



Policy Snapshot: *Revolving Funds*

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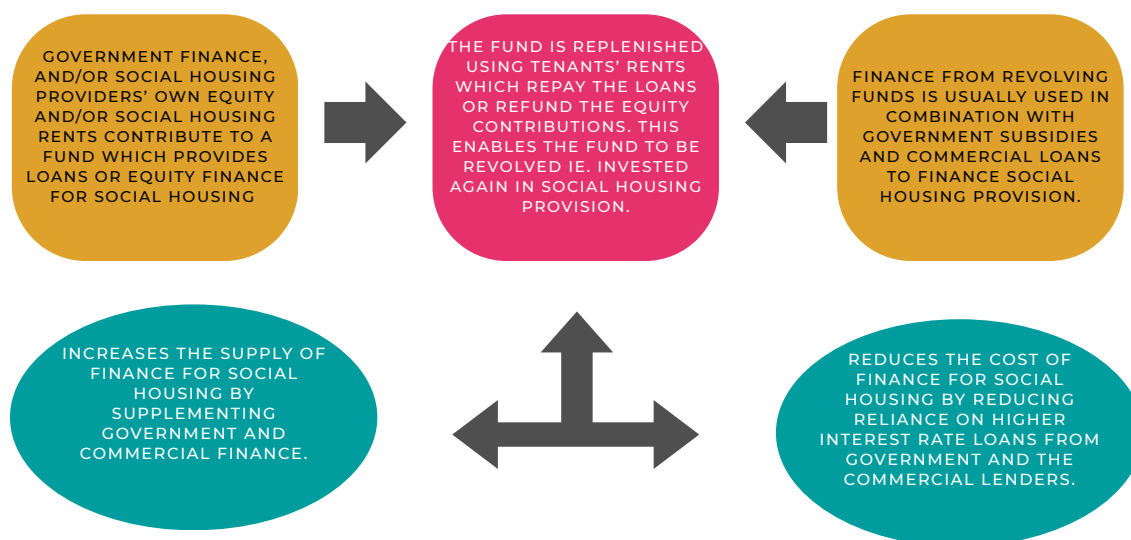
WHAT ARE REVOLVING FUNDS?

A revolving fund is a ring-fenced fund that provides loans or equity contributions to finance new social housing development or the refurbishment of existing dwellings. Critically, this investment is then replenished by revenue from rents on these dwellings, which allows the funding to be 'revolved', i.e., invested again in social housing provision. Revolving funds operate at the level of individual social housing providers or at the national level. They can be capitalised entirely from rents, or in some cases, government and/or social housing providers contribute the initial finance required to establish the fund, and rents then replenish the fund so it can be invested again.

WHY ARE THEY USED?

They support the 'internal financing' of social housing by social housing providers and tenants. They are rarely the principal source of finance for the sector but can provide useful extra contribution to costs in addition to government subsidies and loans and commercial debt. This may be more politically acceptable than relying entirely on the state for finance and cheaper than relying entirely on commercial loans.

HOW DO THEY WORK IN PRACTICE?



WHERE ARE THEY USED IN EUROPE?

In **Austria**, social housing tenants accommodated by **limited profit housing associations** (LPHAs) pay rents that cover the costs of housing provision and enable LPHAs to generate a limited profit that they are obliged by law to reinvest in providing new social housing. In addition, when the loans taken out to fund the development of social housing, tenants continue to pay cost rents (albeit at a lower level), and some of this funding is also reinvested in providing new social housing. Therefore, **each** LPHA effectively **operates its own revolving fund at the level of the organisation**.





WHERE ARE THEY USED IN EUROPE? (CONTINUED)

Denmark, by contrast, **operates a nationwide revolving fund for all social housing providers called Landsbyggefonden (LBF – National Building Fund)**. When housing development loans are repaid after 30 years, social housing rents are not adjusted to reflect this; rather, tenants continue to pay the same rent they paid in the past (although this rent no longer rises annually in line with inflation). For ten years, this revenue is paid to the central government, but after this, 50-60% of the surpluses generated are paid into the LBF and are used to finance renovation and maintenance works for social housing and subsidies for new house building.

The use of this national revolving fund model in Denmark reflects the fact that rents are required to cover the costs of the housing estates where the dwelling is located. This is the pooling of surpluses in a national fund, enabling the cross-subsidization of high-cost social housing developments (and renovation projects) by lower-cost ones.

The **Slovakian State Housing Development Fund is also a nationwide fund**, but employs a different revolving fund model than its Austrian and Danish counterparts. It was **established in 1996 and originally capitalised by the government**. This capital funds low-interest loans for social housing provision and the renovation of some categories of private housing, and as these loans are repaid by rents and other contributions, this funds provide more lending for more housing development.

WHAT ARE THE RELATIVE STRENGTHS AND WEAKNESSES?

Strengths	Weaknesses
<ul style="list-style-type: none">• May provide a reliable source of internal finance that can enable social housing landlords to raise and service debt finance.• May not be on the government balance sheet• Reduces the need for government subsidies.• May be more politically acceptable than relying on primarily on government subsidies	<ul style="list-style-type: none">• Requires rents that are high enough to generate a surplus for reinvestment and/or that rents continued to be levied in full after social housing development loans have been repaid.• Will be undermined by privatisation, particularly if dwellings are sold for below replacement value.• Requires landlords' debt profile to be relatively mature.
Where can I learn more?	
<ul style="list-style-type: none">• Danish National Building Fund: https://lbf.dk/• Slovakian State Housing Development Fund - https://lbf.dk/• EqualHouse Report on Financing Social Housing - https://equalhouse.eu/media/Publications/Making_Housing_Affordable/EH%20WP5%20Finance%20Report%20Final%20for%20Website.pdf	



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