NATIONAL SHELTER SUBMISSION TO THE COUNCIL ON FEDERAL FINANCIAL RELATIONS AFFORDABLE HOUSING WORKING GROUP

TABLE OF CONTENTS

INTRODUCTION

Thank you for the opportunity to provide a submission to the Council on Federal Financial Relations Affordable Housing Working Group (AHWG) examining innovative ways to improve the availability of affordable housing. The four models presented in the paper provide different system and structural options to attract alternative sources of funding into affordable housing development. The key to unlocking the potential of the models, and others that may be proposed through the submission process, is the long-term role of government in providing an enabling environment to attract private sector funding into an affordable housing asset class.

This enabling environment commences with developing a broad framework for affordable housing in Australia in which a key development is designing and facilitating models to attract large-scale investment from private sources based on appropriate government incentives (for example, Commonwealth Rent Assistance (CRA)). It will utilise the provision of land and housing development projects (for example, land, incentive payments and capital inputs), coupled with a capable and maturing Not-for-Profit (NFP) sector, especially the Community Housing (CH) sector, which can use its comparative advantages within the affordable housing field to develop, deliver and manage housing nationally.

Globally, the success of large-scale investment into affordable housing projects is reliant on government taking a risk-adjusted and proactive role over the longer term using primarily a healthy CH sector as developers and managers of affordable housing products. This is key to managing the gap between the cashflow generated through affordable housing assets and the returns the private sector would require to increase their investment in the sector.

Whilst National Shelter welcomes the AHWG *Issues Paper*, it believes that decoupling the four proposed models from the broader national reform required across governments' legislative and policy settings underpinning the housing market is problematic. This is explored in the submission.

National Shelter is a non-government peak organisation that aims to improve housing access, affordability, appropriateness, safety and security for people on low incomes. This submission was developed by Shelter WA in consultation with other state Shelters and is endorsed by the following organisations: National Shelter, Shelter WA, Q Shelter, NT Shelter, Shelter NSW, Shelter SA, Shelter Tasmania, ACT Shelter, National Association of Tenants Organisations (NATO), Council to Homeless Persons (CHP) and Homelessness Australia. National Shelter and its members thank Shelter WA for its leadership in the development of this submission.

NATIONAL REFORM AGENDA

There is a clear need to take action to address the growing housing affordability crisis across Australia. Many low income home owners and renters are experiencing housing stress (paying more than 30% of their income on housing). The proportion of low income renter households in rental stress rose considerably, from 35% in 2007-08 to 43% in 2013-14[1].

Even those in receipt of housing assistance find it difficult to keep up with high housing costs. In 2015, 41% of households receiving CRA were in rental stress[2], which demonstrates the inadequacy of the payment to ensure people do not experience financial hardship and poverty. The National Housing Supply Council, the most reliable data source on housing supply, in its final report, estimated a shortfall of 539,000 affordable rentals available to households on the lowest 40% of household incomes[3].

Homelessness continues to grow in Australia, increasingly due to a lack of affordable housing, and is now estimated at over 105,000 people on any given night. In 2014-15, 256,000 people received support from specialist homelessness services with an average of 54,000 people supported each day. This includes 13,000 children[4]. The major funding source to address the supply of affordable housing and homelessness service provision and prevention is the Commonwealth budget.

A major reform in the way affordable housing is delivered is required to meet these needs. To date Australia has relied primarily on state governments to deliver public housing, financially supported by the Commonwealth through the National Affordable Housing Agreement (NAHA) and the Commonwealth State Housing Agreement (CSHA). Over the past 25 years these agreements have increasingly targeted low income high need households paying 25% of income to meet their rents. This has inevitably led to deterioration in the supply, maintenance and quality of low cost housing as rent plus subsidies amount to deficits for state systems in their current portfolios.

Commonwealth Government Leadership

It is imperative for a Commonwealth-led strategic policy and legislative approach to develop, implement and govern new financing models for affordable housing in Australia. This is because the Commonwealth Government:

- holds responsibility for taxation and social security policy and legislation which are crucial to making large-scale financing models work;

- has the capacity to implement national legislation, policies and guidelines which improves consistency for Community Housing Providers (CHP) and private sector entities trying to work across jurisdictions, especially when there needs to be an economy of scale;

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[1] Productivity Commission, 2016, *Report on Government Services 2016 Volume G: Housing and Homelessness*, G.10.

[2] Productivity Commission, 2016, *Report on Government Services 2016 Volume G: Housing and homelessness.*

[3] National Housing Supply Council, 2012, *Housing Supply and Affordability – Key Indicators*, p22-27 & p47. The figure of 539,000 is arrived at as follows. In 2009-10 there were 857,000 renter households in the bottom 40% of the income distribution, and 1,256,000 dwellings rented at an affordable price for these households. However, 937,000 of these dwellings were rented by households in higher income groups, leaving only 319,000 available for rent by low income households – a shortfall of 539,000.

[4] Australian Institute of Health and Welfare, 2016, *Specialist Homelessness Services 2014/15*.

- holds the policy levers, primarily through NAHA and CRA, to encourage states and territories to trial new ways to increase affordable housing supply;

- has capacity to build an economy of scale and financial pipeline to address the scale of the issue; and

- often accrues the benefits of cost savings associated with increasing affordable housing options, for example reduction in welfare expenditure and greater participation in the workforce.

State, Territory and Local Governments also play a key role in providing enabling legislative and policy settings to increase the supply of affordable housing. Changes to elements of the systems and structures currently in place across these governments are important in supporting a cohesive and complementary framework for increasing affordable housing supply. Absence of broader reform has the power to significantly undermine national changes channeling private sector investment into affordable housing supply. Governments need to examine their role in incentivising and encouraging affordable housing development at the local level, streamlining planning and development approvals, setting targets for affordable housing in major developments and provision of capital and land. Continuing to build the capacity of the CH sector is also an important role in achieving affordable housing supply.

INNOVATIVE FINANCING MODELS

National Shelter agrees there are currently barriers to large-scale investment in affordable housing and these are covered adequately in the AHWG *Issues Paper*. National Shelter also suggests the following principles need to be acknowledged when introducing new innovative financing models:

- New large scale financing models are essential to increasing supply of affordable housing, however all levels of government must recognise that the right policy settings (for example, planning) and funding streams (for example, ongoing subsidies, capital and land) are essential for models to work. Governments will always need to support affordable housing projects, at different levels, to make them financially viable.

- Bipartisan political support is a requirement when introducing innovative large-scale financial models for affordable housing. Absence of bipartisan support provides a shaky foundation for private sector investment given the absence of long-term legislative and policy stability.

- The CH sector is a key partner in the supply of affordable housing and there needs to be a commitment at Commonwealth and State/Territory Government level to continue to build the capacity of this sector and to engage peaks in the design of government initiatives.

EXAMINING PROPOSED MODELS

In responding to the four proposed models in the AHWG *Issues Paper*, it must be noted that there is no one solution to achieving an increase in the supply of affordable housing, particularly where the supply is targeted to low-to-moderate income earners. The options presented in the AHWG *Issues Paper* all have a part to play in developing and delivering a healthy affordable housing system that caters for a wide range of households, with different needs and in different circumstances.

The focus, however, on achieving large-scale finance must be on options that promote systemic and structural change and use different policy levers to develop a basis for large scale private sector investment over the longer term.

The most promising model outlined in the AHWG *Issues Paper* for this is Model 1: Housing loan/bond aggregators. This is because it has the capacity to generate the funding required to significantly impact the volume of affordable housing required to address the problem nationally, it is well researched and understood by key stakeholders, has operated successfully in other countries for long time periods and broadly meshes with current regulatory and funding policies.

Model 2: Housing Trusts have the capacity to achieve scale in attracting finance to affordable housing development, however to get the scale required would involve States and Territories potentially pooling public housing assets which would have significant political, legislative and policy hurdles to overcome. Models 3 and 4 are relevant to affordable housing development and management but in a smaller niche way. As it currently stands, neither model has a track record, nor the capacity, to attract the scale of funding required to tackle the affordable housing supply shortfall. A summary of each model compared to barriers to large-scale investment is contained in Appendix 1.

Model 1: Housing loan/bond aggregators

The Housing Loan/Bond Aggregators model shows promise as an option to significantly increase capital flowing from the private sector to housing providers via a financial intermediary. As a mechanism to aggregate debt, it enables funding from the wholesale market and institutional investors, provides an economy of scale in negotiating and reducing financing costs, and facilitates a more effective utilisation of debt within the context of competing priorities from multiple users. This model also supports longer-term financing which is more in line with typical project life cycles and the actual cycle time for the pay down of debt.

Significant research into the establishment of a housing loan/bond aggregator has been conducted by AHURI[5]. AHURI researchers recommended the introduction of an *Affordable Housing Finance Corporation* which involves the formation of an expert non-profit financial intermediary to assess and aggregate the borrowing demands of registered CHPs and issue bonds with a carefully structured and targeted guarantee.

[5] AHURI, 2014, *Enhancing affordable rental housing investment via an intermediary and guarantee*, Issue 174.

The benefits of this approach outlined by AHURI include:

- Straightforward application and transparency for investors, government and public at large.
- Capacity to be harmonised easily with the Australian National Regulatory System and state-based regulatory systems for NFPs.
- Capacity to fit well with existing government subsidy policies.
- Minimal impact on government budgets.
- Negligible probability of the government guarantee being called.

To encourage large-scale institutional investment the following matters would need to be considered:

- Certainty from government, particularly the need for bi-partisan or multi party support.
- Scale of investment including government backed opportunities to enable institutions to invest amounts in the vicinity of $500m per annum using a portfolio approach.
- Reduction of financial risk for institutions; this may require the Commonwealth to underwrite a component of debt, if not all.
- Ability for liquidity of investment.
- Government equity and government credit enhancement to assist with consistent and predictable yields as a yield gap does exist.
- Development of an investment scheme that does not require investors to fund property development.
- Recognition that the requirements of institutional investors differ from banks. For example, banks prefer strata development but institutions prefer lower risk management arrangements such as multi-unit residential that are all rental.

This model holds appeal given its relative straightforward way of aggregating debt and lending to housing providers. However, a few key points for future consideration are:

- While there is increased scale in the context of standard debt finance the borrowing capability of the aggregated borrower will still be governed by the size of its balance sheet and the relationships between earning and investment. That is, the limited income generated by CHPs via rents and rental subsidies such as CRA, will inhibit the amount of borrowings possible. This is further limited now by the lack of an NRAS scheme which significantly boosted cashflows in affordable housing developments. In successful models, such as those used in the UK, Housing Associations benefit from much higher levels of Housing Benefit, capital grants for development and other incentives.
- The current capacity of the CH sector and ability to be a large-scale developer of affordable housing across Australia. The UK model is reliant on Housing Associations (HA) being able to use the funds for affordable housing development. In the UK, the HAs were being scaled up, via large-scale stock transfers, at a similar time to the introduction of the Housing Finance Corporation which meant there was a synergy between the raising of finance and ability of the HAs to be scaled up developers.

In Australia there needs to be a policy focus on developing the CH sector in order for them to be at a sufficient scale and maturity to access borrowings. Consideration may also need to be given to how the 'for-profit' sectors could be used as developers of affordable housing.

- Inclusion of a government guarantee significantly de-risks the investment for the private sector, making the investment much more favourable therefore capital is cheaper. Governments typically shy away from guarantees, however in the Australian context it may be one key variable to make the model work at scale with a fledgling CH sector. Both the UK and Canada (Vancouver) have introduced government guarantees without negative repercussions. This needs to be married with a strong financial and CH regulatory system for greatest impact.

As a model, the Housing Loan/Bond Aggregator concept shows the greatest potential to address the barriers to large-scale investment in the *Issue Paper,* as identified in the table below:

Scale	Is scalable given it aggregates debt for a number of entities.
Return	With scale, returns can be commensurate with other asset classes. This could be assisted with a government guarantee.
Liquidity	Bonds can be traded and therefore offer liquidity.
Project Pipelines	With the bond approach there would be an established long term pipeline of development activity.
Investor Awareness	This type of bond is well known internationally and may assist local awareness and confidence.
Long-term consistent policy settings	Governments would need to commit to long term policy settings around CRA and investigate other complementary legislative and policy settings.
Capacity	Continued work to develop the capacity of the CH sector is required.
Governance	A well governed financial intermediary provide surety to investors.

Table 1: Housing Loan/Bond Aggregator compared with barriers to large-scale investment

Model 2: Housing trusts

The establishment of housing trust/s provides a mechanism to aggregate assets and build scale. This enables capital assets management to be run as a specialised business and ensures that value creation is planned, managed and delivered. A trust allows for aggregate equity investment and when listed will enable the liquidity of investment preferred by institutional investors and the wholesale market.

Whilst the housing trust is an interesting concept, the application in an Australian context is very hard to gauge at this early stage. At a minimum, to build the scale required to start addressing the affordable housing shortfall, a housing trust model may require public housing authorities to place their housing portfolios in a large national housing trust. This would have significant implications for current Commonwealth and State policy, funding and regulatory settings, to the point that these significant system and structural obstacles make it difficult to provide further detail on how it could work.

As a model, Housing Trust/s shows limited potential to address the barriers to large-scale investment identified in the AHWG *Issues Paper* as identified in the table below:

Scale	Has potential for scale-ability, however is probably reliant on pooling of assets nationally which may be problematic.
Return	If scale could be achieved then the returns could be commensurate with similar asset classes.
Liquidity	If the trust was listed then there would be liquidity for investors.
Project Pipelines	With the Trust approach there would be a pipeline of projects.
Investor Awareness	The Trust model is less well known in an Australian context. Particularly if based on public housing assets.
Long-term consistent policy settings	The changes to policy and legislative settings if this was a national trust need further investigation.
Capacity	Depending on the role of the CHP, there would need to be further development of the sector.
Governance	If the trust was listed it would be subject to independent governance structures.

Table 2: ***Housing Trusts compared with barriers to large-scale investment***

Model 3: Housing co-operatives

Cooperatives in housing have experienced small scale application in Australia but cooperative movements have the capacity to scale up and this could be applied in Australia. In other sectors, like agriculture businesses or manufacturing, cooperatives have developed scale businesses covering entire sectors, e.g. NORCO in NSW or cooperative manufacturers in Spain. Cooperative housing in Australia could be developed at greater size but would require a change of business model to respond to the scale issue of affordable housing provision.

Typically, the Australian model of non-equity or common equity housing, has relied on public housing authorities transferring their housing to the cooperatives with tenants being charged social housing rent. As Australian governments target their housing towards low income households, governments tend to insist that most or all of cooperative residents are on low incomes and eligible for social housing. This means there is limited positive cashflow available to scale up a cooperative to be a key supplier of affordable housing in Australia.

In this respect, housing cooperatives face similar barriers to CHPs trying to access large scale funding. Either the portfolio of properties within a housing cooperative is too small to leverage finance or there is limited income from rents and other activities restricting the amount of borrowing a housing cooperative can access. Therefore, the business model needs to change if cooperatives are to be considered as a larger player in the affordable housing system.

In the current market, cooperatives could play a part in a service delivery solution if a larger scale financial instrument was put in place, for example a bond, whereby they could access debt funding to expand affordable housing supply.

As a model, Housing Cooperatives show limited potential to address the barriers to large-scale investment identified in the AHWG *Issues Paper* as identified in the table below:

Scale	Little potential for scalability to attract institutional investors.
Return	This is a niche product and cannot easily be compared with returns commensurate with other asset classes.
Liquidity	Housing as an asset is illiquid by nature.
Project Pipelines	There is little scope for project pipelines with this model.
Investor Awareness	Financial institutions are becoming more aware of mortgage products with CHOs. This is not dissimilar so there may be limited awareness.
Long-term consistent policy settings	The potential of the model is reliant on current policy settings but would need to be complemented by ongoing asset transfers from public housing authorities.
Capacity	The capacity of Housing Cooperatives would need to be built (in line with the broader CH sector).
Governance	Housing cooperatives may struggle with the governance required by investors regarding maximising property portfolio and income streams.

Table 3: Housing Cooperative compared with barriers to large-scale investment

Model 4: Impact investing models, including social impact bonds

Social impact investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both. It is a broad term encompassing social enterprises, contemporary philanthropy and social impact bonds.

Each investment relies on a supply of verified and sustainable data to accurately and efficiently measure outcomes. Key elements of impact investing include:

- Evidenced based measurement.
- Outcomes focused, rather than outputs.
- Financial and social risk sharing between government, NFP and private sectors.
- Access to working capital which is hard to access for social outcomes.
- Need for collaboration between and within the three sectors.
- Encourages innovative thinking about entrenched social issues.

As identified by recent research by Shelter NSW[6], the areas of housing-related and homelessness services have seen some innovation around design of social impact investment mechanisms. For niche homelessness issues, social impact investing has been quite successful due to the ability to link outcomes to providing appropriate housing for an individual. However, applying this on scale becomes problematic. A social impact investment or bond (SIB) is highly reliant on linking an increase in affordable housing supply directly to improvements in an individual's life outcomes.

[6] Carrie Hamilton, 2014, *The potential role of social enterprises, philanthropy and social bonds to increase supply of affordable housing and provision of housing services* Shelter NSW.

Application of a SIB to affordable housing supply would be dependent on data that links housing availability to other health/education/economic participation and could then be measured as direct savings to government budgets in the short, medium and longer-term. In niche programs where individuals can be named and monitored there is greater chance that stakeholders will be able to link stable accommodation, via accurate and efficient data monitoring of individuals, with costs savings to government across a number of portfolio areas. This would be very difficult to achieve with a large scale affordable housing supply program which is trying to access capital up-front and then once completed nominates who will be eligible to live in the house. There is no direct link between investment and outcomes for all stakeholders.

The pay-for-success contracting methods are all based on private capital preceding public investment in order to shift the risk of applying new and innovative service delivery models into the private sector. The challenges of a new asset class in an Australian context – scale, adequate performance data for analysis, liquidity, allocation fit, risk – each need to be resolved for any new model. As such, niche impact investing models cannot provide the scale that is required to tackle the affordable housing supply issue in Australia. It is however an interesting model when linking investment to providing wrap-around support services related to homelessness, and may be appropriate for targeted interventions where cost savings can easily be measured and clearly attributed to a particular intervention.

As a model, impact investing show limited potential to address the barriers to large-scale investment identified in the AHWG *Issues Paper* as identified in the table below:

Scale	Scale will be problematic with impact investments, especially when looking at an investors need to diversify.
Return	Predictable returns may be difficult for affordable housing impact investing given the difficulty in linking investment directly to government savings.
Liquidity	There is little liquidity in current social impact investing models.
Project Pipelines	There is currently no capacity for project pipelines in the social impact space and affordable housing supply.
Investor Awareness	There is a growing awareness of social impact investing, although there have been no large-scale bonds that focus solely on affordable housing supply.
Long-term consistent policy settings	Social impact investing is a fairly new construct in Australia and therefore long-term consistent policy settings need to be examined in more detail.
Capacity	The NFP sector has a role to play in social impact investing. This needs to be investigated more fully in the housing space.
Governance	Social impact investments typically have strong governance structures.

Table 4: Impact Investing Models compared with barriers to large-scale investment

STRATEGIC REFORM AGENDA

National Shelter has consistently promoted the development of a broader affordable housing system encompassing social housing charging rent as a proportion of income, a range of discounted market rents in community and private rental housing, shared equity and other ownership models to revitalise an affordable housing system. For 25 years Australia has overseen the deterioration of a housing system based on over-targeting a residual welfare system to lowest income higher need tenants. This has undermined the viability and utility of our housing system for low income tenants. National Shelter defines social housing as part of a broader affordable housing system. In our national discourse the concepts of affordable and social housing have become increasingly separated. The following describes a means of addressing that deterioration in discourse and policy settings.

KEY ELEMENTS TO IMPROVE AFFORDABLE HOUSING SUPPLY

To attract large-scale institutional investment into affordable housing there needs to be an ongoing commitment by the Commonwealth Government to use its policy tools to provide the foundation for investment. This needs to be complemented by broader reform in key funding arrangements and planning regimes to ensure there are comprehensive measures to systematically tackle the affordable housing supply shortfall.

Key aspects of a reform agenda to increase the supply of affordable housing are outlined in this section.

Reinvigorating the National Affordable Housing Agreement

The National Affordable Housing Agreement (NAHA) has the capacity to fund and oversee affordable housing development and drive important reforms at state levels. This is crucial to develop a stable environment for private sector investment and encourage new forms of investment and development.

The NAHA should be reset to be a genuine and broader affordable housing agreement rather than a declining welfare housing agreement. To this effect, there is an opportunity to separate the NAHA into two funding streams:

- Operational funding for existing supply – this operational fund would be an indexation of current funding for housing and homelessness to ensure that current supply of affordable housing is maintained.
- Growth funding for net new additional supply – this growth fund would be dedicated to expanding new supply of affordable housing. Initially, the growth fund should be paid to states and territories and could be used to negotiate greater transparency, build capacity of CHPs and as a leverage tool to catalyse reform in land, tax, planning reforms etc. Over time the Fund could be directed towards direct capital funding and investment in incentives for institutional investors to deliver net new additional affordable housing supply.

Key principles for a reinvigorated NAHA include:

- Adequate funding to be provided from the Commonwealth to State and Territory Governments for provision of affordable housing;
- A specific stream of funding in the NAHA for homelessness programs;
- Establish specific targets for net new additional supply of affordable housing across e.g. Band A households paying no more than 25% of Income, Band B households paying up to 80% of market rent and Band C households supported into home ownership through shared equity.
- Improved rate of CRA to be provided by the Commonwealth Government to minimise housing stress for low income earners and assist in improved cashflows for CHPs when leveraging funds;
- Clarity about future responsibilities for CRA between Commonwealth and State/Territory Governments, including resolution of the current issue where CHP tenants are eligible, and public housing tenants ineligible, for CRA;
- Commonwealth and State Government commitment to a revised incentive-based tax credit scheme (as outlined below);
- The Commonwealth to use the NAHA to encourage planning, tax and other reforms from the states and territories;
- The development of Commonwealth (or Commonwealth backed) incentives to attract large scale private finance into residential property and specifically affordable housing; and
- To be linked to Commonwealth and State Government infrastructure programs and funding to ensure affordable housing is treated as a form of infrastructure.

Negative Gearing and Capital Gains Tax

Taxation policies can be effective tools to promote the supply of suitable housing and encourage investment in affordable housing. National Shelter advocates that shifting taxation policies away from individual households, who are seeking short term capital gains, to overall institutional investment, will be of benefit to those living in rental accommodation. Tax reform should include:

- Reviewing and reforming deductibility regimes (negative gearing), giving consideration to restricting purchase price to housing in an affordable pricing range and/or on new supply rather than existing housing;
- Removing or adjusting the Capital Gains Tax Exemptions from investors; and
- Specific incentives or subsidies to investors letting to lower income households for longer periods of time or at affordability thresholds.

National Shelter also promotes there is merit in better targeting tax measures on housing to new supply of affordable housing, rather than allowing these to be focused on existing dwellings. Channeling investment into new construction will lead to better affordability outcomes.

Improved Incentive-Based Tax Credit Scheme
The original proposal for an incentive-based tax credit scheme was to leverage large-scale private sector investment to build a supply of affordable rental housing. This National Rental Affordability Incentive (NARI), developed by the Affordable Housing Summit Group, differed from the National Rental Affordability Scheme (NRAS) in the following key areas:

- It would specifically target large national providers in significant tranches.
- Expert ‘third party brokers’ would be appointed to work directly with institutional investors to broker scale investments into consortiums of providers nationally.
- The incentive was not meant to be stand-alone but was envisaged to be supplemented with other capital grants, additional rent subsidies and planning concession by States.
- It was expected that the scheme was to be integrated into the NAHA in order to encourage effective interaction with other forms of assistance.
- Setting of targets for overall growth in affordable housing supply, with mixed use developments encompassing very low, low and moderate income earners (ie, Band A, B and C) to ensure financial and social sustainability. In many cases these mixed use developments can also encompass other housing ownership options, for example shared equity, full home ownership, rental options and commercial residencies to assist with financial viability.

In order to provide an environment that facilitates private sector investment at scale there needs to be further investigation by the Commonwealth into having tax policy that supports and leverages the current opportunities built through NRAS. There is evidence from other countries that using an ongoing tax incentive has the capacity to attract significant investment from institutional investors. There is merit in reviewing how a tax incentive could catalyse large-scale investment.

Planning and State Taxes
The Commonwealth Government requires leverage to encourage states and territories to reform their own planning acts and regimes to assist in encouraging and promoting affordable housing developments. The proposed NAHA growth funding for net new additional supply, Commonwealth incentives, including an incentive-based tax credit scheme, access to low interest finance for CHPs, underwriting affordable housing bonds and/or establishing an affordable housing financing brokerage could all be elements of that encouragement.

Community Housing Capacity Building
Linked to the reinvigoration of the NAHA a key building block to attract scale private sector finance is building the capacity of Australia’s CH sector. Globally, the success of leveraging large-scale private sector investment into affordable housing has relied on having a CH or NFP sector that has scale and maturity.

National Shelter strongly recommends continuing asset ownership and management transfer of public housing assets to the CH sector across Australia as part of a revised NAHA agreement.

This initiative is a relatively cost-effective means to use transferred assets as leverage to create additional affordable supply and build the capacity of the CH sector. It matures organisations and builds an asset class. As indicated in the AHWG *Issues Paper*, there is a need to build the capacity and capability of the CH sector to establish it as a legitimate partner in devising and implementing large scale financial solutions. One of the most pragmatic ways to do this is transferring ownership or management of public housing to CHPs at scale to develop a healthy balance sheet and cashflow to access finance from the private sector. Failure to continue to develop CHPs in the short term will lead to a gap in delivery of solutions in the longer-term.

Commonwealth Rent Assistance

CRA provides assistance to low income renters in private rentals and community housing. However, CRA has not kept pace with increasing rents and households costs. This is important for two reasons:

1. Increase in housing stress in lower income households; and
2. Significantly impacts the cashflow for community housing organisations when trying to access private sector debt and equity.

The provision of CRA will not in itself promote adequate supply, although it does provide an important subsidy to CHPs which in certain conditions can make the difference between viability and non-viability of affordable housing projects. As noted previously, the ability for CHPs to access debt, whether it be through a financial institution or a vehicle such as an *Affordable Housing Finance Corporation* is heavily reliant on cashflow which is restricted given the low rent collected from social and affordable housing tenants.

National Shelter acknowledges there are financial implications from large-scale asset transfers from public to community housing organisations as households would be eligible to receive CRA. To offset these increases as much as feasible the responsibility for CRA needs to be addressed in a revised NAHA, streamlining roles and responsibilities of Commonwealth and States and looking at increasing revenue and cost savings associated with changes to Commonwealth tax policy, for example negative gearing and capital gains tax.

Investment Approaches to Welfare

As outlined in the Department of Social Services Corporate Plan in 2015–16, the Australian Government commenced implementation of an Australian investment approach to welfare. This approach is designed to improve lifetime wellbeing by increasing the capacity of people to live independently of welfare, to decrease the Commonwealth's long term social security liabilities and to address the risks of intergenerational welfare dependency.

The investment approach involves actuarial valuations of Commonwealth social security liabilities and the identification of groups at risk of long term welfare dependency. Each year, expert actuaries will assess changes in social security liabilities and consider which policies are working for which groups of payment recipients. The Commonwealth Government has said it would invest in evidence-based policy interventions tailored to improve the outcomes of those identified groups.

In view of these early directions being taken by the Commonwealth, National Shelter believes there is scope to assess the impact of housing interventions on lifetime wellbeing and long term social security liabilities. Such approaches could see a long term compatibility of housing loans/bonds with welfare savings reinvestment and social impact bonds that also contribute to housing investment for targeted groups.

SHORT-TERM ACTION TO INCREASE AFFORDABLE HOUSING SUPPLY

Currently, growth in the supply of affordable housing across Australia primarily comes from the CH sector. A significant capacity booster for the CH sector came from the Commonwealth policy stance in the Australian Government's 2009 Nation Building Economic Stimulus Package which set targets for stock to be transferred to the CH sector. Off the back of these asset and management transfers, CH organisations were in a strong position to leverage their assets through seeking debt funding from financial institutions.

National Shelter strongly encourages the Commonwealth government to push for states to continue (or reintroduce) the CH asset transfer program. There now exists a process for asset and management transfers at the state level which would ensure greater efficiency when:

- Implementing the processes to transfer management and ownership with increased contestability, for example competitive tendering and contractual documentation; and
- Working with tenants when moving their tenure from public to community housing.

This will expedite the ability of CH providers to use the assets to attract debt and equity into affordable housing developments.

One of the key issues for CH providers accessing debt is the cost of debt given the relatively new establishment of this as a debt mortgage product. One of the key aims for the Commonwealth and State Governments is to work with financial institutions to lower the cost of debt for CH providers in the short term while longer-term financial instruments and bonds are put in place.

Whilst this occurs, there have been a number of exciting new partnerships that have been forged by CH providers, financial institutions and superfunds which can add to learnings about how to continue to build institutional investment into affordable housing supply. These are:

- Industry SuperFund HESTA has invested $6.7million into Horizon Housing as part of its $30 million Social Impact Investment Trust. The investment will help finance the purchase of management rights for 995 existing affordable housing properties and the future development of up to 60 new social and affordable homes.
- Westpac recently announced it is set to provide a $61 million loan to major community housing provider St George Community Housing, supporting the delivery of 275 new affordable homes.
- The Clean Energy Finance Corporation (CEFC) recently announced its new $250 million Community Housing Program to contribute to the construction of as many as 1,000 new energy efficient dwellings Australia-wide, via Australia's network of Community Housing Providers. The CEFC will provide minimum loans of $15 million to community housing and other organisation's through this initiative.

In the interregnum between establishing a Commonwealth backed financing arrangement, National Shelter recommends the Commonwealth continue to support other arrangements to enable the momentum created by NRAS to be maintained in building a pipeline of affordable housing projects. A National Rental Affordability Incentive could easily be revised along the lines suggested. Additional information is at Appendix 2, and NAHA reform, at Appendix 3 and 4.

	Model 1: Housing Loan/Bond Aggregator	*Model 2: Housing Trusts*	*Model 3: Housing Cooperative*	*Model 4: Impact Investing Models*
Scale	Is scalable given it aggregates debt for a number of entities	Has potential for scale-ability, however is probably reliant on pooling of assets nationally which may be problematic.	Little potential for scalability to attract institutional investors	Scale will be problematic with impact investments, especially when looking at an investor's need to diversify
Return	With scale, returns can be commensurate with other asset classes. This could be assisted with a government guarantee.	If scale could be achieved then the returns could be commensurate with similar asset classes.	This is a niche product and cannot easily be compared with returns commensurate with other asset classes	Predictable returns may be difficult for affordable housing impact investing given the difficulty in linking investment directly to government savings
Liquidity	Bonds can be traded and therefore offer liquidity	If the trust was listed then there would be liquidity for investors	Housing as an asset is illiquid by nature	There is little liquidity in current social impact investing models
Project Pipelines	With the Bond approach there would be an established long term pipeline of development activity	With the Trust approach there would be a pipeline of projects	There is little scope for project pipelines with this model.	There is currently no capacity for project pipelines in the social impact space and affordable housing supply.
Investor Awareness	This type of bond is well known internationally and may assist local awareness and confidence.	The Trust model is less well known in an Australian context. Particularly if based on public housing assets	Financial institutions are becoming more aware of mortgage products with CHOs. This is not dissimilar so there may be limited awareness.	There is a growing awareness of social impact investing, although there have been no large-scale bonds that focus solely on affordable housing supply

	Model 1: Housing Loan/Bond Aggregator	***Model 2: Housing Trusts***	***Model 3: Housing Cooperative***	***Model 4: Impact Investing Models***
Long-term consistent policy settings	Governments would need to commit to long term policy settings around CRA and investigate other complementary legislative and policy settings	The changes to policy and legislative settings if this was a national trust need further investigation	The potential of the model is reliant on current policy settings but would need to be complemented by ongoing asset transfer from public housing authorities.	Social impact investing is a fairly new construct in Australia and therefore long-term consistent policy settings need to be examined in more detail
Capacity	Continued work to develop the capacity of the CH sector is required	Depending on the role of the CHP, there would need to be further development of the sector	The capacity of Housing Cooperatives would need to be built (in line with the broader CH sector)	The NFP sector has a role to play in social impact investing. This needs to be investigated more fully in the housing space.
Governance	A well governed financial intermediary provide surety to investors	If the trust was listed it would be subject to independent governance structures.	Housing cooperatives may struggle with the governance required by investors regarding maximising property portfolio and income streams	Social impact investments typically have strong governance structures.

Appendix 2

The National Rental Affordability Scheme (NRAS) and the National Affordable Rental Incentive (NARI) which was proposed in 2007 by the National Affordable Housing Summit group*

Background

The core purpose of both NRAS and the NARI proposal is to use a modest and readily controllable amount of public funding to attract much larger amounts of private sector finance, as well as resources from the community sector. They do so by providing a fixed number of subsidies to housing providers who agree to set rents for eligible tenants at least 20% below market level for ten years. They both aim to start the long journey towards adequate housing investment in Australia by financial institutions, which currently is extraordinarily low by comparison with almost every other developed country.

Both schemes aim to reduce the hardship of many lower-income people who cannot reach the top of the waiting lists for public or non-profit housing, and to reduce the pressure on those lists. They also aim to combat unaffordable expansion of Rent Assistance expenditure, which is not readily controllable and does not provide quantifiable assurances of increased housing supply or improved affordability. They do not avoid the need to boost supply of public and non-profit housing, and the adequacy of well-targeted rent assistance, but they do strengthen the overall cost-effectiveness and equity of government expenditure on housing.

The previous Government deserves credit for creating NRAS and beginning its development, especially as the global financial crisis hit just as it was being rolled out. But some of the key missteps in NRAS's initial design and early development were both foreseeable and avoidable. In particular, it lacked a number of the fundamental features of the NARI proposal, as outlined below.

Key differences between NRAS and NARI

First, the NARI proposal involved appropriate numerical targets and monitoring processes to ensure that it benefited only genuinely low- and low-middle income tenants. This was backed by a requirement that, at least initially, selection and management of tenants should be by experienced non-profit housing organisations in order to further reduce the risk of poor targeting or deliberate misuse. Suitably accredited private sector organisations could become involved after the scheme had been bedded down and effective safeguards against misuse had been road-tested.

Second, NARI was to operate mainly by seeking tenders to provide very large tranches of housing, requiring successful tenderers to progressively provide over an agreed number of years a specified and transparent supply of different housing types and locations. This focus was adopted after close consultation with major superannuation funds and other large financial institutions, whose involvement in the scheme is crucial but takes time and very practical design to achieve. Unlike NRAS, therefore, the NARI proposal was not designed to allocate incentives primarily in response to applications from relatively small players for projects of a size and type which they determined rather than being set by a specific call for tenders. Nor was it to provide individual investors, whether singly or in specially constructed entities, with another public subsidy on top of the benefits of negative gearing.

Third, private sector investment brokers were to be retained to promote NARI directly to institutional investors. Government administration at the national level was to be handled by a special unit based in a major State capital city, rather than Canberra, in order to increase the prospects of attracting staff with suitable practical experience in the housing and finance sectors. There also was to be an independent and high-level monitoring group, comprising a small number of people from housing and finance backgrounds, in order to monitor operation of the scheme and, where necessary, propose modifications.

Fourth, NARI was explicitly named and designed as an incentive, which needed to be combined with other sources of assistance, rather than as a stand-alone scheme which is implied by the name NRAS. In particular, it was envisaged that States would need to supplement NARI in particular instances, whether with capital grants, additional rent subsidies, planning concessions, infrastructure provision in the relevant area, or otherwise. This need for additional State support is the principal reason why the proposed State contribution to the NARI itself (and adopted by NRAS) was less than 50%.

Fifth, the detailed allocation of incentives under NARI was to be handled mainly by State governments, subject to clear and enforced agreements with the national government about the number, type and general location of dwellings to be provided across the State as a whole, and the overall profile of their tenants. This approach facilitates cost-effective leverage and coordination between the allocation of NRAS incentives and the provision of relevant transport and other key infrastructure (such as schools, health services and recreation facilities) which is largely decided at State, rather than national, level. It also increases the prospects of States being willing and able to provide the types of supplementary assistance mentioned above.

Sixth, the NARI scheme was projected to expand at a necessarily modest rate during its early years, rather than at the much higher rate which was promised for NRAS. Efforts to meet unrealistic targets damaged both the efficiency and credibility of NRAS's early years.

Finally, the NARI scheme was to be integrated as soon as possible into the National Affordable Housing Agreement in order to encourage effective interaction with other forms of assistance and to facilitate efficient and transparent monitoring of progress towards housing affordability. Detailed proposals to this effect were put forward by the Summit group.

Prof Julian Disney AO

Former Chair, National Affordable Housing Summit

21 March 2014

Appendix 3

NATIONAL AFFORDABLE HOUSING SUMMIT

Australian Council of Social Service
Australian Council of Trade Unions
Community Housing Federation of Australia
Housing Industry Association
National Shelter

A BACKGROUND NOTE ON POSSIBLE ELEMENTS OF A NATIONAL AFFORDABLE HOUSING AGREEMENT

INTRODUCTION

This Background Note outlines a draft package of possible key measures in the National Affordable Housing Agreement to improve the supply of low-cost housing for lower-income households, especially low-rent housing. The package aims to do so by

- setting clear growth targets;
- improving the transparency, contestability, cost-effectiveness and adequacy of public investment;
- boosting the level of private as well as public investment and of non-profit provision.

Growth targets

The package involves adoption of growth targets for the overall number of dwellings in "affordable housing programs" (AHPs). These programs include public housing, non-profit housing, housing attracting support under the National Rental Affordability Scheme (NRAS) and some forms of home purchase assistance program.

The proposed growth targets are 60,000 by 2012, 120,000 by 2015 and 250,000 by 2020. Achievement of these targets would restore the proportion of all Australian housing which is supported by these programs to about the 6% level which applied a decade or so ago. Most of the proposed growth would be newly-constructed dwellings (especially as NRAS is only available for new dwellings).

Public investment

The package of measures greatly improves transparency, contestability, cost-effectiveness and adequacy of public investment in affordable housing programs. It does so principally by

- basing the type and amount of public funding on required outputs or outcomes rather than on the type of provider;
- improving contestability in the allocation of public funding by State authorities;
- encouraging innovation and flexibility in the mix of public and private funding for particular dwellings;
- encouraging innovative cooperation between public, non-profit and private entities in financing, developing and managing dwellings;
- separating the Commonwealth's funding for growth from its funding for operating and replacement costs;
- making growth funding dependent on demonstrated increases in supply;
- defining required profiles for increased supply while not imposing excessive rigidity;
- encouraging providers to achieve mixes of tenants which are economically and socially sustainable;
- encouraging schemes which allow tenants to purchase their dwelling where possible; and

- further strengthening the growth of non-profit providers and institutional investment through NRAS.

Private investment and non-profit provision

The package would strengthen the options available for attracting private investment through NRAS, including investment in housing that will provide rent reductions which are greater and/or are of longer duration than is required by NRAS. This is due principally to increasing the scope for flexible and cost-effective combinations of government capital funding with NRAS incentives and private investment under NRAS.

It would also substantially accelerate the growth of non-profit organisations which are large enough to develop and/or manage substantial numbers of dwellings under NRAS and are likely to attract the confidence of institutional investors.

Enhancing the NAHA: Part 1: Strengthening Key Elements

Rebecca Richardson, Urbanista

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INTRODUCTION

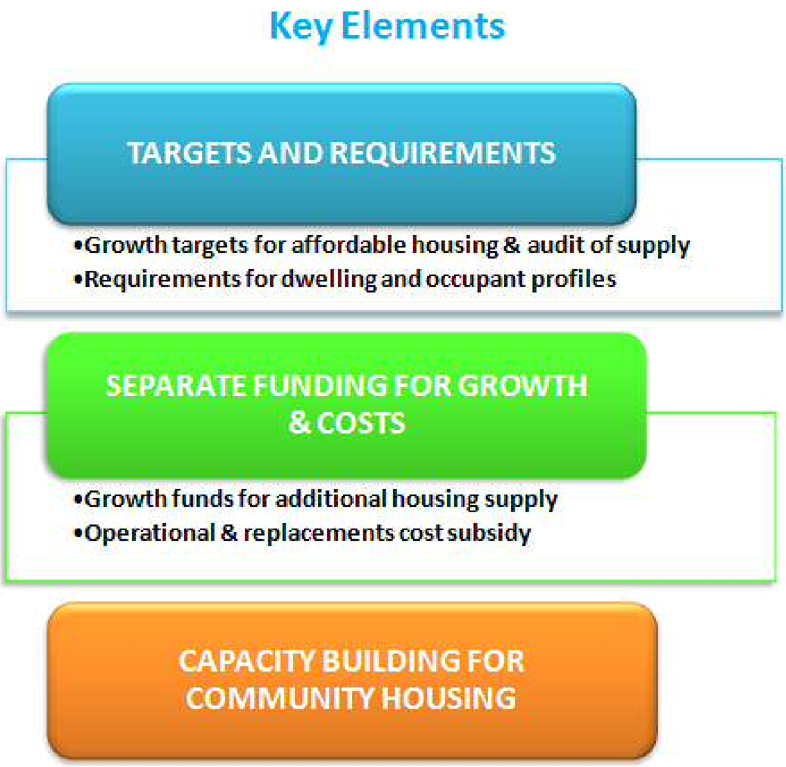
Conceived as an answer to a fragmented and uncertain funding regime, the concept of a National Affordable Housing Agreement (NAHA) arose from the National Affordable Housing Summit held in 2004. The intention of the NAHA was to provide a cohesive but flexible framework for all levels of government to deliver improved affordable housing. Government endorsed the concept and in 2009 introduced a NAHA structured more broadly than its predecessor, the Commonwealth State Housing Agreement (CSHA). The overall aim of the new agreement was to promote access by all to "... affordable, safe and sustainable housing that contributes to social and economic participation".

Unlike the CSHA which was renegotiated and renewed every five years or so, the NAHA was formulated as an enduring agreement with provision for a five-year review by Treasury. In lead-up to the designated review, the National Affordable Housing Summit Group (the Summit Group) conducted a Round Table Meeting in August last year. In acknowledgement that in many respects the initial NAHA has not lived up to its ambitious aims, the focus of the Round Table was on directions and priorities for a revised agreement. The Round Table was followed by a number of discussion forums coordinated by National Shelter and others.

Whilst we await the incoming Federal Government's clarification of how the NAHA and its review will be handled, it is timely to bring forward key proposals for improving the Agreement. This article, which is the first of two, is based on the Background Paper prepared for the Summit Round Table which drew together proposals for enhancing the NAHA. This article focuses on proposals to strengthen the key elements of the Agreement in order to improve its effectiveness. The following article will turn to the scope of the Agreement and the need for integration and linkages with other related policies, programs and initiatives and with the broader urban agenda.

KEY ELEMENTS

The key elements identified by the Summit Group for a more effective NAHA are considered in a little more detail in the following sections. They are are the building blocks of a strengthened NAHA and they work together to enable better outcomes to be achieved.



TARGETS AND REQUIREMENTS

Growth targets for affordable housing & audit of supply

Targets are important – both symbolically and practically. They represent a commitment to applying on-going effort and funding towards desired outcomes. They provide a measure against which success can be tracked.

The Summit Group proposed that an overall goal be set for the reduction of unaffordable housing measured relative to the actual occupant's income. Recognising that its achievement will be influenced by a range of factors and will be difficult to measure, it proposed complementary supply targets for overall growth in dwellings in "affordable housing programs" (AHPs). To provide benchmarks against which to track *additional* supply, a national audit of existing affordable housing dwellings (by region, bedroom size and type of dwelling) will be required.

Dwelling and occupant profiles

Alongside growth targets, the Summit Group advocated that some requirements be established for the profile of the additional dwellings and their occupants in order to facilitate a balanced response and, in particular, to ensure that high-need households are assisted, along with others requiring more affordable housing. An appropriate mix is important to both financial and social sustainability.

The overall profile should include requirements for a mix of housing provided at low, income-based rents for, say, at least 20 years (traditionally known as public and community housing) and dwellings rented at a substantial discount to market rent for at least 10 years (eg under NRAS). These two types are referred to as Band A and Band B respectively.

To complement this, specification of an occupant profile will assist in ensuring that a minimum level of high-need households are assisted as well as other low- and moderate-income households. A sample framework is set out below/opposite.

"AFFORDABLE HOUSING PROGRAMS"

The Summit Group developed the concept of "affordable housing programs" (AHPs) to overcome arbitrary distinctions between different forms of affordable housing and housing provider, and to enable requirements to be set to ensure an appropriate mix of housing for lower income and special need households.

Under an enhanced NAHA, AHPs satisfying the requirements could be eligible for a range of support.

> **"Affordable housing programs"** (**AHPs**) include public housing, non-profit housing, other housing subsidised under NRAS and some home purchase and shared equity assistance programs. These programs must meet specified profiles for occupants and requirements for affordability (including rent setting arrangements), term of provision and dwellings.

EXAMPLE OF POSSIBLE GROWTH AND PROFILE TARGETS FOR AHPs

NB: **The words & numbers in square brackets are provided to stimulate discussion, not as firm proposals.**

OVERALL GROWTH TARGET

1. The overall supply of dwellings in AHPs should be increased by at least [120,000] by 2020.
2. The increase in each State/Territory should comply with the following profiles (over the full period to 2020 rather than necessarily in each year).

AFFORDABILITY PROFILE

3. The increase in AHP dwellings should consist of

➢ at least [one-third] "**Band A**" **dwellings**	- Rents below [25%] of residents' incomes for at least [25] yrs
➢ at least [one-half] **"Band B"** dwellings	- Rents at least [20%] below market rent for at least [10] yrs
➢ some "**Band C**" dwellings	- In approved types of home purchase/shared equity programs for low- moderate-income households

OCCUPANT PROFILE

4. "**High-need households**" with gross incomes below [50%] of the State/Territory median income for their type of household composition and/or have other defined types of special need should comprise:
   - [50-75%] of the increase in households in Band A dwellings;
   - [25-50%] of the increase in households in Band B dwellings.

PROVIDER PROFILE

5. Dwellings owned or managed by a government housing authority should not exceed [25%] of the overall growth in AHP dwellings.
6. All managers of Band A and Band B dwellings should be registered and regulated by a nationally consistent scheme.

DWELLING PROFILE

7. **Location**
   - at least [30%] in non-metropolitan areas;
   - no more than [40%] in outer ring suburbs;
   - no more than [10%] in high-concentration suburbs.
8. **Dwelling type**
   - no more than [50%] 1-2 bedroom units;
   - at least [20%] 3+ bedroom houses.
9. **Design and access**
   - at least [80%] meet specified design standards, including environmental;
   - at least [80%] meet specified standards for access to transport, work, services.

SEPARATE FUNDING FOR GROWTH AND OPERATIONAL COSTS

Distinct and adequate funding for growth and operational costs should be core components of a revised NAHA. To strike a reasonable balance between the concerns of those States which currently have relatively high or low proportions of public and community housing, a combination has been proposed of:

- Growth Funds allocated to each state or territory principally on a per capita of total population basis for demonstrated increases in housing supply;

  and

- an Operating and Replacement Cost Subsidy allocated to each state or territory on a per dwelling basis for their total AHP stock.

As well as being a rational approach, this would mitigate problems arising from the differences between jurisdictions that have thwarted earlier attempts to improve funding systems. It would also help protect against the depletion of supply by countering pressures to divest public housing dwellings to fund renewal or as a response to declining viability.

Growth Funds for *additional* supply

In order to keep pace with growing affordable housing needs, it is critical that growth funds for demonstrated increases in supply of ***additional*** affordable dwellings through:

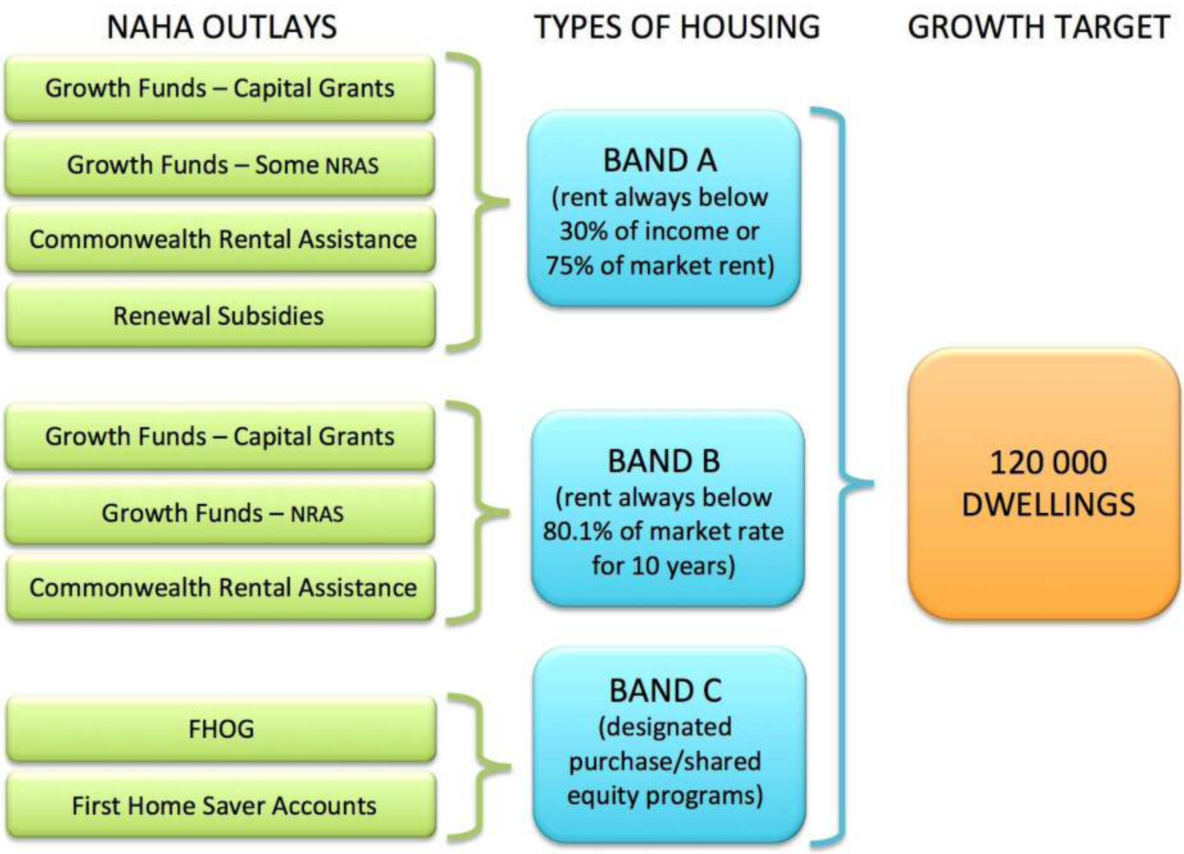
- annual grants (e.g. the current direct grants under the NAHA); and
- on-going assistance (e.g. under the National Rental Affordability Scheme (NRAS)).

Funding structures should be configured to maximise opportunities for leverage and to attract private finance.[1] Regardless of the structure employed, without on-going government funding it will not be possible to generate the new supply needed to maintain affordable housing at current per capita levels, let alone begin to meet current shortfalls. This does not mean that housing needs to be fully funded by government as a range funding sources can be combined with leveraging to finance housing provision. As mentioned earlier, an audit of existing affordable housing supply will be required to provide a benchmark against which to measure *additional* dwellings.

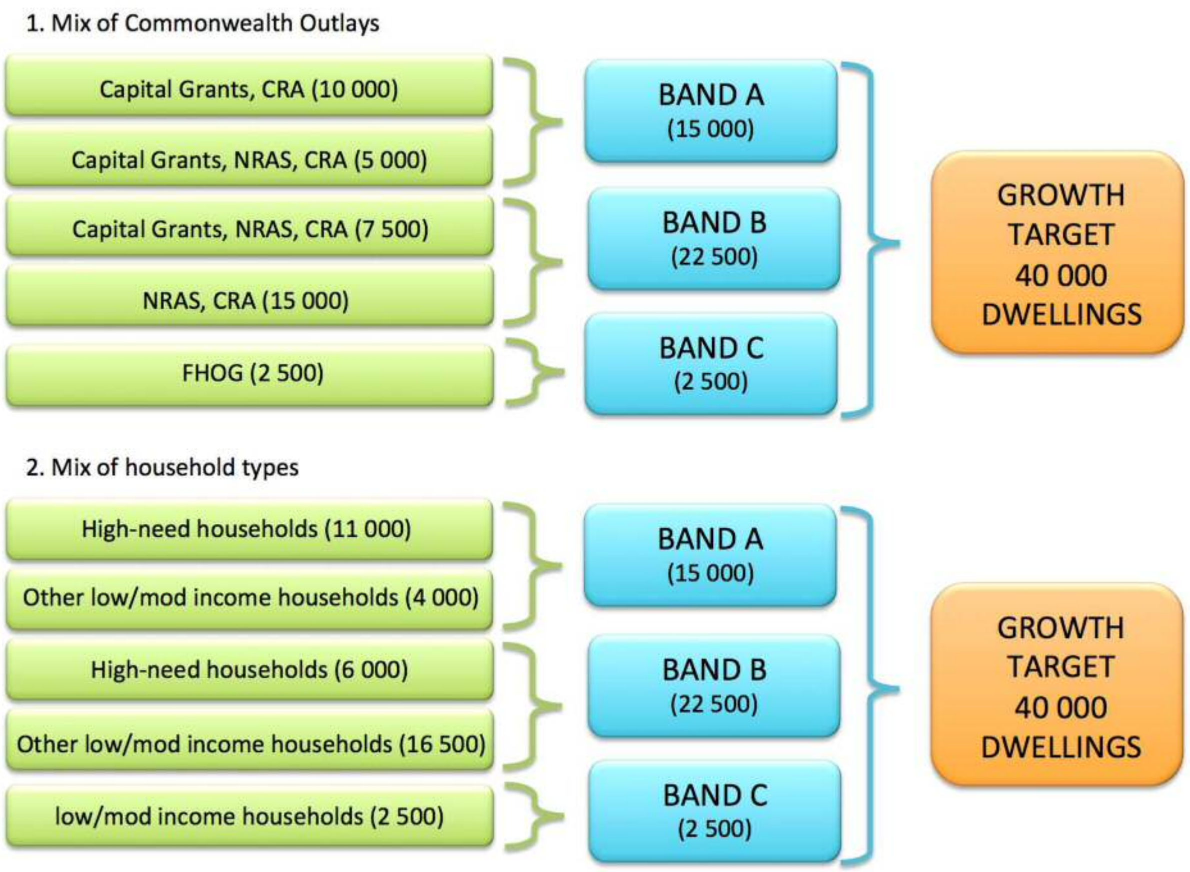
The NAHA should acknowledge and build on the success of NRAS. Inclusion of an on-going commitment for funding assistance for NRAS is crucial to maintaining ongoing confidence and participation in the Scheme. Further, to maximise affordable housing outcomes and provide flexibility, the NAHA should allow providers of AHPs to combine NRAS funding with capital grants (see example below).

[1] Such as through expansion of the existing NRAS framework and/or development of the Affordable Housing Supply Bond proposal put forward by Lawson, Milligan, and Yates (AHURI 2012).

EXAMPLE OF NATIONAL OUTLAYS AND OUTCOME TARGETS



EXAMPLE OF OUTLAYS AND OUTCOMES TARGETS IN A STATE STRATEGY



Allocation of Growth Funds

Funding for non-profit providers should be set at a specified minimum proportion of the growth funding for each state. These funds could be allocated directly to non-profit organisations on the basis of satisfaction of the required dwelling and occupant profiles, organisational capacity and compliance with national regulation.

Although the great majority of growth funds would be made available to states on a per capita basis, a portion of growth funding could be set aside for competitive allocation between jurisdictions in accordance with specified priorities such as urban renewal, social inclusion or environmental sustainability. The contribution of other resources or effort to achieving these priorities could be a key consideration in allocations from this pool.

Jurisdictions should be encouraged to allocate a substantial proportion of their growth funding through an expression of interest process for the provision of large portfolios of housing with specified profiles, rather than merely responding to project proposals by housing providers.

Subsidy to help meet operational and replacement costs

A Commonwealth subsidy set on a per dwelling basis should be provided to most, but not necessarily all, of the operating and replacement costs of Band A dwellings after the receipt of rental and other income. Alternatively, Commonwealth Rent Assistance could be extended to all Band A dwellings with the rate of payment based on the market rent even though most if not all tenants would be actually charged a lesser amount. Under either approach, providers would then be responsible for providing or obtaining any additional resources which may be necessary.

CAPACITY BUILDING FOR COMMUNITY HOUSING

While the NAHA recognises the contribution of non-profit housing providers, it could play a much greater role in supporting their role, for example by removing their dependence upon the states for access to growth funds (see above), by capacity building initiatives, by firmer guidance on stock transfers from government, and by rewarding providers that successfully access private finance and alternative funding sources.

Next Issue

Part 2 to appear in the December issue will consider the benefits of expanding the scope of the Agreement in line with the original concept of a broadly based NAHA. It will also reflect upon the crucial need for integrated policy development across key areas influencing housing outcomes, including taxation and Commonwealth Rent Assistance, and on the importance of establishing linkages with other related policies, programs and initiatives and with the broader urban agenda.

Enhancing the NAHA: PART 2

Scope, Ministerial Responsibility & Implementation

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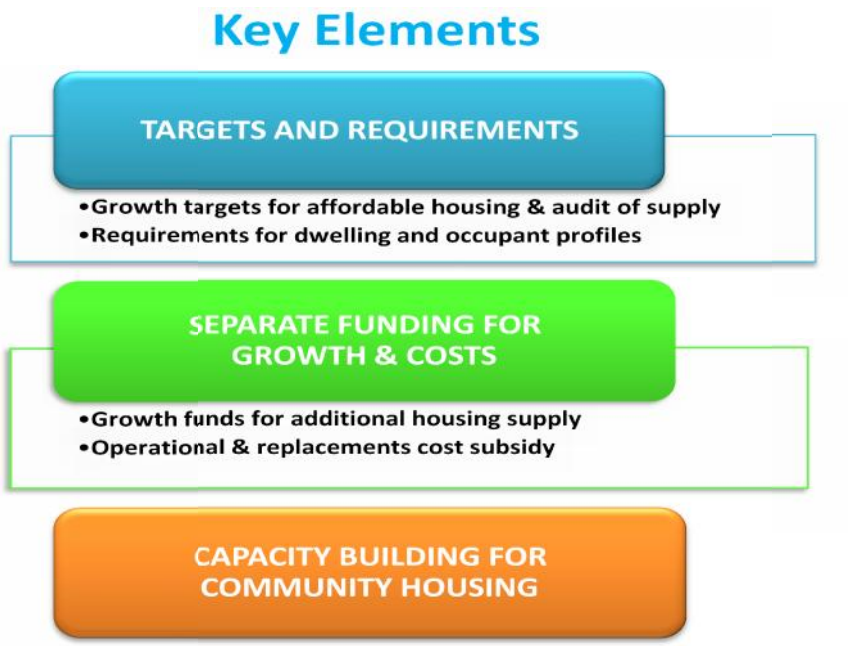
Introduction

In the last issue of Housing Works proposals were outlined to enhance the effectiveness of National Affordable Housing Agreement (NAHA). The reform directions were drawn from the work of the National Affordable Housing Summit (the Summit group) and put forward in anticipation of the mandated five-year review of the inaugural NAHA scheduled for around this time.

While the status and scope of the review is still to be clarified by the new Federal government, the Federal Minister responsible for housing has flagged interest in reforming the NAHA, calling for suggestions on how it could be improved and stressing that “...any reform to the NAHA recognises the need for continuing investment in effective services that provide stable pathways to housing and further training and employment”.[1]

The previous article focused on strengthening the key elements of the NAHA identified below. A key concern expressed by the new Federal Minister since coming into office was the need for a better framework to measure performance under the NAHA. The targets and requirements outlined in the last issue, which included an audit of supply, would enable this.

This article now turns to the scope of the Agreement, its linkages with other Government programs, systems and initiatives, and also its implementation and on-going review.



[1] Speech by the Minister for Social Services, the Hon Kevin Andrews MP to the National Housing Conference, 1st November 2013, Adelaide.

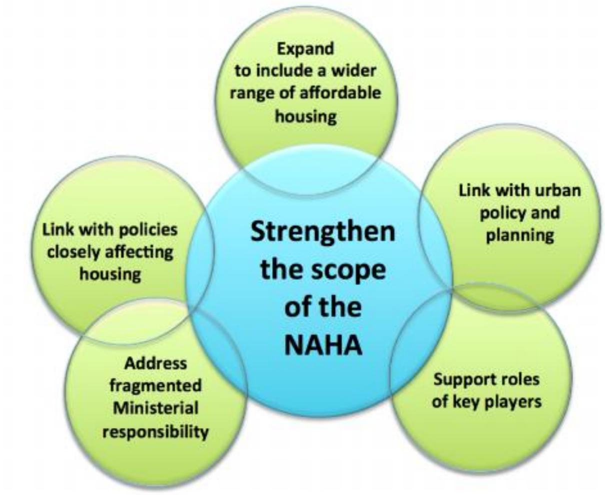
Scope of Agreement and Ministerial Responsibility

The overall aim of the NAHA is to promote access by all to "affordable, safe and sustainable housing that contributes to social and economic participation".

Whilst its aim is, appropriately, very broad, the scope and positioning of the current Agreement constrain its ability to achieve the outcomes sought.

Clearly the NAHA cannot operate effectively in isolation of the broader environment and the factors that influence housing needs and outcomes. Any significant progress towards its ambitious goal will require a comprehensive agreement encompassing or closely linked with the key determinants of housing outcomes. This can be furthered by:

- Expanding the scope of the Agreement to include a wider range of affordable housing
- Linking the Agreement with policies that closely affect housing
- Linking the Agreement with urban policy and planning
- Addressing Ministerial responsibility
- Engaging with key players



Expand scope to include a wider range of affordable housing

The NAHA arose from the National Affordable Housing Summit held in 2004 hosted by the Summit group. The intention of the NAHA was to provide a broadly based and cohesive yet flexible framework for all levels of government to deliver improved affordable housing.

However the NAHA introduced in 2009 was more narrowly focused than the Summit group intended. Inclusion of a wider range of affordable housing programs and assistance, as was originally conceived, will enable a more integrated and flexible approach to the provision of housing assistance where resources can be employed across housing programs to maximum effect, minimising duplication and ineffective use of resources.

Grouped under one umbrella, resources could more readily be combined, for example for the benefit of very high-needs households, or to assist households moving from subsidised rental into shared equity or home purchase.

As well as the present forms of assistance for public and non-profit housing, the NAHA could, for example, cover the National Rental Affordability Scheme, shared equity and home purchase assistance, Indigenous housing responses and, potentially, the National Partnership Agreements for Social Housing and Homelessness.

Link with policies that closely affect housing

There are a number of other areas of government policy that have a significant impact on housing and involve large costs to government, including Commonwealth Rent Assistance and taxation benefits and subsidies for home ownership, investment property and charitable institutions.

Closer linkages and, ultimately, integration of policy development across these areas, would allow the costs and impacts of current policies to be recognised and provide a more consistent and transparent basis for reform. For example, GST relief is currently offered to charitable housing providers. Identifying these incentives in the NAHA framework could open the way for similar relief to be offered to other organisations providing highly subsidised long-term housing.

Link with urban policy and planning

Urban policy and planning influence supply, distribution and accessibility of housing, as well as its cost. Likewise, decisions about infrastructure affect the layout, functionality and cost of living in urban areas. Better linkages between housing and urban policy would enable better use of resources and improved outcomes all round.

Jurisdictions across Australia are pursuing initiatives to improve planning systems and infrastructure. The NAHA could open the way for incentives offered under these initiatives to be combined with housing resources to achieve better overall outcomes. For example, it could facilitate renewal and greater housing diversity in well-located areas with high concentrations of ageing and inappropriate social housing, or to encourage employment and housing diversity in regional centres.

In addition, the role of planning systems in facilitating affordable housing through the application of incentives, inclusionary zoning and other means could be encouraged through the NAHA.

Address Ministerial responsibility

Currently, the key Minister responsible for housing is the Minister for Social Services. However there is not a stand-alone housing portfolio, and closely allied areas such as urban development and infrastructure fall within other Ministerial portfolios. There is a strong case for giving a “Minister for Housing and Residential Development” responsibility for the programs identified above for inclusion in the NAHA, as well as those that closely link with it. While, inevitably, there will be areas of great influence on housing that cannot be placed within a single Minster’s area of responsibility, there is certainly scope to combine key areas relating to housing and residential development within one portfolio, and at the same time give housing the prominence it deserves given its place in meeting fundamental human needs and contributing to the well-being and prosperity of the community.

Engage with key players

While local government, through the Australian Local Government Association, is a party to the NAHA, its role is narrowly described as one of regulation and fee collection. As demonstrated by a handful of local councils, there is considerable scope for local government to contribute to encouraging affordable housing through the provision of land, by brokering partnerships and through incentives, inclusionary zoning and other means. There could be real benefit in the NAHA encouraging local government to facilitate housing in these ways.

Community housing providers are increasingly responsible for housing supply, as well as management, and support for this was flagged by the now incumbent Minister responsible for housing[2].

In view of their significance in delivering affordable housing, it would be appropriate to either include community housing providers as signatories to the NAHA or, if this is considered unworkable, to better articulate and support the role of non-profit providers and also the private sector.

Implementation and Review

Enhance framework for consultation, review and oversight

Concerns have been raised about whether existing oversight and review processes associated with the NAHA are enabling the informed input needed for the on-going enhancement of the Agreement.

The role of independent experts should be strengthened and arrangements put in place for gaining the input of key players, including engaging an independent consultant to prepare a revised NAHA as a basis for broad consultation by government with parties to the Agreement, experts, affordable housing providers and more generally.

Once an enhanced NAHA is introduced incorporating the type of proposals set out here, a transparent and clearly defined process should also be identified for its on-going review.

These steps will move us towards the ambitious vision of the NAHA as a fairer, more broadly based and effective framework to deliver housing for those in need than its predecessors.

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2 Speech by Kevin Andrews MP to the Community Housing Federation of Victoria, 1 July 2013, Melbourne.