



CITY OF MELBOURNE

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8 November 2023

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Submitted via email to housing@treasury.gov.au

Submission to Amendments to the Housing Australia Investment Mandate Direction

The City of Melbourne (CoM) welcomes the opportunity to provide feedback on proposed amendments to the Housing Australia Investment Mandate Direction. We applaud the action taken by the Australian Government on housing, including the announcement of the Housing Australia Future Fund, the National Housing Accord and the preparation of the National Housing and Homelessness Plan. These actions reflect the ambition of the government in addressing housing and homelessness issues and are commendable.

Our city is in the depths of a housing and homelessness crisis. Decades of under-investment in social and affordable housing combined with a growing population, rising housing costs, and the COVID-19 pandemic means there are not enough affordable homes in the City of Melbourne.

Only 2.5% of dwellings in Victoria are social and affordable housing. This is the lowest proportion of all states and territories. Almost 67% of City of Melbourne households are renters, and 36% of these renter households are spending more than 30% of their gross household income on rental payments.

Our [Affordable Housing Strategy](#) is focused on increasing the supply of appropriate, accessible and affordable rental housing across the municipality. There are more than 1,166 people experiencing homelessness in CoM (2021 Census) and a shortfall of 6,000 affordable rental homes for people on low and moderate incomes. Without intervention this shortfall of social and affordable housing is likely to increase to approximately 23,200 households by 2036.

The pandemic significantly impacted our city and exposed existing vulnerabilities within our housing market. Social and affordable housing plays a central role in our ongoing recovery response. Our research shows that for every \$1 invested in affordable housing, the community benefits by \$3 due to worker retention, educational benefits, enhanced human capital, health cost savings, reduced family violence and reduced crime. It is an investment in both essential infrastructure and people that compounds over the long term.

In response to these housing and homelessness challenges, in early 2022 City of Melbourne established Homes Melbourne, a special entity, to increase the supply of safe, secure and affordable housing and strengthen the provision of specialist homelessness services. Although the provision of housing and homelessness services is not a traditional role of local government, we have taken action in response to the growing crisis in our city.

In one of the largest investments by a Victorian local government, we have contributed one of our Council-owned buildings to transitional supported housing through our *Make Room* project, and we are actively working to make more Council land available for social and affordable housing. We are working across the housing spectrum and meeting acute housing need, while also delivering social and affordable housing. The feedback provided in this letter builds on our recent submission to the National Housing and Homelessness Plan Issues Paper (attached), which also includes a list of all Homes Melbourne initiatives.

Opportunity for Housing Australia and Local Government

Local governments across the country are taking action to increase the supply of social and affordable housing in their municipalities. One of the primary ways this is being done is by making council-owned land available for social and affordable housing. There exists an excellent opportunity for Housing Australia and local government to work together on such projects, to align the availability of land and funding.

Because of the lack of certainty around capital and operational funding, local governments will usually make land available prior to funding being secured and run the risk of projects not being funded at all. The time (2 years +), cost (\$300,000 +, in addition to site value¹) and resource investment (at least 1 EFT) in making sites available is significant, particularly in the context of the revenue constraints placed on local governments (in Victoria, the State Government caps the amount councils can charge in rates each year). This also means that housing associations are required to participate in multiple procurement processes: one for land and one for funding. Housing associations face similar resource constraints.

This challenge could be overcome through a partnership between local governments and Housing Australia. Funding could be allocated “in principle” for a site or number of sites, and a single procurement process could be undertaken by housing associations. This would provide certainty to both councils and housing associations, reduce the time taken to get projects delivered, and reduce the burden on housing associations to participate in multiple processes.

City of Melbourne would welcome the opportunity to work with Housing Australia on how such a process might be implemented through this amendment and the subsequent funding guidelines. We work with local governments across inner Melbourne through Melbourne 9 (M9) group, and across Australian capital cities through the Council of Capital City Lord Mayors (CCCLM), who would also welcome further discussion on opportunities to work together.

The remainder of our submission provides a detailed response to the draft amendments.

Eligibility and implementation for local government funding

The exposure draft includes local government as eligible project proponents but stipulates that grants or loans will be provided by way of a grant of financial assistance to a State or Territory. The accompanying note states that a term or condition of the grant may be that the State or territory make a loan or grant to the local governing body.

It is unclear to us why this stipulation has been included. As noted above, there is a critical opportunity for Housing Australia to directly fund local governments that are making land available for social and affordable housing. Many Commonwealth grants are provided directly to local government (for example, the Department of Infrastructure, Transport, Regional Development, Communication and the Arts *Priority Community Infrastructure Program*), so the reason for this arrangement related to housing is not apparent. The approval mechanism and authority required for grant approval is not clear. For example, it is not clear whether a grant or loan application from a local government authority will require pre-approval by the state, or whether two levels of approval and reporting will be required. It is also unclear as to whether this arrangement means that state fund matching will be a requirement of grants or loans to local government authorities.

We understand that a special purpose vehicle (SPV) could be established to receive funds. However, such a vehicle is likely to require significant resources to establish and administer and would duplicate functions that are already undertaken by local governments. We routinely receive, report on and acquit grants, hold funds in special accounts for a particular purpose, and adhere to strict governance protocols. Therefore, the establishment of a separate entity solely for the purpose of receiving HAFF funding is not considered to be a good use of limited resources and may not be suitable to all local governments.

We request that:

- Funding be made available directly to local governments.
- If this cannot be done, that the holding and allocation of funds by the State Government is streamlined and does not require local governments to report to two separate tiers of government.

¹ The site Council is making available for its *Make Room* project is valued at \$12 million, with an annual rental value of \$300,00 - \$400,000.



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Definitions of social housing, affordable housing and acute housing need are critical

There are no definitions of affordable housing, social housing or acute housing need in the draft amendments. While these definitions are included in the explanatory statement, they require definition within the legislation itself to ensure housing assistance is delivered in a consistent way and is based on household income. This is an issue City of Melbourne raised in its submission to the National Housing and Homelessness Plan Issues Paper.

The terms 'social housing' and 'affordable housing' are commonly and sometimes interchangeably used but their definitions can vary across jurisdictions. In Victoria, the Planning and Environment Act 1987 defines affordable housing, and the Housing Act 1983 defines social housing. Both definitions are linked to very low, low and moderate income households, and affordable housing can include social housing. We are not aware of a definition of 'acute housing need' in Victoria.

The definition of affordable housing in the explanatory statement is not adequate and its status is unclear. Use of terms such as "generally" and "typically" mean that the definition can be interpreted in multiple ways. The definition states that affordable housing "seeks to reduce or eliminate housing stress" [emphasis added], meaning that only marginal reductions in housing cost could meet the definition. The definition goes on to mention below-market rent housing as a potential product. We take this to mean housing that is set at a percentage below market rent, as opposed to rent being based on household income. This is problematic because market rents are already unaffordable, and are increasing so rapidly and significantly that any discount to the market rate could still result in unaffordable and increasing rents. For example, rents for units in Melbourne increased by 22% over the past year. If an "affordable housing" product provided a 15% discount to market rate, rent would still increase by 7% in that year. This is why rents must be set based on household income, and not a discount to market rate.

In relation to 'acute housing need', we note that the explanatory statement defines 'acute housing' but not 'acute housing need'. The definition of 'acute housing' in the explanatory statement is helpful in understanding what kinds of accommodation might be funded, and we are pleased that these forms of housing are being considered under the HAFF. However, we understand this document does not carry legislative weight, and 'acute housing need' (or 'acute housing') does not appear to be defined in any legislation. It is not clear if social housing and affordable housing would be considered a response to 'acute housing need', or whether this is a separate kind of housing entirely.

We request that:

- Social housing, affordable housing, and acute housing be defined in legislation.
- The definition of affordable housing be strengthened to ensure that rents are based on household income, rather than a discount to market.
- Clarity be provided as to whether social housing meets 'acute housing need'.

Housing assistance must be targeted to those most in need

The greatest demand for affordable housing in the City of Melbourne is from very low-income households. This group also requires the greatest amount of subsidy due to their lower incomes. We are concerned by what we observe as a growing tendency among governments and other stakeholders to provide housing assistance to those on moderate incomes, at the exclusion of very low and low income earners.

The 10,000 social housing units committed under the HAFF is commendable and will provide much-needed housing for very low and low-income earners. The 20,000 affordable housing units committed under the HAFF and Housing Accord are also welcome, but we submit that the greatest need is for social housing (that is, housing for very low-income earners). The targets for social and affordable housing should be established based on greatest need.

We are particularly concerned that funding under the National Housing Accord Facility is only available for 'affordable housing' and not for 'social housing' (even though under Victorian legislation, social housing is a form of affordable housing).

It is not clear from the information provided what the target for 'acute housing' is, and whether this is captured within the 10,000 social and 20,000 affordable housing units. Given the demand for and depth of subsidy required for acute housing, we recommend a separate, additional target for this housing type be created.

We request that:

- Funding under the National Housing Accord Facility be available for social housing, as well as affordable housing.
- An additional target be created for 'acute housing', if this is intended to be a separate housing type to social housing (refer comments above).
- That the 1,200 target of affordable, social and acute housing units per year include a mix of all three housing types (and not, for example, 1,200 affordable dwellings only).

Support for leasehold models

A specific issue that requires addressing, either through the legislation or forthcoming funding guidelines, is the ability for council-owned land to secure federal funding under leasehold models, including ground lease models.

In Victoria, councils are limited by the Local Government Act 2020 to offering leases of a 50-year maximum term. We have been advised that this lease term will not be viewed favourably by Housing Australia. This may limit the ability of councils to contribute land for social and affordable housing and should be addressed.

The availability of leasehold models as an option for affordable housing delivery is critical to the City of Melbourne. A leasehold model ensures public land is retained in public ownership, and enables councils to determine the future use of the land at the end of the lease term. The provision of affordable housing is not a core responsibility of local government, and councils making this provision should not undermine their future ability to provide other forms of infrastructure that are a core responsibility. Governments across Australia, including the Australian Government in Canberra, routinely make land available under a leasehold model, and this should not be seen as a barrier to funding.

We request that:

- Funding be available for council-owned land that is leased for a period of 50 years, being the maximum lease term that local governments in Victoria can provide.

Continued support for Housing Enabling Infrastructure

The explanatory notes indicate that the revision repeals the definition of infrastructure, but there is no clear definition of infrastructure included in the proposed legislation or in the existing legislation. The current Investment Mandate Direction Part 4: S28A states that "Housing Enabling Infrastructure" is:

- a. Critical infrastructure to support new housing (particularly new social or affordable housing), including new or upgraded infrastructure for services such as water, sewerage, electricity, telecommunications or transportation; or*
- b. site remediation works relating to new housing (particularly new social or affordable housing), including the removal of hazardous waste or contamination.*

We are supportive of this definition and seek clarification that it will remain in the revised Investment Mandate. Infrastructure is a critical element of housing provision for councils in Victoria, and metropolitan councils in particular can face high site remediation costs.

We request that:

- Funding continue to be provided for critical infrastructure and site remediation that facilitates new social and affordable housing.

Due to the timing of the consultation period, this submission has not been formally endorsed by City of Melbourne Councillors. This submission is prepared on behalf of Management, and is in accordance with the intent of the City of Melbourne [Affordable Housing Strategy](#), and our recent submission to the National Housing and Homelessness Plan Issues Paper.

We are a willing partner and extend the invitation to work with you on projects that link federal, state and local government policy aspirations. We commend you on these legislative reforms and look forward to collaborating with you to achieve excellent outcomes for our community.

Yours sincerely,



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