Compass Housing Services

Submission in Response to Council on Federal Financial Relations Affordable Housing Working Group: Issues Paper

March 2016

Introduction and definition of adequate housing

Compass Housing Services (Compass Housing) welcomes the establishment of the Affordable Housing Working Group as a timely response to a growing crisis in the supply of affordable housing in both the social housing and private sector rental parts of the housing continuum.

Compass Housing agrees in large part with the concerns identified in the Section 'Current State of the Housing Market' in the Issues Paper published in January 2016. We welcome the attention that the Working Group will pay to the resolution of major challenges experienced by Australian citizens in securing and maintaining affordable housing for themselves and their families.

Access to 'adequate' affordable housing is a fundamental human right and we concur with the **United Nations Habitat III definition of 'adequate' housing**. This definition moves beyond 'four walls and a roof' to address a range of housing quality, security, equity and quality of life issues, outlined below.

1. **Security of tenure:** housing is not adequate if its occupants do not have a degree of tenure security which guarantees legal protection against forced evictions, harassment and other threats.

2. **Availability of services, materials, facilities and infrastructure:** housing is not adequate if its occupants do not have safe drinking water, adequate sanitation, energy for cooking, heating, lighting, food storage or refuse disposal.

3. **Affordability:** housing is not adequate if its cost threatens or compromises the occupants' enjoyment of other human rights.

4. **Habitability:** housing is not adequate if it does not guarantee physical safety or provide adequate space, as well as protection against the cold, damp, heat, rain, wind, other threats to health and structural hazards.

5. **Accessibility**: housing is not adequate if the specific needs of disadvantaged and marginalised groups are not taken into account.

6. **Location**: housing is not adequate if it is cut off from employment opportunities, health-care services, schools, childcare centres and other social facilities, or if located in polluted or dangerous areas.

7. **Cultural adequacy**: housing is not adequate if it does not respect and take into account the expression of cultural identity.

8. **Security of tenure:** housing is not adequate if its occupants do not have a degree of tenure security which guarantees legal protection against forced evictions, harassment and other threats. (United Nations 2015, p1).

We believe that the Working Group can contribute to making the supply of adequate housing, defined in this way, a reality for all Australians.

About Compass Housing

Compass Housing is one of the largest community housing organisations in Australia and currently operates in New South Wales and Queensland. Compass Housing manages and owns housing in all types of affordable housing provision including:

- community housing
- transitional Housing
- disability housing
- indigenous housing
- private sector rental housing management.

Compass Housing has experience of receiving stock transfer from State housing departments and of development of social housing stock within the NRAS scheme. We are in the process of finalising the transfer of 4,800 properties from the Queensland Department of Housing and Public Works in the Logan City area. Compass Housing has partnered with BlueCHP Development to form the Logan City Community Housing special purpose vehicle in this process. We have also successfully borrowed from a private sector institution with its $50 million loan facility from Westpac helping to build housing in Newcastle and other areas.

These points are highlighted to show Compass Housing has a very practice based and comprehensive experience of the factors discussed in the Working Group Issues Paper.

Background to the affordability crisis in Australia

Whilst recognising the purpose and scope of the Working Group and the specific intent to review the future financial modeling of affordable housing we do believe it is necessary to set the consultation in a wider context. The Issues Paper correctly identifies the housing continuum. We support the view that effective housing policy, including the funding of affordable housing, is dependent on all elements of the continuum working within a whole system framework that recognises the interdependencies between the elements.

Pressures on the affordability of homes and the weakened entry of young people into the purchase market have an impact at every other level of the continuum, particularly in the affordable private rental sector (PRS). As more people enter the PRS and remain for longer periods there is a pressure throughout the housing system which is felt largely by low to medium income families and ultimately by those enduring long waiting lists for social housing. With the average PRS tenancy now exceeding 10 years (Stone et al, 2015) it is clear that private rental has become a mainstream means of providing accommodation for many individuals and families. It is no longer simply a stepping stone on the way to home ownership.

Affordable housing for low-income families has been significantly diminished by the gradual decline in the availability of public housing. That decline is a product of the sales of existing properties over many years, coupled with a virtual absence of new public housing. The NRAS program was a partial attempt to redress some of the shortfall but was limited in scope and short-lived. It did point to the potential of private sector and community housing organisations (CHOs) partnerships in the development of new social housing stock. Earlier intentions to transfer housing stock to CHOs to promote additional funding leverage and improve supply have not materialised to the extent envisaged in 2010 (Commonwealth of Australia, 2010). The primary consequence of this is the limited achievement of the intention to develop a more robust, mature and financially competent community-housing sector. Only relatively few CHOs have developed to the scale anticipated. However, they have demonstrated capacity to receive transfers of state housing portfolios and to manage them well. This points to a considerable potential to play a far more significant role in the supply and management of affordable housing, which is recognised in the Working Group Issues Paper.

Consequently, this consultation is set in a complex historical decline of affordable housing which the Commonwealth Government is well-placed to remedy and to provide the political and financial leadership of a revitalised supply of affordable housing. Whilst we note the Issues Paper reference to the 'constrained fiscal environment' we suggest that to truly enable the supply of affordable housing to meet current demand, a financial commitment by Commonwealth Government is required. Government has a key responsibility to its citizens to ensure a sufficient supply of affordable housing. Direct Commonwealth funding of new affordable housing is essential if we are to collectively meet current need. In the post WW2 context of labour shortages, returning soldiers and a difficult economy, government achieved new supply of more than 700,000 homes. Notwithstanding fiscal restraint, Australia is currently in a far better economic position to develop the affordable housing stock. This responsibility ranks alongside those of securing the health and education of all citizens and this inevitably involves a financial and funding role for government. In this context it is important for the Working Group to liaise with the Review of Australia's Taxation System to promote a more equitable distribution of housing subsidy between home ownership and the affordable rental supply in PRS, State and community rental housing.

The role of social housing

The Issues Paper outlines the current difficulties in the social housing sector. The primary problem is the 'residualisation' of the social housing stock to a provision to tenants with high needs and poor economic performance. Inevitably rent levels become reduced to the capacity of the tenant population to pay and by the limits of Commonwealth Rental Assistance (CRA) subsidy available. This is exacerbated for State housing departments where CRA is not available and rental income does not cover supply costs. Elsewhere, (in the UK for example) where social housing supplies approximately 16% of total housing supply, more varied household income profiles are found in social housing, permitting a more comprehensive rent setting, closer to market value. The ideal solution is to create fully mixed-income, mixed-tenure communities where internal cross subsidy can support low income subsidised rental, within a portfolio which also includes market rent, intermediate ownership (e.g. shared equity) and full ownership. Recent policy announced by the NSW State Government (Future Directions in Social Housing) points to the ways in which redevelopment of state owned housing estates can achieve this outcome. Experience in Brisbane (Brisbane Housing Company), Canberra (Eclipse), and Sydney (Bonnyrigg, Riverwood) also illustrate the achievement of new housing supply by the redevelopment of state housing properties in partnership with the private sector and CHOs.

However, all such schemes require the maintenance of a bedrock of social housing supply to meet the needs of sections of the population whose income levels, life chances, health and mental health experiences ill equip them for full market rental or home ownership. A Commonwealth Government commitment to maintaining an adequate supply of social housing to meet need is therefore critical to the achievement of a functioning housing system and the sufficient supply of affordable housing for all sections of the population. In any redevelopment of current state housing communities, maintaining at least the same level of social housing provision is essential and where possible supply should be improved.

Social housing supply should also be sufficient to offer accommodation to low-income families as well as those in critical social need. The experience of low-income families in the private rental sector (PRS) presents major affordability challenges and high levels of income stress. Sufficient supply of affordable social housing, with security of tenure, can assist to stabilise families and improve social cohesion at community levels. Additionally, in the PRS, insecurity of tenure triggers frequent relocations of households, often to the detriment of the social experience and education of children in those households. A social housing community characterised only by tenants with acute mental health difficulties, substance misuse problems and dependence on benefits-based incomes presents significant housing management challenges and creates segregated communities.

In more general housing developments, led by the private sector, the application of inclusionary zoning strategies can do much to achieve a supply of affordable social housing. Inclusionary zoning is successfully delivered in a wide range of jurisdictions internationally. It assists the socio-economic diversification of communities as well as guaranteeing sufficient affordable housing for key workers in localities where price has proved exclusionary, for example in central suburbs of the major Australian cities.

The role of the community sector

The Issues Paper recognises the current role of not-for-profit community housing organisations (CHOs) and their potential to access private finance, manage assets well, provide pathway services to tenants and create a more varied service pattern to include additional tenure forms. This provides a strong and clear justification for the future large-scale transfer of housing from State departments to the not-for-profit sector.

However, the Issues Paper also notes that to date CHOs have not been seen as a ‘mature asset class’. Rowley et al (2014) state that this is in part a consequence of a lack of a clear policy framework to support a stable environment for borrowing that provides assurance to institutional lenders (Rowley et al, 2014). One major consequence is that when CHOs access loan facilities from mainstream institutions, the interest rate is typically between 7% and 8.5% with short loan periods and high transaction costs. This is in stark contrast to the UK experience where stock transfer, even to newly formed entities with no financial record, has created an asset class that has proved attractive to institutional investors and often at interest rates of around 4%. We advocate the development of a National Housing Plan to deliver a strong, stable and long-term basis for housing planning that would also reassure institutional lenders.

The primary difference between Australia and the UK has been that the majority of transfers have been large scale (typically 10- 20,000 units) and that, fundamentally, transfer has been with title. This has enabled the securitisation of loan facilities on the basis of ownership of a significant asset. It has also been underpinned by rental income subsidised by Housing Benefit. There has also historically been a stable and predictable policy environment. Developing a similar context in Australia would be perceived by institutional investors in the same way and be likely to provide the financial environment in which more favourable borrowing terms would rapidly evolve. Large-scale transfer with title would create a not-for-profit sector with the financial leverage to transform the social housing sector. This presents to Commonwealth and State governments a ready ‘off-the shelf’ means to rapidly increase supply of affordable housing and reduce costs to government.

We suggest that there exists a group of larger, Tier One CHOs (circa 30), with the potential to rapidly accept this role. Central to this is the continued development of the registration and regulatory regime and an ability of this group of CHOs to operate interstate without restriction. In such an environment, this group of CHOs will provide the means of developing and interacting with several of the specific funding models identified in the Issues Paper. We will address these in the following section of our response.

Financing models to consider

The primary reason for the current crisis of availability of affordable housing is the lack of supply. Whilst there are many factors that determine supply the primary one is the availability of development finance. The Issues Paper correctly identifies the barriers to financing that exist for affordable housing. It also proposes four models for consideration.

Broad-Based Discussion questions

Q1. What are the key policy, funding, regulatory or legislative changes that government(s) should consider to implement new financing models for affordable housing in Australia?

In terms of **policy,** there is a need to develop a long-term National Housing Plan that sets the parameters for the future maintenance of a 'whole of system housing' framework that covers all aspects of the housing continuum. This Plan would establish patterns of subsidy within an equitable framework that rebalances current levels of subsidy between home ownership and affordable rental housing. A National Housing Plan would also identify a new building program to meet projected population growth, establish quality standards for affordable housing and recognise the significant contribution housing can make to environmental sustainability.

The most significant impact on future **funding** of affordable housing will be derived from transfer of existing state housing stock to not-for-profit providers that are competent to leverage additional funding. The success of this is predicated on transfer being with title in the majority of cases. This requires recognition that, in the current position, state possession of housing is a long-term liability rather that the Treasury asset it is currently thought to be. Transfer with title will have a short-term consequence for a State Treasury but will provide a route to long-term financial stability for social housing. Transfer with title will create a new asset class that will attract institutional investment. The specific models of funding that can emerge against a backdrop of large-scale stock transfer with title are discussed in response to the four models identified in the Working Group Issues Paper.

The current **regulatory system** assesses the capacity of registered CHOs to undertake strong governance and financial probity. We do not believe that institutional investors would regard Tier One CHOs as a high-risk model. Mature CHOs have appropriate governance by expert boards and externally verified financial scrutiny and accountability. Publication of accounts and annual reports follow best practice in the wider business community and provide the levels of transparency that will assure investors of the organisational competence of the sector. Regulation will need to address the ability of competent CH0s to operate across state boundaries, to collaborate to form multi-partner special purpose vehicles and to facilitate merger. Although the National Regulation System for Community Housing (NRSCH), a multi-state system with mirrored legislation in all states except Victoria and Western Australia, does allow for national entities operating in multiple jurisdictions, the practices of state policy and funding agencies are not similarly uniform. The practical issues arising from some states not being in the system and the lack of uniformity in the approaches of state funding and policy, underpin barriers to entry, increase costs and heighten risks for CHOs and, consequently, potential institutional lenders.

Several of the proposed financial models will require **legislative** enactment to enable government to adopt the roles that are associated with the model. For example, issue bonds or provide an intermediary role either directly or by the creation of arms length institutions.

Q2. How can governments ensure sustainable improvements in the housing outcomes of current affordable housing tenants within the current fiscal environment?

Whilst recognising fiscal constraints, accepting a whole system perspective to securing good housing outcomes for the entire Australian population requires a re-balancing of subsidy for the different tenures. Currently, the Commonwealth spends $3.9 billion on CRA rent subsidies (2013-14,AIHW) to some 1.32 million income units. In 2012-13 Commonwealth direct expenditure on social housing was $2.8 billion, less than recreation and culture, road and rail, and environmental protection. In contrast, subsidy for main residence CGT exemption was $46 billion in the year 2014-15. The most recent Treasury projection suggests that the 50% Capital Gains Tax discount will amount to $121 billion between now and 2018-19. This huge disparity is harder to justify when one considers that 90% of the benefit from the main residence concession is experienced by the top 50% of earners. The top 20% of earners receive 55% of the benefit (Grudnoff, 2016).

Redirecting a proportion of current home ownership subsidy to support affordable housing provision can provide adequacy of supply for more mixed socio-economic communities where social exclusion and poverty are not the sole experience. Transfer of State housing to CHOs can also enable community regeneration activities drawing on the extensive experience of CHOs. Current practice in the community sector is concerned with developing educational, training and employment opportunities for tenants. Compass refers to this as the Third Wave of social housing and it creates a range of service responses that meet the needs of a diverse body of tenants.

Q3. How can the cost base of new affordable housing assets be minimised? How can the return generated from affordable housing assets be maximised?

In the community-housing sector there is considerable attention paid to the maximisation of returns from the housing asset. With the limited income derived from rent levels and CRA subsidy, every effort is made to minimise tenancy and asset management costs.

Strategies employed include:

- effective use of IT systems to manage tenancies and assets
- effective debt and arrears management and recovery
- effective delivery of planned and responsive maintenance to protect stock value
- effective tenancy support to reduce tenant turnover, void rates, and deliberate stock damage
- lean management and staffing structures to promote efficiency of human resources.

Despite this comprehensive approach to efficiency, there is recognition that the return from renting accommodation to low income families and people with high levels of support needs inevitably lowers the return to a point where subsidy is required. This is evident from the global failure of market driven approaches to directly, and without government assistance, provide adequate housing for low-income families. In ensuring an adequate supply of affordable housing it is inevitable that there will be a cost to government. This cost can be minimised by effective partnership with specialist services and comprehensive approach of the not-for-profit sector.

Q4. What would governments need to do to ensure that assets targeted to low-income tenants, for example social housing, are not lost to higher income earners?

This is relatively straightforward to achieve in social housing as the allocations policy can effectively filter high-income earners. There is some justification for the view that to create mixed income communities it is desirable to have some tenants on higher incomes and paying full market rent. There are numerous reasons why this might be attractive to the tenant, usually for short periods of time en route to ownership, and would have the benefit of breaking the cycle of disadvantage experienced in locations fully characterised by low-income social housing. The redevelopment of current low-density public housing assets at a higher density provides ample opportunity to rehouse social housing tenants in newer properties that better meet the smaller family and single person household profiles that now are the norm in urban areas. It also provides opportunity to create mixed-tenure and tenure-blind communities where social housing and affordable PRS rental can co-exist with full market rent properties and intermediate forms of ownership in shared equity schemes. In such communities, higher income families would be regarded as an asset promoting social inclusion.

Q5. What role can the community-housing sector play in implementation of new financing models to increase the supply of affordable housing?

The not-for-profit status of community housing providers ensures that there are no external interests to detract from providing a high quality service to tenants and a secure investment environment for institutional investors. It also provides a politically legitimate destination for housing stock transfer. When transferred, State housing remains for community benefit in close accord with the original reasons for its development. It is not a privatisation process with corporate and shareholder profit as the outcome. The models explored in the Issues Paper have all been developed in a similar not-for-profit environment and demonstrate the capacity of the community sector to provide the pattern of services and management of housing that can underpin both government and private institutional investment.

Model 1: Housing loan/bond aggregators

The housing loan/bond model has much to commend it and would provide an effective means of aggregating borrowing from the Tier One CHOs capable of operating at sufficient scale (Lawson et al, 2014). It would attract more favourable borrowing rates and the aggregated borrowing is more likely to be at sufficient scale to attract institutional investment. However, achieving favorable borrowing terms is not only a question of the scale of the loan facility sought but also balances security, collateral, and the term of the facility. Sufficient security to attract institutional investors to the affordable housing market is likely to be dependent on government providing loan guarantees.

The example of The Housing Finance Corporation (THFC) in the UK underpins the need for such schemes to be government-led to provide guarantees to investors that all loans are under-written by government in the event of default. In the UK model two schemes provide over £10 billion in sureties. The bond is managed by an intermediary (THFC) contracted to the Department of Communities and Local Government. This model suggests a tri-partite partnership between a government-sponsored agency established specifically for the purpose, the community housing sector and institutional lenders.

Lawson et al (2012) examine the specific example of the Austrian Housing Construction Convertible Bond (HCCB) and argue for its relevance, with some adaptation, for the Australian housing context. This and similar approaches could assist in overcoming some of the current institutional reluctance to invest in CHOs, despite their competence to bring product to market (Lawson et al 2014)

Discussion questions

Q1. What policies, funding and regulatory settings would be required for a housing bond to be implemented in Australia?

Government will be required to provide the enabling legislation and create the intermediary institution with sufficiently robust governance to provide full assurance to institutional investment. It will have to ensure a rigorous and nationally uniform pattern of regulation for the Tier One community providers who express an interest in the scheme. Government, as well as institutional investors, will need confidence in the borrowers who apply for loans from the scheme.

Q2. What is the specific role(s) that government(s) may need to play, over time, to meet investor requirements around the establishment of a housing bond?

It is highly advisable that the specialist financing intermediary is an 'arms length' government institution which balances independence with transparency and accountability. Independence is required to lift investment decisions from undue political influence. Investment decisions will need to demonstrate flexibility, rapidity and innovation if full advantage is to be taken of market fluctuations and commercial development opportunities. Such levels of flexibility are difficult to achieve without full management independence from government, which is required to be more cautious than commercial decision-making often requires. Following the global financial crisis (GFC) private sector entities do not enjoy public confidence. Deriving profit from the provision of affordable housing operated by not-for-profits is difficult to justify. Consequently, it is unlikely that an outsourced private sector management fund would be acceptable. A not-for-profit vehicle could provide a hybrid model but there is no track record in Australia of a not-for-profit operating at the required scale and level of financial responsibility.

Model 2: Housing Trusts

Housing Trusts are a relatively recent innovation that attempt to aggregate borrowing capacity to lever more favourable borrowing terms by spreading risk for institutional investors. Unlike the bond model, trusts tend to operate without the need for government under-writing and guarantees. Instead, the model spreads risk over a number of aggregated borrowers.

In the case of the US Housing Partnership Equity Trust (HPET) identified in the Issues Paper, this involves a prior national affiliation of 100 leading housing providers. This has facilitated the borrowing of US$100 million from institutional sources including Citi, Morgan Stanley and Prudential, as well as from several major philanthropic trusts. The trust has enabled more than 700 low-income rental properties to be protected from redevelopment. A second phase is anticipated to raise a further US$ 225 million. To date, the model has provided a 6% return to investors (Metropolitan Policy Programat Brookings, 2016). The loan fund enables rapid purchase of intermediate rental complexes where they are at risk of redevelopment as higher, market rent housing.

Discussion questions

Q1. What policies, funding and regulatory settings would be required to implement an housing trust in Australia?

It is unlikely that the model would require policy, funding or regulatory change. The approach in the US was developed from within the not-for-profit sector by an umbrella body of major organisations. It was outside government and an arrangement between the lenders and the trust. As discussed earlier, greater confidence would be given to institutional lenders if a strong and stable policy environment and regulatory system was evident.

Q2. To what extent could an housing trust model advance the objective of providing sustainable, large-scale finance for social and affordable rental housing for people on low incomes?

The model offers potential to raise the borrowing capacity of Australian CHOs but is limited by the number of mature CHOs over which risk can be spread. The US example of HPET assembles 100 major providers to attract institutional investment. In comparison, there may be a maximum of 30 Australian CHOs with the level of competence to aggregate borrowing in this way. This may not be sufficient to provide the level of security required by institutional investors. Despite the national level of operation in the US, the fund's achievements remain modest with some 700 units to date. If the second phase achieves proportionately, it will secure only circa 1500 affordable homes.

Q3. How might the composition of social and affordable housing stock and income streams impact on the trust? How would regional variations in asset values and rental streams (e.g. Hobart versus Sydney rents and house prices) affect distributions from the trust?

It is likely that metropolitan areas will be the primary participants in this model of funding. Where purchase costs are high (e.g. Sydney), lower housing outcomes will be achieved. Similarly, if the model is applied to new development projects, higher land costs in metropolitan areas will impact on the achievements of the trust model. There is insufficient experience of the HPET in the US to draw conclusive observations.

Q4. Are there any potential benefits for investors in affordable housing that could be achieved from splitting the income and capital returns of an housing trust?

Compass Housing does not have a view on this issue.

Model 3: Housing Cooperatives

The cooperative approach to housing has tended to emerge historically as a localised solution to housing need. Largely grounded in 19th Century collective responses to ownership and control they survive as niche housing provision at relatively local levels. Generally, small scale in operational scope, the example provided in the Issues Paper takes advantage of an aggregation of need for funding and administrative functions derived from 112 cooperatives. Whilst this may work in the provided example it is difficult to imagine a national scale of operation that would involve such arrangements. Furthermore, as a model it is unlikely to gain significant investor interest and confidence with uncertain governance and accountability at the service delivery level. It is also the case that where cooperatives have not emerged historically, it is difficult to promote their formation where they are not culturally valued and supported by grass roots organisations. A variant of the approach has been successful in Scotland and Wales where there was considerable political opposition to stock transfer of Council housing to housing associations. The response was the creation of more mutual forms of organisations to receive stock transferred from local government.

The Welsh Government commissioned the development of a Community Mutual Housing Model where housing stock was transferred to an entirely new organisation in which the tenants were the effective owners of the stock. Stock management is provided by a board made up of tenant representatives, elected members of the transferring local authority and professional experts selected for specific organisational skills including financial management. In most instances the local authority staff are transferred to the new organisation to provide continuity of service delivery. In practice, most of the established mutuals work in almost identical ways to a standard housing association. There is little to distinguish the model other than higher levels of tenant participation and a generally strong commitment to community-based regeneration. Ultimately, the success of the Community Housing Mutual Model is dependent on large-scale transfer with full title vested in the tenant body. The specific political, cultural and social context in which this has been possible is not evident in Australia.

Discussion questions

Q1. To what extent could a housing cooperative model advance the objective of providing sustainable large-scale finance for social and affordable rental housing in Australia?

For the reasons identified above, the cooperative housing approach is not capable of providing a national level solution to the current shortage of affordable housing. There may be scope for localised provision within a cooperative approach linked to philanthropic contributions or cooperative membership subscription funding, but these could not achieve a significant contribution to the funding and supply of affordable housing at a national level and at the scale required to address the current affordability crisis.

Q2. What are the policy, funding and regulatory settings required to support any expansion of housing cooperatives?

The limited potential of the approach does not justify major attention to policy, funding or regulatory change.

Model 4: Impact investing models including social impact bonds

Since the formation of the G8 Social Impact Investment Taskforce and the publication of its 2014 report, social impact investment approaches have received considerable attention. Globally, governments have seen social impact investment as a potential method of levering private sector investment to support the provision of public services (Social Impact Investment Taskforce, 2014).

The primary potential is recognised where the costs of social issues can be accurately calculated and where social outcomes can be rigorously defined and measured. This has tended to focus social impact investment on 'social services' type provision (for example, in the rehabilitation of offenders, homelessness services and in some public health interventions). In the model, government underwrites a financial return on investment where better service outcomes for clients are achieved by NGOs delivering specialist services.

To date, social impact investments have been project specific and relatively small scale. There are currently no international examples of the approach being developed to provide large-scale affordable housing provision at the national level. Scaling up what has to date been primarily a project funding approach presents some major challenges, specifically around the interest that mainstream private sector investors might have in a relatively high risk environment. Currently, it is largely ethical investors who have supported the approach. It is unlikely that mainstream institutional investors would be attracted to invest, even if the approach proved capable of significant up-scaling. It is also the case that ultimately government has to fund the returns on the social investment and the return at an attractive rate would likely be on a par with the costs of a more direct funding model.

In summary, the approach has capacity to assist the supply of affordable housing at an individual project level but even when such projects are aggregated, it is not capable of sustaining a national approach to improving housing affordability.

Discussion questions

Q1. What areas of social or affordable housing could benefit from the introduction of impact investment models, including to augment or operate alongside other models in Australia?

Social impact investment has a role to play in the funding of specific projects within the housing policy domain. It will be most appropriate for deployment in delivery of services where the financial costs of social issues are relatively easy to calculate and where improved service outcomes that are measurable can be identified. These will tend to be in the areas conventionally associated with homelessness services, offender rehabilitation, supported housing and mental health support services.

Q2. What are the policy, funding and regulatory settings are required to support large scale social impact investment?

It is not likely that any significant policy, funding or regulatory change will be required other than to establish some competitive funding streams that are based on the social impact model. These should be additional to existing funding streams and should not replace the direct funding that Commonwealth and State governments currently provide to the provision of housing services in Australia. The concept of social impact investment is new and relatively untested despite the interest shown in it at international level.

Q3. Could impact investment models assist in improving the social and economic wellbeing of social housing tenants and assist in the movement of households up the housing continuum?

There are areas of housing services that lend themselves to the social impact investment approach. It could usefully be deployed to support specific project level interventions in the fields of general and youth homelessness and the improvement of employment educational, training and employment pathways of social housing tenants.

Summary

In this response to the Working Group Issues Paper Compass Housing has reviewed the proposed financial models, the evidence of international experience and relevant work completed by AHURI, to provide responses to each of the consultation questions.

Compass Housing believes that the weight of international evidence points to the housing loans/aggregated borrowing option as the most effective in improving the supply and effectiveness of affordable housing in Australia. Housing Trusts and Social Impact Investment models are in their infancy and require greater maturity to meet current challenges. Cooperatives are historically specific and also unlikely to meet the challenge.

The potential of the housing loans/aggregated borrowing model will be significantly advanced if it is developed in the context of major transfers of public housing to CHOs. The international evidence also strongly points to the need for title transfer rather than management transfer in order to maximise institutional lending based on the direct ownership of major housing assets by Australia's CHOs. A government loan guarantee system will be an important component of the approach. Funded in this way, a vibrant and mature community sector will be well-placed to improve supply of affordable housing, develop modern housing services that reflect the needs of the client base and to achieve social outcomes for tenants that improve pathways to education, training and employment.

Better social outcomes ultimately underpin better housing careers, movement into the Private Rental Sector and even home ownership, further reducing demand for social housing. Maximising the availability and affordability of social and private sector rental housing are intricately linked and require a whole system perspective that blurs the boundaries between tenures.

The Commonwealth Government is the only agency with sufficient administrative and financial competence to lead this process. Compass Housing hopes that the current review by the Affordable Housing Working Group will contribute to the development of a National Housing Plan that links all levels of government in a program to provide every Australian with the right to adequate housing.

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