

Submission on the Housing Australia Future Fund Bill 2023

PowerHousing Australia

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1. About PowerHousing Australia

PowerHousing Australia is a member network of 38 large scale and Tier 1 registered Community Housing Providers (CHPs) and 50 Affiliate partners who develop and manage social, affordable and disability housing across Australia. As of 30 June 2022, PowerHousing Australia members collectively represent the largest scale CHPs who own or manage over 85,000 homes for over 145,000 people on low to moderate incomes, stewarding an estimated \$30 billion worth of housing for the benefit of Australian communities.

2. Context of submission

PowerHousing Australia welcomes the opportunity to provide a submission on the Housing Australia Future Fund Bill, National Housing Supply and Affordability Council Bill, and Amendment Bill (the “Housing Legislative Package”).

Australia is at an inflection point where the housing needs of hundreds of thousands of households are not being met. This unmet demand continues to grow and is impacting people, communities and the economy.

The Housing Legislative Package has the potential to be a transformative reform, that creates a structural shift in the housing system to enable the housing needs of significantly more Australians to be met.

Community Housing Providers (CHPs) in Australia today deliver a net increase of thousands of homes per annum with an affordable housing investment ecosystem forming around global Environmental, Social and Governance (ESG) investment mandates. If this legislation delivers a future fund with an initial focus on 25 years, as opposed to a pilot program over the next five years, will see an expanding supply of social and affordable housing delivered year in and year out into perpetuity.

We implore all participants in the legislative process that will follow to enliven the Housing Legislative Package, to move through the process expediently and to not stand in the doorway, blocking access to homes.

We also commend the Government for its commitment to improving housing supply and affordability, and in particular to increasing the supply of social and affordable housing. **However, we note that there are elements of the draft Housing Legislative Package that may be insufficient unless amended, to create the conditions required to deliver the 30,000 home Housing Australian Future Fund (HAFF) intent outcome.**

We understand that the Government has committed that the Housing Australia Future Fund intent outcome will support the delivery of 30,000 social and affordable homes comprising:

- 20,000 homes to provide social housing; and
- 10,000 affordable homes.

Assuming that these 30,000 homes are intended to be in addition to homes already committed to, be delivered by State and Local governments, there is a significant task to mobilise new land, construction, investment, finance and government contributions to deliver this program.

For illustrative purposes, we estimate that the 30,000 homes could have a capital construction cost of approximately \$10.5 billion. Acknowledging that land may be contributed by State or Local governments, even on an attributed value basis, we estimate that the land costs or value contributed is likely to be approximately \$4.5 billion.

This requires mobilising total investment and government contributions of \$15 billion over five years - in addition to existing commitments - to deliver the intended Housing Australia Future Fund outcome. **This therefore requires greater certainty to ensure significant leverage of the up to \$500 million per annum (\$2.5 billion over five years) to be made available from the Housing Australia Future Fund.** A Future Fund that attracts Global Environmental, Social and Governance (ESG) investment needs greater longer term legislative certainty.

It is also evident that one-off grants from the Housing Australia Future Fund are insufficient to support the intended 30,000 homes being delivered over five years. The flow of annual funds from the Housing Australia Future Fund must be available over a committed contract term of 25 years to leverage the necessary investment.

To achieve this all levels of government, Housing Australia, registered CHPs and the private sector must work together.

We note that the Prime Minister, Treasurer and Housing Minister have all acknowledged the importance of, and made commitments to, **mobilise institutional investment into affordable rental housing.** There have been positive signs of intent from the superannuation industry to support this, with a number of public commitments including participation at the Treasurers Investment Roundtable on Housing.

Based on our members engagements with institutional investors, and the insights from our recently completed paper *Affordable Housing as an Asset Class in Australia*¹ prepared by Paxon Group, we note that institutional investment will flow only when the conditions for investment are right. This includes addressing the risk and return hurdles, while **creating certainty, consistency and scale.** The Housing Australia Future Fund is the right tool to create these conditions.

The Housing Legislative Package to catalyse and incentivise this is crucial and we consider some vital elements of the proposed package require amendment to attract the investment needed to deliver the 30,000 homes.

3. Overview of PowerHousing submission

PowerHousing provides a unique forum for peer-to-peer exchange and collaboration for housing professionals who are dedicated to improving lives through the provision of social and affordable housing. Our feedback is framed by consultations across the year with our community housing members, supporting affiliates, the International Housing Partnership (IHP), our national roundtables and committees, and the PowerHousing Australia Board. Our focus and expertise is on delivering the *30,000 home HAFF intent outcome* of getting people into social and affordable housing, first and foremost.

¹ *Affordable Housing as an Asset Class in Australia*, Paxon Group for PowerHousing Australia, 2022
[http://www.powerhousingaustralia.com.au/wp-content/uploads/2023/01/PowerHousing_Global_Asset-Class_Report_2022.pdf]

We have drawn on our members' expertise noting that many of our members have been involved in significant new innovations that have brought together capital and capability to deliver more homes and improved outcomes for people and communities.

Our submission draws on our recent work which has included providing submissions and advice on the NHFIC Review, providing structured advice on housing policy initiatives with the then Shadow Minister Clare in the run up to the last Federal election, work with our CFO Roundtable group and KPMG on modelling related to the proposed Housing Australia Future Fund, and a recently commissioned paper, *Affordable Housing as an Asset Class in Australia* that has been released as an Australian addendum to the 2019 IHP Paper *Creation of a Global Asset Class for Affordable Housing*².

PowerHousing Australia's members are housing practitioners who are delivering and managing social and affordable housing at scale. As such we have focused our submission on the core elements of the Housing Legislative Package that are crucial to get right to enable more homes to support Australian households and communities.

Given the timeframe for development of a written submission has largely consisted of the Christmas and New Year period, we note that this submission is not an exhaustive list of issues to be addressed. Instead, we have focused on the key issues needed to create the conditions for the successful provision of the Federal Government's commitments to deliver much needed social and affordable rental homes, with a priority of delivering 30,000 homes in the first five years.

4. Recommendations

As set out in Chapter 1 of the Exposure Draft Explanatory Materials, a key commitment of the Australian Government is the delivery of 30,000 social and affordable homes in the first five years after establishment of the Housing Australia Future Fund. It is implied that delivery of all 30,000 homes are rental properties and that any home ownership outcomes are in addition to the 30,000 dwellings. It is also clear from various public statements that the Australian Government expects to mobilise significant institutional investment into affordable housing under the Fund.

We note that delivering 30,000 social and affordable housing units will only meet a fraction of the unmet demand (estimated to be as high as 640,000 units³) and so must be delivered expediently and in a manner that establishes a means for more homes in future. The unmet demand for those in acute housing challenge must also consider the needs of people with disability where there is a growing demand (estimates are that 11.2 percent of people with disability live in unaffordable housing⁴) for accessible, safe, sustainable and affordable homes.

Considering the delivery of the 30,000 homes as the initial key measure of success of the Housing Legislative Package, and the mobilisation of institutional investment to support the delivery of the 30,000 homes as the key enabler alongside government contributions, we consider there are crucial issues that must be considered in finalising the legislation.

² *Creation of a Global Asset Class for Affordable Housing*, Paxon Group for the International Housing Partnership, 2019 [https://www.powerhousingaustralia.com.au/wp-content/uploads/2019/12/Creation-of-Global-Asset-Class-for-Affordable-Housing-v2.0_compressed.pdf]

³ *Quantifying Australia's unmet housing need*, CHIA, 2022

⁴ *Why Housing is a Major Public Health Issue for Australians with Disability*, University of Melbourne, 2019 [<https://pursuit.unimelb.edu.au/articles/why-housing-is-a-major-public-health-issue-for-australians-with-disability>]

1. **Scale and priority of application of disbursements from the Housing Australia Future Fund –**
The current draft Housing Legislative Package does not appropriately reflect the Government’s priority to deliver the *30,000 home HAFF intent outcome* over five years. Whilst the package appropriately provides for a range of applications of disbursements, there is no certainty that the first use of disbursements should be in support of the objective of delivering 30,000 homes, creating uncertainty for various levels of government and the market as to the priority and availability of funds. **We recommend that the Housing Legislative Package, and in particular the Housing Australia Future Fund and Housing Australia legislation, should first and foremost prioritise the delivery of the announced 30,000 home HAFF intent outcome, with any other objectives being secondary.** Other housing priorities may arise following the negotiation of the new National Housing and Homelessness Agreement and introduction of the National Housing and Homelessness Plan. Funding should only then be channelled via any future COAG Reform Fund, if this is determined necessary.

2. **Clarity of governance–** The draft Housing Legislative Package creates uncertainty over the governance, priority and application of disbursements from the Housing Australia Future Fund. It proposes an advisory role for the National Housing Affordability and Supply Council, provides for multiple Ministers to make annual submissions for application of disbursements, provides a role for Housing Australia, and contemplates the involvement of States and Territories. This is likely to give rise to numerous programs and approaches that will create significant administrative inefficiency for Government and confusion for market participants. The aforementioned PowerHousing Australia’s *Affordable Housing as an Asset Class in Australia* paper notes the importance of consistency in the form of programs / payments to incentivise investment in social and affordable housing. The current design gives rise to the very strong likelihood that this will not be achieved and therefore creates significant risk that investors will not participate, leading to a failure to deliver the 30,000 homes.

The Government has made public statements that it intends to take a national leadership position on housing. On this basis, **we strongly recommend that the governance arrangements are clarified, and streamlined as follows:**

- **The final membership of the National Housing Affordability and Supply Council be prescribed to include a requirement that at least two Council members have appropriate qualifications, skills and experience in social or affordable rental housing or homelessness services and that the Council members have an appropriate balance of qualifications, skills or experience in the fields mentioned in subsection (2).**
- **The National Housing Affordability and Supply Council proposed governance arrangements are reviewed to ensure independence and that it provides macro level *advice* to the Minister on the priorities for funding support from the Housing Australia Future Fund that are based on research and input from States and Territories. This should be program level guidelines and not project specific.**
- **The Minister for Housing gives *direction* to Housing Australia on the priorities for funding support from the Housing Australia Future Fund disbursements.**
- **Housing Australia designs and implements investable programs that award contracts to specific projects consistent with the Minister’s directions.**
- **The Minister for Housing may reserve a capped portion of disbursement funds to be directed to COAG reform and to support priorities identified by other Ministers as envisaged by the current draft Housing Legislative Package.**

- **There is a focus on reporting and accountability which encompasses data capturing of pre-existing and new builds (under the Housing Australia Future Fund) at a national level to assist in monitoring the macro-economic and regulatory impacts of the Fund.**
 - **The review period as it currently stands in 2028, is too far ahead for it to be meaningful. A preliminary review, possibly in 2026 to align with the National Housing Supply Council Review, will allow for appropriate adjustments and continuous improvements to be made in a timely manner.**
- 3. Consistency of form of grants –** The draft Housing Legislative Package creates significant uncertainty and sovereign risk as to the priority for application of disbursements (see point 1. above) and appears to be designed to best implement programs of one-off grants during a given financial year. One-off grants from Housing Australia Future Fund disbursements appear insufficient to support the delivery of 30,000 homes in five years. We note that in its policy formation, it was envisaged that the Housing Australia Future Fund would support 30,000 homes by way of a mechanism “...similar to the Social and Affordable Housing Fund (SAHF), established and operated by the current NSW Government, a proportion of the investment returns will fund annual service payments that will be paid to community housing providers over 25-years to bridge the gap between rental revenue and operating costs.”¹ In addition another portion of the Housing Australia Future Fund’s investment returns would, ‘be available to fund acute housing needs in perpetuity⁵.’ Consistent with this, to deliver the 30,000 homes over five years by attracting the necessary institutional investment, recurrent contracted payments over a term of up to 25 years will be required. It is crucial that there is a national consistency in the form and structure of this payment in order to mobilise institutional capital. State based programs with different contractual and regulatory settings are unlikely to attract sufficient institutional capital to deliver 30,000 homes with the imposition of the inefficiency of smaller scale, jurisdictional specific requirements in an emerging asset class. A nationally consistent form of funding can and needs to facilitate sizing of payments to account for regional and strategic portfolio investment, to support delivery in higher cost or sub-economic locations where there is unmet demand.
- We strongly recommend that funds be made available to Housing Australia to provide a nationally consistent, long-term (25 year) contractual commitment for recurrent funding that will attract investment support to deliver the 30,000 homes.**
- 4. Certainty of disbursements –** The current draft Housing Legislative Package creates sovereign risk and significant uncertainty about the quantum and availability of funds for disbursement from the Housing Australia Future Fund as it sets a maximum distribution of \$500m per annum (and does not size this as nominal or real terms), suggests that the disbursements are subject to an annual budget process, and does not provide for any minimum disbursements. As outlined in the earlier context, the one-off capital grants approach appears insufficient to support delivery of the 30,000 home HAFF intent outcome over five years. **Investors will require certainty of annual contracted payments over a term likely to be 25 years in order to invest. The Australian Government must guarantee these contracted payments to investors. If a cap on disbursements is required, it may more appropriately be dealt with in the Investment Mandate noting that it must be sized and increase in real terms over the contract period to support investment in 30,000 homes. Further, we note that the draft legislation contains mechanisms for funds to be disbursed to Housing Australia which are**

⁵Housing Australia Future Fund – Background, Australian Labor Party, 2021

then available to fund social and affordable housing. We recommend that the drafting provide clarity that the use of the term "acute housing need" does not limit the distribution of funds by Housing Australia to community housing providers for social and affordable housing when this is done in accordance with its mandate. We also recommend that the Minister for Housing reserve a maximum portion of disbursement funds to be directed to COAG reform and to support priorities identified by other Ministers as envisaged by the current draft Housing Legislative Package. This portion of reserved disbursements does not need to be applied in a consistent form.

5. **Role of regulated Community Housing Providers (CHPs)** – The draft Housing Legislative Package Exposure Draft Explanatory Materials notes the importance of regulation of recipients of support provided by Housing Australia. Registered Community Housing Providers (CHPs) are subject to appropriate regulation that ensures the interests of residents, communities, investors, government and stakeholders are protected. Not-for-profit CHPs also reinvest all surpluses for the benefit of the community, through more social and affordable housing. As currently drafted, there are a wide range of possible recipients and there is a risk that, for example, as happened with NRAS, investor products were designed to attract retail ('mum and dad') investors, which compromises the long-term intent of the program. Clarity is required to help facilitate and direct a layering of complimentary capital and land contributions from Local and State Governments, encourage consistent and collaborative delivery approaches across Australia, focus and harness private sector resources, and thereby maximise the long-term supply of social and affordable housing. **We recommend that the legislation clearly set out that registered Community Housing Providers (CHPs) are the regulated entities that will be recipients of support from Housing Australia.**

6. **Consultation on Investment Mandate and program guidelines** – Given the importance of the Investment Mandate for the Housing Australia Future Fund and Housing Australia, and the interrelationship with the proposed legislation, **we strongly recommend that the Government provide a draft of the Investment Mandate for consultation prior to finalisation of the Housing Legislative Package. We also strongly recommend that Housing Australia simultaneously consult on the program design and guidelines for its implementation of the Housing Australia Future Fund.**

5. Summary of recommendations

	Recommendation
1	The Housing Legislative Package, and in particular the Housing Australia Future Fund and Housing Australia legislation, should first and foremost prioritise the delivery of the announced <i>30,000 home HAFF intent outcome</i> , with any other objectives being secondary.
2	<p>We recommended that:</p> <ul style="list-style-type: none"> - The final membership of the National Housing Affordability and Supply Council be prescribed to include a requirement that at least two Council members have appropriate qualifications, skills and experience in social or affordable rental housing or homelessness services and that the Council members have an appropriate balance of qualifications, skills or experience in the fields mentioned in subsection (2). - The National Housing Affordability and Supply Council provides macro level <i>advice</i> to the Minister on the priorities for funding support from the Housing Australia Future Fund based on research and input from States and Territories. This should be program level guidelines and not project specific. - The Minister for Housing gives <i>direction</i> to Housing Australia on the priorities for funding support from the Housing Australia Future Fund disbursements. - Housing Australia designs and implements investable programs that award contracts to specific projects consistent with the Minister's directions. - The Minister for Housing may reserve a portion of disbursement funds to be directed to COAG reform and to support priorities identified by other Ministers as envisaged by the current draft Housing Legislative Package.
3	Funds be made available to Housing Australia to provide a nationally consistent form of long-term (25 year) contractual commitment for recurrent funding that will attract investment support to deliver the 30,000 homes.
4	The Australian Government must guarantee contracted payments to investors. If a cap on disbursements is required, it may more appropriately be dealt with in the Investment Mandate noting that it must be sized and increase in real terms over the contract period to support investment in 30,000 homes. We recommend that the drafting provide clarity that the use of the term "acute housing need" does not limit the distribution of funds by Housing Australia to community housing providers for social and affordable housing when this is done in accordance with its mandate.
5	The legislation clearly set out that registered Community Housing Providers (CHPs) are the regulated entities that will be recipients of support from Housing Australia.
6	The Government provide a draft of the Investment Mandate for consultation prior to finalisation of the Housing Legislative Package. We also strongly recommend that Housing Australia simultaneously consult on the program design and guidelines for its implementation of the Housing Australia Future Fund.
Other	<i>Acute housing need</i> be clearly defined to include the provision of disability housing.