



National Housing Finance and Investment Corporation Consultation Paper

Submission

October 2017

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The Draft MAV Submission to the National Housing Finance and Investment Corporation Consultation Paper has been prepared by the MAV for discussion with member councils.

The MAV is the statutory peak body for local government in Victoria. While this paper aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the exact views of individual councils.

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1 Executive summary

The Municipal Association of Victoria (MAV) welcomes the establishment of the National Housing Finance and Investment Corporation (NHFIC), and the National Housing Infrastructure Facility (NHIF) as useful ways to urgently increase the supply of housing through public sector investment in infrastructure.

The urgent time-frame the Commonwealth Government has set for making inroads into more affordable housing requires cutting through traditional funding mechanisms. The MAV believes the parameters around the NHFIC and the NHIF require careful working through and that appropriate consideration needs to be given to:

- Whether the concept of 'additionality' will overly constrain the administration of the NHIF.
- The existing regulatory mechanisms in different jurisdictions. Criteria relating to a certain proportion being set aside for affordable housing are unhelpful as the regulatory mechanisms currently do not exist in Victoria.
- Who can access funding and the implications of this for the attractiveness of particular locations and the housing market.

Further discussion is required with councils and the local government sector, including state associations about these issues.

To enable local government to participate fully and in a timely fashion, we suggest:

- Closely involving councils in the development of criteria for the funding facility, and appropriate types of planning controls to support achievement of the funds' goals
- Having the Australian Local Government Association (ALGA) represented on the National Housing and Investment Corporation
- Providing funding for a dedicated senior staff resource to the local government associations in the states with high population pressures would be an effective and efficient investment to coordinate necessary council involvement.
- Ensuring alignment of projects funded through the funding facility with strategies agreed in the Commonwealth/state housing agreements
- Requiring projects to demonstrably advance the provision of affordable housing consistent with State and local planning frameworks
- Utilising existing low debt financing structures, such as the MAV's Local Government Funding Vehicle, rather than duplicate with new structures.

2 Introduction

The MAV is pleased that the Federal Government is taking an interest in affordable housing and the financial levers that could assist in overcoming obstacles to its provision. We welcome the opportunity to provide comment on the proposed corporation and funding facility.

Councils in Victoria are cognisant of communities' needs for affordable housing. In greater Melbourne in particular, demand for accommodation is driven by an ever-increasing number of people wanting to live, work and invest in its environs. The challenge this poses for all levels of government is enabling more housing to be delivered in such a way that economic activity, liveability and resilience of communities are supported.

Distributive issues of who bears costs and who captures value from residential land are complex. In greenfield areas, state and local governments have gone some way to capture value through state land taxes and developer contributions required to be provided to councils for subdivisions. Opportunities for capturing contributions from infill development may be missed, however, as such development is often not as predictable, or of a scale, that enables infrastructure contributions.

Increasingly private contributions and housing associations are being relied on to supply social housing and supplement public housing. This has not been sufficient to meet demand or provide the necessary levels of services for neighbourhoods. Anecdotally, many municipalities report an increase in housing insecurity and homelessness related to both supply and rental costs.

The MAV State Council, a representative body made up of the 79 Victorian councils, has made a number of resolutions relating to affordable housing. A further five motions were put to the MAV State Council held in October 2017. Councils are concerned about the state government's reliance on the sale of public housing estates to private developers with minimal public housing increases. It is imperative to ensure positive social and public investment is realised through public/private models, and that a net community benefit is realised and capitalised on.

3 Background information

3.1 Role of Victorian councils in housing infrastructure and service provision

Councils in Victoria play an important role in encouraging high quality affordable housing through:

- Identifying and providing for sufficient housing supply to meet demand and in line with state and local strategic planning frameworks
- Planning for communities with diversity and an appropriate range of infrastructure and services
- Negotiating development outcomes during the development assessment process to provide for affordable housing
- Building and nurturing social cohesion.

The infrastructure most urgent and necessary to be provided when additional housing is created include:

- Road and street infrastructure – councils manage thousands of kilometres of road and street infrastructure, and spend more \$50 million a year on street lighting
- Stormwater infrastructure – councils in the greater Melbourne area collectively manage and maintain some 27,000 kilometres of drainage infrastructure
- Public urban space, parks, open space, canopy cover for urban cooling, playgrounds and active transport options such as walking and cycling tracks
- Community facilities, such as town hall facilities, public libraries, leisure and recreational facilities (ovals, pavilions)
- Provision of early childhood services, such as maternal and child health and immunisation services
- Aged care services – councils provide some 80% of Victoria’s home and community care services across the state.

3.2 Planning framework for housing infrastructure in Victoria

To assist in the Commonwealth Treasury’s understanding of the Victorian housing infrastructure context and the role of the state government, councils and developers, the following is a brief summary:

- The *Planning and Environment Act 1987* is the primary legislative instrument. There have been recent changes to the Act through the *Planning and Environment Amendment, (Housing Affordability and Other Matters) Act 2017*.
- *Plan Melbourne 2016* is the 30 year planning framework within which the future development of Melbourne and key regional cities is planned.
- The Plan encourages higher density development in established areas along main transport routes, in activity centres and employment nodes. It suggests that 70% of new development will be in established areas, a target that has been consistently reached since 2014.
- The Department of Environment Land Water and Planning (DELWP) and the Victorian Planning Authority (VPA) have primary responsibility to deliver *Plan Melbourne*.

- *Plan Melbourne* calls for the preparation of sub-regional land use planning frameworks which have recently commenced:
 - These frameworks will guide councils in applying zones and overlays
 - Councils must be consistent with the State framework and require Ministerial approval for changes to planning controls.
- Infrastructure Victoria prepares a 30 year Infrastructure Strategy for Victoria after which the Government has 12 months to prepare a five year Infrastructure Plan outlining priorities.
- In identified Growth Areas:
 - Areas are planned in detail and infrastructure requirements are identified through Precinct Structure Plans and Infrastructure Contribution Plans (generally prepared by the Victorian Planning Authority)
 - State infrastructure (eg, arterial roads, water, mains drainage, sewerage, regional recreation facilities etc) is provided by State agencies and supplemented with funding from the Growth Areas Infrastructure Charge
 - Local infrastructure (eg, local roads, stormwater infrastructure, public open space and community facilities) is provided by councils. Transport infrastructure is most often undertaken as a works-in-kind contribution by developers and monetary contributions are made for public open space and community facilities.
- In established areas, councils are responsible for local infrastructure maintenance and renewal (eg, local roads, stormwater infrastructure, public open space and community facilities). Significant strategic planning is being done for strategic redevelopment sites that will contribute increased housing opportunities including affordable housing. Councils often work closely with housing associations and other key organisations to encourage affordable housing.
- The Victorian Auditor General's Office reports that the sector received development contributions of approximately \$815 million in 2014–15 (approximately \$696 million in 2013–14). Of this amount 29% (or \$236.6 million) was a monetary contribution with the remaining works-in-kind.
- Inclusionary zoning is being piloted in a small number of councils, but it will take some time for this to be reflected in all Victorian planning schemes. The pilot has been initiated by the Victorian Government for state government land in a small number of local government areas. Some councils have also negotiated voluntary inclusionary zoning outcomes.
- In terms of financing, Victorian councils are currently operating in a rate-capped framework, with annual increases determined by the Victorian Government. Since rate-capping was introduced, increases in rate collections have been limited to approximately 2% per year.
- In terms of debt financing, MAV has established a Local Government Funding Vehicle which has issued \$340,000,000 since 2014 across three tranches, for 33 councils which have participated. Borrowing levels range from \$55,000,000 to \$150,000,000. The vehicle sources funding directly from capital market investors including super funds, insurers and asset managers, and has the capacity to issue green bonds and support social initiatives.

4 Issues from a Victorian local government perspective

4.1 Public/private opportunities and issues

The Victorian Government has been progressively moving away from provision of public housing (ie, housing directly owned and controlled by the state) to more variable solutions, such as social housing with various incentives and arrangements through community and private providers. The impact of this has been to diminish the public housing stock and the availability of cheaper options for low income earners, key workers and first home buyers. It has also reduced certainty about public housing in those locations where land and housing is expensive.

The greater reliance on place-based private sector involvement in Victoria means that there are real questions to be considered about the effective and fair means by which the grants and concessional loans proposed by the new Commonwealth funding facility can be delivered and managed to ensure they increase affordability, either through new social housing or quality affordable private stock.

It will be important for projects being financed through the new proposed facility to complement Commonwealth/State housing agreement arrangements, and that they do not simply result in access to lower interest rates and loans for private developers without accompanying lower prices for housing

Councils are well placed to facilitate and brokage partnerships between the private and public sector.

4.2 Role of planning regulation

Relaxing local planning laws and increasing housing density are not necessarily the right solutions to increasing housing supply. In fact, the opposite is more likely to be true. There will be potentially more adverse economic and social outcomes than benefits, if the very attributes which make the capital cities attractive are not adequately protected. In some cases increased density is an appropriate response to affordability, this needs to be targeted both to ensure that the area is suitable, and that the resulting housing is actually affordable.

Increasing the supply of housing in outer metropolitan areas can actually lead to reduced affordability due to higher transport costs associated with accessing employment areas, services and facilities and high household expenditure on new utility installations. New cheaper housing can also entrench pockets of relative socio-economic disadvantage, as well as reduced social participation and social cohesion due to the relative isolation of some outer suburban communities. This is particularly acute where medical, health and other support services lag housing development.

The impacts of uncontrolled development in both an infill and greenfield context can be, in part, mitigated by good planning. However, a one size fits all approach or a preference for greenfield development above infill development will have significant impacts on cities and growth must be managed in an integrated way. Metropolitan wide planning is important and it is critical that structure planning and infrastructure planning are concurrent and that funding mechanisms are thought about early in the planning process.

While Victoria has a well-established approach to growth area planning, inclusive of forward precinct structure planning, infrastructure contributions and coordination of infrastructure agencies, these processes are by no means perfect.

Development in established areas remains considerably more challenging, with less opportunity for private sector contributions to public infrastructure renewal. In established areas it is less likely for there to be comprehensive precinct plans or infrastructure contribution plans in place for infill development as the development is not as predictable or large enough in scale to logically enable infrastructure contributions.

Housing diversity is a key aspect of addressing affordability, and the prioritisation of locations which would not otherwise be considered for development are worthy of further examination. The current and future needs of residents seeking housing also needs to be considered. For example older Australians retiring and down-sizing, and opportunities for multi-generations of families to enable caring in the home in preference to institutional settings.

4.3 Current issues with infrastructure funding by councils

The ability of councils to raise additional revenue to assist with the funding of essential infrastructure is extremely limited. Infrastructure contributions are critical to providing appropriate infrastructure onsite, however, there are still issues with:

- Providing infrastructure at the appropriate time in the development cycle. The demand for facilities and services often comes well before infrastructure contributions can be fully collected
- Significant growth outpacing the ability for councils to provide infrastructure particularly where infrastructure contributions do not fully fund facilities or where infrastructure contributions are not collected (eg. urban infill).
- The diminishing pool of grant funding for community infrastructure both from federal and state governments.
- The funding of regional scale facilities such as libraries and aquatic centres that often fall outside of the scope of infrastructure contributions.

This is resulting in the chronic underfunding of community infrastructure across Victoria. The impact of these factors upon councils' capacity to deliver timely community infrastructure is being further compounded by the cap on rates which Victorian councils can collect.

It is worth noting that councils and communities also bear considerable recurrent costs of operating and maintaining infrastructure over its life cycle. The upfront capital cost is likely to be a small proportion of total costs.

4.4 Design of the National Housing Infrastructure Facility

The NHIF is a welcome funding facility, although it is difficult to make comment about its financing parameters until the national demand from local government is known. It is suspected that the funding will not be sufficient to address the chronic underfunding of infrastructure across Australia.

The MAV supports the definition of eligible applicants and the ability for multiple councils to apply. It is particularly important that there are defined eligibility criteria,

as there is considerable potential for the fund to be targeted at sensitive political locations, rather than where greatest impact can be made for the greatest need.

The MAV considers the funding should continue to be constrained to local government as the state government has other funding vehicles available to it. Community housing associations and the like are housing providers and do not provide the associated infrastructure communities expect to be in place where they live. Inclusion of funding for innovative financing partnership opportunities can be achieved through council-led special purpose entities such as land trusts and not-for-profit companies.

In relation to eligible projects, the MAV is concerned that the concept of 'additionality' will overly constrain the administration of the facility. It is certainly understood that geographic areas where supply and affordability pressures are found is a key criteria, but also demonstrating that a project would otherwise not proceed or face undue delay without NHIF would be difficult. There may be other good reasons why a project has not proceeded including whether the land can be 'efficiently' and 'appropriately' developed.

Instead we suggest that the geographic criteria be retained and a new criteria added requiring projects to *'demonstrably advance the provision of affordable housing consistent with State and local planning frameworks'*:

Specific needs identified for established areas include transport infrastructure (especially that which supports mode shift away from road congestion) and remediation costs of brownfield land. This is particularly relevant where there is value in transitioning industrial land to mixed use. Investment through the facility would enable remediation of land on condition of affordable housing provision in the subsequent development. This would also enable private land to be freed up to increase housing supply in established areas, not just examination of government-owned land.

At present we do not support criteria relating to a certain proportion of new housing being set aside for affordable housing as the regulatory mechanisms currently do not exist in Victoria. Inclusionary zoning is being piloted but it may take some time for this to be reflected in all Victorian planning schemes.

In summary, the facility needs to:

- Develop criteria/eligibility requirements and allocation of funds should seek to provide any balance between growth areas, established and regional areas. Criterion is necessary for transparency as there is the threat the allocation of funds becomes politicised towards marginal seats.
- Allocation of funds needs to be measurable that it will deliver affordable housing (bricks and mortar).
- Clear definition of affordable housing (affordable to rent, purchase, shared equity, community housing) is important as there are variations across States.

Clear objectives and principles need to be established to ensure the Corporation initiative addresses the issue of housing affordability. The measure needs to more Australians housed in affordable (accessible and appropriate) housing, close to infrastructure and services.

We note that the \$1 billion National Housing Infrastructure four year timeframe is a short time frame to see positive changes in housing affordability nationally.

4.5 Financing for increased housing supply

Recent moves by the state government to establish additional financial levers such as the Victorian Social Housing Growth Fund and the loan guarantees for community housing associations have been welcome. It will therefore be important for this initiative to be integrated with Victorian Government initiatives, as there are various conditions the Victorian Government places on councils in the delivery of and investment of infrastructure

In respect of funding vehicles, we suggest that the role of the Federal Government's Infrastructure facility could be to act as an investor in the MAV Local Government Funding Vehicle, rather than setting up another independent structure competing with this existing structure. This vehicle would provide for immediate and streamlined transactions which would enable funds to not have to be delivered through state and territory governments.

5 Conclusions

The MAV looks forward to further dialogue between the Commonwealth Government and local government on this priority initiative. There are considerable opportunities to be unleashed through the opportunity this allocation of funds presents. Through well-established criteria and strategic investment, better services can be delivered for communities.

To enable local government to participate fully and in a timely fashion, we suggest:

- Closely involving councils in the development of criteria for the funding facility, and appropriate types of planning controls to support achievement of the funds' goals
- Having the Australian Local Government Association (ALGA) represented on the National Housing and Investment Corporation
- Providing funding for a dedicated senior staff resource to the local government associations in the states with high population pressures would be an effective and efficient investment to coordinate necessary council involvement. In Victoria there are big variations in councils' role in the provision of infrastructure for housing depending on whether they are in established or growth areas. A staff resource would enable state issues to be worked through relevant to the particular cohort of councils, in addition to issues of state-wide significance such as housing policy, planning schemes mechanisms and building infrastructure capability. This resource will be critical to providing local knowledge to the national corporation
- Ensuring alignment of projects funded through the funding facility with strategies agreed in the Commonwealth/state housing agreements
- Requiring projects to demonstrably advance the provision of affordable housing consistent with State and local planning frameworks
- Utilising existing low debt financing structures, such as the MAV's Local Government Funding Vehicle, rather than duplicate with new structures.

6 Further information

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