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Division Head

Social Policy Division

The Treasury

Langton Crescent

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Council on Federal Financial Relations Social and Affordable Housing Working Group - Innovative Financing Models

The Westpac Group ('Westpac') thanks the Affordable Housing Working Group for the opportunity to lodge a submission on innovative financing models.

Our submission draws on the key learnings from Westpac's ongoing involvement in the Social and Affordable Housing Sector. It provides a summary of the key challenges we consider the sector is facing and an overview of how these can be addressed, including key learning's from state governments' policies and other international jurisdictions. Our recommendations focus on the mechanisms we consider will attract increased levels of institutional capital to the sector to ensure it is commercially viable and sustainable.

Section 1: Overview

Westpac is the leading bank across the Australian Social and Affordable Housing Sector. We work with leading not for profit community housing providers (CHPs) and have developed a range of banking solutions to facilitate the development of the sector. This includes:

- A Social and Affordable Housing Public Private Partnership (PPP);
- Completion of one of the first social impact bonds in NSW;
- Cash flow lending solutions for community housing providers;
- Securitisation; and
- Direct lending to community housing providers across Australia.

Support for the Social and Affordable Housing sector forms an important part of Westpac's broader sustainability strategy. This strategy commits Westpac to make up to \$2 billion available for lending and investment in Social and Affordable Housing and services by 2017. As

at September 30 2015, Westpac has publically reported \$1.02 billion of aggregate exposure in this sector and is actively seeking opportunities to expand our lending to meet this target.

To deliver against this commitment, our focus is on working with key stakeholders relevant to the development of the sector, including Federal and State Governments, CHPs, developers and institutional investors. Our objective is to assist the sector to grow in a sustainable, replicable and commercially viable manner.

Section 2: Challenges

There are two key issues Westpac considers the sector is facing across the nation:

1. An increasing gap between Social and Affordable Housing supply and demand. This challenge will only grow if not addressed; and
2. The need to consistently and, over the long term, allocate sufficient funds for maintenance, upgrade and replacement of stock to ensure assets maintain value and remain fit for purpose.

Westpac agrees with the Council on Federal Financial Relations that these challenges are best addressed by government (both State and Federal) working in collaboration with the private sector to ensure the flow of expertise, innovation and investment capital to the sector.

Section 3: Recommendations

Issue	Recommendation
Integrated national approach to Social and Affordable Housing policy	The implementation of clear and consistent polices at a Federal and State level will demonstrate long term government commitment to the industry, facilitate private sector investment and provide support for those accessing Social and Affordable Housing. Enhanced policy certainty is crucial for an increased pipeline of investment.
Yield gap on Social and Affordable Housing investments	<p>Currently, there is a gap between the cashflow yield on Social and Affordable Housing assets and the returns required by the private sector. This gap presents a barrier to private sector and institutional investment in the sector.</p> <p>Westpac recommends that private sector and government discuss the benefits and feasibility of government assisting to reduce this 'return on investment' gap.</p>

Alignment of CHPs with requirements of investors	Policy should consider improvements to the regulatory and/or governance framework for CHPs to more closely align their structure and capabilities with institutional investor requirements over the longer term.
Size and scale of projects in the Social and Affordable Housing sector	<p>Currently the size of the deals in the sector is an inhibitor to attracting capital. The government should consider how best to increase the scale of CHP's and develop a pipeline of projects, to increase the value of deals.</p> <p>Larger scale projects will attract larger scale private sector stakeholders, enabling more complex, innovative solutions that will provide the economies of scale not currently available to the sector.</p>
Support for pilot programs	An increased willingness of government to support pilot programs and alternative funding models could encourage innovation and allow CHP's and their financiers to test the models best suited to the Australian market.

Section 3: Observations

Westpac considers that the experience in various Australian states and other international jurisdictions provide useful case studies to inform the development of effective domestic public policy. These include:

The Social and Affordable Housing Finance Company, United Kingdom

The Social and Affordable Housing Finance Company (AHFC) provides access to capital funding for CHPs that meet the mandated regulatory and compliance framework. In practice, this capital funding acts as a Government guarantee, thereby reducing the risk profile of these transactions and lowering the yield gap. Westpac notes the Federal Government is currently investigating similar models to the AHFC. Westpac is supportive of the Government investigating the applicability of the AHFC model domestically.

New South Wales Housing Association

We support the recent announcement from the New South Wales Housing Association that it will support the financial intermediary project, recently approved by Family and Community Services (FACS). The project will build on the Australian Housing & Urban Research Institute (AHURI) research, and will investigate appropriate structures and models for the intermediary, whose purpose would be to aggregate debt requirements of interested CHP providers.

UK Private Finance Initiative (PFI) market

The UK PFI market is the equivalent of Australian Public Private Partnerships (PPP) in Australia, and is an active form of financing applied to the UK Social and Affordable Housing sector. As at August 2014, 35 PFI Housing schemes were in place across the UK. Westpac considers that a Social and Affordable Housing PPP should be well received in Australia, provided the deal is appropriately structured and priced.

Reflections on New South Wales' (NSW) "Future Directions for social housing in NSW"

The New South Wales (NSW) "Future Directions for social housing in NSW" provides a 10 year strategy for addressing Social and Social and Affordable Housing in NSW. It sets out a clear policy setting and commitments, including a number of initiatives Westpac considers could be applied at a Federal level:

- a. Commitment to engage the private sector to deliver up to 23,000 new and replacement social housing dwellings forecast to deliver up to \$22 billion in construction development over the 10 year period;
- b. Transfer of management and/or ownership of up to 35% of social housing stock to the private sector;
- c. Investigating long term lease structures to support institutional investment including super funds; and
- d. Options to utilise a variety of tender processes depending on which is most fit for purpose.

For example, the Communities Plus initiative seeks to develop State owned land to develop integrated social, affordable and private dwelling stock, has been structured to lend itself to developer led consortia responses. By comparison, the NSW Social and Social and Affordable Housing Fund initiative (also part of Future Directions) has been structured to lend itself to the development of integrated dwellings that utilise private sector land, subject to providing what is effectively an annuity subsidy of up to 25 years to address the yield gap.

Part 3: Conclusion

Westpac considers the current levels of optimism in the Social and Affordable Housing sector is positive, particularly in NSW. There appears to be an emerging acceptance by governments, at both the state and federal levels that with appropriate policies, strategies and funding support the private sector. This has the capacity to deliver many of the solutions required by the sector to address the Australian social and affordable housing crisis.

Westpac considers that much of the expertise and innovation required to implement viable solutions already exist in the private sector.

We would welcome the opportunity to provide Treasury with more detailed information in a meeting at your convenience.