Guideline for Developing an Affordable Housing Contribution Scheme

February 2019
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# Contents

1. Introduction  
   How does SEPP 70 work?  

2. How to prepare an affordable housing contribution scheme  
   2.1 How to prepare an affordable housing contribution scheme  
   2.2 Key concepts in the development of an affordable housing contribution scheme  

3. Process for including or referring to an affordable housing contribution scheme through an amendment to a local environmental plan  
   3.1 The process for requiring affordable housing contributions  

4. Monitoring and review of development contributions collected under affordable housing contribution schemes  

Appendix 1 – Definitions  
Appendix 2 – How to determine a viable affordable housing contribution rate  
Appendix 3 – Template for affordable housing contributions schemes  
   Section 1 – Strategic context and background  
   Section 2 – Affordable housing contributions  
   Section 3 – Administration and implementation  
   Appendix A – Local housing needs assessment  
   Appendix B – Viability assessment  
   Appendix C - Information Sources  

Appendix 4 – Information Sources
1. Introduction

This document is a guideline for councils to help them prepare affordable housing contribution schemes and thereby fulfil the requirements of Section 7.32(3)b of the Environmental Planning and Assessment Act, 1979 (the Act).

Affordable housing contribution schemes are council-led documents which set out how, where, and at what rate development contributions can be collected by councils for affordable housing.

They also give local communities greater clarity about the affordable rental housing planned for in their areas, and affordable housing contribution schemes provide developers certainty and transparency about how affordable rental housing contributions will be determined, and the contribution rate that will be applied in a condition of consent.

This document guides councils on what they should include in an affordable housing contribution scheme to satisfy the legislative requirements, and how to develop an affordable housing contribution scheme under Section 7.32(1)(c) of the Act.

Figure 1 outlines the relationships between SEPP 70, the EP&A Act, and LEPs.
How does SEPP 70 work?

One of the objectives of the Act (Section 1.3(d)) is to promote the delivery and maintenance of affordable housing. Under Section 7.32 of the Act, councils may place consent conditions on developments which require contributions for affordable housing in that local government area (LGA). To do this, LGAs must be identified as having a need for affordable housing in a state environmental planning policy.

State Environmental Planning Policy No 70 – Affordable Housing (Revised Schemes) (SEPP 70) identifies those LGAs. It also provides the mechanism for councils to develop schemes and levy developer contributions for affordable housing.

SEPP 70 commenced on 1 June 2002 and applied to City of South Sydney, City of Sydney, City of Willoughby and Leichhardt LGAs. An amendment to SEPP 70, notified on 20 April 2018, included five additional LGAs, City of Randwick, Inner West, Northern Beaches, City of Ryde, and City of Canada Bay, into the SEPP. The operation of SEPP 70 has now been expanded to include all LGAs across the State.

While SEPP 70 includes all LGAs, it does not mean councils can automatically impose consent conditions for affordable housing. Under Section 7.32(3)(b) of the Act, any condition imposed on a development consent must be authorised by an LEP and must be in accordance with an affordable housing contribution scheme for dedications or contributions set out in, or adopted by, the LEP.

This means that councils must:

- investigate the affordable housing need in their LGAs
- identify the areas to which an affordable housing contribution scheme will apply
- determine a viable affordable housing contribution rate
- prepare affordable housing contribution schemes
- amend their LEPs through the planning proposal process to reference their affordable housing contribution schemes.

Councils can then apply consent conditions that require contributions for affordable housing.

Section 7.32(3) of the Act sets out requirements that must be met to impose a condition to levy developer contributions for affordable housing. This guideline will help councils develop affordable housing contribution schemes which meet these legislative requirements.

Developing a viable affordable housing contribution rate in an affordable housing

As part of developing an affordable housing contribution scheme and preparing a planning proposal to amend an LEP to levy developer contributions, councils will need to prepare and provide evidence that affordable housing contribution rates are viable.

Councils will need to provide the Department with the evidence and
assumptions used to determine the affordable housing contribution rate, to enable the assessment and review of the proposed affordable housing contribution rates to ensure that the rates are viable and would not impact on development feasibility and overall housing supply. The evidence and assumptions will be exhibited as part of the public consultation on the LEP amendment.

**Greater Sydney Commission’s Objectives**

The Greater Sydney Commission’s Greater Sydney Region Plan and District Plans (the Plans) for the Sydney Metropolitan region, support the development of affordable housing contribution schemes as a mechanism to implement the Commission’s housing related objectives.

The Plans include Affordable Rental Housing Targets as a mechanism to deliver an additional supply for very low to low-income households in Greater Sydney and include Affordable Rental Housing Targets of 5-10% of new residential floor space, subject to being viable.

Affordable Rental Housing Targets are to be applied in areas where an uplift of land value is created. The contribution rate needs to be viable when taking into consideration local and state infrastructure charges, and the ability for developers to achieve a reasonable profit margin.

**Relationship to legislative changes in the Act – Strategic Planning and Local Strategic Planning Statements**

In March 2018, a number the legislative changes came into force through the updates to the *Environmental Planning and Assessment Act 1979* (the Act). One of the significant changes to the Act was an emphasis on strategic planning and the critical role and importance of councils in strategic planning in their local government area.

As outlined in Figure 2 below, the work by councils to develop their Local Strategic Planning Statements and Local Housing Strategies will also inform the development of an affordable housing contribution scheme.

The background information and evidence base required in an affordable housing contribution scheme is also required in a Local Housing Strategy. Councils may duplicate the information from its work in preparing a Local Housing Strategy.
Figure 2: Steps in the development of strategic planning framework and Local Housing Strategy and how it should inform the development of an affordable housing contribution scheme.
Local Strategic Planning Statements

All councils are required to prepare Local Strategic Planning Statements (LSPS). The LSPS will implement actions in the Regional and District Plans and set out the 20-year vision for land use in the local area, the special character and values that are to be preserved and how change will be managed into the future.

These statements will be a succinct and easy to understand document that will allow community members to contribute to and understand the future direction of land use in the area.

LSPSs must identify planning priorities for an area and explain how these are to be delivered. The LSPS will inform the housing vision, and a council’s Local Housing Strategy will provide a comprehensive evidence base to inform the development of affordable housing contribution schemes and the areas they will be applied.

In Greater Sydney, the LSPS must be in place by 1 December 2019, and in regional areas, the LSPS must be in place by 1 July 2020.

Local Housing Strategy

A Local Housing Strategy is a strategic plan for housing in local government areas. Local Housing Strategies are produced by councils, with input from the community, and set out the framework for new housing in a local government area. In Greater Sydney, a Local Housing Strategy must form part of the strategic planning framework.

A council must prepare a Local Housing Strategy if required by a Regional or District Plan, and can also choose to prepare one, even if it is not required to. In developing a Local Housing Strategy, councils must consider demographics, housing supply and demand, local land use opportunities and constraints, along with other relevant evidence.

As part of the broader consideration of housing supply and demand in their LGAs, councils must also consider the supply and demand for affordable housing and how this is likely to change over time. Local Housing Strategies, including any affordable housing components, are to be consistent with the relevant Regional and District Plans.

The data gathering, and analysis undertaken by a council to inform its Local Housing Strategy, including affordable housing data, demographic analysis and needs analysis, can be used to inform the development of an affordable housing contribution scheme.


Councils may wish to review the Local Housing Strategy Guideline which is complementary to this document.
**Other affordable housing contribution mechanisms**

**Special Infrastructure Contributions**

A Special Infrastructure Contribution is a levy paid by developers to share the cost of delivering key pieces of State and regional infrastructure, including affordable housing, within a defined boundary. The Special Infrastructure Contribution, and area to which it applies is determined by the Minister.

Under the provisions of the Act, if a Special Infrastructure Contribution area lists affordable housing under the schedule of infrastructure works, contributions for affordable housing cannot also be collected under an affordable housing contribution scheme.

However, if the schedule for infrastructure works for a special contributions area does not include affordable housing, an affordable housing contribution scheme under SEPP 70 may apply. This is to ensure that contributions for the provision of affordable housing can only be required under either SEPP 70 or as a Special Infrastructure Contribution.

**Voluntary Planning Agreements**

The Act enables a voluntary planning agreement (VPA) to be undertaken. A VPA is a planning tool that allows planning authorities and developers to work together to deliver innovative infrastructure outcomes alongside development proposals. A VPA can include the provision of or monetary contributions for affordable housing.

The Minister has issued the *Environmental Planning and Assessment (Planning Agreements) Direction 2019*. The Direction requires councils to consider a series of matters when negotiating a planning agreement with a developer for the purposes of affordable housing in connection with a development application.

Councils that want to negotiate a planning agreement for provision affordable housing, after considering the requirements of the Ministerial Direction, will need to prepare and publish a policy that sets out the circumstances in which it may seek out a planning agreement. This policy will need to be made publicly available.

**Alternative options to support the delivery of affordable housing**

This guideline explains the provisions of SEPP 70 and the process to develop an affordable housing contribution scheme. However, it is recognised that there are alternative mechanisms that councils can utilise to support the delivery of affordable housing. These include State Environmental Planning Policy (Affordable Rental Housing) 2009 (ARH SEPP) and Local Environmental Plans.

The ARHSEPP provides incentives for the development of new affordable rental housing; facilitates the retention and mitigates the loss of existing affordable rental housing; and facilitates an expanded role for not-for-profit-providers of affordable rental housing. Under the
ARHSEPP, additional affordable housing options including boarding houses, in fill development and secondary dwellings provide alternative affordable housing options.

Councils can also utilise the provisions of its local environmental plan to support housing diversity, informed by its strategic planning work. This strategic work occurs in the preparation of Local Strategic Planning Statements and Local Housing Strategies.

A Council, in consultation with its community, and in alignment with its Local Strategic Planning Statement and Local Housing Strategy, may use alternative options to support the delivery of affordable housing.
2. How to prepare an affordable housing contribution scheme

Figure 3 (below) outlines the steps in the development of an affordable housing contribution scheme. Section 2.1 outlines step 1 in this process.

Step 1
Council prepares an affordable housing contribution scheme
- Council advises the Department that it is preparing an affordable housing contribution scheme.
- Council prepares an affordable housing contribution scheme which is consistent with the Department’s guideline (below).
  - Establish an evidence base
  - Identify areas for rezoning
  - Establish an affordable housing contribution rate for the scheme
  - Produce a scheme using a template
  - Prepare a planning proposal to include or refer to the scheme in a local environmental plan

Step 2
DPE considers the scheme
- A proposed affordable housing contribution scheme is assessed by the Department through the planning proposal process.

Step 3
Amendment to council’s local environmental plan (planning proposal)
- If the proposal is consistent with all the relevant requirements, a Gateway is issued, and the planning proposal is publicly exhibited.

Step 4
Council collects contributions for affordable housing
- Council’s local environmental plan is amended to include a clause related to the provision of affordable housing.
- Council may include a condition of consent to applicable development applications in accordance with that area’s affordable housing contribution scheme.
- Funds collected are allocated in accordance with the affordable housing contribution scheme.

Figure 3 Steps in the development of an affordable housing contribution scheme.
2.1 How to prepare an affordable housing contribution scheme

Figure 4 outlines the key steps for how councils can prepare an affordable housing scheme contribution scheme, as part of Step 1 in Figure 3.

![Figure 4 Process for preparing an affordable housing contribution scheme]

A. Establish evidence base

As outlined in Figure 2, a council that is preparing a Local Housing Strategy will establish an evidence base to determine long term planning decisions in its local government area. When establishing the evidence-base for an affordable housing contribution scheme, the evidence base may be informed by the work already undertaken by a council. Councils that have already a Local Housing Strategy in place may want to update existing work already undertaken to ensure the evidence base and affordable housing needs analysis is robust and up to date.

When establishing the evidence base, the following should be included, but not be limited to:

- Demographic analysis
- Affordable housing supply
- Affordable housing demand
- Affordable housing gaps.

In establishing the evidence base, it may also be appropriate to consider factors beyond the LGA, such as work travel and migration.

Demographic analysis

Collection and analysis of demographic indicators and projections provides insights into the current and future housing needs of the LGA’s population.

Councils should consider:

- Population change, and the drivers of population change
- Population age: population by age groupings and the projected change over time
- Dwelling requirements – the projected dwelling requirements
- Number of households and household types over time – the total number of households and how this has changed and is projected to change over time
- Types of dwellings in the LGA – the types and composition of dwellings in the LGA, low density detached residential, residential flat
buildings, shop top housing, low rise medium density

- Tenure and landlord types – composition of dwellings that are owned, rented or mortgage
- Household income (including very low, low and moderate-income households)
- Rental and mortgage stress.

The demographic evidence should assist councils in determining what percentage of households are on a very low, low, or moderate incomes.

- Employment profiles, identifying:
  - the main employment sectors
  - an income and wages profile
  - whether employed people can afford housing close to work; public transport access to employment centres
  - potential changes in the community’s employment structure
  - potential fluctuations in the area’s residential real estate market.

This demographic analysis should be considered at the smallest geographical scale.

Sources of Information which may be useful for councils:

- the Department’s Local Housing Strategy Guideline
- the ‘NSW Population and Projections Data and the NSW Household and Dwelling Projections data’
- the Australian Bureau of Statistics (ABS) Community profiles and census data
- the Department of Family and Community Services (FACs) ‘NSW Local Government Housing Kit’. FACs’ database includes time series data and provides data on a range of housing topics
- The rent and sales report produced by FACs, includes timeseries data and is the sole authoritative source of data on NSW rent movements.

Links to sources of information which may be useful to councils are available in Appendix 4.
Affordable housing supply

In developing an affordable housing contribution scheme, establishing the evidence base for housing supply should analyse the area’s existing affordable rental housing stock. This should identify how many affordable housing dwellings are in an area and compare this to supply and demand for affordable housing.

In determining affordable housing supply, councils should consider:

- The amount and type of current and planned housing stock (including proportion of stock available for very low, low and moderate-income earners), including:
  - the existing housing diversity and include housing owned and/or operated by community housing providers
  - properties sold or rented on the private market that would be affordable for very low, low and moderate income earners.
- Rental vacancies (where possible) and vacancy rates
- Price and type of dwellings for sale
- Where possible, a council should provide sale prices and rental data which is cross-referenced with employment and income data
- Capacity within the existing land use controls for additional housing – comparing the number of existing dwellings and the number of dwellings that would be delivered if the land use controls were fully developed
- Potential displacement of existing houses due to redevelopment – including considering the loss of affordable housing in existing developments or change of housing affordability in area through redevelopment

Sources of information which may be useful for councils

- Data and data sources collected in the development of a council’s Local Housing Strategy
- the Department of Planning and Environment’s Sydney Housing Supply Forecast (for councils in Greater Sydney).
Affordable housing demand

Housing demand requires the analysis of:

- Underlying demand: the need or number of new homes required based on a projected level of households, primarily driven by demographic and migration factors
- Effective demand: the size, type and location of dwellings that people are willing to buy and rent.

In determining affordable housing demand, Councils should consider:

- existing affordable housing stock
- incomes
- rent and sales prices
- housing stress
- employment
- homelessness
- affordable rental housing and social housing wait times.

Additionally, councils should consider demand from local workers – sources of employment for very low, low and moderate-income workers who perform an important service within the area but are unable to live nearby due to price constraints. Important services are generally front-line services, and for the local area may include medical professionals, teachers, police, child care workers and aged care workers. The industries in which these local workers are employed will vary by location.

The collection of an evidence base and analysis of housing demand should include consideration of market preferences including where people want to live in the LGA and in which type of homes.

Sources of information which may be useful for councils

- Data and data sources collected in the development of a council’s Local Housing Strategy
- FACs releases information on the expected social housing waiting times by geographic regions
- Councils in Sydney can refer to the housing market areas set out in research by UNSW (City Futures Research Centre).

Affordable housing gaps

Following consideration of supply and demand for affordable housing, councils should identify any gaps between existing housing stock and future residents’ affordable housing needs – the analysis of demographic, housing and affordability data may also reveal the need for specific housing for key groups.

Councils which identify a gap between the current needs and supply of rental accommodation for very low, low, and moderate income households, may decide to develop an affordable housing contribution scheme, if an affordable housing contribution scheme and rate is viable.
B. Identify area(s) for future rezoning

Affordable housing contribution schemes apply to developments that are facilitated by upzoning. For the purpose of this guideline, an upzoning is a change of zone to enable residential development or a change of planning controls (such as floor space ratio) which enables greater residential density in site.

This ensures contributions are drawn from the increase in land value generated by the rezoning and are consistent with the affordable housing targets established in the Greater Sydney Commission’s District Plans.

A Local Housing Strategy will identify areas suitable for growth, and the land use planning mechanism to achieve the growth required in the local government area. To identify areas for growth, councils should analyse the multiple opportunities and constraints factors across the LGA and identify different areas with capacity for development.

The areas identified for growth may be investigated to implement an affordable housing contribution scheme at the same time as a rezoning or change of density or permissible building typologies in a local environmental plan amendment.

The areas identified for growth in a council’s Local Housing Strategy may also provide an early indicator where an affordable housing contribution scheme may be investigated as part of a future rezoning. This allows for a detailed viability assessment specific to the development conditions applicable to the area being rezoned.

This in turn provides greater certainty that the affordable housing contributions rate is viable. It also ensures development will be feasible in those areas.
C. Develop an affordable housing contributions rate

Once a council has selected an area, it must develop an appropriate affordable housing contribution rate.

An affordable housing contribution scheme must establish an affordable housing contribution rate as either a percentage of floor space that can equate to a completed affordable rental unit, which can be dedicated, or a monetary contribution rate, or any combination of the two.

This flexibility will allow councils to determine when it is appropriate and efficient to receive completed dwellings and when it would be appropriate to receive monetary contributions. The affordable housing contribution scheme must provide supporting evidence for how the proposed rate was determined.

Councils may need to consider both a percentage of floor space and a monetary contribution, if a percentage of floor space contribution does not meet the minimum size requirements of an affordable rental housing unit.

Once councils have identified the affordable housing needs and have identified areas suitable for the development of an affordable housing contribution scheme, councils will need to test affordable housing contribution rates to ensure the proposed rate is viable and will not impact development feasibility and overall housing supply. A developer’s ability to achieve an investment return is key to maintaining a sustainable development market and continued housing supply.

In determining where to apply an affordable housing contribution scheme, not all development factors are the same. As such, a council may have different affordable housing contribution rates applying in different areas.

The preferred method for determining a viable affordable housing contribution rate is using the residual land value method (RLV). The RLV is calculated by estimating the anticipated revenue from a development, then deducting all the development costs and allowance for a reasonable developer profit. The RLV is the remaining (residual) amount from this calculation and identifies how much can be paid for a site to enable its development.

Appendix 2 outlines the process for determining the residual land value of a site to determine a viable affordable housing contribution rate.

Figure 5 Outlines the steps to testing a viable affordable housing contribution rate under a residual land value method.

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Evidence that an affordable housing contribution rate is viable

As part of developing an affordable housing contribution scheme and preparing a planning proposal to amend an LEP to levy developer contributions, councils will need to prepare and provide evidence that affordable housing contribution rates are viable.

These worked examples, provided with the assumptions used to determine the affordable housing contribution rate, will allow the assessment and review of the proposed affordable housing contribution rates to ensure that the rates are viable and will not impact on development feasibility and overall housing supply.

The evidence must include the data sources for determining the contribution rate, including comparable sales, building finishes, site preparations and construction costs. How the affordable housing contribution rate was determined must be consistently and transparently applied and be made publicly available to be assessed and examined.

The proposed affordable housing contribution rate will also need to take into account any local infrastructure Contribution and Special Infrastructure Contribution that will be applied on the site, when determining if the contribution rate is viable.

The Department will test the worked examples in the assessment of the LEP amendment. The Department may seek an independent peer review of any affordable housing contribution scheme to ensure the proposed affordable housing contribution scheme is viable.

Councils may want to organise preliminary discussions with the Department when starting to consider contribution rates to help identify the most appropriate way of addressing the viability analysis. Agreeing on an affordable housing contribution scheme’s key features at this stage will help ensure the process progresses smoothly and viability issues are addressed early.

The Minister has also made a Ministerial direction providing guidance for planning agreements which include the provision of affordable housing (as outlined on page 10).
D. Produce scheme using the template

Once a council identifies proposed areas and establishes viable affordable housing contribution rates, it must produce a draft scheme using the template in Appendix 3.

Section 2.2 and the template (in Appendix 3) outlines the key concepts and matters that need to be addressed in an affordable housing contribution scheme.

2. 2 Key concepts in the development of an affordable housing contribution scheme

Section 7.32(3) of the Act sets out requirements that must be met to impose a condition to levy developer contributions for affordable housing.

Section 7.32(3)(a) of the Act enables a condition to be imposed if it complies with all relevant requirements set out in a State Environmental Planning Policy. SEPP 70 includes a provision that refers to requirements under section 7.32 conditions. A condition will need to comply with this section of SEPP 70.

Under Section 7.32(3)(b) of the Act, a condition can only be imposed by a council to levy a developer contribution for affordable housing if the developer contribution for affordable housing is in an LEP and the condition is in accordance with an affordable housing contribution scheme. The affordable housing contribution scheme is either set out in the LEP or referred to in an LEP. If the affordable housing contribution scheme is included in or referred to in an LEP it cannot be changed without seeking an amendment to the LEP.

Section 7.32(3)(c) of the Act helps councils to design the scope of these schemes, based on:

(i) the extent of the need in the area for affordable housing
(ii) the scale of the proposed development
(iii) any other dedication or contribution required to be made by the applicant under this section or section 7.11.

An affordable housing contribution scheme will also provide detail and clarity on:

Application of the scheme

Where does the affordable housing contribution scheme apply?

This section must show the proposed areas within the LGA that the affordable housing contribution scheme covers. It must also provide maps with sufficient detail to identify specific lots to which the affordable housing contribution scheme applies.

A single scheme may apply to multiple areas within an LGA, as long as the viability analysis supporting each area specifically addresses each one.
The affordable housing contribution scheme boundaries will generally be identified in broader strategic planning processes and informed by Regional Plans, District Plans, and Local Housing Strategies.

Councils must also consider individual sites and locations with unique characteristics that could justify exclusion from the affordable housing contribution scheme. This may be appropriate when the viability of the location is not consistent with that of the broader area. It may also be appropriate when a viability assessment has demonstrated that affordable housing is unviable in a location.

What types of development does the affordable housing contribution scheme apply to?

An affordable housing contribution scheme must clearly state what types of development will be subject to affordable housing contributions. It may differentiate between residential and non-residential land uses or provide for others. In line with the viability assessment, it may be appropriate for each development type to have its own affordable housing contributions rate.

An affordable housing contribution scheme may identify development types excluded from affordable housing contributions. Councils must clearly justify why an area should be excluded from an affordable housing contribution scheme, to provide transparency and certainty.

Overview – Affordable Housing Need

This section provides the context for the affordable housing contribution scheme in relation to the broader planning framework, and in relation to land use and development within the area and LGA. It must also draw on a Local Housing Strategy, if one is available.

The overview must provide an overview of the housing affordability issues that the affordable housing contribution scheme aims to address. This must include information from the analysis of the evidence base which informed the scheme. The supporting evidence base must be included in Appendix A.

Definitions

This section must define all relevant terms. This may include, but is not limited to:

- the definition of affordable housing
- definition of median household incomes provided for in an affordable housing contribution scheme
- definition of total floor area
- definition of registered community housing providers.
Affordable housing contributions rates – dedication of land and/or payment of equivalent monetary contributions

Contribution rates

The affordable housing contribution scheme’s contributions rates must be provided in this section.

Rates may differ between residential and commercial floorspace, between areas, or between development types. They must be tested for viability and councils must provide justification when rates differ. The affordable housing contribution scheme must include worked examples of the affordable housing contribution rates. Section 2.1C and Appendix 2 provide more details on what needs to be included in the justification and worked examples, and one method to determine an affordable housing contribution rate.
Dedication of dwellings

This section outlines how the contribution rate can be fulfilled by dedicating completed affordable rental dwellings. This includes any requirements for dwellings and their provision, such as whether:

- dwellings will be owned by government or a recommended community housing provider
- dwellings will be provided in perpetuity
- dwellings will align with the affordable housing principles in Schedule 2 of SEPP 70
- there are any design or construction requirements, including minimum total floor space areas
- there are any ongoing requirements for rental arrangements or use of rent.

Councils must provide worked examples of how contribution rates for each development type were calculated.

Equivalent monetary contribution

This section provides detail on an equivalent monetary contribution to be provided instead of a floor space (dwelling) contribution, if an affordable housing contribution scheme includes this option. This section must outline how the contributions rate can be fulfilled by a monetary contribution. This will be an equivalent monetary contribution and be expressed as an amount in dollars per square metre.

Councils must provide worked examples of how they calculate contribution rates for each development type.

Indexing of payments

How payments are indexed, including how often this must happen, the formula for indexing payments, and where the data for this calculation has been sourced, are outlined in this section.

All monetary contributions must be indexed at the time of payment to ensure funds received will cover the full costs of delivering the required affordable housing contributions.

Administration and Implementation of the Scheme

Registered community housing provider and delivery program

This section identifies the process to nominate a registered community housing provider that can manage and operate the affordable rental housing and monetary contributions in line with the affordable housing contribution scheme. An affordable housing contribution scheme may have more than one registered community housing provider, or each scheme may have a different community housing provider. However, in the instance an affordable housing contribution scheme identifies more than
one community housing provider it must identify how funds will be split between providers.

It is recommended that councils ensure that the community housing provider is registered in the National Regulatory System for Community Housing (NRSCH). The NRSCH can be accessed here - http://www.nrsch.gov.au/.

Councils may also want to access the Affordable Housing Provider Prequalification Scheme (ProcurePoint). Procurement is managed by Landcom and facilitates procurement of registered community housing providers in a transparent and competitive way. Procurepoint can be accessed at: - https://www.procurepoint.nsw.gov.au/s cm4421. ProcurePoint also lists registered community housing providers interested in developing and/or managing affordable housing in particular local government areas.

Family & Community Services has released NSW Affordable Housing Ministerial Guidelines for 2018-2019. These guidelines set out the policy framework for delivering affordable housing that has been developed with financial assistance from the NSW Government and is owned or managed by community housing providers. These guidelines provide some useful advice in the implementation and delivery of an affordable housing contribution scheme and can be accessed at: https://www.facs.nsw.gov.au/download?file=576199

Councils must provide registered community housing providers with a delivery program that outlines how funds raised or dwellings dedicated under the program will be used to provide affordable housing. The program must refer to the costs of providing affordable housing in the area.

This section must also establish what registered community housing providers are required to do in relation to using the funds, which may include reporting or transparency requirements.
3. Process for including or referring to an affordable housing contribution scheme through an amendment to a local environmental plan

3.1 The process for requiring affordable housing contributions

Figure 6 outlines how councils can implement an affordable housing contribution scheme through a planning proposal. This section outlines the process of Step 3 in Figure 3.

Councils may consult the Department for advice at any stage in this process.

Figure 6 Process to implement an affordable housing contributions scheme
A. Council advises the Department of its intention to prepare an affordable housing contribution scheme

Councils should write to the Secretary to advise of its intention to prepare an affordable housing contribution scheme. This will enable the Department to keep a record of which councils are preparing an affordable housing contribution scheme and ensure there are resources available to assist councils, if required.

B. Council has a preliminary meeting with the Department to discuss preparation of an affordable housing contribution scheme (optional)

Councils are encouraged to hold early meetings with the Department’s relevant Regional team to address key issues that might affect the delivery of affordable housing in their LGA.

Preliminary meetings also help identify the most appropriate way of addressing the viability analysis of an affordable housing contribution scheme’s contribution rate(s). Agreeing on an affordable housing contribution scheme’s key features at this stage will help ensure the process progresses smoothly and viability issues are addressed early.

C. Council prepares an affordable housing contribution scheme

Councils can begin preparing an affordable housing contribution scheme at their discretion. This may be an amendment to a council’s existing affordable housing policy, or a new initiative resulting from a Local Housing Strategy as outlined in section 2.1 of this guideline.

Councils must initiate planning proposals to introduce schemes. The affordable housing contribution schemes must be developed according to this guideline.

D. Council tests its proposed scheme through public consultation (optional)

Once a council has prepared an affordable housing contribution scheme using the guideline, it may undertake public consultation before preparing a planning proposal.

While this is not mandatory, it is a good opportunity for a council to test its scheme and lead the local community through the process. It will also give the development industry an early signal that an affordable housing contribution scheme is being prepared, giving it time to make informed business decisions.

Once a council submits a planning proposal for an affordable housing scheme, it must be publicly exhibited in accordance with the Gateway determination for the planning proposal.

E. Preparing a planning proposal

Once a council has prepared an affordable housing contribution scheme, it must prepare a planning proposal to amend its LEP to refer to the affordable housing
contribution scheme. The Department’s *Guide to Preparing Planning Proposals*, available at planning.nsw.gov.au, explains this process in detail. Councils may progress a stand-alone amendment for an affordable housing contribution scheme and the proposed rezoning of the land where the affordable housing contribution scheme applies, or include an affordable housing contribution scheme and proposed rezoning of land with other proposed LEP changes.

In some instances, affordable housing contributions schemes may apply in State-led planned precincts. In these instances, councils will work with the Department to determine the appropriate affordable housing contribution rate.

**F. Council submits its planning proposal to the Department for Gateway determination**

A council must submit its draft scheme to the Department to be assessed as part of a planning proposal. It must submit all required information and ensure this is presented clearly and concisely and is supported by robust and up-to-date evidence. The Department will contact the council if it needs more information or clarification.

Councils must ensure all the information in its planning proposal is as up to date as possible. It is recognised that housing and construction markets change rapidly, and councils may be asked to provide revised inputs when there have been significant changes or time periods between the

preparation, submission, and assessment stages of a proposed scheme.

The supporting information included with the planning proposal will include, but is not limited to: an affordable housing needs analysis; council’s strategic planning work, for example the Local Housing Strategy or affordable housing policy; and worked examples of the proposed affordable housing contribution rate; as well as any other requirements outlined in the Department’s *Guide to Preparing Planning Proposals*.

Once planning proposals are lodged, progress can be tracked online at: leptracking.planning.nsw.gov.au.

**G. The Department assesses the planning proposal and tests the proposed scheme’s viability**

The Department will assess whether all required information has been submitted and whether the council has used the correct methodology to prepare the affordable housing contribution scheme. This includes examining the evidence provided as well as assessing viability, data inputs and assumptions, and the proposed contribution rate.

These items will be assessed against this guideline and relevant strategic plans.

The Department may also engage an independent consultant to complete an assessment of an affordable housing contribution scheme. The Greater Sydney Commission will be consulted on planning proposals in Greater Sydney.
H. Gateway determination

The Gateway determination will outline what is required to progress a proposed LEP amendment. This may include: additional studies or information; changes to the proposed scheme; or changes to ensure the amendment is consistent with strategic planning documents. The Gateway determination may require a council to revise its planning proposal and resubmit it to the Department before it is exhibited.

I. Planning proposal progressed according to Gateway determination, including public exhibition

A council must progress its planning proposal in line with the Gateway determination conditions, including publicly exhibiting the proposed scheme. Exhibition of a planning proposal ensures the public, including the development industry, communities and other relevant stakeholders, can comment on a proposed scheme before it is implemented. Consultation should generally run for 28 days.

J. The Department finalises LEP amendment

Once the LEP has been notified and an affordable housing contribution scheme is referred to in a LEP, a council may apply consent conditions in line with the approved scheme. Consent conditions must be consistent with the affordable housing contribution scheme. If a council wishes to modify an affordable housing contribution scheme or impose conditions which are inconsistent with the affordable housing contribution scheme, it must lodge a LEP amendment.
4. Monitoring and review of development contributions collected under affordable housing contribution schemes

Councils must review their schemes regularly to consider the impacts of the schemes and whether they have been effective. Each council must establish a program for reviewing and monitoring affordable housing programs to ensure all contributions are being used to deliver affordable housing outcomes in a timely manner.

A program’s outcomes must be made publicly available and updated annually. These outcomes could include how much has been collected to fund the affordable housing contribution scheme, how much money has been allocated to affordable housing projects, or how many affordable housing dwellings have been developed.

This could be included in council’s annual reports.
Appendix 1 – Definitions

In this guideline, affordable housing is defined as follows:

**affordable housing** means housing for very low income households, low income households or moderate income households, being such households as are prescribed by the regulations or as are provided for in an environmental planning instrument (as per section 1.4(1) of the Act).

**Definition of ‘affordable housing’ households:**

For the purposes of the definition of **affordable housing** in section 1.4 (1) of the Act, very low income households, low income households and moderate income households are those whose gross incomes fall within the following ranges of percentages of the median household income, for the time being for the Greater Sydney (Greater Capital City Statistical Area) or the Rest of NSW (Greater Capital City Statistical Area) according to the Australian Bureau of Statistics:

- **Very low income household**: less than 50%
- **Low income household**: 50 or more but less than 80%
- **Moderate income household**: 80–120%

The definition of affordable housing has been amended in SEPP 70 to reflect two geographical areas. For LGAs within the Greater Sydney (Greater Capital Sydney City Statistical Area) as defined by the ABS, the median household income for Greater Sydney (Greater Capital City Statistical Area) will apply to the definition of affordable housing. For LGAs outside Greater Sydney (Greater Capital City Statistical Area), the median household income for the ‘Rest of NSW’ (according to the Australian Bureau of Statistics) will apply to the definition of affordable housing.

Figure 7, below, outlines the ‘Greater Sydney’ (Greater Capital City Statistical Area) Area.
The ‘Greater Sydney’ area includes the following local government areas:

Bayside, Blacktown City, Blue Mountains City, Burwood, Camden, Campbelltown City, City of Canada Bay, Canterbury-Bankstown, Central Coast, City of Sydney, Cumberland, Fairfield, Georges River, Hawkesbury City, Hornsby, Hunters Hill, Inner West, Ku-ring-gai, Lane Cove, Liverpool City, Mosman, North Sydney, Northern Beaches, City of Parramatta, Penrith City, Randwick City, City of Ryde, Strathfield, Sutherland Shire, The Hills Shire, Waverley, Willoughby City, Wollondilly Shire, Woollahra local government areas.

Figure 8, below, outlines the ‘Rest of NSW’ (Greater Capital City Statistical Area) area.
The ‘Rest of NSW’ includes the following local government areas:

Appendix 2 – How to determine a viable affordable housing contribution rate

As discussed in Section 2.1C, once a council has selected an area and identified its housing conditions, it must develop an appropriate affordable housing contribution rate.

The residual land value approach to valuing land for redevelopment is the preferred method to determine a viable affordable housing contribution rate.

The residual land value (RLV) is calculated by estimating the anticipated revenue from a development, then deducting all the development costs and allowance for a reasonable developer profit. The RLV is the remaining (residual) amount from this calculation and identifies how much can be paid for a site to enable its development.

The residual land value test must be tested over a range of sites within an identified area, where there is a noted difference in planning controls – for example, where there is a mix of zoning (residential and business zoned land) or a mix of land use controls (variation in maximum floor space ratio control).

The testing of a viable affordable housing contribution rate is considered in three parts.

Figure 9 outlines the steps to testing a viable affordable housing contribution rate.

1. **Base development value**

In the first part a council collects data and assumptions that create a base development value. The residual land value of a site if it were developed to its full potential is considered.

This includes information on existing development controls, highest and best use development type, and development considerations including development costs, project length, built form considerations including average unit size and mix, and the quality of the finishes.

In collating assumptions, a council must also source sales data from comparable new constructions projects; and associated developer considerations.
including selling commissions, marketing costs and legal fees; typical developer margins for profit and risk; site preparation and construction costs; professional fees, contingency, financing costs, land finance costs, and land tax.

With the above data collated, council can make an informed assumption regarding the base development value, if the site was developed to its full potential.

Alternatively, the base development value could be determined with the existing use of the site, regardless of maximum development potential, with the collation of comparable land sales. For example, comparable sales data of dwelling houses of a similar age and lot size. Determining the base site value through comparable sales data is especially relevant on sites which do not allow for residential development. Sales data can be obtained by a real estate agent or property value, or property sales data and site area measurements can be found within the free NSW Globe Google Earth data set.

2. Site value with upzoning

Once a council has determined the base site value, council can calculate the residual land value of the site with an upzoning. This is to determine if there is the potential for it to be viable to redevelop the site.

In this assessment, council can amend the proposed built form and previous assumptions if the proposed upzoning changes these inputs, for example originally the site could be developed for apartment under three storeys and the proposed upzoning will enable apartment over three storeys. Council must also include local infrastructure contributions and Special Infrastructure Contributions which will be applied to the development.

Once these inputs have been finalised, council can make an informed assessment on whether the proposed upzoning results in the potential for it to be viable to redevelop the site.

3. Testing a viable affordable housing contribution rate

If it is determined that there is potential for it to be viable to redevelop the site, councils can then test an affordable housing contribution rate that can be applied to the site in a development consent, without losing the potential for it to be viable to redevelop the site. The affordable housing contribution rate will be tested as a percentage of gross floor area that the developer of the site would be required to contribute to affordable housing units. The percentage of floor space could then be equivalised as a monetary contribution, if a council choose to levy affordable housing contributions as a monetary contribution or in part as a monetary contribution.

In testing a viable affordable housing contribution rate, there are key inputs or important variables that could be tested to understand and optimize the project outcomes. These are the affordable housing contribution rate, the local infrastructure contribution, Special Infrastructure Contribution and maximum floor space ratio.
The above variables will enable councils to consider that if additional density was permissible on the site, would it be possible to increase the affordable housing contribution rate? Alternatively, if a local infrastructure or Special Infrastructure Contribution rate is increased, would this require a smaller contribution for affordable housing? It is important that any testing of increased density with a greater maximum floor space ratio control is line with council’s strategic work; and is feasible with the surrounding development and market conditions. For example, is there a demand for the proposed housing type in the area?
Appendix 3 – Template for affordable housing contributions schemes

Section 1 – Strategic context and background

1.1 Objectives of the affordable housing contribution scheme
This section must outline the objectives of the affordable housing contribution scheme.

1.2 Where does the affordable housing contribution scheme apply?
This section must show the proposed areas within the LGA that the affordable housing contribution scheme covers. It must also provide maps with sufficient detail to identify specific lots to which the affordable housing contribution scheme applies.

1.3 What types of development does the scheme apply to?
This section outlines the types of development that are subject to the proposed affordable housing contributions. Detailed explanations of the types of developments that are exempt from an affordable housing contribution scheme, along with justification and examples, must be provided in section 2.4.

1.4 Overview - Affordable housing need
An overview of the housing affordability issues that the affordable housing contribution scheme aims to address, is outlined in this section. More detailed analyses of demographics and housing needs must be provided at Appendix A.

This must include an overview of evidence base which informed the development of the affordable housing contribution scheme, including the affordable housing needs analysis in the LGA. It must also draw on a Local Housing Strategy, if one is available, as outlined in section 2.1 of the document.

1.5 Legislative basis for affordable housing contributions
This section must explain the legislative framework for affordable housing contributions, including the relevant references to the LEP, the State Environmental Planning Policy No. 70 – Affordable Housing (Revised Schemes), and powers under the Act.

1.6 Relationship to other affordable housing provisions in the LGA
This explains the relationship between the affordable housing contribution scheme...
and any other affordable housing mechanisms in the LGA, and how the affordable housing contribution scheme could impact future voluntary planning agreements.

1.7 Affordable housing principles

This outlines the principles which inform the affordable housing contribution scheme. These must be consistent with the principles for affordable housing in Schedule 2 of the SEPP.

1.8 Definitions

This section must define all relevant terms.
Section 2 – Affordable housing contributions

2.1 Contribution rates
This section must provide the affordable housing contribution scheme’s contributions rates.

Rates may differ between residential and commercial floorspace, between areas, or between development types. They must be tested for viability and councils must provide justification when rates differ. More detailed justification and viability testing must be provided in Appendix B.

2.2 Dedication of dwellings
how the contribution rate can be fulfilled by dedicating completed affordable rental dwellings, is outlined in this section. This includes any requirements for dwellings and their provision, such as whether:

- dwellings will be owned by government or a recommended community housing provider
- dwellings will be provided in perpetuity
- dwellings will align with the affordable housing principles in 1.7
- there are any design or construction requirements
- there are any ongoing requirements for rental arrangements or use of rent.

Councils must provide worked examples of how they calculate contribution rates for each development type were calculated.

2.3 Equivalent monetary contribution
How the contributions rate can be fulfilled by a monetary contribution, is outlined in this section. This will be an equivalent monetary contribution and be expressed as an amount in dollars per square metre.

Councils must provide worked examples of how they calculate contribution rates for each development type.

2.4 Development that is exempt from the affordable housing contribution scheme
This section must clearly state which types of development are exempt from affordable housing contributions.

Exemption of any development must be justified to provide transparency and certainty. Examples may provide clarity to the community and development industry.

2.5 Conditions of consent for affordable housing
This section outlines how council will impose conditions of consent for affordable housing contributions, and what the conditions will include. This section must cover conditions of consent for the dedication of dwellings as well as conditions of consent for monetary contributions.
The conditions of consent must detail:

- the total floor area of dwellings to be dedicated, or the monetary contribution required
- the different floor areas that can contribute to the total contribution amount (this only applies in instances where rates differ between development types or between commercial and residential floor space)
- the relevant contribution rates
- the indexation period at time of determination
- a requirement to demonstrate that the title of any dwellings will be transferred to a community housing provider or council
- a requirement to make any monetary payment at a specified time or stage in the development application process
- a requirement that any dwellings that will be dedicated are shown on approved plans in the same development application.
Section 3 – Administration and implementation

3.1 How to make a contribution
This must outline how to make a contribution, including the process for the dedication of units, and the payment process for monetary contributions.

To ensure contributions are received promptly, it may be appropriate to place a condition of consent requiring that any affordable housing contribution payments are paid before the relevant construction certificate or occupation certificate is issued.

3.2 Indexing of payments
How payments are indexed, including how often this must happen, the formula for indexing payments, and where the data for this calculation will be sourced from, is outlined in this section.

All monetary contributions must be indexed at the time of payment to ensure funds received will cover the full costs of delivering the required affordable housing contributions.

3.3 Processes for the distribution and management of funds
How councils and other agencies will manage funds in waiting (funds which are yet to be transferred to the nominated community housing provider), and how they must transfer the funds to registered community housing providers, is outlined in this section.

3.4 Registered community housing providers and delivery program
This section must identify a process to nominate a registered community housing provider that can manage and operate the affordable rental housing and monetary contributions in line with the affordable housing contribution scheme. An affordable housing contribution scheme may have more than one registered community housing provider. However, in that instance the affordable housing contribution scheme must identify how funds will be split between providers.

Council must provide registered community housing providers with a delivery program that outlines how funds raised or dwellings dedicated under the program will be used to provide affordable housing. The program must refer to the costs of providing affordable housing in the area.

This section must also establish what registered community housing providers are required to do in relation to using the funds, which may include reporting or transparency requirements.

3.5 Monitoring and review of scheme
This section must establish the monitoring and review program for the affordable housing contribution scheme.

Under this program, councils must review evidence related to the affordable housing
contribution scheme at least once a year. Evidence must be reviewed more regularly when monitoring identifies issues or considerable changes in market conditions.

Under the program, councils must also review the project’s outcomes. This will help ensure the contributions collected are being used to deliver affordable housing in line with the affordable housing contribution scheme. A council’s monitoring and review of its affordable housing contributions schemes must be made publicly available on its website.

**Appendix A – Local housing needs assessment**

See Section 2.1A of the guideline. This must be included as an appendix to an affordable housing contribution scheme.

The local housing needs assessment will provide the evidence base and the analysis of the evidence base used to determine the affordable housing needs in the local government area. Data sources, analysis and recommendations will be included in the assessment.

An overview of the affordable housing issues will be provided in the affordable housing contribution scheme, as shown in section 1.4 of the template. The appendix will provide more detail and the supporting data and analysis.

**Appendix B – Viability assessment**

See Section 2.1C and Appendix 2 of the guideline. This must be included as an Appendix to an affordable housing contribution scheme.

The viability assessment must include worked examples, as well as providing spreadsheets of the assumptions and data used to determine the affordable housing contribution rate. This will enable the assessment and review of the proposed affordable housing contribution rates to ensure that the rates are viable and would not impact on development feasibility and overall housing supply.

The evidence must include the data sources for determining the contribution rate, including comparable sales, building finishes, site preparations and construction costs. As well as data on any local infrastructure contributions and Special Infrastructure Contributions, which are in place or will be in place. This information is necessary to determine if proposed affordable housing contribution rate is viable.

The determination of an affordable housing contribution rate must be consistently and transparently applied and be made publicly available to be assessed and examined.

**Appendix C - Information Sources**

This must provide references for all information cited in the affordable housing contribution scheme. This must be included as an appendix to an affordable housing contribution scheme.
Appendix 4 – Information Sources

Establishing an evidence base

City Futures Research Centre, 2013. Implementing metropolitan strategies: taking into account housing local demand, Technical Report, UNSW


Department of Planning and Environment’s Strategic Planning Toolkit - https://www.planning.nsw.gov.au/Plans-for-your-area/Local-Planning-and-Zoning/Strategic-Planning-Toolkit


Family and Community Services (FACs) Future Directions for Social Housing https://www.facs.nsw.gov.au/about/reforms/future-directions


Administration and implementation – community housing providers

Family and Community Services (FACs), Community housing providers - https://www.facs.nsw.gov.au/providers/housing/community


Preparing a local environmental plan amendment
