

CHIA – Housing Australia Future Fund (HAFF)

This paper is based on meetings held (1) between CHOs and the ALP, (2) as part of the design process for the housing boost aggregator – CHIA and partners subsidy proposal and (3) consultation / feedback meetings about other subsidy regimes (for example the NSW Community Housing Innovation Fund (CHIF)). It summarises key *practical* suggestions for the Commonwealth implementing Federal Labor’s proposed HAFF. We have presumed that there are non negotiables – the ‘subsidy’ is an availability payment made once the homes are tenanted and that these homes need to be delivered within five years. We have not assumed that the fund will be supplemented in the short term.

Labor’s plans: what we know (and don’t know) so far

- \$10 billion investment to be managed by existing Future Fund Board of Guardians
- Modelling of returns from investment will enable construction of at least 30,000 homes – 20K social and 10K affordable over five years. 4,000 of the social housing will be targeted at women escaping DFV
- The modelling is assumed to have been based on forecasts from 18 months ago. It is unknown if the returns will be used to pay interest on the loan and / or cover the fund’s administration.
- It is unclear whether there would be specific state / territory funding allocations
- As with the NSW SAHF, the subsidy is proposed as an annual operating payment, ongoing for 25 years, payable on tenanted homes. Under the SAHF, after 25 years, there is no obligation to retain for social and affordable rental occupancy.
- In addition to the 30K program, returns - in the first five years - will allow three targeted schemes - for veterans housing and support, remote Indigenous housing renovation, and crisis responses. In subsequent years these surplus returns will be directed at other initiatives.
- Procurement would be led by NHFIC (or its replacement)
- It is assumed that the commissioning would be via competitive tender and that co- contributions would be required. It is not known when or how many tender rounds would be held.
- It is assumed the operating subsidy would be variable (as with SAHF) and depend on location, tenure mix, size etc.
- It is unclear whether subsidies funded from the scheme would be ring-fenced for not for profit registered CHOs
- It is unclear how state and territory government would be involved - as co-funders, deciding project priorities and / or proponents and whether the new NHHA would set out the principles for state / territory (and possible local government) involvement.

Summary of Paper

- NHFIC or a replacement housing agency should be responsible for all procurement. In addition to cost, procurement should be guided by housing need, quality design and on going management capabilities / performance in addition to cost. The process should be designed to minimise procurement costs.
- Tenders should be in the name of ie led, and coordinated by, not for profit registered CHOs. This will optimise the program outcomes through reducing development costs via a combination of CHO’s tax

concessions and eligible tenants' ability to claim CRA. Tenant satisfaction with CHOs is routinely higher than that achieved by public housing. CHOs are also independently regulated.

- The changing economic outlook requires careful re-consideration of the assumptions underlying the HAFF modelling.
- States and territories contributions could be negotiated as part of the new National Housing and Homeless Agreement (NHHA) and set out in the bi-laterals between the Commonwealth and each jurisdiction. Potentially, there could be a base allocation of funds with 'top ups' dependent on the contributions made by each jurisdiction.
- It is anticipated that CHOs will largely partner with others - state, territory or local government, the private and not for profit / philanthropy sectors to deliver the new housing. That said the procurement process should not require specific models. It should however preference partnerships that have an equitable risk / reward balance.
- Local Government should be actively involved in consultations on the HAFF via both ALGA and the state / territory associations. They can facilitate access to no / low cost land, provide concessions on development contributions and fast track approvals.
- Recognising the need for the HAFF to 'hit the ground running' at a time when development costs are high and supply side constraints continue, the first tender round should be focused on projects that are 'shovel ready' and have a lower per unit cost. This could include acquisition of properties already under development by CHOs where these meet the required standards.
- The NSW Government Community Housing Innovation Fund (CHIF) has demonstrated that co-designing programs with the CHO sector yields considerable benefits. It is recommended that CHOs are actively involved in the HAFF program design.
- Compliance costs should be minimised for government and CHOs. The existing regulatory regimes should be relied on - being strengthened where necessary - rather than adding layers of red tape.
- The proposed National Housing and Homelessness Plan and the supply, demand and affordability assessments from the proposed National Housing Supply and Affordability Council (NHSAC) should inform the future expansion of the Fund or alternative new social and affordable housing programs.

Current Context

- CHOs are rarely in a position to solely finance the construction of new homes even where an operating subsidy is available post occupation. To enable a development to start they need a 'capital' contribution as is the case with the NSW Community Housing Innovation Fund (CHIF) envisaged by the [Housing Boost Aggregator](#) proposal or land / grant contributions from local or state and territory government. Ensuring the HAFF is structured in such a way as to encourage sources of upfront contributions, will be essential to its success.

- Since the HAFF was conceived the operating environment has changed and continues to evolve. Specifically, land and construction costs have risen across the country in response to a combination of supply (labour and materials) constraints and high demand for new homes. In the short term, costs are not forecast to significantly reduce. Finance costs at the same time are forecast to rise.
- This will impact on project unit costs, project timelines if material and labour supply continue to be problematic, and the annual subsidy payment required to make projects viable. The Australian Government Supply Chain Roundtable anticipates that workforce (including professional services) and material shortages will not ease with demands from flood damaged areas exacerbating existing problems.
- The consequences of rising costs on project viability have already been observed in the specialist disability accommodation (SDA) market.
- Rising costs may be mitigated through (a combination of) structuring the program to focus at least a first tender round on affordable housing schemes requiring less subsidy, allowing acquisition of new (quality) homes from the private sector developers, and prioritising 'shovel ready' schemes where partnerships / land etc are in place. While using cross subsidy from market for sale to help fund developments will be tricky in most locations, supporting schemes that incorporate market build to rent may be an alternative, given rental vacancy rates.
- Other possible options are (1) s to investigate the potential for using the National Housing Infrastructure Fund (NHIF) equity / grant elements to support discounted land release from government or potentially Indigenous land owners and (2) aligning a proportion of the funding allocation with other government infrastructure projects where there is the potential to layer in contributions from value capture mechanisms (always assuming these projects are supporting growth).
- Land costs however may reduce, recent price spikes have been stimulated by demand for new housing, including the HomeBuilder program.
- Leveraging (layering) in other subsidy will be critical to optimising the fund's outcomes.
 - The new (anticipated 2023) NHHA bilateral agreements between the Commonwealth Government and each state and territory should formalise contributions from the state and territories and thus optimise what the fund can achieve. There is a view in some quarters that the NHHA process may take too long and be too complex to serve this purpose and that a separately negotiated agreement with states may be required. We think the NHHA process should be at least tried. Whatever option is used these arrangements are inevitably going to take time to put in place and more likely to feature in later tender rounds.
 - In the first instance CHOs could be required to take the lead and directly partner with states and territories to access land and thus reduce costs. In addition to partnerships with states and territories, CHOs may also partner with other landowners including local government or private sector / not for profit entities.

- Other perhaps less attractive options to reduce costs could include adjusting the proportion of social to affordable housing generated – or at least making it explicit that the social housing target is dependent upon state / territory match funds, accepting that a proportion of the homes might need to be sold after 25 years (as the SAHF allows) or timing the program so that development costs have begun to reduce.
- The returns generated by the fund will be impacted but we understand that the forecasts used for the modelling have been very conservative (circa 6.5% pa) well below what the existing (main) future fund has generated – 10.8% over the last ten years.

Support registered NFP community housing organisations (CHOs lead in development)

- Tenders should be in the name of, and coordinated by, not for profit registered CHOs. This will strengthen their role in negotiations (if applicable) with local and state government, institutional investors and private developers.
- Unregistered ‘not for profit’ or ‘for profit’ organisations should not be grant recipients. Note that for-profit entities can register in the National Regulatory Scheme for Community Housing (NRSCH) - though not in the Victorian regulatory regime - and could therefore be ‘monitored’ by a government agency. However, for-profits do not re-cycle profits for social purpose.
 - CHOs are eligible for a range of tax concessions (on for example land tax and GST) that apply to both their procurement and operating costs and thus reduce cost of housing development. In addition, eligible CHO tenants are able to claim commonwealth rental assistance (CRA)
 - The benefit of CHOs acting as developer is the additional margin/profit, which in the case of not-for-profit CHOs would be retained in the ‘social purpose’ sector. It also means that the CHO (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.
 - CHOs will want to retain homes for low cost rental occupancy in perpetuity (or at least maintain the numbers by replacing homes no longer suitable or where opportunities exist to sell and recycle the return). Homes both owned and managed by CHOs under NRAS are overwhelmingly being retained as affordable rental.
 - AHURI [research](#) has revealed that holding 1,000 properties in state government management and ownership would result in a \$30 million deficit after 30 years, whereas transferring the same number of properties to community housing would deliver a \$40 million surplus over the same period, which could be reinvested to produce additional social housing.
 - While it is occasionally claimed that efficiencies can be generated by larger private sector developers, the evidence has not been provided. Most social and affordable housing projects are relatively small scale - by design – and constructed to build to hold (rather than build to sell) standards. In any case CHOs utilise the skills and experience of professional advisors and builders. The [study of affordable build to rent](#) commissioned by the NSW development agency Landcom

clearly sets out the relative cost effectiveness of using not for profit developers. (see p17 for a summary).

- A quota could be set for % of new social and affordable housing to be owned by CHOs. This will avoid stifling innovation and cross-sector or CHO / government partnerships while supporting sector growth. There is scope to help foster relationships and support.
- Other options to support CHOs could include NHFIC investigating the options for reducing construction costs via facilitating equity injections (see housing boost aggregator model mentioned earlier as one example) and working with Commonwealth departments / agencies to audit unused or underutilised government land. In the past the Commonwealth Government has indicated surplus land will be sold with a requirement for a proportion to be designated for affordable housing. While NHFIC is not focused on providing construction finance it could use its market connections and position to investigate options with the private sector. This is consistent with NHFIC's intention to both set up a stakeholder panel to 'actively encourage sources of financing in the community housing sector' and its intention to 'develop interest rate management products (which) will assist with encouraging CHP demand for bank construction finance'. A longer term, more ambitious and a broader role for NHFIC (perhaps as Housing Australia) to support access to land is to work towards a role similar to that carried out by Homes England via their [Land Hub](#).
- Some smaller and regional CHOs and Indigenous CHOs have less capacity (even if they have proven capability) as property developers. An option is for the Commonwealth to fund and support the further enhancement of CHOs' development capacity. This could be through an expansion and broadening in scope of the NHFIC capacity grant program to include support for feasibility studies and project development.
- As noted earlier, new forms of and arrangements between CHOs or between CHOs and other entities might emerge through opportunities offered by HAFF. These could include joint venture arrangements between CHOs or between CHOs and for example institutional investors, land owners including local and state governments. The NHFIC capacity grant process could also support early investigation of different models to enable CHOs to assess the opportunities and risk involved and also support the process of setting up partnership structures, new institutions.
- As noted to optimise state and territory contributions these should be negotiated and set out in the NHHA or separate partnership agreement. NHFIC have built up relationships with states and territories and could support at least this part of the NHHA process

Program Design

Clarify and make explicit key program objectives and the subsidy levels

- We assume that the first tender round may need to be made in advance of the ALP's proposed national housing and homeless plan / strategy being completed. However, this plan / strategy should involve an assessment (perhaps by the proposed NHSAC) of housing needs that could inform locations, property types and size, priority cohorts (noting women escaping DFV are already targeted in the ALP's plans) and thus inform later tender rounds.

- We note the current intention to make service payments over 25 years as with the NSW SAHF. The assumptions around the benchmark subsidy levels for social and affordable housing in different locations, anticipated funding contributions from other sources and the threshold development costs will require careful review. In jurisdictions such as Scotland which run long standing and successful social / affordable housing procurement processes, the equivalent of the community housing industry are consulted over the setting of indicative grant levels. At the very least the sector should be asked to share information about current costs to inform the program.
- In the available guidance for the HAFF it is unclear whether any specialist support services will be the responsibility of the tenderer to fund. We assume not as the guidance suggests the service payment is designed to meet the gap between rental income and operating costs. Depending on the population cohorts targeted an assessment of the demand for additional support should be undertaken to inform discussion with the states / territories who fund these services.
- We support the service payment being calibrated to meet the funding gap of individual tendered projects, as is the case with SAHF. Assessment of tenders should recognise the difference in development and operating costs by location, property size and tenure type. Note that CHIA is about to commission work on behalf of a coalition of state and territory peaks that will update [Estimating need and costs of social and affordable housing](#) to local government areas. The project incorporates an interactive tool that could be used by government as part of assessing benchmark subsidy requirements contingent on regular routine updating of the model's development costs data.
- An alternative to the variable gap funding is that a standard value is set depending on costs of housing delivery (following the NDIS Specialist Disability Allowance, SDA approach), with data provided and updated by NHFIC's research arm. However, the approach is relatively complicated, could stifle building innovation and / or land contributions. It is also insensitive to changes in construction and land costs. It does however have a track record under SDA.
- We assume that in the unlikely event that the Fund failed to generate sufficient returns, the Federal government would top up service payments.
- It is unclear whether the social and affordable housing elements would be commissioned separately. It is usual to have mixed tenure models and the potential for cross subsidy enhances the viability of the social housing element.
- Does the affordable housing definition include home ownership options? Given the lack of affordable rental housing and the new Help to Buy Scheme we strongly recommend home ownership options are limited and confined to those that drive home ownership down the income scale such as build to rent to buy. Our preference would be that a cap is in place and limits non rental affordable housing to 10% or less.
- There is no agreed definition of key worker and it could easily discriminate against individuals in low paid work but in jobs with less public support. Income qualifications are one way to avoid this. However, eligibility criteria should draw on experiences of CHOs administering affordable rental (NRAS

and state schemes) to mitigate the risks around people losing their jobs, retirement and income rises that mean they breach the eligibility criteria.

- If there is no obligation to retain the homes as social and affordable housing after 25 years (or require replacement if they are sold) care needs to be taken in comparing tenders. We support at least all the social housing being retained in perpetuity or replaced with similar properties.
- It may be of interest to know that at the request of the shadow housing spokesperson CHIA arranged modelling of an alternative ten year service payment gap consistent with the housing boost aggregator (HBA) proposal. The cost assumptions we used would need to be revised.

Procurement and Compliance

- We fully support NHFIC i.e. a national housing agency – assume Housing Australia - being in charge of the procurement process.
- The aim is to construct the 30,000 homes over five years. Three / four tender rounds would maximise CHO participation and provide time to source opportunities and negotiate partnerships.
- The SAHF tendering process should be avoided. It led to high transaction costs, but not to improved outcomes.
- [The NSW Community Housing Innovation Fund](#) (CHIF) is held up as an example of good procurement. It involves competitive tender and crowding in of other contributions - note this was co-designed with the sector. UK social housing development grant allocation and procurement is also noted as efficient and low cost. This is an excellent model for an initial CHO procurement round.
- As noted above we have recommended that CHOs are the lead proponents. While their discretion to form partnerships should not be fettered, there may be occasions where potential partners seek to place undue risk onto CHOs and which is out of balance with the reward. The procurement process should for example discourage bids where CHOs have no stake in the ownership of the homes.
- The program regulations should encourage both ‘quantity’ not ‘quality’.
- At least the short term (given supply constraints and high costs) there may merit in allowing acquisition of new / partially completed homes.
- Quality can be encouraged through setting mandatory criteria such as building and accessibility standards, room configuration, location relative to services and preventing funding dual-key apartments and bedsits. However, setting a large number of mandatory criteria makes the application process more complicated, and will reduce the number of applications. A judicious balance is required.
- Applications offering value-add such as community facilities, tenant engagement programs, rooftop gardens, top-level environmental sustainability etc. could be given preference by:
 - Giving higher weighting to their application (encouraging a ‘race to the top’ not a ‘race to the bottom’)

- A financial bonus (i.e. a higher level of annual payment).
- We are recommending all homes are managed by registered CHOs. The Commonwealth should be less prescriptive (than for NRAS) in on-going compliance, requiring less documentation to be produced, and relying far more on the regulatory regimes.
- For social housing we assume that CHOs will follow practice on allocations, rent setting etc as applicable in the particular state and territory.
- Micro-managing allocations for affordable rental housing should be avoided. CHOs could adopt a ‘portfolio’ approach, for example being able to replace existing eligible tenants with new eligible tenants during the year without Commonwealth approval.
- Ongoing compliance should be restricted to what a well functioning regulatory system cannot manage. If necessary additional compliance requirements should be factored into the NRSCH and other regulatory regimes. The main burden with NRAS and SAHF is reporting on individual tenants. This should be minimised or, if considered necessary, should be recognised as an additional operating cost (as with SAHF) and added to the subsidy payment.
- In the UK the government role in overseeing development is focused on ensuring that properties are delivered. Grant-issuing agencies and regulators generally appreciate the complexities and realities of development and within clear parameters can be flexible about timing, substitution of sites etc. Possibly due to longer history and thus experience of the sector, government relies far more on the regulator to give assurance of the probity of the provider and thus that they will comply with ongoing contractual obligations.
- CHIA are examining the economic impact of social and affordable housing and has commissioned Andi Nygaard, in part following Infrastructure Australia’s observations in their 2021 Plan, to develop a model for CHOs to estimate the dollar benefits from constructing social and affordable housing, using cost / benefit analysis. Together with our work to develop an [ESG reporting framework](#) supported by NHFIC and NAB, these initiatives will be useful to assist in tender and program outcomes evaluation.

Role of State and Territory Governments and Local Government

- The role of state and territory governments could include:
 - Setting out priorities for investment to guide tender guidelines
 - Facilitating development through planning policy that supports approval processes
 - Supporting adoption of planning mechanisms to enable CHOs to acquire land at nil or discounted cost
 - Contributing resources – land or capital to reduce reliance on the HAFF (match funding) perhaps taking an equity stake in the development in proportion to the resource they provide.
 - Purchasing land for development.
- CHIA is supportive of these arrangements where they enable the growth of the sector and optimise the social and affordable housing outcomes.

- NRAS had co-funding between these two levels of government. However, this led to greater administrative complexity, and several states/territories ‘harvested’ NRAS incentives to fit their own goals or under-funded their co-contribution. There were also some useful collaborative efforts – the NRAS A and B schemes in NSW. On balance and subject to streamlined administration state and territory buy in is seen as necessary.
- It is an opportunity to consider a partnership agreement along the lines of that signed between Canada and British Columbia which respects the provincial priorities, but not at the expense of national objectives. The agreement is explicit about the resources that both levels of government put into the agreement and the outcomes.
- Both state / territory and local government can have a positive role. Important to success is provision of land at low/no cost, and favourable planning settings such as example inclusionary zoning). State / territory government can also use their powers to purchase land as well as to allocate land already in ownership.
- We strongly support including local government directly in consultations via the national and state peak organisations. As demonstrated by the motions put to ALGA’s [NGA 2022](#) there is considerable interest and commitment to affordable housing that could be harnessed if they were treated as an equal partner
- There could be a base allocation for projects in each state and territory in a similar ratio to that used for NHHA but with top ups determined by need and / or the level of state and territory contributions.
- If a state or territory does not (fully) participate in the HAFF, CHOs should be able to tender forging partnerships with other entities.
- NHFIC or its replacement Housing Australia, as the assumed commissioning authority, should establish a separate staffed team working with state/territory/local government planning and housing officials, and CHOs, to better align incentive roll-out and intra-Government coordination.

Support and Capacity Issues

- In addition to general supply constraints mentioned earlier there are other sector (social and affordable housing) issues.
- There needs to be a systematic process for raising the NHFIC liability cap so that CHOs have confidence about the availability of low cost finance.
- As noted there is scope for the NHFIC capacity grant program to be expanded and broadened to facilitate the program. CHIA currently administers the scheme for NHFIC and is already in the preliminary stages of a review. The grant program could be informed by the development of an industry strategy.
- Local Government needs to be engaged, incentivised and supported to assist delivery from the outset. Many are small in size and have limited capacity to process applications, some are lukewarm or face

pressures to constrain development and others are resistant to social and affordable housing. Concerns about pressure on other infrastructure are widespread. Funding will be a constraining factor in affordable housing delivery

- The Commonwealth could specifically target building the capacity of Indigenous CHOs (ICHOs), and Aboriginal Land Councils, as both a worthy policy objective but also because these organisations often have access to land that would be ideal for affordable housing for Aboriginal and other residents.
- The HAFF is not currently an ongoing program and thus it will be more difficult to attract institutional investors except as participants in individual projects. However subject to additional funding or the HAFF being expanded – perhaps following the development of the housing and homelessness plan we hope it may be possible to consider that later rounds can be modelled on the housing boost aggregator with NHFIC being given the equity aggregation function. We have prepared modelling of how this might work
- Setting up (or facilitating) a well publicised affordable housing register of interest site(s) is worth exploring to ensure the affordable homes reach those who would benefit and let the wider community know what the scheme is delivering. We do not advocate creating a waiting list but a streamlined, co-ordinated / linked system for advertising and registering interest is necessary. A number of CHOs already have real estate agencies that could be investigated as a basis.
- If NHFIC is to take on the procurement function then its establishment should follow the model it adopted for the AHBA. In that example it drew on international secondment (Piers Williamson CEO of the Housing Finance Corporation was a frequent visitor and advisor to the Australian Treasury (THFC)). Treasury staff were also seconded to work at THFC. The UK - both Scotland and England - has considerable expertise in low cost and effective procurement practice.
- The opportunity of the new NHHA should be taken to create one strong national regulatory system that has the requisite skills to register new entities and assess compliance. It should command the confidence of government, investors and tenants and lead to the need for separate compliance functions.
- There has been little progress on improving data on community housing (or social and affordable housing more generally). The NHHA negotiations need to move this forward. In the interim CHIA is in conversation with NHFIC about collaborating on producing further editions of our first national data digest.
- The [UK Farmer review of the construction industry](#) identifies the potential for longer term reforms to residential building model to reduce costs and improve quality. There is scope for the National Housing Plan to consider applicable lessons for Australia. Should the HAFF be extended (or another program be implemented) some of the proposals particular around modular construction could be tested via a proof of concept.

This document does not consider the additional three one off schemes outlined in the HAFF briefing. CHIA has outlined proposals for the \$30M veterans program [here](#). The Safe Places Program has recently been expanded to include an additional 750 places. Some of the funds allocate for crisis accommodation might

be more usefully allocated for encouraging proposal to retain some of the NRAS homes due to expire by 2026.

CHIA's [submission](#) to the Productivity Commission review of the NHHA sets out our views on how a future agreement could more effectively deliver on Australia's housing challenges. It makes suggestions about how the agreement could fit with the proposed national housing and homeless plan / strategy.