

Building the Recovery - Securing Jobs and and Social Outcomes

At this difficult time the Government's emergency measures to support businesses and workers will provide much needed relief to many Australians. At the same time there is an opportunity to plan for a government-driven stimulus initiative both to kick start the recovery and get people back into employment but also give the building industry the confidence to retain more of their workers.

Government can capitalise on historically low bond rates through a fiscal stimulus investment in infrastructure projects that deliver long term benefit to the economy and achieve a positive social outcome

The Community Housing Industry Association (CHIA) is calling for the Australian Government to introduce a social housing acceleration program (SHAP). This would emulate the successful Social Housing Initiative (SHI) which enabled the construction of nearly 20,000 social housing units. Like the 2008 program, the aim should be for 75% of funded homes to be completed within two years. Subject to additional state and territory contributions and housing provider innovation, it should be possible to deliver an additional 5,000 social and affordable homes under this scheme.

Under our proposal Australian Government investment together with state contributions and support would enable not-for-profit community housing providers (CHPs) to deliver 20,000 social housing units. Leveraged against the resulting dwellings and associated future rental income, CHPs will raise private finance to further expand resulting housing investment. States and territories will be incentivised to either make equity investments in CHPs via land, or to sell land at a discount to CHPs and thus maximise dwelling output in their jurisdictions.

While CHPs would be grant-recipients, they would commission private sector builders to deliver the housing and thus stimulate the construction industry too.

SHAP would be administered by a new arm of the National Housing Finance Investment Corporation (NHFIC) accountable to an oversight body reporting to COAG.

The cost to the Australian Government could be calculated as for the SHI through setting a fixed sum per property regardless of location or construction costs. However, recognising widely varying land values, a preferred alternative would be to set the grant at a proportion of total development cost. This approach would also more easily factor in other contributions of, for example, discounted land.

Social Housing Initiative 2008

- The Social Housing Initiative (SHI) was a key component of the Nation Building Economic Stimulus Package (NBESP) mandated by the Rudd Government in response to the 2008 Global Financial Crisis
- An independent evaluation (KPMG 2012) estimated a SHI contribution of approximately \$1.1 billion in average annual value-added (GDP) over the four-year period and that the 'multiplier' (boost to incomes per dollar spent) was 1.3 (1.3 dollars in additional income for every dollar spent).
- Created 9,000 FTE construction industry jobs during the stimulus period and an overall increase of 14,000 FTE jobs.
- New social housing delivered under the SHI was targeted at homeless households and those at risk of homelessness.
- 19,700 new social housing units were completed across Australia at a cost of \$5.24 billion to the government - the funds being allocated over 3.5 years
- New homes were delivered over three years, with total numbers exceeding the target by 13%.
- in-kind contributions from States and Territories of approximately \$766 million were made, of which \$466 million was land
- Three quarters of the properties were to be 'owned or managed' by community housing providers (CHPs)
- In Victoria grants went direct to CHPs, requiring a 25% co-contribution which leveraged \$166 million in private finance generating an additional 623 dwellings
- In other jurisdictions SHI homes were commissioned by state/territory governments and – in the case of NSW – then transferred (with title) to CHPs which, in turn, leveraged private finance to build more homes. This delivered more than 1,000 additional affordable homes over and above those directly SHI-funded

The community housing industry offers Government a trusted, transparent and regulated partner with an established track record in developing and managing social and affordable housing development in perpetuity. While we are independent from Government, we understand Government's needs and priorities and have the capacity to adjust policy settings to maximize opportunity. Together we can maximise program speed and bang for buck.

Why Social Housing?

Infrastructure that can be delivered

- The SHAP ticks all the boxes for a successful stimulus package. It involves a standard product, industry capacity to deliver is available, and it is fast to roll out.
- By comparison with many infrastructure projects already in state and territory strategies which require long lead times social housing does not require detailed complex planning. By focusing construction in locations with good access to transport and facilities the new housing can be well integrated into local communities.
- While some infrastructure projects have reportedly been delayed due to material and workforce shortages, housing construction should be relatively unaffected..
- State, territory and local governments all have access to under-utilised or surplus land that could be contributed. A number of jurisdictions have carried out or have land audits in progress that would allow suitable sites to be easily identified. A number are already well advanced in putting together proposals that could be kick started by the SHAP.
- Many private developers hold sizeable land banks that could be unlocked through careful design of the stimulus package. Similarly, other large land-owners may be incentivised to participate. The Australian Catholic Housing Alliance (ACHA) has for example been set up principally for this purpose. There are also a large number of projects with development approvals that may brought forward with the right incentive.

Social Infrastructure that is needed

- There is a pressing need for more social housing. More than 116,000 people were homeless in Australia on census night in 2016. Homelessness has recently been rising well ahead of population growth. Between 2011 and 2016, homelessness increased by 14% nationally whereas the population has grown by 9%
<https://cityfutures.be.unsw.edu.au/research/projects/australian-homelessness-monitor/>
- Many other lower income households, a fair proportion of them with at least one member in employment, are also in rental stress, paying more than 30% of income on housing costs. Recent research estimated that in 2016 there were over 400,000 households in the bottom income quintile either homeless or in rental stress requiring social housing. <https://cityfutures.be.unsw.edu.au/research/projects/filling-the-gap/>
- Rental stress and homelessness have increased primarily because of the diminishing availability of low-price rental housing across Australia, and – as part of this – the failure to expand social housing to keep pace with household growth. The national social housing portfolio has remained essentially static over the past 20 years, while Australia's population has increased by 33 per cent.

Improvements in affordable housing industry capacity since 2008 will enhance outcomes

- The National Housing Finance and Investment Corporation (NHFIC) has been established. and through its bond aggregator, CHPs are now able to secure long term and low-cost finance, saving very considerable sums in interest charges. One CHP, BlueCHP that borrowed \$70M from NHFIC's first bond has estimated that the organisation will save approximately \$1M per annum in interest payments. The National Housing Infrastructure Fund that NHFIC administers can also provide loans, equity and grants to assist in unlocking sites for housing.
- Furthermore, since (and in part because of) the 2008 stimulus program, CHPs have built capacity experience and capability as housing developers (see box below the industry has grown from 39,800 in 2008–09, to 87,800 in 2017–18. KPMG noted that CHPs had responded by increasing 'their capacity to become commercially focused and work with banks, developers and builders in situations they might not have otherwise had the opportunity to work in. CHPs also had to become better project managers and project developers.'
- A National Regulatory System for Community Housing (NRSCH) has been established in 2009 that operates in all states and territories across Australia except Victoria and Western Australia which have their own separate

regimes. These arrangements provide assurance to government and other investors about CHPs' governance, financial management and service delivery.

A program that can also add value

- AHURI research has demonstrated that the 2008 SHI delivered design innovations. However, modified planning and procurement processes could enhance such performance under SHAP. Chief amongst these should be supporting design to increase the environmental performance of building and reduce energy costs to tenants.
- SHAP could be designed to encourage new forms of mixed tenure outcomes to counter negative responses to developments, avoid stigmatisation and demonstrate the viability and attractiveness of new models such as build to rent.
- Drive down energy bills/ The KPMG 2012 report noted that 'Energy efficiency and adaptability introduced to more than 95 per cent of constructed new dwellings, potentially reducing energy bills for households'.
- It could encourage new forms of and arrangements between CHPs or between CHPs and other entities, for example, institutional investors, land owners including local and state governments.
- SHAP could require that bids encourage apprenticeships.
- Where housing can be constructed near jobs and services this will generate first order economic productivity gains that will offset the cost to government. While many social housing-eligible tenants may not be in paid employment, a number will be enabled to enter the jobs market. In mixed tenure developments with affordable rental properties the economic payoff will be larger. [UNSW-led research](#) clearly demonstrates these benefits in terms of productivity gains from both congestion busting and increased earnings.
- By investing in CHPs property can be acquired quickly, and if not suitable for purpose 'dealt and traded' over time with replacement properties in necessary locations finessed with the capital gain increases. In contrast, investment direct to State Housing Authorities (SHA), new property can mask and disguise the continued erosion of SHA stock with funds not directed back into housing, but rather to state treasuries. The [experience](#) of Commonwealth debt write off in South Australia is instructive.

Benefits of Not-For Profit CHPs

- CHPs have demonstrated capacity to deliver new homes. In NSW alone they will have by 2020 delivered 2700 properties at a value of \$1B including \$266 million of CHPs' own equity and \$432 million in debt finance. At least 23,000 homes have been developed
- CHPs reinvest their profits to improve services and increase the amount of housing they offer
- NFP CHPs have a range of competitive advantages, including: tax exemptions and the ability to take out loans against their assets
- CHPs' charitable [status](#) means that they are more cost effective in delivering social and affordable housing
- CHPs are viable, ethically run businesses driven by strong missions and values
- CHPs are careful stewards of public assets with a commitment to transparency: they are accountable through robust regulation and contractual arrangements
- CHPs have proven capability in managing tenancies and properties, supporting people, and building strong communities
- CHPs have developed sophisticated partnership networks with councils, the private sector, local service providers and government agencies
- CHPs vary greatly in size and location, and have a track record in using their scale to diversify the services offered. This diversity delivers contestability to Government and choices to tenants.

Principles of SHAP

Strategic objectives

We believe that an effective SHAP should have the following strategic objectives, building on those from 2008:

1. Increase the supply of social housing, via construction of new social housing including within mixed tenure developments
2. New social housing to be primarily targeted at households who are homeless or at risk of homelessness. Specific cohorts such as older single women may be prioritised
3. Stimulate the building and construction industry

4. Add to, rather than replace, existing initiatives and assist in the achievement of a viable and interconnected housing system.
5. Build capacity in not-for-profit CHPs and encourages innovation in construction quality and design
6. Maximize public value through CHPs combining their rental income with other government subsidies, tax benefits, partnership arrangements and private finance to provide additional, low cost, housing.
7. Over the longer term maximise tenant, community and economic outcomes

Program elements

In designing SHAP, we believe there are a number of considerations the Australian Government should consider. These include governance and strategic planning, design principles, process for selecting housing providers (CHPs) to take part in the program, procurement arrangements and consultation.

Our proposal is focused on allocating resources centrally and using the community housing industry to lead the delivery of the program. The industry recognises that another option is to allocate resources to state governments. This option does not preclude CHPs being the delivery vehicle but where states decide to lead development, we advocate that title of the new properties are vested in CHPs. As explained earlier, additional housing will be secured if CHPs are in the lead. An additional benefit of allocating direct to CHPs from the Federal level is the reduction in administrative costs arising from a two stage process. As noted below allocation via a Federal body does not preclude States and Territories having a role in decision making about the program design and priority locations and tenant cohorts.

Governance and Strategic Planning

- The Australian Government's role should be leadership, coordination (through COAG perhaps through reinstatement of a housing ministers' group and housing minister's advisory council a possibility) and funding. NHFIC could manage SHAP by establishing a separate staffed team benefiting from top quality and experienced state and federal public servant transfers and employment of outside commercial specialists working with state/territory planning and housing officials, and CHPs, to better align roll-out and intra-Government coordination. The possibility of using/ inserting an addendum to the bilateral agreements between the Commonwealth and states / territories has been suggested though this may be hard to achieve in the short term.
- NHFIC has established its housing research function and this should be the body that provides guidance 'number, type and general location' of properties that will be prioritised for grant funding. Recognising this is a stimulus package, requirements will not be prescriptive but can be guided by the needs of priority applicants on the states and territories' waiting lists. Locations will be expected to have good access to services such as schools and hospitals, and properties to be energy efficient. This body will also set grant rates. In the interim the body could draw on the need and cost information in the [Affordable Housing Assessment Tool](#) developed by UNSW City Futures.

States and Territories

- In the interests of speedy implementation, the Australian Government could allocate funding for delivery in each state and territory on a per capita basis. Whilst the per capital basis has merit there could be some location factor incorporated such as that which is used under the NDIS SDA formula.
- State and territory governments may be sufficiently encouraged / incentivised to enhance SHAP by contributing discounted land or equity investment. An alternative may be to allocate (say) 75% on a per capita basis and the remaining proportion conditional on matched state / territory contributions.
- States and territories will establish special land-use planning processes similar to those agreed for SHI which significantly enhanced project delivery times. The KPMG report found that generally the speeding up of the process was accomplished without objections. Significantly in those few cases where there were objections these were rarely on development grounds.
- There may be merit in states incentivising land owners to provide options to CHPs through the DA processes and State & LGA rapid approval process to get approvals quickly.
- States and territories will identify and publish a list of government land (including that owned by councils) that is available for purchase at discounted rates and / or which could be provided as an equity contribution.

Procurement

- Procurement should be via tenders and allocations will be awarded to not-for-profit tier 1 /2 or equivalent CHPs.
- The Commonwealth could set a quota for % of new housing to be owned by CHPs but to avoid stifling innovation and cross-sector partnerships and SPVs, and slowing the rate of housing delivery, there is scope to help foster relationships and support new models
- Who develops (designs and project manages) the new homes is a separate issue to who owns and manages them. Either CHPs or the state housing authority could develop the properties. The benefit of acting as developer is the additional margin/profit, which in the case of not-for-profit CHPs would be retained in the 'social purpose' sector, potentially delivering more output for the same government investment. It also means that the CHP (with a key focus on the long-term maintenance and management of the properties as well as the running costs for tenants) would be in control of the design.
- The procurement process will be designed with CHPs. There are options around the timing and frequency of tenders. There could possibly be an initial tender focused on projects that are deemed shovel and a second within six months allowing time for negotiation and partnership formation
- To ensure that housing units delivered meet the high standards expected the procurement process should place CHPs in the 'decision making role' in site / scheme selection.
- All tier 1 / 2 (or equivalent) CHPs have been assessed by the regulator as able to develop new properties. Potentially a new 'class' of CHP could be badged, through a pre-qualification process. Regulatory information supplemented by evidence from schemes already completed provides a basis for assessment.
- Tender and procurement costs must be kept to a minimum. In some jurisdictions these have been enormous without a discernible impact on the outcome.
- Consideration should be given to proposals that allow CHPs to do broader scale developments that allow 'develop and sell, land or land and housing packages' that target affordable house purchase & rental markets whilst developing pipelines of revenues (profits from first stage) that can subsequently deliver affordable rental properties as well. This creates a second round effect as well as creating sustainable ongoing pipelines of activity for CHPs.

Other Supports

- NHFIC (if CHPs choose to use) will fast track loan and NHIF financing applications associated with SHAP

Outputs and Outcomes

- Government investment should be allocated to achieving social housing outcomes. CHPs in leveraging the allocation should be able to introduce affordable homes in to the mix.
- Mixed tenure including BTR will be encouraged. Partnerships between CHPs and private developers that unlock land opportunities will be welcomed.
- Mixed tenure developments can also deliver into the mix SDA (Supported Disability Housing) homes for people with high needs, thus also delivering on the governments interest in maximising NDIS effectiveness.
- Developments will need to be in locations with demonstrable housing need, meet at least [LHA](#) silver standard, have high energy efficiency standards, be located and in areas close to jobs and services.

Monitoring delivery

- The focus should be on the important outputs and outcomes. Arguably these are the build and design quality, the location, impact on affordability, and of course completion. Sufficient attention needs to be given to collect information that will identify systemic and / or location specific issues that need resolution.
- In the UK the government role in oversighting development is focused on ensuring that properties are delivered. They generally appreciate the complexities and realities of development and within clear parameters can be flexible about timing, substitution of sites etc.
- To achieve ambitious delivery targets, the application and monitoring processes should be streamlined and returns should be easy to complete.

- Existing NRAS compliance agents and organisations could easily adapt to providing quality assurance of tenancing and other aspects of ongoing compliance if/as required.
- Given the size and importance of the program there are grounds to commission an ongoing evaluation from the outset. Design the program to achieve the stated objective of growing CHO capacity

Main References

This paper draws on a number of published research papers and reports. These are listed below. It is also informed by CHP experience and expertise including of delivering the SHI in Victoria.

KPMG SHI Review 2012

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

UNSW City Futures 2019 for Landcom – How an Australian Build to Rent Project contribute to urban renewal and affordable housing supply. This report provides evidence of the ‘savings’ from using a not-for-profit CHP as the developer.

<https://cityfutures.be.unsw.edu.au/research/projects/how-can-australian-build-rent-product-contribute-urban-renewal-and-affordable-housing-supply/>

UNSW City Futures 2019 for CHIA NSW and Homelessness NSW - Filling the Gap (includes costs for land to SA4 level and housing need for social and affordable housing)

<https://cityfutures.be.unsw.edu.au/research/projects/filling-the-gap/>

AHURI 2018 – Paying for Affordable Housing (part of larger inquiry that also considers planning mechanisms), this report includes the affordable housing assessment tool that helps calculate the subsidy required to deliver different mixes of subsidised housing. The second link is to a summary of lessons from examining two strategies.

<https://www.ahuri.edu.au/research/final-reports/293>

https://www.ahuri.edu.au/_data/assets/pdf_file/0020/20783/PES-09-Lessons-in-affordable-housing-strategy-for-government.pdf

2019 UNSW - Strengthening Economic Cases for Housing

<https://cityfutures.be.unsw.edu.au/research/projects/strengthening-economic-cases-housing-productivity-gains-better-housing-outcomes/>

2018 UNSW et al for Launch Housing – Australian Homelessness Monitor

<https://cityfutures.be.unsw.edu.au/research/projects/australian-homelessness-monitor/>

The SHAP is proposed as sort sharp economic stimulus to address jobs and meet a social need. CHIA also has a comprehensive National Strategy Plan for comprehensively addressing Australia’s housing challenges - see [here](#).