Subject:	**Community Housing Funding Options (Accelerating Opportunity Post COVID-19)**
Submitted by:	**Greg Orchard** Chief Executive – Accessible Properties New Zealand Limited Treasurer – Community Housing Aotearoa
Submitted to:	**CEO and Housing Leaders**
Contact details:	022 047 6412 greg.orchard@accessibleproperties.co.nz
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Introduction

The original version of this paper was produced in December 2019 at the invitation of the Associate Minister of Housing (Public Housing) for consideration and input into work being undertaken to review the current funding settings.

In the intervening months, as a sector Community and Transitional Housing Providers have witnessed and responded to the initial wave of impacts of COVID-19 on the vulnerable sectors of society we serve.

This paper was endorsed by the CEO and Housing Leaders Forum on 29 July 2020, for wider circulation and feedback.To help kick-start the economy and keep people employed the Government is progressing a number of 'shovel ready' construction projects. Predominantly the projects that are currently being advanced are horizontal infrastructure projects.

Funding the Community Housing sector to deliver social housing projects has significant advantages over both vertical construction and horizontal infrastructure projects:

1. Housing projects are employment intensive. More so than either vertical construction or horizontal infrastructure projects. Meaning more people will be employed for the dollars spent.
2. The lead time to get housing projects up and delivering is faster than either vertical construction or horizontal infrastructure projects. Meaning less unemployment as the workforce is able to be kept gainfully employed;
3. The faster provision of more community housing has a direct positive impact on addressing the housing crisis through production of new supply in regions across the country; and
4. Projects delivered by the community housing sector provide jobs and economic benefit to local communities; provide trade training and apprentices; and have a focus on building resilient local communities. The 84 projects identified in the CHP sector pipeline, support regional employment through local trades assisting to spread the benefits of central government investment in housing construction across the country.

In order to address the immediate housing and economic issue that face the country it is suggested that funding setting are required that can quickly accelerate the delivery of new housing supply while at the same time important work is undertaken in parallel, to put in place required longer term settings and funding structures that can deliver a strong and sustainable community housing sector in parallel to delivery through Kāinga Ora.

Executive Summary

This discussion paper outlines how the current funding model, including changes to the capital subsidy available for Community Housing Providers (CHPs), impacts the sector's ability to help achieve the Government's social housing goals.

This paper identifies several funding options (considering both capital and operating) that could support CHPs to sustainably increase the supply of social housing, both now and in the future. We have sought to identify a basket of options that could help the CHP sector as a whole and, in turn,

assist in delivering better outcomes for the Government and New Zealanders. While not every CHP will be able to use all options, we recommend a diverse basket of tools be put in place so that providers have access to tools that will work for them in their region.

Recommendations

CHA and the CEO and Housing Leaders Forum asks that providers:

- review the paper and provide feedback to CHA on the options via a survey, and;
- endorse the paper, by providing your logo for inclusion by CHA on an updated version of the document, if your organisation agrees with the options and their further development.

On 29 July, the CEO and Housing Leaders Forum adopted the following recommendations from the original version of the paper:

- **Note** that there is a current and growing issue in relation to Government funding of CHPs which is impacting their ability to increase the supply of social and affordable housing;
- **Note** that there are a number of potentially feasible options in terms of cash and non-cash funding that could help to increase the supply of social and affordable housing;
- **Note** that the July – December 2020 engagement with MHUD on the Public Housing Plan is limited to social housing, and that further clarity on a basket of settings to deliver mixed-income, mixed tenure developments will likely require further work;
- **Agree** to:
  - **Discuss** the opportunities raised in this paper at the Community Housing Sector CEO and Housing Leaders Forum;
  - **Identify** a preferred package of which the Community Housing Sector CEO and Housing Leaders Forum believe has the best chance of ensuring that CHPs can continue to increase the supply of social housing now and in the future;
  - **Advocate** with officials from the Ministry of Housing and Urban Development to work with CHA and the Sector CEO and Housing Leaders Forum to further develop the funding options proposed in this paper, and to report back to both the HUD CE and Sector CE and Leaders Group by 31 October 2020; and
  - **Advocate** for funding initiatives to support the delivery of community housing by the CHPs sector in Budget 2021.

Purpose

This discussion paper outlines how the current funding model, including changes to the capital subsidy available for Community Housing Providers (CHPs), impacts the sector's ability to help achieve the Government's social housing goals. This is a key issue at a time when the housing waiting list has increased to nearly 14,000 nationally.

This paper identifies several funding options (considering both capital and operating) that could support CHPs to sustainably increase the supply of social housing, both now and in the future. While these options may not be suitable for every CHP, we have sought to identify options that could help the CHP sector as a whole. We have also identified a number of non-funding options that would also provide some benefit to the CHP sector, although the extent to which this benefit is realised is likely to vary significantly across CHPs.

We provide of summary of potential cash funding and non-cash funding options to help the CHP sector deliver more social housing to support the Government's broader agenda. This paper provides a basis for discussion with you, to better understand these opportunities and direct officials to develop the ideas further.

The case for change

The removal of capital funding subsidies for CHPs has had a significant impact on the sector's ability to continue to deliver additional social housing units, at a time of high and increasing demand.

Without intervention, the removal of the capital funding subsidy (and lack of a compensating mechanism to replace or mitigate the loss of this funding), will likely lead to a significant reduction in the future supply of community and public housing that can be delivered by the CHP sector. This will in turn reduce the sector's ability to support the Government's broader social housing agenda and likely lead to further exacerbating the already increasing gap between the demand and supply of social housing.

Introduction and background

Strategic context: the community housing provider sector

The CHP sector is currently comprised of approximately 100 organisations, with a combined 12,790 housing units across New Zealand as of December 2018[1]. Of these, the four largest by unit numbers are Accessible Properties (2,500), Tamaki Housing Association (2,500), Otautahi (2,400) and Haumaru (1,400); most CHPs have fewer than 50 housing units. The CHP sector complements the Government's broader social housing agenda and in a number of instances works with tenants who have typically been poorly served by Government provision or require a more bespoke or tailored accommodation solution.

The removal of the capital subsidy in 2017 has required CHP's to reassess how they can continue to deliver new social housing units. At a time when the housing waiting list has increased to nearly 14,000 in September 2019[2], this presents a real challenge to CHPs who do not typically have large reserves of capital funding to fall back on. Without intervention, it is likely that the gap between social housing demand and available supply will increase dramatically.

The Government's Income-Related Rent Subsidiary (IRRS) provides a 'top-up' payment equal to the difference between the tenant's rent payment and an assessed market rental. The 2018 Budget committed 6,400 additional IRRS-funded social housing places, of which 30% are intended to be delivered by CHPs. The lack of suitable settings is impacting the ability to deliver new supply. The 2020 Budget committed a further 8,000 places, of which 6,000 are specifically to be IRRS-funded social housing places. The CHP sector is working to a goal of providing at least 30% of these funded units as new supply (1,800 to 2,400 units) on top of the 2018 figures. To date, CHPs have exceeded Government targets through re-directs of existing affordable rentals, however, this strategy is not sustainable over the longer term and does not increase the supply of new social or affordable housing stock. The options set out in this paper aim to achieve both a scale and pace through funding settings

[1] Source: Community Housing survey report for quarter ending 31 December 2018 (Community Housing Aotearoa).

[2] Source: Housing Register statistics for September 2019 (Ministry of Social Development).

that would support ongoing delivery of new supply by CHPs (including Māori community housing providers) at these increased levels.

Strategic context: community housing provider finance

CHPs can vary significantly in terms of how their finances are structured, which is determined in part by whether a given CHP owns its housing stock or not. The availability of funding, both equity capital and debt, is a constraining factor, which restricts the ability of CHPs to continue to increase the supply of new accommodation units to meet the growing demand for social and community housing.

The availability of capital within the sector is limited, especially given the inability of most social housing to deliver a return on investment (ROI) commensurate with market level expectations. Many of the CHPs have their origins in "not for profit" and philanthropic organisations, which typically do not require a market level ROI, however the capital that they have available to support the work of CHPs is limited and generally, this capital has been accumulated through many decades of fund raising and other philanthropic activity.

This capital base is supplemented by the availability of debt funding which increases the total monies available to fund the development of new accommodation stock. For every dollar of capital funding, debt funding in a multiple of between $1 and say, $4 is generally available. So, if capital funding of $1m is committed, then debt of between $1m and $4m can be raised, meaning the total available funding is between $2m and $5m (leverage).

The two key prudential ratios that typically determine the extent of leverage financing for social housing supply by CHPs are outlined in the table below.

Ratio	*Formula*	*Interpretation*
Loan-to-Value (LVR)	$\frac{\text{Loan Amount}}{\text{Asset Value}}$	An assessment of credit risk - the higher the ratio the higher the default risk to the lender.
Interest Cover Ratio (ICR)	$\frac{\text{Earnings Before Interest \& Taxes}}{\text{Interest Expenses}}$	A measure of an organisation's ability to meet its debt servicing costs - the lower the ratio the greater the risk that the borrower will be unable to service its debt.

Social housing can be backed by government cashflows in the form of the IRRS. If long-term capacity contracts are also in place, CHPs can be viewed as having stable consistent revenues that support their ability to obtain bank financing. However, due to the relatively low rental yields achievable in social housing, obtaining an acceptable ICR can prove challenging even if receiving IRRS. Generally, an ICR of 2:1 is considered the minimum acceptable level although 3:1 or higher would be preferable.

In the absence of capital funding grants from Government, CHPs are attempting to identify alternate sources of equity. Although anecdotal, recent conversations with CHPs have revealed that the following, unsustainable options are being used to try and meet the shortfall in capital funding:

- ***Capital recycling*** – although this is a funding mechanism already utilised by CHPs as part of "business as usual", capital recycling (the disposal of existing assets and re-investing proceeds in new assets) is on the increase as CHPs' demand for capital funding begins to outweigh supply;
- ***Reprioritisation*** – this approach sees CHPs reduce, or stop altogether, capital investment in the existing stock, in order to deploy their limited capital to investing in new supply;
- ***Partnerships*** – CHPs are exploring how they can use existing land assets as equity investments in partnership vehicles, with their ROI being new accommodation units;
- ***Leverage*** – where possible, and in line with the approach outlined above, where CHPs are able to access increased bank financing they are doing so, although there are few with the ability to raise significant amounts of new debt. In the many cases over 75-80% of the capital required for new projects must now be borrowed from banks;

- ***Direct fundraising*** – as charitable organisations, some CHPs have turned to direct fundraising, but this is an inefficient way of raising capital funding owing to the time required and small amounts generally able to be raised.

Overview of funding options

There are a range of alternative funding options, most of which can be employed in combination, to help alleviate the funding predicament and enable CHPs to maintain or increase their provision of social housing. Some options could involve the Government providing additional funding, whereas others involve non-cash assistance. The options under consideration for this paper are outlined below and presented under two categories: cash funding options and non-cash funding options.

Cash funding options

1. *Crown capital subsidies*

The previous government's regime whereby up to 50% of the total capital cost of a new accommodation unit was made available in the form of a Crown capital grant made a material difference to the availability of debt funding and created a model which was scalable.

It is understood that the current Government is not in favour of returning to a capital subsidy regime, however, this remains an option that we believe should be "on the table" and so has been included. The impact of COVID-19 and the significant increase in the public housing waiting list over recent months, together with the need to accelerate new social housing supply significantly strengthens the case for Crown Capital Subsidies to be reintroduced as part of short term measures to immediately stimulate this supply.

Note that for every $1 of Crown capital, CHPs are able to access $2 to $4 of private finance. Further settings that enable CHPs to continue expanding their ability to match Government investment with socially responsible private investment will assist, something that the Government is not able to do when it is the sole housing delivery agent.

There is a strong CHP and Government track record through the Housing Innovation Fund (HIF) and Social Housing Fund, administered by the Social Housing Unit (SHU) of successful capital grant and crown loan administration that MHUD should build upon.

2. *Land development partnerships*

In those instances where either the Crown, a local authority, a church, or a CHP has land available, there is an opportunity for the parties to work together, with the one developing social housing on the land belonging to the other. An example of this would be in Tauranga where Accessible Properties has land and the Crown is seeking land for public housing development.

More generally, the Crown could retain direct ownership of freehold land with CHPs then being responsible for the construction, ownership and rental of the dwelling units on the land. This would reduce the capital requirement associated with new developments because the land cost component would be removed. However, it would be necessary to also restructure external funding, given the land would no longer be available as security. Another example is where Christchurch City Council has land that it partners with for social housing development by Ōtautahi Community Housing Trust. The CHP sector pipeline illustrated a set of church land opportunities led by Community Finance.

There are many different forms of land partnerships that work for CHPs. In the Queenstown Lakes District, the Council and Queenstown Lakes Community Housing Trust are able to utilize the District's Inclusionary Zoning programme with private landowners to delivery affordable housing through the Trust. While there is strong CHP sector support for central government enablement of Inclusionary Zoning programmes with local authorities around New Zealand, the instruments to activate this are wider than considered through this paper.

3. *Crown loans*

A Crown loan that is subordinated (i.e. ranks behind) external debt would make a positive difference to the availability of external debt funding and therefore increases the total available funding. This Crown funding could have second ranking security and could be repayable over a long-term period (say, after 10 or 20 years).

Alternatively, it could be a suspensory loan that is not repayable providing certain conditions are met (such as the continued provision of social housing over a long-term period).

4. *New operating supplements*

Increasing operational subsidies provides a powerful tool to enhance the ICR and therefore enable greater leverage to be introduced to the funding model. The Rent Settings report suggests removing the Rent Maximums, which would be one way of increasing operating supplements are set as a percentage of the rent.

5. *Crown guarantee*

The Crown could provide a guarantee facility that enables external funding raised by CHPs to be covered by a guarantee. This would enhance the credit quality and enable a higher level of debt to be raised or the cost of debt to be reduced (or both). If the Crown acts as guarantor, then it would have rights of subrogation, meaning that in the unlikely event that its guarantee was ever called, the Crown would take over the mortgage security held by the external financier.

6. *Front loading of operating supplement*

The Crown could pay a proportion of the operating subsidy as an initial lump sum. Providing this could not be "clawed back", this would assist the ability to raise more debt funding. The result may need to be a reduced level of operating subsidy payable on an ongoing basis, so the impact of this on the ICR would also need to be considered.

7. *Social housing bond*

A social housing bond (or similar mechanism) could be introduced in order to access non-conventional funders with an appetite to support the Government's social housing objectives, through a range of different structures. Such a funding instrument may carry a lower interest rate to reflect the social contribution or have the interest rate linked to achievement of social housing outcomes agreed with Government.

This option could work well in tandem with a longer-term Crown contract and ideally a Crown guarantee that covered the principal sums borrowed under the social housing bond. The precise design of the mechanism will require further consideration in due course and could be combined with specifically targeted improvements in social outcomes under a social impact bond structure.

Several new initiatives are currently being explored by CHPs in conjunction with Community Housing Aotearoa, and with philanthropic trusts. Using an intermediary fund, investors provide capital through a bond structure, which is lent to CHPs on a long-term basis. In some cases, this funding can be treated as a quasi equity contribution. However, lack of legislative certainty that a CHP must be 'not for profit' (as implemented through the Community Housing Regulatory Authority) is negatively impacting socially responsible investors proceeding.

A summary of how social impact bonds can work is contained in Appendix C.

8. *Equity fund* [3]

There is potential for a longer-term fund to be established to provide equity to co-invest in CHP social and affordable housing projects. Having established the NHFIC to provide access to secure low-cost debt funding, Australian providers are undertaking work to promote and establish an equity fund. This could address an existing funding gap for CHPs with limited access to equity and relieve much of the need for Crown capital grants by providing CHP's to access both debt and equity to fund new supply projects.

Non-cash funding options

9. *Access to Crown contracting rates and standard designs*

[3] Australian Affordable Housing Report F2021

The Government could allow CHPs to take advantage of the All of Government (AoG) construction rates and standard designs for new social housing, which could yield significant cost savings depending on volume.

10. *Access to reduced consenting costs and/or an accelerated consenting process*

It is understood that the Government may be in the process of establishing a Building Consent Authority in order to accelerate the timeframe and reduce the cost of processing their high number of building consents. Providing CHPs with access to this service could have a beneficial impact on the ability of CHPs to bring forward social housing developments.

11. *Strengthening the lease covenant for social housing*

A strengthened tenant covenant (i.e. increased obligations on and expectations of social housing tenants) would allow CHPs to provide lenders with greater assurance regarding sound asset management. Alternatively, or in addition, the balance of tenancy risk between the Crown and the CHPs sector could also be explored. These measures would provide CHPs with more confidence around their future cashflows and that asset values will be maintained, which in turn will help to reduce their funding costs.

In many social housing instances, the Crown is already committed to funding 80% of tenant rental obligations, typically for a 25 year duration. If this arrangement could be transformed into a more conventional head lease with the Crown, this would provide a well understood leasing structure with secure cash flows, which would materially assist CHPs ability to secure external funding, either from conventional sources or via a social housing bond.

Evaluation of options

In identifying the options listed above, we have noted that the options themselves are not mutually exclusive and, indeed, it may be that a combination of mechanisms are required to replace the support previously offered by the capital subsidy. We have not presented a detailed evaluation of the options as they first need to be developed and refined further.

We suggest that further work by the Ministry of Housing and Urban Development/Treasury should include:

- Financial modelling to determine the likely impact of the options on a CHP's balance sheet, and therefore the likely impact on new housing supply;
- Financial modelling to determine the impact of the options on the Crown's balance sheet, and how these compare with direct provision of new social housing by the Crown; and
- Evaluation of the options against the five "Critical Success Factors" under the Better Business Case framework (strategic fit, value for money, capacity and capability, potential affordability and potential achievability).
- Evaluation of the extent to which the options achieve retention of affordability, retention of public investment (within the CHP balance sheet or Crown funding instrument), and retention of land for social and affordable housing.

A high-level assessment of the merits of the proposed options is outlined in Appendix A. In any case, it is suggested that a 'basket of tools' should result, rather than selecting a single option. The diversity of regional economies coupled with stated goals to grow new Māori community housing providers as well as continue to grow existing regional providers will necessitate a range of funding and finance tools to ensure success.

Some preliminary thoughts on options

Developed Pre-Covid 19

From evaluating the options outlined above, there are a number of options that may provide tangible support to the CHP sector.

Option 7 (Social housing bond), requiring no direct Crown funding, appears to present several advantages in terms of providing CHPs with access to additional funding. By leveraging the appetite for philanthropic and social investment, this bond could potentially access new sources of capital for CHPs and, if structured as both a retail and wholesale product, would also allow smaller investors to provide funding for social housing. There are a number of other precedents internationally, some of which are outlined in Appendix B.

Combining Option 7 (Social housing bond) with Option 5 (Crown guarantee) could provide a vehicle whereby the Crown does not need to provide additional cash funding to the CHP sector, but would instead enable significant private investment in social housing. Option 10 (strengthening the lease covenant) could also be included if it was determined that this was needed to ensure the viability of the social housing bond.

Finally, the non-cash funding options will likely provide support to CHPs with no or little direct cost to the Crown. These options can be introduced alongside the cash-funding options and contribute to a 'package' of initiatives to support the CHPs sector in providing new social housing.

Preliminary financial modelling indicates that if CHPs can access lower cost funding (at rates commensurate with Government borrowing rates), then this will materially extend their funding capability, which will enable CHPs to materially lift their provision of additional social housing units in line with the Government's goals and the community's requirements.

Additional thoughts July 2020

In order to address the immediate housing and economic issues that face the country it is suggested that funding setting are required that can quickly accelerate the delivery of new housing supply while at the same time important work is undertaken in parallel, to put in place required longer term settings and funding structures that can deliver a strong and sustainable community housing sector that is not as reliant on direct Government funding for new supply.

In the short term it is suggested that funding options required will need a relatively higher level of Government support and the use of existing mechanisms in order to facilitate their rapid deployment to address immediate housing and economic issues facing New Zealanders. In this context the re-introducing the up-front payment on IRRS contracts (option 6) would likely have the biggest impact.

In the parallel, it is suggested that other options in this paper are considered that can establish long-term structures that will support the on-going delivery of new supply and the growth of the Community Housing sector. In addition to the preliminary thoughts on options above, combining option 8 (Equity fund) with the other settings would appear to provide significant advantages for the sustainable growth of the sector.

It is recognised that the work to establish the longer-term settings and structures may take time – however we need a commitment that this work will be undertaken together with an integrated programme and timeframes for the work to be advanced.

Next steps

In order to progress this important issue and avoid a significant retrenchment in the level of new social housing being provided by the CHPs sector, we propose that the options outlined in this paper be developed further.

We therefore recommend that the CEO and Housing Leaders Forum agree to the set of recommendations on Page 2, and work with providers across the sector to build consensus to these recommendations and engage with colleagues to test and affirm sector commitment to the approaches set out in this paper.

Appendix A: Evaluation of proposed social housing funding options

	Benefit to CHPs	***Opportunities and Challenges***
Funding options		
Crown capital subsidies	Reduces total amount of debt required by CHPs to fund development: ***Lower LVR***	**Pros**: • CHPs have experience in developing social housing using capital subsidies. • Payment system for capital subsidies could quickly be re-activated. • Reduces need for operating supplement on top of IRRS. **Cons**: • Cash cost to Crown with limited control of end development. • Government has previously signalled that capital subsidies are not favoured.
Land development options	Reduces total cost (and therefore amount of debt) required by CHPs to fund development: ***Lower LVR***	**Pros**: • Crown can retain a stake in new social housing developments where the CHP acts the developer – may also allow Crown to require a right of first refusal if social housing units are to be sold. • Utilising CHPs would allow the Crown to accelerate development of its own land holdings, while additional public housing can be built on CHP-owned, church and local authority land. **Cons**: • There may not be 'spare' land for CHP / Crown development in areas of high demand. • There may be affordability constraints for the Crown (this could however be offset to some extent if the Crown offered CHPs long-term leasehold interests on development sites).
Crown loans	Reduces cost of servicing debt enabling further borrowing: ***Increased ICR***	**Pros**: • Crown could charge an interest rate on loans to offset costs/generate a return. • Loans could be secured against the social housing units developed. **Cons**: • Crown may not wish to take loan risk onto its balance sheet. • Crown may need to establish a lending intermediary to manage loans.
New operational subsidies	Increases CHPs' revenue streams: ***Increased ICR***	**Pros**: • Provides CHPs with increased revenues which in turn could enable further capital borrowing. • Does not require Crown to trade-off other capital investments against CHP-provided social housing. **Cons**: • Additional cost of new subsidies may not be affordable for the Crown. • Does not address equity needed to secure conventional debt finance (LVR constraint).

Crown guarantee	Allows CHPs to access lower cost debt finance: ***Increased LVR and ICR***	**Pros**: • Crown could support CHPs to access lower cost debt finance with potentially no/low impact on Crown's balance sheet (assuming guarantees doesn't crystallise). • Allows CHPs to increase borrowing as debt servicing costs are lower and more debt can be raised. **Cons**: • Attractiveness/feasibility of option dependent on balance sheet treatment of guarantees. • Crown may not want to effectively 'insure' CHP investments and developments.
Front loading of operating subsidies	Enables CHPs to effectively use operational subsidies as equity in new developments: ***Lower LVR***	**Pros**: • Balance sheet impact could be neutral as *no additional* funding required. • Provides CHPs with lump-sum funding against which further borrowing can be secured. **Cons**: • Potential balance sheet impact if front-loading has a time-value of money impact on Crown accounts.
Social housing bond	Enables CHPs to access lower cost debt financing: ***Increased ICR***	**Pros**: • Broadens investor pool for CHPs and should reduce cost of borrowing. • Ability to leverage external investment into social housing sector. • Could be linked not only to social housing development but also improvements in social outcomes and associated Crown benefits (i.e. social impact bond structure). • Does not increase Crown debt into sector. **Cons**: • Further detail on bond structure required to identify challenges. • Crown may not wish to enter into social impact bond mechanism.
Equity Fund	Reduces total amount of debt required by CHPs to fund development. **Lower LVR and Increased ICR**	**Pros:** • Broadens investor pool for CHPs and should reduce cost of borrowing. • Ability to leverage external investment into social housing sector. • Reduces risk to CHP, expanding potential for CHP growth. **Cons**: • Likely to require Crown role in regulation and structure to ensure best outcomes.

Non-funding options		
Access to Crown contracting rates and standard designs Access to reduced consenting costs	Reduces total cost (and therefore amount of debt) required by CHPs to fund development: ***Lower LVR***	**Pros**: • CHPs should realise cost (and development time) savings from being able to utilise the Crown's standard designs and contracting rates. • Potential – albeit small – benefit for Crown in terms of further rate reductions if inclusion of CHP pipeline enables Crown to achieve further efficiencies. **Cons**: • Impact on CHP construction costs may be marginal if already achieving competitive rates. • Unlikely to solve issue of social housing supply in isolation.
Strengthening the lease covenant for social housing	Strengthens CHPs' revenue streams: ***Increased ICR***	**Pros**: • No direct cost for the Crown. • Strengthening the lease covenant for social housing may also assist the Crown in sourcing rental properties, as landlords can have more confidence regarding tenant obligations. **Cons**: • Overall impact may be marginal if investors do not believe the covenant will lead to better asset management/performance.

Appendix B: International social housing bond examples

Example 1 – NHFIC affordable housing bond aggregator - 1st & 2nd issues (Australia)

- The National Housing Finance and Investment Corporation (NHFIC) is a Government-owned corporate entity established in 2018 to "improve housing outcomes for Australians by contributing to efforts to increase the supply of housing, particularly affordable housing"[4].
- The Affordable Housing Bond Aggregator (AHBA) is facilitated by NHFIC and provides low cost, long-term loans to registered community housing providers (CHPs) to support the provision of more social and affordable housing.
- NHFIC funds AHBA loans by issuing its own bonds into the wholesale capital market. The Australian Government has also provided a $1 billion line of credit facility through which NHFIC may advance initial loans to CHPs prior to issuing bonds.
- The AHBA can be used for:
    - Acquiring new housing stock;
    - Constructing new housing stock;
    - Maintaining existing housing stock;
    - Assisting with working capital requirements and/or general corporate requirements; and
    - Refinancing existing debts.
- The first 10-year bond issue completed in March 2019 and raised A$315 million to support several CHPs at a 3% coupon rate – the issue was over-subscribed with A$1.3 billion in applications.
- The second 10-year bond issue launched in November 2019 to raise $315 million at a coupon rate of 2.07%, to support a further 7 CHPs.

Example 2 – Sovereign Housing Association - 3rd bond issue (UK)

- Sovereign Housing Association is a large UK-based social housing provider, with approximately 58,000 homes across the south of England.
- Sovereign's third bond issue completed in October 2019 and raised £375 million at a 2.475% coupon rate.
- The investment will support Sovereign's investment in the quality of its homes and services, as well as building nearly 2,000 new homes a year through a more land-led approach.
- Sovereign have previously released bond issues in 2009 and 2012 which were similarly successful.

Example 3 – Radius Housing Association - 1st bond issue (UK)

- Radius Housing Association is a large Northern Ireland-based social housing provider, with approximately 13,000 homes across Northern Ireland.
- Radius's first bond issue completed in November 2019 and raised £105 million at an undisclosed rate over 15-35 years.

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[4] Source: https://www.nhfic.gov.au/our-organisation/

Appendix C: Social impact bonds

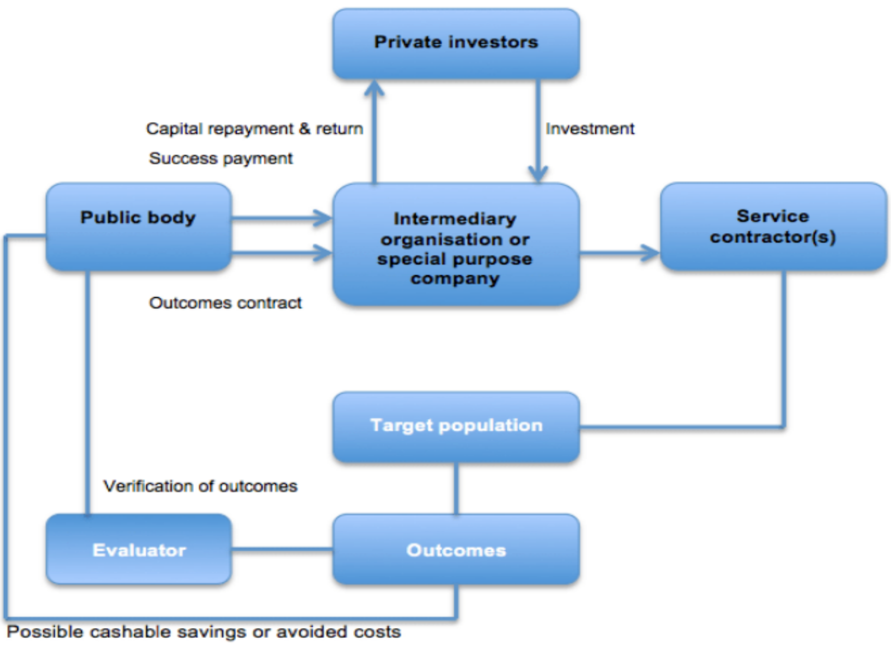
Social impact bonds (SIBs) are an innovative way for Government to contract for social outcomes. SIBs see private and not-for-profit organisations partner to fund and deliver services to improve social outcomes. If they achieve agreed results Government will pay the investors back their investment plus a return. Investor returns therefore depend on the level of results.

The basic structure of a stand-alone SIB project is illustrated below. Once a proposal for a project is agreed in principle, an intermediary organisation is selected or a special purpose company is set up (similar to PFI/PPP projects) which is responsible for concluding a project agreement with the public body, attracting investors, procuring and appointing service contractors as well as an 'independent' evaluator.

Key features:

- SIBs are a contract between the government and private investors, usually through a bond issuing intermediary;
- The contract is for the delivery of improved social outcomes for a defined group of people;
- The intermediary obtains funds from private investors to achieve the improved social outcomes. In exchange, the investors receive bonds;
- The investors achieve a return on their investment that is linked to the contracted social outcomes being achieved. If the performance targets are not achieved, the government does not pay or pays less.

The flow of money in SIB projects is illustrated by the arrowed lines with investors providing funding for the operational costs of the intermediary and contractors. Investors are repaid by the public sector via the intermediary according to performance assessed by the evaluator.



The key advantages of SIBs over current approaches to funding social policy are that they offer the opportunity to introduce new, private money, into social programmes without increasing public debt and without the need to decrease existing spending. Investors' returns are linked directly to the level of social value that is delivered. This leads to a process of constant monitoring of the success of the project, strong incentives to identify and change poor performing programmes and the encouragement of innovation. The financial risk of the project failing is transferred to the private sector. SIBs also provide an incentive to allocate expenditure on preventative, rather than "crisis" projects, as this is where the greatest returns on investment can be made.