Parliamentary Budget Office

Policy costing

Establish a Federal Housing Trust to construct 500,000 public and community homes, and related measures	
Party:	Australian Greens

Summary of proposal:

This proposal has five components.

- Component 1 – Federal Housing Trust
  - This component would establish a Federal Housing Trust (the Trust) for the construction of 500,000 new residential dwellings over 15 years.
  - The Commonwealth Government would provide two-thirds of the required funding, and state and territory governments would provide the remaining one-third. Contributions from state and territory governments could include provisions of land, either as free title or leasehold.
  - The Trust would be established outside the general government sector and would construct residential dwellings, manage tenancies and sell dwellings to low-income households, in partnership with state and territory governments and affordable housing providers. It is intended that the Trust would cover its costs through rental income and sales of properties to low-income households.
  - The funding provided per dwelling would be $300,000 in 2019-20 (on average), including the costs of construction and land acquisition. Funding would be indexed in line with land and construction costs.
  - The Commonwealth Government's contributions would be funded by issuing Commonwealth Government guaranteed bonds to wholesale or institutional investors. These bonds would pay a fixed interest rate reflecting the 10-year Commonwealth Government bond rate compounded monthly, paid annually, and maturing after 10 years.
  - The funds raised through bond issuance by the Commonwealth Government would be lent to the Trust, which would then be used to fund land acquisitions and dwelling constructions. Loans to the Trust by the Commonwealth Government would have a fixed interest rate equal to the Commonwealth Government's borrowing rate, compounded monthly, payable annually, and with 10-year maturity.
- Component 2 – Capital Grant Fund
  - This component would establish a Capital Grant Fund (the Fund) to provide state and territory governments with $1,500 million each year for the first three years, and then $2,500 million divided evenly over the next seven years for housing improvements and construction.
- Component 3 – Boost tenancy advocacy services
  - This component would boost tenancy advocacy services by $30 million each year, indexed by the consumer price index (CPI), for 10 years from 1 July 2019.

- Component 4 – Increase funding for transitional housing and crisis services
  - This component would increase funding for transitional housing and crisis services by $500 million each year, indexed by the CPI and guaranteed for 10 years.
- Component 5 – Reverse the expansion of the Commonwealth Divestment Program
  - This component would reverse the 2019-20 Budget measure *Expansion of the Commonwealth Divestment Program*.

The proposal would commence from 1 July 2019.

Costing overview

This proposal would be expected to decrease the fiscal balance by $9,863 million, the underlying cash balance by $7,363 million, and the headline cash balance by $35,163 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, the impact reflects an increase in revenue of $2,000 million, an increase in administered expenses of $10,251 million, an increase in departmental expenses of $12 million, and an increase in public debt interest (PDI) of $1,600 million over the 2019-20 Budget forward estimates period.

All components of the proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. Estimates would vary significantly over the period to 2029-30 because bond maturity, loan repayments and the unwinding of the concessional loan discount expense largely occur beyond the 2019-20 Budget forward estimates period. Components 2, 3 and 4 are capped funding proposals for specific programs. The financial implications of the proposal would continue until all of the bonds mature and all loans have been repaid in 2043-44. A breakdown of the financial implications of the proposal is provided at Attachment A.

Consistent with Parliamentary Budget Office (PBO) Guidance 02/2015, as the proposal involves changes in the value of financial assets, the PDI impact of the proposal has been included in the estimates.

The impacts on the fiscal, underlying cash and headline cash balances differ due to their treatment of the concessional loans from the Commonwealth Government to the Trust, and the flow of interest and principal payments. Only the fiscal balance captures the estimates of income and expenses relating to the concessional loan discount, and only the headline cash balance captures the changes in loans issued and principal repayments. A note on the accounting treatment of concessional loans is included at Attachment B.

The estimates are subject to uncertainties around assumptions about economic parameters such as the interest rate on 10-year Commonwealth Government bonds, land costs, and construction costs. The actual financial implications may vary significantly from the estimates if the underlying parameters differ from the assumptions. The PBO has not undertaken any analysis of whether the prescribed funding arrangements, including the bond and loan interest rates, and the specified average cost per dwelling ($300,000 in 2019-20), would be adequate to achieve the desired outcomes of the proposal. The costing has not incorporated any flow-on impacts on property prices, rents or on the supply and demand of residential properties because these impacts are highly uncertain.

Table 1: Financial implications ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	-2,840	-2,743	-2,755	-1,526	**-9,863**
Underlying cash balance	-2,140	-2,043	-2,155	-1,026	**-7,363**
Headline cash balance	-8,840	-8,843	-9,155	-8,226	**-35,163**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions in costing Component 1 of this proposal.

- The construction of residential dwellings would occur evenly over the 15-year period.
- The Commonwealth Government would issue sufficient Commonwealth Government-guaranteed bonds at the start of the financial year to meet its contribution (two-thirds) to the proposal's total funding requirement. As specified, these bonds would be issued at the 10-year bond rate, which would be equal to the interest rate on PDI. The PDI line in the costing therefore shows the interest cost to the Commonwealth Government of the bonds issued to fund this proposal.
- The funds raised by the Commonwealth Government will be immediately on-lent to the Trust on the same day. As a result, the Trust would pay interest to the Commonwealth Government on the same day that interest on the Commonwealth Government bonds is due.
- The interest rate on 10-year Commonwealth Government bonds would be expected to increase over the period to 2033-34 (the last year the Commonwealth Government would need to provide funding to the Trust) in line with the PBO's forecast of the Commonwealth Government's borrowing cost.
- The market 10-year borrowing cost for the Trust would be equal to the 10-year bond rate for non-financial corporate A-rated bonds.
- The cost of construction and land acquisition would increase at a rate consistent with historical growth in the average price of new residential dwellings purchased by owner-occupiers, based on data from the Australian Bureau of Statistics.
- There is sufficient capacity within the building industry to construct the specified number of dwellings over the 15-year timeframe.

Methodology

Component 1

As the Trust would be established as an entity outside the general government sector, its operations would not have a direct impact on the Commonwealth Budget. The financial impact of this component of the proposal therefore reflects the impact of loans from the Commonwealth to the Trust.

Under the proposal, the Commonwealth Government would provide two-thirds of the construction costs of the specified number of residential dwellings through the Trust, with funds raised from issuing

Government-guaranteed bonds. The total value of the bonds to be issued in the first year of the proposal was calculated by multiplying the average cost per dwelling by the number of dwellings to be constructed. This amount was then projected over the 15-year period using historical average growth rates.

The proposal specified that the Commonwealth Government would charge the same interest rate on loans to the Trust as the interest rate on the Government-guaranteed bonds. As interest on the Government-guaranteed bonds would be at a discount to the prevailing market interest rate for similar housing development projects, the costing included a concessional loan discount component, estimated based on the Department of Finance's *Resource Management Guide 115 - Accounting for concessional loans* policy guidelines.

Component 2

Administered expenses for Component 2 are as specified in the request.

Components 3 and 4

For Component 3 and 4, estimates were calculated by multiplying the specified funding amounts of $30 million and $500 million by the projected CPI growth factors over the period to 2029-30.

Component 5

Component 5 has been costed as unquantifiable because the terms of future commercial transactions are not available to the PBO.

All components

For Component 1, estimates of revenue and administered expenses have been rounded to the nearest $100 million.

For Components 2, 3 and 4, administered expense estimates have been rounded to the nearest $1 million.

PDI expense estimates have been rounded to the nearest $100 million.

Departmental expense estimates have been rounded to the nearest $1 million.

Data sources

Commonwealth of Australia, 2019. *Budget 2019-20*, Canberra: Commonwealth of Australia.

Reserve Bank of Australia, 2019. *Aggregate measures of Australian corporate bond spreads and yields*, Sydney: Reserve Bank of Australia.

The Department of Finance, 2016. *Resource Management Guide 115 - Accounting for concessional loans*, Canberra: Commonwealth of Australia.

Attachment A – Establish a Federal Housing Trust to construct 500,000 public and community homes, and related measures – financial implications

Table A1: Establish a Federal Housing Trust to construct 500,000 public and community homes, and related measures – Fiscal balance ($m)(a)(b)

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Revenue													
Income from unwinding concessional loan discount (Component 1 – Federal Housing Trust)	*100*	*100*	*200*	*300*	*400*	*400*	*500*	*600*	*700*	*800*	*800*	***700***	***4,900***
Interest payment from the Trust (Component 1 – Federal Housing Trust)	*100*	*300*	*400*	*500*	*700*	*1,000*	*1,300*	*1,600*	*1,900*	*2,300*	*2,300*	***1,300***	***12,300***
Total – revenue	**200**	**400**	**600**	**800**	**1,100**	**1,400**	**1,800**	**2,200**	**2,600**	**3,100**	**3,100**	**2,000**	**17,200**
Expenses													
Concessional loan discount (Component 1 – Federal Housing Trust)	*-800*	*-800*	*-800*	*-800*	*-800*	*-800*	*-800*	*-800*	*-900*	*-900*	*-200*	***-3,200***	***-8,500***
Component 2 – Capital Grant Fund	*-1,500*	*-1,500*	*-1,500*	*-357*	*-357*	*-357*	*-357*	*-357*	*-357*	*-357*	*-*	***-4,857***	***-7,000***
Component 3 – Boost tenancy advocacy services	*-30*	*-31*	*-31*	*-32*	*-33*	*-34*	*-35*	*-35*	*-36*	*-37*	*-*	***-124***	***-335***
Component 4 – Increase funding for transitional house and crisis services	*-500*	*-511*	*-523*	*-536*	*-549*	*-563*	*-577*	*-592*	*-606*	*-622*	*-637*	***-2,070***	***-6,216***
Component 5 – Reverse the expansion of the Commonwealth Divestment Program	*	*	*	*	*	*	*	*	*	*	*	*	*
Departmental (Component 1 – Federal Housing Trust)	*-10*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	***-12***	***-15***
Total – expenses	**-2,840**	**-2,843**	**-2,855**	**-1,726**	**-1,740**	**-1,755**	**-1,770**	**-1,785**	**-1,900**	**-1,917**	**-838**	**-10,263**	**-22,066**
Total (excluding PDI)	**-2,640**	**-2,443**	**-2,255**	**-926**	**-640**	**-355**	**30**	**415**	**700**	**1,183**	**2,262**	**-8,263**	**-4,866**
PDI impacts	**-200**	**-300**	**-500**	**-600**	**-800**	**-1,100**	**-1,400**	**-1,700**	**-2,000**	**-2,000**	**-1,800**	**-1,600**	**-12,400**
Total (including PDI)	**-2,840**	**-2,743**	**-2,755**	**-1,526**	**-1,440**	**-1,455**	**-1,370**	**-1,285**	**-1,300**	**-817**	**462**	**-9,863**	**-17,266**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

* Unquantifiable.

\- Indicates nil.

Table A2: Establish a Federal Housing Trust to construct 500,000 public and community homes, and related measures – Underlying cash balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
Interest payment from the Trust (Component 1 – Federal Housing Trust)	*100*	*300*	*400*	*500*	*700*	*1,000*	*1,300*	*1,600*	*1,900*	*2,300*	*2,300*	***1,300***	***12,300***
Total – receipts	**100**	**300**	**400**	**500**	**700**	**1,000**	**1,300**	**1,600**	**1,900**	**2,300**	**2,300**	**1,300**	**12,300**
Payments													
Component 2 – Capital Grant Fund	*-1,500*	*-1,500*	*-1,500*	*-357*	*-357*	*-357*	*-357*	*-357*	*-357*	*-357*	*-*	***-4,857***	***-7,000***
Component 3 – Boost tenancy advocacy services	*-30*	*-31*	*-31*	*-32*	*-33*	*-34*	*-35*	*-35*	*-36*	*-37*	*-*	***-124***	***-335***
Component 4 – Increase funding for transitional house and crisis services	*-500*	*-511*	*-523*	*-536*	*-549*	*-563*	*-577*	*-592*	*-606*	*-622*	*-637*	***-2,070***	***-6,216***
Component 5 – Reverse the expansion of the Commonwealth Divestment Program	*	*	*	*	*	*	*	*	*	*	*	*	*
Departmental (Component 1 – Federal Housing Trust)	*-10*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	***-12***	***-15***
Total – payments	**-2,040**	**-2,043**	**-2,055**	**-926**	**-940**	**-955**	**-970**	**-985**	**-1,000**	**-1,017**	**-638**	**-7,063**	**-13,566**
Total (excluding PDI)	**-1,940**	**-1,743**	**-1,655**	**-426**	**-240**	**45**	**330**	**615**	**900**	**1,283**	**1,662**	**-5,763**	**-1,266**
PDI impacts	**-200**	**-300**	**-500**	**-600**	**-800**	**-1,100**	**-1,400**	**-1,700**	**-2,000**	**-2,000**	**-1,800**	**-1,600**	**-12,400**
Total (including PDI)	**-2,140**	**-2,043**	**-2,155**	**-1,026**	**-1,040**	**-1,055**	**-1,070**	**-1,085**	**-1,100**	**-717**	**-138**	**-7,363**	**-13,666**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

* Unquantifiable.

- Indicates nil.

Table A3: Establish a Federal Housing Trust to construct 500,000 public and community homes, and related measures – Headline cash balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
Interest payment from the Trust (Component 1 – Federal Housing Trust)	*100*	*300*	*400*	*500*	*700*	*1,000*	*1,300*	*1,600*	*1,900*	*2,300*	*2,300*	***1,300***	***12,300***
Loan repayment from the Trust (Component 1 – Federal Housing Trust)	-	-	-	-	-	-	-	-	-	*6,700*	*6,800*	-	***13,500***
Total – receipts	**100**	**300**	**400**	**500**	**700**	**1,000**	**1,300**	**1,600**	**1,900**	**9,000**	**9,100**	**1,300**	**25,800**
Payments													
Loans to the Trust (Component 1 – Federal Housing Trust)	*-6,700*	*-6,800*	*-7,000*	*-7,200*	*-7,400*	*-7,600*	*-7,800*	*-8,000*	*-8,300*	*-8,500*	*-8,700*	***-27,800***	***-84,200***
Component 2 – Capital Grant Fund	*-1,500*	*-1,500*	*-1,500*	*-357*	*-357*	*-357*	*-357*	*-357*	*-357*	*-357*	-	***-4,857***	***-7,000***
Component 3 – Boost tenancy advocacy services	*-30*	*-31*	*-31*	*-32*	*-33*	*-34*	*-35*	*-35*	*-36*	*-37*	-	***-124***	***-335***
Component 4 – Increase funding for transitional house and crisis services	*-500*	*-511*	*-523*	*-536*	*-549*	*-563*	*-577*	*-592*	*-606*	*-622*	*-637*	***-2,070***	***-6,216***
Component 5 – Reverse the expansion of the Commonwealth Divestment Program	*	*	*	*	*	*	*	*	*	*	*	*	*
Departmental (Component 1 – Federal Housing Trust)	*-10*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	*-1*	***-12***	***-15***
Total – payments	**-8,740**	**-8,843**	**-9,055**	**-8,126**	**-8,340**	**-8,555**	**-8,770**	**-8,985**	**-9,300**	**-9,517**	**-9,338**	**-34,863**	**-97,766**
Total (excluding PDI)	**-8,640**	**-8,543**	**-8,655**	**-7,626**	**-7,640**	**-7,555**	**-7,470**	**-7,385**	**-7,400**	**-517**	**-238**	**-33,563**	**-71,966**
PDI impacts	**-200**	**-300**	**-500**	**-600**	**-800**	**-1,100**	**-1,400**	**-1,700**	**-2,000**	**-2,000**	**-1,800**	**-1,600**	**-12,400**
Total (including PDI)	**-8,840**	**-8,843**	**-9,155**	**-8,226**	**-8,440**	**-8,655**	**-8,870**	**-9,085**	**-9,400**	**-2,517**	**-2,038**	**-35,163**	**-84,366**

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

(b) Figures may not sum to totals due to rounding.

* Unquantifiable.

- Indicates nil.

Attachment B – Accounting treatment of concessional loans

A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the financial market. The most common concession is a below-market interest rate, but concessions can also include favourable repayment conditions. The income contingent loans available through the Higher Education Loan Program are an example of concessional loans offered by the Commonwealth.

Budget impact[1]

The accounting treatment of concessional loans differs across each budget aggregate. The underlying cash balance only captures actual flows of interest related to the loans. The headline cash balance captures actual flows of principal as well as interest. The fiscal balance captures accrued interest, the value of the concession and any write-offs related to the loans. The interest cost of financing these loans is captured in all budget aggregates, and is separately identified by the PBO.[2] (Table B1 provides information about the detail provided in a costing.) The provision of concessional loans decreases the Commonwealth Government's net worth if the liabilities issued (the value of Commonwealth Government Securities (CGS) issued to finance the loans) are greater than the assets created (measured at their 'fair value' or price at which the loans could be sold).

Treatment of debt not expected to be repaid

All budget aggregates take into account estimates of the share of loans not expected to be repaid when calculating interest flows and estimating the value of the concession that is being provided. None of the measures capture the direct impact on net worth of the loans not expected to be repaid. If a portion of loans are not expected to be repaid, estimates of the 'fair value' of the loans outstanding will be reduced. Such reductions, both when loans are issued and if loans are subsequently re-valued, are recorded in the budget under 'Other economic flows' which are reflected in net worth but not in the budget aggregates.

Table B1: Components of concessional loan financial impacts in costing proposals

Budget item	Appears in	Comments
Interest accrued or received	All budget aggregates	Captures the interest accrued or expected to be received on the fair value of the debt. (The budget cannot include interest income on a debt that is not expected to be repaid.)
Concessional loan discount expense and unwinding revenue	Fiscal balance	The net present value of the concession (based on the difference between the market and concessional interest rates) is captured as an expense in the fiscal balance. As loans are repaid, the remaining value of the concession reduces, so this expense is 'unwound' with a positive impact on the fiscal balance. The concessional discount and its unwinding are not recognised in cash balances as there is no cash inflow or outflow.
Write-offs	Fiscal balance	Debt forgiveness, also known as mutually agreed write-downs (for example in the case of the death of the borrower of a HELP loan) are expensed when they occur, reducing the fiscal balance. These transactions do not affect the cash balances as no cash flows occur.
Initial loan; principal repayments	Headline cash balance	Higher estimates of loans not expected to be repaid lowers principal repayments. These transactions are not included in the fiscal balance or underlying cash balance as they involve the exchange of one financial asset (loan) for another (cash).
Public debt interest (PDI)	All budget aggregates	The PDI impact is the cost of the change in the government's borrowing requirements to fund the loans. The net headline cash balance impact excluding PDI is used to estimate the proposal's impact on PDI payments.

[1] The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.
[2] This is in accordance with PBO Guidance 02/2015 and the Charter of Budget Honesty Policy Costing Guidelines which specify that costings of proposals that 'involve transactions of financial assets' need to take into account the impact on PDI payments.