



AFFORDABLE HOUSING CONTRIBUTION
SCHEMES **RESILIENT SYDNEY PROJECT**

SCOPING FOR A STANDARD
METHOD FOR SETTING
CONTRIBUTION RATES



Urbanista

BACKGROUND

Urbanista's Directions Paper looked at improvement opportunities available under the current Affordable Housing Contribution Scheme (AHCS) framework for addressing each of the barriers identified through the AHCS Project. The table below sets out the identified options and the approach for facilitating feasibility assessment proposed by Urbanista.

Facilitate Feasibility Assessment
<p>Improve current guidance and tools for feasibility assessment.</p> <p>Improve current guidance on feasibility by:</p> <ol style="list-style-type: none">I. Improve guidance and training around the current toolII. Develop a template consultancy brief for councils for this workIII. Separately scope an approach for developing a simplified and streamlined methodology.
<p>Responds to the following barriers that emerged through engagement with Councils in the Study:</p> <ul style="list-style-type: none">◆ Difficulties understanding and or/using DPE feasibility tool.◆ Limited viability for schemes
<p>Assessment:</p> <p>While feasibility emerged as a significant barrier, addressing this requires more fundamental changes than the modifications i and ii above which could be undertaken as part of this project.</p> <p>As such these options (improving guidance and training) and developing a template consultancy brief) would be of limited benefit to councils at this stage.</p> <p>As feasibility assessment is such a significant barrier, the Directions Paper recommended alternative approaches to assessing feasibility be explored as proposed in sub-option iii and that Urbanista scope this drawing on the feedback we have received and our understanding of the issues.</p>

In keeping with this recommendation, the steps involved in developing an alternative approach that responds to the objectives for the AHCS project have been scoped and are presented below in the form of an outline for a Study Brief.

NAME OF PROJECT: A STANDARDISED APPROACH TO AFFORDABLE HOUSING CONTRIBUTION RATES

BACKGROUND

In a recent project examining strategies to accelerate the take up of Affordable Housing Contributions Schemes (AHCS) (Urbanista, 2022), when asked to nominate barriers to implementing AHCS, Sydney Local Councils identified problems with feasibility analysis as a major barrier. The same Councils when asked what could be done to overcome these barriers identified that a more standardised approach to feasibility assessment would be of significant assistance.

Councils were of the view that the current requirement and approach to demonstrate feasibility on a case-by-case basis is time-consuming, resource intensive and impedes implementation. It also suffers from being based on a point in time assessment when feasibilities will change over time. While forward looking feasibility assessment is particularly difficult given the unknowns, it is nonetheless important to link contributions to changing conditions so that contribution levels can be optimised. A framework that puts the market on notice of future proposed increases in contribution rates, gives developers transparency while also containing land speculation.

Councils also identified the need for guidance on setting contribution rates. The current Guideline provides some parameters for feasibility assessment (see Appendix D) but these are more requirements than guidance on undertaking feasibility modelling. There is a guide accompanying the Department's Feasibility Tool but this is not tailored to developing rates for AHCSs.

Councils indicated that they are particularly challenged meeting the requirements under this step due to lack of experience and expertise. Being on unfamiliar ground, many councils engage the services of expert consultants, adding considerably to the costs and time involved in preparing a scheme.

Compounding these difficulties, a perceived need for site specific viability testing not only adds exponentially to costs, it constrains the introduction of additional sites under an AHCS and can place councils in the position where they are forced to defend site specific assessments directly with a landowner or developer.

The DPE's Feasibility Tool is available for use by councils to assist in undertaking feasibility assessment however the Tool is not commonly used. The reasons given for this are twofold:

- it is complex to use and requires a lot of input data; and
- Council officers do not feel they have the expertise necessary to use the Tool effectively.

The process seems much more complicated than approaches in other jurisdictions. For example, the ACT which has been charging for uplift for many years, has a much more streamlined process. The charges are based on either the increases in dwelling yield using a standard value or capturing a set fraction of the increase in the land value as a result of the planning change. They describe the NSW approach as a hypothetical approach that should be only used as a secondary or check approach.

In view of these not inconsiderable difficulties and constraints, a need has been identified for alternative approaches to meeting the requirement under section 7.32(c) of the Act that a condition requiring a contribution be reasonable. These are discussed further below.

A further consideration is how a new approach might be applied at a regional level or for groupings of neighbouring councils. There is an increasing interest in Councils operating collectively to optimise and expedite the supply of new affordable housing outcomes, to provide some consistency for the development industry and to reduce the resources required at the LGA level by sharing resources and expertise.

SCOPE OF WORKS

The overall purpose of this project is to develop a basis for determining contribution rates for Affordable Housing Contribution Schemes that would:

- Reduce the time and resource constraints involved in developing an AHCS;
- Provide a transparent and equitable approach to optimising affordable housing outcomes; and
- Not unduly impact the supply of residential housing and commercial development in Sydney.

The project will include:

1. Identification of approaches to charging for affordable housing and other public benefits at the zoning/rezoning stage. The approach used in the ACT is of particular interest.
2. A review of those approaches considered to have potential for application in NSW including:
 - Appraisal of key features, benefits and challenges of each approach and context where each is suitable for implementation;
 - Availability, cost and access to robust input data to support the methodology;
 - Capacity to enable users to test differing uplift and contribution rate scenarios and respond to changing conditions;
 - Effectiveness in achieving greater simplicity, ability to be relatively easily understood and ease of use;

- Capacity to apply in a regional or district context;
 - Availability of supporting tools to facilitate use.
3. Recommendations for a new standardised approach to affordable housing contribution rates to the Project Steering Committee, supported by a detailed description of the approach and rationale for selection.
 4. Validation of the standardised approach through independent expert review.
 5. A strategy for indexing charges: The indexing rate would need to consider both changes in land values (which may enable the % affordable housing levy to increase or decrease) and changes in construction costs (to enable sq metres to be converted to dollar values). The strategy should provide guidance on the frequency of updates, the optimal method and what standard data sets should be used as inputs to this process.
 6. Drawing on established tools where suitable, development of a set of tools and resources to support the new standardised approach.

In selecting a new standardised approach, it would be important to consider the following criteria:

- Feasibility to implement in market/planning context;
- Impact on affordable housing targets;
- Any legislative, policy barriers and changes required at both local and state level.

The standardised feasibility approach should aim to take reasonable steps to ensure the results are reliable, feasible and pertinent to the land undergoing uplift that is covered by the scheme, while acknowledging the dynamic housing market context

In devising a new standardised approach, a possible methodology might include the following stages:

- a) Examine the most common scenarios for uplift – generation in Greater Sydney based on a review of landowner-led planning proposals and Council and State Government led LEP updates;
- b) Considering elements such as precinct characteristics, market conditions, and current and proposed built form to develop a set of common uplift scenarios based on (a);
- c) Generate a set of contribution rates for these scenarios;
- d) Develop a method for estimating contribution rates where circumstances would not support the use of the scenarios;
- e) Developing an indexing system to keep pace with building costs and land value increases.

SELECTION CRITERIA

1. Capability and experience of the firm and nominated personnel, including in regard to approaches used schemes in other jurisdictions;
2. A track record in reducing complexity in feasibility and other economic analysis as a way of increasing transparency for all stakeholders;
3. Intended approach for testing the proposed approach with Local Councils and other stakeholders;
4. Proposed rates and fee structure.