to affordable housing are summarised below.

1.6.1 Greater Sydney Region Plan: A Metropolis of Three Cities

This District plan recommends the introduction of an Affordable Rental Housing Target, the protection of industrial and urban services land from residential development and incorporating affordable housing in the development of State-owned land. The State government has not yet

⁵ Inner West Council, *Our Inner West Housing Strategy*, April 2020, pp. 67-68.

⁶ *Ibid*, p. 68.

been developed a mechanism to implement the proposed Affordable Rental Housing Targets recommended by this plan.

1.6.2 Eastern City District Plan

Identifies further opportunities for planning to support housing affordability and diversity measures including:

- more compact housing, either on smaller land lots or through a proportion of smaller apartments of innovative design to support moderate-income households and particularly key workers and skilled workers in targeted employment localities such as health and education precincts
- new owner-developer apartment models that support lower cost and more flexible delivery of apartments for like-minded owner groups.

1.6.3 Local Strategic Planning Statement / Our Inner West Housing Strategy

Council's Local Strategic Planning Strategy (LSPS) derives its actions and objectives relating to affordable housing from Our Inner West Housing Strategy. The objectives and actions are aimed at maintaining existing affordable housing and increasing the supply of affordable housing to narrow the affordability gap for very low, low, and moderate income households. Relevant actions recommended include:

- implementing a LEP provision to support value sharing for certain development sites to achieve improved affordability, universal design and environmental performance
- achieving a diverse mix of housing typologies, sizes and tenures that cater to the needs of people at all stages of their lives
- maintaining and building partnerships with Community Housing Providers (CHPs) to investigate opportunities for joint ventures or opportunities on low-cost sites for affordable housing or other opportunity sites including Council car parks
- promoting partnerships between industry, CHPs and private landlords to increase social and affordable rental stock in the Inner West
- investigating Council and State owned sites that may be available for disposal in the future, to accommodate higher rates of social and affordable housing
- investigating opportunities for the greater delivery of social and affordable housing on existing social housing sites in partnership with Land and Housing Corporation

- advocating for 30% of new dwellings on government owned sites to be affordable, in perpetuity and managed by a community housing provider.

1.7 Available pathways to affordable housing in NSW

A number of mechanisms can be used to provide for affordable housing in the NSW planning context. This section outlines the pathways currently available to provide affordable housing in the NSW planning system.

1.7.1 State Environmental Planning Policies

State Environmental Planning Policy (Housing) 2021 (Housing SEPP) provides a mechanism whereby Council can amend its LEP to include an approved Affordable Housing Contribution Scheme (AHCS). An AHCS can be considered a form of inclusionary zoning since once such a scheme is referenced in a council's LEP, it can provide for mandatory affordable housing contributions on developments occurring within specific precincts.

The Housing SEPP also encourages the development of new affordable rental housing and assists with the retention of existing affordable rental housing. Council will seek to utilise the provisions in chapter 2, part 3 of the Housing SEPP to preserve existing affordable housing stock and mitigate its loss where possible.⁷

1.7.2 Planning agreements

Council can legally enter into voluntary planning agreements (PAs) that include the dedication of land free of cost, the payment of a monetary contribution, or provision of any other material public benefit, or any combination of these, to be used for or applied towards a public purpose, including 'affordable housing' under s7.4 of the Act, noting that nexus requirements do not apply. Such planning agreements can be made, for example, with respect to the capture of a reasonable share of additional land value that has resulted from a proposal to rezone or otherwise vary planning controls that would normally apply to a site or within a precinct under planning proposals and applications for clause 4.6 variations.

PAs must be consistent with:

⁷ Refer to DPIE, *Affordable Rental Housing SEPP: Guidelines for Retention of Existing Affordable Rental Housing*, October 2009. The ARHSEPP, along with four other SEPPs, have been consolidated in the Housing SEPP released on 26 November 2021.

- Council's Voluntary Planning Agreements Policy (VPA Policy) which was adopted on 25 February 2020 and recognises affordable housing as one type of development contribution that can be delivered through the sharing of land value uplift. Council's VPA Policy outlines a means for calculating land value uplift related to planning agreements known at the Residual Land Value approach.
- *Environmental Planning Assessment (Planning Agreements) Direction 2019* sets out the matters to be considered by council if negotiating a planning agreement which provides for affordable housing.
- DPIE Planning Agreements Practice note which was updated in February 2021 and provides guidance on the matters to be considered with developing planning agreements.

Council notes that proposals to amend or exceed planning controls under a planning proposal or agreement will need to demonstrate that they have merit in their own right, prior to considering any contribution for a public purpose including affordable housing.

1.7.3 Market delivery

Council will facilitate the provision of lower cost and more affordable dwellings through ensuring that its planning controls do not unreasonably constrain the supply of lower cost housing types such as appropriately located secondary dwellings and other dwellings that can make a demonstrated contribution to affordable housing.

Council will also facilitate innovative and collaborative housing models where these building forms have the potential of contributing to more affordable housing options.

In addition, Council will advocate for introduction of appropriate reforms to help deliver more diverse and affordable housing types, noting that small scale multi-household developments are not yet recognised in the planning system.

1.7.4 Temporary supportive accommodation

The NSW Housing Strategy defines 'temporary supportive accommodation' as the use of a vacant or underused building to provide temporary residential accommodation for homeless people.

Temporary supportive accommodation, also referred to as 'meanwhile use', can occur on both private and government land. Councils and the not-for-profit sector have highlighted the opportunity to use vacant sites and buildings awaiting development to accommodate vulnerable

groups such as women escaping domestic violence, older women facing homelessness, as well as the homeless.⁸

Council will support changes being made to the NSW Housing Strategy to ensure that vacant and underutilised buildings can be used to provide temporary residential accommodation for vulnerable groups and the homeless.

1.8 Advocacy

Given the demonstrated need for additional affordable housing in the Inner West LGA, Council will advocate for a minimum target of 30% of new dwellings on government owned sites to be affordable in perpetuity and managed by a community housing provider. Council will work with Property NSW (now part of DPIE's Housing and Property Group) to identify under-utilised or surplus government land that may be suitable to contribute to increasing affordable housing supply and providing social infrastructure.

The primary responsibility of ensuring the adequate supply of both social and affordable housing to meet the community's housing needs remains with the State and Federal governments. In the context of COVID-19, key stakeholders in the housing and community services sectors have called for the direct investment in social housing infrastructure to provide housing for households and families in desperate need and to create significant economic and employment growth.⁹ These households include asset poor seniors, older women and people with special needs. Expanding the supply of social housing linked to support services is also urgently needed to properly address homelessness.

At the State level, Council will continue to join with other councils and actively lobby relevant State government ministers and departments to encourage a more comprehensive approach to the provision of affordable housing. In particular, an inclusionary zoning scheme that requires a contribution from all development across local government areas should be embraced as a key mechanism in NSW, supplemented by a value capture approach as entailed by SEPP 70. An inclusionary zoning scheme, gradually imposed to allow for land values to adjust, and broadly applied, could generate significant funds for investment in future affordable housing.

⁸ Canterbury Bankstown Council, Submission to NSW Parliamentary Inquiry into the social housing shortage, 6 August 2021 and Inner West Council, Submission to NSW Parliamentary Inquiry into the social housing shortage, 13 August 2021.

⁹ Equity Economics Report on COVID-19 impacts: 'Supporting Economic Recovery in NSW', 5 August 2020. Also refer to the Social Housing Acceleration and Renovation Program (SHARP), prepared by a coalition of housing advocacy groups, designed to rapidly deliver 30,000 social rental housing units led by the Federal government in collaboration with the State and Territory governments.

An inclusionary zoning scheme is still unlikely to be sufficient to close the affordable housing supply gap. Consequently, Council should also strongly advocate for adequate funding and subsidies to be provided by the State and Federal governments.

Council will also advocate for cash contributions paid in lieu of a loss of low-rental housing under ARHSEPP within the Inner West to be retained by Council and held in the Affordable Housing Fund for future expenditure on increasing the supply of affordable housing within the LGA. Currently cash contributions paid by developers in lieu of a loss of low-rental housing through Part 3 of the ARHSEPP are transferred to the Department of Communities and Justice with no requirement that the funds be used to provide affordable housing within Inner West LGA.

2 Affordable Housing Policy

2.1 Affordable housing goal

The Affordable Housing Policy will protect and increase the supply of housing stock that can be affordably rented or purchased by very low-, low-, and moderate-income households by promoting housing diversity, equity, liveability and sustainability within the Inner West.

2.1.1 Affordable housing definition

Affordable housing in this policy has the same definition as in the NSW *Environmental Planning and Assessment Act 1979* (outlined in Part 1.2 of this policy).

The following table provides benchmarks that are used in this policy when referring to 'affordable housing' and are consistent with relevant NSW legislation. These values are in December Quarter 2020 dollars, based on the NSW Affordable Housing Ministerial Guidelines. These guidelines are updated quarterly; the most current values should be used when evaluating housing affordability and delivering affordable housing.

Table 2.0: Affordable housing income and cost benchmarks – Greater Sydney¹⁰

	Very low-income household	Low-income household	Moderate-income household
Income Benchmark	<50% of Gross Median H/H Income for Greater Sydney	50-80% of Gross Median H/H Income for Greater Sydney	80%-120% of Gross Median H/H Income for Greater Sydney
Income Range (1)	<\$937 per week	\$938-\$1,500 per week	\$1,501-\$2,250 per week
Affordable Rental Benchmarks (2)	<\$281 per week	\$282-\$450 per week	\$451-\$675 per week
Affordable Purchase Benchmarks (3)	<\$350,000	\$350,001-\$563,000	\$563,001-\$864,000

Source: JSA 2020, based on data from ABS (2016) Census and ABS (2020) Consumer Price Index, ANZ online home loan repayment calculator, www.anz.com.au/personal/home-loans/calculators-tools/calculate-repayments/

(1) all values reported are in December Quarter 2020 dollars

¹⁰ JSA, *Draft Affordable Housing Contribution Scheme: Inner West Council*, September 2020, p. 41.

- (2) total weekly household income
- (3) calculated as 30% of total household income
- (4) calculated using ANZ Loan Repayment Calculator, using 21 April 2021 interest rate (3.19%) and assuming a 20% deposit for a 30 year ANZ Standard Variable Home Loan and 30% of total household income as repayments.

2.2 Target groups

Council is committed to protecting and increasing the supply of housing stock that can be affordably rented or purchased by very low-, low-, and moderate-income households, including target groups identified as having particular housing needs in the Inner West Council area. In relation to the delivery of housing assistance, Council will seek to assist all groups identified below where practicable, rather than giving preference to one or more groups over others.

- very low- and low-income renting households
- very low-, low- and moderate-income workers, including key workers and employees working shifts
- asset poor older people, including older women and long-term residents of the LGA
- young people, including those with a social or economic association with the LGA
- lower income families including sole parent families, women and their children escaping domestic violence and those priced out of the housing market
- Aboriginal and Torres Strait Islander (A&TSI) people
- people with special housing or access needs, including people with a disability, frail aged people, the homeless and those at risk of homelessness, and people from culturally and linguistically diverse communities

2.3 Principles applying to affordable housing

Council will use the following principles to achieve its affordable housing goals:

1. affordable rental housing will be provided and managed in the Inner West LGA so that a socially diverse residential population representative of all income groups is maintained
2. Council will apply equitable, reasonable, transparent and feasible contributions to affordable housing within the local housing market context
3. affordable rental housing that is provided is to be:

- a. made available to a mix of households on very low to moderate incomes;
 - b. rented to eligible households at an appropriate rate of gross household income; and
 - c. managed so as to maintain their continued use for affordable rental housing
4. Council will aim to retain existing affordable rental housing stock in the LGA by exercising powers available to it through legislation to help meet the needs of the local community, particularly target groups
 5. affordable housing should be provided on all development sites within Inner West LGA, including state owned sites. The State Government should be a leader in providing a high proportion of affordable housing within their developments.

2.4 Application of this Affordable Housing Policy

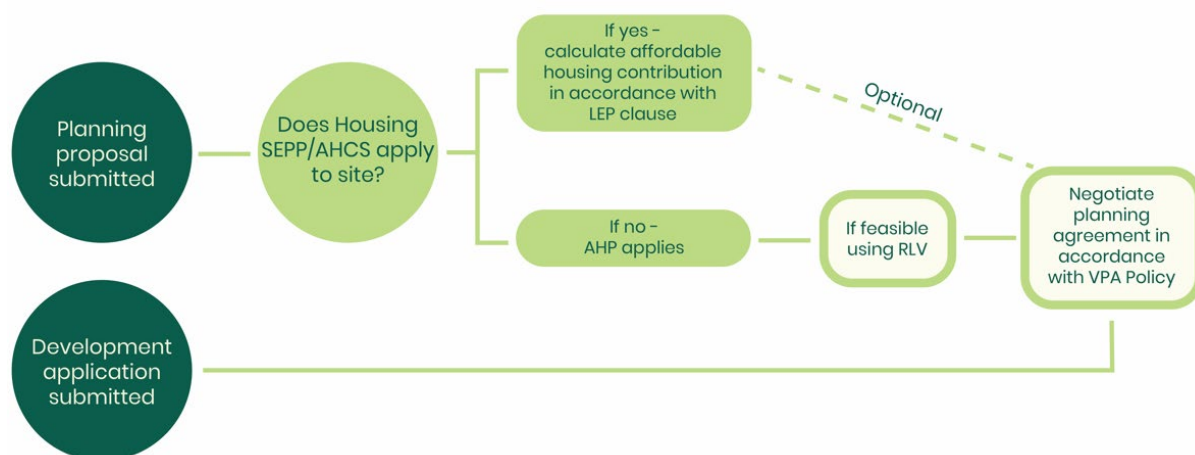
Planning proposals and development applications that fall within precincts identified by an AHCS must deliver affordable housing in accordance with the affordable housing contribution rate prescribed by that AHCS / Inner West Local Environmental Plan.

The feasibility of imposing affordable housing contributions must be investigated in all planning proposals and rezoning requests that are located in areas not covered by an existing AHCS.

Where feasibility can be demonstrated, an AHCS must form part of any planning proposal submission. The scheme must be prepared in accordance with the NSW Government's *Guideline for Developing an Affordable Housing Contribution Scheme*.

With respect to planning proposals and development applications outside an AHCS precinct, Inner West Council will seek to achieve an affordable housing target of 15% of new residential floor space to be dedicated to very low, low and moderate income households. Where the 15% affordable housing target is not feasible, the land value uplift associated with these proposals and applications will be calculated on a case-by-case basis in accordance with Council's VPA Policy as will the proportion of the value uplift allocated to affordable housing. Further explanation of the Residual Land Value approach is given in **Appendix 1**.

Figure 2.0: How affordable housing is considered in planning proposals



A development may provide affordable housing on-site, in another location within the Inner West Council LGA, or pay an equivalent monetary contribution to allow housing units to be built or purchased elsewhere in the Inner West LGA. Council prefers that contributions are provided in the form of dwellings within the development to which the contribution applies. Specific requirements relating to affordable housing contributions made in the form of dwellings are provided in **Appendix 2**.

2.5 Other council actions

2.5.1 Partnerships to increase affordable housing

Council will enter affordable housing development and management partnerships with Community Housing Providers and/or the private sector by entering into an MOU or other legal agreement to ensure:

- the proper management of affordable housing resources
- opportunities for the efficient use of any resources redeployed by Council are maximised e.g. lots of housing dedicated to affordable housing from Council owned or other public land.

2.5.2 Council's Affordable Rental Housing Program

Council can make a small contribution to lessening housing stress in relation to 'key workers' through its Affordable Rental Housing Program (ARHP). Income levels of key workers targeted by Council's ARHP tend to be greater than the level needed to qualify for social housing but less than that required to meet market rates of rent without putting the worker in housing stress. Focusing on

key workers promotes strong and inclusive communities by providing them with access to affordable housing close to where they work that is not provided for by other programs.

It should be noted that Council's ARHP aims to complement, rather than duplicate, social housing which is State-owned infrastructure delivered by the Land and Housing Corporation (LAHC) and managed by Department of Communities and Justice (DCJ).

The appointment of one or more CHPs to manage Council's affordable housing portfolio will be determined by Council's guidelines governing tenders and contracts and any relevant legal advice received from Council officers. The duration of a Residential Property Management Agreement signed with a CHP will be determined by the requirements of Council at the time.

A financial management study of Council's affordable housing portfolio was undertaken by HillPDA in 2018. The study evaluated three management options relating to its affordable housing assets: (a) Council owned and managed (b) Council owned and CHP managed and (c) transfer cash or assets to CHP. HillPDA's study found on balance that (the 'Council owned and CHP managed' option was most beneficial for Council due to the following factors:

- (a) it reduces the risk of repair and maintenance costs and rental arrears
- (b) it reduces the risk of vacancy
- (c) it requires fewer staff resources, and
- (d) it provides a steady stream of income from surplus rent that can be invested in increasing affordable housing supply in the local government area.

The HillPDA report also referred to the possibility of Council being able to leverage against the assets to expand the portfolio.

Rent generated by the affordable housing portfolio is deposited in Council's Affordable Housing Fund which is dedicated to funding affordable housing projects including maintenance and the provision of more affordable housing within the LGA. This fund is discussed in more detail in Part 2.6 below.

2.5.3 Market delivery of affordable housing

Apart from delivering housing assistance to key workers, Council will work towards addressing the needs of other target groups through a range of measures that facilitate the market delivery of affordable housing. These include:

- facilitating the provision of lower cost and more affordable dwellings by ensuring that its planning controls do not unreasonably constrain the supply of genuinely affordable housing

- Supporting NSW government strategies and initiatives to increase the provision of temporary supportive accommodation
- developing guidelines to support the development of well-designed secondary dwellings and boarding houses. These guidelines will relate to amenity, design, location, and car parking requirements
- implementing a LEP provision to support value sharing for certain development sites to achieve improved affordability, universal design and environmental performance
- achieving a diverse mix of housing typologies, sizes and tenures that cater to the needs of people at all stages of their lives.

2.6 Administration

In March 2020, Council established an Affordable Housing Fund to ensure that money identified for affordable housing is not used for other purposes. Funds from the following sources will be deposited in the fund:

- net operating profit (income less expenditure) generated by Council's affordable housing dwellings managed by Council's preferred Community Housing Provider
- monetary contributions specifically for affordable housing acquired through Planning Agreements
- monetary contributions levied through any approved Affordable Housing Contribution Scheme under *State Environmental Planning Policy No. 70 – Affordable Housing (Revised Schemes)*.

Funds accumulated will be reserved for expenditure on affordable housing projects including maintenance of Council's affordable housing dwellings and increasing the supply of social and affordable housing within the Inner West LGA.

2.6.1 Research and monitoring

Council is committed to ongoing research into housing needs and issues in its local community, which will continue to form the basis of local housing policy formulation and implementation. Council understands the need for ongoing monitoring and evaluation of the effects of its policies on local housing needs and issues and is committed to ongoing monitoring and evaluation against the KPIs set out below.

2.6.2 Key performance indicators

The Key Performance Indicators (KPIs) provide a means of monitoring progress made towards achieving specific affordable housing targets over time. While there are a range of factors influencing the extent of housing stress and the amount of affordable rental and purchase housing as a proportion of all housing stock within the local government area, the KPI's offer a means of monitoring progress and adjusting housing policy where practicable from time to time to help meet these targets.

Council has identified indicators and targets with respect to affordable housing in the Inner West LGA. These are set out in the Table 2.1 below.

Table 2.1: Affordable housing indicators and targets

No.	Indicator	Target	Data Source
1.	Households in the lowest 40% of income distribution ¹¹ in housing stress ¹² as a proportion of all households in the lowest 40% of income distribution.	10% maximum by 2036	ABS Census data
2.	Rental housing stock that is affordable to very low-, low- and moderate-income households as a proportion of all housing stock in the Inner West LGA.	7.5% by 2036	NSW Centre for Affordable Housing. Local Government Housing Kit Database
3.	Purchase housing stock that is affordable to very low-, low- and moderate-income households as a proportion of all housing stock in the Inner West LGA.	7.5% by 2036	NSW Centre for Affordable Housing. Local Government Housing Kit Database

¹¹ Gross household income.

¹² Paying more than 30% of gross household income on housing.

3 Appendix 1: Methodology and rationale for calculating land value uplift

Key issues relating to the design of land value sharing mechanisms

Key factors to consider when designing land value sharing mechanisms include:

- (a) the method of determining land value uplift with a view to policy efficiency
- (b) the share of uplift captured for public purposes
- (c) the allocation of the uplift captured to public purposes, including affordable housing
- (d) tase and cost of implementation for Council
- (e) complexity and risk for applicants.

A report commissioned by Council examined four different approaches utilised by councils to calculate land value uplift and recommended that Council adopt same approach as Council's VPA policy whereby a site's residual land value (RLV) 'before' and 'after' the planning change is assessed by an independent valuer.

Approach

The contribution will be 50% of the increase in residual land value that results from the proposed changes to the LEP and/or DCP applying to the site, or the issuing of a consent to development on the site that is in exceedance of a development standards or any other planning control.

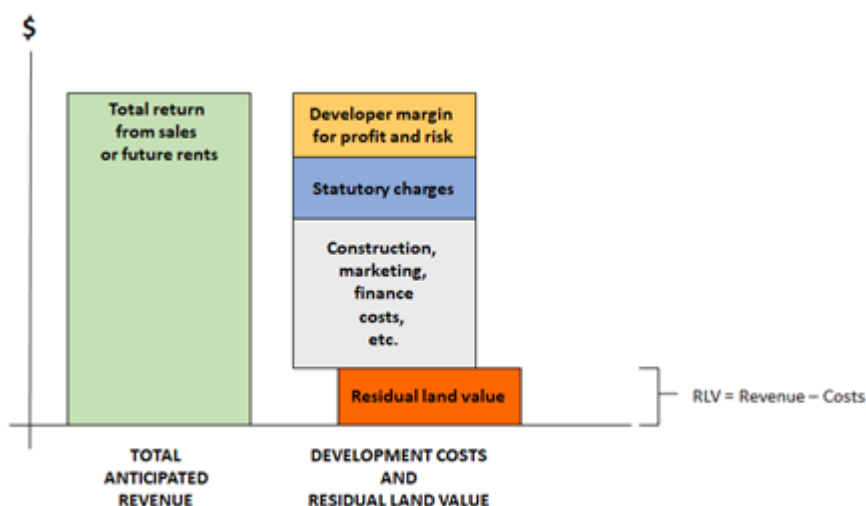
Residual land value

Residual land value (RLV) is the price a rational developer would pay for a site assuming the highest and best uses (e.g. the maximum amount of floor space allowed by the existing planning controls), and a minimum hurdle rate for profit and risk.

This valuation approach is also referred to as the 'hypothetical development method' by the NSW Valuer General.¹³

It is calculated by deducting all development costs (the developers margin for profit and risk, construction and site preparation costs, professional fees, marketing and finance costs, statutory fees and charges including Section 7.11 payments, inclusionary requirements and costs associated with any impact mitigation measures) from anticipated revenues as shown below.

For the purposes of estimating RLV, valuers should assume typical revenues and typical costs for the submarket in question. Where there is limited market evidence of development activity, valuers are to use their professional judgement when determining appropriate revenues, costs and timeframes for the hypothetical development.



Value sharing contribution calculation

The formula for calculating the value of the value sharing contribution for planning agreements is as follows:

$$C = [RLV(2) - RLV(1)] \times 50\% \quad \text{(Equation 1)}$$

Where:

- C = The monetary amount of the value sharing contribution

¹³ NSW Valuer General (2019) *Valuation of high density residential land*. Office of the Valuer General, Haymarket, NSW.

- $RLV(2)$ = Residual land value of a site assuming the proposed changes to the LEP and DCP or the issuing of a the consent that allows an exceedance of development standards or other planning controls.
- $RLV(1)$ = Residual value of a site assuming the existing the LEP and DCP provisions are enforced.

When the existing use value exceeds the current residual land value

In the case where the existing use value (EUV) of the site exceeds the maximum RLV under the current planning controls, the $RLV(1)$ in the formula above will be replaced with the EUV, as shown below:

$$C = [RLV(2) - EUV] \times 50\% \quad \text{(Equation 2)}$$

Where:

- EUV = the capitalised value of the anticipated market rent for the subject property, based on the existing improvements, and an appropriate yield rate.

This option acknowledges the possibility that where a site has substantial existing improvements, the EUV may exceed the RLV under the current controls. In these circumstances the application of Equation 1 would overestimate the value uplift.

Worked example

In the following example a site has an existing FSR of 2.0:1 and a Planning Proposal seeks to increase the FSR to 2.5:1. The residual land value before and after this proposed change are calculated via an independent valuation. The difference between these two values, multiplied by 50%, gives the valuing sharing contribution.

RLV(1) – Existing controls: FSR: 2.0:1; B2 zoning	\$11,000,000
RLV(2) – Planning proposal: FSR 2.5:1; B2 zoning	\$13,000,000
Land value uplift: $RLV(2) - RLV(1)$	\$2,000,000
Value sharing contribution: $[RLV(2) - RLV(1)] \times 50\%$	\$1,000,000

Procedural matters

Council will select the independent valuer, provide a written brief regarding the valuation and ask that the valuer declare any actual or perceived conflicts of interest. The cost of the independent valuation will be borne by Council.

Resolution of disputes in relation to the independent valuation

In the case that the proponent does not agree with the outcome of the Council commissioned independent valuation the proponent may commission another valuation at their expense. Council will consider the outcomes of this second valuation in its deliberations.

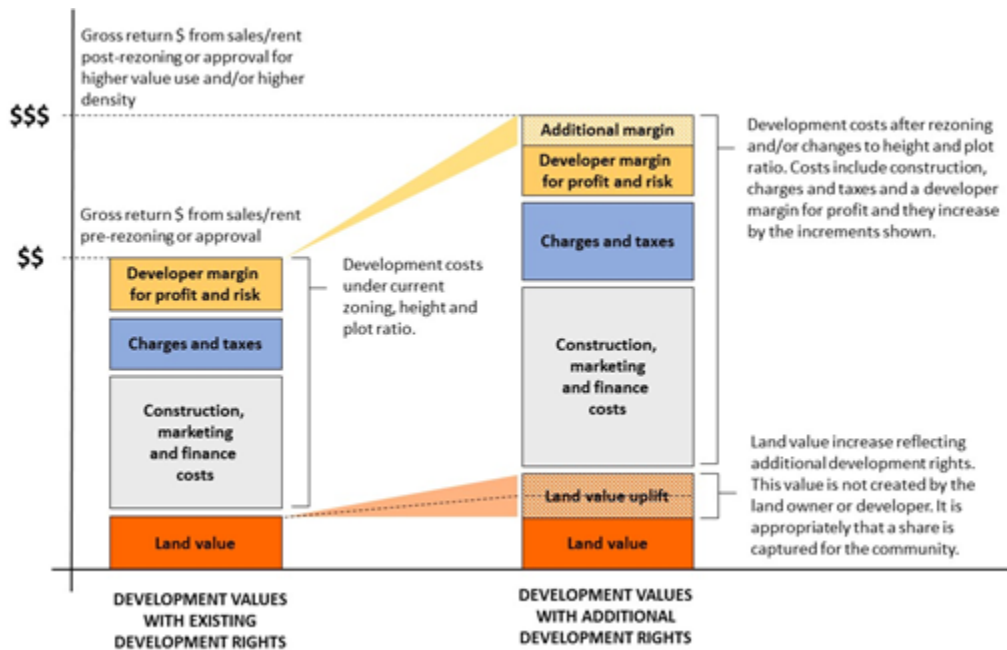
Uplift in residual land value resulting from planning changes

When a particular parcel of land is rezoned or has its development potential increased, the landowner is effectively granted additional 'development rights' which are not available to all landowners. This represents a 'rationing' of development rights which the community allows or understands as appropriate planning, as opposed to a 'free for all', which would result if there were no restrictions on development rights.

This rationing of development rights creates special development opportunities for particular landowners. The value of these opportunities is reflected in an increase in land value. After a change to the zone or other development controls, all costs, which include user pays, impact mitigation and inclusionary development contributions, as well as the profit expectation, will increase for the higher value and denser development. All other things being equal, the residual land value can also be expected to rise. The figure below highlights these concepts and shows pre- and post- rezoning 'development values'.

This increase in land value (orange hatched box in Figure 2 is generated wholly independently of any investment by the landowner or developer and is separate from the profit received by the developer (yellow hatched box in Figure A below). It is therefore reasonable that a share of the uplift in value be extracted for broader community benefit

Figure A: residual land value and additional development rights



4 Appendix 2: Affordable housing requirements

The following controls apply to affordable housing contributions made in the form of dwellings:

- where the affordable housing contribution is provided as dwellings, Council will determine the size, number and location of bedrooms in accordance with its strategic priorities and seek a mix of dwellings sizes and bedroom numbers. Affordable housing units are to be distributed throughout the development with a unit mix determined by Council in consideration of affordable housing need and social inclusion
- affordable dwellings must consist of dwellings constructed to a standard that, in the opinion of the consent authority, is consistent with the same type of dwelling within the development to which the development application relates in terms of size, internal fittings and finishes, solar access and privacy
- the same access to common property, facilities and services e.g., swimming pools and gyms, must be provided to affordable housing residents as all other residents of a development
- where multiple affordable rental dwellings are provided in the development, the amenity benchmarks established by the Apartment Design Guide are to be generally achieved. For example, 70% of the affordable housing dwellings should achieve adequate solar access. This is to ensure the least amenable units in any development are not all selected as the affordable rental dwellings to be dedicated to Council.
- the percentage of adaptable units is to be consistent with the applicable Development Control Plan
- the allocation of car spaces for affordable dwellings is to be consistent with the car parking requirements in the relevant planning controls
- when calculating the strata area of lots to be provided as affordable housing, any balcony area in excess of the minimum sizes set out in the Apartment Design Guide, any open space provision in excess of 10m² and any parking provision in excess of the minimum requirements of relevant Development Control Plan / Local Environmental Plan is to be disregarded
- all on-site dwelling(s) to be dedicated to Council as affordable housing must be identified on development application / complying development plans
- dwellings will be provided and retained as affordable rental housing in perpetuity
- dwellings will be owned by Inner West Council or its nominee
- the applicant must transfer title of affordable housing dwellings to Council free of cost

- the transfer of title to Council must occur within two months of the registration of any strata or other subdivision for the development
- for staged development, affordable housing is to be provided in each development stage¹⁴
- affordable rental housing provided will be managed by a registered Community Housing Provider nominated by Council in accordance with the relevant Residential Property Management Agreement.

¹⁴ Refer to the principles governing the dedication of dwellings in JSA (2020) Draft Affordable Housing Contribution Scheme, pp. 15-16.