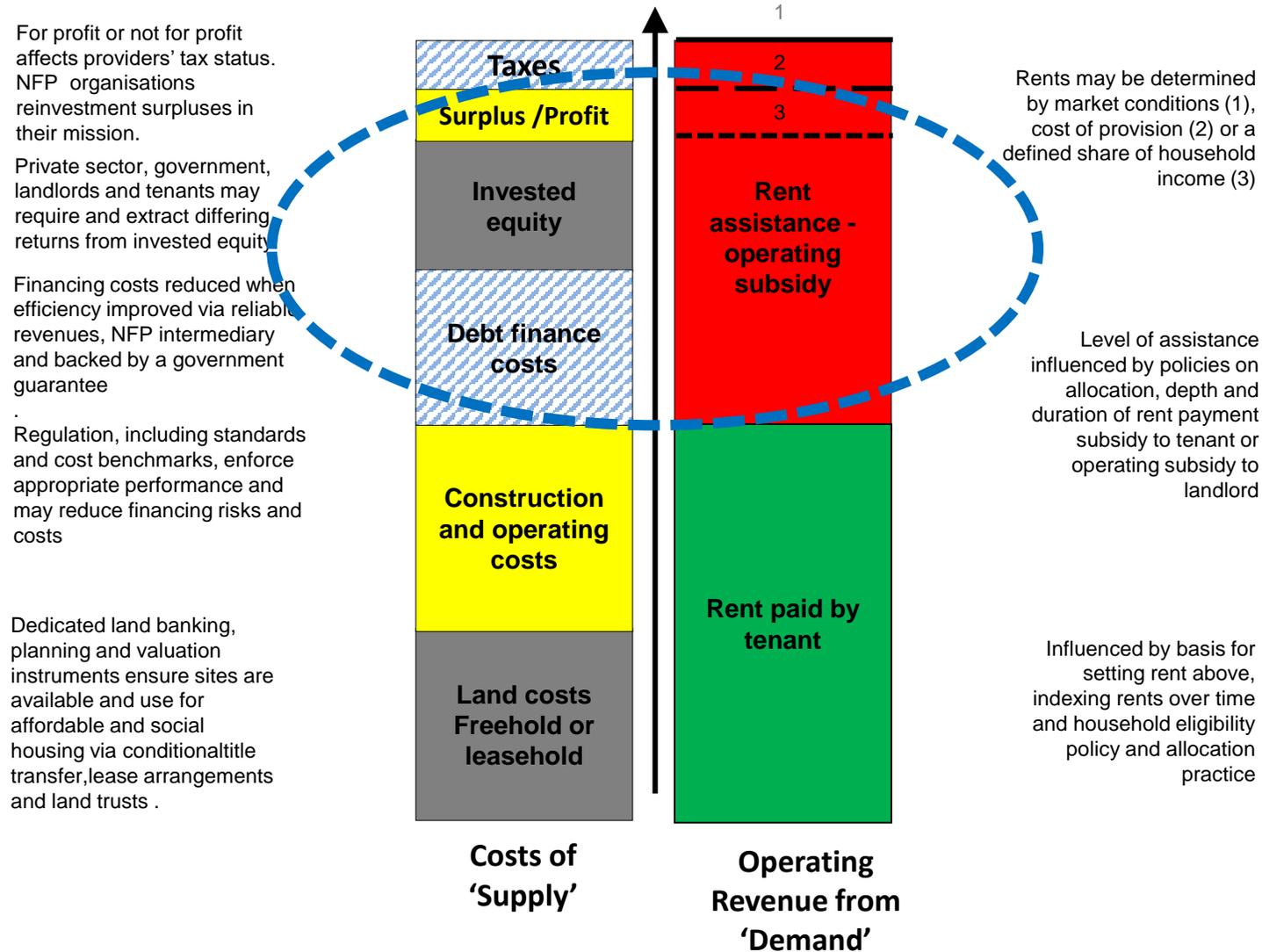


Lessons for housing policy from experiments in private finance, intermediaries and guarantees

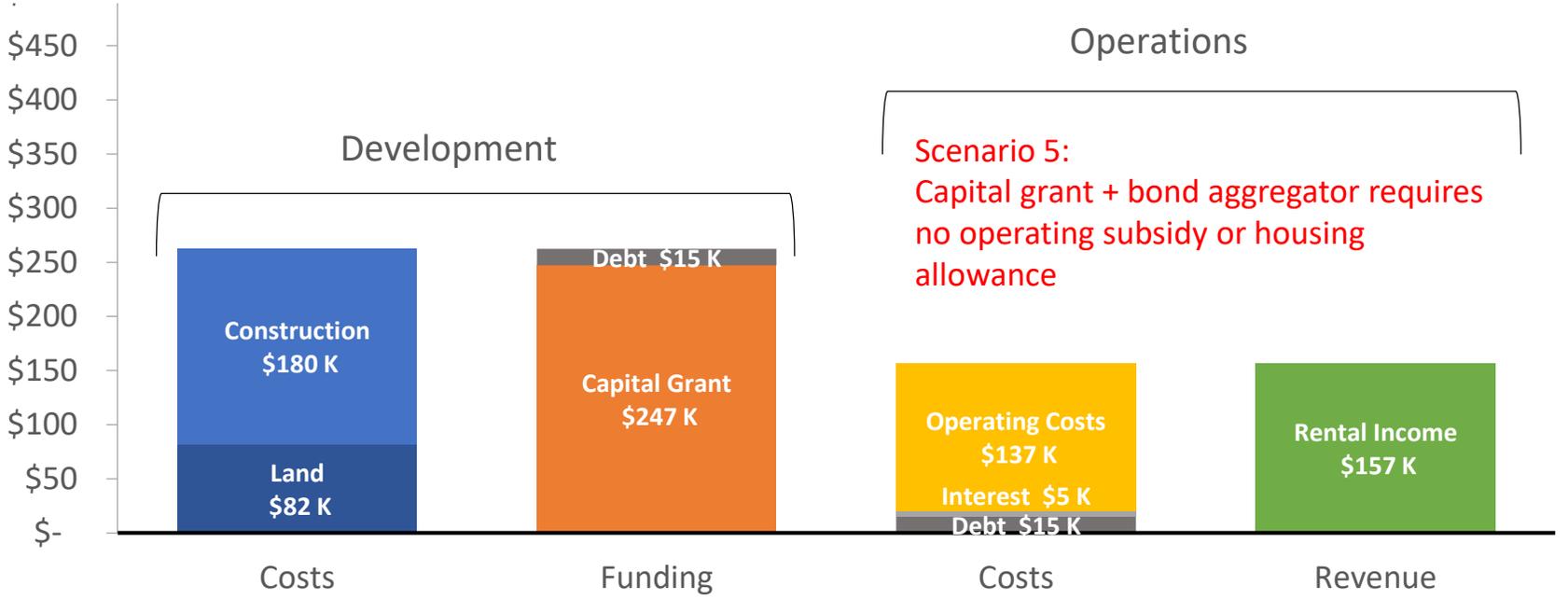
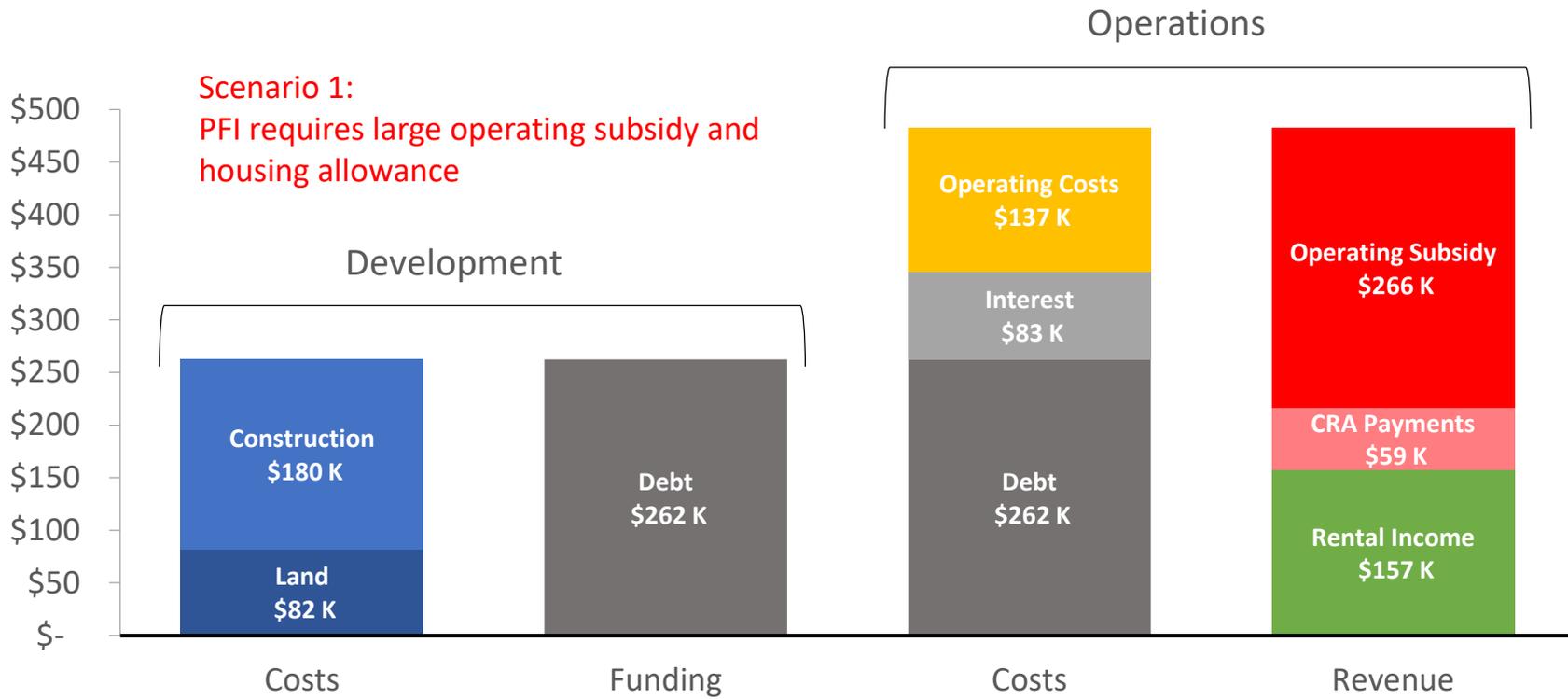
Dr Julie Lawson, Hon. Assoc. Professor
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National Housing Conference
Canada, Ottawa, November 21-22

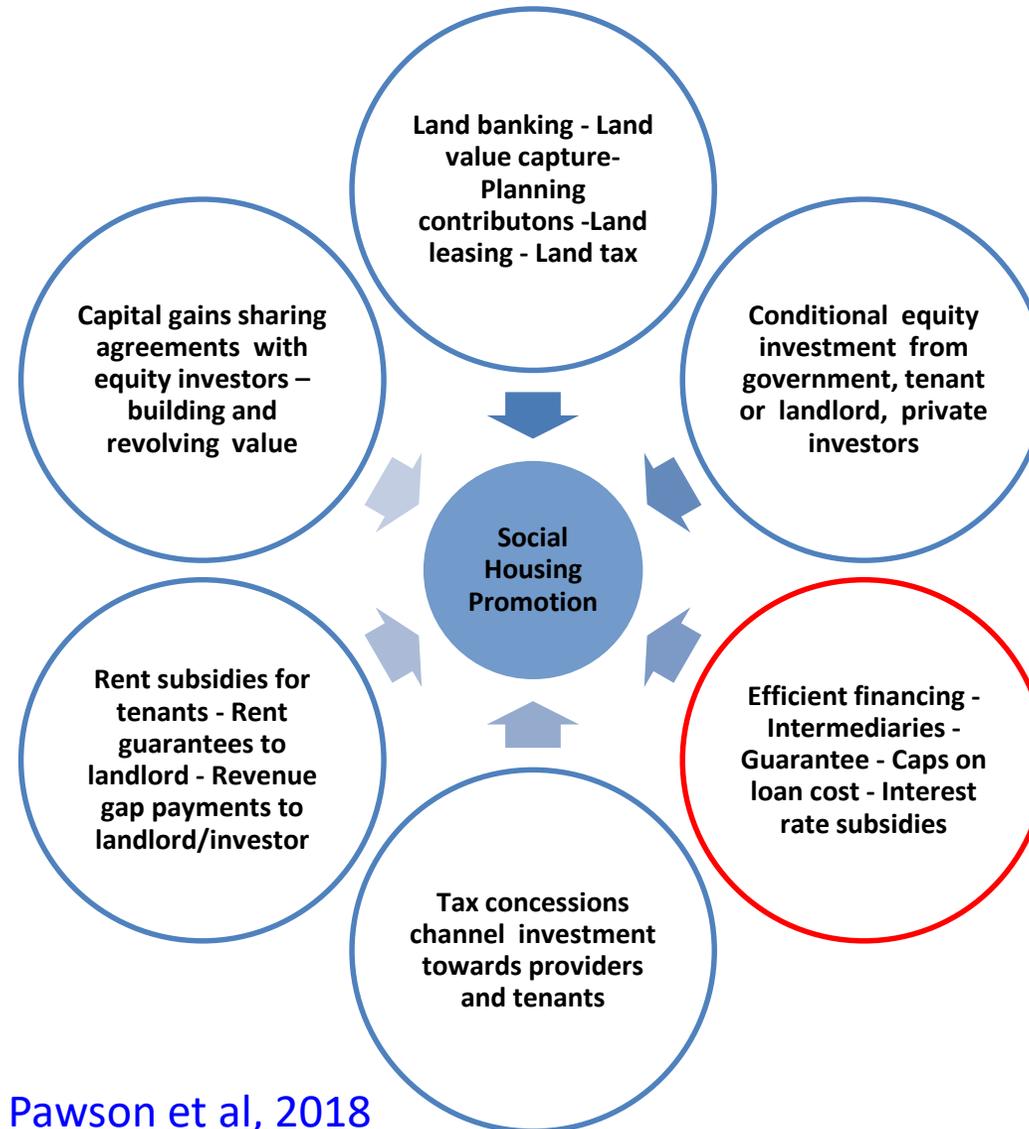
Lesson 1 - Cost of capital influences operating costs



[Adapted from Lawson, Pawson et al, 2018](#)



Lesson 2: finance just one part



Lesson 3: Ensure financing is efficient

1. Need for transparent assessment of alternative financing costs and implications for subsidy
2. A financial intermediary to pool borrowing demands and offer specialist credit assessment for the sector.
3. Properly structured and conditional government guarantee
4. Good regulation – mission, risk, reinvestment.

Intermediaries and guarantee schemes

Guarantee Scheme	Intermediary	Targeting	Fin. Impact	Default rate
Dutch Guarantee Fund Social Housing (WSW) backed by the sector, a fund and central and local Dutch governments (1983)	Independent foundation	Yes	1-1.5% below going market rates for similar mortgages	0%
Swiss Bond Issuing Co-operative for Limited Profit Housing (EGW) backed by the Swiss Federal Government (1991)	Co-operative	Yes	Small margin above government borrowing costs	0% since 2003
UK Affordable and Private Rented Housing Guarantee Schemes, backed by UK government (2013-2015)	Non-profit corporation	Yes	Provides 30 year finance at small margin above government borrowing costs	0% based on lengthy THFC experience, guarantee introduced 2013
French Mutual Fund for Guarantees of Social Housing (CGLLS), backed by the French government (2001)	Publicly owned corporation	Yes	Market only exists with guarantee	0% since 2008, has been higher 0.04%
Irish Housing Finance Agency backed by the Irish government (1982 LAs/2012 VHBs)	Publicly owned company	Yes	Very limited market without guarantee	0% for LAH, new for VHBs
Scottish government's National Housing Trust, backed by the Scottish government (2010)	Publicly owned Trust	Yes	NA	0% new
US Risk Sharing Scheme between Housing Finance Authorities and HUD, backed by Federal Housing Administration insurance	Publicly owned corporations	Yes	Diverse	NA
National Housing Finance Investment Corporation (2018) first bond issue 2019	Publicly owned corporation	Yes	1.5% below going market rate of similar mortgages	NA

Efficient *really*?

Lesson 4: PPP/PFI is no free lunch

- UK experience of PFI has proven costly and inflexible with long term obligations under customised PPPs and PFIs contracts (NAO, 2018)
- Returns must be paid to various debtors and equity investors and often over decades costing £199 billion by 2040
- There are contingent liabilities to government arising from project risk
- Transaction costs of the financing arrangement,
- Cost of delay associated with a particular financing vehicle,
- Costs of administering revenue, which need to be included in cost benefit analysis,
- When using consolidated revenue, the opportunity costs of these funds not being able to be used for other programs, and
- When funded from tax exempt bonds, the cost of the forgone tax revenue. All this limits the capacity of government to invest in assets and services
- UK PFI 1 and PFI 2 was abolished October 2018 (HM Treasury, 2018)

Improve transparency costs

- Improving decision-makers' access to the terms of private finance deals.
- Ensure direct comparisons between the performances of similar projects with different financing choices.
- Reviewing budget-setting process to create greater flexibility to exploit the government's collective advantage in financing
- Taking steps to achieve further savings from operational private finance contracts and consider the benefits of greater flexibility in future contracts.
- Reviewing the long-term consequences, including the impact on departmental balance sheets and consumer bills (NAO, 2015: 10).

Recent Australian developments

1. Under provision of both private and public investment and limited, reliance on costly short term bank finance (Lawson, Berry et al, 2014)
2. Establishment of **NHFIC bond aggregator with government guarantee** in 2018 to improve financing conditions following international research and national consultation
3. Still **requires public co-investment** to deliver **social** housing at affordable rents to low income households (AHWG, 2017)
4. AHURI establishes **cost to government of needs based funding gap over 20 years across 88 different markets** ([Lawson, Pawson, van den Nouwelant and Troy, Hamilton 2018](#))

Lowering the cost of private investment – the only game in town? Of course not!

- In the absence of stable long term public investment, accessing long term lower cost private finance for social has been a continuing challenge for many governments – including Canadian ones.



- Variations of mission orientated finance are worthy of further investigation...as in Austria, France, Finland, Singapore, China...and now the UK, New Zealand, Canada, Australia
 - This can also create real value and drive innovation
- [Lawson, Pawson et al 2018](#), Mazzucato and Penna, 2015.

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