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Evaluation of the Building Financial Capacity in Housing Agencies (BFCHA) initiative

Department of Treasury and Finance (Victoria)

Final report for distribution
15 September 2023

Melissa Skilbeck, William Li, Zabard Hartmann, Susan Friend, Matt Balmford

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Glossary

A list of the abbreviations used in this report are provided below.

Abbreviation	Stands for
BFCHA	Building Financial Capacity of Housing Agencies
BHB	Big Housing Build
BOP	Build & Operate Program [rounds 1 and 2]
bps	Basis points
CHAs	Community Housing Agencies
DTF	Department of Treasury and Finance
AHIP	Affordable Housing Investment Partnerships (new name for BFCHA from 14 September 2023)
GLM	Ground Lease Model [rounds 1 and 2]
ICR	Interest coverage ratio (times)
LIL	Low interest loan
LVR	Loan to value ratio (%)
M	Million
NHFIC	National Housing Finance and Investment Corporation
SCR	Security coverage ratio (times)
SDA	Specialist Disability Accommodation
SHGF	Social Housing Growth Fund (administered by Homes Victoria)
SPV	Special Purpose Vehicle
RGR	Rapid Grants Round (of the Social Housing Growth Fund)
TCV	Treasury Corporation of Victoria
VHR	Victorian Housing Register

Executive summary

Executive summary

This evaluation

The Department of Treasury and Finance (DTF) commissioned Sapere Research Group Ltd (Sapere) in April 2023 to evaluate the effectiveness of the Building Financial Capacity of Housing Agencies (BFCHA) initiative and identify opportunities to refine and improve the program to further support the supply of social and affordable housing and the value for money outcomes generated by the initiative.

Sapere conducted the evaluation over April to July 2023. It is a point-in-time evaluation of a program in progress and in terms of development of social housing dwellings financed, in its early days. In practice, the evaluation covers phase 1 and 2 applications to approved agreements and the experiences of community housing agencies (CHAs) in the applications for phase 3 whose applications were being considered for approval during this BFCHA work. It also coincides with significant macroeconomic changes having a direct impact on CHA preferences between phases 1 and 3.

This report is based on Sapere analysis and input from stakeholders through consultations and survey responses. Survey representation of CHAs participating in the program is high—at 13 of 19 who applied and 10 of 11 approved, and accounting for around 80 per cent of loan value approved as at April 2023.

Financing social housing

CHAs are dependent on some form of government subsidy. This subsidy needs to cover the difference between what it costs to supply, build, maintain and manage social housing and the amount low-income tenants (particularly those receiving Commonwealth Rent Assistance) can afford to pay. BFCHA is part of the $2.7 billion *Homes for Victorians* 2017 Government strategy that established funding—in the form of the $1 billion Social Housing Growth Fund (SHGF)—and financing—in the form of $1.1 billion for Low Interest Loans (LILs) and State Guarantees through the BFCHA initiative. Loan tenor (term) of funds in the SHGF were subsequently expanded by the *Big Housing Build* initiative in 2020.

BFCHA provides LILs (and offers State Guarantees which have not yet been taken up) at the State bond rate plus a margin and for up to 30 years, with lower transaction costs for CHAs (compared to NHFIC) and an option for CHAs to repay principal during the term. These low-cost, long-term low-interest loans are designed to address the market barriers to social housing, and have been available when SHGF funding is offered. LILs or state guarantees are more cost-effective for government relative to grant funding in terms of appropriation or output cost.

BFCHA finance can provide the co-contribution required from CHAs under SHGF for a share of total project costs—as can Commonwealth Government social housing finance provided through National Housing Finance and Investment Corporation (NHFIC), commercial bank loans, or private or philanthropic funds. This represents, for Australia, an unusual example of complementary funding and financing support designed to address the subsidy needed for social housing, long sought by the sector. The complementarity of the funding and finance programs also means that, despite Sapere's best endeavours, some stakeholder input inevitably reflects experience of both programs rather than that attributable to BFCHA alone.

Learnings in program design

The BFCHA and SHGF programs were established to increase the supply of social and affordable housing. This joint outcome was best pursued through BFCHA by close coordination with SHGF program timing and alignment with SHGF requirements for CHAs to provide an equity co contribution. BFCHA design was responsive to both.

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> The design of the BFCHA long-term low-interest loan is an effective contribution to the 'subsidy gap'. The sector views it as the best finance product on the market for social housing provision. There are some CHAs who prefer alternative finance or alternative co-contributions over the long or short term for strategic reasons or to manage transaction costs suitable for their operation.

Throughout the 3 phases of BFCHA offers, complementarity with dominant funding program SHGF was maintained by changing design of the finance offer to amplify the impact of the funding offer. As most CHAs consider the two programs' offers a joint one, this has an effective design approach to maximise participation in both programs.

There are Victorian CHAs who acknowledge the advantages of the LIL design, but prefer to:

- Limit the total number of lenders with who they maintain relationships
- Avoid any further government lenders due to an unsatisfactory experience with NHFIC
- Avoid any government lenders due to the preferences of philanthropic sponsors, discomfort with multiple roles of government, or due to an assessment that they cannot sustain the transaction costs, security and monitoring requirements that are inherent to finance no matter how efficient they may be
- Manage cost and interest rate volatility and uncertainty by using short-term standard commercial loans in the short term.

> The BFCHA finance product design has proved robust and sufficiently flexible. Some minor changes to program design may be warranted given the maturity of the program and participants, the changed macroeconomic conditions, greater debt burden in the sector and prospects of expanding the BFCHA initiative to additional community housing models.

A theme in consultations across sectors was that security and covenant requirements are excessive given the residual risk facing Victorian Government after the sector legal characteristics and regulatory constraints are considered. The use of debt, by definition, expands the ability of CHAs to invest in social housing, but there is a risk that the current security required of CHAs has the potential to limit the otherwise sustainable growth of social housing in Victoria.

The following enhancements to the current credit appraisal design should be considered:

1. requiring CHAs to provide, and DTF to assess the sensitivities of the credit rating for key cost and interest rate changes (which will require some consistency in CHA financial modelling provided to DTF)
2. Removing 'increased social housing dwellings' criterion from the credit appraisal, making that appraisal a clearer hurdle focused on financial, asset and risk expertise of the CHA and the project metrics for consideration by the Steering committee—enabling the Steering Committee to more explicitly balance the credit appraisal hurdle or score (when some CHAs will be sufficiently debt leveraged to potentially score low against the hurdle requirements) with the social (or broader community) housing outcome facilitated.

The options to increase CHA capacity to source debt for further social housing development within appropriate management of the residual risk of CHA non-delivery and default to the State of Victoria could include changes in design to:

1. formalise the release of security or covenant reduction at a particular delivery milestone or period of meeting the Registrar's Performance Standard 7 for financial viability (as observed by DTF separately and independently from the regulator's role) and/or

Executive summary

2. streamline security and covenant requirements to meet risk management needs of both Homes Victoria and DTF/TCV (noting that TCV security already has priority and is held for a longer period and Homes Victoria availability payment models are independent of mortgageable property).

Sapere's assessment of the credit evaluation framework employed for BFCHA suggests it is sufficiently comprehensive and robust to provide assurance and risk management for the Victorian government, albeit resembling commercial borrowing practices.

> The BFCHA initiative State guarantee offer has yet to be taken up but reflects forward-looking design as its benefits have been viewed as attractive more recently as the social housing sector's debt burden increases and relationships with current lenders mature, as interest rates become more uncertain, and hopes that institutional investors may be more interested in funding or financing social housing (in conjunction with affordable housing) as it has grown.

Learnings in program delivery

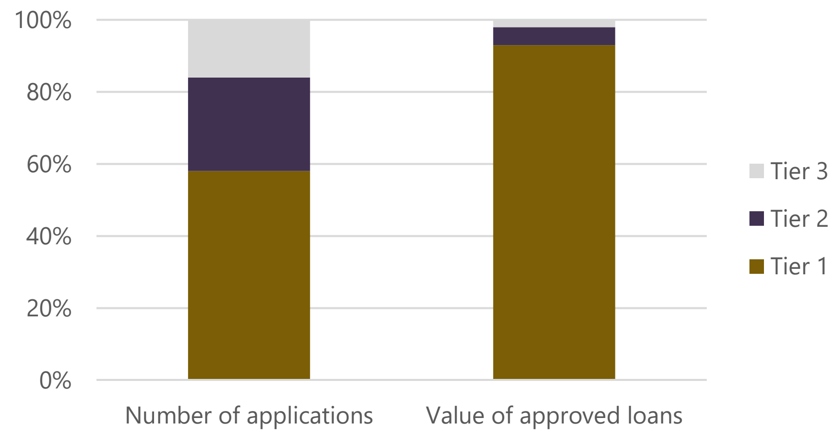
CHA awareness of the program seems high. The overwhelming majority of CHAs consulted had participated in the program; and the few non-participants consulted were aware of the BFCHA offer. Information sessions provided by DTF, especially from phase 2, were helpful in familiarising CHAs with the process, objectives and criteria of the program.

> Participating CHAs were genuinely enthusiastic in their appreciation of the working relationship, professional interaction, empathy, information provision, responsiveness and hard work of the BFCHA initiative team in the Department of Treasury and Finance and the Treasury Corporation of Victoria. This appears to be a critical aspect of successful BFCHA implementation.

Transaction costs inherent in financing are significant for all CHAs and they are material for some given their scale or lack of prior experience with government financing. As illustrated in the chart below, the larger (Tier 1) CHAs have dominated both the number of applications to the BFCHA initiative and the value of LILs approved by April this year.

> This suggests that BFCHA and its requirements are more aligned with the capabilities and resources of larger CHAs, and despite the responsive administration of the program it is likely that the costs and capability challenges to CHAs of participation are still material for many and will remain in excess of the capabilities of some. It is apparent that for some CHAs the BFCHA initiative (and NHFIC) is not suitable.

Dominance of large CHAs in BFCHA loans



Note: Applications and approvals to April 2023. Tiers are CHA registration categories to reflect their relative level of risk due to the scale and scope of activities used in the National Regulatory System for Community Housing (NRSCH) that does not apply in Victoria. Tier 1 CHAs manage and develop more social housing dwellings than the smaller Tier 2 CHAs or the smallest Tier 3 CHAs that tend to provide more specialised social housing. Sapere has estimated this categorisation of Victorian CHAs on the basis of data from CHA annual reports.

Nevertheless, some administrative frustrations with the BFCHA initiative were consistently identified by CHAs. DTF has separately identified these and is:

1. Development of a head deed with project specific-facility agreements to reduce transaction costs for CHAs that have multiple projects financed
2. Considering the development of a template financial model to assist DTF to receive consistent financial outputs to enable credit assessment, while being able to observe the ability of CHAs to competently model project financials.

CHAs also recognise the efforts made to coordinate the two programs but noted that despite the complementarity between BFCHA and SHGF phase design, the two programs' administration did not always synchronise efficiently, leading to doubling up of information requests and issues where delays in one program led to delays in the other.

Other opportunities also exist to further reduce transaction costs and warrant further investigation:

1. DTF being less open to negotiating variations in agreement/deed terms for same LIL product to increase timeliness of closure for successful applicants
2. Streamlining security and covenant requirements will also reduce the transaction costs and administration burden on CHAs
3. Further streamlining of ongoing reporting requirements (of asset and maintenance reports for example) including their timing, frequency, between the programs and the sector regulator, the Housing Registrar.

All participants have matured in the perspective and approach and the identified opportunities to improve administration should be considered where the likely transaction cost savings—in terms of CHA-incurred administration and time imposts—are sufficiently material to encourage greater investment in future BFCHA-financed projects.

Responsiveness of BFCHA's design and administration has contributed to greater awareness of BFCHA by the sector and improved financial capacity and capability of the sector (both of which are desired shorter-term outcomes).

BFCHA outcomes

A long-term outcome sought is increased capacity of the CHA sector to supply and manage social housing in a sustainable way. The CHA sector has certainly grown during the life of the BFCHA initiative. Since 2021 (after the launch of the *Big Housing Build*), there have been six new organisations registered as CHAs in Victoria, with another 15 possible new CHAs in the pipeline as at June 2023.

Feedback from CHAs suggest this was due to the availability of increased SHGF grant funding as part of the *Big Housing Build* rather than BFCHA financing. However, four of these new registrants have applied for BFCHA financing and two have been approved for loans. Some new CHAs are already experienced significant providers suggesting increased capacity of the sector in Victoria has been supported by BFCHA.

Another long-term outcome sought is increased capability of the CHA sector to supply and manage social housing in a sustainable way.

The introduction of long-term low-interest government financing created new opportunities for CHAs to expand and grow, but it also generated the need for a greater level of financial knowledge and skills to navigate and manage the added complication of debt financing models.

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CHAs (in survey responses) and Deloitte (who worked with CHAs during credit appraisals as financial adviser to DTF) recognise the improved financial literacy and capability of CHAs because of BFCHA. Signs of greater financial sophistication were observed particularly in larger CHAs—not only upskilling to engage with BFCHA in an informed way, but debt financing as a vehicle for growth in the future.

As illustrated in the chart on slide 9, greater gains were mostly realised by larger CHAs. Greater sector sophistication suggests that large CHAs are likely to be the most engaged with BFCHA going forward—and that smaller CHAs are more aware of when BFCHA debt financing may be suitable for their development and when it is not.

It is difficult to delineate these outcomes attributable solely to the BFCHA initiative given its complementarity with the SHGF. However, as described earlier, the design and administration of BFCHA initiative means it has been most often the lowest cost finance option to meet the SHGF co-contribution to project costs.

> Sapere estimate that CHAs that have drawn down BFCHA low interest loans up to 6 April 2023 had thus far saved approximately $4.2 million in interest cost savings.*

These costs savings accrue to CHAs' ring-fenced Victorian operations and are available to invest in their next social housing project. Offsetting this, in practice up to April 2023, only a few of the largest CHAs had scoped developments for phase 2 after accessing BFCHA finance in phase 1 (as each SHGF round aligned to BFCHA phases targeted social housing priorities to which not all CHAs could respond).

Participating CHAs consulted believe they would, in the absence of BFCHA, seek greater funding or finance for an overall higher cost to government or change the composition of planned development for a lesser number of social housing dwellings.

> While no CHA identified having proposed a greater number of social housing dwellings because of the BFCHA finance, their observations suggest larger CHAs at least have offered social housing development at a lesser cost to government, leaving greater remaining capacity for government to fund further dwellings, than without it.

This perhaps reflects the cultural reticence of a sector that has not had consistency in scale and availability of funding and finance over the long term in Victoria. But almost 80 per cent of CHAs surveyed agree they have or will provide more social housing dwellings because of BFCHA.

Committed funding remains in both BFCHA and SHGF for further phases but both programs are of limited duration. A consistent offering of social housing funding and financing is needed for a sustainable social housing outcome. Specifically, the extent to which avoided interest and other cost savings from the BFCHA initiative contribute to a long-term increase in the number of social housing dwellings is likely dependent on the availability of consistent funding.

The nature of BFCHA may also need to respond to changing macro-economic conditions. As we enter an increasing or higher but stable interest rate environment, the benefits associated with BFCHA's lower interest rate and long tenor may become less attractive, depending on expectations of future rates. Some CHAs noted the potential of the State Guarantee product to become more appealing, which may result in use commercial bank debt over shorter period especially if there is a prospect of refinancing available under BFCHA in future years.

* Based on the difference between the rate fixed under BFCHA and a comparator commercial rate used to calculate the interest rate subsidy (provided by DTF) for the total number of days between the initial drawdown and 6 April 2023. DTF also reports an estimate of the effective subsidy provided to CHAs, as the present value of the savings realised from government-rated interest for LILs compared to interest rates expected for the life of the loan for whole loan amount. As of 7 July 2023, the interest rate subsidy estimated to 30 June 2023 is $48.2 million.

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Learnings for future BFCHA initiative

This evaluation occurs in a period of substantial volatility in costs of social housing construction and operation for CHAs, in interest rates they face from all finance sources, and a sector adjusting to a greater amount of debt and its ongoing management. The sector is more sensitive to the level of transaction costs incurred in sourcing needed funding and financing. It is a very different environment from the one in which BFCHA was introduced.

> The scale of funding and finance being offered in Victoria have compelled the social housing sector to mature in its view and management of debt for growth. The greater financial maturity of the sector requires continued responsiveness of the BFCHA initiative.

The different experiences across the past three phases of BFCHA assist to identify learnings for its next phases.

1. **The design of BFCHA is robust.** The current offer of a government guarantee for commercial borrowings has not yet been taken up, but now warrants further scoping in response to interest (and hopes) within the sector. In particular, scoping a possible structure of a guarantee that would support a lower interest rate offering by commercial banks of a simpler, lower transaction cost, product suitable for CHAs. More speculatively, options such as a government guarantee may help facilitate greater institutional funding and financing into social housing by reducing the risk of investing into CHAs for these institutions.
2. **Responsive administration should continue.** Investigation and trialling of the actions suggested to improve administration is worthwhile given the materiality of transaction costs to CHAs—such as:
    - continuing to pursue alignment of information requirements and data for monitoring with the SHGF program and the Victorian Housing Registrar
    - the development of a head deed with project-specific agreements
    - provision of an existing or development of a new financial model providing more sensitivity analysis of costs and interest rates and consistent outputs for credit assessment
    - further consideration of ways to streamline the current structure of security across funding and finance programs, and
    - more explicit communication about range of financial product availability and the scope to reduce security burden following proven performance while maintaining appropriate risk management.

> The key to maximising BFCHA's contribution to growth in social housing dwellings at a reduced cost is a consistent offering of both funding and financing to this now-more-sophisticated sector in Victoria. This is not within the sole control of the BFCHA initiative but pursuing the learnings suggested should maximise its contribution to this long-term outcome.

Acknowledgement: The Sapere team wish to acknowledge the social housing market expertise of our advisers and their assistance in developing this report: Carrie Hamilton and Richard Benedict.

1. Introduction

1.1 Scope

Scope of this evaluation

The Department of Treasury and Finance (DTF) commissioned Sapere Research Group Ltd (Sapere) in April 2023 to:

- evaluate the effectiveness of the Building Financial Capacity of Housing Agencies (BFCHA) initiative and assess the extent to which the program has supported the increased supply of social housing
- identify opportunities to refine and improve the program's criteria, guidelines, governance, administration and other activities to support further increasing the supply of social and affordable housing and the value for money outcomes generated by the program.

The evaluation sought to address:

a) the efficiency and effectiveness of the procurement process, including scheme governance and administration arrangements

b) the extent of uplift or improvement in the commercial capability and capacity of the community housing sector

c) the perceptions of government, including DTF and TCV, in administering the BFCHA initiative

d) commentary on broad eligibility criteria, including how the scheme can enhance institutional investment in social housing

e) a review of the loans approved and drawn down and extent to which loans have generated savings for government (and CHAs) and broader value for money outcomes

f) the outcomes achieved through the provision of low interest loans and government guarantees.

This includes any commentary on the BFCHA initiative's process, feedback and outcomes and how this could be applied to any future phases of the initiative, including plans to expand the program to include affordable housing.

Report structure

This report has the following structure:

- Chapter 2 provides an overview of the BFCHA initiative
- Chapter 3 evaluates program design of BFCHA initiative
- Chapter 4 evaluates program delivery of BFCHA initiative
- Chapter 5 evaluates the outcomes achieved by BFCHA initiative
- Chapter 6 provides our concluding insights on the evaluation of the initiative.

1.2 Methodology, design and data

Sapere conducted the evaluation over the months of April to July 2023. It is a point-in-time evaluation of a program in progress and in terms of development of social housing dwellings financed, in its early days. In practice, this means the evaluation covers phase 1 and 2 applications to approved agreements and the experiences of CHAs in the applications under phase 3 whose applications were being considered for approval during this BFCHA work.

As part of early scoping and planning, Sapere and the Department of Treasury and Finance BFCHA team developed and agreed upon an implied Outcomes Logic Model (see Appendix) and an Evaluation and Stakeholder Engagement Plan. These outputs informed our approach to sourcing information.

Evidence gathering and analysis for the evaluation, using a mixed methods approach, including several **key data sources** (see right).

Between the online survey and the interviews, we have engaged with a total of 17 CHAs, which includes 13 of the 19 CHAs which applied for the program and 10 of the 11 CHAs approved for finance. Given this coverage, we have confidence in the representativeness of participants that we have engaged with and have undertaken best endeavours to consult with non-participants but acknowledge that we received (understandably) a minimal level of response.

Data sources for this evaluation are referenced throughout the report in footnotes.

Key data sources

Available **desktop data, information and research** provided by the Department or publicly accessible	This included, but was not limited to: • planning and operational documentation • ongoing reporting documentation, such as Working Group and Steering Committee papers • certain activity and financial data, principally related to the status and value of loans made to CHAs under the program.
An **online survey** of Victorian community housing agencies, with 15 responses in total	Of these 15 responses, 9 were from CHAs who applied for loans under the program The 9 CHAs who provided responses accounted for 47% of the CHAs who applied for the program and 78% of the total value of loans approved under the program to date. The online survey was run from May to June 2023 and designed prior to interviews – as such, questions were designed prior to interviews with most CHAs and others
Targeted **semi-structured interviews** with internal and external stakeholders with knowledge of BFCHA and the broader environment	Including DTF, TCV and Homes Victoria personnel including Steering Group members, CHA representatives and other industry stakeholders • In total, we spoke to 11 CHAs, 8 of which applied for loans under the program • These 8 CHAs accounted for 42% of the CHAs who applied for the program and 88% of the total value of loans approved under the program.

1.3 Use and limitations

Limitations

Limitations to the evaluation included that:

1. Methodologies were limited to a retrospective evaluation to April 2023; that is, what can be observed now and through historical information or reflections on the past, as well as expectations for the future
2. It is difficult to delineate the outcomes that can be attributed to the BFCHA initiative from outcomes that can be attributed to SHGF, due to the designed complementarity between the two programs and the practical difficulties CHAs consulted and surveyed had in differentiating between influences and impacts of financing from funding
3. The initiative's interventions seek to influence the confidence and decisions of CHAs to invest in more social housing dwellings, in part, into the future. While those future impacts are inherently uncertain, we draw conclusions about what we reasonably expect having regard to the evidence available
4. Information limitations included that providing input to this evaluation was voluntary for CHAs so only a limited range of perspectives could be sourced. Further, survey questions were confirmed prior to more extensive consultation with the social housing sector, and as such, were unable to incorporate design insights and knowledge learnt from these later interviews
5. Resource and other practical limitations, including the available time and the budget made available to Sapere.

Where these limitations particularly constrained analysis and findings is discussed in relevant parts of the report.

2. Overview of the BFCHA initiative

2.1 Victoria's community housing sector

The community housing sector currently provides social and affordable housing to thousands of Victorians and, as of June 2023, is comprised of 44 registered CHAs of different sizes and focus.

Regulated by the Registrar of Housing Agencies, Victorian CHAs are categorised into two tiers under the Housing Act 1983 – Housing Associations and Housing Providers.

Housing Associations are generally the larger not-for-profit organisations that develop, own and manage rental housing for low to moderate-income Victorians, whilst Housing Providers are generally smaller organisations that manage properties for the state. However, presently, this distinction has become less clearly defined.

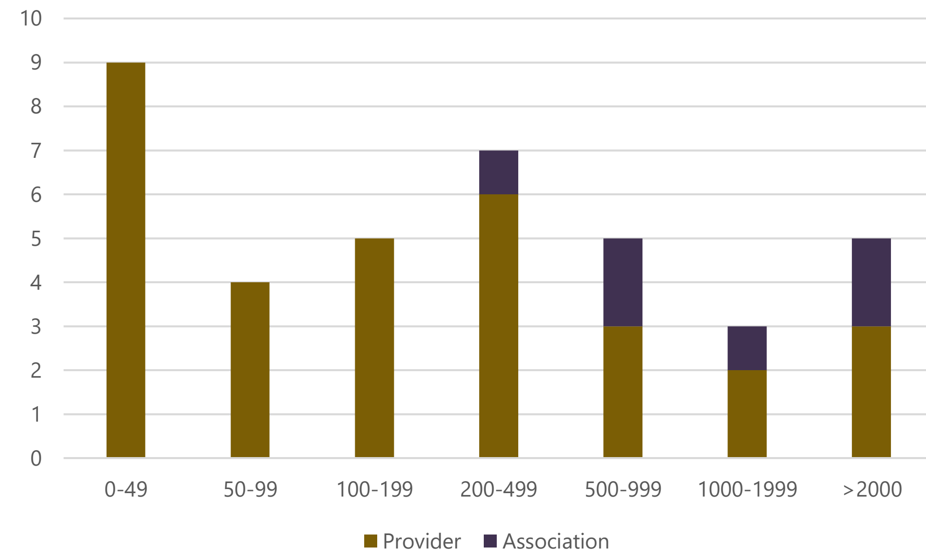
Currently, 10 CHAs are classified as housing associations while 34 CHAs are classified as housing providers. They range in size from a handful of properties to entities managing in excess of 2,000 properties, and collectively, they manage and own approximately 20,000 properties across the state.

Most of this housing provides long-term accommodation for families and individuals not able to afford or access the private rental market. However, the Housing Registrar distinguishes the types of housing as:

- Long term, but not disability or public housing, that could also be split into community, private, social long-term housing
- Rooming houses (long term)
- Crisis accommodation (emergency homelessness support)
- Short to medium term (transitional housing, from homelessness housing to long term housing, for a term of 12 to 18 months)
- Specialist Disability Accommodation (long term).

For the purposes of this report, we use the definition of social housing provided through the Victorian Housing Register and set out in the shaded box.

Figure 2.1: Count of Victorian CHAs by portfolio size (2022)



Source: Sapere working based on data from Housing Registrar CHiMES database

Social Housing

Specifically, for the BFCHA initiative evaluated in this report, social housing is short and long-term rental housing that is owned and run by the government or not-for-profit agencies (CHAs) available to people deemed to be in either of the two Victorian Housing Register categories of 'Priority Access' or 'Register of Interest'. (Source: www.housing.vic.gov.au/socialhousing)

When provided through CHAs, social housing refers to rental housing that is targeted at low income and most disadvantaged households with rent typically charged at 25 to 30% of household incomes plus 100% of household entitlement to Commonwealth Rent Assistance (that is not available to tenants of government-provided public housing).

2.2 Segmentation of Victoria's community housing sector

Victoria's classification of housing associations and housing providers (shown on the previous page) bears some resemblance to the National Regulatory Scheme for Community Housing (NRSCH) tier system. This is a risk-based registration model for CHAs, where a CHA's tier determines its performance requirements and the intensity of regulatory engagement. A CHA's tier is typically a function of how many tenants it is responsible for and the extent to which it undertakes ongoing and substantial development activities. The system broadly reflects the idea that the nature of risks is different across the differently scaled CHAs.

While the NRSCH does not apply in Victoria (or Western Australia), there are some common ideas between Victoria's classification system (of registered associations and providers) and the NRSCH tier system. Considering CHAs through the lens of the NRSCH tiers can be useful for segmenting the community housing sector and the difference that exists amongst CHAs.

Based on our review of the balance sheet borrowings reported in annual reports, number of social housing dwellings owned and managed and extent of development activities undertaken by each CHA, our assessment is that the CHAs in Victoria could potentially be divided into NRSCH tiers in the following way.

Table 2.1: Potential count of Victorian CHAs in each NRSCH tier

Tier under NRSCH	No. of Victorian Housing Associations potentially in this tier	No. of Victorian Housing Providers potentially in this tier
Tier 1	8	4
Tier 2	2	15
Tier 3	0	15

This is a purely subjective assignment based on Sapere's assessment, and that an application of the framework used by the NRSCH by the Registrar may well produce a very different stratification for Victoria. The tiers have been applied quite differently in South Australia and New South Wales—and the stratification here more closely aligns with the NSW application.

This stratification of the Victorian community housing sector illustrates the diversity of the types of CHAs that operate in Victoria, from large corporate entities to niche community organisations that service particular geographies or cohorts and everything in between. For example, some registered CHAs are large interstate (and sometimes international) organisations while other specialise in providing affordable housing for Aboriginal and Torres Strait Islander peoples, women, victims of family violence, older people and those at risk of homelessness and escaping homelessness.

2.3 The economics of community housing

Social housing 'subsidy gap'

CHAs must be registered by the Victorian Housing Registrar to be eligible for Victorian Government grant funding or financing. Accessing government funding and/or financing is essential for CHAs as research indicates that supply of social housing is dependent on some form of government subsidy. This subsidy is required to cover the difference (the social housing 'subsidy gap') between what it costs to supply, build, maintain and manage social housing and the amount low-income tenants (those using Commonwealth Rent Assistance and other government entitlements) can afford to pay.

Across Australia on average each social housing dwelling needed around $13,000 each year as a government subsidy to address this funding gap. However, the gap increases in capital cities, with the social housing funding gap in Melbourne (mostly) ranging between $15,000 to $25,000 per dwelling.[1]

> "The challenge for registered housing agencies arises in part from the 'funding gap', being the gap between rent revenues received and the cost of building, maintaining, and managing social housing. As such, registered agencies are often dependent on ad-hoc government grants and other funding. This does not reflect on the efficiency of these organisations but rather the structural constraints under which they operate." - Government stakeholder

Leveraging CHA co-contributions to grow social housing

The sector's use of debt to finance new social housing developments is a relatively new feature. Traditionally, CHAs were solely reliant on capital grant schemes or the transfer of government housing units from government. However, this changed in 2007/08 when the Victoria state budget committed $500 million over 4 years to expand the supply of community and public housing, including $300 million for the construction of around 1600 social housing properties to be built, owned and managed by community housing agencies (CHAs); and the transfer of 575 properties from the Director of Housing to eight registered CHAs in 2008.

To receive funding under the state's 2007-08 initiative, CHAs had to contribute at least 25 per cent of total project costs, generally sourcing 20 per cent of contribution from commercial lenders. This requirement, combined with concurrent Commonwealth programs (especially the *Nation Building – Social Housing* Initiative) that also required co-contributions, significantly increased the level of debt in the sector for the first time. The National Rental Affordability Scheme (NRAS 2008-14) provided further recurrent subsidy which allowed CHAs to support more commercial debt.

Therefore, the level of interest-bearing debt held by the sector increased substantially from the late 2000s, reaching in excess of $300 million by the middle of the 2010s and now (FY2021-22) totals over $1.1 billion.[2 & 3]

Over the last decade, the Victorian Auditor-General's Office (VAGO) investigated social or public housing three times. Its 2010 report examined the two previously mentioned programs and determined these actions were successful as more than 1700 new properties were delivered by June 2013. But did recommend *future financial co-contribution targets be based on rigorous analysis* to determine financial viability of Housing Associations sourcing these funds.

[1] Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018) *Social housing as infrastructure: an investment pathway*, Australian Housing and Urban Research Institute Final Report No. 306
[2] Housing Registrar (2016) *Housing Registrar Report 2015-16*. Retrieved from link
[3] Housing Registrar (2022) *Financial Performance*. Retrieved from link

2.4 Government roles in social housing

The government has three roles in social housing—regulator, funder (sometime landlord) and finance provider

Given the 'subsidy gap', governments' role in social housing is extensive. In Victoria, government have three broad roles.

The State Government regulates the social housing sector through the Housing Registrar. CHAs are not required to be registered with the Housing Registrar generally but this is a requirement of participating in the SHGF and BFCHA. The Registrar's purpose is to enable the development, growth, and continual improvement of the Victorian community housing sector through proactive, transparent, and risk-based regulation that promotes tenant outcomes. It monitors registered CHA performance against seven standards and may investigate or intervene where there is non-compliance.

State Government is the primary funder of social housing in Victoria, supplemented by local governments, the Commonwealth Government and philanthropic sources. The scale and frequency of Victorian Government funding has varied significantly prior to 2017, with some small grants from Funds (such as the Victorian Property Fund providing several million each year) supplemented (every decade or so) by a large time-limited capital grant program, sometimes contributing land for leasehold.

More recently the Victorian and Commonwealth Governments have become a source of financing for the social housing sector. Both governments had intervened to widen the thin market for commercial financing of social housing. The Commonwealth's National Housing Finance and Investment Corporation (NHFIC) has targeted refinancing of existing CHA debt given it has no complementary funding program. Victoria's BFCHA has offered low interest loans (LILs) for new development, complementary to grant funding, mainly the SHGF program.

Box 2.1: Victorian Housing Registrar as independent regulator

The Registrar is not tied to the BFCHA initiative other than as an information source to minimise duplicative information requests to CHAs, and provider of sector intelligence. Nevertheless, as an independent regulator monitoring all CHAs against a consistent set of performance standards, the Housing Registrar provides prudential oversight that provides additional assurance over the impact of BFCHA loans on CHAs' individual and sector-wide financial performance. They have powers to intervene as a last resort in response to persistent non-compliance with standards, including recommending the appointment of governing body members (s131 of the *Housing Act 1983*), instructing the CHA to take a specific action (s132) or revoke the registration of a CHA (s141) meaning they could no longer participate in SHGF or BFCHA.

Registrar performance standards most relevant to social housing finance include housing assets, governance, probity, management, financial viability.

As the Registrar noted in its 2021-22 Regulatory Update Report
"In 2021-22, the sector actively participated in growth and development opportunities as part of the Victorian Government's $5.3 billion Big Housing Build. To facilitate this growth, the Housing Registrar's newly established Registrations and Sector Growth team undertook a comprehensive review of registration and compliance processes including the functionality of the systems that support them."

2.5 CHAs draw upon a variety of options to pay for social housing projects

CHAs use different combinations of funding and financing to support social housing developments – each have characteristics that make them more or less suited for different stages of the social housing development process. Each form of support also creates different requirements and obligations that can in turn impact the CHA's ongoing activities, as well as the extent it can engage with other forms of support.

Figure 2.2: Sources and attributes of potential CHA support for social housing

CHA

CHAs hold different combinations of funding and finance

Source	Attributes	Grouping
Commercial loans guaranteed by DTF	• Unknown tenor • Lowers interest rate for commercial loans • DTF and bank require mortgage	Financing
Commercial loans	• Short tenor • Higher interest rates • Bank requires mortgage • Simple terms and standard product • Less ongoing monitoring	Financing
NHFIC low interest loans	• Long tenor • Lower interest rate • High transaction costs • First priority security/mortgage over CHA • Greater ongoing requirements	Financing
TCV low interest loans	• Longest tenor • Lowest interest rate • Transaction costs lower than NHFIC • Security/mortgage over project • Greater ongoing requirements	Financing
Philanthropic donations	• Few conditions but may be directed for a specific purpose, cohort or site • Low transaction costs – vary whether funding or finance	Funding
Homes Victoria grants	• Capital grant or recurrent (availability payments) • Standard funding approach for CHAs • High transaction costs • Homes Victoria requires mortgage (ranks behind TCV)	Funding
Own equity contribution	• May be contributed from cross-subsidy from CHA's market-rate rentals • Ability to draw upon this source will vary across CHAs	
Concessional land from Vic Govt	• Dependent on availability of suitable land • Can be provided as lease or transfer • May be directed for a specific purpose or cohort • Ongoing reporting requirements	

2.6 How did BFCHA come about?

Prelude to Homes for Victorians

VAGO's 2012 report focused on public housing, finding the sector faced major challenges, and recommending development of a long-term plan for public housing with clear objectives. While the $2.7 billion *Homes for Victorians* (2017) strategy was not necessarily that long-term plan, VAGO's 2017 report found the strategy took a whole-of-government approach to addressing housing sector challenges through a broad set of social housing measures. It reflected the shared roles of both the public and community sectors in providing affordable housing options for low-income and disadvantaged Victorians.

Homes for Victorians was the first major social housing sector investment made by the Victorian Government in almost a decade and aimed to improve housing outcomes across the entire housing sector (public and community housing). It established the $1 billion *Social Housing Growth Fund* (SHGF) and the provision of $1.1 billion in Low Interest Loans and State Guarantees through the BFCHA initiative. The subsequent $5.3 billion *Big Housing Build* (BHB) *in* 2020 provided an additional $1.38 billion to the SHGF. These initiatives intended (and have) helped fund a pipeline of social housing projects, being delivered, owned and operated by CHAs.

CHAs faced challenges in securing commercial financing

A result of the State and Commonwealth social housing strategies was the level of interest-bearing debt held by the sector increased substantially from the late 2000s, reaching in excess of $300 million by the middle of the 2010s.[4] Decreasing ability of CHAs to access finance, and the terms and conditions required through commercial banks constrained CHAs' ability to increase the supply of social housing while providing a co-contribution to the costs of doing so. Private financing to support social housing projects can be restrictive, with comparatively low tenors, high interest rates and restrictive lending conditions. This exacerbates supply issues as projects cannot be financed due to insufficient unencumbered CHA property to act as security.

Rationale for BFCHA initiative

The BFCHA initiative sought to improve the supply of social housing by reducing the borrowing costs to CHAs and providing loan tenors of up to 30 years, reducing refinancing and repayment risk. Prior to the program's launch, PricewaterhouseCoopers were engaged for *commercial and financial advisory services to assist with the development and implementation of Financial Instruments to improve the financial capacity of Housing Associations*, and found:

- CHAs will be able to increase their financial capacity within a shorter timeframe using the financial Instruments (when compared to utilising traditional bank debt).
- LILs are preferred to State Guarantees as the potential savings to CHAs are greater (at 200 to 250 basis points or bps compared to 50 to 70 bps on State Guarantee) and therefore recommended that a greater proportion of the initial $1.1 billion be allocated to LILs.

Additionally, the provision of LILs or State Guarantees is more cost-effective for governments when compared with grant funding to CHAs. Debt finance does not involve Budget funding (at effectively no appropriation or output funding cost to government), only the recording of loan to CHAs, the implicit subsidy provided to CHAs by non-market rates (standard State bond plus a margin of 30 bps), and the expected repayment of the principal and interest over a specific period. This provides significantly less Budget impact for the co-contribution costs compared to additional grant funding. Co-contribution requirements amounted to around 20 per cent of total project costs during phase 2 of BFCHA, but this share is likely to vary in future given changing interest rate and construction costs.

[4] Housing Registrar (2016) *Housing Registrar Report 2015-16*. Retrieved from link

2.7 Implied BFCHA outcomes

The intended short-term, medium, and long-term outcomes of the BFCHA initiative, according to the Outcome Logic Model are illustrated below. A full OLM can be found in Appendix.

Figure 2.3: Summary of implied BFCHA outcomes

Short-term outcomes	Medium-term outcomes	Long-term outcomes
1. Direct activity impacts		
CHAs are aware of and act to apply because of access to finance at lower price or better terms	CHAs are financed to deliver construction of more social housing dwellings	
Loan default risk for LILs is appropriately managed	CHAs are better able to service loans for their new social housing dwellings	The supply of social housing in Victoria is increased while maintaining risk at acceptable levels
Delivery risk for new housing stock is appropriately managed	LILs and State Guarantees are able to be provided to CHAs while maintaining risk to Vic Govt at acceptable levels	CHAs have increased capacity and capability to supply and manage social housing in Victoria in a sustainable way
2. Relationship and community housing sector impacts		
Improved DTF relationship with CHAs	Improved financial capacity and capability amongst community housing sector	
Improved industry awareness of social housing support in Victoria	Greater number of viable projects applying for Vic Gov grants, with greater grant competition and more (priority) housing stock resulting from grants	
3. Government program design impacts		
Evidence to validate design and delivery of LIL and State Guarantees as effective models of support →	Improved program design for new or continuing programs of this nature →	More effective and efficient programs to support financial capacity and capability building

2.8 What does the BFCHA initiative offer CHAs?

In August 2018, the Victorian Government launched the BFCHA initiative, with the objective of increasing the supply of social housing by improving the terms and conditions on which registered Housing Associations and Housing Providers (or CHAs) can access finance. This initiative made available up to $1.1 billion in low interest loans (LILs) and State Guarantees to CHAs to assist with financing social housing projects.

Key program activity

The initiative was open to all registered CHAs in Victoria, offering access to LILs issued by Treasury Corporation of Victoria (TCV) and State Government Guarantees to support private finance arrangements. TCV is the State's lender of record and can access loans at Victoria's credit rating—initially 'AAA' and subsequently 'AA stable' from December 2020 (according to Standard & Poors rating agency).

The BFCHA initiative offers LILS and State Guarantees for:

- Development or acquisition of new social housing
- Providing equity/quasi equity into social housing projects
- (During phase 1 only) refinancing existing debt where the benefit to the borrower is leveraged for the development or acquisition of new social housing.
- (During phase 3 only) acquiring land to be used for future social housing projects

These loans are then passed on directly to CHAs with a 30 bps margin to cover administrative costs, resulting in loans usually 150 to 200 bps lower than would be available from a commercial lender and without any establishment or line fees.

Key design features

The BFCHA initiative has worked to complement other social housing schemes through three phases connected to different SHGF program rounds. The SHGF uses competitive discrete funding rounds where CHAs bid for grant funding for specific projects. CHAs co-contributing funding may require finance.

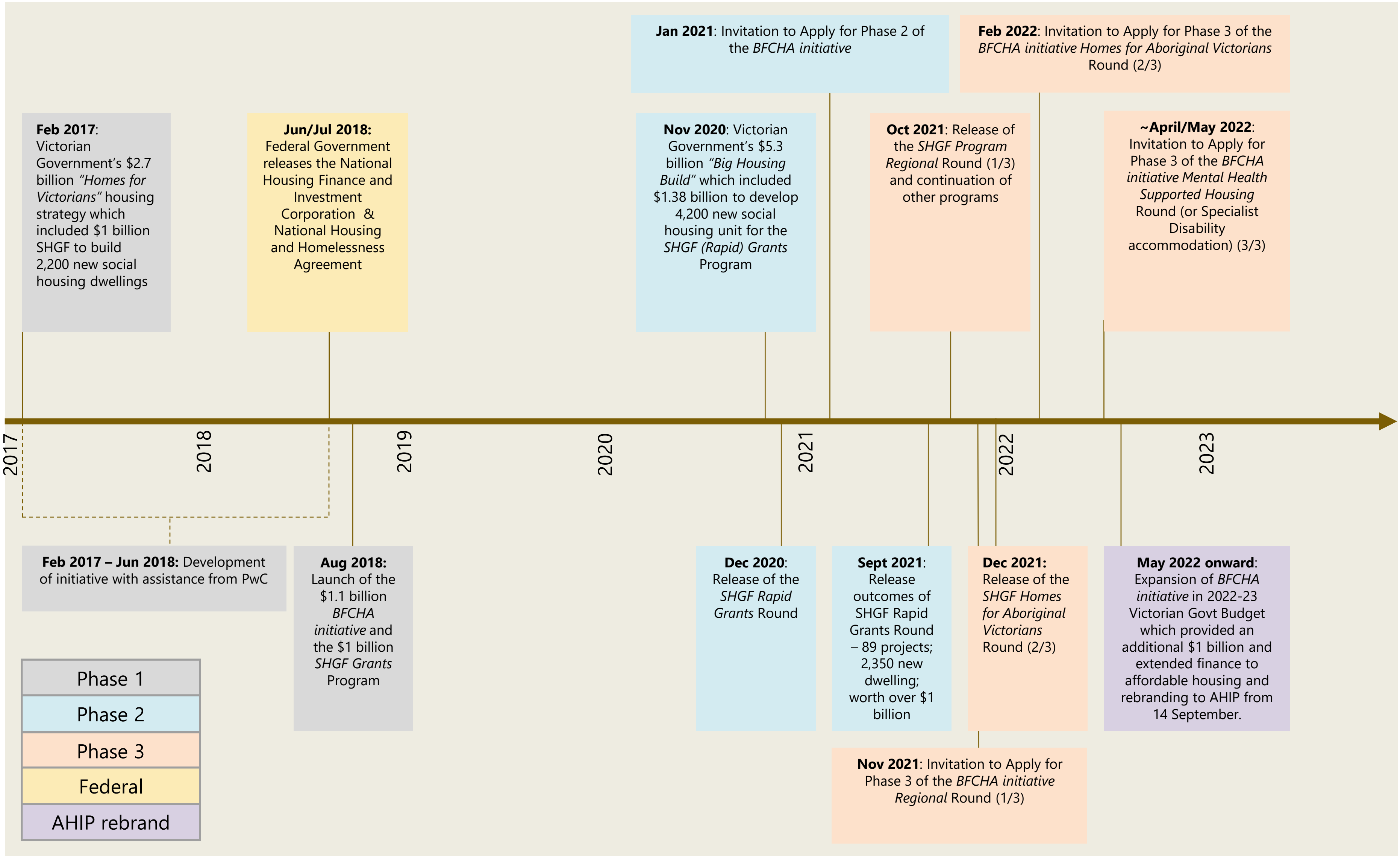
Table 2.2: Alignment of BFCHA phases and SHGF funding rounds

Phase 1	Phase 2	Phase 3
• Build and Operate Program Round 1 • Public Housing Renewal Program	• SHGF Rapid Grants Round	• SHGF Regional Round • SHGF Homes for Aboriginal Victorians Round • SHGF Mental Health Supported Housing Round • Build and Operate Program Round 2 • Ground Lease Model 2

Victoria's priorities where financing is required for this substantial funding program. The BFCHA initiative is not limited to providing financing for SHGF-funded projects to support the development of social housing in Victoria.

2.9 BFCHA phases and participation

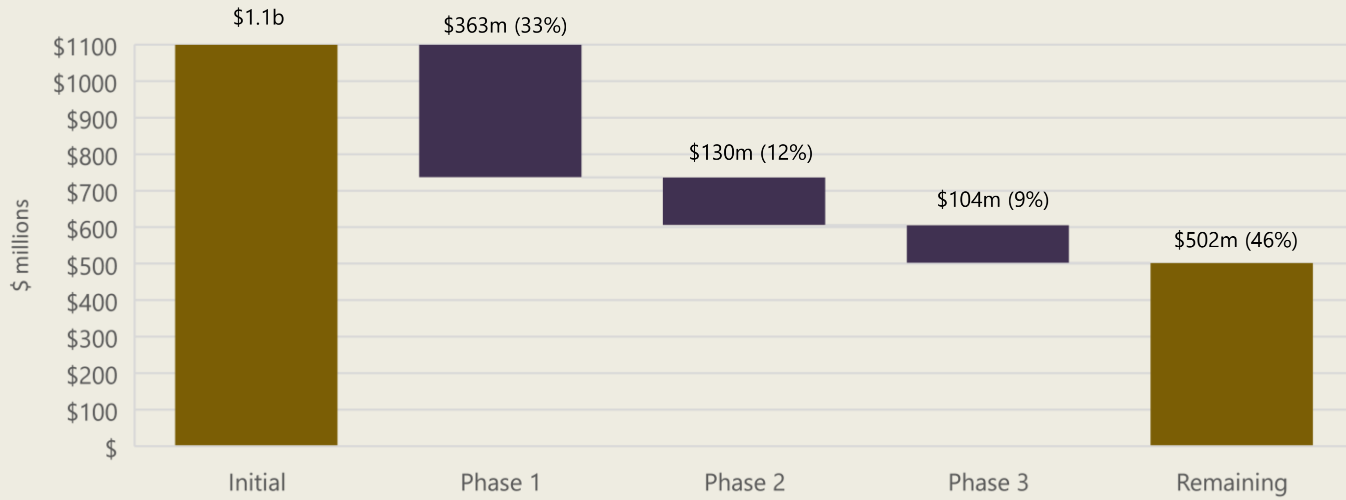
Figure 2.4: Timeline of BFCHA from 2017-2023



2.10 Large CHAs have been more likely to engage with the program

A breakdown of total loans approved by phase is provided in Figure 2.5 below. Presently, 46% of the program's budget has not been allocated – however, given the significant pipeline of applications expected for Phase 3, much of this budget may be absorbed in the near future.

Figure 2.5: Loans approved and total number of dwellings supported (based on project applications*) by phase as of 6 April 2023



Potential dwellings supported	Phase 1	Phase 2	Phase 3
	1,867	1,232	2,798

Based on our classification of CHAs under the NRSCH tier system from section 2.2, the breakdown of participation in the program by tier is as follows. This suggests that while most applicants (and the overwhelming majority of loan value approved) was large CHAs, some mid-tier and smaller CHAs also engaged with the program.

Table 2.3: BFCHA participation by tier

Tier (NRSCH)	% of all applicants who applied for BFCHA loans	Total value BFCHA loans approved	% of all BFCHA loans approved
Tier 1	58%	$ 556,478,084	93%
Tier 2	26%	$ 31,818,000	5%
Tier 3	16%	$ 9,700,000	2%

Out of a total of 44 registered CHAs, to April 2023:

- 19 have applied for a loan under BFCHA (44 per cent)
- 10 have been approved for a loan under BFCHA (23 per cent)
- 6 have drawn down on an approved BFCHA loan (14 per cent) with zero defaults to April.

Prior to applications under Phase 3 being finalised, only three CHAs have applied for and been approved for multiple rounds of the program (i.e. for Phases 1 and 2).

*Note: These estimates are based on figures provided in project applications and may differ from future reported figures as some projects may not proceed, project details may change and new projects are approved

3. Evaluation: learnings for design

3.1 Key BFCHA design strengths

Consistent with the outcomes sought, the TCV LIL product is designed to address the market barriers to social housing development and operation (the 'funding gap'). In addition to the interest rate advantage of the TCV LIL, BFCHA initiative finance design provides for the long-term tenor, low costs and more flexible security management required to support sustainable development of social housing dwellings.

The alignment with timing of significant funding offered under SHGF, and specific design to facilitate the co-contribution required of CHAs under that Homes Victoria scheme was a key strength. Project-specific security, alignment with a complementary capital grants program and the ability to repay the loan principal early under the BFCHA initiative is a contrast to the NHFIC offer—the alternative government lender with similar social policy outcomes sought.

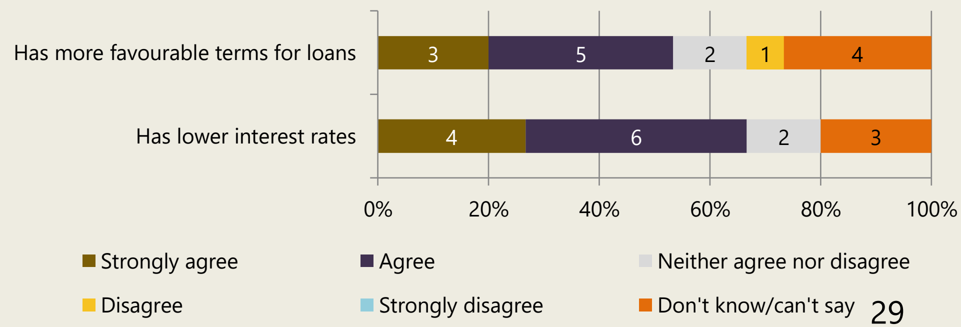
The commercial banking products are standardised and have lower administrative requirements and therefore their design is suited to some CHA purposes, but their shorter loan tenors means they tend to be less well suited for financing of social housing over the period of commitment required to operate under SHGF, requiring regular refinancing over time.

The flexibility of TCV loan structures and State Guarantees under the BFCHA initiative is likely to be appreciated more by the sector in future.

The current economic conditions have focused CHAs on managing interest rate risk. Some are using short term commercial bank loans in the project construction period despite TCV offering suitable products. Consultations indicate this is both a consequence of more sophisticated and conscious management of the CHA 'capital stack' given greater debt burden, but in some cases, it is a case of insufficient CHA awareness of TCV products available other than the long-term low-interest loan.

BFCHA	
vs. NHFIC	**vs. commercial lenders**
Complementarity to funding programs BFCHA enabled financing for social housing projects as its phases aligned to SHGF funding rounds, whereas NHFIC focused on refinancing of debt without complementary funding **Flexibility of loan structure** CHAs noted that BFCHA allowed for greater flexibility of project financing structures (such as through the provision of an 11AM facility rate) **Ability to fix forward rates** BFCHA allowed CHAs to lock in forward rates, allowing them to hedge interest rate movements **Market currency of TCV interest rate** BFCHA's interest rate offer was updated much more frequently than NHFIC, which only issued bonds infrequently under its own name **More project-specific form of security** Under BFCHA, security was only taken over the finance project compared to NHFIC which took security over the whole agency	**Lower interest rate** BFCHA's pricing being based on TCV's bond rate meant its interest rate was lower than the equivalent rate offered by commercial lenders **Loan tenor** BFCHA's low interest loans usually had loan periods of 15 and 30 years, compared to standard loans of 5 years from commercial lenders. This better aligned with project life cycle of social housing projects. **Consideration of social policy objectives** DTF's consideration of social policy objectives meant that CHAs could apply for project financing for projects that commercial lenders might not consider

Figure 3.1: Survey responses to the question "To what extent do you agree with the following statements? Relative to other debt financing sources available for social housing projects, BFCHA..."



3.2 As macroeconomic conditions change, different forms of support become more appealing

While CHAs appreciate BFCHA's design strengths, some benefits have been moderated by recent economic conditions. A comparison of the interest rate for 15-year TCV bonds and a commercial proxy rate in Figure 3.2 highlights the reduced margin between these financing options particularly coinciding with BFCHA's phase 3 offer before widening again. (While proxies for longer term borrowing options such as 10-year commercial bonds exist, from our stakeholder consultation it appears longer-term loans are not usually available to CHAs. As such, we have used the published 3-year commercial rate as a proxy for a borrowing option currently available to all CHAs. Similar variability in the gap to the TCV rate exists for the longer-term commercial rate proxy.)

We acknowledge that there are many factors that determine the rate that CHAs could negotiate with a commercial lender, and that it may be the case that the commercial rate reported by the RBA was not one available to a CHA. However, CHA consultations suggest that the clear price advantage that BFCHA provided in earlier phases is now less as:

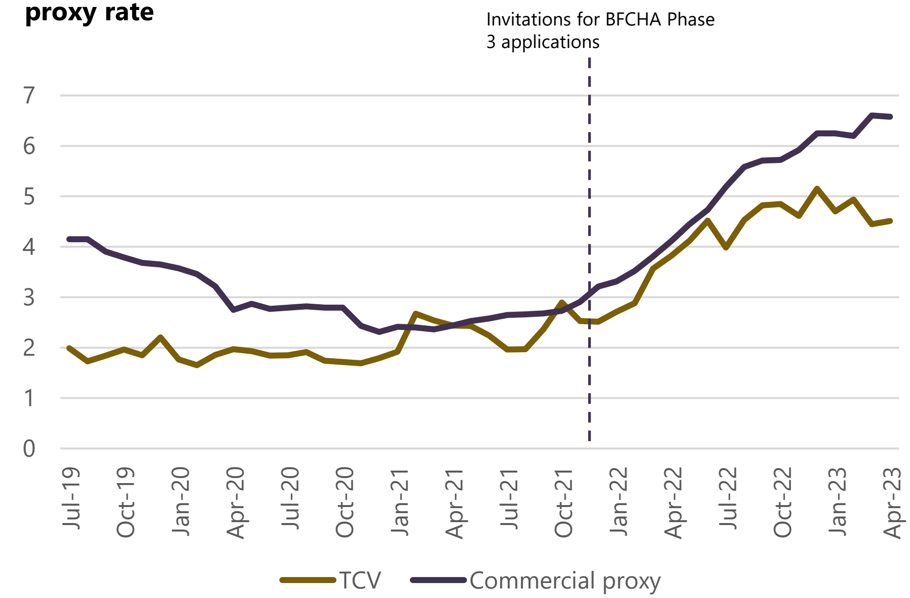
- Prevailing bond rates narrowed the interest margin
- Greater uncertainty in future prevailing interest rates (making long term fixed rate loans less attractive)
- Some large CHAs are approaching financial limits of their current asset base (the interest cover, loan to value and security coverage ratios required by existing loans), reducing their capacity to accept higher rates until they can release some equity.

This is significant as CHAs suggested that the decision to apply for (or not apply for) a loan under BFCHA involved the weighing of potential interest cost savings with the transaction costs of application, negotiation and ongoing management of an agreement with DTF.

CHAs assessed BFCHA (and NHFIC) transaction costs as significant in choosing between finance options, and for some they were sufficiently material to mean that BFCHA was not always the most attractive option despite having several appealing attributes.

> "Complexity of the LIL application was disproportionate for the scale of the project at total cost of $3 million with some philanthropic funds. We pulled the pin on it because it got very complicated, and engagement with government made our philanthropic donor nervous. We had very engaged bank partners, sharp and responsive, and they were competitive with pricing."
> - Sector stakeholder

Figure 3.2: Comparison of 15-year TCV interest rate vs. commercial proxy rate



Source: TCV, Commercial proxy rate from RBA Lender's interest rates reported lending rates for Housing credit; New loans funded in the month; Investment; Fixed-rate, by residual fixed term; Greater than 3 years

3.3 Responsive design changes to maintain complementarity

The BFCHA and SHGF programs were established to increase the supply of social housing. This joint outcome was best-pursued through BFCHA by close coordination with SHGF program timing and alignment with SHGF requirements for CHAs to provide an equity co-contribution to total project value. BFCHA design was responsive to both.

CHAs appreciated the response to feedback reflected in the BFCHA changes for phase 2 of the program: especially greater capacity to provide LILs and openness to SPVs. CHAs also noted the initial alignment between the two programs.

An inherent consequence of the complementarity was that BFCHA activity was focused on the target housing cohorts and delivery models determined by Homes Victoria. This is appropriate given Homes Victoria is best-placed to identify Government's social housing investment priorities. But the effect is that the CHAs that participated in multiple phases were typically the larger organisations that serviced more than one priority cohort or geography.

Figure 3.3: Parameters for SHGF and BFCHA through the three phases of BFCHA

	SHGF (funding)	BFCHA (financing)
Phase 1	The SHGF Grants Program's provided grant funding for: • the construction of new social and affordable housing on non-Victorian Government land (Build & Operate Program) and Big Housing Build capital grants program • leasing of new dwellings from the private sector (New Rentals Development Program)	BFCHA started by: • provided low-interest-loans (LILs) to Victorian Community Housing Agencies (CHAs) • primarily to secure project finance in conjunction with Round 1 of the Build & Operate Program
Phase 2	Focus on build-ready projects: • $1.38 billion of the *Big Housing Build* allocated to the SHGF Rapid Grants Round • The Round focused on community housing projects that could commence construction by the end of 2021 • The grants are paid to CHAs as upfront capital contributions to the cost of new social housing dwellings	Significant updates to finance offer: • Included Public Housing Renewal Program / Ground Lease Model projects • Expanded $550 million limit for LILs to $1.1 billion across LILs and State Guarantees • Permits finance of Special Purpose Vehicles (or equivalent arrangements) supporting new social housing projects • Introduced two-step credit assessment and streamlined transaction document • Restricts lending to support new social housing projects—not to affordable dwellings or refinancing existing loan facilities • Clarifies not available to Specialist Disability Accommodation (SDA) that attracts National Disability Insurance Scheme funding
Phase 3	Three rounds of the SHGF focused on specific housing segments : • Regional Round • Homes for Aboriginal Victorians Round • Mental Health Supported Housing Round including a specific land acquisition facility for this purpose, *plus* • replay of the Build & Operate, Public Housing Renewal Program / Ground Lease Model programs	SDA now permitted if less than five per cent of the total proposed dwellings and no more than 20 SDA dwellings in total (unless approved by DTF following justification from applicant)

3.4 Balancing commercial risk management and social policy

As identified in the OLM, BFCHA's design seeks to balance the State's risk management with the achievement of its social policy outcomes.

Financial risk management of the program is achieved through the application of the program's credit appraisal framework and ongoing financial reporting and monitoring. Our assessment of the credit evaluation framework employed for BFCHA suggests it is sufficiently comprehensive and robust to provide assurance and risk management for the Victorian Government.

We note that the policy objectives of the program are considered within the credit appraisal through the inclusion of a 'market position' criteria which values greater social housing dwellings for 10 per cent of assessment score. Inclusion of this criterion is a duplication of the consideration of the number of social housing dwellings provided by the Steering Committee when approving projects. Alternatively, the 10 per cent score could be removed from the credit appraisal—leaving it to act clearly as a 'hurdle' of CHA financial, asset and risk expertise and project metrics that must be met to be considered, along with the social policy outcomes, by the Steering Committee.

The framework and subsequent financial transactions under BFCHA appear to have many elements that resemble commercial borrowing practices—for example, under loans issued under BFCHA, CHAs are required to maintain key financial covenants detailed in the facility agreements:

- **Interest cover ratio** (**ICR**): minimum of 1.5:1
- **Loan to value ratio** (**LVR**): maximum generally 30 to 40 per cent
- **Security coverage ratio** (**SCR**): 1.5 times the value of the loan.

These are largely consistent with the industry standards for financial covenants for loans offered by commercial lenders and appear to provide sufficient risk management protections against the potential risk of loan default or non-delivery.

However, we note that these standards are designed for typical commercial transactions from which social housing projects differ in several ways.

Box 3.1: Review of application of BFCHA credit appraisal

We assessed the application of the credit appraisal framework in several of the projects approved under BFCHA. These assessments appeared to be comprehensive and applied the framework in a reasonable fashion.

We flag the following elements for consideration:

- Base case project cash flows were only sensitised based on a reduction in rental revenue growth. A more robust assessment might consider alternative sensitivities and potentially cumulative impacts such as a scenario where rent escalation is not achieved alongside maintenance costs increases. In the current economic climate, there is an increasing risk that cumulative impacts are more likely and stress testing the forecast will be important.
- There are differences between assumptions for applicants, such as different escalation rates (that apply to rental income and repairs and maintenance expenditure) and levels of bad debts. There may be valid reasons for these to differ between applicants; however, it is not clear how the tool can compensate for one applicant's forecast being more aggressive than another with the potential for a higher financial score as a consequence.
- The EBITDA benchmark is only 6%. Based on the applicants reviewed, this was exceeded with some margin. However, for an applicant that is close to this benchmark, the sensitivity over an increase in operating costs for example becomes more important and would be prudent to test.
- The asset cover metrics for the applicants reviewed were significantly in excess of the benchmark requirement of 1.5x. This reflects the relatively low value of the loans relative to the total project. This level of cover might suggest that obtaining a formal valuation every five years, whilst consistent with State Government practices, might be less crucial for this program. The Security risk which is identified in the risk allocation framework appears low.

3.5 Social housing sector risk

Our assessment and stakeholders have observed that the BFCHA security requirements are essentially equivalent to commercial offers.

While a quarter of our CHA survey respondents didn't have a view, half of the remaining agreed security and covenants were reasonable, and half disagreed. A theme in consultations across sectors was a view they are excessive given the residual risk facing Victorian Government after CHA legal characteristics and their regulatory compliance are factored in (see Box 2). Many observed the prospect of TCV (or most lenders) exercising their full rights as a mortgagee was not credible.

Under the *Financial Management Act 1994,* DTF and TCV are to ensure project delivery risk and CHA loan default risk are effectively managed. In practice, this means that sufficient security in a form that provides for TCV/DTF to engage with a CHA that has defaulted (and with Homes Victoria and regulators) to ensure the property continues to be available to social housing tenants regulated by the Registrar and available to the State of Victoria.

The current security required of CHAs has the potential to limit the otherwise sustainable growth of social housing in Victoria, impacting the pursuit of BFCHA's long term outcome. Security requirements will limit the future use of debt (and State Guarantees) for some CHAs soon as they approach ICR and LVR thresholds, for those with prior financing security requirements from NHFIC and commercial banks, and more generally as the sector debt burden increases. Homes Victoria have recognised the mismatch of residual risk and security requirements by releasing some of its requirement upon delivery of mortgaged property—as some CHAs noted.

> "We negotiated [with Homes Vic] the loan value ratio to be for a shorter period to free up the capital for other things—this allowed enough flex to allow us to continue developing more social housing dwellings." - Sector stakeholder

The options to increase CHA capacity to source debt for further social housing development within appropriate management of the residual risk of CHA non-delivery and default to the State of Victoria could include changes in design to:

- formalise the release of security or covenant reduction at a particular delivery milestone or period of meeting the Registrar's Performance Standard 7 for financial viability (as observed by DTF separately and independently from the regulator's role) and/or
- develop a single mortgage to service risk management for Homes Victoria and DTF/TCV (noting that TCV security already has priority and is held for a longer period, and that Homes Victoria availability payment models are independent of mortgageable property).

Box 3.2: Assurances against default and delivery risk for social housing projects

There are multiple mechanisms used to assure the Victorian government that CHAs will deliver and continue to make available social housing. In general:

- CHAs are not-for-profit and for-purpose, reinvesting profits into housing services for target client group, and if they are registered charities they are also regulated by the Australian Charities and Not-for-profit Commission
- Social housing is partly funded through Commonwealth Government-guaranteed rental income (CRA)

For those CHAs participating in BFCHA, they:

- must be registered with the Victorian Housing Registrar, regulated against prudential standards (among others) and subject to Registrar action for failure to meet those standards including 'administration' of housing assets in some circumstances
- if funded to develop property to which they hold title, are prevented from transferring that property without Homes Victoria approval (through a registration of its interest under s.107 of the *Housing Act 1983*)
- are subject to another mortgage and security covenants (ranking below TCV's) is provided against delivery of SHGF-funded social housing
- are subject to TCV's mortgage and security covenants against loan default under BFCHA initiative.

3.6 Learnings for design

Learning has happened over 3 phases of program design

Throughout the three phases of BFCHA offers, complementarity with dominant funding program SHGF was maintained by changing design of the finance offer to amplify the impact of the funding offer. As most CHAs consider the two programs' offers a joint one, this has an effective design approach to maximise participation in both programs.

> "We appreciate the BFCHA timing is linked to Homes Vic grants. But as we often apply for multiple project sites per SHGF grant round, this means multiple separate facility agreements for each of those sites/projects and that's where a lot of time elapses."
> - Sector stakeholder

The design of the finance product - the long-term low-interest loan - contributes effectively to reducing the 'funding gap'. It is viewed as the best finance product on the market for social housing provision. Although CHAs would argue over the most impactful feature of the product compared to its closest comparator in NHFIC:

- the lower interest rate (usually)
- the longer tenor for fixed rates
- the lower transaction costs
- the more flexible management including the ability to pay down principal during the term in order to create capacity for the CHA to secure more debt for additional development. Importantly, this amortisation also helps CHAs hold assets in perpetuity and avoids the need for balloon debt payments at maturity.

> "The major improvement is that TCV allow for debt to be amortised and we can pay down principal during term—so we can then recycle debt and create more housing units compared to NHFIC's 10-year interest only loan." - Sector stakeholder

Internationally, in stable affordable housing markets with ongoing funding and financing facilities, ICRs of 1.2:1 and LVRs of up to 80 per cent are known[6], which suggests that the current financial covenants may yet need to evolve to better reflect risk in the industry as it matures.

The BFCHA finance product design has proved robust and sufficiently flexible

Some minor changes to program design may be warranted given the maturity of the program and participants, the changed macroeconomic conditions in terms of greater variability in costs and greater debt burden in the sector since the commencement of BFCHA and prospects of expanding the BFCHA initiative to additional community housing models. The following enhancements to the current credit appraisal design should be considered:

- requiring CHAs to provide, and DTF to assess, the impact of key cost and interest rate (for existing debt) sensitivities (requiring some consistency in financial modelling)
- Removing the 10 per cent score for increased social housing dwellings from the credit appraisal, making that appraisal a clearer hurdle focused on financial, asset and risk expertise of the CHA and the project metrics for consideration by the Steering committee—enabling the Steering Committee to more explicitly balance the credit appraisal hurdle or score (when some CHAs will be sufficiently debt leveraged to potentially score low against the hurdle requirements) with the social (or broader community) housing outcome facilitated.

> "Its important to remember that pre-2009 this sector had no debt … The sector will hit a debt peak with NHFIC security requirements and if CHA do HAFF, sector will run out of assets before it advances to $30 billion in scale." - Sector stakeholder

[6] Lott, D. (2023), *No tax credits, now what?*, Affordable Housing Finance, retrieved from: link

4. Evaluation: learnings for delivery

4.1 Program administration was responsive and well-delivered

DTF and TCV delivered the BFCHA initiative relatively smoothly and worked effectively with both CHAs and commercial advisers (Deloitte) to help CHAs navigate and apply for LILs. DTF's effective engagement with CHAs, and responsiveness in amending the BFCHA offer to CHAs in response to past feedback and limitations, within the objectives of the program, has been a consistent feature of its administration over the three BFCHA phases and we received consistent positive feedback and appreciation from program participants.

"Process has been much better than expected – if there was an analysis of what we were proposing such as the terms around security, DTF would come back and say 'these are the three things that we think are important' and have long discussions and back and forth to work together to solve it." – Participating CHA

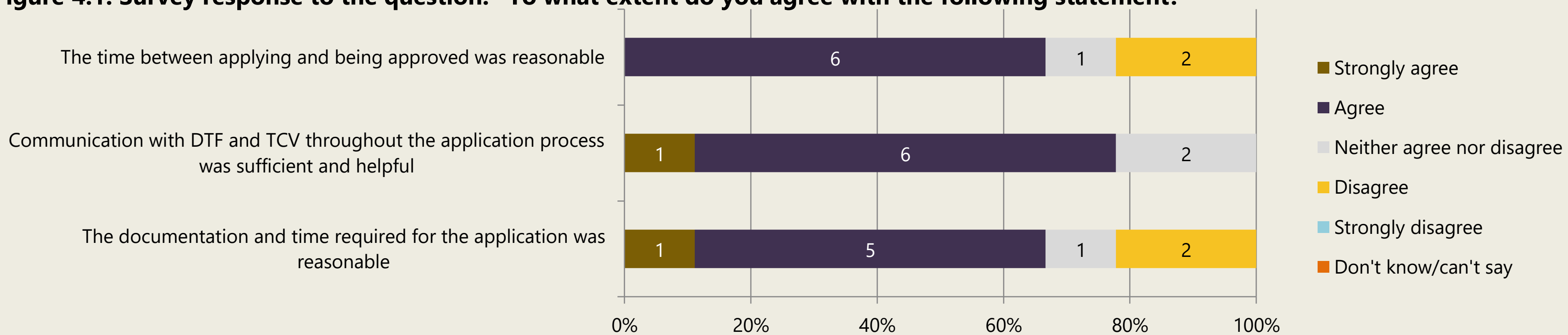
Several improvements were made to help improve program administration and ease the process for CHAs interested in applying, particularly from Phase 1 to Phase 2 that helped improve the quality of applications. This included changes to the offer document—over 70 per cent of CHAs surveyed thought the information received on the program and its benefits was 'clear and easy to understand'—and a new streamlined two-stage process (shortlisting of CHAs and then credit appraisal) were also acknowledged by CHAs as helping to streamline program delivery.

"Over the phases of the program, lots more pre-briefing and anticipation of issues including targeted briefings to address issues that arose. Now, when a new borrower comes in, there's a lot of discussion and consulting before a new application comes in, with Deloitte, DTF and TCV." – Government stakeholder

Feedback from survey respondents was broadly positive on the administrative aspects of the program, although these results mostly reflect the experiences of larger CHAs. While keeping this limitation in mind, there was nonetheless a broad sentiment amongst CHAs that they felt communications with DTF/TCV were helpful, time from application to approval was acceptable and that the BFCHA process was for the most part well coordinated with other government social housing grant programs.

This sentiment was echoed in interviews with large CHAs who interacted with the DTF and TCV teams.

Figure 4.1: Survey response to the question: "To what extent do you agree with the following statement?"



4.2 Program governance appears to be robust

Program governance is overseen by both a project Working Group and project Steering Committee. The Working Group is responsible for advising on shortlisting and detailed credit applications, outstanding applications and matters and where relevant, escalating issues to the Steering Committee, which reviews and finalises decisions on BFCHA applications. Both groups incorporate appropriate processes into their Terms of Reference and membership.

As per the BFCHA Evaluation Plan (dated August 2018), applications for the program undergo a multi-step appraisal process (see Figure 4.2 below) delivered by the Working Group before recommendations are provided to the Steering Committee, which include assessments of alignment with policy outcomes, financial viability, value-for-money and a project credit appraisal. Our review of the process and documents provided for each of these stages suggests the processes in each of these steps was reasonable - as was described in section 3.4.

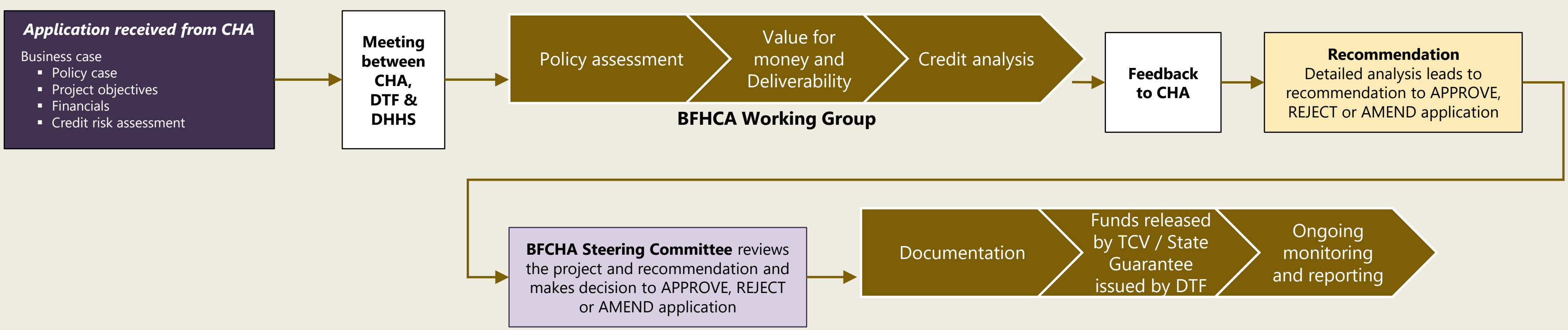
Over the course of the three phases of the program, the Projects Operations Lead from Homes Victoria ceased to participate in the Working Group.

This reflects a maturing of the program which has seen a greater volume of work conducted by a more-streamlined Working Group. The coordination through separate regular meetings with Homes Victoria has facilitated continued coordination and information sharing across the two programs. Regular meetings with the Housing Registrar also provides for information sharing and minimisation of burden of information required on CHAs.

As sector debt leverage increases, and the program potentially expands to other forms of affordable housing, the relative weight of Steering Committee/Working Group assessment work and the frequency and scope of interaction by DTF with Homes Victoria and the Registrar can adjust as needed. It is expected this governance structure will remain effective.

"We observe that CHAs are already considering the future when they will be close to debt hurdles, and the Registrar can than consult with them if debt position looks tight at annual assessment time and talk with CHA about risk management."
– Victorian Registrar

Figure 4.2: Illustration of BFCHA initiative process from application to monitoring



4.3 Quality of DTF and TCV administration appreciated by sector

Responsiveness to CHAs

Participating CHAs were genuinely enthusiastic in their appreciation of the working relationship, professional interaction, empathy, information provision, responsiveness and hard work of DTF's BFCHA initiative team and of TCV's team with whom they interacted less often.

> "The DTF team was always very informed about the details of the projects and there was feeling that they were always wanted to work with us and help get the project over the line" – Participating CHA
>
> "We find the Victorian Government [DTF] staff very professional—access to them is easy through a shared inbox. They are genuine in their intent to build more social housing and always focused on that objective. TCV was also easily contactable through dedicated email access and we are broadly pretty happy with our interactions on product detail and implications of any project delays." – Participating CHA

…especially compared to NHFIC

This positive feedback was received from nearly all CHAs interviewed and surveyed and were cited as a key reason for CHAs prioritising BFCHA in the future over NHFIC, which became a key point of distinction between the two programs.

> "Some CHAs are surprised at how flexible BFCHA is compared to NHFIC." - Government stakeholder
>
> "DTF is more accommodative and available [than NHFIC]—it feels as if BFCHA works towards their client's deadline." – Participating CHA

…and evidenced by responsive changes to program administration

One participating CHA noted that the willingness of the DTF and TCV teams to work with, educate and take feedback from CHAs as one of the drivers of process improvement and efficiency:

> "The 4-5 people in the DTF team we are in contact with have been incredibly supportive and easy to work with – everyone accepts the focus is on getting it right – and we're in constant dialogue with DTF. TCV also been very good to work with. In recent months, the process has improved and efficiencies have been rolling out." – Participating CHA

For some CHAs, BFCHA represented their first interactions with DTF and the establishment of relationships with the Department. While there has been an increase in registrations for CHAs in Victoria, the general feedback is that this was driven by awareness of the SHGF (and the BHB more broadly) rather than due to BFCHA. Nonetheless, the responsiveness and helpfulness of the DTF and TCV teams appears to be a critical aspect of successful BFCHA implementation and relationship management of this kind would need to be resourced as an explicit part of any future loan program.

> "We feel the DTF team is really good — considerate and responsive — but there aren't enough of them!" – Participating CHA

4.4 Some sector frustrations are inherent to financing

Transaction costs are significant to CHAs

Transaction costs were identified by all CHAs that we spoke to as being a significant burden—some of this is inherent in what is required for financial agreements but several CHAs also raised challenges relating to the flexibility of relevant funding models and finance products/openness to negotiate.

Some key points of administrative frustration with the BFCHA initiative were consistently identified by CHAs:

- The absence of a template financial model to provide all required financial information for credit assessment and agreement drafting was material for the smaller participating CHAs
- The time and negotiation taken from confirmation of a successful BFCHA application to the finalisation of a facility agreement was viewed by CHAs of all types as excessive and in some cases created a disconnect with progress of funding under the SHGF program
- Duplication of information requested from CHAs by Homes Victoria for grant funding, the Victorian Housing Registrar for ongoing monitoring of asset delivery and operation and the BFCHA initiative for financing application and agreement.

The CHA survey identified three aspects of administration that negatively impact CHA experience:

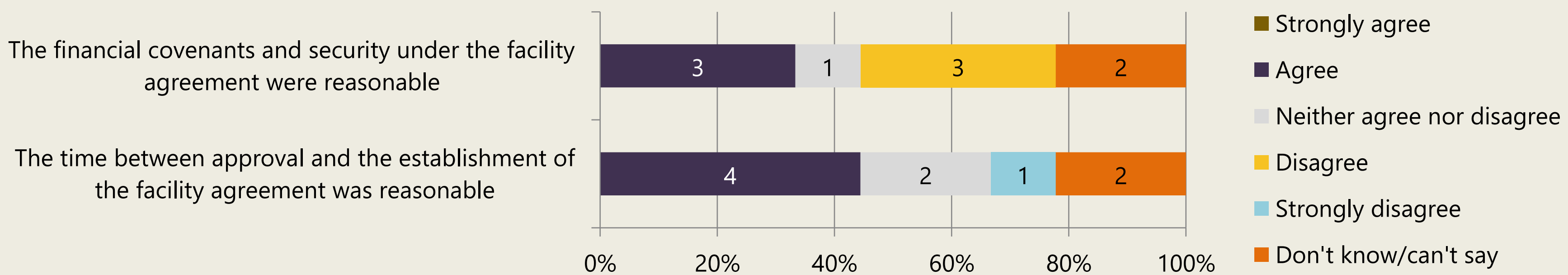
- Application documentation and time required
- Financial covenants and security
- Time between approval and establishment of the facility agreement.

...and they are material for some

The survey responses largely reflect the views of bigger CHAs. However, in consultations it was clear that transaction costs (which includes both the financial costs such as fees of legal and commercial advisors, and economic costs such as time required to apply for and report on the program) are material for some CHAs given their scale and/or lack of prior experience with government funding or financing.

Some of the challenges for smaller and/or less experienced CHAs with BFCHA are discussed more broadly in the next page.

Figure 4.3: Survey response to the question: "To what extent do you agree with the following statement?"



4.5 Parts of the community housing sector may be too small to engage with programs like BFCHA under current conditions

A repeated theme in our consultations was the challenges faced by small CHAs with respect to the administration and ongoing management of LILs under BFCHA. Some of the comments below provided in consultations illustrate this.

From small CHAs

"We had taken on debt previously and had signed up to facility agreements before with banks, but the TCV facility agreement took a lot of work: a lot of reviewing given not much negotiating allowed but it took a lot of time. It was a big undertaking for our board, and they were concerned about what the facility agreement was asking us to sign up to. Covenants were and still are a problem: the requirements were so much more onerous than banks. Some were perceived by the board as being over the top."

"As interest rates have gone up, the Interest Coverage Ratio creates more challenges and is impeding growth as it applies to all debt we hold from all sources. We have sought out commercial bank debt instead."

""The ongoing compliance and reporting were disproportionate – higher level of consents and reporting than commercial bank lending."

"NHFIC/TCV require a lot of a significant information beyond the security—requiring info on the lender (rather than asset only) and it is then replicated on the Homes Vic side for the grant funding."

"It felt like we had no say, no power, no control."

"Nothing prepared me for that complex a facility agreement."

"Has ultimately been a costly exercise for our organisation."

From other sector stakeholders

"Smaller CHAs are heavily reliant on their advisers – and need a very simple product – and need to work with them." - Finance stakeholder

"Many smaller CHAs are excellent service providers, but very light on commercial side. They should be encouraged to partner with larger CHAs or private funds." - Finance stakeholder

"DTF could develop a consistent and easy-to-use financial model for all CHAs to use – not sure how smaller CHAs would handle the modelling" – Sector stakeholder

"Through the process, we learnt that some of the CHAs have never borrowed money before – so level was lower than TCV was expecting, but CHAs have learned." – Government stakeholder

"A question that may arise is whether the degree of sophistication needed of CHAs to make best use of combined SHGF and BFCHA is warranted or worth it to increase supply of social housing?" – Government stakeholder

"Do we need to ask CHAs to sign a 'statement of financial advice' to agree that they understand the obligations under a loan? Currently [we] take a very idiosyncratic approach to assuring itself that CHAs understand to account for variability of types of CHAs and levels of financial literacy." - Finance stakeholder

In contrast to larger CHAs…

"We moved into Victoria more substantially when it was clear the Big Housing Build was going to happen… Board were very comfortable that the debt and the grant side of the program would work in harmony. The 30-year term of BFCHA was better than the 10-year term from NHFIC – NHFIC was also not doing the cashflow lend – all LVR: When you weigh all of that up together, they picked TCV – then every big project going forward in Victoria would go through TCV." – Participating CHA

"Comfort among CHAs has varied from blank sheet with a new CFO to CHAs with dedicated treasury functions. TCV needs to educate CHAs on what TCV needs and how it needs to be done—e.g. facility agreement has a draw down notice that is required to be filled out by CHAs when they want to draw down loans and CHAs struggle to fill that out." - Government stakeholder

"Tier 1 CHAs are much more capable of interacting with private investment and the private sector, as well as BFCHA—whose loan documents are quite commercial/corporate." - Finance stakeholder

"Bigger CHAs are now replicating their impact and making commercial decisions. Smaller CHAs generally wait for the grant round rather than being proactive." - Finance stakeholder

4.6 Reasons for not participating

The overwhelming majority of CHAs consulted had participated in the program; and the few non-participants consulted were aware of the BFCHA offer. While we have not consulted those unaware of the program (self-evidently), those consulted reflect a strong representation across the CHAs in Victoria. That said, CHAs had good awareness of the program. Information sessions provided by DTF, especially from phase 2, were helpful in familiarising CHAs with the process, objectives and criteria of the program. Most CHAs tended to view the program as part of the broader social housing support offered to the sector and tended not to view the process as separate from SHGF.

BFCHA may influence some reasons for non-participation, but some are a rational self-assessment of suitability

Despite the acknowledged appeal of lower interest costs and longer tenor financing, these benefits were not overwhelming factors for all CHAs to participate in the program, and how the program fit into the existing agency plans and capabilities was important. While most non-participating CHAs consulted acknowledged the value proposition from the program, they noted a variety of reasons for not applying:

Timing did not align with the CHA's project plans, in part due to constrained resources or assets dedicated to other lenders or projects

"We already had an existing arrangement with NHFIC. Time pressures and our stretched internal resources with the Big Housing Build meant applying for finance was not an option."

"After using NHFIC and Bank Australia for the first Rapid Grants Round in 2020 because TCV loans weren't yet in place, we then didn't think we were big enough to take two government agencies onto the balance sheet."

Some CHAs were uncomfortable with being overly exposed to government

"We are concerned at the closeness of the regulator (Housing Registrar), funder (Homes Vic), financier (DTF)—the disclosure requirements and the level of control they can/could exert including being tangled with consents with acquiring and disposing of property."

BFCHA transaction costs can be significant for some

More than 10 per cent of CHAs surveyed thought the BFCHA documentation, application process and terms were less favourable (to them) than alternative sources of finance.

The application and ongoing compliance requirements were deemed too complex

"We have struggled with documentation over the past few years before drawdowns can happen – largely due to the interaction between DTF and legal advisers—lawyers really complicate the matter. Security, facility agreements, tripartite agreements on top of mortgages is quite intense—it feels it is overly complex for the sector."

Some CHAs felt that financial requirements and security arrangements were onerous and constrained what they were able to do too much

"We didn't like that we were blindsided by the need for $30M of mortgage."

4.7 Improvements underway and possible

Potential refinements to project documentation are being considered

As mentioned in section 4.3, DTF is working to refine and improve delivery of the BFCHA initiative in response to feedback from CHAs:

- Development of a head deed with project specific-facility agreements to reduce transaction costs for CHAs that have multiple projects financed
- Considering the development of a template financial model to assist DTF to receive consistent financial outputs to enable credit assessment, while being able to observe the ability of CHAs to competently model project financials. Existing tools such as from NHFIC and AHURI's Affordable Housing Assessment Tool (AHAT)[7] could be an option.

"There's lots of administration burden dealing with the financial agreements – significant number of deeds, agreements that takes time and money to deliver and get agreement. Delays are generally between approval and access to funds—but this has been 15-18 months due to issues on both sides over the draft agreements." - Sector stakeholder

"DTF could develop a consistent and easy-to-use financial model for all CHAs to use – not sure how smaller CHAs would handle the modelling." - Sector stakeholder

A few more opportunities for streamlined reporting for complementary funding and financing programs exist

Other opportunities could also exist to further reduce transaction costs and warrant further investigation:

- DTF/TCV being less open to variation in facility agreement/head deed key terms to increase timeliness of closure for successful applicants
- Streamlining security and covenant requirements between Homes Victoria, DTF and TCV to reduce the burden on CHAs within an appropriate government risk management.
- Further rationalisation of ongoing reporting requirements (of asset and maintenance reports for example), including their frequency, between DTF/TCV, Homes Victoria and the Registrar.

Most CHAs stated that they did not treat project funding and financing as separate variables in determining the scope of their projects, and that any cost savings from BFCHA might have more significant implications for future projects.

There was also a view that despite the complementarity between BFCHA and SHGF phase design, the two programs' administration did not always synchronise efficiently, leading to doubling up of information requests (often the same information, but presented in different formats) and issues where delays in one program led to delays in the other (particularly in time taken to finalise facility agreements). While 67 per cent of CHAs surveyed thought the BFCHA was well co-ordinated with grant programs, unusually one of the nine CHAs who responded to this question 'strongly disagreed' with this suggestion, perhaps reflecting that particular experience. CHAs nevertheless recognise the efforts made to coordinate the two programs (and we note DTF has worked with Homes Victoria to achieve this behind the scenes).

[7] Randolph, B., Troy, L., Milligan, V. and van den Nouwelant, R. (2018), *Paying for affordable housing in different market contexts*, AHURI Final Report No. 293, Australian Housing and Urban Research Institute, Melbourne.

4.8 Learnings for delivery

Learning has happened over three phases of program administration

CHA sector and government stakeholders appreciate that BFCHA was implemented in an iterative way. For most CHAs, BFCHA represented the first time they had interacted with DTF/TCV, and for some CHAs, the program represented their first time applying for debt financing for social housing projects. As a result, there were learnings for all parties: DTF and TCV learning how best to engage with the community housing sector to achieve its outcomes and CHAs in learning what was required to successfully apply and enter into BFCHA's long-term low-interest loans.

> "In the early days of the BFCHA initiative, there was an intent to support CHAs as much as DTF could but at arm's-length in a probity stance – but that has evolved. At the beginning the process was difficult but TCV didn't know what CHAs didn't know. Through the process, we learnt that some of the CHAs have never borrowed money before – so level was lower than TCV was expecting, but CHAs have learned." – Government stakeholder
>
> "There were iterations were along the way – quality of first round applications weren't that strong. When they went out to the second round, DTF and Deloitte presented at the info sessions for Round 2 which resulted in uplift in the quality of applications"
> - Government stakeholder

All participants have matured in the perspective and approach

While stakeholders from both government and the sector acknowledged these initial adjustments, both participating CHAs and DTF/TCV have gained from experience. Both the program and sector have matured, and CHAs have had an opportunity to assess their interest in and suitability for a LIL under BFCHA for their circumstances.

> "This sector is attracting talent and skills that weren't in the sector before—'impact investing' is attractive to educated experienced professionals." - Finance sector stakeholder

CHAs that can sustain the necessary transaction costs of a long-term loan and can gain the greatest return from their projects, and so provide for more social housing dwellings than without the BFCHA, are most likely to be large operations. Over half of the applicants in the program to date (and recipients of 93% in total value of approved) would be reasonably classified as Tier 1 CHAs while only one CHA would be classified as Tier 3 (see section 2.11).

This suggests that BFCHA and its requirements are more aligned with the capabilities and resources of larger CHAs, and despite the responsive administration of the program, it is likely that the costs and capability challenges to CHAs of participation are still material for many, and in excess of the capabilities of some. This is particularly the case where CHAs do not have the resources and capability to engage in financing generally or where the cumulative costs of multiple sources of pre-existing financing (such as with NHFIC) mean they do not have the capacity (or desire) to participate in another.

> "Formal application after pre-application has stopped us from applying further—this burden was high enough to override the benefits of going with BFCHA over a commercial bank." – Sector stakeholder (non-participant)

The observation of this segmentation in the social housing market can also be seen in some social housing programs from other jurisdictions. *NSW's Policy on Community Housing Provider-led Redevelopment of Social and Affordable Housing on LAHC-owned Land*[8] includes an explicit requirement that participating CHPs be Tier 1 or 2 under the NRSCH.

[8] NSW Department of Planning, Industry & Environment (2020), *Policy on Community Housing Provider-led Redevelopment of Social and Affordable Housing on LAHC-owned Land,* retrieved from: link

5. Evaluation: outcomes

5.1 Identifying social housing outcomes

Attribution challenges for complementary social housing programs

Articulating the incremental benefit of BFCHA in terms of long-term social housing outcomes (as defined in the implied OLM) is inherently challenging. From our conversations with CHAs, the decision to develop new social housing dwellings is a product of a combination of factors, of which the availability and cost of financing is but one piece of the puzzle.

It is particularly difficult to delineate the outcomes that can be attributed to BFCHA from outcomes that can be attributed to SHGF, both due to the scale of the latter but also the fact that grant funding is the major impetus for new social housing developments.

This was reflected by CHAs reporting one of BFCHA's key advantage being its complementarity with the SHGF—implicitly placing the grant funding as the starting point for their decisions. The design of SHGF also had implications for who applied for BFCHA—changes in SHGF invitation rounds to focus on new cohorts would have limited the scope for CHAs to plan a development program confident of reduced financing costs in the future other than for few who participated in multiple rounds/phases.

Consultation to identify the attributable outcome from BFCHA

In attempting to capture the incremental benefit of BFCHA, the key questions we asked in consultations were:

1. Has access to BFCHA led to a CHA reducing its expected finance or operating costs for a project loan it would otherwise have entered into? Is it likely to increase the scale or quality of future projects for that CHA? (perhaps due to the CHA's future project design and feasibility assessment using a lower financing cost consistent with BFCHA, assuming low-interest loans continue)? Any such increase might be reasonably attributable to BFCHA.
2. Has access to BFCHA led to a CHA entering into a project loan of a given size which it otherwise would not have?
    - If so, would the CHA have entered into a smaller loan elsewhere with a project of decreased scale or quality, or a project of a decreased scale or quality with a different financing mix? In such a scenario, any scale of avoided decrease (whether in the present or future) may be also attributable to BFCHA

While we incorporated multiple approaches to seek CHA views on the extent BFCHA impacted these outcomes (both in our survey and interviews), it was clear that some CHAs did not always make a clear separation of the impacts of funding and financing and responded on their joint experiences, making the ability to determine the incremental impact difficult.

Hypothetical responses from CHAs

For CHAs that were able to parse the distinction, the majority reported that, in the absence of BFCHA they would seek greater funding, or financing from other sources, or increase the proportion of private market rental in mixed tenure developments before increasing the overall scale of that pre-designed development.

No CHA reported that they had purposefully increased the number of social housing dwellings in pre-designed developments proposed for SHGF grants due to the advantages of BFCHA financing (a long-term outcome sought) yet. But most participating CHAs (in phases 1 and 2) did recognize the lower cost to them of BFCHA finance relative to the possible substitutes of NHFIC or commercial bank finance, and given their corporate status and purpose, it is reasonable to expect that savings would be re-invested into their charitable purpose, resulting in a greater number of dwellings being provided than would otherwise be the case (all other things being equal).

.

5.2 BFCHA has played a role in adding new social housing dwellings

Cost savings increase the capacity for more social housing in Victoria

Considering the impact of BFCHA jointly with SHGF, as of 6 April 2023, 5,897 units of social dwelling units are committed to be delivered in Victoria by projects which incorporate BFCHA financing (assuming all projects proceed consistent with their application specifications). The requirement for a co-contribution for SHGF grants usually resulted in CHAs seeking financing, which was most often sought through BFCHA. In the very least, this number of social dwelling units represents to some extent a joint outcome between SHGF and BFCHA and a positive long-term outcome.

Some CHAs noted that their projects would not have gone ahead at all without BFCHA financing, including projects:

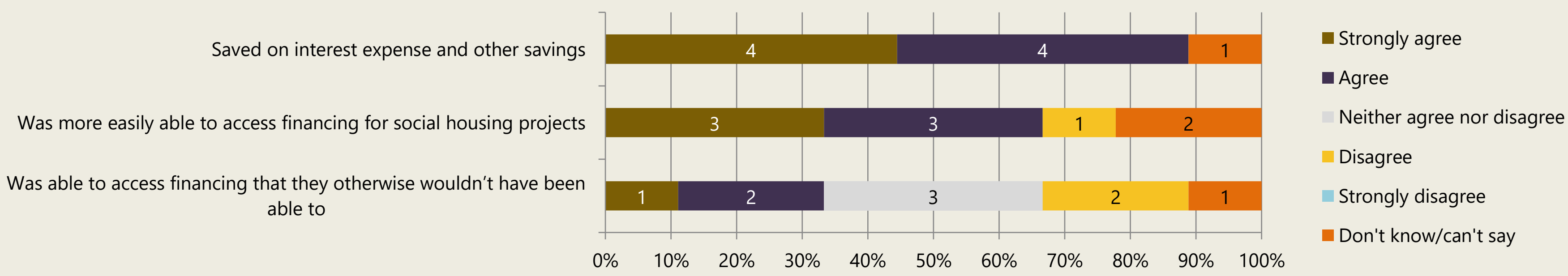
- with relatively strict design and small-scale specifications—one CHA providing accommodation to Victorians with mental health needs tended to build accommodation of 16 units, as any fewer than this number was not economically viable while any more than this is suboptimal for support needs
- that were very sensitive to cost increases (often from smaller CHAs), such that the higher interest charges from alternative sources of financing would have made the projects unfeasible.

Some CHAs (usually equivalent to Tier 1 and 2 under the NRSCH) also responded that BFCHA enabled them to access financing that they otherwise wouldn't have been able to.

> "Reduces the risk on the organisation with the known/forward dated interest rates. Allows the organisation to invest further in social housing as opposed to using capital as risk mitigation for potential increases in interest rates." – Sector stakeholder

As survey responses make clear, CHAs have applied for finance under the BFCHA initiative because it provides access at a lower price and on better terms than other available options over phases 1 to 3. As some CHAs would have sought this more costly finance or additional grant funding in the absence of BFCHA financing being available, the social housing dwellings approved will be provided at a lower cost to the State Budget (compared to the provision of more grant funding), although the extent of this saving cannot be determined.

Figure 5.1: Survey responses to the question "To what extent do you agree with the following statement on the short-term impacts of BFCHA (i.e. prior to project delivery)? As a direct result of the BFCHA initiative, my agency…."



5.3 There has been growth in the CHA sector

A long-term outcome sought is increased capacity of the CHA sector to supply and manage social housing in a sustainable way

The CHA sector has certainly grown, in the size of the portfolio, the number of entities in the sector and in the level of financial sophistication that can be seen amongst agencies. Since 2021 (after the launch of the Big Housing Build or BHB), there have been six new entrants to the Victorian Housing Register, with other CHAs in the pipeline.

This shows considerable interest from CHAs joining the Victorian Register following the announcement of the BHB, although feedback from CHAs suggest this was due to the availability of SHGF grant funding as much as BFCHA financing.

Table 5.1: Breakdown of VIC organisations who have joined the Housing Register since 2021 (as of June 2023)

	Registered
Existing VIC housing organisation registering for the first time	1
Existing VIC organisation, new to housing, forming new legal entity (subsidiary)	1
Already registered VIC housing organisation forming new legal entity (Special Purpose Vehicle)	1
Interstate housing organisation forming new legal entity (subsidiary)	3
	6

Source: Data provided by Victorian Housing Registrar

The new registrants are a combination of large interstate Tier-1 CHAs, who both manage and develop significant social housing in other states, and new subsidiaries and vehicles of larger existing organisations. Specifically, the new registrants and their potential NRSCH classifications were:

- Evolve Housing (Vic) Limited (Tier 1) from New South Wales
- BlueCHPV limited (Tier 1) from New South Wales
- National Affordable Housing Consortium - Victoria Ltd (Tier 1) from Queensland
- MCM Housing Limited (Tier 3, although part of a much larger social services provider, Melbourne City Mission).

Two existing CHAs also created subsidiaries or Special Purpose Vehicles, reflecting an increasing level of sophistication in the sector (both considered Tier 2 under our potential NRSCH classifications):

- Building Communities Vic Limited (subsidiary of Community Housing (Vic) Limited)
- Assemble x HCA HA Ltd (subsidiary of Housing Choices Australia Limited).

These new registrants have been active in applying for BFCHA financing. This significant increase in the number of new CHAs, that are already experienced and significant providers, suggests increased capacity of the sector in Victoria has been expanded by BFCHA.

5.4 BFCHA helped drive increased financial capability in CHAs

Prior to the introduction of financing made available through NHFIC and TCV, most social housing funding was sourced through grant funding and philanthropic donations. The introduction of long-term low-interest government financing created new opportunities for CHAs to expand and grow, but it also generated the need for a greater level of financial knowledge and skills to navigate and manage the added complication of debt financing models.

As discussed in section 4.8, there were learnings for both CHAs and DTF/TCV as BFCHA progressed through its three phases. For CHAs, a key element of learning involved an upskilling their level of financing sophistication and comfort that enables them to not only engage with BFCHA in an informed way, but debt financing as a vehicle for growth in the future. CHAs (in survey responses) and Deloitte (who worked with CHAs during credit appraisals as financial adviser to DTF) recognise the improved financial literacy and capability of CHAs because of BFCHA.

> "There has been raised CHA financial awareness, improved quality of information (incl. forecasts) to help them manage the loans. But can still be a bit hit and miss." – Government commercial adviser

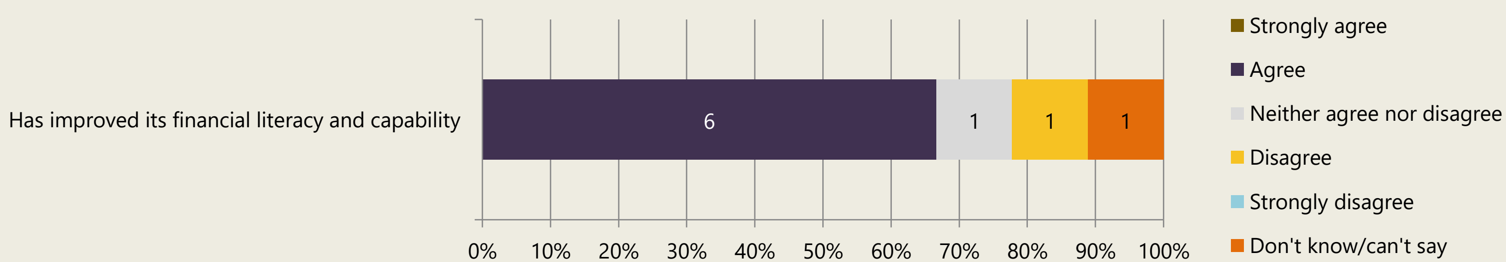
Signs of greater financial sophistication were observed particularly in larger CHAs—with fully developed treasury functions and financing strategies over the program period which delineated preferences for different sources of financing for different circumstances including where/for as long as they expect cost and interest rate increases.

CHAs in Victoria will inevitably vary in their financial capability and sophistication, given factors like size, history, risk tolerance, target cohorts and strategy. Those CHAs aspiring to growth through financing and can viably do so should have high financial capability, and there is evidence of relevant CHAs building or consolidating capability through their BFCHA experience. However, not all require this level.

> "It feels the sector has changed significantly since 2018. There are more financially sophisticated CHAs now. There's a greater ability to work their balance sheet more effectively to pursue growth." - Finance sector stakeholder

A bit of practical experience considering the BFCHA opportunity also seems to have helped at least a few CHAs confirm that they do not presently have sufficient capability to pursue growth through financing (or a strategic intent to generate this capability over the medium term), and this self-awareness is probably useful in an efficient system.

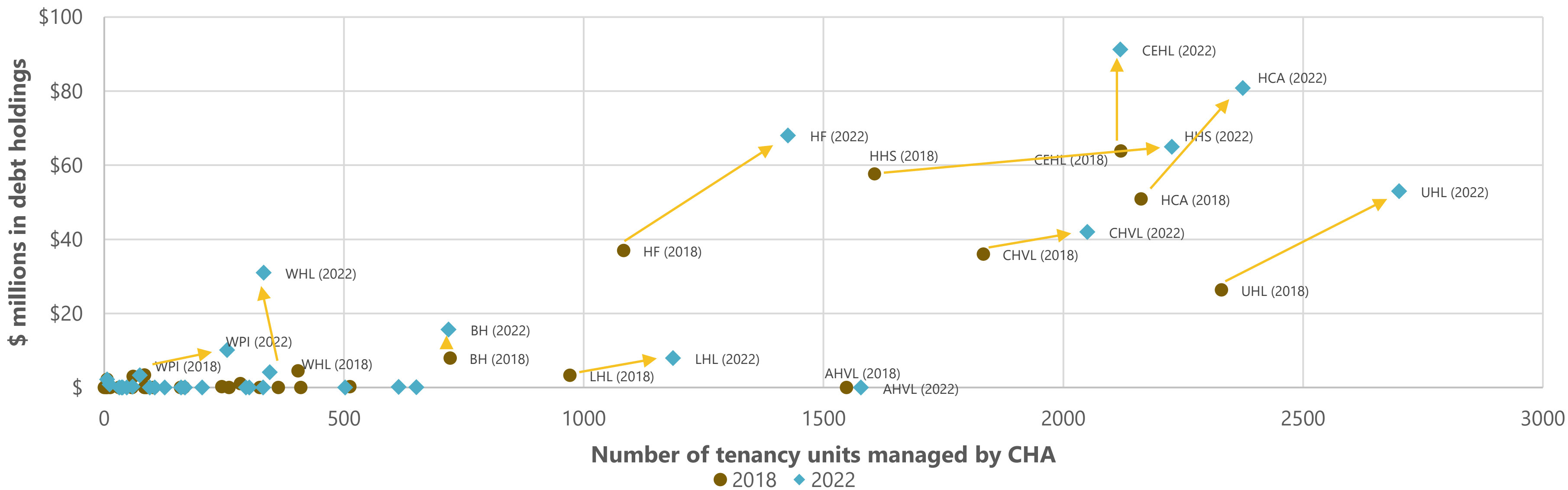
Figure 5.2: Survey responses to the question "To what extent do you agree with the following statement on the medium-term impacts of BFCHA (i.e. upon project completion)? As a direct result of the BFCHA initiative, my agency…."



5.5 Larger CHAs were most likely to deliver outcomes from BFCHA

As identified in section 2.11, most participating CHAs were large, reflecting the greater level of capability, resourcing and balance sheet capacity available to meet program requirements and engage with debt financing generally. Over the period that BFCHA was operating, increases in debt holdings was mostly by large CHAs that could be categorised as Tier 1 agencies under the NRSCH. While not all this debt (see Figure 5.3) would be sourced from BFCHA, the pattern of sector debt distribution aligns with the distribution of loan value observed in BFCHA. This does not suggest that there are not smaller CHAs for whom debt financing might be suitable – however, it does suggest that larger CHAs are likely to be the most engaged with BFCHA.

Figure 5.3: Comparison of number of tenancy units vs. value of debt holdings in 2018 and 2022



List of labelled CHAs (NRSCH Tier)

AHVL = Aboriginal Housing Victoria Limited (T1)
BH = BeyondHousing (T1)
CEHL = Common Equity Housing Limited (T1)*
CHVL = Community Housing (Victoria) Limited (T1)†
HCA = Housing Choices Australia (T1)
HF = Housing First Limited (T1)
HHS = Haven; Home Safe (T1)
LHL = Launch Housing Limited (T1)
UHL = Unison Housing Limited (T1)
WHL = Women's Housing Limited (T2)
WPI = Women's Property Initiative Limited (T2)

Tier	Average value of debt in 2022
1	$35,308,598
2	$2,845,044
3	$444,483

Notes: Data sources are publicly accessible. The number of tenancy units are from CHiMES, the register administered by the Victorian Housing Registrar, and debt holding values are from relevant CHA annual reports. There is one exception: the 2018 figure for number of HHS tenancy units is sourced from HHS annual report due to an error in that CHiMES data point, as advised by the Registrar.
* From its annual reports, CEHL's increased debt appears due to substantial refinancing through NHFIC, and borrowings for repair and refurbishment of existing housing units.
† For this analysis, we have used CHVL's reported parent company debt (as opposed to whole of group).

5.6 Gains from estimated cost savings to CHAs

CHAs noted that cost savings due to BFCHA were likely to have benefits for future social housing projects

The exact nature of this benefit varies depending on the extent to which a CHA could access alternative forms of financing.

For CHAs who lacked alternative sources of financing, philanthropic or in-kind co-contribution, they would have sought additional SHGF grant funding (having a greater State Budget impact) or reduced the social housing dwellings included in their developments if BFCHA had not been available. For CHAs with alternative sources, BFCHA means they retain more capital (due to avoided interest costs) that can support future projects. Given this, it follows that at a minimum, BFCHA enabled the Victorian Government to either:

- achieve the same level of social housing dwellings at lower cost to government (as financing is less costly than equivalent funding), or
- achieve more social housing dwellings at the same level of cost to government, if some CHAs would have proceeded with fewer social housing dwellings (as indicated in Figure 5.4).

It is not observable as to which of these two outcomes would occur or the overall net outcome, as we do not yet have enough information to determine the extent to which CHA behaviour changes in response to the ongoing availability of BFCHA. Nonetheless, as articulated in Box 5.1 to the right, the savings from BFCHA could be material over the life of the loan for CHAs that have participated in the program to date, and these could support increased social housing dwelling units in the future if realised.

> "The access to the TCV loan doesn't change the project dimensions, but it changes the cost of projects over time and so impacts future projects, rather than the current project. We usually define the project then go for money. But BFCHA reduces our risk and encourages us to invest in more confidence going forward."
> - Sector stakeholder

Box 5.1: Estimating the scale of interest cost savings across BFCHA and NHFIC

Sapere estimate that CHAs that have drawn down BFCHA low interest loans have thus far saved approximately $4.2 million in interest cost savings, based on the difference between the rate fixed under BFCHA and a comparator commercial rate used to calculate the interest rate subsidy provided by the program (provided by DTF) for each financial year for the total number of days between the initial drawdown and 6 April 2023.

Notably, no discounting is applied to this estimate, and it only includes the actual amount of loan drawn down as at this date (and not for the likely drawn down amounts over the entire BFCHA loan period of around 30 years which would result in much higher estimated interest savings).

Both DTF and NHFIC are required under Australian Accounting Standards to report an estimate of the effective subsidy provided to CHAs through government-rated interest rates

The interest cost saving (above) is not directly comparable to the BFCHA interest rate subsidy that is calculated by DTF.

The interest rate subsidy is a present value (PV) estimate of the interest rate savings realised by CHAs based on the difference between their fixed rate under the LIL compared to forecast interest rates expected for the life of the loan. As this is a present value estimate, this figure also includes savings for remaining amounts to be drawn down and to CHAs that have not yet drawn down on their loans. The value of the interest rate subsidy accrued to 30 June 2023 is estimated at $48.2 million.

NHFIC also reports an estimate of the interest rate savings to CHAs from the provision of its concessional loans, which has an estimated total value of $550 million as of 30 June 2022 over the full loan period. While there does not appear to be any publicly available information on how this figure is estimated, the methodology indicated in the annual report indicates that it is based on "analysis of information provided in AHBA loan applications". This suggests that it is likely to have a similar approach to the calculation of the interest rate subsidy by DTF, comparing the fixed rate to expected forecast commercial rates, although we are unable to confirm if this is indeed the case or how it may vary from DTF's methodology.

5.7 Enduring gains require consistent funding and financing availability

A consistent offering of social housing funding and financing is needed for a sustainable outcome

Significantly, the extent to which avoided interest cost savings enable a long-term increase in the number of social housing dwellings is likely dependent on the availability of consistent funding.

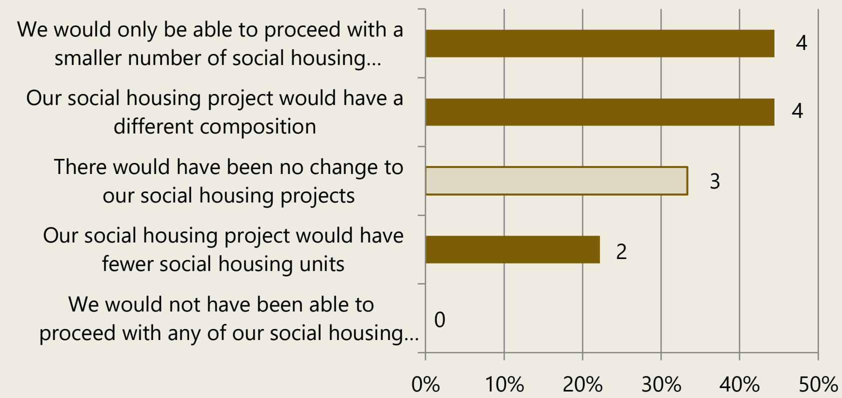
As discussed in section 5.1, CHAs identified the availability of grant funding through the SHGF as the primary impetus for their social housing projects. As such, while CHAs may realise cost savings through BFCHA, the availability of grant funding is needed as the 'trigger' for projects where these cost savings can be leveraged into further dwellings.

The nature of BFCHA may also change. As we enter an increasing or higher stable interest rate environment, the benefits associated with BFCHA's lower interest rate and long tenor may become less attractive, depending on expectations of future rates.

Some CHAs noted the potential of the State Guarantee product to become more appealing, which may result in greater use of commercial bank debt over shorter tenors especially if there is a prospect of refinancing at attractive terms available in future years. This also implies an assumption of a future longer-term commitment to TCV refinancing and guarantees.

"We believe DTF can have a mandate to crowd in institutional investment and can start to make a more competitive market. As an alternative model, could private institutional finance be brought in on not much more cost at a level above the bond rate if the government was still willing to carrying the gap? This could involve the State guarantee product and proactive regulatory approach when something goes wrong – super funds want to know their availability payment is paid and when and if a regulator would step in. … What are the foundations so that the government isn't carrying this risk in 20 years' time?" - Sector stakeholder

Figure 5.4: Survey responses to the question "Consider a hypothetical scenario where BFCHA financing is not available. What would have been the impact on your social housing project? Please select all which would apply." (N=9 of 19 applicants)



""If there had been no BFCHA, we still would have gone through NHFIC or NAB – but risk profile would have been different (10 years, mix of floating and fixed rates) and this may have caused a slowdown in what we could deliver to get through the interest rate environment. If we had used a third-party bank – costs would have been higher, and contribution of the government would have had to been higher." - Sector stakeholder

5.8 Learnings for outcomes

BFCHA has, alongside SHGF, contributed to the development of the financial capability and capacity in the sector

During the period that the BFCHA initiative has operated, while acknowledging the driver of SHGF funding and financing under the program, financial capacity and capability in the community housing sector has been supported given that:

- 5,897 new social housing dwellings are committed to be delivered in Victoria by projects which incorporate BFCHA financing
- some participating CHAs that had not previously taken on long term debt have participated in long-term LILs under the program (in conjunction with SHGF funding)
- the treasury functions of some large participating CHAs are approaching financing options available to them with greater appetite balanced with more mature risk assessment
- several large and experienced interstate CHAs have entered the Victorian market.

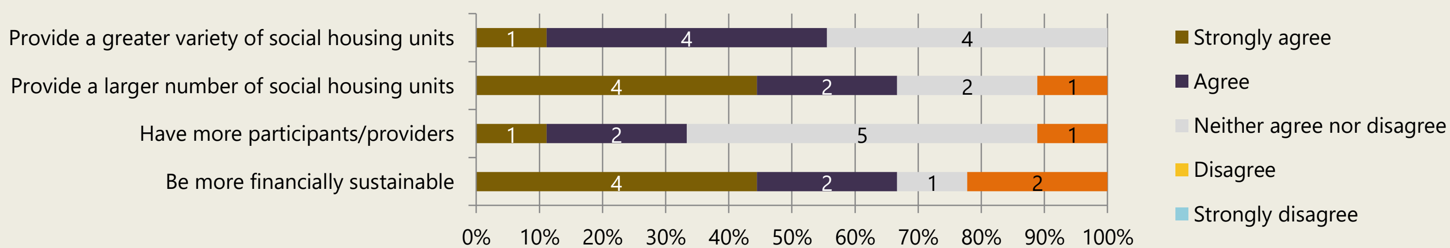
The clear scope for building financial capacity and capability that is sustainable exists primarily with larger CHAs, not all of whom are currently participating in BFCHA.

For smaller CHAs, it is vital that DTF is confident that participants from this segment of the sector possess both the requisite financial capability and awareness to understand where BFCHA finance products are suitable for them, to ensure they do not put themselves in a disadvantageous position upon deciding to participate in the program.

The full realisation of the program's potential will likely need several successive program phases

Greater consistency in the scope of BFCHA financing (in conjunction with SHGF funding) offered over multiple phases over time is likely to increase the planning certainty for CHAs to include financing cost savings in future developments to supply more social housing than otherwise. Following this, if the cost savings associated with LILs could be continued (which is less likely in the now-prevailing interest rate environment) and offered for multiple program phases targeting a consistent scope of projects attracting the same CHAs, future developments will include more social housing dwellings than without BFCHA financing. As CHAs would have sought additional funding in the absence of BFCHA financing being available, the social housing dwellings approved will be provided at a lower cost to the State Budget.

Figure 5.5: Survey response to the question "To what extent do you agree with the following statement on the long-term impact of the BFCHA initiative? As a direct result of the BFCHA initiative, Victoria's community housing sector will, in the long term…"



6. Conclusion

6.1 Evaluation of BFCHA initiative

Responsiveness of BFCHA's design and administration has maximised outcomes for social housing investment

The long-term low-interest loans offered by the BFCHA initiative are clearly considered superior social housing finance product available—undoubtedly, when viewed as a joint offering with the SHGF grant funding—but also in terms of the features CHAs value to facilitate sustainable social housing provision. Sector experts observe that in many ways, the BFCHA initiative delivers on the aspiration held for NHFIC.

> "If you talked to our colleagues interstate, they would love a program like BFCHA!" - Sector stakeholder

It is difficult to delineate outcomes attributable solely to the BFCHA initiative given its complementarity with the SHGF. There are alternative finance options available to CHAs in its absence. The targeting of SHGF rounds to social housing priorities has had the consequence of limiting the opportunities for any but the largest CHAs to incorporate BFCHA finance savings into greater social housing dwellings in development plans for the next funding opportunity. Perhaps it also reflects the culture of a sector that has not had consistency in scale and availability of funding and finance over the long term in Victoria (and Australia, more broadly).

Nevertheless, CHAs we consulted who have participated in BFCHA believe they would, in its absence, seek greater funding or finance for an overall higher cost to government or change the composition of planned development for a lesser number of social housing dwellings.

Almost 80 per cent of CHAs surveyed agree they have *or will* provide more social housing dwellings because of BFCHA. While we cannot be certain CHAs are assessing the impact of SHGF alongside BFCHA finance in responding, we can observe that the capacity and capability of the sector as a whole to effectively use debt, means the BFCHA initiative has produced outcomes set out in the OLM.

It is apparent that for some CHAs the BFCHA initiative is not suitable. These CHAs are often smaller (often they would be classified as Tier 3 in the NRSCH) and do not have the scale to manage the (relatively low) transaction costs or the internal capability to manage the documentation, security requirements or monitoring inherent in long-term loans. These CHAs are often also focused on particularly vulnerable tenants or other poorly serviced social housing needs.

The interest rate advantage BFCHA has over commercial options was clear prior to phase 1 and appears so again in July 2023 (albeit at a higher level) but this was not as clear around the period applications were made for the most recent phase 3. This volatility in the market advantage has several impacts: it means a long-term loan is less attractive and it amplifies the significance of transaction costs for all CHAs—as was clear in consultations.

Some of the cumulative transaction costs faced by CHAs are outside DTF/TCV's control, such as costs of maintaining pre-existing financial relationships, but some may be reduced. Most of these areas have been identified by DTF previously.

6.1 Evaluation of BFCHA initiative (cont.)

The over-riding characteristic of DTF/TCV's management of this program has been responsiveness to the sector: in personal interactions, in design to align with the dominant funding program, and in administration changes to improve understanding of the offer and make access easier.

The value of continued responsiveness is the key learning as the BFCHA program moves into new phases.

"This program has been brilliant. We know organisations that have been, due to this program, able to deliver styles of housing options that were not available save for the interplay between the Big Housing Build and the BFCHA. It has been a product of geography—there have been some really good developments in the metropolitan centres but it hasn't really worked for smaller providers in regional settings.
For these providers, the State Guarantee product may be more suitable—a 'low doc' approach, providing less savings, but having lower requirements." - Sector stakeholder

"When the program started at Phase 1, interest rates were 2%. By phase 2, Deloitte was using a 6% rate to assess credit. CHAs didn't have a sophisticated understanding of the actual interest rate risk, and the implementation period to final facility agreement was long. CHAs could end up being exposed to interest rate increases through delays. Modelling interest rates became a sticking point …" - Government financial adviser

What about State Guarantees?

The BFCHA design has always included State Guarantees but not one has yet been provided to a CHA under the program. As the sector quote above notes some recent interest in this finance product rests, at least in part, on the misapprehension that it would require a 'low-doc' reduced form of security, covenants and documentation. DTF offer documentation provides no basis for this expectation.

A focus on the future opportunities for State Guarantees to contribute to increased social housing dwellings is nevertheless sought after by CHAs.

"The scale of borrowing now justifies a look at BFCHA again. We're interested in State guarantees. But the issue is you get good bank rates, but you get better rate for LIL, so why do all the complication and compliance to ask for a lower price? Would be open to maintain commercial bank relationships if the State Guarantee was less complex." - Sector stakeholder

"We would like to see a guarantee program with banks to provide lower cost products to the smaller CHAs, including those serving very vulnerable people. Use the banking system that already exists: partner!" – Finance stakeholder

6.2 Learnings for future BFCHA initiative

The greater financial maturity of the sector requires continued responsiveness of the BFCHA initiative

This evaluation occurs in a period of substantial volatility in costs of social housing construction and operation for CHAs, in interest rates they face from all finance sources, and a sector adjusting to a greater amount of debt and its ongoing management. It is a very different environment from the one in which BFCHA was introduced. The scale of funding and finance being offered in Victoria over this period would always have compelled the social housing sector to mature in its view and management of debt for growth. But the recent volatility has required greater sophistication from them in discerning their finance options and has highlighted that long-term debt is not suitable for some parts of the sector (as observed earlier).

The different experiences across the past three phases of BFCHA assist to identify learnings for its next phases.

1. **The design of BFCHA is robust.** The current offer of a State Guarantee for commercial borrowings has not yet been taken up, but now warrants further scoping in response to interest (and hopes) within the sector. In particular, scoping a possible structure of a guarantee that would support a lower interest rate offering by commercial banks for a simpler, lower transaction cost, product for those CHAs needing co-contributions to future grant funding but do not find long-term government provided loans suitable. More speculatively, options such as a State Guarantee may help facilitate greater institutional funding and financing into social housing by reducing the risk of investing into CHAs for these institutions.
2. **Responsive administration should continue.** Investigation and trialling of the actions suggested to improve administration is worthwhile given the materiality of transaction costs to CHAs—such as:
    - continuing to pursue alignment of information requirements and data monitoring with Homes Victoria and the Registrar
    - the development of a head agreement with project-specific deeds
    - provision of an existing or development of a new financial model providing more sensitivity analysis of costs and interest rates and consistent outputs for credit assessment
    - Further consideration of ways to streamline the current structure of security across funding and finance programs, and
    - more explicit communication about the range of TCV financial products available and the scope to reduce security burden following proven performance maintaining appropriate risk management.

2. The **key to significant contribution to growth in social housing dwellings at a reduced cost is a consistent offering of both funding and financing** to this now-more-sophisticated sector in Victoria. This is not within the sole control of the BFCHA initiative but pursuing the learnings suggested should maximise its contribution to this long-term outcome.

Appendix: Full implied OLM

A.1: Outcome Logic Model

The following outcome logic model was developed for the purposes of the evaluation

Assumptions

- CHAs face challenges in accessing and servicing commercial loans for social housing projects

External influences

- Interest rates
- Costs of construction materials and services
- Availability of suitable land for social housing projects
- Other social housing initiatives such as grant programs

Risks

- Loans are issued to CHAs who are unable to deliver the desired level of social housing
- Default of loans beyond acceptable level
- Reputational risk of program failure
- Economic risk of poorly conceived/executed market intervention

Community housing sector operating environment

- It can be challenging for CHAs to secure and service private finance as they operate in a low-yield environment and have limited cash flow generation capacity
- Most CHAs in Victoria require finance to meet co-contributions requirements for social housing grants such as the BOP and SHGF
- Some CHAs are unwilling or unable to access supply of commercial debt

Policy context

The Building Financial Capacity of Housing Agencies (BFCHA) Initiative was designed to help increase the supply of social housing in Victoria through the provision of low interest loans and state guarantees to community housing associations (CHAs) alongside other existing social housing initiatives.

Objectives

- The supply of social housing in Victoria is increased while maintaining risk to the Victorian Government at an acceptable level.
- CHAs have increased financial capacity and capability to supply and manage social housing in Victoria in a sustainable way.

Inputs

- $1.1b funding pool for low-interest loans and state guarantees
- Treasury Corporation (TCV) loan infrastructure
- Debt guarantee infrastructure
- Internal and external expertise

Key Activities

- Program design development (e.g. guidelines, risk/credit assessment)
- Loan arrangements development (e.g. DTF and TCV agreement, loan template agreement)
- Debt guarantee facility establishment (e.g. deed of guarantee between Treasurer and TCV)
- Application and assessment process development
- Communication and promotion to industry (incl. application support)
- Eligibility and credit/risk assessments (via external experts)
- Recommendation and decisions on applications
- Cross-government coordination and internal governance, particularly with other social housing grant programs
- Post-loan agreement program monitoring and assurance

Outputs

- CHAs undertaking social housing projects apply for LILs and/or state guarantees
- **TCV allocates loans to successful applicants (increase in Vic Gov debt position)**
- **Treasurer provides State Guarantees to successful applicants (no impact on Vic Gov debt position)**
- CHAs draw down LILs to fund additional social housing projects
- CHAs use LILs and/or State Guarantees to refinance existing debt
- Recipients pay back loans
- Delivery risk management activities are delivered as part of the assessment process
- Loan default risk management activities are delivered as part of the assessment process

Short-term outcomes | **Medium-term outcomes** | **Long-term outcomes**

1. Direct activity impacts

- Short-term: CHAs are aware of and act to apply because of access to finance at lower price or better terms
- Short-term: Loan default risk for LILs is appropriately managed
- Short-term: Delivery risk for new housing stock is appropriately managed
- Medium-term: CHAs are financed to deliver construction of more social housing units
- Medium-term: CHAs are better able to service loans for their new social housing units
- Medium-term: LILs and State Guarantees are able to be provided to CHAs while maintaining risk to Vic Gov at acceptable levels

2. Relationship and community housing sector impacts

- Short-term: Improved DTF relationship with CHAs
- Short-term: Improved industry awareness of social housing support in Victoria
- Medium-term: Improved financial capacity and capability amongst community housing sector
- Medium-term: Greater number of viable projects applying for Vic Gov't support, with greater grant competition and more (priority) housing stock resulting from govt support

Long-term outcomes (from 1 and 2):

- **The supply of social housing in Victoria is increased while maintaining risk at acceptable levels**
- CHAs have increased capacity and capability to supply and manage social housing in Victoria in a sustainable way

3. Government program design impacts

Evidence to validate design and delivery of LIL and State Guarantees as effective models of support → Improved program design for new or continuing programs of this nature → More effective and efficient programs to support financial capacity and capability building

For more information, please contact:

Melissa Skilbeck, Director
Mobile: +61 402 060 067
Email: mskilbeck@thinksapere.com

sapere®

Sydney	Melbourne	Canberra	Auckland	Wellington
Level 18 135 King Street Sydney NSW 2000	Level 5 171 Collins Street Melbourne VIC 3000	PO Box 252 Canberra City ACT 2601	Level 8 203 Queen Street PO Box 2475 Shortland Street Auckland 1140	Level 9 1 Willeston Street PO Box 587 Wellington 6140
P +61 2 9234 0200 F +61 2 9234 0201	P +61 3 9005 1454 F +61 2 9234 0201 (Syd)	P +61 2 6100 6363 F +61 2 9234 0201 (Syd)	P +64 9 909 5810 F +64 9 909 5828	P +64 4 915 7590 F +64 4 915 7596

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