

## Item 4.

### City of Sydney Affordable Housing Contributions Distribution Plan

File No: X100083

#### Summary

Sydney remains Australia's least affordable city. The high cost of housing is an important economic and social risk, particularly within the City of Sydney local government area (LGA) where housing prices are amongst the highest in Australia.

Sustainable Sydney 2030-2050 Continuing the Vision maintains the target in the City's Local Housing Strategy: Housing for All for 7.5 per cent of all private dwellings to be affordable housing. Based on a private dwelling target of about 156,000 to 2036, an estimated 12,000 affordable dwellings are required to achieve the City's target to 2036.

Planning legislation sets out how councils may impose affordable housing contributions and how they can be used. The Environmental Planning and Assessment Act 1979 (Act) enables councils to include affordable housing contribution requirements in local environmental plans (LEPs), where the requirements of the Act, State Environmental Planning Policies (SEPPs) and the regulations are met.

Sydney LEP 2012 and the Green Square Town Centre LEPs require certain development make an affordable housing contribution, in the order of three per cent of residential floor space and one per cent of non-residential floor space.

Affordable housing contributions have to be used for the purpose of providing affordable housing which must be rented to very low, low or moderate income households, as defined in the Act and detailed in the Housing SEPP. The Housing SEPP defines these households with income ranges updated each year in the NSW Affordable Housing Ministerial Guidelines. It cannot be rented to households that do not meet this definition.

Since 1996, the City's affordable housing contribution schemes have resulted in about \$400 million being passed to a not for profit community housing provider (CHP) to deliver affordable housing in the local area. This has directly resulted in over 1,300 affordable dwellings that have been built or are in the planning stages (as at June 2023). A high-level analysis projects the City's affordable housing contribution schemes, which now cover all of the local government area, will deliver about 1,950 additional affordable dwellings.

Delivery of more affordable housing, above the City's projections, will be strongly influenced by market conditions, but also by how successfully CHPs leverage affordable housing contributions.

In June 2022, Council exhibited an interim Distribution Plan (Interim Plan) for the distribution of affordable housing contribution funds to CHPs. The Interim Plan expanded the list of CHPs who may receive contributions from one to three equally sharing funds. At the time, all 24 Tier 1 and Tier 2 CHPs operating in the Sydney metropolitan area and peak housing bodies, including Shelter NSW and the Community Housing Industry Association (CHIA) were notified in writing.

Four submissions were received, including one from each CHP identified in the Interim Plan and one from the then Department of Communities and Justice. No other CHPs made submissions.

In June 2023, Council adopted the Interim Distribution plan as the 'City of Sydney Affordable Housing Contributions Interim Distribution Plan' (Interim Plan) with no substantial changes.

The Interim Plan was adopted as temporary arrangement with a delayed commencement date of 1 July 2024. The delayed commencement enabled Council to consider issues arising from submissions to the Interim Plan including the impact on the existing affordable housing pipeline and whether the plan balanced the expansion of CHPs against having sufficient funds to deliver additional affordable housing.

This report addresses those matters raised in submissions and recommends Council adopt the City of Sydney Affordable Housing Contributions Distribution Plan (Distribution Plan). This will repeal and replace the Interim Plan adopted in June 2023. The Distribution Plan is a five-year plan that will be reviewed in year four to ensure the best approach for distributing contributions.

The delivery of more affordable housing dwellings will be strongly influenced by market conditions and by the delivery capability of the CHPs to obtain approval, develop, construct and project manage affordable housing projects in the City of Sydney LGA.

It is recommended that the Distribution Plan identify City West Housing, Bridge Housing and St George Community Housing as the CHPs who will receive the City's affordable housing contribution funds during the first term. These have the capability, personnel and track record to build in our LGA.

Having regard to committed projects in our LGA, it is recommended that City West Housing is to receive the first \$20 million of funds in any year. The next \$20 million is to be split equally between Bridge Housing and St George Housing. Then any residual funding is split equally between City West Housing, Bridge Housing and St George Housing. This funding stream is independent of any grants made for specific projects such as Common Ground, Youth Foyer or Hammondcare housing for vulnerable women. The contributions Distribution Plan is for the core delivery of affordable housing as defined by the Act and the SEPP.

The recommendation has been informed by consultation with the three CHPs identified in the Interim Plan and who made submissions. A broad range of possibilities were considered for the plan, with five options then assessed against the Distribution Plan Principles that aim to:

- deliver maximum affordable housing dwellings;
- protect the City's investments to date in the affordable housing pipeline;
- ensure consistency with legislative requirements and the City's Affordable Housing Program.
- strengthen CHPs that deliver affordable housing in the local area; and
- ensure good governance arrangements, including periodic review.

The recommended Distribution Plan will best protect the City's significant investment in the existing affordable housing pipeline to date, safeguarding its delivery. It will also facilitate a wider distribution of affordable housing contributions to share opportunities with other CHPs, grow their activity in the council area and capitalise on a broader range of housing opportunities.

## Recommendation

It is resolved that:

- (A) Council approve the City of Sydney Affordable Housing Contributions Distribution Plan, shown at Attachment A to the subject report, noting it will come into effect on 1 July 2024;
- (B) Council repeal the City of Sydney Affordable Housing Contributions Interim Distribution Plan, that was adopted by Council in June 2023, but that has not yet come into effect; and
- (C) authority be delegated to the Chief Executive Officer to make minor variations to the City of Sydney Affordable Housing Contributions Distribution Plan to correct any minor errors prior to finalisation.

## Attachments

- Attachment A.** City of Sydney Affordable Housing Contributions Distribution Plan
- Attachment B.** Options Analysis Matrix
- Attachment C.** Resolution of Council
- Attachment D.** Copy of Summary of Submissions Made Regarding Interim Plan - November 2022 Consultation
- Attachment E.** Summary of Consultation with Community Housing Providers - December 2023

## Background

1. This report recommends Council adopt the City of Sydney Affordable Housing Contributions Distribution Plan and repeal and the Interim Plan adopted by Council in June 2023.
2. In June 2023, Council adopted the City of Sydney Affordable Housing Contributions Interim Distribution Plan (Interim Plan) to guide the distribution of contribution funds collected under the City of Sydney Affordable Housing Contribution Program (Program). The Interim Plan is to come into effect on 1 July 2024. Until that time, the arrangements for the distribution of contributions will remain unchanged from those in place under the City of Sydney Affordable Housing Program as adopted in 2020.
3. The Interim Plan says that contribution funds are to be split equally between three community housing providers (CHPs) in our local area, including:
  - (a) Bridge Housing;
  - (b) City West Housing; and
  - (c) St George Community Housing (St George Housing).
4. The above three Tier 1 CHPs identified in the Interim Plan have the scale and capability to develop ongoing projects in our local area.
5. The commencement of the Interim Plan was deferred to 1 July 2024 to allow for:
  - (a) further consideration of issues raised by CHPs and the Department of Communities and Justice (DCJ) in their submissions to the public exhibition of the Interim Plan, including:
    - (i) concerns that if contributions funds are split between three CHPs that the contribution would not be enough to support the delivery of new supply; and
    - (ii) concerns that the Interim Plan creates serious risks to the delivery of the existing development pipeline of over 500 affordable dwellings in the local area;
  - (b) additional consultation with CHPs identified by the Interim Plan to better understand their capabilities and willingness to manage affordable housing in accordance with the requirements of the Program, and how funds would likely be used;
  - (c) consideration of forthcoming Federal and State Government affordable housing policies, for example, details of the Federal Government's Housing Australia Future Fund (HAFF) which were yet to be announced;
  - (d) administrative arrangements will be required, including the preparation of funding agreements between the City and the receiving CHPs, that will set out the CHPs obligations for using the contribution funds; and
  - (e) where possible, the completion of a (final) distribution plan to minimise the administrative disruptions that are expected when moving from one approach to distribution to another.

6. This report addresses those matters raised in prior submissions and recommends Council adopt the City of Sydney Affordable Housing Contributions Distribution Plan (Distribution Plan), shown at Attachment A, and repeal the Interim Plan adopted by Council in June 2023.

**The City's affordable housing contribution requirements have successfully delivered significant amounts of affordable housing in the local area**

7. The purpose of the LEP requirements and the distribution of contribution funds is to maximise the number of additional affordable housing dwellings in the LGA.
8. The City has 1,464 "built" affordable housing dwellings in the local area and 565 dwellings in the development "pipeline". Over 1,100 further dwellings are "expected" to be built in the future, but are not yet in the development pipeline. Expected dwellings only include those that have funding available.
9. Of the above, over 60 per cent of the City's built and pipeline dwellings have resulted from its LEP affordable housing contribution scheme.
10. A high-level projection shows the City's affordable housing contribution scheme will deliver a further 1,950 affordable dwellings to 2036 (in addition to those dwellings already built, in the pipeline or expected).
11. If considered all together, the built, pipeline, expected and projected affordable housing dwellings, including dwellings resulting from the City's LEP contribution scheme, as well as other sources of affordable housing, will equal over 5,100 affordable rental dwellings and affordable diverse dwellings by 2036. This is about 43 percent of the 12,000 affordable dwellings target for 2036.

**The Distribution Plan protects the City's significant investment in the affordable housing pipeline while facilitating the distribution of contributions to two other CHPs**

12. The Distribution Plan, shown at Attachment A, provides a five-year plan for the distribution of both monetary and in-kind affordable housing contributions. It has been developed with reference to the Distribution Plan principles, discussed in detail later in this report.
13. The Interim Plan identifies the following not for profit CHPs for receiving contributions:
  - (a) Bridge Housing;
  - (b) City West Housing; and
  - (c) St George Community Housing.
14. For monetary contributions, the Distribution Plan says in every year:
  - (a) Tranche 1 - the first \$20 million in funds are to be allocated to City West Housing;

- (b) Tranche 2 - the second \$20 million in funds are to be shared equally between Bridge Housing and St George Housing; and
  - (c) Tranche 3 - any residual funding is to be split equally between City West Housing, Bridge Housing and St George Housing.
15. This ensures that City West meets its current projects before the allocation changes. Funds will only be allocated where they exceed \$1 million per CHP per tranche, the smallest amount of 'useful' funding that could be allocated to purchase an existing property. Where a tranche falls below that amount, it will be given to the CHP who last received funding.
16. For in-kind contributions (floor space built by the developer as part of their development and dedicated to a CHP), the Distribution Plan says dwellings are to be offered to Bridge Housing and St George Housing, with any monetary contributions being adjusted accordingly.
17. In-kind contributions are to be allocated to Bridge Housing and St George Housing because in consultation both expressed a greater willingness to receive in-kind contributions, noting existing systems for their management are in place for accepting property, while City West Housing expressed a preference for monetary contributions to develop new affordable housing.

**The Distribution Plan will be subject to annual reporting and will be reviewed in five years to ensure the best approach for distributing contributions**

**Implementation**

18. Prior to the Distribution Plan coming into effect on 1 July 2024, the City will work with City West Housing, Bridge Housing and St George Housing to finalise funding agreements. The purpose of the funding agreement is to ensure contribution funds are being used for the provision of affordable housing in the local area in accordance with the requirements of the Environmental Planning and Assessment Act 1979, the Environmental Planning and Assessment Regulation 2021, the Sydney LEP and the Program.
19. The funding agreement will generally detail the following requirements and terms:
- (a) the obligations of the parties, being the CHP and the City;
  - (b) the way in which funds can be spent, being in accordance with the principles and requirements of the Program;
  - (c) dispute resolution protocols;
  - (d) terms for returning funds where they are not spent or for their allocation to projects inside reasonable timeframes;
  - (e) terms of termination of any agreement; and
  - (f) reporting and monitoring requirements (discussed in more detail below).

**Annual monitoring**

20. The funding agreement between the City and the receiving CHPs will require CHPs to submit an annual report to provide information about the following:
  - (a) compliance with the national regulatory code for community housing providers;
  - (b) appropriate use of contribution funds, ensuring it is consistent with legislative requirements and the Program; and
  - (c) efficient use of contribution funds, ensuring they are being used and/or allocated to projects within reasonable timeframes.
  
21. The community housing sector has been subject to a national regulatory system since the 1980s. The regulation of the sector has been key to building confidence in the capacity of the sector to borrow funds, develop housing and deliver high quality services to the community. This confidence is evidenced by:
  - (a) the levels of private sector finance;
  - (b) the transfer of properties from the NSW Government to the sector;
  - (c) substantial funding amounts in the sector;
  - (d) the creation of a bond aggregator by Housing Australia, formerly National Housing Finance and Investment Corporation (NHFIC); and
  - (e) the introduction of complex financing arrangements in the sector, beyond reliance on capital grants and property transfers.
  
22. In NSW, the Registrar of Community Housing is responsible for monitoring adherence to the national regulatory code by providers based on their placement in one of three tiers. The approach to regulation is risk based with Tier 1 CHPs (the most regulated due to higher levels of risk exposure) monitored annually. Annual reports include information about:
  - (a) tenant and housing services;
  - (b) housing asset management;
  - (c) community engagement;
  - (d) governance arrangements;
  - (e) probity arrangements;
  - (f) management; and
  - (g) financial viability.

23. Given recipients of the City's contributions are overseen by an established and robust regulatory system, it is beneficial to avoid duplicating the reporting to the Registrar of Community Housing. It is instead proposed that the funding agreement include a requirement for the CHPs to share a copy of their annual compliance determination from the Registrar of Community Housing within four weeks of receipt. A satisfactory compliance determination will be deemed sufficient evidence of appropriate governance arrangements with no further reporting required.
24. The proposed data to be reported annually to satisfy the remaining criteria includes:
  - (a) updates on the use of the funds, including but not limited to the amount and percentage of funding expended expenditure to date and any commitment of funding to projects;
  - (b) project information about planned developments including: status of projects; milestone dates; project budgets; evidence of the purchase of sites; design and construction plans; project risks (including mitigation strategies); other funding and contribution sources; information on key project partners including details of subcontracting and consortia entered into; building sustainability details; and the number and type of dwellings; and
  - (c) allocations information, including: tenant cohorts in built developments; intended tenant cohorts in future developments; and evidence of compliance with the rent model in the Program.
25. In the funding agreement, the City will reserve the right to reasonably request additional information to determine whether the provider is adhering to the terms and conditions of the funding agreement.

#### **Five-year review**

26. The Distribution Plan includes a requirement for it to be reviewed prior to the end of its five year life (year four). The purpose of the review is to explore new opportunities that may have emerged over the life of the Distribution Plan, to consider opportunities for new providers and to ensure it remains fit for purpose.
27. The review of the Distribution Plan is likely to be informed by an invited Expression of Interest notified to all Tier 1 CHPs who operate, or express a desire to operate, in the City of Sydney LGA. The following will be considered when the Distribution Plan is reviewed:
  - (a) any advice provided by the NSW Registrar of Community Housing;
  - (b) the current affordable housing development pipeline (including whether land has been acquired and the estimated dates for the completion of construction);
  - (c) development capability and delivery experience;
  - (d) capacity of applying CHPs to bring co-contributions to development projects;
  - (e) demonstrated innovation in increasing the supply of affordable housing shown;
  - (f) capacity to leverage contributions given existing debt;
  - (g) financial liabilities;

- (h) capacity for growth;
  - (i) success in partnering with and growing the Aboriginal Community Housing Provider sector; and
  - (j) where the applying CHP is already identified on the Distribution Plan, their performance in using contributions.
28. The Distribution Plan may be reviewed earlier than five years where:
- (a) reporting and monitoring processes reveal concerns about the outcomes of the Distribution Plan;
  - (b) a change in the Distribution Plan is required to respond to or to take advantage of significant changes in Federal or State government affordable housing policies or programs; or
  - (c) there is evidence a Recommended CHP has misused funds or funds have been poorly administered.

### **Uncertain market conditions may impact on the pace at which contributions are paid**

29. Most lodged and approved development applications in the City's development pipeline will be required to make an affordable housing contribution when seeking a construction certificate.
30. An analysis of lodged and approved development applications in the City's development pipeline indicates affordable housing contributions to 1 July 2028 may be around 10,000 square metres to 27,000 square metres of affordable housing. This is equivalent to \$200 million to \$285 million where a monetary contribution is made instead of built floor space. This does not include monetary contributions that may arise from development applications that are not yet lodged with the City.
31. On the assumption that contributions continue primarily as monetary contributions, rather than in-kind contributions (dedicated built housing), the projected average income is \$40 million to \$57 million per year over the next five years. This assumption could change over time.
32. The projected average income over the life of the Distribution Plan is significantly higher than the \$30 million average annual contributions that were received in the 5-years between 2017 and 2021. The actual annual income has ranged between a low of \$16 million and a high of \$55 million. The increase in projected income is because of the expansion of the City's contribution scheme to the whole of the local area came into effect in July 2021 and significant pent-up approvals in the pipeline.
33. While there are over 10,500 market dwellings that are lodged or approved in the development pipeline as at 30 June 2023, the timing for the construction of those dwellings and payment of contributions is highly impacted by prevailing market conditions.
34. Given the above, it is to be noted the actual annual income of contribution funds cannot be projected with any certainty and are likely to vary over time. Some years

may see a relatively low contributions income, and some years a very high contributions income.

### **The CHPs on the Interim Plan were consulted in the preparation of the Distribution Plan**

35. The Distribution Plan has been informed by further consultation with CHPs identified on the Interim Plan. A detailed summary of the outcomes of that consultation is provided at Attachment E. Key findings of the consultation include:
- (a) City West Housing has the largest, most immediate and mature pipeline of affordable dwellings in the City by some margin;
  - (b) spreading the distribution of funds too thinly will place that pipeline at real risk, and threatens previous contributions remitted by the City which have been utilised by City West to secure land for the delivery of over 400 affordable dwellings;
  - (c) funding of about \$100 million is required to deliver City West's current pipeline over time. Where ultimate funding is less than this amount, affordable housing dwellings are at risk;
  - (d) all three CHPs are registered Tier 1 Providers, and are therefore well-regulated by the Registrar of Community Housing;
  - (e) all have experience operating within the same tenancy provisions and income limitations as those detailed in the City's affordable housing program. All have an ability to safeguard and re-invest City contributions funds independently of projects and assets within their portfolios and regularly account for separate funding streams as a matter of course in their current operations;
  - (f) Tier 1 CHPs undertake development at scale. Of the three CHPs identified on the Interim Plan, City West Housing has the greatest development and construction experience and the greatest experience in affordable housing provision in the local area. St George Housing also have extensive development experience, though mostly outside of the local area. Bridge Housing also have development experience, but generally smaller (noting they are currently the lead developer on a large development at Elizabeth Street, Redfern);
  - (g) in exploring each CHPs ability to work with (potentially limited) funds from the City, the response was varied and influenced by the preferred operating model and scale of the provider;
  - (h) Both St George Housing and Bridge Housing expressed interest in channelling City contributions opportunistically towards a variety of affordable housing projects, including the purchase of turn-key units (sometimes in stratum), refurbishment of older units, or achieving a proportion of affordable housing in identified mixed-housing projects. This approach may lend itself to best use of smaller amounts of contribution funds compared with the delivery model favoured by City West, to acquire land and build new dedicated, medium-density affordable housing;

- (i) each approach presents different opportunities for the delivery of affordable housing in the City, where both land and construction costs are high and the funds generated by the Program vary year on year;
- (j) all three CHPs work to similar unit costs; and
- (k) certainty over funding was important to all three providers. For City West, this would safeguard the delivery of its existing pipeline, which has been planned and progressed to this point in the expectation that necessary funds would be provided by the City over time to secure its delivery. For Bridge Housing and St George Housing, certainty of receiving a periodic injection of funds via the Distribution Plan was preferred over a grants-style allocation on a project-by-project basis, to allow for forward planning, the leveraging of funds and the ability to capitalise on project opportunities as they arise.

### **Distribution Plan Principles guided the development of the Distribution Plan**

36. Distribution Plan Principles (Principles) set out the high-level objectives which guide the development of the recommended Distribution Plan.

#### **Principle 1: The distribution of funds maximises additional affordable housing dwellings and facilitates their quick delivery**

37. Given the current housing affordability challenges, it is essential the Distribution Plan allocates contributions where affordable housing dwellings can be maximised through development and construction capability in reasonable timeframes.
38. Tier 1 CHPs are the best placed organisations to deliver affordable housing at scale because:
- (a) CHPs can deliver housing more cost effectively than for profit organisations or government organisations because they attract favourable tax settings and concessions and can access low cost finance; and
  - (b) CHPs have access to various funding sources, the most recent being the Housing Australia Future Fund (HAFF), that can be paired with and used to further leverage to support more affordable housing.
39. Greater certainty about future funding will result in more affordable housing. Where the scale of future funding is known, with as much certainty as possible, CHPs can plan out for the longer term, confidently commit to new project opportunities when they arise. It allows for funding to be secured, sites to be purchased when they are available (particularly important in the City where competition for sites is high), development partners can be sought, and operations can be scaled up when needed.
40. CHPs with an existing pipeline of projects will deliver affordable housing dwellings quicker. Amassing sufficient contribution funds for a housing development will take time, depending on the pace of contributions. Once sufficient funding is available, CHPs must find the right site, plan the development, secure financing, seek development approval, and finally construct the development. In addition, the development process can take up to five years. It follows that the Distribution Plan should prioritise funding where projects are already underway.

**Principle 2: The distribution of funds is subject to good governance arrangements, including periodic review**

41. Tier 1 CHPs are subject to a high degree of regulation, ensuring that the use of funds is supported by a strong governance framework. This includes establishing performance outcomes for tenant and housing services, housing assets, community engagement, governance, probity, management and financial viability.
42. It is important any plan adopted by Council for the distributions of contribution funds be equitable, transparent, ensure accountability and minimise risk. This is essential to maintain both government and public trust in the outcomes of the contribution scheme and to demonstrate its benefit and efficacy over time. Good governance can be assured where a plan for distribution:
  - (a) is applied consistently in accordance with a policy adopted by Council;
  - (b) is monitored on a regular basis with monitoring outcomes publicly available;
  - (c) is subject to periodic holistic review, to ensure it remains fit for purpose over time;
  - (d) allocates funds to well-regulated recipients; and
  - (e) allocates funds to recipients that have demonstrated ability delivering promised outcomes.

**Principle 3: The distribution of funds grows the CHP sector in the local area and enables ongoing investment in more affordable housing**

43. Currently, affordable housing contributions are allocated to one CHP, being City West Housing. While this has resulted in significant outcomes in the local area, there is now opportunity to expand the distribution of contribution funds to other CHPs. The benefits of a wider distribution of funds is:
  - (a) two more funded Tier 1 CHPs operating at scale in the City creates more, and move diverse opportunities, for the City, government and private entities to undertake affordable housing projects with a trusted CHP development partner;
  - (b) different CHPs will take different approaches, and innovate in different ways, to support more affordable housing in the local area. For example, one CHP may focus on development of large-scale projects only, another may be best suited to manage dedicated dwellings dispersed across certain geographic areas; and
  - (c) minimises the exposure of the City to the risks associated with only having one funding recipient.
44. Noting there are benefits in growing the pool of CHPs that operate at scale in the City, in this first term of a Distribution Plan, there is benefit in allocating funds to CHPs that already have a presence in the City because they have:
  - (a) a demonstrated commitment to operating in the City and growing their presence;
  - (b) experience in a complex and high value development environment such as the City; and

- (c) worked with the City previously and are familiar with its requirements for the management of affordable housing in perpetuity.

**Principle 4: The distribution of funds ensures the City's investment to date in the affordable housing pipeline is secured for future affordable housing outcomes**

- 45. The majority of affordable housing contributions arising from development in the local area have been passed to City West Housing (NSW Government created, not for profit) since 1996. This excludes a small amount of funds distributed to the Department of Communities and Justice from contributions arising from development in the City's employment lands. As at June 2023, over \$399 million in contributions have been used to deliver affordable housing in the local area, resulting in 876 built dwellings
- 46. The City's affordable housing contributions have also been used to progress a significant development pipeline of over 400 affordable dwellings.
- 47. These new affordable dwellings could be delivered between 2025 and 2027, providing sufficient funding is available for their completion. Where funding is not available, delivery of the pipeline is at risk of delay or potential cancellation of projects.
- 48. The Distribution Plan aims to avoid the delayed delivery or the reduction of the City's affordable housing pipeline. This not only protects the City's past investment of contribution funds, ensuring they are not wasted because planned projects no longer have adequate funding to complete them, but it also ensures affordable housing projects that are significantly progressed are delivered quickly to house people in need.
- 49. Withdrawing expected funding from projects already progressed, and risking the delivery of affordable housing, is counter to this principle and to the City's strategic objective to increase the amount of affordable housing in the local area.

**Principle 5: The distribution of funds is consistent with the requirements of NSW Government legislation and regulation and the principles set out in the City's Affordable Housing Program (mandatory)**

- 50. Council cannot adopt a plan for the distribution of contributions that is inconsistent with the requirements set out under the Environmental Planning and Assessment Act 1979 (Act) and State Environmental Planning Policy (Housing) 2021 (Housing SEPP). Nor can it adopt a plan that is inconsistent with the City's LEPs (including the Sydney LEP and the LEPs that apply to the Green Square Town Centre) or the Program.
- 51. The Act and Housing SEPP enable the imposition of affordable housing contributions in LEPs and specify how, and under what circumstances, a contribution can be applied. The City's LEPs apply contribution rates to certain types of development. The Program, which is 'called up' by the LEPs, sets out detailed requirements for the operation and administration of the contribution scheme.
- 52. In summary, the key requirements for the use of contribution funds include:
  - (a) contributions must be used for the purpose of providing affordable housing;
  - (b) dwellings are to be rented to very low-income households, low income households or moderate income households. Income ranges are updated each year in the NSW Affordable Housing Ministerial Guidelines;
  - (c) tenants pay no more than 30 per cent of the gross household income in rent;

- (d) contributions can only be used in the LGA or an adjoining area;
- (e) contributions must be used in a reasonable time;
- (f) land or housing provided for affordable housing must be used for affordable housing;
- (g) resulting affordable housing must be managed to maintain their continued use for affordable housing (this is often referred to as affordable housing in perpetuity, that is, it does not allow a model with time limited affordable housing);
- (h) resulting affordable housing must be constructed to a standard that is consistent with other dwellings in the area; and
- (i) the developer can choose to make the required contribution as a monetary contribution or an in-kind (built) contribution.

### **The Distribution Plan Principles were used to evaluate the advantages and disadvantages of options for distributing funds**

53. Five options for the distribution of contribution funds were evaluated with reference to the Principles. The purpose of the evaluation is to understand the comparative advantages and disadvantages of different approaches and apply the best fit across a range of criteria. Options included:
- (a) Option 1 - proposes City West Housing receive the first \$20 million in any year. The next \$20 million is split equally between Bridge Housing and St George Housing. Then any residual funding is split equally between City West Housing, Bridge Housing and St George Housing;
  - (b) Option 2 - proposes City West Housing receives the first \$100 million in contributions over the five year period, with contributions being split equally between City West Housing, Bridge Housing and St George Housing thereafter;
  - (c) Option 3 - proposes City West Housing receives all contributions over the next four years, with contributions being split equally between Bridge Housing and St George Housing in the final year;
  - (d) Option 4 - proposes contribution funds be split equally between City West Housing, Bridge Housing and St George Housing; and
  - (e) Option 5 - proposes contribution funds be split equally between City West Housing and one other provider.
54. The evaluation considers the implications of two market scenarios, including a poor market scenario, where only 50 per cent of lodged and approved development applications in the City's pipeline progress to construction within the 5 year life of the Plan, and a moderate market scenario where 70 per cent of lodged and approved development applications in the City's pipeline progress to construction. It assumes that contribution funds are received in equal amounts across the 5 year life of the Distribution Plan. Each option has been evaluated against the principles using a five-point scale of: excellent; very good; good; poor; and very poor.

55. The full evaluation matrix is provided at Attachment B and had been summarised in Table 1.

Principle / Option	Option 1	Option 2	Option 3	Option 4	Option 5
The distribution of funds maximises affordable housing outcomes and facilitates their quick delivery.	Excellent	Excellent	Good	Poor	Very good
The distribution of funds is subject to good governance arrangements, including periodic review.	Excellent	Excellent	Excellent	Excellent	Excellent
The distribution of funds grows the CHP sector in the local area and enables ongoing investment in more affordable housing.	Excellent	Very good	Poor	Excellent	Excellent
The distribution of funds ensures the City's investment to date in the affordable housing pipeline is secured for future affordable housing outcomes.	Very good	Excellent	Excellent	Poor	Very good
The distribution of funds is consistent with the requirements of state government legislation and regulation and the principles set out in the City's Affordable Housing Program.	Excellent	Excellent	Excellent	Excellent	Excellent

Table 1: Summary matrix of options evaluation

56. While Option 1 and Option 2 perform well in the assessment, Option 1 is recommended because:
- relative to Option 2, it provides early opportunity and sufficient funding to Bridge Housing and St George Housing to meaningfully grow their operating footprint in the local area;
  - it provides good certainty the funding required to deliver the City's affordable housing pipeline can be achieved. This is critical to ensure the City's investment to date in the pipeline results in the intended affordable housing outcomes;
  - it recognises and capitalises on City West Housing's development experience in the local area, its knowledge of the limitations operating within the City's affordable housing scheme, and familiarity with operating and delivering housing in the City;
  - by allowing for the first time, other CHPs to receive funds, it enables the City to take advantage of the different areas of specialisation, the diversity in approaches and the mix of strengths that each of the CHPs offer. It also minimises the exposure of the City to the risks associated with having only one funding recipient;
  - funding is allocated to Tier 1 CHPs with an existing presence in the City of Sydney with proven capability in delivering affordable housing outcomes;

- (f) based on the projected average income of \$40 to \$57 million per year, sufficient funds will be available to all CHPs identified on the Distribution Plan to make a significant and meaningful contribution to affordable housing projects in the local area. Spreading funds to a fourth CHP could risk insufficient funds being available;
- (g) the allocation of funds to Tier 1 CHPs ensures the use of funds, and resulting affordable housing, are subject to robust oversight by the NSW Registrar of Community Housing; and
- (h) it is consistent with legislation and the Program.

### **The City supports diversity in affordable housing using its grants system and by selling its land below cost for affordable housing**

- 57. Diversity in affordable housing outcomes is an important consideration. How the housing needs of different lower income cohorts within the community can be met is an important consideration in any holistic affordable housing strategy.
- 58. It is acknowledged the Distribution Plan is likely to deliver a reasonably standard affordable housing product, typically:
  - (a) being a private dwelling, in a "normal" residential flat building, delivered using a conventional development model. The benefit of this is that this product is well understood by financiers, and by the community, and can be rolled out with relative ease compared with more complex models, that is, it supports the delivery of housing at pace;
  - (b) having some wrap around support services coordinated by the CHP, but typically not high needs or specialist services that may need to be accessed elsewhere, for example, extensive disability support services;
  - (c) rent will typically be charged at 25 per cent to 30 per cent of income, which is consistent with social housing rent policies;
  - (d) some apartments will be available in the development for people with disabilities (consistent with the City's planning requirements), although typically the whole of the development would not be targeted specifically for people with disabilities;
  - (e) a proportion of apartments will be made available for Aboriginal and Torres Strait Islander households, consistent with the policies of the CHPs in the Distribution Plan.
- 59. There are many different economic models and built form formats that can deliver high quality affordable housing. These may include housing for people with a particular disability that requires bespoke wrap around services, or co-op housing, or Youth Foyer housing (such as that provided in Chippendale using funding support from the City), or Common Ground housing for people who have experienced long term homelessness, rent to buy models, or community land trusts, to name a few.

60. The City uses other approaches to support the delivery of these more diverse forms of affordable housing in the local area. This includes providing grants for affordable housing projects that are less conventional, are often for bespoke purposes, but that are still aligned with the City's strategic housing objectives. The City also sells land at subsidised cost where affordable housing is to be provided.
61. It is noted the City's Affordable and Diverse Fund will be reviewed mid-2024. The review will consider options to promote and expand the take up of funding under the Fund.

### **Further review of the City's affordable housing contribution requirements is underway in accordance with Council's June 2023 resolution**

62. On 26 June 2023, Council resolved to review what changes could deliver more affordable housing in the local area, including a review of contribution rates, policies, planning controls and rezoning proposals.
63. This review is underway and expected to be reported to Council in the first half of 2024.
64. Where the review results in recommended changes to the Sydney LEP and/or the Program, a planning proposal will be required to be publicly exhibited and eventually approved by Council and the Central Sydney Planning Committee. This process would likely take about one year from the date it is first reported.
65. The review is exploring the merits of encouraging more in-kind contributions, and how that could be achieved (if considered beneficial). Should there be increased in-kind contributions in future, the Distribution Plan includes information about how it would be distributed to CHPs.

### **The Distribution Plan is consistent with Sustainable Sydney 2030-2050 Continuing the Vision, the Region Plan and the District Plan**

66. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the city to 2050. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. The Distribution Plan is aligned with the strategic directions and objectives.
67. The Distribution Plan gives effect to the infrastructure, liveability, productivity and sustainability priorities in the Greater Sydney Commission's Greater Sydney Region Plan and Eastern City District Plan and the City's Local Strategic Planning Statement.

### **The Distribution Plan is informed by submissions made to the publicly exhibited Interim Plan, in addition to subsequent consultation with CHPs**

68. Council and the CSPC, at their meetings on 27 June and 23 June 2022 respectively, approved the draft Interim Plan for public exhibition. The Interim Plan was publicly exhibited from 18 October to 29 November 2022. A proposed update to the Program, as well as Planning Proposal: Affordable Housing Review (planning proposal) was publicly exhibited at the same time as the Interim Plan.

69. The City notified the 24 Tier 1 and Tier 2 CHPs operating in the Sydney metropolitan area and peak housing bodies, including Shelter NSW and the Community Housing Industry Association (CHIA). The exhibition was also advertised on the City's Sydney Your Say webpage. The NSW Land and Housing Corporation (LAHC) and the NSW Department of Communities and Justice (DCJ) were also notified in writing.
70. Twenty-four submissions were received to the public exhibition of the planning proposal, draft Program and the Interim Plan, including 19 submissions from the general community, two from public authorities, and three from those CHPs that were identified as recipients of Affordable Housing contribution funds in the exhibited draft Interim Plan. No other CHPs made submissions. A copy of the summary of submissions that relate to the Interim Plan, and the City's response, is at Attachment D of this report, and have been addressed in this report.
71. Council approved the Interim Plan with a delayed commencement, together with the planning proposal and Program update on 26 June 2023. The Council resolution is provided at Attachment C.
72. In addition to further consideration of submissions, further consultation has been undertaken with CHPs to develop the final Distribution Plan. The outcomes of that consultation provided at Attachment E and are discussed in detail elsewhere in this report.
73. No further consultation on the Distribution Plan is required.

**GRAHAM JAHN AM**

Director City Planning, Development and Transport

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