



AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

20 October 2017

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

Email: HousingConsultation@treasury.gov.au

Dear Sir/Madam

ALGA Submission – National Housing Finance and Investment Corporation Consultation Paper

The Australian Local Government Association (ALGA) welcomes the opportunity to make a submission on the National Housing Finance and Investment Corporation Consultation Paper.

ALGA is the voice of Local Government in Australia, representing 537 councils across the nation. ALGA's President represents Local Government as a member of the Council of Australian Governments and several other ministerial councils. In structure, ALGA is a federation of State and Territory Local Government Associations.

ALGA supports the Commonwealth's interest in addressing issues around housing affordability, and welcomes the Commonwealth's preparedness to invest in this where appropriate. ALGA appreciates the consultative approach the Treasury has taken, and is keen to continue to work constructively with the Treasury Housing Policy Unit throughout the process to see the development of the National Housing Infrastructure Facility (NHIF) and the National Housing Finance and Investment Corporation (NHFIC) as part of the Australian Government's 'Comprehensive housing affordability plan for all Australians' announced as part of the 2017-18 Budget.

This submission should be read in conjunction with any separate submissions received from State and Territory Associations as well as individual councils. The ALGA submission addresses the relevant questions posed in section 2 and section 3 regarding the NHIF and the NHFIC.

The key comments and recommendations that ALGA would like to highlight are:

1. Councils vary considerably between jurisdictions regarding their operations, areas of responsibility, infrastructure provision, planning frameworks, and ability to access finance options. Because of this ALGA, recommends that engagement with Local Government remain a priority during the scoping and the implementation phases.
2. In some jurisdictions, councils already have access to a range of finance options. It is important that the NHIF complement rather than replace existing options through extended payback periods or deferred repayment schedules, low-cost finance, and a collaboration in the development of the

facility between the Australian, State and Territory Governments and State and Territory Local Government Associations

3. Local councils have well-developed and integrated planning systems, and many have already identified land release opportunities and infrastructure requirements in their jurisdictions. The Consultation Paper proposes that the NHIF directly fund delayed or stalled projects under a concept termed “additionality”. ALGA recommends this objective be reconsidered as it may unduly skew or undermine local planning frameworks.
4. NHIF funding for infrastructure appears to be limited to capital costs. ALGA recommends that consideration be given to supporting the maintenance costs of funded infrastructure as well.
5. The NHIF objectives need to be refined or clarified regarding the relationship between the NHIF and housing affordability. Following this, consideration may be given to inclusionary zoning requirements. However, there are substantial jurisdictional challenges which would need to be addressed.
6. The Consultation Paper includes little detail regarding the \$225 million in the equity investments component of the NHIF. ALGA recommends progressing consideration and consultation on this element of the package in conjunction with the broader package.
7. ALGA does not support the inclusion of value uplift and value capture schemes in the investment design of the NHIF. There are limitations on the capacity of councils to exploit value uplift and value capture opportunities, and ALGA is concerned that factoring value uplift and value capture schemes into the investment decisions of the NHIF could undermine the objectives of improving housing affordability.

Introduction

Local Government in Australia is a dynamic and extremely diverse sector, uniquely characterised by its geographic spread and the critical role councils play in the provision of infrastructure and the administration of planning frameworks. They provide community leadership, foster strategic planning, and undertake regulatory assessment, compliance and delivery of a range of services.

Local Government nationally employs around 187,000 Australians (around 10 per cent of the total public sector), owns and manages non-financial assets with an estimated write-down value of \$408 billion (2015-16). It raises around 3.5 per cent of Australia's total taxation revenue per annum and has annual operational expenditure of around \$34 billion (2015-16) – representing over 5 per cent of total public-sector spending.

Local Government's expenditure is directed towards the provision of local services across the nation. These services include: housing and community amenities; transport and communications; recreation and culture and general public services.

Nationally, Local Government derives nearly 90 per cent of its revenue from its own sources (including rates and services charges), compared with around 50 per cent for state governments. Grants from other levels of government make up around 10 per cent of Local Government's total revenue. These grants are particularly important to councils with a low rate base, and/or high growth rate, and rapidly expanding service and infrastructure needs. Adequate grant levels are absolutely critical for these councils to be able to function in the best interests of their residents and to equalise the availability of services and infrastructure across the community.

Section 2 - National Housing Finance and Investment Corporation (NHIFIC)

ALGA supports the NHIFIC being governed by an independent board, and suggests the board include members with Local Government skills and expertise to sharpen the NHIF's focus.

Local Government has well-established representative bodies and associations in every jurisdiction and a federated national body, the Australian Local Government Association. All are focussed on housing

affordability. ALGA recommends ongoing engagement with these bodies to ensure Commonwealth investment is targeted to where it is most needed. Specifically, ALGA recommends that engagement with Local Government remain a priority during this scoping and the implementation phases.

Section 3 - National Housing Infrastructure Facility (NHIF)

Local councils generally have well developed integrated infrastructure and land-use planning frameworks through which greenfield developments and the associated infrastructure requirements have been identified. These legislative and planning frameworks vary considerably between jurisdictions, as do the services and infrastructure that councils provide.

The consultation paper indicates the NHIF would fund housing-related infrastructure projects that otherwise would not proceed or would face undue delay, a consideration termed “additionality”. ALGA suggests, however, that additionality may undermine or skew the planning frameworks as well as the established community vision for the area. This concept of additionality may also overly constrain the administration of the NHIF as it may be difficult to demonstrate that a project would not proceed or would face undue delay without NHIF assistance. For this reason, ALGA believes this needs to be reconsidered.

Historically, Local Government has been funded for only infrastructure capital costs. It has also been handed infrastructure by other levels of government over time without consideration or compensation for maintenance of these assets. This has left many councils with a significant funding short-fall. Given their resource constraints, councils are unable to adequately maintain infrastructure. The 2015 State of the Assets Report developed by JRA estimates that the gross replacement value of Local Government community infrastructure assets is \$438 billion and that approximately 11 per cent or \$47 billion of these assets are in poor or very poor condition. Assets in poor condition require significant renewal or rehabilitation; those in very poor condition are either physically unsound or beyond rehabilitation. It is critical that any program directed at funding Local Government infrastructure addresses whole-of life-provision of infrastructure, including ongoing maintenance costs.

The NHIF is aimed at boosting the supply of land for housing by providing funding to cover the costs of supporting infrastructure. Given the local planning arrangements and frameworks that support the release of land and the stakeholders involved in land development, ALGA suggests Local Government, and consortia led by Local Government, be deemed eligible for NHIF funding.

The financing mechanisms available to Local Government vary considerably between jurisdictions. Ensuring the NHIF adds value – and fills in gaps in available financing options – will be critical to its uptake and success. Detailed comparisons of the financing options available through state governments and the private sector will be required.

ALGA recommends the NHIF be targeted to provide Local Government with funding options which will better complement existing infrastructure planning frameworks, for example, by removing the additionality requirement so infrastructure projects already identified as viable can be funded. ALGA also supports an increase in the grants component of the scheme to alleviate the costs of providing infrastructure and expedite the provision of this infrastructure, and that funding includes assistance with the maintenance costs of infrastructure.

Although the NHFIC and the NHIF are being presented as Commonwealth initiatives aimed at reducing pressure on housing affordability, their objectives are unclear. The NHIF’s focus on housing-related infrastructure and additionality does not necessarily guarantee an increase in affordable housing stocks. Nationally consistent definitions and negotiations regarding inclusionary zoning may be precursors to the NHIF achieving positive affordable housing outcomes.

Factoring value uplift and associated value capture schemes into the NHIF’s investment decision-making could undermine the objective of improving housing affordability. ALGA would not support consideration of value uplift in a program aimed at improving housing affordability.

Conclusion

In summary, ALGA supports the Commonwealth's interest in addressing the issue of growing housing affordability. Although modest, the first steps in that process – represented by the NHFIC and NHIF – are welcome.

ALGA recommends:

1. Local Government remain a priority during the scoping and the implementation phases as councils vary considerably across jurisdictions in terms of operations and responsibility, infrastructure provision, planning frameworks and ability to access finance options.
2. Priority be given to ensuring that the NHIF complement rather than replace existing finance options through extended payback periods or deferred repayment schedules, low cost finance and a collaboration in the development of the facility between the Commonwealth, state and territory governments and State and Territory Local Government Associations
3. The concept of additionality proposed under the NHIF be reconsidered as it may unduly skew or undermine local planning frameworks.
4. Consideration be given to NHIF funding provisions being extended to support the maintenance of funded infrastructure. Present proposals appear to be limited to funding only the capital costs of housing-related infrastructure.
5. The relationship between the NHIF and housing affordability objectives be clarified or refined. Following this, consideration might be given to inclusionary zoning requirements. However, the substantial jurisdictional challenges need to be addressed first.
6. Further consultations be held regarding the equity investments component of the NHIF. The Consultation Paper includes little detail of \$225 million component and how it sits within the broader package.
7. The inclusion of value uplift and value capture schemes in the design of the NHIF be reconsidered. There are limitations on the capacity of councils to exploit value uplift and value capture opportunities, and ALGA is concerned that factoring value uplift and value capture schemes into the NHIF's investment decisions could undermine the objective of improving housing affordability.

ALGA appreciates the approach taken by Treasury in developing the NFHIC and NHIF, and is keen to continue to be part of the consultation process. Please do not hesitate to contact either myself or ALGA's Executive Director, Mr John Pritchard, on (02) 6122 9400 if you have any questions or would like to discuss this submission in more detail.

Your sincerely



Adrian Beresford-Wylie

Chief Executive