**Submission in response to Treasury review of the operation of the National Housing Finance and Investment Corporation Act 2018**

The following submission (**Submission**) has been prepared in relation to the review of the NHFIC announced by the Minister for Housing and Assistant Treasurer (**Minister**) on 19 November 2020 and the Terms of Reference contained in the *December 2020 Issues Paper* (**TOR**).

**Introduction**

This Submission is made by Keith Bryant, Keith Rovers and Philip Coleman.

**Keith Bryant** initiated the Business Alliance to End Homelessness **(BAEH)** in 2013 and has since been the Convenor and Chair of this Sydney-based business group. Following a career in Investment Banking, Keith worked at the Benevolent Society for 10 years from 2001 to 2011 as a General Manager. Since 2011, he has built a portfolio of roles in the management and governance of non-profits and charities. He founded and still operates the philanthropic advice company, PSI Managers. Apart from the **BAEH**, he volunteers as the Chair of the Board of the Foyer Foundation. Foyers are a model of housing that addresses youth homelessness and links it to education. From 2012-2018 he served on the Board of Wentworth Community Housing, where he was Chair for 5 years. Since 2015, he has been the part time CEO of the Australian Society of Plastic Surgeons, managing a small team of 10 from their offices in St Leonards in Sydney.

**Keith Rovers** is a finance partner at MinterEllison, with extensive experience in financing property and infrastructure developments, including social and affordable housing and special disability accommodation (SDA). Keith has acted for banks funding community housing providers (CHPs), as well as CHPs on government divestment and outsourcing projects; project and portfolio financing, including NHFIC and commercial funding, as well as acted on multi-use projects where social and affordable housing and/or SDA is one part of a broader residential housing solution. Keith is also the firm's pro bono partner and in this capacity advises many charities and social enterprises, as well as impact investors seeking to use innovative financing techniques to deliver and amplify social impact. Keith is a network champion in *The Constellation Project* (TCP) <https://theconstellationproject.com.au/> working as part of the unlocking private capital social lab stream.

**Philip Coleman** was one of the original members of the **BAEH** when it was formed in 2013. He spent 30 years with an international investment bank working in corporate finance and equity capital markets areas and for over ten years as Group Chief Operating Officer. He was chair of 90 Homes for 90 Lives a collective impact group which focused on housing rough sleepers at Woolloomooloo. Permanent housing was found for over 100 individuals by the group over a period of three years (2011-2014). As part of the **BAEH** he continues to explore solutions to address the social challenge of homelessness.

Keith, Keith and Philip are also part of the leadership group of the *Business Alliance to End Homelessness* (**BAEH**), an independent business alliance collaborating to eliminate homelessness and to reduce housing stress in Australia. Through our business experience, our understanding of innovative processes and our extensive connections, we act as a catalyst for change. We believe the problems of homelessness and the lack of affordable housing in Australia are fixable; that innovative, workable solutions exist but are not being applied; that the business sector can play a far more significant role in supporting solutions; and that it is in business’ long term direct interest that Australia overcomes these problems.

**BAEH** members had a role in the original conception of what would eventually become the NHFIC. In 2015 Keith Bryant met in London with Piers Williamson the CEO of the THFC, the UK’s largest housing finance bond aggregator that was formed in 1987. The **BAEH** identified the relevance of a similar entity in Australia, focussed on cheaper, longer term finance for community housing providers. Through a series of follow up video links in Australia in late 2015 and early 2016 to the UK, the BAEH introduced the bond aggregator concept, and the UK’s approach to such an institution initially to NSW Government Treasury and then Australian Government Treasury officials.

## **Summary Points**

* The Government Guarantee is valuable to creating solutions. It is low cost and low risk to the Government. It should be sustained and extended. We submit that more flexibility in the security and covenant terms that are applied to loan arrangements to Community Housing Providers (CHPs) would be a useful improvement;
* There is considerable potential for NHFIC, under its research mandate, to contribute to the collecting, aggregating and analysing data from CHPs. It can also play a role, under its capacity building mandate, in supporting common technology platforms that could assist managing and utilising that data. This should lead to better sector wide efficiency and effectiveness, and should thereby ensure, for example, that CHPs and others are contributing the right quantity and type of subsidised housing in the right locations, and that cost factors in managing CHPs, for example housing maintenance costs, are better benchmarked and that improvement mechanisms are implemented;
* The combination of market models and innovative financing that NHFIC’s mandate embraces will not be sufficient to address at scale the challenges of homelessness and affordable housing that Australia faces now and in coming decades. But the NHFIC initiative should be applauded and supported as a very sound institutional foundation that can leverage other contributions. Those other contributions that can be leveraged in future include private (superannuation) investment (particularly in the much needed area of equity for affordable housing construction) and integrated mechanisms from State and Federal Governments to support the necessary subsidy needed for this type of housing. That subsidy can take a number of innovative and ultimately effective forms that the Federal Government should consider and lead on.

## **Submission in response to Terms of reference\***

## \*throughout this submission we refer to affordable housing as constituting all of social, community and affordable housing.

1. **The impact of the NHFIC on the CHP Sector**

The TOR notes that the Affordable Housing Working Group’s 2016 report, *“Innovative Financing Models to Improve the Supply of Affordable Housing”*, recognised that access to private and institutional investment at scale for the purposes of affordable housing was one of the major challenges in the Australian housing system. Clearly, private investment will only be attracted to this asset class on risk, return and impact fundamentals. Further fiduciary investors, including pension and superannuation are mandated to act in members best interests so risk/return profiles will be critical.

This asset class (affordable housing) has particular risks and return profiles which are most usually sub-market. Some degree of portfolio diversification and credit enhancement is therefore required – whether through credit support (by direct government payment or support, such as NHFIC's guarantee model) or through enhanced project economics (concessional land transfers, tax and other concessions). The role for innovative finance is valuable but has its limits in unlocking private capital and the question – in the absence of governments funding and/or delivering social and affordable housing at scale (as they once did) - is how to optimise the subsidy. This requires data and models.

NHFIC in our view has a critical ongoing role to play in this ecosystem. This Review provides a timely opportunity to consider the implications of the organisation and the positive and negative impacts on the (existing) market (and its expansion given the aim to catalyse private investment), as well as whether it is meeting its stated aims.

It is noted that:

* the NHFIC has provided access to a source of finance which has largely displaced existing bank funding;
* this has largely meant the refinancing of CHP's existing banking facilities. The longer tenor of the NHFIC finance should reduce refinancing costs and debt servicing costs;
* it remains an open question whether the NHFIC terms and conditions are (contractually - as well as administratively) more or less flexible than bank funding. This will be answered over the coming years in terms of contract administration and feedback from CHPs as to how dealings with NHFIC compare with bank relationship management and credit departments. Given the longer tenor of NHFIC funding, there is a potential concern that more restrictive administration of facilities may constrain CHPs use of balance sheet and be contrary to the stated mission of promoting greater investment in affordable housing. It remains an open question as to whether NHFIC’s activities have freed up bank capacity to provide additional funding – for instance, on construction) although needs to be assessed,

Assuming that one of the key underlying purposes of NHFIC financing is to enable the increase of the supply of affordable housing, the following comments are submitted:

* CHPs are typically Not for Profits (NFPs) with tax concessions and distribution and asset locks and operate conservative business models within a tightly regulated NRSCH framework. CHPs are capital efficient with limited tax and profit leakage, but are also constrained in their ability to take on risk and provide risk based returns;
* As mission locked entities, CHPs are focused on public benefits or welfare, rather than private benefit. NHFIC's Investment Mandate requires loans to regulated CHPs. Given mission locks (including NRSCH winding up requirements) and the public benefit focus, we submit that more relaxed financial covenants can apply to CHPs;
* the protection of the Commonwealth government's balance sheet (its guarantee exposure) through tight gearing and security covenants is to be admired and we would expect to be extended. It is an aid to other fund raising by CHPs. We note that the guarantee is of very limited cost or risk to the Commonwealth. The Social Bonds issued are 'covered' by the security over real assets held by the NHFIC in respect of the loans made to CHPs (minimising the likelihood of any call ever needing to be made on the Guarantee). The Guarantee is therefore an innovative and cost effective way of using the Commonwealth's balance sheet, However given the security and the tight covenants issued by NHFIC we submit that the Guarantee could be used more effectively by the easing of that security and those covenants;
* While social and affordable housing requires a subsidy (or value capture), then in the absence of subsidies and/or other value capture models, financing alone will not solve the supply question. We believe it important that NHFIC leads the process through research and capacity building in the sector to isolate and promote the most efficient forms of subsidy;
* There is the opportunity for better coordination between State and Territory Governments to create and utilise balance sheets to deliver more social and affordable housing. Balance sheets can be utilised to underwrite return across portfolios (or the sector) so that risk is reduced and returns can be provided akin to a social infrastructure asset class at the low cost end of the risk/return spectrum.

1. **The Role of NHFIC in Housing Supply**

It is submitted that:

* The affordable housing market is "non-market" accommodation for a reason – there is insufficient (rental) income to support commercial returns and typically the assets are held in 'mission locked' (NFP) entities and so market returns through capital gains are also limited (asset recycling can occur, but there is a decanting process to manage tenants in a sensitive manner).
* If one of the stated aims is to unlock or use private pools of capital (whether High Net Worth individuals, family offices, superannuation or otherwise), various levers can be used to attract that capital (including the tax system or subsidy models) but it will do so on conventional risk/return dynamics. Even the impact element of the 'Social Bond' still relies on the fundamentals of the Commonwealth Guarantee, so the "impact" is an ancillary benefit, rather than a key driver of investment under the AHBA;
* There has been much talk of utilising pools of money held in superannuation funds – however this must be done in a manner consistent with fiduciary duty and conventional investment decision making – including risk diversification through portfolio based approaches. The subsidy must be created elsewhere;
* CHIA and superannuation industry bodies, among others, have recently made submissions for the *Affordable Housing Infrastructure Boost*, as well as other tax concessions to promote Build to Rent investment generally, as well as the growth of affordable housing as an asset class;
* The 'subsidy' to make affordable 'investment ready' can come from a number of sources (or a combination of them):
  + low cost or concessional land transfer, typically from State of Local Government;
  + value capture through mandatory or other inclusionary zoning, arrange through State Governments;
  + other value capture where major transport infrastructure is involved, Through State and Federal Governments;
  + government subsidy (cash payment or use of guarantee to raise subsidised funding) through instruments such as Commonwealth Rent Assistance. Reforming and increasing the level of Commonwealth Rent Assistance we submit as the most effective area that the Federal Government can contribute to the subsidy required;
  + The NDIS and SDA payment is another example of a model where the government's balance sheet is being used to underwrite the development of a new asset class – SDA.
* There are then other portfolio approaches which can socialise risk and enable acceptable risk/return profiles to be developed (including ones like the NHFIC's AHBA guarantee where risk is essentially dispersed across all CHPs funded by NHFIC – and so is a very efficient use of the government's balance sheet);
* Further, this is not simply a question of new stock, there are also questions of:
  + maintaining existing stock, including lifting energy efficiency and reducing operating costs;
  + asset recycling – unlocking capital and replacing aging stock with new stock in innovative ways that maximise amenity and inclusivity;
  + inclusive housing, ensuring housing is appropriately located close to employment and other amenity;

Eligible projects is aimed solely at *new* projects. Could access to the NHIF be expanded to improve the quality of existing stock through refurbishment models (including energy efficiency). It may be worth examining the demand for the facility if that change were made.

* We see NHFIC having a key role in promoting sector wide data collection (under the aegis of NHFIC’s mandate for capacity building of CHPs) that addresses a range of questions, models and solutions that answer these systemic questions. For example, one issue that could be addressed is what are the benchmarks used in social and affordable housing for what constitutes best practice maintenance expenditure per dwelling per annum, across individual CHP’s portfolios, and what factors result in higher maintenance costs and how are these mitigated. Ultimately NHFIC is about lifting the efficiency of the CHP sector but at this stage we observe that it is doing it very effectively in one narrow cost input, the cost of finance. To justify the case for large scale subsidy, the public and the Government should be confident that all other cost factors are tightly controlled and managed, appropriate to the needs of the individuals being supported;
* There seems to be ample evidence available to demonstrate the long term and intergenerational social impact and productivity and other economic benefits supporting investment. NHFIC should use its Research arm (data collection, analytics) and voice to governments to marshal resources in the most effective and efficient manner and build the social and business case for effective investment. This would include leading inter-government missions to unlock benefits of greater collaboration with State and Territory and local governments.

1. **The Role of NHFIC in Increasing Homeownership**

It is submitted that:

* CHPs are tasked with delivering and managing housing stock at the social housing end of the spectrum, so NHFIC funding can help increase the pipeline of stock that could facilitate;
* NRAS initiatives supported development of private housing at the affordable end of the spectrum, but that scheme was time limited;
* NHFIC financing can support CHP participation in mixed use developments which provide a spectrum of housing solutions – social, affordable, first home buyer;
* the first home buyer market is a conventional risk/return market and there are questions of who captures the value of relevant schemes, and whether there is evidence that it simply increases price and return to vendors;
* It would be important for NHFIC to provide evidence that this strategy is in fact increasing supply and facilitating deposit building and earlier access to market.

1. **The Role of NHFIC Research**

The research and advocacy roles of NHFIC should be paramount given the data it is collecting, including through due diligence on CHP portfolios, as part of its refinancing process. The Research function and its role as an embedded agency, market maker and catalyser highlights that this is a critical feature and function of NHFIC.

NHFIC should be able to build a CHP sector wide model of data collection, extending that process to agreed benchmarks and other useful metrics. This should enable it to gain insights to enable it to make systemic recommendations. For example, one issue that could be addressed is what are the benchmarks used in social and affordable housing for what constitutes best practice maintenance expenditure per dwelling per annum, across individual CHP’s portfolios, and what factors result in higher maintenance costs and how are these mitigated. Ultimately NHFIC is about lifting the efficiency of the CHP sector but it is doing it very effectively in one narrow cost input, the cost of finance. Another is useful data that matches demographic information about what is the right type of dwelling for different locations.

NHFIC has a critical role in the identification of systemic issues and the development of policy positions using best available evidence. This should be joined up with State and Territory agencies and academic sources within a outcomes based framework seeking to develop a housing system to optimise investment on social and economic criteria.

This would enable the development of an inventory (aging profile, efficiency and other objective benchmarks) and models to assist with the optimisation of investment and assessment of innovative approaches.

1. **The Governance and Operation of NHFIC**

We make no submission on this item.

1. **Other**

Housing is a foundational requirement for a humane existence and underpins effective social and economic participation and health and wellbeing at an individual and systemic level.

* NHFIC is an extremely useful organisation in building the information architecture to optimise financing and investment;
* NHFIC has a significant advocacy role using that knowledge to develop best practice design, delivery and operation of housing solutions (also facilitating transition to private market housing as and when possible);
* NHFIC also has a role to leverage its capital – human, information and financial - to develop and deliver that system – including assisting CHP capacity building using that knowledge;
* NHFIC has a role in providing market support or assisting with the development of cost efficient investment models, including using CHP portfolio and credit line in sustainable and innovative ways;
* NHFIC's role should include a whole of government, joined-up or holistic approach analysing longer term, intergenerational benefits of housing and the social and business case for investment;

Whilst it is anticipated that the loans under the bond aggregator provided to date will collectively save CHPs around $200 million in interest payments over the term of the loans, this is a small part of the investment need. NHFICs role as a new and established institution in leveraging the other resource components required to deliver an adequate level of affordable housing in Australia should not be underestimated.

We'd be happy to discuss our submission. We are happy to have our submission made public.

**Keith Bryant, Keith Rovers and Philip Coleman**

**January 2021**

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