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Committee Secretary
Senate Economics Legislation Committee
Department of Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

To Committee Secretary

Re: Questions on Notice Senate Economics Legislation Committee Inquiry into the National Housing Finance and Investment Corporation Bill 2018

Thank you for the opportunity to provide further information on the AHURI submission to the Senate Economics Legislation Committee's Inquiry into the Bills relating to the National Housing Finance and Investment Corporation (NHFIC).

Questions on Notice:

1. **AHURI's submission recognises that the Bills under inquiry do not limit the NHFIC's investments solely to social and affordable housing, but note that the priority for investment social and affordable housing could be reflected more clearly in the Investment Mandate.**

   Can AHURI provide the Committee with any recommendations on how to better prioritise the provision of social and affordable housing in the Investment Mandate?

In its present form, the Bill does not have provisions to direct the NHFIC to restrict eligibility for funding to affordable or community housing providers. The NHFIC Bill does not define affordability, though one of its objects is to 'encourage investment in housing (particularly in the social or affordable housing sector)' (p.2). Nor does the Bill anywhere appear to limit investment in housing to a particular tenure (In this sense, the Bill potentially permits guarantees to be spent on affordable home ownership (like similar schemes in the United Kingdom, Ireland and United States). The Bill does not appear to impose other limits to investment (such as limiting investment to only new or renovated dwellings, or limiting provision to registered not-for-profit affordable housing providers).

AHURI research provided a review of overseas systems of bond aggregators and government guarantees (focussing on systems from Europe and the United States), and most include some form of targeting of funds to affordable housing. In most cases 'affordable' means 'housing low to middle income' households, but in the UK this means 'below market' housing.

There are other differences between systems in terms of the scope of their respective systems. Some systems (Scottish, Swiss, French, Dutch) target only rental housing providers, but others (Irish, United States, and United Kingdom) include those providing homes for ownership. Some target only new dwellings, but most enable providers to acquire recently renovated properties as well (Lawson 2013:20).

Below we draw from AHURI research (Lawson, 2013) to outline some of the targeting mechanisms in other jurisdictions that may be relevant to Australia.

In Switzerland, the intermediary responsible for dispersing aggregated funds, Emissionzentrale für Gemeinnützige Wohnbauträger (EGW) limits access to 'permitted members', who are also members of the cooperative:

> *Permitted members are those housing organizations providing accommodation for the public good and typically structured as not-for-profit associations or foundations. They are beholden to a Charter developed in 2004, which defines their purpose, activities and business model. They must also comply with affordability, governance and quality standards to receive revolving loans or guaranteed EGW finance (Lawson, 2013:29-30).*

Not all systems restrict eligibility to social housing organisations or even to social housing.

In France, the system is oriented to benefit social housing organisations, but crucially can include joint-venture companies:

> *'…beneficiaries of the guarantee include registered providers (HLMs)', but they also include 'joint venture companies providing social housing, as well as registered government approved organisations who contribute to housing for disadvantaged persons' (Lawson, 2013:36).*

In the UK, the private finance mechanisms have been put in place for private rental as well as affordable housing:

> *There are two versions of the scheme—one for affordable housing (AH) and one for the private rental sector (PRS). The basic aim of the threshold is to encourage larger schemes from which scale economies can be derived, but the AH threshold is lower so as to facilitate the possible participation of smaller HAs (Lawson, 2013:43).*

AHURI Australian Housing Finance Corporation model

AHURI researchers did identify a preferred model for an Australian scheme. Stakeholders in an AHURI research project backed an 'expert not-for-profit' type of model, and even suggested that it could be 'potentially embedded in existing not-for-profit industry fund manager or credit cooperative' (Lawson et al, 2014: 66). More detail about the scheme advocated by AHURI researchers is provided in our answer to Question 4.

AHURI researchers have previously advocated for an Australian model in which funding would be 'targeted to investments in the affordable rental housing for low to moderate income households' (Lawson et al., 2014:96), and so home ownership was not envisaged in this scheme. Under the model, the funding would be restricted to 'those organisations eligible for Tier 1 status under the National Regulatory System.' (Lawson et al, 2014:86). They argue that the National Regulatory System should be 'hand in glove' with the financial intermediary to reduce financial risks and ensure compliance with guarantee eligibility targets' (Lawson et al, 2014:67). In this sense the present NHFIC represents a broadening of scope relative to this scheme.

2. Does AHURI have any concerns with the use of an Investment Mandate, as conceived in the NHFIC Bills as a non-disallowable instrument, to direct the NHFIC's Board?

AHURI does not have research that pertains to this issue.

3. Various submissions to the Committee's inquiry contend that at a stand-alone bond aggregator will not sufficiently address the 'funding gap' that currently inhibits the provision of social and affordable housing at scale.

Is this consistent with AHURI's research findings? If so, why?

AHURI research has argued that there is a need to address a funding gap in the context of new finance:

> *Whether involving new finance or the redirection of existing housing subsidies, government financial support is essential to complement private financing of additional affordable housing supply. Inadequate government co-funding is the primary capacity constraint that providers currently face in their efforts to expand affordable housing (Milligan et al, 2017:1).*

AHURI research from a recent inquiry also suggests that there is a need for 'a fit-for-purpose subsidy ('gap funding') to cover operational losses under private financing':

> *Producing social or affordable housing with a component of private finance invariably generates a gap between the revenues recouped from sub-market rents and the recurrent costs of provision, including debt servicing. There is, therefore, a longstanding case for a 'revenue gap' subsidy to support the provision of affordable housing (Randolph et al, 2018:3).*

A particular finding was that subsidy levels and the quantum of public funding should be matched to needs along a continuum.

Financing from guarantee schemes will often only cover around 80 per cent of costs, and so other funding needed to make up the gap, either from commercial finance or other sources. AHURI research shows that in addition to government guaranteed bond loans, affordable housing could also be financed through grants and no-interest loans (see proposal Lawson et al, 2014:88).

4. Has AHURI identified policy initiatives in comparable jurisdictions that leverage bond aggregators to improve the provision of social and affordable housing?

If yes, can AHURI please provide a brief overview of such policies?

AHURI research provided a review of overseas systems of bond aggregators and government guarantees (focussing on systems from Europe and the United States). The main results of this review are provided in the positioning paper (Lawson, 2013). The final report from this research project drew on this review to outline a potential Australian system (Lawson et al, 2014). Copies of these reports are freely available from the AHURI website https://www.ahuri.edu.au/research/final-reports/220.

AHURI research (Lawson, 2013) identifies a number of overseas guarantee schemes that may be instructive in guiding our system in terms of prioritising social and affordable housing in the relation to the legislation.

The key features of each of the overseas schemes are outlined in Table 1 below.

Table 1: Key features of selected affordable housing investment guarantee schemes

Guarantee System	Intermediary	Targeted	Financial impact	Default rate
Dutch Guarantee Fund Social Housing (WSW) backed by the sector a fund and central and local Dutch governments (1983)	Yes Independent foundation	Yes new and renovated nominated rental housing low to middle income registered and monitored providers	1–1.5% below going market rates for similar mortgages	0%
Swiss Bond Issuing Cooperative for Limited Profit Housing (EGW) backed by the Swiss Federal Government (1991)	Yes Cooperative owned by sector backed by government	Yes new and renovated cost rental housing low to middle income compliant with Charter and government standards monitored providers	Small margin above government borrowing costs	0% since 2003
UK Affordable and Private Rented Housing Guarantee Schemes backed by UK Government (NEW in development mid-2013)	Yes THFC non-profit corporation licenced guarantor	Yes newly completed below market rental or ownership housing low to middle income registered and monitored	Aims to provide 30 year finance at small margin above government providers	borrowing costs 0% based on lengthy THFC experience guarantee introduced 2013
French Mutual Fund for Guarantees of Social Housing (CGLLS) backed by the French Government (2001)	Yes Publicly owned and administered	Yes new and renovated nominated rental housing low to middle income registered and monitored providers	Market only exists with guarantee	0% since 2008 has been higher 0.04%
Irish Housing Finance Agency backed by the Irish Government (1982 LAHs/2012 VHBs)	Yes Publicly owned company	Yes new and renovated income related rental and ownership housing low to middle income registered and monitored providers	Very limited market without guarantee	0% for LAH new for VHBs
Scottish Government's National Housing Trust backed by the Scottish Government (2010)	Yes Publicly owned trust	Yes newly completed near market rental housing low to middle income managed by registered and monitored providers	NA	0% new
US Risk Sharing Scheme between Housing Finance Authorities and HUD backed by Federal Housing Administration insurance (1992 pilot/2001 permanent)	Yes Publicly owned corporations	Yes rental or ownership housing low to middle income registered and monitored providers	NA	NA

Source: Lawson et al (2014:20) (Table 5).

All of the above guarantee schemes, in one way or another, seek to advance the objective of creating more social and affordable housing. However there are differences in the mechanisms used to safeguard this objective and ensure that social and affordable housing is a priority. Some schemes seek to empower the interests of affordable housing providers while others seek to safeguard the interests of the public (including in relation to affordability) by implementing high standards of monitoring and reporting including reporting made available to the public. Examples include:

- Cooperative models in which the bond-issuing organisation has social and affordable housing providers as members. These providers are represented at board level alongside government representatives, and this board is accountable to its membership (Swiss model).
- Independent not for profit organisation charged with serving the social housing sector contracted by Government to manage the guarantee (UK model).
- Public owned models in which there is a defined quota for social and affordable housing providers on the board (French Model).
- Public owned models with professional board appointed by the Minister with public oversight and reporting (Irish model).

The NHFIC Bill provides for the creation of a public authority (exempt from Income Tax) (like the French system) but provides for a professional board (based on qualifications, skills etc.), with all board appointments, including Chair, by the Minister (like the Irish system). The terms of the board members are limited to five years in duration. The NHFIC Bill in its present form permits people skilled or qualified in the area of housing (including social and affordable housing) to be eligible for appointment to the board, but does not mandate it like in other systems, and their appointment is at the discretion of the Minister.

However, AHURI Researchers found that the Swiss scheme (along with the UK scheme) was the preferred model for a proposed Australian scheme (see Lawson et al, 2014:85). They found that the Swiss system (EGW):

> …*shares many similarities with the UK's Housing Finance Corporation (THFC), with the pooling of borrowing needs of providers. In this respect, the EGW has more potential for adaptation to an Australian context (Lawson, 2013:29).*

A number of advantages of this system are mentioned:

- Efficiency and stability: 'as a government backed, member owned and non-profit bond issuing co-operative, the EGW is firmly established and cost effectively run' (ibid).
- Meets needs of affordable rental sector and investors: 'It illustrates how a scheme that serves both the borrowing needs of the affordable rental sector and requirements of Swiss bond market can deliver lower cost finance to permitted members over an established period of time' (ibid).
- It is targeted for affordable outcomes: to 'housing organizations providing accommodation for the public good and typically structured as not-for-profit associations or foundations' and required to comply with affordability and other standards' (2013:30).
- Cost effective: 'the leanest operation is the Swiss EGW, where no staff member is employed. Rather a voluntary but expert board and auditing committee supervise risk assessment, certification and bond issuance processes. However, the actual administration of these tasks is undertaken by a private legal firm and independent financial specialists' (2013:54).
- Zero default record: 'The EGW decade long zero default rate is largely due to care taken credit assessment and ongoing monitoring' (2013:30).
- Provides for the needs of large and small providers: 'These affordable rental housing providers vary from numerous locally active organizations with around 100 dwellings to a number of very large cross regional housing developers. While some larger non-profit entities are financially strong, the EWG pool allows smaller non-profit builders to join together (many with less than 100 dwellings), improving their access to finance on more favourable terms' (ibid).

5. Has AHURI's research identified policy initiatives that have the potential to complement the NHFIC in delivering affordable and social housing at scale in Australia?

If yes, can AHURI please provide a brief overview of such policies?

Does AHURI advocate for any such policies to be employed in concert with the NHFIC?

AHURI research also consistently shows that addressing housing affordability cannot be solved with one mechanism. Instead, a range of mechanisms are needed across a range of different contexts to increase provision of social and affordable housing at scale. Randolph et al (2018:2-3) outline potential other ways government could assist affordable housing development through:

- Provision of government support for access to land (including public land) so that affordable providers can access land at lower than market cost
- Maintaining an equity stake in an affordable housing development
- Supporting cross-subsidy opportunities from mixed tenure and mixed use developments
- Retaining long term affordable housing through use of not-for-profit providers obtaining public benefit rather than private providers
- Using a needs based modelling approach to investment decisions, so that a range of housing to meet the range of needs is provided.

AHURI research also identifies ways to improve capacity in the affordable housing sector. The research (Milligan et al. 2017:1) finds that the Government would need to:

- establish, with affordable housing providers, a clear industry vision with defined policy objectives, and specify medium-term growth strategies and targets to realise that vision
- make sure 'affordable housing policy' extends beyond the human services realm
- embrace responsibility for leadership on affordable housing, and restore their policy-making capacity, and designate a dedicated Minster and agency for this purpose
- give a clear commitment to continuity of policy settings crucial to build confidence in the industry, maintain momentum for reform and attract private investment at scale
- give specific policy-maker attention to securing a viable future for Indigenous housing organisations
- give a commitment to continuity of funding eligible tenants via CRA, etc. and the term of the guarantee, so that potential investors can be confident of a pipeline of future bond issues (Lawson 2014:99).

In addition, the provider part of industry needs to strengthen its leadership and profile, invest in professional development and continue to build capacity in its supporting institutions and networks (Milligan et al 2017:1).

6. AHURI's submission expresses a preference for the NHFIC's Board of Directors to contain representation from the community housing provider sector.

Does AHURI believe this representation should be mandated, or does the appointment framework outlined in the Bills suffice?

The Bill mandates that appointment should all be by the Minister on the basis that 'the Minister is satisfied that the person has the qualifications, skill and experience' including in '(c) housing (including social of affordable housing)'.

There is AHURI research that supports creation of an entity which would be independent of government and empower the community housing sector to have a form of representation. AHURI research (Lawson et al. 2014) propose an Australian guarantee scheme that largely adopts the Swiss model and would involve the creation of a not-for-profit independent entity, with the not-for profit sector having powers of appointment over Board directors. Some of these directors would likely be drawn from the not-for-profit sector. The research suggested:

> *The first step is the creation of an independent non-for-profit entity… comprising an expert Board of Directors the majority of which are to be drawn from the financial sector. The government and the non-profit sector would each appoint Directors as well. A possible composition could be: two Directors appointed from government, two Directors from the non-profit sector, and five Directors from the business, finance and legal sectors (Lawson et al, 2014:85).*

Although the body would be independent of government, its public good outcomes (including affordability outcomes, financial probity etc.) would be afforded by having high standards of accountability, including reporting to Parliament:

> *The organisation and Board would be independent of government but be accountable through requiring borrower compliance with the National Regulatory System and monitoring the robust reporting requirements imposed on the borrowing non-profit housing providers. The Board would report annually to Parliament, detailing the lending eligibility criteria, the volume of loans allocated, the addition to the affordable rental stock achieved, the incidence of any default events (actual or avoided) and the actions to take in mitigation or enforcement (Lawson et al, 2014:85).*

I would like to thank the Senate Economics Legislation Committee for its interest in the AHURI submission by seeking additional comments. If there is any way we can be of further assistance, please contact me directly

Yours sincerely

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Executive Director

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