

16 July 2008

The Manager
Housing Affordability Fund
Department of Families, Housing, Community
Services and Indigenous Affairs
Athllon Drive
TUGGERANONG ACT 2600

Dear Sir/Madam

I write to provide feedback from the Australian Local Government Association (ALGA) on the Australian Government's Housing Affordability Fund Consultation Paper released last month for comment. Please note that ALGA's comments are general in nature, and that individual councils and State and Territory Local Government Associations may provide their own responses to the Consultation Paper.

ALGA acknowledges the importance of the Rudd Government's commitment to address housing affordability issues in Australia. Housing affordability stress has real consequences for the lives of many households and impacts on the effective functioning of local and regional communities. Seeking means by which the supply side constraints can be responsibly addressed is both welcome and necessary if real savings in the cost of purchasing a house by future home buyers are to be delivered.

ALGA is fully committed to working in partnership with the Australian Government to make the Housing Affordability Fund (HAF) as successful as possible.

ALGA welcomes the major aspects of the HAF as outlined in the Consultation Paper:

- a) the program must be sufficiently flexible to enable councils to innovate;
- b) funding can be used to subsidise important and legitimate community infrastructure that may otherwise be delivered by local government and/or levied upon developers;
- c) recognition that local government needs financial support to further the reform and implementation of electronic development assessment systems; and
- d) funds can be used to address the backlog of strategic and statutory planning functions in some councils by the engagement of appropriately qualified professional and supporting administrative officers to address serious staff shortages.

ALGA would like to highlight the following general concerns it has about the HAF:

- a) to the extent that HAF will subsidise the cost for some developers (through subsidies for infrastructure provision), local government may be blamed unfairly

- for continuing to impose costs on developers that do not receive Australian Government subsidies;
- b) councils could be required to act as the 'gatekeeper' for applications in deciding which projects in their area will be supported and which will not;
 - c) there is a need to consider what will happen when the HAF ends – ALGA foresees that there may be considerable pressure on local government to forego legitimate claims for developer contributions to vital community infrastructure.

ALGA is committed to continuing its close working relationship with the Australian Government to include discussions on planning for these transitional issues.

The Consultation Paper seeks responses to a range of questions. ALGA's specific responses are as follows:

Question 1 - The Housing Affordability Fund targets high growth areas, is this too restrictive?

ALGA understands in-principle the targeting of HAF funds to high growth areas, assuming that housing supply shortages in such areas are more prevalent (in nominal terms) than in other areas. ALGA would however prefer to see a weighting toward this target group rather than have the criterion mandated to the exclusion of all other areas. The advantage of this approach would be: a) the opportunity to gauge the level of interest in the program; (b) it would give the Australian Government more flexibility; and c) it would allow for testing of the scope of innovation and opportunities across the country.

Further refinement of the guidelines (which could then focus more heavily on high growth areas) could be undertaken in Year 2, and in subsequent years, subject to demand on the HAF.

ALGA supports the proposed two stage application process. This process will limit the level of unproductive activity required by applicants.

Question 2 - What type of projects should be suitable for funding and what level of savings may be generated?

ALGA is encouraged by the relatively flexible approach of the Australian Government to the type of projects that should be suitable for funding under the HAF. ALGA believes that the proposed criteria are sufficiently broad to enable councils to be innovative. ALGA notes there is also strong support from its state and Territory Local Government Associations for the electronic development assessment eDA program, with a particular emphasis to operationalise the national eDA Interoperability Specification (eDAIS)

ALGA is concerned however that it will be difficult for applicants to predict, and/or directly allocate, savings to individual houses built under the HAF. Feedback indicates that while it is theoretically possible to calculate the savings on a particular house, for example on projects where community infrastructure is subsidised and developer contributions foregone, the absence of an agreed methodology to validate the price of the house at market prior to the subsidy, will mean that it is extremely difficult to validate the level of proposed 'savings' to be passed onto consumers. ALGA believes that it may be even more difficult to calculate and pass on savings to individual lots generated through systemic planning reforms, albeit that ALGA

believes that these initiatives may deliver substantial benefits in the long term. ALGA believes strongly that more work needs to be done to explore this issue and develop a credible approach to identifying savings.

Question 3 - *Are the mandatory criteria appropriate and will applicants be able to provide evidence without substantial cost burden?*

As previously indicated, ALGA supports the two stage process for the HAF. This should limit at least the preparatory costs of developing proposals at stage 1.

The selection criterion that stipulates compliance with Commonwealth, State, territory and local government requirements is sound. This is consistent with what local government is required to do as a matter of course when assessing development applications, and is in keeping with best planning practice. ALGA suggests however that it maybe more efficient and appropriate from an administrative perspective, for an applicant to be required only to have considered all of these issues and to justify why there are any possible inconsistencies with any of the criteria contained under clause 3.1.

The 'future viability' criterion has serious implications for local government. All new housing developments place additional pressure on community infrastructure and services and facilities. This is sometimes exacerbated when a development is located in a rural or fringe urban area, and the council services and facilities are provided largely by an adjoining local government authority.

Many councils are already facing severe financial challenges in meeting their everyday financial obligations, such as funding depreciation of community infrastructure. These issues should be given due consideration when determining what proposals are funded under the HAF.

Question 4 - *Are the weighted criteria appropriate and will applicants be able to respond to these without a substantial cost burden? How should the criteria be weighted?*

ALGA would expect that second round applications may be relatively expensive to prepare and contract negotiation difficult. This is to be expected with substantial government funding at risk. Care should be taken, however, to ensure that the administrative burden is proportionate to the size and scale of the project. Small scale developments may not need the same level of detail as a major greenfields development.

Question 5 - *Will the funding available enable a sufficiently wide range of innovative projects to be developed?*

Funding of \$512 million over 5 years across all jurisdictions will make a modest contribution to the supply of affordable housing. ALGA believes that the funding available will be sufficient to achieve a range of innovative demonstration projects. It will not be sufficient however, to provide support for large scale infrastructure development. The funds should be focused on the provision of local community infrastructure that will benefit the local community.

Question 6 - *What performance measures should be used to assess the ability of the applicant to deliver savings to homebuyers?*

As discussed above, the area of appropriate performance measures is problematic and requires more work.

Question 7 - *Are these timelines adequate for proposal development and assessment?*

ALGA believes the timelines will be challenging for local government as some eligible projects may involve a number of partners and be technically quite complex. It is for this reason that ALGA has suggested that in the first years, the HAF program should be broadly based and not specifically targeted to high growth areas.

Question 8 - *Does the information requested at the first and second stages assist in keeping the costs of submitting proposals to an acceptable level?*

ALGA supports the two stage process and believes that this will help to keep the costs of preparing applications to an acceptable level.

Should you wish to further discuss any of the comments made in this submission, please contact ALGA's Executive Director, Policy and Research , Mr John Pritchard or ALGA's Senior Policy Adviser, Mr Rolf Fenner on 02 6122 9400.

Yours faithfully

Adrian Beresford-Wylie
Chief Executive