

Towards an Improved National Affordable Housing Agreement

Background Paper prepared by Rebecca Richardson for the

National Affordable Housing Summit
Round Table Meeting, Canberra, 22nd August 2012

CONTENTS

	<u>Page</u>
<u>Introduction</u>	2
<u>1 Scope of Agreement and Ministerial Responsibility</u>	3
1.1: Expand the NAHA to include a wider range of affordable housing options	3
1.2: Include or link to government policies that closely affect housing	3
1.3: Link the NAHA with urban policy and planning agenda	4
1.4: Address fragmented Ministerial responsibility	4
1.5: Expand the parties to the NAHA or acknowledge roles of key players	5
<u>2 Key Elements</u>	5
2.1: The inclusion in the NAHA of overall outcome targets for the supply of dwellings through “affordable housing programs”	5
2.2: Inclusion of dwelling and occupant profiles	6
2.3: Separate funding for operational costs and growth	6
2.4: Growth Funds to deliver ongoing funding for additional affordable housing supply	7
2.5: Competitive allocation of designated portion of Growth Funds	8
2.6: An Operational and Replacement Cost Subsidy to meet reasonable costs	8
2.7: Capacity building for community housing	8
<u>3 Implementation and Review</u>	9
3.1: Enhance framework for consultation, review and oversight	9
 <u>Attachments</u>	
1: Some Key Terminology	10
2: Example of Possible Growth and Profile Targets	11
3: Example of National and State Outlays and Outcome Targets	12
4: Housing Supply Bonds: Potential Investment Instrument for Affordable Housing	13

Introduction

The first National Affordable Housing Agreement (NAHA) was introduced in January 2009 to provide a performance and funding framework for all levels of government to deliver improved housing affordability for low to moderate households, taking the place of the long running Commonwealth State Housing Agreement (CSHA) and the Supported Accommodation Assistance Program.

The NAHA was structured as a broader agreement than the CSHA extending to local government and including an overall objective relating access by all to "... affordable, safe and sustainable housing that contributes to social and economic participation". It was intended to give greater flexibility for governments to address housing issues specific to their jurisdictions. It also aimed to encourage an efficient housing market and to better link housing and homelessness measures and support.

The intent of a NAHA, as a broader agreement than the previous CSHA, recognises that the affordable housing agenda extends to productivity issues (such as key workers, multi speed economy), as well as addressing the availability of secure housing for the lowest income households.

Unlike its forerunner, the NAHA is an enduring agreement that continues under current arrangements, unless changed by agreement of the Council of Australian Governments (COAG). Treasury is undertaking a five-year review of the Agreement. This represents a critical opportunity to consider the adequacy of the current Agreement and options for its enhancement.

The purpose of this paper is to draw together proposals put forward for the enhancement of the NAHA to support discussion of the directions and priorities for a revised agreement in order that timely input can be provided to the Treasury review process.

The paper looks first at the scope of the Agreement, then turns to important proposals relating to its key elements, before concluding with consideration of the on-going process for review, enhancement and oversight of the Agreement.

1 Scope of Agreement and Ministerial Responsibility

Proposal 1.1: Expand the NAHA to include a wider range of affordable housing options

The current limited scope of the NAHA inhibits its capacity to achieve systemic change and optimise the effectiveness of available resources. The inclusion of a wider range of affordable housing programs (AHPs) and assistance within the NAHA itself would help to break down the arbitrary boundaries between different forms of housing and different types of housing assistance and would facilitate a spectrum of responses targeted to diverse community needs. By doing so, it would enable a more integrated and flexible approach to the provision of housing assistance, enabling resources to be employed across housing programs to maximum effect.

Encompassing a full range of housing assistance within the NAHA would allow consistent monitoring and evaluation of programs against outcomes specified in the Agreement, and thereby facilitate on-going enhancement of the framework to enable better targeting of housing assistance.

Also, in addition to minimising duplication and ineffective use of resources, this approach could encourage resources to be combined where appropriate, for example for the benefit of very high-needs households, or to assist households moving from subsidised rental into shared equity or home purchase. A broader ambit would support mixed tenure projects and help non-profit providers to pursue a mixed portfolio of dwellings, bringing improved social and economic sustainability.

As well as the present forms of assistance for public and non-profit housing, the NAHA could cover the National Rental Affordability Scheme (NRAS), shared equity and home purchase assistance, Indigenous housing responses and support offered under the Housing Affordability Fund.

The National Partnership Agreements for Social Housing and Homelessness could also be brought within the NAHA itself. These Agreements are currently 50/50 funded by the Commonwealth and states and expire in July 2013. Their inclusion would ensure a more comprehensive NAHA and funding certainty for the many services established using Partnership Agreements. Further consideration could be given to the merits of including the National Partnership Agreements for Remote Indigenous Housing within the NAHA.

Proposal 1.2: Include or link to government policies that closely affect housing

There are a number of other areas of government policy that have a significant impact on housing and involve large costs to government, which could be brought within the ambit of the NAHA. Of particular relevance are taxation benefits and subsidies for home ownership, investment property and charitable institutions, stamp duty and the provision of Commonwealth Rent Assistance.

Inclusion of such matters within the NAHA could potentially bring recognition and scrutiny of the cost and impacts of current approaches, and provide a more consistent and transparent basis for reform where appropriate. For example, GST relief is currently offered to charitable housing providers for construction and acquisition costs. If these incentives were identified as part of the NAHA framework, it could open the way for consideration of whether similar relief should be offered to other organisations providing highly subsidised long-term housing for low-income earners.

Should these matters continue to remain outside the Agreement, it is important that their costs and impacts are better recognised in government policy and funding. To enable this, steps should be taken to develop a consistent evaluation and resource allocation framework.

Proposal 1.3: Link the NAHA with urban policy and planning agenda

The impacts of urban policy and planning on affordable housing outcomes are increasingly well recognised. Not only do urban policy and plans influence the supply and patterns of distribution of housing and its proximity to employment and services, but they also impact on the feasibility of development and the cost of housing. Similarly decisions about the provision and financing of infrastructure affect the layout, functionality and cost of living in urban areas. Adequate infrastructure enables residents to access the jobs, services and facilities they require and is crucial to providing adequate housing.

Linkages between responses to housing and planning challenges would strengthen their effectiveness and enable better use of resources.

In addition, the role of planning systems in facilitating affordable housing through the application of incentives, fast-track approval, inclusionary zoning and other means could be acknowledged and encouraged through the NAHA. This, in turn, may encourage states and local government to give greater support and encouragement to these approaches as part of their contribution to affordable housing.

Jurisdictions across Australia are pursuing various initiatives to improve planning systems and infrastructure. These are being encouraged at a national level through COAG's Cities agenda, the Commonwealth Government's Building Better Regional Cities Program, its social inclusion agenda and National Urban Policy (under "Our Cities, Our Future"). The NAHA could open the way for encouragement offered under these initiatives to be combined with housing resources to achieve better overall outcomes. For example, it could facilitate the renewal and introduction of tenure mix in well-located areas with high concentrations of ageing and inappropriate social housing, or to encourage employment and housing diversity in regional centres.

Proposal 1.4: Address fragmented Ministerial responsibility

Presently ministerial responsibility for various elements of housing is shared by a number of ministers including the Minister for Housing and Homelessness; the Minister for Human Services; the Minister for Families, Community Services and Indigenous Affairs; the Minister for Sustainability, Environment, Water, Population and Communities; and the Minister for Infrastructure and Transport.

While, inevitably, there will be areas of great influence on housing that cannot be placed within a single Minister's area of responsibility, there is certainly scope to combine key areas relating to housing and residential development within one portfolio. In particular, for the same reasons of effectiveness and efficiency articulated above, there is a strong case for giving a "Minister for Housing and Residential Development" responsibility for the programs identified above for inclusion in the NAHA, as well as those that closely link with it.

Proposal 1.5: Expand the parties to the NAHA or acknowledge roles of key players

As community housing providers are increasingly responsible, not only for management, but for supply of affordable housing dwellings, it has also been suggested that these organisations be represented among the signatories to the Agreement. However the view has been put that an Agreement with multiple signatories is not realistic, at this stage at any rate. An alternative may be to better describe the roles of the various players including, potentially, the private sector, as well as the non-profit housing sector. As part of this, the NAHA could articulate strategies for building the role and participation of these keys players and provide a framework for more detailed agreements involving these players, for example for provision of support for affordable housing projects or programs.

While local government, through the Australian Local Government Association, is a party to the NAHA, its role is described in a fairly narrow way as one of regulation and fee collection. However, as demonstrated by a handful of local councils, there is scope for local government to contribute more fully to encouraging affordable housing through the provision of land, by brokering of partnerships between business, government and the non-profit sector, and through the application of incentives, fast-track approval, inclusionary zoning and other means. There could be real benefit in the NAHA more clearly acknowledging and encouraging the potential of local government to facilitate affordable housing projects in these ways.

2 Key Elements of the NAHA

Proposal 2.1: The inclusion in the NAHA of overall outcome targets for the supply of dwellings through “affordable housing programs”

Targets are of symbolic and practical importance. Their inclusion in the NAHA would signify the commitment of signatories to achieving real improvements in affordable housing outcomes. Equally they are a means of focusing attention on the response required to meet needs. In this way they can help to ensure that on-going effort and funding are directed towards desired outcomes. Targets provide a measure against which the success of programs and approaches can be tracked.

The Summit group proposed the inclusion of an overall target relating to reduction of the incidence of unaffordable housing. However recognising that the achievement of a National Affordable Housing Goal of this kind will be influenced by a range of factors and will be difficult to measure with any accuracy, the Summit proposed that complementary output targets be established relating to growth in the overall supply of affordable dwellings.

The Summit suggested that the principal supply targets should focus on growth in dwellings in "affordable housing programs" (AHPs) rather than distinguishing between growth in the stock of particular types of housing provider. This approach would improve the flexibility, consistency, fairness and cost-effectiveness of the systems for funding and provision of affordable housing. It would encourage contributions across provider groups including public housing agencies, non-profit housing organisations, other providers receiving assistance through NRAS, and some shared equity and home purchase assistance programs.

Proposal 2.2: Inclusion of dwelling and occupant profiles

Alongside the overall supply targets, the Summit advocated that some minimum and maximum requirements be established for the profile of the additional dwellings and their occupants in order to facilitate a balanced response and, in particular, to ensure that high-need households are assisted along with others requiring more affordable housing.

It is suggested that the overall profile specified for additional dwellings should include requirements for a mix of long-term housing provided at income based rents (traditionally known as social housing) and dwellings rented at a substantial discount to market rent for the medium-term.

The Summit group has suggested that the terms “Band A” and “Band B” could be applied to distinguish between these two housing profiles, independently of the housing provider. Currently State government housing providers are chiefly involved in providing Band A housing, while non-profit housing organisations are increasingly in the business of providing Band B, as well as Band A, dwellings.

The overall dwelling profile could also include requirements for home purchase assistance programs for low- to moderate-income households described by the Summit as “Band C”.

To complement this, specification of an occupant profile will assist in ensuring that a minimum level of high-need households (those which have very low incomes or other special needs) are assisted as well as other low- and moderate-income households. An appropriate mix is important to both financial and social sustainability.

Refer **Attachment 1** for an outline of key terminology suggested by the Summit group, **Attachment 2** for an example of possible growth and profile targets and **Attachment 3** for examples of how national and state outlay and outcome targets could be applied.

Proposal 2.3: Separate funding for operational costs and growth

A key priority is that the NAHA provides distinct funding for growth and operational costs. To strike a reasonable balance between the concerns of those States which currently have relatively high or low proportions of social housing, a combination has been proposed of:

- an Operating and Replacement Subsidy allocated on a per dwelling basis
- and
- Growth Funds allocated principally on a per capita basis for demonstrated increases in supply

This approach would mitigate the problems arising from the differences between the states that have thwarted earlier attempts to improve funding systems. It would also help protect against the depletion of affordable housing supply by countering pressures on state governments to divest public housing dwellings to fund renewal or as a way of dealing with declining viability.

Proposal 2.4: Growth Funds to deliver ongoing funding for additional affordable housing supply

It is critical in order to keep pace with growing affordable housing needs that growth funds be identified to provide both:

- annual grants (e.g. the current direct grants under the NAHA); and
- on-going assistance (e.g. under the National Rental Affordability Scheme (NRAS)).

Funding structures should be configured to maximise opportunities for leverage and to attract private finance. It is proposed that options to achieve this, such as the Affordable Housing Supply Bond outlined in **Attachment 4**, be progressed to complement the existing NRAS framework.

Regardless of the structure for delivery of growth funds and its ability to attract private finance, without on-going government funding it will not be possible to generate the new supply needed to maintain affordable housing at current per capita levels, let alone begin to meet current shortfalls.

To access capital grants, the Summit proposed that states be required to meet specified targets for delivery of Affordable Housing Programs or AHPs (see Proposal 2.1 above and **Attachment 1**). The Summit suggested that allocations could be based on a set proportion of the market value of additional dwellings up to a maximum, based on each jurisdiction's share of population. Any additional assistance necessary to provide the dwellings, such as in high-cost areas, could be provided or arranged by the states, including options such as creative use of non-cash assistance in the form of free land, planning benefits etc. The Summit suggested that funding be calculated on the basis of additional Band A dwellings but that states would be able, at their discretion, to spread the funds across Band A and Band B dwellings, provided they deliver the specified Band A dwellings.

Requirements should be introduced to ensure that, within the allocation process, there is an appropriate degree of independence from potential recipients, and also that adequate consideration is given to broader urban and regional development issues.

For both capital grants and NRAS assistance, funding should be dependent upon demonstrated increases in supply of *additional* affordable housing dwellings. It is suggested that a national audit of existing affordable housing dwellings (by region, bedroom size and type of dwelling) should be undertaken to provide benchmarks against which to measure achievement of additional supply.

The NAHA should recognise and build on the success of NRAS. Crucially, it should include an on-going commitment for funding assistance for NRAS. A clear commitment to the continuation of funding is critical to maintaining ongoing confidence and participation in the Scheme. Further, it is suggested that to maximise affordable housing outcomes and provide flexibility, the NAHA should allow providers of AHPs to combine NRAS funding with capital grants (see example provided in **Attachment 3**).

To ensure the effective targeting of housing provided under NRAS, it is suggested that NRAS assistance should only be provided to accredited non-profit housing providers. Now that the Scheme is gaining momentum, it is considered an opportune time to strengthen these provisions to protect against potential misuse that could risk bringing the Scheme into disrepute.

Proposal 2.5: Competitive allocation of designated portion of Growth Funds

A minimum proportion of the growth funding in each state could be ear-marked for competitive allocation to non-profit organisations. Organisations could submit proposals for the use of the funds, which would be allocated on the basis of satisfaction of the required dwelling and occupant profile, value for money, organisational capacity and compliance with national regulation. Any funds not allocated could be added to those provided for allocation directly by States agencies. The allocation process should be configured so as not to discourage proposals from non-profit organisations operating across jurisdictional boundaries.

A proportion of growth funding could also be allocated between jurisdictions on a competitive basis in accordance with specified priorities such as urban renewal, social inclusion or environmental sustainability. The contribution of other resources or effort to achieving these priorities could be a key consideration in allocations from this pool.

Proposal 2.6: An Operational and Replacement Cost Subsidy to meet reasonable costs

A Commonwealth subsidy set on a per dwelling basis should be provided to most but not necessarily all of the operating and replacement costs of Band A dwellings after the receipt of rental and other income. Alternatively, Commonwealth Rent Assistance could be extended to all Band A dwellings with the rate of payment based on the market rent even though most if not all tenants would be actually charged a lesser amount. Under either approach, the state government and other providers would then be responsible for providing or obtaining any additional resources which may be necessary.

Proposal 2.7: Capacity building for community housing

While the NAHA recognises the contribution of non-profit housing providers, it could play a much greater role in facilitating, or requiring, support for non-profit housing providers, for example by removing the dependence upon the states for access to growth funds (see Proposal 2.5 above), by capacity building initiatives, by firmer guidance on stock transfers from government housing providers, and by recognising and rewarding the ability of non-profit housing providers to access private finance and alternative funding sources and to mix and match government funds.

3 Implementation and Review

Proposal 3.1 Enhance framework for consultation, review and oversight

Concerns have been raised about the ability of current processes for the oversight and review of the NAHA to enable the effective and informed input needed for the on-going enhancement of the Agreement. While an annual review of performance has been undertaken by the COAG Reform Council, there has been criticism of the responsiveness of COAG to its findings. A Ministerial Advisory Committee has been established, but it appears its role and influence has been somewhat limited.

It is suggested that the role of independent experts should be strengthened and that clear arrangements be put in place for gaining the input of key players. In particular, it is suggested that an independent consultant or consultants be engaged to prepare a draft NAHA for broad consultation with parties to the Agreement, experts, affordable housing providers and more generally.

A transparent and clearly defined process should be also identified for the on-going review of the Agreement including arrangements for a five-yearly review.

SOME KEY TERMINOLOGY

"Affordable housing programs"(AHP) include public housing, non-profit housing, other housing subsidised under NRAS and some home purchase assistance programs. They must comply with the proposed requirements relating to affordability profiles, household profiles and provider profiles.

"Band A" dwellings are those for which, except in specified circumstances, rents must be kept below [25%] of residents' incomes for at least [25] years (although actual rents may be set by other criteria).

"Band B" dwellings are those for which, except in specified circumstances, rents must be kept at least [20%] below market rent for at least [10] years.

"Band C" dwellings are those in approved types of home purchase programs for low- or moderate-income households.

"High-need households" have gross incomes below [50%] of the State/Territory median income for their type of household composition and/or have other defined types of special need (e.g. Indigenous people, homeless people and people with mental illness or disabilities).

EXAMPLE OF POSSIBLE GROWTH AND PROFILE TARGETS

[NB: This example was prepared by the National Affordable Housing Summit to help stimulate discussion, not to express firm opinions. In particular, the words and numbers in square brackets are merely indicative.]

OVERALL GROWTH TARGET

1. The overall supply of dwellings in "affordable housing programs" (AHPs) should be increased by at least [120,000] by 2020.
2. The increase in each State should comply with the following profiles (over the full period to 2020 rather than necessarily in each year).

AFFORDABILITY PROFILE

3. The increase in AHP dwellings should consist of
 - at least [one-third] "Band A" dwellings;
 - at least [one-half] "Band B" dwellings; and
 - some "Band C" dwellings.

OCCUPANT PROFILE

4. "High-need households" should comprise
 - [50-75%] of the increase in households in Band A dwellings;
 - [25-50%] of the increase in households in Band B dwellings.

PROVIDER PROFILE

5. Dwellings owned or managed by a State housing authority should not exceed [25%] of the overall growth in AHP dwellings.
6. All managers of Band A and Band B dwellings should be registered and regulated by a nationally consistent scheme.

DWELLING PROFILE

7. Location

- at least [30%] in non-metropolitan areas;
- no more than [40%] in outer ring suburbs;
- no more than [10%] in high-concentration suburbs.

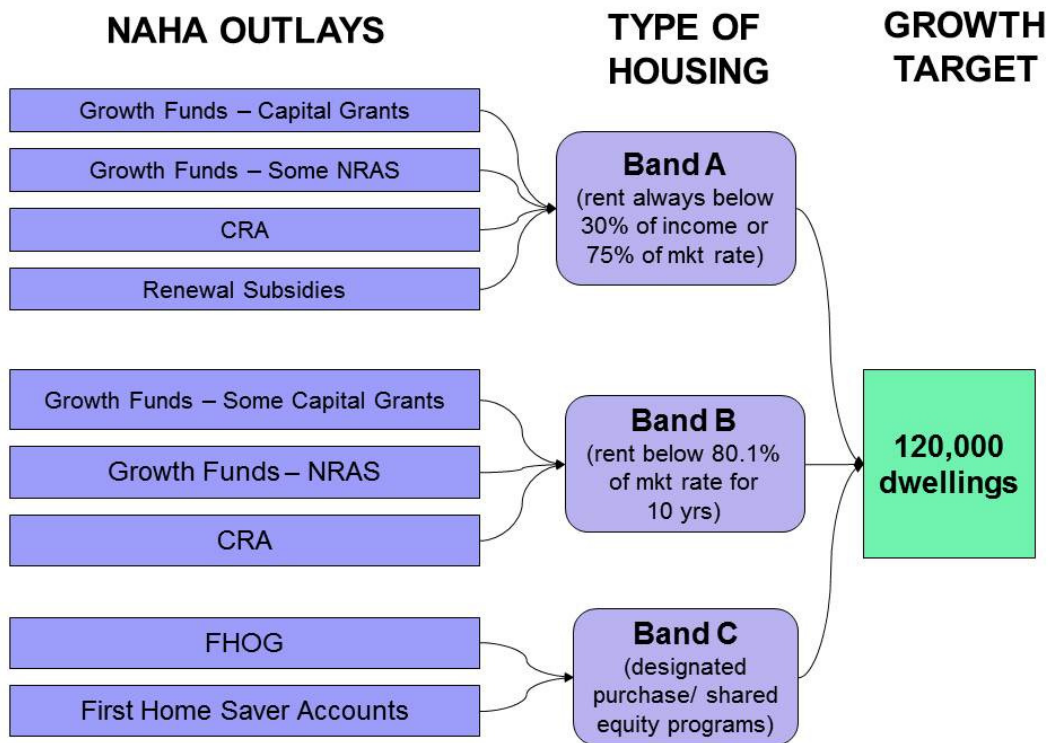
8. Dwelling type

- no more than [50%] 1-2 bedroom units;
- at least [20%] 3+ bedroom houses.

9. Design and access

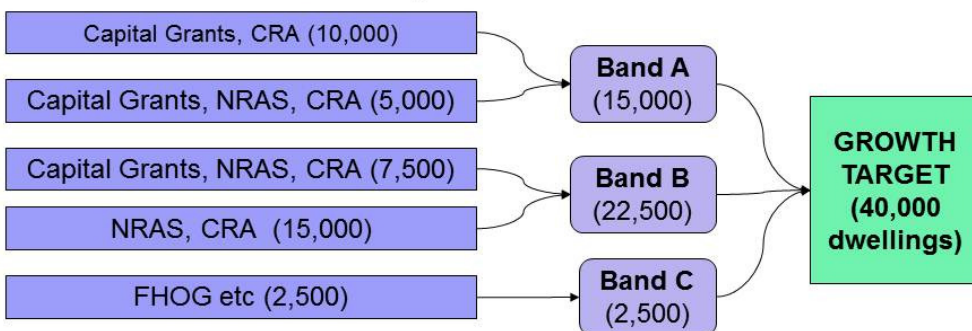
- at least [80%] meet specified design standards, including environmental;
- at least [80%] meet specified standards for access to transport, work, services.

EXAMPLE OF NATIONAL OUTLAYS AND OUTCOME TARGETS

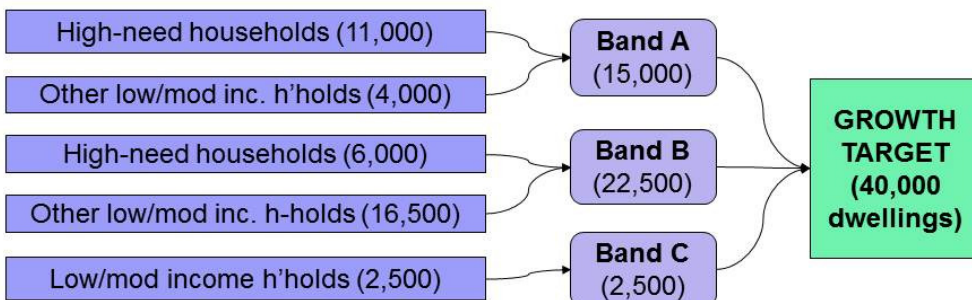


EXAMPLE OF OUTLAYS AND OUTCOMES TARGETS IN A STATE STRATEGY

1. Mix of Commonwealth outlays



2. Mix of household types



**HOUSING SUPPLY BONDS:
POTENTIAL INVESTMENT INSTRUMENT FOR AFFORDABLE HOUSING**

A proposal for a special purpose financial instrument to finance the supply of affordable rental housing in Australia through Housing Supply Bonds (HSBs) has recently been developed by Julie Lawson, Vivienne Milligan and Judith Yates. (See details below.¹) The proposal has been put forward for further development in the context of discussions about a revised NAHA, and in view of governments' unwillingness to borrow directly for affordable housing provision.

The HSB model is designed to provide a revolving loan facility that reduces the cost of funding available to affordable housing providers (over finance obtained in the market place), thus enhancing the capacity of providers to increase the supply of affordable housing dwellings.

The authors note that the proposal, which was stimulated by the successful Austrian bond scheme, "complements other relevant policy discussions in the fields of financing social infrastructure, social bonds and growing Australia's corporate bond market and has received wide cross sector interest" (Lawson, Milligan and Yates, 2012 page 1).

Importantly the authors stress that:

"HSBs are not intended as a replacement for existing forms of housing assistance for affordable rental housing, such as that provided by NRAS and CRA, and under the NAHA. Instead, they aim to complement and extend the value of such public subsidies in order to increase the long-term supply of affordable housing. HSBs of themselves will not deliver affordability outcomes for tenants regardless of their circumstance. Assistance currently provided through NRAS and CRA is still needed to ensure affordability outcomes for tenants of affordable rental housing."

(Lawson, Milligan and Yates, 2012 page 63)

The model is intended to provide a standardised instrument to encourage retail and institutional investment in affordable rental housing. Under the proposal, a specialist financial intermediary would be established to link suppliers of capital with appropriate investment opportunities. The intermediary would issue bonds to private financiers, who in turn would receive a return supported by tax incentives and, in the case of institutional investors, underwritten by government guarantee. An intermediary is used to separate the respective roles of investor and affordable housing provider. If operating at sufficient scale, the intermediary will also contribute to stability in housing finance and delivery by supporting counter cyclical activity.

Funds raised through the vehicle would be combined with capital grants or no-interest loans from government and on-lent to affordable housing providers under the NAHA funding framework. In keeping with the approach canvassed elsewhere in this paper, these funds could be made available only to regulated providers delivering affordable housing projects (AHPs) meeting required dwelling and occupant profiles (see Proposal 2.2 at page 6).

Both sufficient scale and certainty of on-going government support will be critical to the success of such a vehicle.

¹Lawson, Julie, Milligan, Vivienne and Yates, Judith; May 2012, [AHURI Final Report No. 188: Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?](#) Australian Housing and Urban Research Institute, RMIT Research Centre UNSW-UWS Research Centre