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Contribution to Review of the Operation of the National Housing Finance and Investment Corporation Act 2018

Issues Paper December 2020

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What's next...

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The recently announced review of the National Housing Finance Investment Corporation (NHFIC) Act 2018 has come at a busy time at the end of the year and seeks submissions before January 6. Fortunately, there is much research and international experience to draw on to inform this review.

In part the review focuses on the role of the government guarantee and the eligibility of for-profit entities for the proceeds from the bonds issued. Currently a government guarantee backs bond investors in not-for-profit housing, thereby attracting lowest cost longest term funds.

This effort takes place amidst a growing social and green bond market. This new wave of investment can reinforce the focus and direction of NHFIC's activities. It also takes place in the context of an incomplete and partial review of National regulation of community housing providers – which excludes the largest providers being state housing authorities. Finally, it takes place amidst economic uncertainty brought about by the COVID19 pandemic – and advice to Build Back Better (OECD, 2020).

This submission argues why comprehensive guidance of and investment in dedicated affordable housing providers is important for all these contextual reasons. It also argues that the Commonwealth should re-engage in a more direct investment role, as it has done in previous decades. This would enable Australia to follow the lead of more productive social housing systems overseas, outlined in this submission, and strengthen its economic and social resilience.

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Introduction - perspective and relevance of the authors

We are RMIT researchers who have been involved in researching, adapting, evaluating, and defining the concept of a financial intermediary and guarantee suitable for Australia's needs. Julie Lawson is currently Honorary Associate Professor (since 2013) and Mike Berry is Emeritus Professor, with the Centre for Urban Research, RMIT University.

Relevant to the purpose and eventual establishment of NHFIC are the following reports which AHURI funded and we have completed. This research relates to the design of special purpose financial intermediaries and affordable housing guarantee schemes operating overseas and their relevance to Australia and informed the design of the NHFIC. The research was informed industry consultation, funded by AHURI's competitive grant process and peer reviewed by leading researchers and policy makers in the field. This work was published online in 2013 and 2014. A further article was also published in November 2019, following the first year of NHFICs operations.

The first report '*The use of guarantees in affordable housing investment: a selective international review'*, involved extensive policy and practitioner exchange with six similar entities with a focus on most relevant in England, Austria and Switzerland and involved interviews in six countries and practitioner exchange in Australia with Swiss, Austrian, and English experts.

https://www.ahuri.edu.au/research/position-papers/156

This report aims to build critical capacity among policymakers concerned with the design of public or private sector sponsored guarantees. Such guarantees can play a role bearing and reducing the risk of long-term credit for affordable housing providers.

The second report *Enhancing affordable rental housing investment via an intermediary and guarantee'* concerned the design of an intermediary appropriate to Australia conditions and as based on extensive policy and industry research literature reviews, many interviews and several round table focus groups.

https://www.ahuri.edu.au/research/final-reports/220

A third report *Social Housing as Infrastructure: an investment pathway* concerns the housing needs and investment requirements for social housing in Australia:

https://www.ahuri.edu.au/__data/assets/pdf_file/0025/29059/AHURI-Final-Report-306-Social-housing-as-infrastructure-an-investment-pathway.pdf

Finally, the article *How 1 bright light in a bleak social housing policy landscape could shine more brightly* was published by the authors online in The Conversation. It was informed by a review of comparable financial intermediaries and interviews with senior management of two intermediaries in Ireland and Switzerland:
https://theconversation.com/how-1-bright-light-in-a-bleak-social-housing-policy-landscape-could-shine-more-brightly-126922

This report draws on an extensive body of research by many researchers, which are referenced as footnotes throughout this submission, with key reports listed after the conclusion.

Summary and recommendations

The NHFIC review has come at a busy time over the Christmas New Year period. We offer a summary of our submission, which is elaborated in more detail in the remainder of this document.

Firstly, we understand that the review will focus, amongst other things, on the role of the guarantee and eligibility of for-profit entities. Secondly, we note that the establishment of NHFIC and bond issues of AHBA have taken place amidst the growing role of the social and green bond market. This can have a reinforcing role on the mission of NHFIC and proceeds of its bond issues. Extra care will be needed to ensure that NHFIC's investments clearly meet the social and sustainable KPIs and can be verified.

Further issues regarding the permanence of the guarantee were raised during a meeting with the Review team 14 December and these are addressed in this final version.

We turn to each of these issues in summary below, which are elaborated in more detail in the body of this submission.

Guarantee

There are varying ideas about the use of guarantees, and these are outlined in an extensively researched international review (Lawson, 2013). Guarantees influence the credit allocation of financial institutions by giving comfort to bond investors in the form of an agreement, outlining conditions of coupon payment in the event of default by the borrower. Guarantees are used by many governments to build market confidence amongst new investor segments and accelerate investment in required social and economic infrastructure such as social housing. They aim to bolster the credibility of new initiatives and can be used to establish new pathways of investment. Ultimately, they aim to attract suitable long-term investment and reduce the cost of finance.

In recent years, governments have used guarantees to ensure market stability in an era of crisis and change. In the post COVID19 climate they will become more important again - as they did post the GFC.

As in the Netherlands, Finland, Ireland, the UK and Switzerland, the provision of loans for social and affordable housing via financial intermediaries such as NHFIC are often backed a government guarantee. All guarantees are purposeful and conditional (Lawson, 2013). Finland's Centre for Housing Finance and Development (ARA) only provides guarantee certificates for approved loans in for not-for-profit housing developments, which it also co-funds and progressively provides interest subsidies. Furthermore, certificates are only provided for loans with the most competitive terms, driving down the costs further.

NHFIC has certainly delivered in this regard, substantially driving down the costs of financing for social housing providers.

But it also needs to stay ahead of market developments, as referred to below, especially the requirements of the social and green bond market. Intermediaries, such as NHFIC issue special purpose bonds, such as social and green bonds, when accompanied by guarantee certificates they can achieve AAA rating and the best price.

For profit developments often involve investment of a commercial nature and pose many different types and levels of risk to investors and are not eligible for government guarantee.

Furthermore, such commercial investments tend not meet the KPI criteria required for social bonds.

Type of loans

Refinancing short term loan agreements is an ongoing function of treasury management in social housing provision. Only where loans are partly repaid is equity accumulated via financing instruments. As intended, loans provided by NHFIC primarily refinance costly short term commercial loans. So far NHFIC only provides interest only loans – perhaps this is a lost opportunity.

Loan agreements can also require recipients to build up equity - as in Switzerland where a social housing organization must repay 10% of the principal.

However, for new supply debt finance is not sufficient, as modelled by Lawson, Pawson et al 2018 and the AHAT tool. Just like a deposit for a home, equity investment is also required, as in all other social housing systems from Austria to Finland, Canada to the UK and Germany to the Netherlands.

The cost of finance is important, and the impact of lower cost finance is outlined in chapter 5 of Lawson et al 2018. For existing developments, involving NHFIC refinancing, the savings can be considerable. It is important that these savings be reinvested in new or improved affordable and social housing. The requirement for this is not clear in NHFIC's model or Australia's national community housing regulatory system.

Growing importance of Green and Social Bond market

It is important to recognize the growing appetite for social bonds. In the period since the AHURI (Lawson, Milligan, and Yates, 2012, Lawson, 2013, Lawson, Berry et al, 2014) report was published and NHFIC was finally established in 2018, important developments have taken place in the bond market - particularly with regards to the market for Green and Social Bonds.

These developments are very important for the proceeds of bond issues, the clients that receive them and what they invest in. It has increased the importance of targeting the proceeds of bonds raised in this market and uses appropriate KPIs and reporting frameworks which makes true their social and green credentials. Reporting on KPIs regarding investment in affordable, socially allocated, neighborhood improving, and carbon neutral developments has become more not less demanding.

For the purpose of informing the NHFIC review, the NWB AHB provides a well-documented example. Interviewed for this submission, the treasurer of NWB stressed the importance that proceeds be clearly earmarked for social and green investments and that any step away from this would risk losing this important source of long-term patient capital.

Thus retaining, and not weakening, the focus on not for profit, affordable, green housing is more important than before to this important new source of patient long term investment.

Not for profit focus

Another issue under Treasury's focus is the involvement of for-profit providers. The purpose of NHIFC is to correct for market failure in relation to loans to under-capitalized non-profit entities, not to offer a new state-subsidized stream of credit to for-profit providers. In the eventuality that public subsidy (whether in the cost of credit or in facilitating its availability/guarantee) is provided to for-profit providers, it should come with a clear (transparent and accountable) social return beyond mere market presence, such as targeting tenancies to market-vulnerable groups. Such subsidy, should achieve similar levels of social outcome to existing rental rebates for public housing, or Commonwealth rent assistance. It should not operate as an opaque non-targeted subsidy such as negative gearing.

Unfortunately, Australian national regulation remains vague and weak in this regard – and there have been many submissions to the NRSCH Review calling for a refocus on not profit organizations. NRSCH's relatively open access, contrasts with more prescriptive regulatory systems in Scotland, Finland, Austria, Ireland, and the Netherlands, which focus on not-for-profit provision.

Of course, for profit private landlords currently operate on a very different basis to not for profit and public housing organizations. For-profit providers tend to prefer higher income tenants, set rents at market rates, are not obliged to manage a waitlist based on need, do not manage their tenancies to promote security or affordability, and finally do not involve their tenants in management or promote harmonious neighborhoods through investments, community agreements and co-operative relations with support agencies - as do not for profit and public housing providers.

For-profit landlords are generously subsidized through negative gearing and capital gains provisions - two major benefits which not for profit organizations cannot access.

Thus, any further financial assistance to investor landlords should be discouraged and only be permitted if they perform a well-defined social purpose.

Attracting appropriate investment – guarantee the breakthrough

There is ample AHURI research that shows why a specialist public purpose financial intermediary, as an alternative to fragmented commercial lenders was sorely needed (sf. chapter 3 in Lawson, Berry et al, 2014). At the time commercial banks offered credit only following lengthy and complex negotiations, lacked specialist knowledge of the industry, only provided short loans at high interest rates, posing refinancing risks.

NHFIC also addresses that obvious fact that the private rental market has failed at the bottom end of the income scale and will continue to do so, especially when business as normal resumes. Housing prices and rents will continue to rise faster than the incomes of the bottom half of households. Housing demand is chronically likely to run ahead of new supply and be biased towards the middle and top end of the market, continuing a thirty-year long trend that has made Australian housing among the most unaffordable in the world.

Fortunately, NHFIC has become part of the Australian housing architecture, and has demonstrated leadership in shaping better more purposeful financial markets for affordable housing. Alongside other public investment banks (as are many in Europe, such as the Dutch NWB), they could become leaders in the supply of affordable housing bonds.

Still, some banks argue that NHFIC has displaced their role, using the macroeconomic term 'crowding out'. This view has little merit. Rather, NHFIC has been very successful in *crowding in* or accessing suitable investors to fund the financing of niche affordable housing providers. It has directly accessed capital markets where fixed income investors are seeking quality AAA bonds.

'Crowding out' could only occur in situations where there were 'complete markets'. In fact, financial markets are incomplete; they don't cover all potential market segments of housing finance. In this case, provision of finance for affordable housing, that is financing provision at a cost of funds that would allow a housing organization to provide housing to people of limited means to pay rent. This is the gap that the government guarantee bridges. Banks are not losing potential business, simply because they are not willing to provide funds to this market segment at affordable rates.

As a public purpose intermediary NHFIC has also channeled the proceeds of this investment towards financing of affordable housing. The government guarantee has played a vital role in this process. For this reason, it is important that the guarantee remain in place, in order to secure ongoing interest from these investors, as is the case with investors in other national affordable housing guarantee schemes (e.g. the Netherlands, Switzerland, Finland and Ireland, Lawson, 2013).

To remove the guarantee at this time would suggest tenuous government support and this would most likely reduce investor appetite for NHFIC's bonds. Consequently, it would also increase required bond rates, with more costly CHO financing as an outcome. A useful comparison in this regard is the experience of THFC, where the guarantee scheme ceased in 2015 and it was not able to keep lower loan costs once the guarantee was removed. In contrast, the Swiss Federal government guarantee has consistently backed the bond issuing co-operative EGW since 1991, consistently driving down borrowing costs for not for profit housing providers. Removal of NHFICs guarantee would unravel the good results achieved.

Supply outcomes amplified with public co-investment

There is no doubt that the supply impact of NHFIC can be amplified with public co-investment, allocating strategic funding – and this recognized early on by the Affordable Housing Working Group and their number 1 recommendation for implementing the then called 'bond aggregator' in 2017:

RECOMMENDATION 1 The Affordable Housing Working Group recommends that the Commonwealth and State and Territory governments progress initiatives aimed at closing the funding gap, including through examining the levels of direct subsidy needed for affordable low-income rental housing, along with the use of affordable housing targets, planning mechanisms, tax settings, value-adding contributions from affordable housing providers and innovative developments to create and retain stock.

Creating and maintaining a rental housing portfolio targeted to people on low incomes requires explicit ongoing subsidies to bridge the gap between operating costs (including debt servicing) and rental incomes. This is a feature of overseas models, supported by research to date in Australia and evidence from actual projects. The size of this gap increases depending on where user groups sit along the housing continuum, requiring more support (in various forms) from governments, the lower the income profile and complexity of need.

The specific reforms that jurisdictions may choose to pursue to close the funding gap will vary, according to their priorities, preferred approaches and particular challenges.

Strategic public investment, alongside NHFIC financing, can have a more direct and positive effect on both affordable housing provision and a multiplier effect on the broader economy generating employment and demand[1]. The size of this effect and its role in catalyzing innovation has been researched by KPMG, 2012 and Murray et al, 2012 with regards to the Social Housing Initiative[2].

More recently strategic investment in social housing has been undertaken for economic stimulus and as part of green recovery plans: Victoria's Big Housing Build[3]; across Europe via the Renovation Wave; and in Denmark, the Netherlands, France, Austria and Finland.

[1] See recently published report by R Ong ViforJ and C Leishman for CEDA (2020) Homes Truths https://apo.org.au/sites/default/files/resource-files/2020-10/apo-nid309306.pdf

[2] See Australian Government summary of this report here: https://formerministers.dss.gov.au/11367/social-housing-initiative-creates-jobs-is-value-for-money/

[3]See overview of Victoria effort here: https://www.vic.gov.au/homes-victoria-big-housing-build

AHURI and housing industry efforts have focused on the scale of investment required to address the backlog in affordable housing supply and the most strategic and cost effective approach to delivering required investment at scale (Lawson, et al, 2018 and CHIA, 2020).

It is argued the strategic public investment would crowd in patient capital, acting as the cornerstone of housing project investment, catalyzing and seeding innovation in green, affordable construction and diversifying the housing sector. It would also underwrite the development process and provide investment opportunities attracting investors in quality bonds. Thus, strategic investments in affordable, green housing projects would not only deliver housing policy and planning goals, they would also develop a pipeline of investable projects and promote innovation in design and construction (see chapter 5 and 6 of Lawson et al, 2018).

Finally, given one of the most important barriers to affordable housing is the cost of and access to suitably located land, strategic public investment can also be used to promote *reform of land bankers and land use planning by state governments* and development proposals by private land holders. Most state governments operate public land development corporations (LDCs). There is ample scope for reform that gives CHOs greater participation in the LDC activities.

NHFICs research role – part of a national strategy, making strategic investments

Housing provides an essential service for Australians. It is also an investment asset and a significant element of our national accounts. It is vital that housing receives high-level policy attention at the federal level based on a systematic conceptual understanding of the links between housing policy objectives, housing policy instruments and mechanisms. The role of housing in Australia's federal system of multi-level governance has been described in detail by Dodson et al (2017:15-27)[4]. In is clear that many Commonwealth policies have a profound impact on the shape of housing and land markets (Lowe, 2015[5]) – yet it is unwilling to use this role strategically for the benefit of social and economic well-being, and thus defers responsibility to the states and 'market forces'.

The abolition of the National Housing Supply Council has left a significant gap in housing intelligence at the national level. It is a multi-stakeholder, multi-data model that could be built on and improved, and suggestions for how are outlined below. At the very least NHFIC has a responsibility to monitor the actual results on the ground concerning the need for and demand for investment in affordable housing and use of its bond proceeds. Key research on needs has been undertaken for Q1 (Lawson et al, 2018) and Q2 households (UNSWCF for CHIA, 2018). The results of need and demand for investment and monitoring of bond proceeds should inform the corporations rolling strategic plan.

Currently, housing policy does not have a prominent role within the machinery of government, across all levels and relevant departments, despite its clear economic and social significance. Every jurisdiction is responsible and that is why the federal government needs to pull state and local governments into a new national affordable housing strategy over the national cabinet line. Indeed Dodson et al, 2017 has called for a review of policy as to how all the different parts of the system interact, plus clear policy articulation of what the purpose of each should be, so they can be aligned with national objectives.

There are many government departments and entities able to contribute valuable information on housing market conditions and needs. These offer a variety of perspectives and using different data sources –covering economic developments, financial system stability, productivity of services, as well as housing's impact on health and wellbeing. In depth, independent research is also provided by AHURI and other university researchers, responding

[4] See AHURI report Dodson et al, 2017 here: https://www.ahuri.edu.au/__data/assets/pdf_file/0021/13764/AHURI-Final-Report-284-Housing-multi-level-governance-and-economic-productivity.pdf

[5] Speech by Phillip Lowe, then deputy governor, RBA. https://www.rba.gov.au/speeches/2015/sp-dg-2015-08-12.html

to identified challenges and policy agendas. All these inputs are important, but their role would be more effective when making strategic contribution to a clearly annunciated national housing strategy – involving all relevant stakeholders and levels of government – Federal, State and Territories and local government.

Strategic frameworks spell out agreed housing goals and long-term plans. These focus the efforts of key stakeholders towards aspired outcomes.

NHFICs research and investment efforts would be more effective if they contributed towards such a national housing strategy.

Australia can learn from best practice in strategic housing policy. Scotland's comprehensive strategy improving access to quality housing options, its dedicated budget, and multi-level approach to governance, provides a very successful model which could catalyze Australian policy research and investment efforts. In co-operation with key stakeholders, NHFIC could further adapt research tools such as the Housing Needs Demand Assessment (HNDA) tool outlined below, together with state and local governments, and play a direct role in providing strategic investment in affordable housing where is it most needed.[6]

The successful Scottish National Housing Strategy and Housing Supply Budget[7] was formulated in response to evidence of high and rising need for affordable housing supply. Annual targets for social and affordable housing were devised and met through strategic interventions including planning policy, capital grants for the construction of social housing, funding for shared equity for affordable home ownership and a grant program for builders of affordable rental housing for key workers.

The Scottish government set a global budget to fund the implementation of the strategy interventions and also ensured that robust information on housing needs, disaggregated into private, affordable and social rental housing and affordable home ownership was available for every local government area to aid local planning and investments to deliver required outcomes. It developed the Housing Needs Demand Assessment tool which operates across the whole of Scotland and communicates reliable needs information for local stakeholders, which informs and builds consensus for joint locally tailored action and investments.

As part of the strategy legislative reforms were introduced affecting the private rental sector and strengthening tenant security and energy efficiency standards. It carefully monitored the impact of rights based homelessness policies involving local government and non-government organizations and also introduced evidence based rent controls in high pressure areas, which capped increases to the rate of inflation. An innovative 'rental income guarantee scheme' was also trialed. To promote home ownership amongst young people, the Strategy provided targeted assistance to young first home buyers, but ensured that public investment was returned to treasury on any re-sale of the properties.

Expert reviews suggest that the Strategy was by and large successful, it surpassed the initial 30,000 affordable dwellings and is well on track to meet its 50,000 unit target by 2021. To ensure the Strategy stays on track, more regular needs assessment will be required, as well as more focused evaluations of interventions, necessitating strategic monitoring. Today, Scotland's Strategy has provided an example to other UK governments. The governments of Wales and Northern Ireland have also developed needs based assessment and affordable supply programs. It can also provide an example to Australia's governments.

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[6] Outline of the Housing Needs Demand Assessment tool here: https://www.gov.scot/publications/hnda-tool/

[7] The budgetary resources utilised for Scotland's Affordable Housing Program are outlined here: http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_16-49_Housing_Supply_Budget.pdf

Recommendations

Regarding any future development of NHFIC we suggest the Commonwealth government:

1. Alongside NHFIC, **develops legislation** which lays down the principles of a sustainable, well-regulated not for profit affordable housing system, as in Scotland, Finland, and Austria, which covers both public and private entities and is adapted to Australian conditions and aspirations.
2. Alongside NHFIC, **actively promotes reform of State land policies through long term housing investment and assistance** as part of a **National Housing Strategy**, following international best practice in multi-level governance and co-operation.
3. As part of this National Housing Strategy monitors and sets **annual affordable housing supply targets,** which **guides the volume of bonds issued by NHFIC**, that are guaranteed by the Commonwealth and enable loans to be allocated accordingly.
4. To ensure targets are feasible, the Commonwealth **funds a needs-based capital investment program** to drive new construction of green, affordable, and inclusive housing (see spatial distribution of need, Lawson et al, 2018), learning from international best practices: Scotland's Affordable Housing Program and Finland's Centre for Housing Development and Finance.
5. Treasury and NHFIC establishes an **international network of experts to reinforce the board and best practice of NHFIC**, building relationships with special purpose financial intermediaries focusing of affordable housing such as the Swiss Bond Issuing Co-operative, UK's Housing Finance Corporation, Ireland's Housing Finance Agency, and the Dutch NWB.
6. **ANAO and NHFIC benchmarks performance** against comparable financial intermediaries regarding efficiency and effectiveness, in all relevant qualities, processes and outcomes, such as board governance and supervision, value for money of management, operations and loan activities.
7. **NHFIC develops research capacity to** monitor need and demand for investment and enforces requirements of social and sustainable bond proceeds, in concert with KPI **frameworks required by social bond investors.**
8. **Reviews and expands the board** to ensure adequate expertise and experience in the mission of affordable housing, the financing of not-for-profit organisations and regulatory demands.
9. NHFIC targets assistance to **regulated housing entities** whose mission is affordable housing and that adhere to not-for-profit organisation and reinvestment principles and excludes assistance to profit entities such as REITs and alternative investment funds.
10. **Completes its national review of NRSCH** and **ensures it covers all affordable housing providers, including public and community housing,** reinforcing their public and not for profit purpose and capabilities.
11. Establishes a **capable NRSCH regulatory body** with appropriate authority, expertise, and resources, which has a national CEO and is accountable to an independent board and includes consumer advocates.

Detailed submission

NHFIC’s AHBA and the shift to social bonds – reinforcing role of KPIs on proceeds

In the two short years since the Australian government created the National Housing Finance and Investment Corporation (NHFIC), its bond aggregator, AHBA, has raised funds for affordable housing providers, allowing them to refinance loans under better conditions. Its first bond of A$315 million bond was issued in March 2018. The second A$315 million bond issue offered providers 2.07% for ten-year interest-only loans in 2019. A third social bond issue of $562 million was issued in June 2020.

The proceeds from these bond issues were allocated purposefully to community housing providers, largely in order to refinance costly loans on better terms than retail banks were offering (for reviews of former conditions see Lawson, et al, 2010[8], 2012[9], 2013[10], 2014[11], 2018[12] and various industry[13] and commissioned research[14]). This has enabled them to exchange costly financial agreements for lower cost, long term arrangements, providing cost savings that place them in a stronger financial position to carry out and expand their activities.

NHFICs efforts have taken place in the context of a growing appetite for social and green bonds. This is a very positive development as investors are increasingly interested in issues beyond spread and liquidity, and importantly value social and green outcomes too. Over the past few years, global market for social and sustainable bonds has grown exponentially, providing a rapidly expanding capital pool of private investment.

NHIFC sits in an ideal position to access this growing pool of social and green investment and it has been able to use this position to refinance existing loans. But it also needs to keep ahead of the game in meeting their reporting demands an ensuring the use of bond proceeds clearly meets their KPIs for what is considered both social and green. These demands are dynamic and evolving, as taxonomies develop and refine, such as the EU Taxonomy.

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[8] https://www.ahuri.edu.au/__data/assets/pdf_file/0013/3118/AHURI_Research_Paper_International_measures_to_channel_investment_towards_affordable_rental_housing.pdf
[9] https://www.ahuri.edu.au/research/final-reports/188
[10] https://www.ahuri.edu.au/research/position-papers/156
[11] https://www.ahuri.edu.au/research/final-reports/220
[12] https://www.ahuri.edu.au/research/final-reports/315
[13] https://www.communityhousing.com.au/wp-content/uploads/2020/05/SHARP-Program.pdf
[14] https://treasury.gov.au/sites/default/files/2019- 03/c2017_222774_EY_report-2.pdf

International guaranteed investment schemes

As a government owned and backed financial intermediary it is informative to compare the experience of NHFIC with other well-established similar entities. Several have been examined by AHURI researchers in 2013 (Lawson, 2013. Lawson, Berry et al, 2014)).

Table 1 A selection of international intermediary and guarantee schemes relevant to NHFIC

Guarantee Scheme	Intermediary	Targeting	Fin. Impact	Default rate
Dutch Guarantee Fund Social Housing (WSW) backed by the sector, a fund and central and local Dutch governments (1983)	Independent foundation	Yes	1-1.5% below going market rates for similar mortgages	0%
Swiss Bond Issuing Co-operative for Limited Profit Housing (EGW) backed by the Swiss Federal Government (1991)	Co-operative	Yes	Small margin above government borrowing costs	0% since 2003
UK Affordable and Private Rented Housing Guarantee Schemes, backed by UK government (2013-2015)	Non-profit corporation	Yes	Provides 30 year finance at small margin above government borrowing costs	0% based on lengthy THFC experience, guarantee introduced 2013
French Mutual Fund for Guarantees of Social Housing (CGLLS), backed by the French government (2001)	Publicly owned corporation	Yes	Market only exists with guarantee	0% since 2008, has been higher 0.04%
Irish Housing Finance Agency backed by the Irish government (1982 LAs/2012 VHBs)	Publicly owned company	Yes	Very limited market without guarantee	0% for LAH, new for VHBs
Scottish government's National Housing Trust, backed by the Scottish government (2010)	Publicly owned Trust	Yes	NA	0% new
US Risk Sharing Scheme between Housing Finance Authorities and HUD, backed by Federal Housing Administration insurance	Publicly owned corporations	Yes	Diverse	NA
National Housing Finance Investment Corporation (2018) first bond issue 2019	Publicly owned corporation	Yes	1.5% below going market rate of similar mortgages	NA

Updated from Lawson, 2013

This section offers comparisons with similar entities in the Netherlands, Switzerland and Ireland.

Figure 1 Piers Williamson from THFC and Peter Gurtner from EGW responding to questions on the design of the Australian financial intermediary and guarantee scheme at the AHURI National Housing Conference in Adelaide (Lawson, 2013).

The world's largest guaranteed Affordable Housing Bond – Dutch Water Bank NWB

The Dutch public investment bank NWB is a leading public investment bank, with two thirds of its clients being social housing providers, who in turn rent their homes to households with an income at or below the median income. Other clients of the bank include local governments and water boards. As a world leader in social and sustainable Affordable Housing Bonds, the banks treasurer was interviewed to inform this review. He stressed the importance of *understanding borrowers needs and matching these with the requirements of bond investors*.

The NWB needs to attract 10-12 billion euro per year to finance its public investment banking activities. Given strong synergies between the NWBs investment activities, its clients, and the new wave of green and social investment, it has become Europe's market leader in Green Bonds, Water Bonds and Affordable Housing Bonds. This has energized and focused its public purpose and practice. *The experience of NWB is also informative for NHFIC* too.

In 2017 NWB created the Affordable Housing Bonds, to attract dedicated investors. As bonds are priced according to demand, it is important to target the correct capital pool, to attract sufficient competing investors and make a good placement of bonds. NWB AH bonds are purposefully marketed as to the small pool of investors interested in *social and green* housing. The bonds back investment in income targeted social housing, managed by not-for-profit corporations which also engage in community development. These corporations also play a leading role in renovating and retrofitting housing

Social bond investors demand transparency and thus good reporting is important. This pressure also drives the purpose of the bank's loan investments and reinforces the social and green activities of the housing providers. However, social KPI issues are not always easy to quantify. While there is an EU Taxonomy for green investments, social characteristics are more context bound*. Continuous work is needed to define affordable and social benchmarks*, as these differ over space and time.

The lesson from NWB for NHFICs AHB is that *investments must not only be green and affordable, but they can also promote economic and social empowerment,* addressing social issues such as belonging (combatting loneliness), neighborhood safety (reducing crime), job opportunities (education, training, and employment) and improving area quality (reducing urban stress). This implies investments in housing as well as support services too.

Social and sustainable bond proceeds, in the form of loans to housing corporations, typically provide continuous balance sheet financing and this is accounted for across the sector as a whole – not on the basis of individual projects. *This requires co-operation between the bank and the peak federation of the social housing sector, in monitoring and reporting, across the entire sector.*

Reporting on KPIs is facilitated via the national body AEDES (equivalent of CHIA). Investors also like to see where bond proceeds are actually allocated. Regular site visits are undertaken with the NWB and AEDES to demonstrate the results of invested funds.

Dutch social landlords must allocate 80% of their dwellings to a defined income related target group, while 20% can be for those above the income limits. To ensure the bond proceeds are matched, only 80% of their funding can be sourced from the social bonds issued by NWB and the remainder must be sourced from other bonds.

Despite these obstacles, there is *strong investor interest*. The Dutch NWB can issue two bonds per year and has raised over 10 billion euros via the issuance of social and sustainable bonds. NWB needs no road show to attract investors. Rather they come to the bank and make regular site visits to view social and green housing and neighborhood developments.

Appropriately, NHFIC has orientated itself to this market and tailored bond issues to suit. As the social and sustainable bond market is a dynamic and evolving one, NHFIC will need *to keep abreast of developments to ensure that its bonds are well positioned and meet investor requirements* to maximize demand and gain the best placement. To do so it will need to work even closer with its clients, the CHOs, to ensure that they make use of loans for qualified investments and KPIs. It could also be valuable to learn from emerging best practice – as provided by leaders in this field the NWB.

Swiss Bond issuing Co-operative with federal government guarantee.

Also of relevance is the small-scale financial intermediary supporting limited profit housing associations in Switzerland. The Bond Issuing Cooperative for Limited Profit Housing (BIC/EGW) was jointly established by the Federal Office of Housing and the cooperative housing movement in 1991. It has been continuously backed by the Swiss Federal Government and is a very efficient and well-focused operation.

At the time of NHFICs first bond issue, EGW had issued its 62nd bond issue of CHF195 million (A$289 million). This enabled loans with all-in borrowing costs of 0.32% p.a. (only slightly more than the government bond) over 20 years. Since 1991, it has carried out 87 bond issues with a total volume of 7.1 billion Swiss francs (as of April 2020) all with a federal government guarantee. All in average costs are 0.984%.

All members of the financial intermediary's board, regardless of their professional backgrounds, are rooted in the affordable housing and cooperative movement. The representative of the state is legally spoken not a member of the board but rather an observer acting as a sort of liaison officer on the part of the federal housing office. The board members are elected by the general assembly of the BIC which consists of delegates chosen by the member cooperatives.

BIC/EGW pools the borrowing demands of its members and meets these by issuing five to 15-year fixed bonds covered by a federal joint guarantee. This process allows smaller builders access to long-term, low-cost finance from pension funds for affordable rental housing at typically 1–1.5 per cent below comparable market rates and just above Swiss Government Bonds*. For almost thirty years, the full faith and credit provided by the Swiss Federal Government is clearly specified in their Guarantee Agreement*. The cooperative employs no one and contracts all financial and legal services as required.

BIC/EGW issues bonds and allocates loans for new and renovated cost rental housing, which are targeted to low to middle income households, and managed by organisations which are *compliant with Charter for not-for-profit housing*. The charter contains the basic principles of the application of the cost rent, occupancy rules, social mixture, rent-income ratios etc. They must also adhere to high government standards for environmental sustainability as well. Loans are offered at a small margin above government borrowing costs. There have been no defaults or call or the government guarantee since 2003.

Original construction credit is financed by ordinary banks and consolidated by BIC-loans only after completion of the construction, rehabilitation, or acquisition of the dwellings. *Roughly 60 to 70 % of the bond proceeds of every new issue are used to renew and prolong the existing loans*, thus reducing the immediate 'supply-effect'. In 2018, there were 5,193 dwellings co-financed with the proceeds of three issues totalling CHF409.2m and a total of 33,787 units profiting from the outstanding bond-volume of CHF3.6 billion.

Irish Housing Finance Agency with government guarantee

A *similar organisation to NHFIC*, being a publicly owned corporation, is the Irish Housing Finance Agency. It has similar strategic objectives to NHFIC. While NHFIC supports 350 registered CHPS across Australia, the Irish HFA, supports 400 affordable housing bodies. The scale and composition of the affordable housing industry is also similar. Irish activity is also concentrated in larger AHBs, and the largest 3 AHBs account for c.75% of activity with the HFA.

Prior to the establishment of the HFA *with government guarantee*, affordable housing providers had very limited access to credit markets. Since establishment and expansion of HFA's role there have been 0% defaults for LAH and VHBs on HFA loans.

The HFA is also backed by the Irish Government (since 1982 local authority housing providers LAHs/ since 2012 not for profit voluntary housing bodies VHBs). This enables the HFA to raise funds, also from the European Investment Bank, and provide loans for new and renovated income related rental and ownership housing. Only registered and monitored not for profit housing providers are eligible for this finance. Their target is low to middle income households.

The not-for profit social purpose and government guarantee provide access to the lowest cost *funds from the European Investment Bank*. This was the same requirement for the UK's THFC, when it accessed EIB funds under the guaranteed Affordable Housing Bonds scheme until 2015.

In Australia NHFIC's AHBA loans can only be provided to registered CHPs that are regulated under a State or Territory law or scheme. In the first year of operation, NHFIC's annual loan approvals were around €280m for >400 dwellings –as was expected a good proportion of these loans are for re-financing more costly loans for existing dwellings. In the same year, the Irish HFA approved €600m for >3,000 dwellings –which were *primarily for new properties*. In its second year of operation NHFIC loans supported 1,000 new dwellings and refinanced 4,000 existing dwellings.

The actual number of NHFIC CHO loans advanced were around €190m rising to $882m in the second year– but more than twice were issued by the Irish HFA c. AUD $735m (€450m) and AUD$1217m (€745m) in the same years (2018-2020).

The HFA *has half the number of full-time staff as NHFIC*, being 15 in 2020 (rising from 13 in 2018). Furthermore, renumeration for senior positions is considerably lower than the NHFIC. Notably the chair of the board of the HFA is an expert in housing policy and finance and an academic. Her time is voluntary and supported by Dublin University.

In the first year that the NHFIC issued one bond – of €197m, government guaranteed (AAA rated) the 10-year government yield at the time of issue in March 2019 was c.2.7%. It appears that funding was passed through with a small margin retained by NHFIC. In Ireland, HFA funding provided was much longer term (up to 30 years). The HFA itself does not issue directly to market, rather it *uses Government Guaranteed Notes Programme* to access NTMA and local authority funding and bilateral agreements with other funders such as the European Investment Bank (EIB) and the Council of Europe Development Bank (CEDB). This ensures borrowers have the lowest possible costs. They must be not for profit organisations which serve a social purpose.

NHFIC was intended to operate as an aggregator – but it is not clear how they assess CHPs from the annual report, or determine loan terms, or establish covenants etc. The Irish HFA could be described as an aggregator but does not operate a clear pass-through structure as with NHFIC. The HFA has *robust credit processes including annual reviews, projects reviews and standard form of documentation and security*. This is like the Dutch guarantee system (Lawson, 2013).

NHFIC appears to have passed on the funding at a very low margin – funding provided at under 3% for 10-year interest only loans. However, the comparable Irish HFA offers a 10-year rate to AHBs of 1.75%. The HFA margin appears higher, possibly reflecting the credit risk associated with lending to AHBs and the absence of direct government co-funding of the Agency. The HFA *provides fixed rate annuity funding up to 30 years, currently at 2.75% for 30 years.*

NHFIC offers small grant programme $900k to support smaller CHPs. The HFA offer a simplified funding process up to $1.5m for each AHB – targeted at small AHBs.

While NHFIC has an independent Board, NHFIC has very limited board *representation from the not-for-profit housing industry, housing experts and not for profit regulators*, unlike the HFA, the UK's THFC or the Swiss Bond Issuing Co-operative.

In the first year NHFIC had a €625m facility for housing related infrastructure targeted at Local Government, State Government, CHPs and SPVs – National Housing Infrastructure Facility. The Irish HFA provides similar funding but to local authorities. The MAV's financial intermediary does this in Victoria.

While NHFIC has a flatter management structure. *NHIFC offers higher remuneration for Board members and senior management than the HFA*. It is possible that this is commensurate with norms in the financial industry but is not commensurate with norms in the public sector or not for profit housing sector.

NHFIC received $33m direct grants from Australian Government and Equity injection of $103m – the HFA self-funding. Collateral held by NHFIC is on a case-by-case basis but appears similar to HFA.

Australia lacks mission focused equity investment to drive supply and innovation

Australia lacks s long term approach to direct public investment alongside NHFIC. And this has been pointed out time and again by the AHWG[15], various AHURI reports and industry reviews[16]. Lower interest financing from NHFIC, regardless of how purposeful and strategic, is simply not enough for affordable and social housing to grow in Australia, with its limited access to development sites, constrained balance sheets and narrow revenue options.

For NHFIC to play an expansionary role in affordable supply, it will need to be complemented a strategic investment program. The Australian governments Social Housing Initiative in 2010[17][18] and Victorian Big Housing Build[19] demonstrate how this can be done. But has mentioned above, there are many international examples to learn from too.

To cater for the need for affordable housing, requires a bolder and more strategic approach, through purposeful land policy and direct public investment, coupled with long-term low-cost finance and a broader tenancy base[20].

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[15] See Australian Government (2017) Supporting the implementation of an affordable housing bond aggregator Affordable Housing Working Group's Recommendation 1 p.2 in https://cdn.treasury.gov.au/uploads/sites/1/2017/09/170921-AHWG-final-for-publication.pdf

[16] https://www.communityhousing.com.au/wp-content/uploads/2020/05/SHARP-Program.pdf

[17] https://www.dss.gov.au/sites/default/files/documents/11_2013/social_housing_initiative_fact_sheet.pdf

[18] http://www.nwhn.net.au/admin/file/content101/c6/social_housing_initiative_review.pdf

[19] https://www.vic.gov.au/homes-victoria-big-housing-build

[20] The power of mission orientated investment, has remerged in Europe with the Green Deal and COVID19 Recovery Plans to promote renewable energy, sustainable renovation and accelerate a shift towards a more circular economy. Many countries are using their social housing systems as reliable and efficient vehicle. Also in the State of Victoria.

The role of mission orientated public co-investment

There are *many approaches to draw on internationally*, such as successful affordable housing supply schemes in Finland, Austria, Scotland, and France. Each have well established co-investment programs that crowd in suitable forms of long-term financing, from grants and interest rate subsidies to strategic tax incentives. Today many comparable countries utilize social housing to catalyze innovation, perform a countercyclical role, and ensure the sufficient supply of housing to meet needs and prevent homelessness.

Productive social housing systems have a long-term vision, which incorporate multi-year investment strategies such as:

- Public investment via revolving grants as in the Scottish Affordable Housing Program,
- sliding grants, interest rate subsidies and strategic guarantees of the Finnish Centre for Housing Finance and Development
- the revolving building funds in Denmark and Slovenia,
- public and tenant equity and loans for limited profit building in Austria (e.g. Vienna)

Many countries ensure that land is dedicated and available for affordable and social housing as equity, via public land banking, land leasing and inclusionary zoning contributions, as in the UK, Finland, Austria, France, Scotland, the Netherlands, and the US, where up to 30% of land for residential use is made available for social housing. [21]

In mature social housing systems, long term public investment and well managed rent policy has ensured strong provider balance sheets, as was the case in the Netherlands since the 1990s. This can be ring fenced and leveraged to access further investment. This is provided on best market terms via public investment banks (70% of the market) and the Dutch WSW guarantee (more on this later).

Purposeful investment in social housing builds not only assets and social value, which accumulates over decades in mature social housing systems, it also generates strong healthy neighbourhoods.

A counter cyclical role in post COVID recovery

The COVID19 pandemic has highlighted several key vulnerabilities in our societies, their economy and in particular their *housing systems.* NHFIC can play a role in responding addressing some of these issues in Australia but has the capacity to do so more effectively and contribute to Building Back Better and post pandemic recovery.

Learning from responses to past crises– suggests it is important to generate a sufficiently large, purposeful timely and properly designed stimulus measures can generate economic growth, create jobs, and bring about environmental benefits. Policy design and evaluation is important (OECD, 2020[22][23]).

Building Back Better – is the OECD's key policy advice document for Australia when

[21] hSee overof and policies inttps://smartland.fi/wp-content/uploads/Land-policy-for-affordable-and-inclusive-housing-an-international-review.pdf

[22] https://www.oecd-ilibrary.org/environment/what-policies-for-greening-the-crisis-response-and-economic-recovery_c50f186f-en;jsessionid=Sc1CdaB04C_PiZtKdul2isWR.ip-10-240-5-113

[23] https://read.oecd-ilibrary.org/view/?ref=133_133639-s08q2ridhf&title=Building-back-better-_A-sustainable-resilient-recovery-after-Covid-19

designing housing focusing on energy efficiency and inclusive stimulus (OECD, June 2020). More recently, the OECD has released advice on the role that social housing can play (OECD, November 2020). Australia can also learn from past responses to the GFC, as provided by KPMG, 2012[24] and AHURI, 2012[25].

Historically, Australian governments have used social housing for economic stimulus, as in Post-WWII Reconstruction program, including social housing program, post-1981 recession social housing investment (via CSHA), Building Better Cities 1991-1996 and the Social Housing Initiative 2008-2010.

The Social Housing Initiative, was a direct public investment in new housing for 19,700 households, including 8,400 people who were homeless, and 12,000 dwellings repaired. Energy efficiency and adaptability was introduced to more than 95 per cent of constructed new dwellings, potentially reducing energy bills for households. This effort generated additional $1.5 billion p.a. on average over the life of the SHI. It had a multiplier impact through the economy. For every $1.00 of construction activity, around $1.30 was generated in total. The impact on GDP was a considerable 10 basis points or $1.1 billion on average over the life of the SHI. Employment in the construction industry increased by approximately 9,000 full time equivalent (FTE) positions during the period of stimulus, leading to an overall increase of approximately 14,000 FTE jobs (KPMG, 2012, Murray et al 2012).

Strategic investment program needed alongside NHFIC loans

To repeat evidence in Lawson et al (2014) and Lawson et al (2018) it is not sufficient for the government to simply offer cheap loans from NHFIC in order to ensure scalable development outcomes and their sustained contribution to affordable housing over time.

Given constrained incomes, high land costs in areas of need and the substantial back log in social housing production which has emerged since the 1990s, to be effective the NHFIC clearly needs to go beyond refinancing loans to support long-term investment in building much-needed affordable and green housing – as was the case in the early 1980s and post the GFC.

With construction in the doldrums and COVID likely to exacerbate unemployment, many experts are calling for a second Social Housing Initiative to meet critical housing needs and provide jobs. The first initiative stimulated the construction sector and the wider economy, secured 14,000 skilled jobs, and inspired innovative design.

With interest rates for government borrowing near zero, the NHFIC's impact could be maximized if coupled with long-term public investment – tied to performance targets – as exemplified by Scotland and Finland, and most recently the state of Victoria[26].

International examples of strategic public investment and patient long term financing

Again international experience is informative as many countries have long-term programs that bridge the funding gap to make green social housing a reality. It is worth contrasting Australia's efforts with such countries. Many have smaller populations and economies but are still far more effective in delivering affordable housing.

[24] http://www.nwhn.net.au/admin/file/content101/c6/social_housing_initiative_review.pdf

[25] https://www.ahuri.edu.au/__data/assets/pdf_file/0018/2772/AHURI_Positioning_Paper_No155_Design-innovations-delivered-under-the-Nation-Building-Economic-Stimulus-Plan-Social-Housing-Initiative.pdf

[26] https://www.vic.gov.au/homes-victoria-big-housing-build

With just a third of the population, Austria's limited profit housing associations produce 14,000 to 16,000 dwellings per year, being 30 per cent of all new housing. They play an integral role contributing towards economic and labour market stability, promoting innovation in new building and renovation, and driving energy efficiency in the residential construction sector.

Beyond cheap private loans from Housing Banks, affordable housing is supported by facilitative local planning and pro-social land banking. The state governments also provide grants and favourable loans extensively.

Also, Finland with just 5.5 million people – constructs 8,000 affordable dwellings each year, which is 22 percent of all new dwellings. Finland is the most effective country in Europe in addressing homelessness and considered the most socially sustainable country in the world. This outcome rests of several strategies: conditional land leasing, 'sliding' grants dependent on depth of support required, interest rate subsidies, guarantees as well as efficient financing via a national agency and municipal infrastructure bank (ARA, 2017a).

With a similar population as Finland, Scotland (5.4m), produced 50,000 affordable housing units since 2016 through effective planning and strategic investment. Their role is discussed in detail below.

In France, the scale of effort is considerable and strongly countercyclical. The social housing sector produced 130,000 affordable dwellings just in 2016, increasing production immediately after the GFC to ensure greater economic stability and promote social harmony. Post COVID19, its will again play a counter-cyclical economic role.

Affordable housing producers are now accelerating their switch to low-emission energy design and materials and will ensure improvements in energy savings are passed on to tenants. They have also committed to local low-carbon construction supply chains, scale efficiency and recycling of materials, towards a more circular economy. Social rental housing will probably go on to build more or less 100,000 units a year for the next three years to stabilise the construction sector (Union-Habitat, 2020). Facilitating access to sites is the National Law requiring social housing to account for 25 per cent of all housing in local areas by 2025, with Paris aiming even higher: 30 percent by 2030 (Alcade, 2018).

Scotland- Affordable Housing Supply Program

With regards to equity investment, the Scottish Government has developed strong capabilities in needs based strategic planning and social housing grant allocation and housing delivery, as well as international best practice in provider regulation. It has established an Affordable Housing Supply Program which has supported a target of 50,000 social and affordable housing since 2016.[27]

There are several reforms in Scotland, which could catalyze greater productivity of housing outcomes in Australia.

Scottish reforms of interest include the Housing Need and Demand Assessment Tool, Local Housing Strategy and peer review process, Strategic Housing Investment Plans as well as the influential Affordable Housing Supply Program, combined these instruments will ensure the production of 50,000, new and appropriated located social and affordable dwellings by 2021.

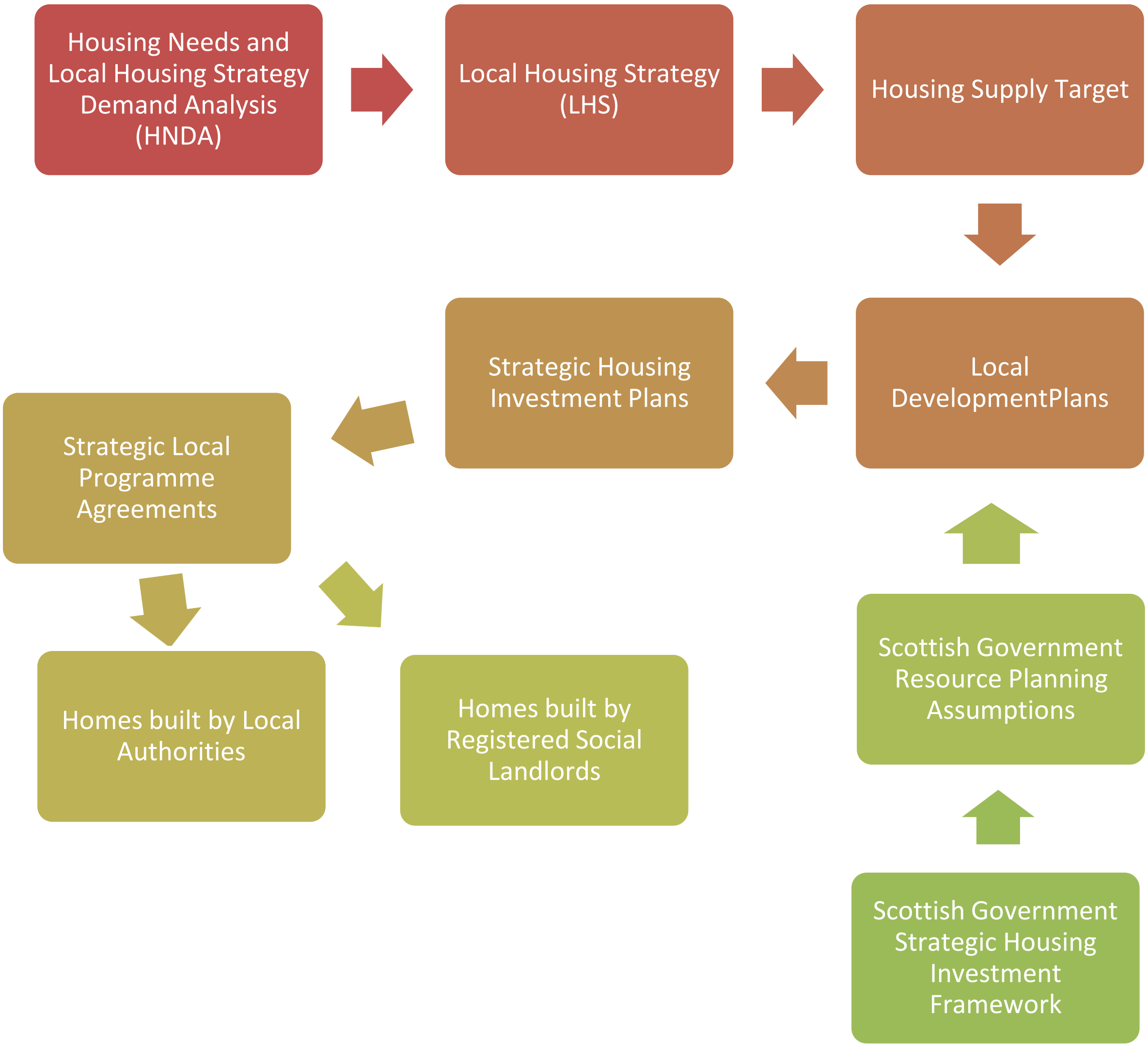
Through a strategic effort with Local Authorities (LAs), the Scottish Government's Housing and Social Justice Directorate has channeled increased capital investment via area teams working with local Councils, to address well evidenced and locally established housing needs. It has also created a dedicated Housing Infrastructure Fund to address development 'blockages. Furthermore, the government continued to employ funds to renovate vacant

[27] https://www.gov.scot/policies/more-homes/affordable-housing-supply/

dwellings and established a new fund to increase affordable housing in rural and remote island areas.

The Scottish Government requires Local Authorities to produce Local Housing Strategies, using standardized data and assessment processes known as the Housing Needs Demand Assessment Tool. This tool is used to generate local housing development targets, which in turn following broader consultation, are used to inform the basis of Strategic Housing Investment Plans. Together with local providers and the Scottish Government, funding agreements are reached based on these Plans and available resources, using transparent criteria and cost benchmarks. (Local authorities in Scotland and England.

Figure 2: The Scottish HNDA addresses Strategic Local Housing Needs



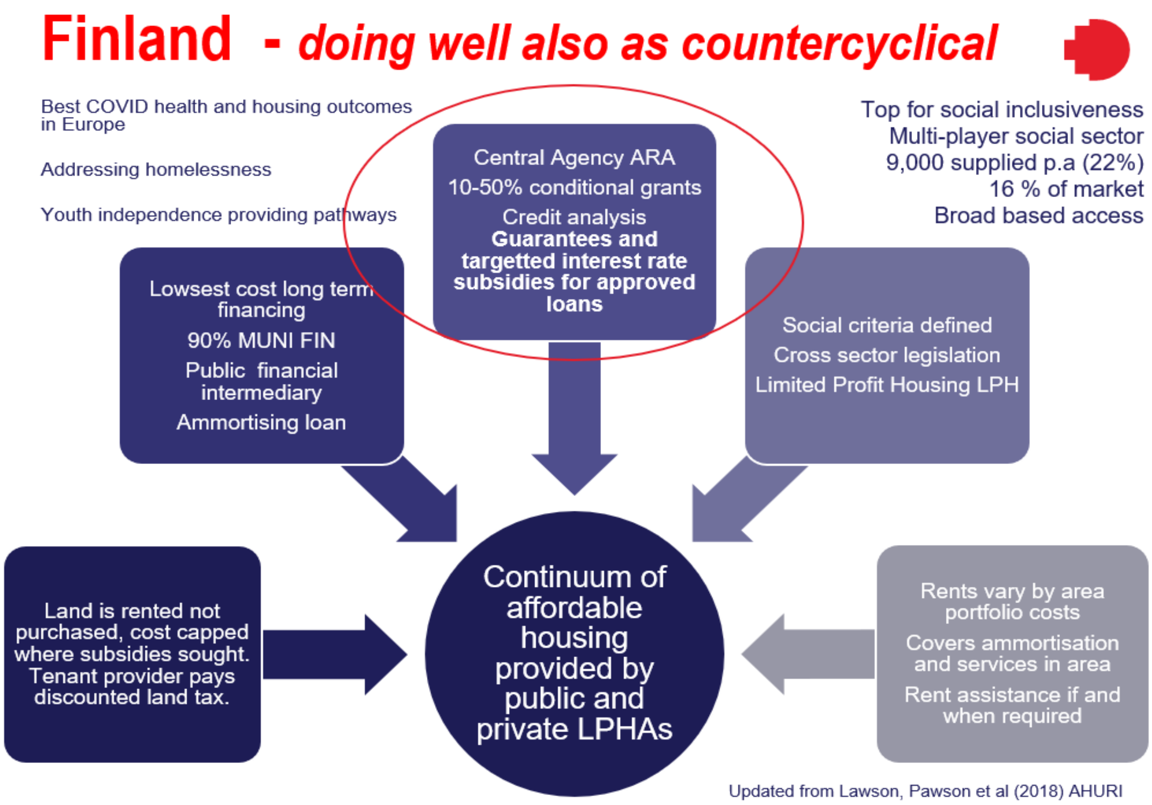
Finland best in class for sustainable and countercyclical delivery of affordable housing

Of Finland's 5.5m population very few reside in overcrowded, unaffordable housing or at risk of poverty. Young households are not constrained by the market conditions and are able to leave the parental home earlier than many other countries in Europe and it also has the lowest rate of homelessness – keeping accurate records since 1987.

The approach taken by Finland is exemplified by the Housing Finance and Development Centre of Finland (ARA), which is widely considered Europe's most effective and innovative driver of affordable housing outcomes. It views itself as an expert partner, developer and modernizer of housing and promotes ecologically sustainable, high-quality and reasonably priced housing. As a government, Finland also engaged in early stimulation of economy (euro 20 billion package) and foresees no future austerity measures. It used social housing production as part of its countercyclical response.

Finland has a clear national strategy to address well-researched market challenges. The Finnish *model provides tailored grants and interest rate subsidies and selectively applies a government guarantee to drive long-term investment in affordable housing*. Long term loans can be provided by any financial institution (but the market for this is dominated by the public infrastructure bank Munifin). Housing financed ranges from housing first homelessness prevention, student housing and shared ownership for young starters to affordable home ownership and supported accommodation for the aged. As part of the post COVID recovery and *counter cyclical effort, affordable and social housing production was increased* from 7,800 to **9,000 new starts in 2020** (including 30% more new loans with interest subsidies via ARA. It was able to do so by adjusting the volume of equity and interest rate subsidies to crowd in and channel investment to needed housing forms.

Figure 3: Finland's ARA Centre for Housing Finance and Development combines all policy levers to deliver best European results in affordable and inclusive housing



Credibility and reliability of a regulatory framework is important to cost of funds

As mentioned above, Australia and NHFIC lacks a well-defined, legislated, regulated, and monitored system that covers both not for profit community housing organisations and public housing state housing authorities, unlike other successful social housing systems in Scotland, Austria, and Finland.

It is critically important that the financing, regulatory and provision system hit the target of boosting the numbers of housing accessed by low and struggling middle income households and not be syphoned off to commercial investors or households better able to compete in the private housing market.

Strengthened regulation was emphasized by the Affordable Housing Working Group as an essential pre-condition for maximizing the effectiveness of a bond aggregator vehicle. We have reviewed all the submissions made for this review. Intentionally, only registered not-for-profit providers that comply with the National Regulatory System for Community Housing can get a loan through the NHFIC.

However, the review of the system has stalled. While many made arguments that not for profit and public housing providers should receive support, there is also pressure from commercial providers to play are greater role but not be subject to profit limitations. *Opening NHFIC bond proceeds to for profit providers goes against international frameworks* which government the proceeds of social bonds. It also goes against key learnings from the experience of for-profit provision in the social and affordable sector too.

In Europe, the proceeds of social housing bonds are only open to housing providers that satisfy basic criteria: be not-for-profit and for a social purpose, meet local needs, promote social inclusion, and apply affordable rent-to-income ratios.

Despite the obvious need in Australia, efforts towards better funding have largely excluded public housing. The Victorian government has recently shown that with sufficient political will, it can make large public investments in its housing stock, as it has done in decades before. It should not be forgotten that Australia produced 14,000 units per year under the CSHA (e.g., in the 1980s).

Australia has drifted away from direct investment in public housing to rely on public transfers and private financing of not-for-profit organisations. Yet these organisations still lack a clear and comprehensive national regulatory framework, as exist in other European countries.

The stalled NRSCH review should be expanded to cover all key segments of Australian affordable housing– in the government and non-government sector. Such a framework would ensure that public housing and or community housing is well-regulated and accountable to its stakeholders being governments and clients of housing services. Good regulation can ensure that any public support, such as direct investment and guarantees on NHFIC financing, as well as tenants' payments contributes towards adequate, affordable housing.

What is required are clear *obligations, that affordable and social housing providers must deliver in order to attract tax incentives, lower cost finance, government guarantees, interest rate subsidies or direct subsidies, as outlined in the following box*.

The Netherlands, Scotland, Finland, Switzerland, and Austria are particularly careful to ensure only not-for-profit (public or private) organizations with a social purpose can use special purpose funds and other forms of housing assistance, such as guarantees, subsidies and tax incentives. Australia's regulatory system also needs to ensure social bonds serve a social purpose and recipients of these are well regulated to serve a social purpose and operate accordingly (see Appendix 1).

10 public interest obligations worthy of direct or indirect assistance

The 10 public interest obligations, for which affordable and social housing providers could attract tax incentives, lower cost finance, government guarantees, interest rate subsidies or direct subsidies should include:

1. *Allocating housing to maximise social value on the basis of need, rather than maximising private value and market return*
2. *Calculating rents in a specified way (for example based on costs, financing costs or geared to income, in order to cover costs and deliver a modest return, to contribute to maintenance and renovation costs etc)*
3. *Consultation with tenants and if required ongoing support to ensure stable tenancy*
4. *Managing housing and tenancies in a harmonious way, so as to contribute to neighbourhood quality*
5. *Negotiating problems with arrears so as to avoid evictions and seek alternatives to eviction*
6. *Consulting and involving tenants in the management of their dwellings and living environments*
7. *Providing data and transparency for public bodies who subsidise them*
8. *Provide input to housing and support policy reviews and further development*
9. *Active tenant participation program and liaison with local support and police agencies*
10. *Actively contribute to the expansion of housing supply to meet need*

Expanding board expertise and representation

The Hayne Royal Commission[28] stressed the vital role of boards in ensuring the good conduct of their organizations and quality outcomes for stakeholders[29]. In the case of the NHFIC, its board must have a *range of relevant skills*.

Land development, infrastructure and real estate experts dominate the relatively small NHFIC board. The current board lacks expertise and experience in the corporation's core tasks of banking (credit risk assessment), treasury management, green and social bonds and reporting frameworks, development and operational finance, affordable housing policy, not-for-profit regulation, and consumer interests. The term of the only member experienced in social housing expires in 2021.

[28] Royal Commission into Misconduct of the banking, superannuation and financial services industry 'Hayne Royal Commission', reports can be found here: https://financialservices.royalcommission.gov.au/Pages/reports.html

[29] Australian Institute of Company Directors reflects on implications for board members here: http://aicd.companydirectors.com.au/membership/company-director-magazine/2020-back-editions/february/5-lessons-for-boards-following-the-banking-royal-commission

A review of their annual reports reveals that boards of *similar bodies overseas*, such as The Netherlands (NWB), Swiss BIC/EGW, Irish HFA and England's THFC, *all have capabilities in social and affordable housing policy and development, not-for-profit housing operation, public interest banking, bond markets and treasury management*.

Most boards also include representatives of governments, industry, and regulators. All are missing from the NHFIC board.

NHFIC's board needs to be expanded to ensure these skills are adequately covered and meet investor demands. Further, a review could also be evaluate the value for money of board's renumeration, which by international and relevant industry standards appears excessive.

Conclusion

AHURI and the Affordable Housing Working Group have long argued that, beyond efficient financing, social housing requires other key conditions for growth. The working group recommended:

> *… the Commonwealth and State and Territory governments progress initiatives aimed at closing the funding gap, including through examining the levels of direct subsidy needed for affordable low-income rental housing, along with the use of affordable housing targets, planning mechanisms, tax settings, value-adding contributions from affordable housing providers and innovative developments to create and retain stock.*

This submission has shown that NHFIC has established itself quickly but its focus on new developments must be accompanied by direct investment programs, as in all successful and productive social housing systems.

Productive social housing systems use a combination of supply side investment tools to reduce the cost of land, invest strategic equity and lever efficient long-term financing. It is now timelier than ever for the national government to re-establish a co-investment social housing program and legislation to ensure its effective delivery.

The Australian governments contribution to more balanced and fairer housing outcomes is well-meaning but without related reforms ineffective in scale and scope. NHFIC has much potential but cannot act in isolation or without reform of land policies, direct investment strategies and tax settings. NHFIC needs to be strategically focused on the mission of affordable and social housing and more expert and ambitious in its efforts in this area.

International best practice demonstrates that progressive planning, strategic public equity, purposeful taxation, and long-term financing can be highly effective when combined under a national housing approach or strategy.

AHURI research has found the most effective policy levers are pro-social land policy (involving purposeful land banking and regulatory planning), needs-based direct equity investment (nuanced to match needs, land, and construction costs), efficient revolving loans and not-for-profit cost rental operations.

Without these features, the government will miss its own targets and underinvest in this much-needed social infrastructure. Both the precariously housed and sustainable growth and stability in the wider economy will suffer.

Recommendations

Affordable housing can play an important role in the health, security, stability, educational attainment, community inclusion of Australian society. Fairer and more balanced allocation of housing assistance (across renters, homeowners, and investors) can provide choice and pathways to foster social inclusion and greater equality. NHFIC can play an important role in this regard and should be strengthened, but would be much more effective in the context of well-designed incentives, direct investment programs and a purpose focused well-regulated affordable housing system, as part of a national housing strategy. Alongside policy reform and strategic investment, NHFIC can shape better housing markets to drive innovation to maximise social, economic, and environmental outcomes for all.

Regarding any future development of NHFIC we suggest the Commonwealth government:

1. Alongside NHFIC, **develops legislation** which lays down the principles of a sustainable, well-regulated not for profit affordable housing system, as in Scotland, Finland, and Austria, which covers both public and private entities and is adapted to Australian conditions and aspirations.
2. Alongside NHFIC, **actively promotes reform of State land policies through long term housing investment and assistance** as part of a **National Housing Strategy**, following international best practice in multi-level governance and co-operation.
3. As part of this National Housing Strategy monitors and sets **annual affordable housing supply targets,** which **guides the volume of bonds issued by NHFIC**, that are guaranteed by the Commonwealth and enable loans to be allocated accordingly.
4. To ensure targets are feasible, the Commonwealth **funds a needs-based capital investment program** to drive new construction of green, affordable, and inclusive housing (see spatial distribution of need and program costings, Lawson et al, 2018), learning from international best practices: Scotland's Affordable Housing Program and Finland's Centre for Housing Development and Finance.
5. Treasury and NHFIC establishes an **international network of experts to reinforce the board and best practice of NHFIC**, building relationships with special purpose financial intermediaries focusing of affordable housing such as the Swiss Bond Issuing Co-operative, UK's Housing Finance Corporation, Ireland's Housing Finance Agency, and the Dutch NWB.
6. **ANAO and NHFIC benchmarks performance** against comparable financial intermediaries regarding efficiency and effectiveness, in all relevant qualities, processes and outcomes, such as board governance and supervision, value for money of management, operations and loan activities.
7. **NHFIC develops research capacity to** monitor need and demand for investment and enforces requirements of social and sustainable bond proceeds, in concert with KPI **frameworks required by social bond investors.**
8. **Reviews and expands the board** to ensure adequate expertise and experience in the mission of affordable housing, the financing of not-for-profit organisations and regulatory demands.
9. NHFIC targets assistance to **regulated housing entities** whose mission is affordable housing and that adhere to not-for-profit organisation and reinvestment principles and excludes assistance to profit entities such as REITs and alternative investment funds.
10. **Completes its national review of NRSCH** and **ensures it covers all affordable housing providers, including public and community housing,** reinforcing their public and not for profit purpose and capabilities.
11. Establishes a **capable NRSCH regulatory body** with appropriate authority, expertise, and resources, which has a national CEO and is accountable to an independent board and includes consumer advocates.

Key references

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Appendix 1

Regulating the purpose and proceeds of investment and reinvestment protects both public and private funding from extraction in the short and long term by asset managers and shareholders and keeps value circulating to benefit households in need.

Austria and Denmark apply asset management regulations that ensure surpluses are built up and set aside in revolving funds and reinvested. These funds are the lifeblood of well-maintained and growing social housing sectors. Operating surpluses (such as savings from NHIFC refinancing or sales of social dwellings) are used for maintaining and renovating housing, or building more of it, as in Scotland and the Netherlands. They also ensure rent increases are manageable for tenants following renovations and improvements, as in Denmark and Austria. These operating principles are fundamentally different from REITs.

Governments can also revolve public loan repayments to sustain supply programs, as in Austria and Finland. Even in Slovakia, the scene of mass housing privatization in the 1990s, far-sighted policymakers established a revolving fund to ensure owners and tenants live in the best-maintained former Soviet housing today. Australian social housing providers and policymakers need to think longer term and ensure there are sufficient funds for renovation and new supply. The absence of a long term funding vision and sporadic policy commitment can be seen in the current very outdated social housing stock, its dilapidation and decline.

Regulation can ensure purposeful investment in needed affordable housing

The Dutch Water Bank (NWB) Affordable Housing Bond has very specific guidelines on the type of provider, rent regime, household eligibility and income allocation. It is linked to the achievement of Sustainable Development Goals e.g. (SDG11) and has raised over 10billion euro. The SDG Housing Bond forms part of NWB Bank's €60 billion Debt Issuance Program.

The 8-year bond will be repaid in full on 28 May 2027. The annual coupon interest is 0.125% and the re-offer price is 99.484%. Lead managers for this transaction are Bank of America Merrill Lynch, HSBC, SEB, and Rabobank. Listing on the Luxembourg Stock Exchange and the Luxembourg Green Exchange has been requested for the SDG Housing Bond (NWB, 2020).

Austria – accumulated surpluses reinvested for social purpose

Austria has a well-defined cost rent limited profit housing association system. This requires auditing of cost capped resources (including land costs, financing and management costs, size of dwellings < 150spm) and cost covering approaches to rent setting and indexing. Equity and assets must be dedicated towards affordable housing.

The Austrian regulatory system has its roots in two national pieces of legislation concerning 1) not for profit business operations and 2) the cost rent setting that applies when using housing subsidies. Grants and favourable loans are provided by state governments who design housing programs. Resources used are federally transferred block grants, ring fenced revenues from repayments of existing loans to housing providers and local government land banking reserves. [30]

[30] For a detailed explanation see Deutsch, E. and Lawson, J. (2012) *International measures to channel investment towards affordable rental housing: Austrian case study* with contribution from A. Oberhuber, FGW for the Australian Housing and Urban Research Institute, RMIT Research Centre on behalf of the Government of Western Australia ISBN: 978-1-922075-31-4 https://www.ahuri.edu.au/research/research-papers/international-measures-to-channel-investment-towards-affordable-rental-housing-austrian-case-study2

National LPHA legislation allows for modest surpluses to be generated to provide equity for new supply, ensure effective maintenance and renovate assets. There are limitations on the profits that can be generated (8%) and their extraction by shareholders is prohibited. There are considerable implications for non-compliance, including forced mergers and deregistration. Indeed, any provider that fails to reinvest its surpluses in new production is obliged to merge with another more productive LPHA.

Overall, the Austrian regulatory approach is designed to drive effective, mission focused housing outcomes via not-for-profit providers that employ resources appropriately, efficiently, and transparently. It promotes affordability, well maintained assets, and growth over both the short and longer term. It has also prospered in turbulent economic and political climates.

Good regulation is mutually reinforced by internal regulation, management norms and external legislation and controls and comprises the following layers of regulation:

1. **Internal control** by specialist auditor reporting to the CEO and Board of the association
2. **Industry control** by specialist auditing industry body (Revisionsverband) which all registered associations but be a member of and pay fees to. There are 40 auditors operating regionally, who spend two weeks annually with each provider and provide certified reports of their compliance and performance to funders (9 state governments).
3. External **State Government control** by housing departments providing subsidies to associations via a review of annual Revisionsverband reports as well as up front and post assessments of the implementation of project subsidies (submitted via local governments).
4. **National Legislation** concerning 1) Housing Organisations for the Common Good (outlines the business operating model of organisations with a social purpose and serving eligible households) and 2) governing the use of housing subsidies and cost rent setting
5. Reviews by **court system** of specific cases

Scotland – not for profits can only benefit from public subsidies and favourable loans

The Scottish housing regulator regulates social housing providers and is often held up as an example of international best practice – especially in terms of expert engagement with providers, tenant voice and public transparency. SHR has a board which includes 3 tenant members. It is consumer focused. consultative and protected from undue influence by the Minister and does not allow the discounted Right to Buy of social homes to tenants. The skills required of a Registrar are specified in detail in the Scottish Law.

1. Under the Housing (Scotland) Act, there is strong acknowledgement and protection of tenant's interests. The SHR not only protects the interests of social housing tenants but also homeless people and applicants waiting for social housing and other households not registered on the waiting list but also in need.
2. Only not for profits organizations can be registered as social landlords in Scotland and receive public subsidies for this role. The Scottish Housing Regulator governs their performance. SHR makes data easily accessible and comparable for the public and tenants.
3. The SHR is one of the most well-regarded regulators in Europe, by publishing accessible information to encourage better comparison, performance management, public accountability, and drive improvement, highlighting good innovation and best practice in achieving outcomes and undertake thematic studies identifying good practice (Jarman, 2012).

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