Contribution of the Not for Profit Sector
Productivity Commission

BY EMAIL

This submission is made specifically in relation to the following request for views, which appeared after the Social Housing case study in Chapter 11 of the draft report:

The Commission seeks views on the opportunities and risks for NFPs and government in the operation of these shared funding approaches. It also seeks views on the importance of longer term commitments to funding models for NFP planning and development, and how these needs can be met while allowing government the flexibility it requires to manage social and fiscal policy.

In the case study the Commission notes that "A major difference from previous initiatives is that rather than public funding being used to build or purchase the housing stock, governments are seeking to leverage private investment in developing property".

It then goes on to say that the Government sees the NFPs playing a greater role in this process but further notes that "The success of the CHOs depends on their ability to efficiently and effectively manage risks associated with the expansion of the role into property development, stock acquisition and large scale business operations. These are not areas that most are familiar with, so they must develop the knowledge and capacity themselves, hire people with the requisite knowledge or access it through partnerships with for-profit business".

I very much doubt that CHOs are interested in becoming property developers. As you rightly point out, access to credit would be an issue (and risk) for them. From a public credibility perspective, they wouldn't want to be exposed to the commercial risks of failure. Their job is to manage the housing needs of their constituents. All they want is sufficient suitable housing stock with which to do that.

The real problem is that the current need for social housing is so great (and growing) that no-one has yet come up with a viable means of financing the solution. As the Commission points out, the Government has instituted the National Affordable Housing Agreement, the Social Housing Initiative and the National Rental Affordability Scheme. It is only in the case of the NRAS that the government is actually seeking to leverage private investment in property development. The other 2 are direct investments in property by Government.

The problem with the NRAS is that it too relies on the investor having or being able to access funds for property development. In the current economic circumstances this is problematic. In addition, the incentive offered ($8K pa less a 20% reduction on the market rent) is simply not enough to convince lenders/investors that social housing is an attractive investment proposition.

The reality is that any suitable form of housing is expensive and anyone who invests in it expects a reasonable return, the consequence of which is that housing is unaffordable for a lot of people.

But there is a way of effectively lowering the cost of housing.

If, for example, the $5.6B committed to the Social Housing initiative was instead used to leverage private investment in developing properties by allowing an up-front tax deduction, the additional number of houses that could be built would be 50,000 rather than the 20,000 envisaged under the existing scheme. That is, $5.6B of tax deductions equates to $14B of funds raised for investment specifically in social housing (using an average marginal tax rate for likely investors of 40%).

It is the use of the up-front deduction that makes this investment in social housing an attractive proposition and one that is more likely to attract a significant level of support. In effect, it reduces the cost of the property to the investors which, in turn, allows them to accept a lower rental return whilst not (necessarily) compromising the yield.

The role of the CHO would continue to be the management of these tenancies and, as a result of the increase in the number of units under management, would represent a source of significant additional income to them.

The Government can achieve certainty over the level of support it will provide simply by capping the rate at which a tax deduction can be claimed or by setting a limit on the total deductions it will allow in any one year. When the policy objective is achieved, the Government could repeal the enabling legislation. This would surely help the Government achieve the *flexibility it requires to manage social and fiscal policy.*

The investors will naturally require an exit strategy so the property will need to be sold at some point in the future. The point is that in the interim a large number of additional units can be added to the existing social housing stock and, through a filtering effect, will go some way towards absorbing the demand from those that are either currently in unsuitable accommodation or waiting to get into the system (ie. more people can be housed in suitable accommodation as others progress through the system if there is more housing available).

The issue of financing social housing is quite distinct from servicing the needs of potential tenants. The first is a commercial consideration whilst the second is an issue of who is best placed to provide appropriate social services. The commercial reality is that the only way a new investment “product” can effectively compete for support is to be comparatively more attractive than its rivals. If the Government is serious about seeking to leverage private investment in developing property, they should partner with the private sector by introducing a tax deduction for investment in social housing and let the NFP sector concentrate on what they are uniquely qualified to do.