



23 February 2023

Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

[economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

**Industry Super Australia submission to the Senate Economics Legislation Committee Inquiry -  
The provisions of the *Housing Australia Future Fund Bill 2023*, *National Housing Supply and  
Affordability Council Bill 2023*, and *Treasury Laws Amendment (Housing Measures No. 1) Bill  
2023***

Industry Super Australia (ISA) is a collective body for funds that carry the Industry SuperFund symbol. ISA manages research, advocacy and collective projects on behalf of those funds and their five million members. Our aim is to maximise the retirement savings of all our members.

ISA is strongly supportive of the HAFF and associated programs outlined in the Housing Accord. ISA has been working closely with its member funds, as well as their collective investment vehicles, and other large profit to member industry super funds, to identify policy settings that would enhance their capacity to invest in social and affordable housing, including the operation of the Housing Australia Future Fund (HAFF).

ISA approaches these issues with the best financial interests of members foremost. Historically funds have had limited exposure to affordable housing despite obvious benefits available from further diversification of investment portfolios. The Government's announcement of the Housing Accord which seeks to systematically address investment hurdles does have the capacity significantly increase investment.

With potential opportunities for both debt and equity investment the characteristics of well managed quality housing with low tenancy risk and steady broadly inflation linked cashflows would be an attractive addition to investment portfolios.

Apart from these benefits it is recognised a shortfall of affordable housing is arguably Australia's greatest economic failure. In just 20 years home ownership rates have fallen by up to one third for younger age cohorts and for others of working age mortgage debt at retirement has skyrocketed, with over half now having debt that they must pay off – increasingly with their super balances.

Right now, one in 15 households are in housing stress and at risk of homelessness. Without intervention, this figure will rise to one in 10.

The lack of affordable housing is trapping women in violent relationships, holding back children's development, and resulting in one in five Indigenous Australians living in overcrowded dwellings.

Without secure affordable housing Australians don't have a sound platform to participate in their communities, hold secure work, let alone have the capacity to have extra income to save to buy and for older Australians the data very clearly shows they will experience higher levels of poverty.

A recent Housing All Australians and SGS Economics and Planning study showed that every dollar invested in social and affordable housing delivers two dollars in benefits from health cost savings, reduced crime, better education outcomes, and increased productivity.

The broader economic and social benefits are compelling however, a chronic shortfall of investment over many years will need to be reversed. Government leadership is essential to address the many market and regulatory failures which contribute to a lack of private sector institutional investment. These include land availability, planning, taxation and critically a lack of a funding mechanism to close the rental income gap associated with social and affordable rental income streams to service the capital needed to build dwellings.

The HAFF provides that mechanism to close the funding gap for projects allowing them to be financed and service and repay the capital necessary to provide adequate returns to investors. The critical mechanism here is a recurrent indexed availability payment or subsidy that can be capitalised over 25 years to bring forward capital to fund construction and add to housing supply.

Putting in place a dedicated fund for this purpose – although novel – creates an important institutional safeguard to guarantee recurrent funding that should be more resilient to the political cycle than discretionary budget expenditures that fluctuate according to the priorities of the government of the day. Furthermore, it is a model which can be easily scaled over time with additional top ups to the HAFF.

The involvement of institutional investors is desirable given their capacity to invest at scale efficiently and bring innovation to projects including mixed tenure models which are considered to be best practice and generally not a feature of wholly government funded housing developments.

ISA's detailed commentary on the package of bills follows.

## Housing Australia Future Fund Bill

This submission focuses on the *Housing Australia Future Fund Bill 2023*. It focuses on the proposed structure, adequacy, and governance arrangements around the establishment and operation of the HAFF and policy settings relevant to institutional investors who have agreed as part of the Housing Accord to work constructively to identify financing solutions that can increase the supply of social and affordable housing.

The Bill's explanatory materials state the establishment of the Housing Australia Future Fund is intended to "create a secure funding stream to support an increase in social and affordable housing".

The establishment of the fund recognises the fundamental project financing gap associated with social and affordable dwellings, where below market rent revenues are insufficient to service the capital needed for construction and ongoing availability of the dwellings for their intended purpose.

Apart from the requisite provisions to establish the HAFF, much of the legislation focuses on the proposed structure of accounts through which investment income from the HAFF can flow and their purposes.

There is considerable emphasis on the establishment of accounts and mechanisms to facilitate the payment of grants<sup>1</sup> and relatively less detail on the accounting of income streams that could support institutional investment to close the estimated project financing gap. This detail is likely to be forthcoming in further government announcements<sup>2</sup> or contained in the investment mandates provided to Housing Australia. However, on face value there is a greater emphasis on the use of investment income ultimately available to the HAFF Special Account for grants than envisaged in the original policy announcements and Budget announcement of the Housing Accord.

Coupled with the proposed ministerial discretion re the apportioning HAFF special account disbursements, there are risks that investment income from the HAFF available to support capital raising from institutional investors through financial contracts may be insufficient. The key recommendations and supporting details addressing this are outlined in the remainder of the submission.

### Key Recommendations:

ISA makes five key recommendations to ensure there is adequate certainty for the structuring of financial instruments to institutional investors, such as super funds, so they are willing to provide capital for financing projects:

- ▶ The annual limit for amounts debited from the Housing Australia Future Fund Special Account as proposed in S36 Part 5 of the Housing Australia Future Fund Bill should be indexed annually on 1 July

---

<sup>1</sup> The Bills outline at least three separate mechanisms for the Minister to authorise or direct the payment of grants.

<sup>2</sup> Paragraph 4.3 of the explanatory materials state certain aspects of the exposure draft legislation are yet to be finalised, in particular the draft legislation for Housing Australia's investment function. In the absence of full details ISA is unable to offer a definitive view on the overall workability of the proposals in attracting institutional investors.

by the housing group of the consumer price index<sup>3</sup> for each year subsequent to the financial year beginning 1 July 2028.

- ▶ The approval process of payments by the Minister from the Housing Australia Future Fund Special Account to the Housing Australia Special Account in S 33 Part 4 of the Housing Australia Future fund Bill occur on the explicit advice of Housing Australia after it assesses its requirements and commitments under its legislated functions and investment mandates for current and future years.
- ▶ The Minister should prioritise payments to the Housing Australia Special Account from the Housing Australia Future Fund Special Account when considering any new grants to be provided from the Housing Australia Future Fund Special Payment Account under the proposed S 26 and new grants via the COAG reform fund under the proposed S 29 in Part 3 of the Housing Australia Future Fund Bill.
- ▶ The Commonwealth should make clear the process through which it will underwrite the returns from the Housing Australia Future Fund to meet contractual payment commitments required to be funded from the Housing Australia Special Account.
- ▶ The Extension of the Commonwealth Guarantee for Housing Australia by amendment to S 51(2) of the Housing Australia Act by the Treasury Laws Amendment (Housing Measures No. 1 ) Bill 2023 should be extended to at least 1 July 2030 and ‘make good clauses’ incorporated into the contracts entered into as part of the policy program and a legislated mechanism to regularly review and update the associated indemnity cap.

ISA considers these are necessary amendments for realising the Government’s stated policy objective to “to create a funding source to support and increase social and affordable housing” as outlined in the Explanatory Memorandum (p7).

### **Adequacy of HAFF investment earnings to support the capital financing requirements**

ISA has been working closely with funds, collective investment vehicles, community housing providers, and NHFIC to assess the capital finance requirements likely to be needed to deliver on the policy commitment of 30,000 (40,000 including the separate budget appropriation) social and affordable dwellings.

Using estimated construction costs of around \$550,000 per dwelling and underlying net rental cashflows available to support servicing commitments there is an identifiable project financing gap. Under conservative assumptions it is likely more than \$10 billion in additional capital will need to be found to construct 40,000 social and affordable dwelling units.

If the initial capital is amortised and repaid via the investment earnings over 25 years in equal instalments, over \$400m per year will be required simply to repay the principal excluding any investment returns to compensate investors.

Even assuming a small premium on the projected long-term Government Bond rate, it will require approximately \$570m per annum in HAFF supported cashflows / availability payments to be preserved in real terms (i.e escalating nominal cashflows at 2.5% per annum) to meet principal and interest repayments from the conclusion of the 5 year construction phase. The indexation of availability payments

---

<sup>3</sup> See <https://www.abs.gov.au/ausstats/abs@.nsf/lookup/28A24C64FA71CAA5CA2570CA00787F8D>

/ subsidies is not controversial and a common feature of such arrangements in public private partnerships (PPP's) where they are utilised. It also makes no sense for rental revenues to be broadly indexed (moving in line with tenant incomes which for social housing are explicitly indexed) and for availability payment cashflows to not be indexed.

It is important to understand that since the capital raising will occur in the first five years the indexation arrangements (or rather absence of them at commencement) will be taken into account when determining contract terms. Simply reviewing indexation at year five will be of little use as contracts will have already been set. Accordingly not providing a mechanism to index the cap will reduce capital available for investment by one third.

Furthermore, these estimates leave little room for capital grants beyond those already announced as part of the policy for acute housing needs. It is possible the freeing up of funds from the National Housing Infrastructure Facility (NHIF) might provide some limited flexibility.

Finally it is important to recognise the financing task has been complicated by significant increases in interest rates (affecting the risk-free rate for investment) and building construction costs, which are up almost 13% in the year to September 2022<sup>4</sup>. Although the investment mandate for the HAFF is not available yet, ISA strongly recommends it is set at CPI + 4.0% (or a nominal 6.5% assuming inflation returns to the middle of the target range). This would facilitate the maintenance in real terms of the annual funding cap of \$500 m per annum and maintenance of the capital in the HAFF in real terms.

#### **Recommendation:**

- ▶ The annual limit for amounts debited from the Housing Australia Future Fund Special Account as proposed in S36 Part 5 of the Housing Australia Future Fund Bill should be indexed annually on 1 July by the housing group of the consumer price index<sup>5</sup> for each year subsequent to the financial year beginning 1 July 2028.

### **Certainty of cashflows to support institutional investment**

It is difficult to reconcile the legislation and proposals for an annual determination of payments from the HAFF special Account to the Housing Australia Special Account (S36) with providing adequate certainty to Housing Australia to settle on terms that commit a stream of income to support raising capital.

It is the capitalisation of the income streams (annual availability payments / subsidies) that will determine what capital can be raised and serviced.

Although the precise structure of the financial instrument(s) will need to be determined based on the investment, mandates and competing investments, it is likely they will need to be sufficiently differentiated from ordinary commonwealth government securities (CGS) and NIFIC's bond aggregator to be attractive to institutional investors at volume.

---

<sup>4</sup> ABS Producer Price Indices September 2022 – output prices of construction  
<https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/sep-2022#construction>

<sup>5</sup> See <https://www.abs.gov.au/ausstats/abs@.nsf/lookup/28A24C64FA71CAA5CA2570CA00787F8D>

Accommodating the possibility of supporting equity investment by institutional investors will also be important.

Nevertheless, the pricing of a debt-like instruments are bid on an entitlement to future (discounted) cash flows. Plainly this is incompatible with a model where the future cash flows of the HAFF available to Housing Australia to directly or indirectly raise capital are unknown and only determined on an annual basis.

### **Recommendation:**

- ▶ The approval process of payments by the Minister from the Housing Australia Future Fund Special Account to the Housing Australia Special Account in S33Part 4 of the Housing Australia Future fund Bill occur following advice of Housing Australia after it assesses its requirements and commitments under its legislated functions and investment mandates for current and future years.

## **QLD Government Case Study**

In June 2021 the Queensland Government announced the establishment of a similar vehicle to the proposed HAFF called the Housing Investment Fund (HIF).

Challenges with the adequacy of the HIF resulted in an announcement in October 2022 to double the capital in the HIF to \$2bn and increase the investment mandate to target returns of \$130m per annum (6.5%) up from a 4.0% return target previously.<sup>6</sup> In making the announcement the Treasurer specifically referenced the need to provide a long-term, sustainable source of funding for the Government's housing initiatives and the impact of rising costs of building materials and labour on projects.

Following the revisions, the Government confirmed the income from the fund would support the construction of 5600 social and affordable homes.

If the capital requirements and financial model / solutions were broadly replicated in the Commonwealth scheme the HAFF would have to deliver annual income of \$650m per annum for 30,000 dwellings. This is 30% higher than the proposed \$500m annual cap.

It is also worth noting that while forms of financial assistance under the program include capital grants and other concessions, the primary form of support agreed under the HIF will take the form of subsidies profiled over the duration of the program which are indexed.<sup>7</sup>

The approach adopted here recognises the capitalisation of cashflows to provide upfront capital is more impactful than the use of cashflows to provide one off capital grants. Under the Commonwealth program up to 25 years of cashflows can be capitalized into upfront capital.

---

<sup>6</sup> Joint Ministerial press release 22 October 2022 see: <https://statements.qld.gov.au/statements/96394>

<sup>7</sup> EOI Documents Housing Investment Fund October 2021 (paragraph 3.1.2 p 5)  
<https://yoursay.chde.qld.gov.au/qhigi-resources>

ISA acknowledges there may be circumstances where grants might be desirable and the best use of HAFF revenues however the primary legislation should prioritise Housing Australia's financing activities when considering new grant proposals, so it has greater certainty to contract with institutional investors to raise capital for social and affordable housing under the program.

**Recommendation:**

- ▶ The Minister should prioritise payments to the Housing Australia Special Account from the Housing Australia Future Fund Special Account when considering any new grants to be provided from the Housing Australia Future Fund Special Payment Account under the proposed S 26 and new grants via the COAG reform fund under the proposed S 29 in Part 3 of the Housing Australia Future Fund Bill.

### Reducing risk for investors – Guarantee, indemnity cap, and make good clauses

A key determinant of efficient pricing of capital provided by institutional investors is reducing the inherent risk. This is particularly important for super funds who needs to be confident of good risk adjusted returns to members. By increasing transparency around potential risks and mitigating them the Commonwealth will lower the cost of capital allowing a higher amount of capital to be raised from the cashflows than would otherwise be the case. The flip side is that higher risk will have to be priced in resulting in higher returns for investors and lower capital that can be realised from the cashflows.

Accordingly, it is important the Commonwealth makes clear the means by which contracts entered into wont be subject to variability in the income stream from the HAFF and explicitly underwrite it should it fall short in any given year of being sufficient to meet the finance commitments to investors. We understand this is the Government's policy intent, but this should be explicitly stated.

Similarly, we note the Treasury Amendment Bill extends the Commonwealth guarantee available to Housing Australia in its financial dealings to 1 July 2028. Since this date falls during the roll-out of the five-year social and affordable program we recommend it be extended to at least 1 July 2030 and process for reviewing the indemnity cap put in place. Finally to cover the full 25 year duration of the program it is essential contracts include 'make good clauses' to ensure investors are compensated for unanticipated changes in the program by Government in future years.

**Recommendations:**

- ▶ The Commonwealth should make clear the process through which it will underwrite the returns from the Housing Australia Future Fund to meet contractual payment commitments required to be funded from the Housing Australia Special Account.
- ▶ The Extension of the Commonwealth Guarantee for Housing Australia by amendment to S 51(2) of the Housing Australia Act by the Treasury Laws Amendment (Housing Measures No. 1 ) Bill 2023 should be extended to at least 1 July 2030 and 'make good clauses' incorporated into the contracts entered into as part of the policy program and a legislated mechanism to regularly review and update the associated indemnity cap.

## Conclusion

When investing their members' money industry funds have always done so with a singular focus on what will generate the best long-term return for the member. The introduction of legislation for the \$10 billion HAFF is an important milestone in creating better designed incentives for institutional investors that gives investors certainty that there will be a subsidy program in place that matches their own long-term investment horizons.

As such, ISA is strongly supportive of the HAFF and associated programs outlined in the Housing Accord.

The key for institutional investors is ensuring the framework for the HAFF offers sufficient certainty and mitigates risks that would otherwise result in pricing of capital that is too high to meet the objectives of the program.

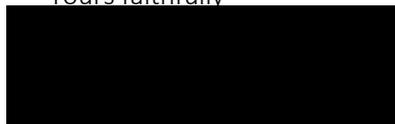
Ad-hoc decision making must be avoided and a realistic assessment of the capital needs should be understood. ISA's strong view is that the proposed changes as set out in the recommendations will help ensure the HAFF is workable from an investment perspective.

We recognise the Government wishes to have flexibility around the use of grants (beyond those already outlined and accounted for in the announcements to date), but there may be limitations given the available revenues from the HAFF.

ISA recommends addressing these issues to support the stated objective of this legislation of increasing and accelerating the supply of social and affordable housing.

ISA continues to be willing to work constructively to implement this important initiative and provide further detail and advice as requested.

Yours faithfully



Matthew Linden  
Deputy Chief Executive Officer

