

## “IN OUR BACKYARD” HOUSING PROGRAM REVIEW

FINAL REPORT  
SEPTEMBER 2018

Prepared for  
Port Phillip City Council

Independent  
insight.



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# EXECUTIVE SUMMARY

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## Background and purpose

*“In Our Backyard – Growing Affordable Housing in Port Phillip 2015 – 2015” (IOBY)* is Council’s plan to bring together advocacy, facilitation and investment initiatives to retain social housing across the City at the proportion recorded in 2015.

IOBY contains 7 ‘policy levers’:

1. **CoPP land & cash** - Providing a pipeline of Council properties and supporting cash contributions for new community housing units in the City
2. **Asset sale conditions** - Pursuing inclusion of community housing as a component of private development on divested Council land
3. **Public housing redevelopment** - Facilitating opportunities to increase affordable housing yield and diversity on existing social housing sites through transfer, redevelopment, sale and re-investment
4. **Leverage HA assets** - Facilitating HousingFirst (formerly PPHA) to leverage its existing property assets to deliver an increased supply of community housing
5. **Planning controls** - Applying planning mechanisms that encourage the private sector to deliver new affordable housing units
6. **Partnerships** - Facilitating the delivery of affordable housing projects by others
7. **Innovation** - Fostering innovative models to achieve a broader spectrum and diversity of affordable housing

In an effort to generate best possible value from the organisational and financial resources it is bringing to bear on this issue, Council has directed a ‘*review of definitions, targets, policy levers and options*’ to achieve the broad outcomes set out in IOBY.

## Preferred policy settings – targetting and procurement methods

The review sought confirmation of Council’s underlying objectives and preferences with respect to the target groups to be assisted via IOBY and the means of procuring social housing.

The weight of opinions expressed at Councillor workshops favoured the focussing of IOBY resources towards higher needs groups, that is, lower income households, dependent on government benefits, struggling to find a decent place to rent. This group can be distinguished from households somewhat further up the income spectrum, for example, moderate income working households, including key workers and creatives, struggling to find affordable rents.

On the ‘procurement’ question, it was clear from Councillor discussions that the City expected IOBY to result in *permanent* social housing infrastructure for Port Phillip. There was a strong appetite for innovation in procurement models and for accelerated delivery of IOBY outcomes. However, this did not extend to models which rely on bridging the return gap for private investors to deliver social housing with an expiry date (for example, the NRAS model).

## Needs based versus proportional social housing targets

IOBY set an objective to expand the City’s social housing stock by 920 units over 10 years. The basis for target was as follows:

▪ Stock of social housing in Port Phillip 2015	4,117 (DHHS count)
▪ % social housing stock 2015	7.2%
▪ Projected total stock of housing in Port Phillip 2025	70,800
▪ % social housing 2025 (assuming zero additional social housing)	5.9%
▪ Additional social housing required to achieve 7.2% in 2025	920

The IOBY target was not ‘needs based’. It was simply intended to hold the City’s 2015 ratio of social housing, measured at 7.2%.

SGS assessed current and projected social housing need in Port Phillip based on the ABS’s count of households in varying degrees of housing cost stress (excluding home purchasers), ranging from homelessness through to excessive rent demands on low incomes. On this basis, CoPP had a shortfall of some 4,432 social housing units in 2016. By 2025 the shortfall is expected to increase to 6,540 assuming no further investment in social housing by the State Government or other social housing providers.

It is doubtful that IOBY can meet its 920 target (see below). Even if this target could be reached, this would represent only 14% of the total required expansion in social housing in Port Phillip. The remaining 86% or 5,620 additional units could reasonably be expected to be supplied by the State and Commonwealth Governments.

## Achievability of the 920 IOBY target

The levers in IOBY vary in the degree of control Council has in achieving the social housing flow in prospect. Taking into account these variations and experience to date with IOBY, a realistic expectation of additional social housing units from the strategy over 10 years is a number less than 500. Even this outcome is contingent on ‘everything going right’ and, therefore, could be regarded as ambitious.

This review finds that the 920 target set in IOBY is well beyond the ‘stretch’ category and is unlikely to be achieved.

## Strategic directions for IOBY

The review proposes four strategic directions for improving IOBY :

1. **Moving from a project to program focus**, including consolidation of Council’s homelessness strategy and IOBY  
IOBY could be improved by repackaging it as a long term, integrated, package of measures where Council has made a substantial and accountable financial commitment. This could then be marketed to co-investors as a *portfolio* rather than an ad hoc series of site by site opportunities. This would help Council secure major long term investments of a similar or greater order from partners in State Government, the Commonwealth, the philanthropic sector and industry
2. **Opening up IOBY to more participants**  
Greater value from the cash, land and officer input to IOBY could be generated by creating a more competitive environment for the use of these resources in producing social housing for Port Phillip. For example, future versions of the Marlborough Street opportunity could be made available to a wider group of qualified tenderers, including private sector developers who may bring insights or expertise in design, risk management and project delivery otherwise not available to IOBY. The objective of local capacity building could still be pursued by requiring bidders to involve local agencies to certain minimum levels set out in tender specifications.
3. **Establishing a capacity to aggregate resources from the various IOBY levers**  
Some IOBY levers potentially deliver large batches of social housing, whereas others might provide a steady or intermittent stream of social housing units in relatively small amounts and still others may provide cash to part pay for additional social housing units. At present, there no capacity in CoPP for consolidating these resource flows with a view to tapping economies of scale and garnering more productive



partnerships with government and industry.

Consolidation would involve bringing together land and cash assets, with deployment into social housing determined on the merits of the opportunity under examination.

Some Council owned sites would be fed into the consolidated pool for development along the lines of Marlborough Street. Others, which are less suitable for social housing per se, may be sold with cash resources fed into the consolidated pool for use in various forms of joint venture to produce permanent social housing.

This strategic management of a consolidated pool of land, cash and officer resources is likely to demand skills in housing development as well as investment optimisation.

4. **Revisiting planning controls.**

Notwithstanding that there is no authorising legislation for mandatory affordable housing contributions, it may be prudent for Council to develop a comprehensive inclusionary zoning policy and apply it on a voluntary basis until such time as the legislation is changed to enable mandatory application. This could occur in partnership with other IMAP councils as is already in train.

A city wide review of value sharing opportunities for social housing is also in order.

## 12 month action plan

The proposed priority actions for the remainder of 2018 and calendar year 2019 include:

- Ensuring that Marlborough Street is successfully delivered as a demonstration project in good design
- Assembling the required collateral material to support a long term partnership with State Government and other potential co-investors with a view to building IOBY into a (notional) \$150 million<sup>1</sup> over 10 years fund, and undertaking a program of negotiations to achieve this outcome.
- Designing an appropriate capability or 'vehicle' within CoPP to take carriage of Council's consolidated affordable housing asset pool (land and cash) and deploy this in line with IOBY objectives and targets.

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<sup>1</sup> Based on a 20%/80% split in social housing supply responsibilities between Council and the State Government

# 1. COUNCIL'S INTENT & VISION

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## 1.1 Background and project brief

The City of Port Phillip (CoPP) is a recognised leader in local government affordable housing policy. Indeed, it is a role model for the sector. Many Councils with an emerging or firming interest in the affordability issue look to CoPP for guidance and inspiration as to the role which local government can best play in mitigating the housing crisis besetting metropolitan Melbourne.

CoPP has earned this leadership role over many decades. Its predecessor, the City of St Kilda, was one of very few municipalities at the time to directly dedicate Council assets – cash and land - to support provision of rooming houses and other forms of social housing in the City.

There has been unbroken involvement by Council in local social housing supply ever since, regardless of the corporation's electoral make up. This bespeaks a strong community mandate to protect a key asset of the local community – its diversity and inclusiveness.

Council's latest strategy in this long line of policy action is titled *"In Our Backyard – Growing Affordable Housing in Port Phillip 2015 – 2015 (IOBY)"*. This is a multi-faceted plan bringing together advocacy, facilitation and investment initiatives to achieve a range of ambitious goals, including retention of social housing across the City at the proportion of the total housing stock as recorded in 2015.

Council's commitment to a pro-active affordable housing policy remains as strong as ever. In an effort to generate best possible value from the organisational and financial resources it is bringing to bear on this issue, the City has directed a *'review of definitions, targets, policy levers and options'* to achieve the broad outcomes set out in IOBY.

## 1.2 Council's role in housing affordability

There are many forces and institutions driving housing affordability outcomes in CoPP which are beyond the direct purview or influence of Council. These relate to general economic conditions across the State and nation, monetary policy settings and the dynamics of the housing cycle.

Nevertheless, Council is an important agent in the production of housing within its bailiwick. It can have a significant impact in this area in its own right and an even bigger impact in partnership with other Councils, institutions and the private sector, as acknowledged in IOBY.

SGS often refers to 'three tiers' for the contribution which Councils might make to local housing affordability and affordable housing outcomes (Figure 1). The first tier relates to running an efficient planning and development control system so that the supply side of the market can respond as smoothly as possible to local demand. The second tier would see the Council going a step further to facilitating local affordable housing supply by, for example, brokering partnership deals between local providers and community based groups. Moving to the next tier, the Council itself becomes an investor in affordable housing provision, as is the case in Port Phillip.



FIGURE 1: THREE-TIERED APPROACH FOR THE PROMOTION OF AFFORDABLE HOUSING



Source: SGS Economics & Planning Pty Ltd

These roles are unpacked further in the following diagram, which illustrates the various groupings of affordable housing policies which a Council might pursue depending on its appetite for risk and the priority it places on this particular social issue.

FIGURE 2 CONTINUUM OF ROLES FOR COUNCILS IN AFFORDABLE HOUSING

			Basics only	Advocacy	Proactive use of planning provisions	Building infrastructure for local social housing provision	Direct investor - opportunistic	Long term investor
Tier 1	Facilitating efficient housing markets	Land supply and availability	1	2	3	4	5	6
		Planning policies and strategies						
		Development approvals processes						
		Infrastructure provision						
		Information dissemination						
Tier 2	Facilitating affordable and social housing supply	Policy and strategy						
		Community engagement and leadership						
		Housing partnerships						
		Development contributions for affordable housing						
Tier 3	Investing in social and affordable housing	Housing Trust						
		Ad hoc joint ventures						
		Equity investment in housing associations						

Source: SGS Economics & Planning Pty Ltd

CoPP currently pursues initiatives drawn from across the full range of Tier 1, Tier 2 and Tier 3 activities.

In our experience, many Councils eschew direct involvement in direct social housing provision (Tier 3), seeing this as part of the redistributive responsibilities of other spheres of government. However, CoPP engages voluntarily in Tier 3 activities because it regards social mix, diversity and inclusion as defining environmental characteristics of the City and is not prepared to leave their retention entirely to the vagaries of policy making at State and Federal level.

### 1.3 Council's policy focus

While the broad intent of Council's involvement in the affordable and social housing policy area is clear enough, it is important to resolve the specifics about the groups of households

Council is looking to assist through its policy and how this assistance is to be delivered or procured. These two parameters – targetting and procurement strategies - will have significant implications for outcomes generated by IOBY.

### Equity investment versus mobilising private capital

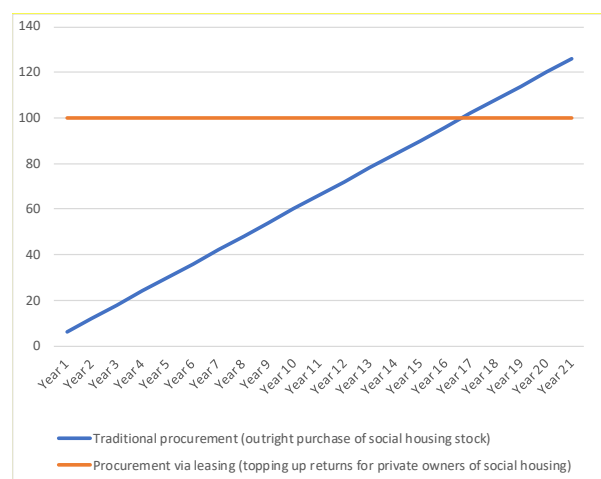
Procurement strategies can be thought of as sitting on spectrum from traditional procurement (simple cash purchase or development of social housing through a Housing Association) through to public private joint ventures where private capital is mobilised to provide the social housing by a public sector agency ‘topping up’ returns for investors, that is, making up the difference between the yield that can be generated from the targeted lower income tenants and a ‘commercial yield’. The latter approach is exemplified by the oft quoted Low Income Housing Tax Credit (LIHTC) scheme in the US and the erstwhile National Rental Affordability Scheme (NRAS) in Australia.

The spectrum of procurement models presents a ‘*tortoise and hare*’ scenario. So called ‘innovative’ models which induce private capital into social housing provision have the great benefit of generating relatively large volumes of affordable housing relatively quickly. Meanwhile, traditional procurement is characterised by a slow build-up of social housing stock but can ultimately ‘overtake’ private leasing schemes.

Figure 3 illustrates this dynamic using a hypothetical scenario. The two lines represent a notional annual Council outlay of \$3 million. Under traditional procurement, this outlay buys 6 social housing units per year which accumulate over time (the upward sloping line). The private leasing model requires Council to provide an annual top up subsidy of \$30,000 per year to investors to induce each social housing unit. Thus the \$3 million annual outlay secures a stock of 100 social housing units, which will be ongoing only for as long as Council is prepared to provide the required subsidy.

After 17 years, the traditional procurement model delivers more affordable housing units, but in the run up to this change over point, the leasing strategy is significantly superior.

FIGURE 3 TRAJECTORY OF SOCIAL HOUSING PROVISION – TRADITIONAL PROCUREMENT VERSUS LEASING



Source: SGS Economics & Planning Pty Ltd

If the \$3 million annual funding program is time limited with, say, a 10 year sunset, procurement via leasing would see the available housing stock withdrawn from the social housing sector once that horizon is reached. Meanwhile, the traditionally procured stock accumulated by year 10 (60 units) would remain in use for social housing purposes in perpetuity. Nevertheless, the leasing strategy still offers a significant short term advantage. By year 10, the leasing arrangement will have delivered 1,000 household-years of housing services, whereas traditional procurement will have provided 330 household-years.

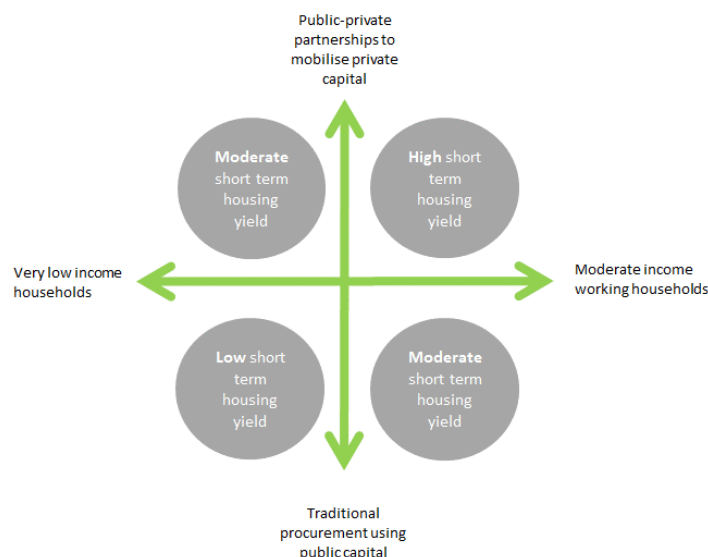
## Targetting

The volume of housing generated by any given procurement model, regardless of where it sits on the spectrum noted above, will be contingent on the income profile of the tenants in question. If these households are on modest incomes – around the 40<sup>th</sup> percentile – the top up to mobilise private capital to deliver a marginal social housing unit will be smaller. Therefore, a given outlay will procure more housing than the situation where lower income groups with lower capacity to pay are housed. Likewise, for traditional procurement; higher income households can pay higher rents which enable the social housing provider to leverage their assets to provide more social housing.

Bringing together the parameters of ‘tenant income profile’ and ‘type of procurement strategy’ a map can be created of the current and potential future positioning of the package of measures in IOBY (see Figure 4).

In broad terms, Council’s current policy settings are geared to high needs households and more traditional procurement methods. IOBY can be migrated to other quadrants, but this will bring various trade off requirements.

FIGURE 4 PORTFOLIO MAP FOR IOBY MEASURES



Source: SGS Economics & Planning Pty Ltd

### 1.4 Council’s preferred positioning of IOBY

A councillor workshop was convened as part of this review to explore Council’s preferences as to the targetting and procurement parameters described above.

The weight of opinions expressed at the workshop favoured the focussing of IOBY resources towards higher needs groups, that is, lower income households, dependent on government benefits, struggling to find a decent place to rent, as distinct from households somewhat further up the income spectrum, for example, moderate income working households, including key workers and creatives, struggling to find affordable rents (see Figure 5).

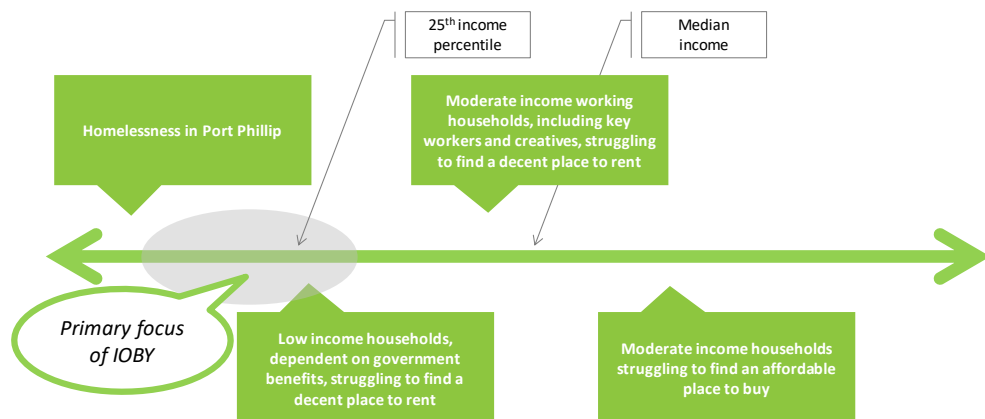
This relatively tight targetting of IOBY effort needs to acknowledge that:

- Council has a separate homelessness strategy, which targets the neediest households,
- by virtue of operating through HousingFirst (formerly PPHA) and other registered housing providers, which themselves have some flexibility in housing people who are not on the priority wait list for social housing, IOBY in practice involves a slightly

broader target group (i.e. including more ‘moderate’ income households) than that shown in Figure 5, and

- In discussions convened as part of this review, Councillors and stakeholders agreed that the preferred tenancy mix in any given social housing project pursued under IOBY should reflect operational best practice including the avoidance of concentrated disadvantage, the opportunity to maintain sustainable tenancies and achievement of an appropriate fit with the host neighbourhood. These factors will also imply a broader target group than that indicated in Figure 5.

FIGURE 5 COUNCIL’S PREFERRED TARGETTING OF IOBY RESOURCES

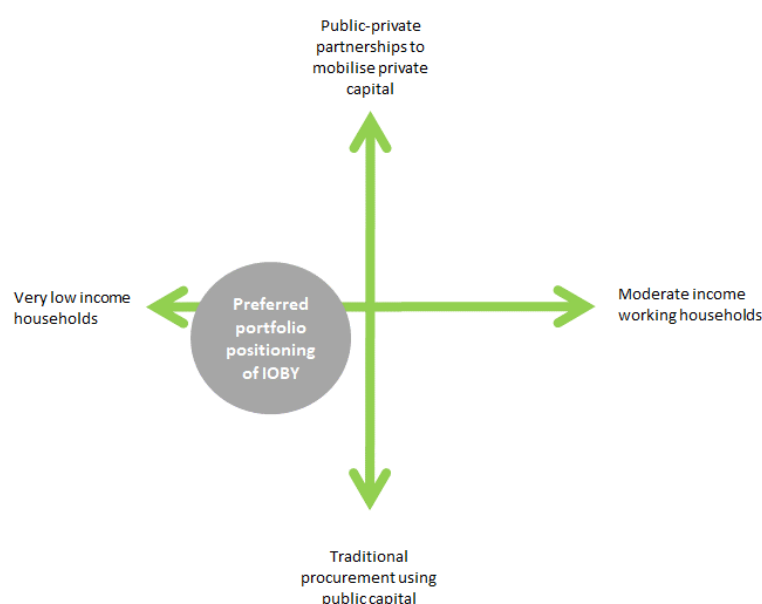


As well as focussing on relatively high needs groups, Councillors also expressed an expectation that the people assisted via IOBY would have strong and long standing connections to the Port Phillip community.

With reference to the ‘procurement’ parameter, the findings from the workshop were clear that Council expected IOBY to result in permanent social housing infrastructure for the City. There was evidence of a strong appetite for innovation in procurement models and, indeed, for accelerated delivery of IOBY outcomes. However, this position did not extend to arrangements which rely purely on bridging the return gap for private investors to deliver social housing stock with an expiry date (for example, the NRAS model).

Our conclusion from the workshop discussions is that Council’s generally preferred positioning of IOBY is in the bottom left hand quadrant of the field defined by the targetting and procurement parameters. As explained, locating IOBY in this quadrant implies some structural constraints or ‘speed limits’ on the rate at which the policy might generate affordable housing.

FIGURE 6 COUNCIL'S PREFERRED POSITIONING OF THE IOBY PROGRAM



## 1.5 Council's IOBY targets

IOBY aims to generate 920 social housing units over the 10 year life of the plan (2015 to 2025). This target was derived from an objective to maintain the stock of social housing in Port Phillip as a proportion of the total housing stock at 7.2%, which was the rate measured by Council at 2015.

The setting of this target involved the blending of ABS census data on the total stock of housing in Port Phillip and State Government (DHHS) data on the stock of social housing in the City. It is important to note that the DHHS count of social housing in the City in 2015 was significantly higher than the ABS count of social housing in the 2016 Census. The reasons for this difference are unclear. They could be to do with differences in definitional scope (DHHS counting all social housing types including special accommodation whereas the ABS figures may relate to occupied private dwellings) or differences in enumeration protocols (vacant social housing units may not have been counted by the ABS).

In any case, the basis for the 920 target was as follows:

- Stock of social housing in Port Phillip 2015 4,117 (DHHS count)
- % social housing stock 2015 7.2%
- Projected total stock of housing in Port Phillip 2025 70,800
- % social housing 2025 (assuming zero additional social housing) 5.9%
- Additional social housing required to achieve 7.2% in 2025 920

Of the 920 additional units, some 170 were expected to be generated from Council's provision of a 'pipeline of Council land and cash support' for social housing projects undertaken by HousingFirst, South Port Community Housing (SPCHG) and St Kilda Community Housing (St KCHG). This is Lever 1 in IOBY (see next Section). The remaining 750 units were to be delivered via all the other levers combined.

Of note is that the IOBY target was not 'needs based'. It was simply intended to hold the 2015 ratio of social housing.

Other than contemplating redevelopment of public housing estates to higher densities, IOBY was silent on expected social housing stock expansion in Port Phillip driven separately by the State Government.

## 1.6 Needs based targets

SGS has separately made an assessment of current and projected social housing need in Port Phillip. Our assessment is based on the ABS's count of households in varying degrees of housing cost stress (excluding home purchasers), ranging from homelessness through to excessive rent demands on low incomes. For each category of need, SGS makes an arbitrary allowance for the possibility that some of the households in question may not require a social housing solution per se. After these allowances, we estimate that in 2016, some 13.7% of the City's housing stock 'should' have been in the form of permanent social housing (see Table 1).

TABLE 1 ESTIMATE OF SOCIAL HOUSING NEED IN PORT PHILLIP

Household type – by priority for assistance	No. of Households	% all households	% minimum target	Minimum social housing requirement	% minimum requirement
<b>Homeless households</b> - Improvised dwellings, tents or sleeping out (2016)	72	0.1	100%	72	0.1
<b>Homeless households</b> - Supported homeless accommodation, staying with other households, boarding houses, temporary lodging, severely crowded dwellings (2016)	1,150	2.1	90%	1,035	1.9
<b>Marginal households</b> - other crowded dwellings, improvised dwellings, caravan parks (2016)	86	0.2	85%	73	0.1
<b>Low income rental households in severe rental stress</b> (2016) - excludes households in social housing and homeless persons and marginal households	2,453	4.4	85%	2,085	3.8
<b>Low income rental households in rental stress</b> (2016) - excludes households in severe rental stress, social housing, homeless persons, and marginal households	1,938	3.5	85%	1,647	3
<b>Low income households in social housing</b> (2016) <b>ABS</b>	3,160	5.7	85%	2,686	4.8
<b>Total</b>		<b>16</b>			<b>13.7</b>

Source: ABS data, SGS Economics & Planning Pty Ltd calculations

On this basis, CoPP had an estimated shortfall of social housing of some 4,432 units in 2016 as shown in Table 2. By 2025 the shortfall would increase to 6,540 assuming no further investment in social housing by the State Government or other social housing providers (Table 3).

TABLE 2 SHORTFALL IN SOCIAL HOUSING – CITY OF PORT PHILLIP - 2016

Total housing stock Port Phillip (2016)	55,413
Required stock of social housing Port Phillip (2016) @ 13.7%	7,592
Available stock of social housing Port Phillip (2016)	3,160
Shortfall in stock of social housing (2016)	<b>4,432</b>

Note social housing stock as enumerated by ABS

TABLE 3 SHORTFALL IN SOCIAL HOUSING – CITY OF PORT PHILLIP - 2025

Total housing stock Port Phillip (2025) IOBY	70,800
Required stock of social housing Port Phillip (2025) @ 13.7%	9,700
Available stock of social housing Port Phillip (2016)	3,160
Shortfall in stock of social housing (2025) assuming no addition	<b>6,540</b>

Note social housing stock as enumerated by ABS

This underlines the fact that as welcome as the 920 units delivered by IOBY might be – assuming they can be delivered (see next section) – this would represent only 14% of the total required expansion in social housing in Port Phillip. The remaining 86% or 5,620 additional units could reasonably be expected to be supplied by the State and Commonwealth Governments.



## 2. ALIGNMENT, EFFICACY & PROGRESS

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### 2.1 The IOBY ‘levers’

IOBY contains 7 levers summarised as follows:

8. **CoPP land & cash** - Providing a pipeline of Council properties and supporting cash contributions for new community housing units in the City
9. **Asset sale conditions** - Pursuing inclusion of community housing as a component of private development on divested Council land
10. **Public housing redevelopment** - Facilitating opportunities to increase affordable housing yield and diversity on existing social housing sites through transfer, redevelopment, sale and re-investment
11. **Leverage HA assets** - Facilitating HousingFirst (formerly PPHA) to leverage its existing property assets to deliver an increased supply of community housing
12. **Planning controls** - Applying planning mechanisms that encourage the private sector to deliver new affordable housing units
13. **Partnerships** - Facilitating the delivery of affordable housing projects by others
14. **Innovation** - Fostering innovative models to achieve a broader spectrum and diversity of affordable housing

IOBY does not directly address the ‘targetting’ and ‘procurement’ parameters used in Section 1 to locate Council’s preferred field of play in the provision of affordable housing. Nevertheless, there appears to be good alignment between where Council wishes to situate itself in the spectrum of provision opportunities (see Figure 6 on page 6) and the portfolio of activities covered by the 7 IOBY levers.

Read together, the levers emphasise expansion of social housing as *tangible and permanent* infrastructure for the City implicitly steering away from demand side solutions (income support for low income tenants) or supply side solutions that rely on topping up returns to private landlords to induce them to provide affordable housing (as per NRAS).

Similarly, the tenor of IOBY is that Council resources and effort should be focussed on the high needs end of the spectrum of households looking for affordable housing in the City.

### 2.2 Impact and influence

The IOBY levers vary significantly in terms of their prospective impact on affordable housing provision in the City – that is the number of additional social housing units that could be generated within CoPP during the life of the policy. For example, were Council to be successful in persuading the State Government to implement *mandatory* inclusionary zoning for affordable housing, the flow of additional social housing units into the City in 2015 – 2025 could be counted in the hundreds depending on the inclusionary rate set in planning schemes. Meanwhile, the flow of social housing from the ‘partnerships’ lever (# 6) is indeterminate.

The levers also vary in the degree of control which Council has in achieving the social housing flow in prospect. In the case of inclusionary zoning, Council has limited influence, whereas in

the case of Lever 1 – provision of land and cash – it might expect to have greater control on the timing of outcomes.

Given that Council faces inevitable limits to its control, even for those levers which relate to CoPP's own assets (for example, Lever 1 is heavily dependent on Council's partners finding the required development capital from other sources), it is difficult to be precise about the likely overall yield of housing from IOBY over its projected life.

Table 4 assesses the likely unit numbers to be produced from each lever over 10 years. This has been compiled with advice from relevant Council officers.

Taking into account variations in Council's influence, a realistic expectation of additional social housing units from IOBY is a number less than 500. Even this outcome is contingent on 'everything going right' and, therefore, could be regarded as ambitious.

Our conclusion is that the 920 target set in IOBY is well beyond the 'stretch' category and is unlikely to be achieved.

TABLE 4 APPRAISAL OF HOUSING FLOW VIA IOBY

IOBY Lever	Prospective impact (number of social housing units produced 2015 – 2025)	Level of Council influence / control
CoPP land & cash	100 (approx.)	Medium/High
Asset sale conditions	Probably around 10	High
Public housing redevelopment	Potentially 100	Medium
Leverage HA assets	< 50	Low
Planning controls	< 100	Low
Partnerships	< 50	Low
Innovation	NA (lever not intended to directly produce additional housing)	Low
Total	Probably < 500	

Source: SGS Economics and Planning; City of Port Phillip

## 2.3 Progress to date

A number of activity milestones have been achieved since IOBY was adopted in 2015. These are summarised in Table 5 below.

It is evident that significant progress has been made across most, but not all, levers. Some noteworthy observations are:

- There has been no progress on implementing Lever 2, a policy area where Council has maximum control.
- Formation of a partnership with DHHS in regenerating its holdings in the City appears to be advancing at a steady pace. This is encouraging, given that this is a high yield IOBY lever (see Table 4). Nevertheless, it remains unclear whether this work will bear fruit within the remaining 7 years of the policy.
- Only one property has been advanced to the development stage under Lever 1 (Marlborough Street). Getting to this point has been a very long drawn out process stretching back more than a decade. While different delivery processes will apply to future Council properties incorporated into the pipeline, the sluggish yield from this Lever to date cannot be ignored.

TABLE 5: ACTIVITY, MILESTONES AND ACHIEVEMENTS TO DATE

<b>IOBY Lever</b>	<b>Activity, milestones and achievements to date</b>	<b>Progress (Low, Medium, High)</b>
<b>1 Land &amp; cash</b> - Providing a pipeline of Council properties and supporting cash contributions for new community housing units in the City	<ul style="list-style-type: none"> <li>Received \$200,000 from Social Housing Investment Planning Grant</li> <li>Completed transfer process of Marlborough Street project under the Local Government Act</li> <li>Identified a pipeline of Council properties</li> <li>Housing needs assessment underway with a Beverley Kliger &amp; Associates to be completed in September</li> </ul>	<b>High</b>
<b>2 Asset sale conditions</b> - Pursuing inclusion of community housing as a component of private development on divested Council land	<ul style="list-style-type: none"> <li>None</li> </ul>	<b>None</b>
<b>3 Public housing redevelopment</b> - Facilitating opportunities to increase affordable housing yield and diversity on existing social housing sites through transfer, redevelopment, sale and re-investment	<ul style="list-style-type: none"> <li>Strong working relationship has been established with DHHS regarding the future of its estates in CoPP. This includes joint workshops and running preliminary financial investigations.</li> </ul>	<b>High</b>
<b>4 Leverage HA assets</b> - Facilitating HousingFirst (formerly PPHA) to leverage existing PPHT property assets to deliver an increased supply of community housing	<ul style="list-style-type: none"> <li>HousingFirst has proposed three properties to Council that could be intensively developed</li> </ul>	<b>High</b>
<b>5 Planning controls</b> - Applying planning mechanisms that encourage the private sector to deliver new affordable housing units	<ul style="list-style-type: none"> <li>Ongoing negotiation at the development approvals stage for community housing contributions by developers in Fishermans Bend.</li> <li>Working on a proposal for a regional scheme to be submitted to IMAP</li> </ul>	<b>Low</b>
<b>6 Partnerships</b> - Facilitating the delivery of affordable housing projects by others	<ul style="list-style-type: none"> <li>Council is investigating ways to engage potential partners, including the development of promotional material.</li> <li>Facilitation of a 'Pop-up' project involving lease for 2 years of a vacant residential property to house older single women (managed by YWCA Housing)</li> </ul>	<b>Medium</b>
<b>7 Innovation</b> - Fostering innovative models to achieve a broader spectrum and diversity of affordable housing	<ul style="list-style-type: none"> <li>Completed stage 1 and 2 of the Australian Community Land Trust Manual with University of Western Sydney.</li> <li>In discussions with the National Affordable Housing Consortium</li> </ul>	<b>Medium</b>

Source: SGS Economics and Planning; City of Port Phillip

# 3. IMPROVING IOBY

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## 3.1 Strengths and weaknesses of the levers

Our discussions with Councillors, officers and stakeholders, plus a review of the available literature, point to a number of areas where there is significant scope for improvement in the efficiency and effectiveness of the various IOBY levers. These are summarised in the following pages.

### Lever 1 – Pipeline of land and cash

**Council is not optimising the multiplier on its \$30 million over 10 years commitment.** In this lever alone, CoPP is making a significant financial investment in social housing infrastructure in the City. However, IOBY conceptualises this as a ‘pipeline’ of discrete projects, each of which will be resolved on their site merits and the capabilities of prospective partners. This makes for a highly customised approach which is particularly sensitive to local conditions and neighbourhood attitudes. The other side of this coin is fragmentation and lost opportunities to more efficiently leverage Council’s financial stake.

It may be advantageous to recast this lever as a long term equity investment rather than a stream of contingent, controversy-exposed, projects. This could put Council in a better position to negotiate matching or better co-investments from State Government, Commonwealth Government, philanthropic sources and industry partners. Conceivably, Council could aim to turn its \$30 million commitment over 10 years into a capital pool approaching \$150 million<sup>2</sup> or beyond, without serious loss of influence on the deployment of these resources.

**The Lever 1 procurement model is inflexible.** As we understand it, the original thinking behind Lever 1 was that it was, in one sense, ‘cost free’ for Council. Whilst the air rights above car parks and similar Council owned properties undoubtedly have a financial value, this can be seen as ‘theoretical’ to the extent that Council might be disinclined to offer these rights in the market other than for some obvious public benefit, such as social housing.

However, as noted, delivering social housing in these peculiar site circumstances can bring complexity, risk, delays and cost. This is due to the highly customised approach to design and procurement that is necessary. The gestation period for delivery of social housing can be very long as shown, in part, with the Marlborough Street project.

Other Councils dealing with similar sites have been prepared to consider mixed tenure solutions whereby a private sector developer, in partnership with a registered Housing Association or Provider, has delivered an amount of social housing commensurate with the value of the air rights, but included alongside market housing. It is not clear whether IOBY as currently configured would invite these kinds of innovative solutions.

**Achievability of the yield target (170 units) is contingent on third parties.** As an extension of the foregoing point, the delivery of ‘pure’ social housing projects on or over Council land is inherently difficult because Council’s partner must have access to the full development equity. Given Council’s preferred targetting of tenancies to need, the partner Housing Association or Provider will have limited capacity to service debt funding for the development process. Timing of delivery of social housing via Lever 1 is therefore problematic.

**There is a limited pipeline of sites available.** At the time of writing, Council officers were preparing a report on the number and suitability of sites for incorporation in the IOBY

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<sup>2</sup> Based on a 20%/80% split in social housing delivery responsibilities between local and State Government

pipeline. We understand that this prospective supply of development opportunities is more constrained than originally anticipated.

This issue also highlights the fact that the efficacy of Lever 1 is as much a reflection of site conditions as it is of Council's financial commitment.

### Lever 2 – CoPP asset sale conditions

**Little progress.** As noted in Section 2, there has been negligible progress in the implementation of this lever. This may be due to lack of policy direction in IOBY, or perhaps, lack of sites that are genuinely surplus to Council's requirements.

**Foregone contributions to affordable housing.** This lever is exposed to similar limitations as Lever 1 in that relatively few sites meet the exacting requirements of suitability for incorporation of social housing.

Again, assuming that Council wishes to assign some of the residual land value of surplus assets to affordable housing provision, it is unclear why this expectation should apply only to some rather than all land disposals. In the latter case, a given proportion of the proceeds of land sales would be consolidated in a fund for use in the provision of affordable housing.

**No mechanism for aggregating and deploying funds.** In the event that Council wanted to pursue a routine diversion of a proportion of land sales revenue into affordable housing provision, there is no infrastructure within CoPP for accumulating and using these funds strategically.

### Lever 3 – Public housing redevelopment

**Community acceptance/resistance.** This is a high yield but high risk lever in that Council has little direct control of outcomes. Its main contribution is, arguably, creation of a supportive environment for DHHS redevelopment projects. Elsewhere in the metro area, including in municipalities where Councils have a strong pro-social housing policy stance, community and key stakeholder resistance has been encountered with similar projects.

### Lever 4 – Leverage HA assets

**Lack of clarity on efficacy.** HousingFirst is engaged with the CoPP on the possibility of redeveloping three of its properties to produce a net increase in social housing. The scale of this impact will be determined by the Planning Scheme and the local community environment. The timing of the delivery of this impact is contingent upon HousingFirst's debt servicing capacity and access to third party equity, for example, from the State Government's Housing for Victorians package. The key risks with this lever are that Council has limited influence on the former parameter (scale) and very little on the latter (timing).

The latter risk could be mitigated if CoPP could bring some supplementary capital to the projects in question, but, as noted, there is no general purpose affordable housing fund that Council could draw on to this end.

### Lever 5 – Planning controls

**There is no legislated power for mandatory contributions for social housing.** Council has been a long time advocate of mandatory inclusionary requirements for social housing, both in its own right and through forums such as IMAP. However, while the State Government has improved the policy environment for affordable housing contributions through the planning system, by incorporating appropriate enabling powers and definitions in the Planning and Environment Act and providing guidance on how voluntary planning agreements for affordable housing provision can be implemented, there is, as yet, no authorisation for mandatory affordable housing requirements as part of development approvals.

Council has had some success in negotiating voluntary contributions, but the flow of social housing from this mechanism cannot be predicted or relied upon with confidence.

The efficacy of this lever is heavily dependent on State Government leadership and policy making.

**No city-wide policy on floor area uplift to support voluntary contributions for social housing.**

The voluntary agreements framework being developed by the State Government is based on the value sharing principle. This was established in AmC270 to the Melbourne Planning Scheme under which proponents of development above a nominated Floor Area Ratio (FAR) must both meet relevant design requirements and provide a public benefit (including social housing) to a value commensurate with the uplift in residual land value should the additional density / height be approved.

Following AmC270, a similar FAR /Floor Area Uplift (FAU) scheme, has been proposed by the State Government for Fishermans Bend and several Councils are pursuing this mechanism as part of structure plans for activity centres and other areas earmarked for major development or intensification.

At the time of writing, the fate of the Fishermans Bend FAR/FAU scheme was still under consideration by the State Government, it having received the Panel report on the proposed permanent planning controls for the overall Precinct.

Elsewhere in the CoPP, Council has already resolved mandatory and discretionary height controls in its planning scheme, making the widespread application of FAR/FAU principles problematic. Value sharing to produce social housing is likely to be limited to case by case negotiations and the odd re-zoning. Unlike mandatory inclusionary requirements – were they to be put in place - FAR/FAU is unlikely to provide a substantial flow of additional social housing for Port Phillip.

**No mechanism for aggregating and deploying funds or dwellings generated by this lever.**

Regardless of the scale and timing of either mandatory inclusionary contributions or value sharing contributions, the City currently lacks a facility or strategy for consolidating disparate or partial affordable housing contributions so that they can be used effectively in concert with other resources dedicated to IOBY outcomes.

### Lever 6 - Partnerships

**Impact unclear.** Council is still in the process of framing this lever, including investigating the need for promotional brochures and financial and tax modelling to ‘make the case for participation’ by community and industry partners.

This is useful work in improving the infrastructure for philanthropic and impact investor involvement in social housing. Nevertheless, the flow of social housing from this measure is difficult to assess, both in scale and timing.

As noted with other levers, the efficacy of the ‘Partnerships lever’ is partially limited by the lack of an aggregation facility within, or associated with, Council.

### Lever 7 - Innovation

**Policy on innovation not resolved.** This lever is also primarily concerned with improving the infrastructure for affordable housing provision by others, so, again, its impact on the delivery of IOBY quantitative targets is difficult to assess.

The efficacy of this lever when it involves Council as a financial investor or significant risk - exposed partner could be improved were CoPP to adopt a standing policy on risk appetite and the types of outcomes it would be looking for from an innovative partnership. These outcomes would include, but would not be limited, to questions of targetting and procurement method as canvassed in Section 1 of this report.



### 3.2 Strategic directions for improving IOBY

The foregoing review of issues associated with the various levers suggests four strategic directions for improving IOBY:

5. Moving from a project to program focus, including consolidation of Council's homelessness strategy and IOBY
6. Opening up IOBY to more participants
7. Establishing a capacity to aggregate resources from the various IOBY levers, and
8. Revisiting planning controls.

#### Moving from a project to program focus

Even though IOBY involves a substantial long term commitment of \$30 million by Council (plus the application of significant staff resources), the policy appears to operate as a series of self-contained projects rather than an integrated program. In this environment, strategic management effort can be easily diverted into problem solving in discrete development projects rather than steering the overall investment of Council resources towards the desired policy ends.

This fragmented approach to delivery of IOBY outcomes may mean that the natural synergies between the various levers are not optimised (say those between Lever 1 and Lever 2) and, moreover, the opportunity to attract substantial matching investments from other spheres of governance and the philanthropic sector may be foregone. The fact that Council's efforts in the homelessness area are separately managed from those undertaken under IOBY deepens this problem.

IOBY could be improved by repackaging it as a long term, integrated, package of measures where Council has made a substantial and accountable financial commitment. This could then be marketed to co-investors as a *portfolio* not a seemingly ad hoc series of site by site opportunities. As mentioned, this could help Council secure major long term investments of a similar or greater order from partners in State Government, the Commonwealth, the philanthropic sector and industry.

#### Opening up IOBY to more participants

As currently configured, IOBY appears to focus on a limited set of partners, at least as far as Lever 1 is concerned. This is likely to be an outworking of Council's desire to not only generate more social housing for Port Phillip but to strengthen the capacity of the nominated local community housing providers, namely HousingFirst, SPCHG and St KCHG.

This worthwhile objective may have the perverse effect of deepening the fragmentation of the IOBY policy effort.

Greater value from the cash, land and officer input to IOBY could be generated by creating a more competitive environment for the use of these resources in producing social housing for Port Phillip. For example, future versions of the Marlborough Street opportunity could be made available to a wider group of qualified tenderers, including private sector developers who may bring insights or expertise in design, risk management and project delivery otherwise not available to IOBY.

The objective of local capacity building could still be pursued by requiring bidders to involve local agencies to certain minimum levels set out in tender specifications.

Opening up IOBY to more participants would require Council to confirm its output expectations and risk appetite so that these can be fed into all successive tender rounds.

#### Establishing a capacity to aggregate resources from the various IOBY levers

Some IOBY levers potentially deliver large batches of social housing (for example, suitable sites offered to HousingFirst, SPCHG and St KCHG via lever 1), whereas others might provide a

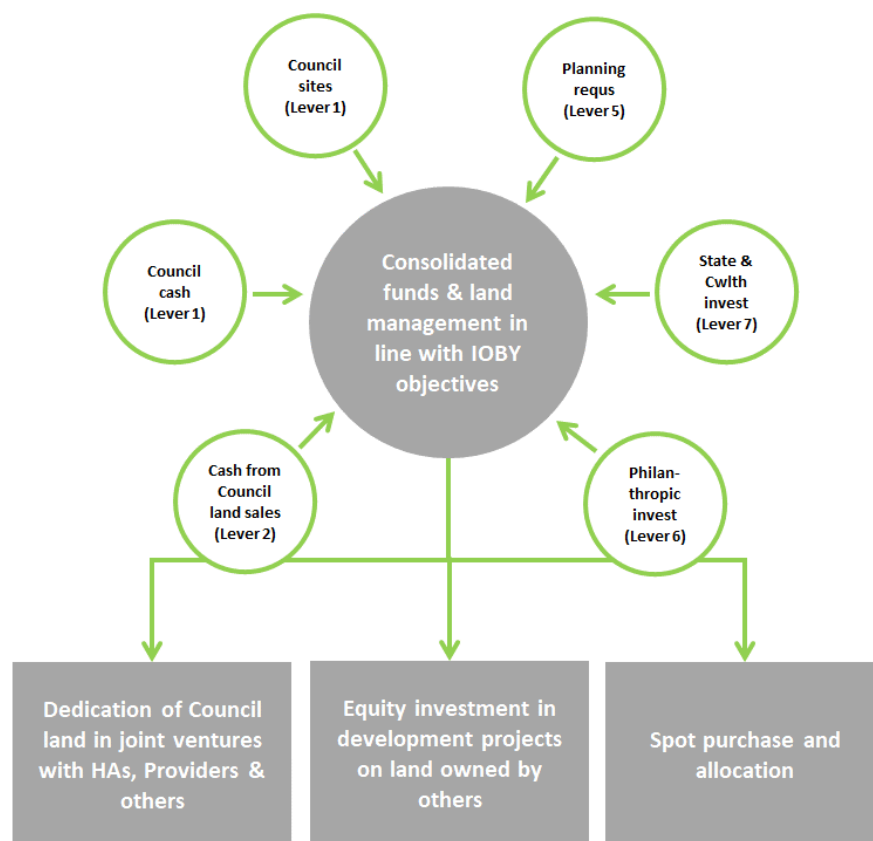
steady or intermittent stream of social housing units in relatively small amounts (Lever 2) and still others may provide cash to part pay for additional social housing units (Lever 5).

As discussed in the foregoing subsection, there is no capacity in CoPP for consolidating these resource flows with a view to tapping economies of scale and garnering more productive partnerships with government and industry.

Consolidation would involve bringing together land and cash assets, with deployment into social housing determined on the merits of the opportunity under examination. Some Council owned sites would be fed into the consolidated pool for development along the lines of Marlborough Street. Others, which are less suitable for social housing per se, may be sold with cash resources fed into the consolidated pool for use in various forms of joint venture to produce permanent social housing.

Strategic management of this consolidated pool of land, cash and officer resources is likely to demand skills in housing development as well as investment optimisation within the parameters set in Council's risk and outcomes policy.

FIGURE 7 STRATEGIC MANAGEMENT OF CONSOLIDATED RESOURCE STREAMS TO PRODUCE IOBY OUTCOMES



Source: SGS Economics and Planning; City of Port Phillip

### Revisiting planning controls

Notwithstanding that there is no authorising legislation for mandatory affordable housing contributions, it may be prudent for Council to develop a comprehensive inclusionary zoning policy and apply it on a voluntary basis until such time as the legislation is changed to enable mandatory application. This could occur in partnership with other IMAF councils as is already in train.

This approach would put Council in a stronger position to negotiate contributions from proponents on a case by case basis and would give CoPP a head start when and if the State Government legislates for inclusionary zoning.

Similarly, Council would benefit from a municipality-wide FAR/FAU policy even though planning controls for most areas in the City have been settled. Such a policy would be useful where:

- Rezoning is proposed
- Discretion for additional height or density is allowed under current planning controls, and
- Council is reviewing the Planning Scheme on a cyclical basis or in response to changes in higher order planning policy, stemming from, say, a new metropolitan strategy.

## 4. TWELVE MONTH ACTION PLAN

### 4.1 Implementing the strategic directions for an improved IOBY

This review has found that IOBY is well-aligned with Council's vision. However, the policy's objective of generating an additional 920 additional social housing units target is unlikely to be achieved under current implementation arrangements. This is due to the fragmented project focus of the program and the fact that for many of the 7 policy levers, Council has limited control of outcomes.

The review has further identified four strategic directions for improving IOBY in the remainder of its 10 year life. These relate to moving from a project to program focus, opening up the program to more participants, establishing a capacity to aggregate resources from the various IOBY levers, and revisiting the role of planning controls.

Key steps in the application of these strategic directions are shown in the following chart, which indicates that full implementation may take up 2.5 years.

TABLE 6 STRATEGIC DIRECTIONS AND ACTIONS 2018 - 220

Strategic directions	Actions	Remainder 2018	2019	2020
<b>Moving from a project to program focus</b>	Confirm the objectives and targets in IOBY			
	Edit/expand the IOBY documentation to emphasise Council's \$30 million long term commitment	Priority		
	Negotiate for matching commitments from State Government, Cwlth, philanthropic and industry sectors (e.g. super funds)		Priority	
	Further revise the documentation of IOBY to emphasise consolidation and leveraging of multiple funding streams (see Figure 7)	Priority		
	Ensure Marlborough Street is successfully delivered as a demonstration project in good design	Priority	Priority	
<b>Opening up IOBY to more participants</b>	Develop a general purpose Council policy for outcome requirements, risk appetite and risk assignment in respect of affordable housing joint ventures		Priority	
	Consult with current and prospective stakeholders and partners about how a more competitively configured IOBY might work	Priority		
<b>Establishing a capacity to aggregate resources from the various IOBY levers</b>	Examine options for a Council controlled vehicle to manage aggregated resources from multiple IOBY levers, operating within the parameters of Council's outcomes and risk policy		Priority	
	Commission this vehicle, with the appropriate legal status and Council mandate			Priority
<b>Revisiting planning controls.</b>	Adopt a provisional Inclusionary Zoning policy for CoPP with IMAP or in the City's own right			
	Adopt a value sharing (FAR/FAU) policy			

## 4.2 Agenda for 2019

The proposed priority actions for the remainder of 2018 and calendar year 2019 relate to:

- **Ensuring that Marlborough Street is successfully delivered as a demonstration project in good design.**

Even though the Marlborough Street business model reflects an earlier policy environment and is unlikely to be repeated, it is important to expedite the project to generate much needed momentum in the IOBY roll out.

- **Assembling the required collateral material to support a long term partnership with State Government and other potential co-investors with a view to building IOBY into a (notional) \$150 million over 10 years fund, and undertaking a program of negotiations to achieve this outcome.**

This will require the creation of an ‘investment prospectus’ as a partner document to the IOBY policy. Council will also need to apply a carefully designed marketing and consultation program to engage and secure prospective partners. This is likely to involve senior representatives of Council.

- **Designing an appropriate vehicle within CoPP to take carriage of Council’s consolidated affordable housing asset pool (land and cash) and deploy this in line with IOBY objectives and targets.**

As explained in Section 3, this vehicle would bring together Council land and cash dedications (as per Lever 1), cash allocations or housing allocations generated through the disposal of other Council land (Lever 2), cash or housing contributions generated through planning agreements (Lever 5) and equity investments made by State Government, Commonwealth Government, industry partners and philanthropic groups through.

The vehicle as envisaged here would be more than a passive funds management agency which would allocate cash and assets to Housing Associations and other registered Providers on pro-forma basis. Rather it would embody, or have access to, a development management capacity so that it could expedite joint ventures on Council land (avoiding the delays experienced with Marlborough Street) and optimise the impact of Council’s cash investments in affordable housing projects initiated or led by other parties. This capacity would extend to strategic asset management so that, for example, the vehicle might spot purchase or ‘bulk buy’ newly constructed stock on favourable terms and then assign this to Housing Association or registered Provider partners.

A critical success factor for this vehicle will be clarity on Council’s expectations of affordable housing outputs (relating to such matters as targetting, tenancy mix and procurement method as discussed in Section 1 of this report) from any given type of asset deployment (joint ventures on Council land, investment in other projects, spot purchase etc), and Council’s risk parameters. These issues will need to be fully documented in the charter for Council’s IOBY delivery vehicle. The scope of these deliberations should encompass full integration of Council’s efforts in the housing area, including the homelessness strategy is currently separately managed from IOBY.

Resolving this vehicle and its charter is likely to require consultation with Council partners, in particular those nominated in IOBY (HousingFirst, SPCHG and St KCHG). To some extent Council will be rebuilding an internal capacity for development management which, until now, might have been seen as the bailiwick of these

partners.

Once the mandate, objectives and functions of this vehicle or capability within are resolved, attention can then turn to the legal tools it might need, including for aggregation of funds.







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