



9 March 2018

Attn: Manager, Housing Unit
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: HousingConsultation@treasury.gov.au

Dear Sir/Madam

LGAQ Submission – National Housing Finance and Investment Corporation Investment Mandate Direction 2018

The Local Government Association of Queensland (LGAQ) welcomes the opportunity to review and provide a submission on the *National Housing Finance and Investment Corporation (NHIF) Investment Mandate Direction 2018*.

The draft Investment Mandate provides details of the activities of the NHIF, including the establishment and operation of the National Housing Infrastructure Facility (NHIF) to provide grants and finance to support the creation of housing-related infrastructure.

The details regarding the scope of eligible projects and project proponents under the NHIF, the financing mechanisms and criteria for financing decisions, and the governance and transparency of operations, have particular relevance and implications for local governments in Queensland.

The LGAQ's specific feedback in relation to the draft Investment Mandate is provided in the attachment to this letter.

Overall, the LGAQ has made 7 recommendations which are summarised below. These recommendations are consistent with the feedback previously provided in the LGAQ submissions on the NHIF Consultation Paper in October 2017 and the NHIF Bill in January 2018.

Recommendation 1: The LGAQ maintains its position that local government should be the primary eligible applicant for financing under the NHIF and that amendments be made to section 22 of the draft Investment Mandate to support this.

Recommendation 2: The LGAQ strongly recommends that the Commonwealth Treasury include a consistent definition for 'affordable housing' that may be consistently applied by the NHIF in determining eligible projects.

Recommendation 3: The LGAQ recommends that consultation with state/territory governments and state-based local government associations, including the Australian Local Government Association, is essential in preparing a suitable definition of 'affordable housing' prior to this being included.



Recommendation 4: The LGAQ recommends that section 23 of the draft Investment Mandate be amended to broaden the scope of housing related infrastructure eligible for financing under the NHIF to capture the additional trunk infrastructure local governments are required to plan for and provide in Queensland (i.e. parks and land for community facilities).

Recommendation 5: The LGAQ recommends that section 23 of the draft Investment Mandate be amended to clarify that infrastructure projects already strategically planned for (e.g. through an LGIP) are eligible for financing under the NHIF.

Recommendation 6: The LGAQ recommends that the loan concession criteria outlined in section 24(2) of the draft Investment Mandate be amended to reflect the role of public financiers and encourage uptake by Queensland local governments by allowing the NHFIC to provide a more attractive financing option than already offered by QTC.

Recommendation 7: The LGAQ recommends that section 32(2) of the draft Investment Mandate be amended to require the outcome of all finance decisions (including the decision to refuse finance) to be published and include the reasons for the decision to either grant or refuse financial assistance for a particular project.

If you have any questions in relation to the feedback contained in this letter, please feel free to contact Ms. Crystal Baker, Principal Advisor – Planning and Development directly via crystal_baker@lgaq.asn.au or 0459 864 315.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Sarah Buckler', is written over a light blue horizontal line.

Sarah Buckler PSM
GENERAL MANAGER – ADVOCATE



**Submission to the Commonwealth
Treasury**

on the

**NATIONAL HOUSING FINANCE AND
INVESTMENT CORPORATION**

**Investment Mandate Direction 2018
Exposure Draft**

Local Government Association of Queensland Ltd

9 March 2018

The Local Government Association of Queensland

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association set up solely to serve councils and their individual needs. LGAQ has been advising, supporting and representing local councils since 1896, allowing them to improve their operations and strengthen relationships with their communities. LGAQ does this by connecting councils to people and places that count; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and delivering them the means to achieve community, professional and political excellence.

Specific comments in response to the Draft Investment Mandate

The LGAQ is pleased to contribute the following comments in relation to the exposure draft of the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (draft Investment Mandate).

The LGAQ comments outlined below reflect the LGAQ's previous feedback provided on the NHFIC Consultation Paper in late 2017 and the NHFIC Bill 2018 in January 2018 and relate to four key aspects:

- Eligible project proponents under the NHIF
- Scope of eligible projects under the NHIF
- Loan concessions and criteria for financing decisions under the NHIF
- Reasons for decisions and transparency of operations.

Eligible project proponents (Part 4, Division 1, Section 22)

The LGAQ supports the inclusion of a 'local governing body' and a 'local government-owned investment corporation or utility provider' as eligible project proponents for financing under the NHIF. However, the LGAQ is concerned that the proposed scope of eligible project proponents has been expanded to include a 'State government-owned utility provider', a 'Territory government-owned utility provider', a 'registered community housing provider' and a 'special purpose vehicle', which limits the pool of financing available to local governments.

The vertical fiscal imbalance that is a feature of Australia's inter-governmental financial arrangements means that local governments receive only a 3% share of the total taxation revenue in Australia. In addition, the funding gap for trunk infrastructure across Queensland's high growth local governments is estimated to be \$481.9m annually under the current capped infrastructure charging framework, with the current capped maximum adopted charges only recovering an estimated 69.9% of the actual infrastructure costs (Source: AEC Group/PIE Solutions report, August 2013). As such, councils in Queensland are already subsidising development for over 30% of the infrastructure costs.

In its submission on the NHFIC Consultation Paper in late 2017, the LGAQ noted the scope of 'eligible applicants' under the NHIF could be expanded to include a range of stakeholders but that local government should remain the primary 'eligible applicant', with sufficient flexibility to enter a partnership arrangement at council's discretion. Such a partnership approach would be particularly useful where community housing providers are acquiring or leasing government land and may also require a development approval.

A partnership arrangement involving a NHIF equity injection, could assist in maintaining long term affordability of housing stock (e.g. the ability to control the price point when property is subsequently sold or rented following the initial purchase). This is important if improved housing affordability is to be an objective of the NHFIC and NHIF and may help to encourage co-investment in affordable housing development.

Recommendation 1: The LGAQ maintains its position that local government should be the primary eligible applicant for financing under the NHIF and that amendments be made to section 22 of the draft Investment Mandate to support this.

Scope of eligible projects (Part 4, Division 1, Section 23)

In relation to the scope of eligible projects for financing under the NHIF, the LGAQ is concerned with:

- the absence of a definition for ‘affordable housing’
- the exclusion of parks and land for community facilities as eligible critical infrastructure for financing to support new housing, and
- the focus of financing on projects that would be unlikely to proceed, or otherwise be delayed without financing under the NHIF.

Infrastructure projects that support ‘affordable housing’

The scope of eligible projects outlined in section 23 of the draft Investment Mandate, emphasises support for financing critical infrastructure to support new housing, particularly new ‘affordable housing’, however a definition of ‘affordable housing’ has not been included.

As stated in the LGAQ’s submission on the NHFIC Consultation Paper and re-iterated in the LGAQ’s submission on the NHFIC Bill 2018, a consistent definition of affordable housing will need to be used across all jurisdictions to ensure equitable distribution of funding under the NHIF. Currently, different jurisdictions adopt different definitions which may, or may not, be statutory.

For example, in Queensland the statutory definition of ‘affordable housing’ used in the planning framework is “**affordable housing** means housing that is appropriate to the needs of households with low to moderate incomes, if the members of the households will spend no more than 30% of gross income on housing costs” (Planning Regulation 2017, schedule 4).

In New South Wales, the *Environmental Planning and Assessment Act 1979* (Part 1, section 1.4) similarly contains a statutory definition of ‘affordable housing’ but does not specify a particular proportion of gross income spent on housing costs – i.e. “**affordable housing** means housing for very low income households, low income households or moderate income households, being such households as are prescribed by the regulations or as are provided for in an environmental planning instrument.” The Centre for Affordable Housing in New South Wales does however state “as a rule of thumb, housing is usually considered affordable if it costs less than 30 percent of gross household income”¹.

The LGAQ is disappointed that a definition for ‘affordable housing’ has not been included in the draft Investment Mandate for consultation and that there remains a lack of clarity regarding the objectives and targets of the NHIF in relation to housing affordability and affordable housing.

To ensure transparency and consistency in the allocation of financing by the NHIF to eligible project proponents, the LGAQ strongly urges the Commonwealth Treasury to include a definition of ‘affordable housing’ to align with the purpose of the NHIF, whilst not inadvertently preferencing or disadvantaging one jurisdiction over another.

Recommendation 2: The LGAQ strongly recommends that the Commonwealth Treasury include a consistent definition for ‘affordable housing’ that may be consistently applied by the NHIF in determining eligible projects.

Recommendation 3: The LGAQ recommends that consultation with state/territory governments and state-based local government associations, including the Australian Local Government Association, is essential in preparing a suitable definition of ‘affordable housing’ prior to this being included.

¹ Available online: <http://www.housing.nsw.gov.au/centre-for-affordable-housing/about-affordable-housing>

Exclusion of parks and land for community facilities

Local governments in Queensland are responsible for the planning and provision of 'trunk infrastructure' which is typically shared between different developments. Trunk infrastructure includes water supply, sewerage, transport and stormwater management, but also includes parks and land for community facilities.

Section 23 of the draft Investment Mandate specifically excludes '*community infrastructure, such as parks, day-care centres or libraries*' (section 23(c)) and therefore does not reflect the infrastructure responsibilities of local government in Queensland.

Recommendation 4: The LGAQ recommends that section 23 of the draft Investment Mandate be amended to broaden the scope of housing related infrastructure eligible for financing under the NHIF to capture the additional trunk infrastructure local governments are required to plan for and provide in Queensland (i.e. parks and land for community facilities).

Timing of infrastructure projects

Under the *Planning Act 2016*, local governments plan for trunk infrastructure needs through preparation of a local government infrastructure plan (LGIP), which is a key component of a local government planning scheme. LGIPs are the result of comprehensive integrated land use and infrastructure planning processes and must identify a 'priority infrastructure area' demarcating enough serviced land for 10-15 years urban growth.

Section 23(d) of the draft Investment Mandate supports the financing of projects that '*would be unlikely to proceed, or would be likely to proceed only at a much later date, or with a lesser impact on new affordable housing, without finance under the NHIF*'. However, it remains unclear whether this limitation excludes infrastructure projects already planned for, such as through an LGIP.

It is important that this limitation does not undermine the Queensland planning framework which promotes and requires local government to proactively undertake integrated infrastructure and land use planning. Furthermore, it is important that local governments in Queensland are able to access financing through the NHIF for infrastructure that is strategically planned for (but necessarily funded) through an LGIP to offset inadequate infrastructure charges and bring-forward the delivery of new affordable housing.

Recommendation 5: The LGAQ recommends that section 23 of the draft Investment Mandate be amended to clarify that infrastructure projects already strategically planned for (e.g. through an LGIP) are eligible for financing under the NHIF.

Loan concessions and financing decisions (Part 4, Division 1, Sections 24 and 25)

The LGAQ is disappointed that the loan concessions outlined in section 24(2) of the draft Investment Mandate do not include reference to comparable or better financing terms than those offered by public financiers, such as the Queensland Treasury Corporation (QTC).

In its submission on the NHFIC Consultation Paper in late 2017, the LGAQ highlighted the ability of Queensland local governments to access long term loan funding for capital works through Queensland Treasury Corporation (QTC) under the 'Local Government Borrowing Program' administered by the Department of Infrastructure, Local Government and Planning. In particular, the LGAQ emphasised the need to ensure the types of tailoring and financing terms of the NHIF are comparable with or better than what is currently offered to local governments in Queensland.

It is noted that the NHFIC must have regard to 'whether finance under the NHIF would complement, leverage or support other Commonwealth, State or Territory finance or activities', when making finance decisions (section 25(2)(g)). However, by only referring to commercial financiers in the context of the loan concessions the NHFIC may provide, the draft Investment Mandate limits the

incentive of the NHIF financing for local government and the overall success of the NHIF in Queensland.

Recommendation 6: The LGAQ recommends that the loan concession criteria outlined in section 24(2) of the draft Investment Mandate be amended to reflect the role of public financiers and encourage uptake by Queensland local governments by allowing the NHFIC to provide a more attractive financing option than already offered by QTC.

Reasons for decisions and transparency of operations (Part 6, Sections 30 and 32)

The LGAQ welcomes the requirement for the NHFIC to provide reasons for a decision to finance, or not to finance, a particular project where it is practicable to do so (section 30(2) of the draft Investment Mandate). It is also noted that the NHFIC must publish certain information online within 6 months of making a financing decision under the NHIF (section 32(2) of the draft Investment Mandate).

For the purposes of transparency, it is important that the requirement to publish information online about a financing decision includes the reasons for the decision and applies to decisions to either finance, or not to finance, a particular project.

This reflects the LGAQ's recommendation in its submission on the NHFIC Bill 2018 that 'each investment decision of the NHFIC Board be supported by a written Statement of Reasons or similar, outlining the rationale for the Board's decision to either grant or refuse financial assistance for a particular project'.

Recommendation 7: The LGAQ recommends that section 32(2) of the draft Investment Mandate be amended to require the outcome of all finance decisions (including the decision to refuse finance) to be published and include the reasons for the decision to either grant or refuse financial assistance for a particular project.