
Presentation to

Senate Economics Committee inquiry

Finance for the not for profit sector

Agenda

- Grace Mutual
- Proposals
- Examples
- Aged Care

Introduction to Grace Mutual

- Decades of banking and corporate experience
- Long NFP involvement
- Desire to contribute to NFP sector
 - Capital to address Australia's social challenges
- Desire to unlock superannuation funds
- Uniquely qualified to build bridge between sectors

➤ **Capital to Change the World**



Primary Proposal 1

- ❑ Split finance/capital from service provision
- Multiple service providers desirable:
 - Diversity, inclusion, local community buy in, expertise by resident needs and geographically, propagate sector
 - Probity?
- For capital, the opposite is true:
 - Scale is everything
 - Economies – costs, standardisation, staffing
 - Access to expertise (centralised)
 - Access to institutional investors

Primary Proposal 2

- ❑ Design intervention for target sector needs
 - NRAS (most successful recent program)
 - Income support promise
 - But capital needed
 - Most efforts in turning revenue support into capital to achieve the construction
 - Risk: Second half construction cannot be funded
 - Opportunity:
 - save leakage
 - reduce cost to Government

NRAS Example

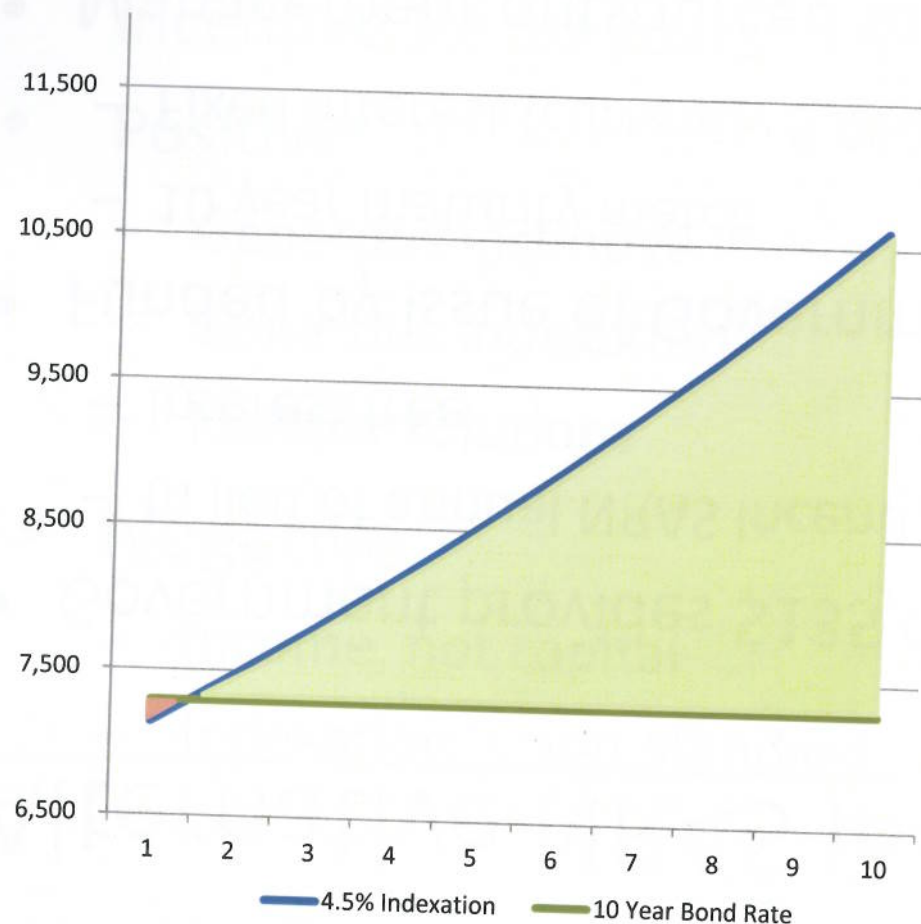
- If criteria met => Government will pay annual incentive for 10 years
- Positive:
 - Generous incentive
 - Generous indexation
 - Flexible solutions
- Negative:
 - Income, not capital
 - Indexation is non-standard

Alternative NRAS Incentive

- Government provides \$135,000 “NRAS Loan”
 - In lieu of annual NRAS Incentive payments
 - Interest free
- Funded by issue of Government Bonds
 - 10 year maturity match
 - Fixed interest [currently 5.4%pa]
- Management outsourced to Approved Lenders
 - Paid for by annual fee from Borrower
 - Reduces Government administration burden

NRAS Loan vs NRAS Incentive

Savings are a function of Indexation and Year of inception



Total cost per NRAS 2011 start
@ 4.5% indexation = \$87,774

Total Cost of proposed NRAS Loan
= \$72,900

Cumulative savings vs Bond Rate
@ 4.5% 2011 Start = **\$14,874 (16.9%)**
@ 4.5% 2014 Start = **\$31,772 (30.4%)**

Saving for **each NRAS Incentive**

Benefits to Government

Primary

- Exchange uncapped liability for capped cost
- Lock in budget savings (cost of funds differential)

Secondary

- Provide certainty to sector
- Release capital to free log jam
- Reduce program management costs
 - Lower administration for ATO
 - Compliance simplified
 - Outsourced to Loan managers

Market Opportunity = NRAS Fund

- Grace Mutual + Perpetual + Bank
- Debt fund for NRAS dwellings
 - Major superannuation funds
 - CPI + 5% target return
 - Secured by residential mortgage
 - Government underpinned revenues
- Perpetual GRAIL Income Fund
- \$500-1,000 million, closing late 2011

Benefits to NRAS Program

GRAIL Fund enables:

1. Recycling of capital to construct future projects
⇒ Increases likelihood of future NRAS projects happening
2. NFPs to build asset base, without having to sell
⇒ Increased sector sustainability
3. Increased likelihood of dwellings staying affordable at year 10
⇒ Private owners will put rent back up to market after NRAS

Aged Care Opportunity

- \$20-40 billion in capital needed for aged care
 - NFP = 60% of market, but little access to capital
 - Productivity Commission recommendations and positive industry & Government response
- Window of opportunity to design an innovative industry-wide funding mechanism, that:
- Meets operator needs and investor needs
 - Minimizes costs and risks to Government