



AUSTRALIAN GOVERNMENT – THE TREASURY

**NT SHELTER RESPONSE TO CONSULTATION PAPER – NATIONAL HOUSING
FINANCE AND INVESTMENT CORPORATION**

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**Housing Policy Unit Manager
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PREAMBLE

NT Shelter welcomes the opportunity to provide feedback and comments in relation to Treasury's Consultation Paper on the establishment of the National Housing Finance and Investment Corporation (NHFIC) and related structure and governance.

NT Shelter Incorporated is the peak non-government body for advocating for affordable and appropriate housing for all Territorians, especially in relation to low income households and others disadvantaged in the housing market. It is important to alleviate the pressure on public housing and to support initiatives that address the needs of vulnerable persons. We engage with a broad range of stakeholders across the housing sector as well as those who have expertise in areas relevant to those most at need.

As a peak body, we are committed to encouraging an evidence based approach to policy development, effective consultation, examination of innovative programmes and utilising knowledge and experience both locally and from further afield. We appreciate the opportunity afforded to us and other stakeholders to have our say in this important area prior to final finalisation of NHFIC.

We are also pleased to have been provided with the opportunity to participate in the consultation session in Darwin earlier this week with Treasury and a number of other key stakeholders from NT Government, industry, banking and local Government. We found that session, and the discussions which ensued, to be productive and informative.

It was apparent at the Darwin session that there have been some consistent themes emerging from the consultation sessions in other states and territories. Our feedback will not attempt to cover the full range of issues and questions canvassed in the consultation paper nor aspects which were well covered and evidently already well known from the Darwin session.

We trust that the comments which we provide, and which emphasise key matters or perspectives from a Northern Territory point of view, are of value to Treasury and we look forward to working collaboratively with the Australian Government and other stakeholders towards the successful establishment and implementation of measures to improve affordable housing outcomes.

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NORTHERN TERRITORY CONTEXT

The consultation paper notes that housing supply has not kept up with demand and that Australian’s ability to access secure and affordable housing is under pressure.

The Northern Territory is by no means immune from these pressures. Housing affordability is a significant challenge for many Territorians. Despite recent falls in median rent prices, the NT remains one of the least affordable jurisdictions in the country in which to rent a property – a consequence of historically high rents and population movement. Rental affordability in Alice Springs has been described as approaching “crisis point” and worsening the region’s homelessness crisis¹.

While the Northern Territory displayed significant improvement in rental affordability over the last year it was still **the third least affordable jurisdiction** in the country in which to rent a property².

Over the ten year period from December 2006 – December 2016, the increase in the CPI for rent in Darwin (48.2%) nearly doubled the increase in the CPI ‘All Groups’ for Darwin (25.9%), during this period.

Any recent rental decreases, while welcome news for those suffering rental stress, must be kept in historical perspective. Rental affordability remains a critical issue in the NT.

CPI Changes over time - Darwin Rent Increases and CPI, Dec 2013 to Dec 2016³

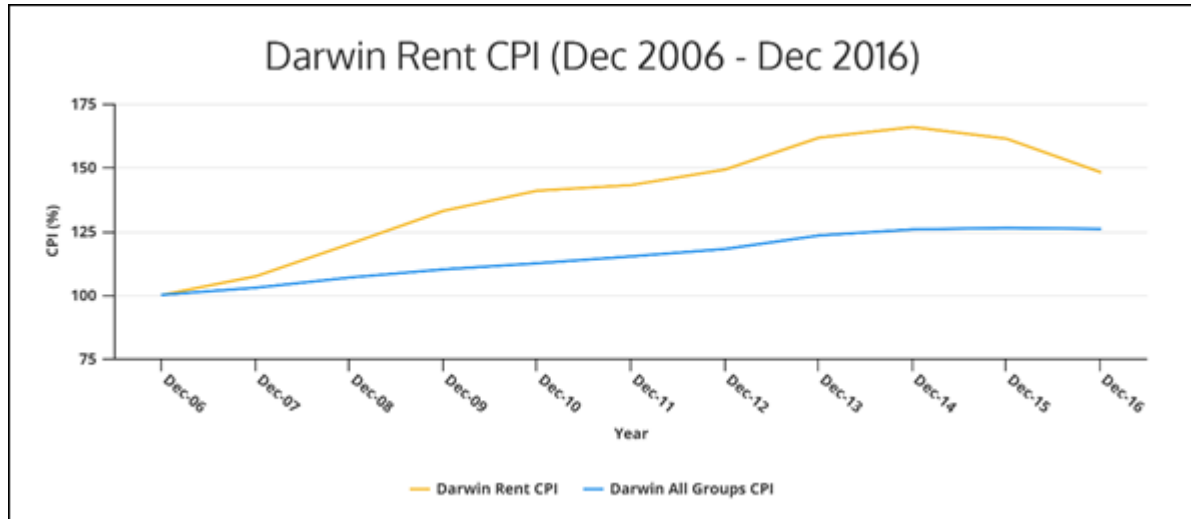
| Year Ending Sep Qtr | CPI Rent | CPI New Dwelling Purchase | CPI All Groups |
|---------------------|----------|---------------------------|----------------|
| Dec 2013 | 8.4% | 3.4% | 4.4% |
| Dec 2014 | 2.7% | 0.3% | 1.9% |
| Dec 2015 | -2.7% | 0.7% | 0.5% |
| Dec 2016 | -8.2% | 0.3% | -0.4% |
| Overall | -0.7% | 4.9% | 6.7% |

¹ <http://www.abc.net.au/news/2017-08-28/alice-springs-one-of-the-worst-places-in-australia-to-rent/8840418>

² Real Estate Institute of Australia (REIA) 2017, Housing Affordability Report, December 2016, Deakin p3.

³ Australian Bureau of Statistics (ABS) 2017b, 6401.0 - Consumer Price Index, Australia, TABLE 10. CPI: Group, Sub-group and Expenditure Class, Percentage change from same quarter of previous year by Capital City (Dec 2016), *Australian Bureau of Statistics, Canberra, Data 4,5.*

Changes in CPI Rent vs CPI All Groups Darwin, over the period Dec 2006 – Dec 2016



Source: ABS 2017a Data 4, 5

NT Shelter stresses the need for the board of NHFIC to be cognisant of, and incorporate into design features, the housing affordability financing challenges and needs in all state and territory jurisdictions. In finalising the investment mandate, financing arrangements and metrics, consideration must be given to ensure that projects and applicants in geographic locations far from Sydney and Melbourne are not disadvantaged in terms of fair and equitable access to the NHIF and bond aggregator.

The community housing provider sector is in a relatively nascent phase in the Northern Territory.

With public housing waitlist times reaching eight years⁴ and minimal new stock in urban areas to match increasing demand, measures that enhance the provision of housing related infrastructure and cost-effective finance to new affordable housing developments are strongly welcomed.

Of the \$4.2 billion funded for Commonwealth Rent Assistance (CRA) nationally in 2014-15, the NT received \$19.4 million or just 0.46% of the national allocation⁵. This underscores NT’s small population and relatively high proportion of public housing dwellings⁶.

There is considerable scope to further develop the community housing sector in the NT through measures including stock transfers and the continued operation of the National Rental Affordability Scheme (NRAS). As evidenced at the Darwin consultation session, the need to drive further construction of affordable housing and to repair and renew existing public housing (including stock transfer initiatives to expedite this process) in urban, regional and remote areas of the Northern Territory, is not disputed.

⁴ <https://nt.gov.au/property/public-housing/apply-for-public-housing/waiting-list>

⁵ Productivity Commission, 2016, Report on Government Services 2016

⁶ AIHW, 2011, Housing Assistance in Australia

HOUSING INFRASTRUCTURE FINANCING – BUSINESS CASE COSTS AND BENEFITS

As outlined at the Darwin stakeholder consultation session, the cost of providing housing related infrastructure across the Northern Territory in general, and in rural and remote locations in particular, is very significant vis-à-vis interstate metropolitan areas. This is due to a range of factors including remoteness, accessibility constraints (weather related), building costs (transport costs and design / construction standards to meet cyclone events) etc. On a benefit cost ratio basis, it is plausible that certain projects in the NT will struggle to drive BCRs that rate favourably to comparable projects elsewhere in Australia for these reasons.

This emphasises the importance of project proponents ensuring that all externalities are appropriately identified and assessed. This could include social benefits and avoided costs across a broad range of socioeconomic indicators including health, education, employment, law and order, public safety, tourism etc. Indeed, there will be instances where there is a high conviction in housing development projects amongst government, housing providers, developers and local communities notwithstanding inherent limitations of justification of projects on financial ratios and BCRs alone.

We suggest that the board of the National Housing Finance and Investment Corporation be granted a sufficiently wide investment discretion that enables them to consider, as part of a broad allocation of the funding portfolio, financing regionally significant projects that are expected to bring a wide range of housing and community benefits and underwritten by a partnership or consortium of stakeholders. Appropriate safeguards such as proponent cash and non-cash co-contributions, demonstrated project management experience and other expertise can reduce the financial, project risk and reputational exposure of NHFIC to an individual project in this manner. In this way, high conviction projects that meet appropriate minimum hurdles can still be supported which would otherwise not proceed, thereby meeting the additionality test as well as allowing important but otherwise cost prohibitive projects to proceed.

We note that the Department of Infrastructure and Regional Development has overseen the funding of national infrastructure projects through various initiatives including *National Stronger Regions* and *Building Better Regions* which establishes a relatively level playing field for project proponents nationally. Indeed, more recently, the BBRF has recognised geographic challenges with the costs of infrastructure provision and included weightings to enable more projects in remote locations to be potentially viable. There may be some merit criteria and weightings in such programmes, including economic and non-economic criteria, which could assist determination of high quality project proposals on a fair and equitable basis by NHFIC, without subjecting the facility to unacceptable levels of risk.

NATIONAL HOUSING INFRASTRUCTURE FUND (NHIF)

We understand the intention of the NHIF, in broad terms, is to provide \$1 billion nationally for “housing related infrastructure”, defined as:

- (i) New or upgraded infrastructure for services such as water, sewerage, electricity, or transportation; and/or
- (ii) Site remediation works including the removal of hazardous waste or contamination

NT Shelter supports initiatives that lead to an increased supply of affordable housing in the NT, noting there are significant issues with affordability and a shortfall of affordable housing supply (as outlined above). A broader distribution of funding, not confined to the much publicised Sydney and Melbourne markets alone, can ensure the development of enabling support infrastructure as well as stimulate the local building and construction sector, creating local jobs and stimulating economic growth.

The proposed NHIF allocation was to be \$600 million in lending, \$225 million in equity investments and \$175 million in grants. We understand that difficulties with equity investments have become apparent given the complexity in the different legislation, financing provisions within and between different levels of government and government owned enterprises, and responsibility for provision of housing related infrastructure and services.

Should the allocation of \$225 million in equity investments remain problematic, it is important that these funds be allocated to the other two NHIF streams of grants and/or lending. In other words, there should not be a reduction in the overall \$1 billion quantum of the infrastructure facility.

We also note with concern any suggestions made throughout the consultation process in other states and territories that a permitted use of NHIF funds include community or social infrastructure such as community parks, sporting grounds etc. There are other contestable Commonwealth funding and grants programmes designated for these purposes. With housing affordability such a significant issue nationally it is imperative that funds allocated to NHIF are not diluted and are retained for the sole purpose of financing affordable housing and related infrastructure alone.

As far as the design and operation of the NHIF is concerned, we make the following comments.

Additionality

We support the establishment of the NHIF as a financing mechanism to support affordable housing developments which, in the absence of such finance, are less likely to proceed. We believe that the additionality criteria, in this regard, is a sensible and important test.

Eligibility

We note the discussion at the Darwin consultation session which indicated that a broader approach needs to be taken than channelling housing related infrastructure funding through local councils and related entities alone. Our view is that there can be a broad eligibility of applicants, recognising the myriad statutory responsibilities and players (government and otherwise) associated with the provision of housing related infrastructure. In some instances, this will be state and territory government departments or corporations (NTG owned corporations in our case) while at other times there will be local governments or LG organisations / special purpose vehicles, community housing providers, or local community organisations.

In the case of CHPs, consideration should be given to the advantages they may be able to bring to the table in terms of negotiating build costs with developers, leveraging philanthropic donations (e.g. land), achieving social outcomes and reduced red tape and administrative overhead.

From time to time it may be that there is a lead project proponent that acts on behalf of a consortium and who can demonstrate strong governance and capacity to successfully invest in infrastructure development at little or minimal risk. We do not see any inherent reasons why these projects should not be supported by

NHIF. The main consideration should be that additionality is demonstrated and that the project reflects strategic priorities and local needs, and a requisite degree of support.

We recommend that caution be exercised to not arbitrarily preclude the facility from funding projects in regional cities and centres where bona fide affordable housing projects may have merit. For example, given communities affected by mining and other cost, supply and demand factors it is not in our view appropriate to, for example, restrict applications to localities gazetted as a city or with a minimum population size.

Inclusionary Zoning

NT Shelter supports the adoption of inclusionary zoning in new housing developments with new housing developments conditional on a proportion of new housing earmarked for affordable and/or key worker purposes. A minimum 15% allocation for these purposes, in our view, is not unreasonable.

We recognise that some jurisdictions make such a provision in their housing policies, as noted in the consultation paper. Notwithstanding this, other things being equal, a proposal with a stipulated proportion of stock committed to affordable housing ought to be viewed more favourably than those that don't.

BOND AGGREGATOR

We understand that the Government's intention is to establish an affordable housing bond aggregator mechanism which is designed to provide cheaper and longer-term finance to Community Housing providers.

We are encouraged that the Government sees an increase in the proportion of housing stock managed by CHPs as an important policy outcome. NT Shelter supports measures that provide additional capacity to CHPs to manage existing housing and to bring new affordable housing supply on line. The experience of other states (e.g. Tasmania and South Australia) suggests that community housing providers, through CRA-enhanced rent revenues and the operation of NRAS, can deliver better outcomes in terms of quality of housing provided, services to tenants, and prospects for renewal and growth in new housing.

The proposition that a bond aggregator model can provide cheaper finance to CHPs to refinance existing debt and improve their balance sheets is positive. We would, however, prefer to see bond finance directed to CHPs that have stable, well managed balance sheets and are poised for future development and growth. In other words, where possible, the provision of finance should ultimately be part of a pathway to housing stock renewal and the supply of additional affordable housing stock.

In the NT context, the current community housing sector is a relatively small and emerging market. Existing organisations with a footprint in the NT have local knowledge and a demonstrated track record with social housing. They are experienced dealing with local issues, culture and environment and they have existing local connections, relationships with suppliers and working within the confines of NT legislation and governance. Moreover, there are a number of Indigenous corporations and not-for-profit aged care providers that are not registered with the National Regulatory System for Community Housing (NRSCH). To this end, eligibility to cost effective finance should not necessarily be restricted to NRSCH registration tier status alone (where membership is encouraged but not mandatory) but on merit and an assessment of financial and other risk factors.

Depending on satisfactory mitigation of risk-based factors, bond finance should be available as interest only or principle and interest loans, where capital repayments provide greater propensity for leveraging further development.

NHFIC IN THE CONTEXT OF OTHER COMMONWEALTH INITIATIVES

While the NHFIC initiatives is portrayed as an important component of the Australian Government's affordable housing policy framework, it cannot be considered in isolation from other interrelated mechanisms that have a significant bearing on the policy objective of increasing the supply of affordable housing and the proportion of CHP managed community housing as a proportion of the total housing stock.

Key to this are the policy levers that ultimately provide the cash flow and margin potential for the CHP operating model to be sustained. In particular, at the Darwin consultations, the potential cessation of the National Rental Affordability Scheme (NRAS) was noted with concern. The abolition of NRAS would, at face value, considerably curtail the development of the CHP sector unless state and territory governments, in conjunction with the continued operation of the Commonwealth Rent Assistance (CRA), undertake significant tranches of stock transfers. Although the bond aggregator and NHIF are important financing initiatives they do not in themselves bridge the gap between market rents and discounted rents for affordable housing tenants. We note that the transfer of stock from public housing to CHPs is periodic and a state by state, territory by territory proposition. In The withdrawal of NRAS may well be inimical to the achievement of the goals that the establishment of NHFIC seeks to address.

A policy objective that aims to secure and promote the growth of the community housing sector cannot succeed where supporting initiatives on the one hand are eroded by uncertainty or discontinued measures on the other. Consultation with the sector should take place prior to any potential cessation of NRAS in order to assess the operation and outcomes of the scheme and to ensure that any potential consequences and implications are fully understood.

Once again, we extend our thanks to Treasury officials for their attendance at the consultation in Darwin earlier this week and the opportunity to provide feedback and ideas towards the design of NHFIC and other issues raised in the consultation paper.

To discuss our response further or should you require any further information relating to affordable housing matters pertaining to the NT, please do not hesitate to contact:

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