



Submission for the Inquiry into the Housing Australia Future Fund 2023 package of bills

PowerHousing Australia

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PowerHousing Australia - Submission to the Senate Economics Legislation Committee

Housing Australia Future Fund Bill 2023 [Provisions] National Housing Supply and Affordability Council Bill 2023 [Provisions] and Treasury Laws Amendment (Housing Measures No. 1) Bill 2023 [Provisions]

Introduction

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.

PowerHousing Australia welcomes the opportunity to provide a submission on the Housing Australia Future Fund 2023 (HAFF Bill) and related bills. The housing legislative package has the potential to be a transformative reform, that creates a structural shift in the housing system which will enable the housing needs of significantly more Australians to be met.

CHPs are expanding the supply of social and affordable housing across the country. The sector is developing a growing investment ecosystem around affordable housing, taking in elements of global Environmental, Social and Governance (ESG) investment mandates, which will grow in the coming years.

CHPs are enthusiastic about the investment offered by the Housing Australia Future Fund (HAFF), National Housing Supply and Affordability Council (the Supply Council) and the NHFIC, reformed as Housing Australia. PowerHousing and our network of growth CHPs are keen to provide feedback that will enhance the aims of these policies and will make a considerable impact with increased housing supply.

Summary of Recommendations

PowerHousing's recommendations are in line with ensuring the success of the Housing Australia Future Fund and relevant elements, which will likely be a vital step in helping to address the current housing affordability crisis.

A summary of our key recommendations include:

1. Flexibility in the Housing Australia Future Fund Bill to allow for different funding options

The cap on disbursements (Housing Australia Future Fund Bill 2023, section 36) be removed to ensure as much flexibility as possible is retained and not place a constraint on the consideration of different funding approaches.

2. The Investment Mandate

An extensive consultation process with PowerHousing and its members be undertaken for the Investment Mandate to leverage off their experience and ensure there is a flexible and practical framework in place to:

- facilitate a simple, scalable and bankable funding model; and
- to ensure as much of the value of the subsidy as possible ends up on the CHP sector balance sheet as this will be continually reinvested in social and affordable housing, leaving an ongoing and growing legacy.

3. Membership of the Supply Council

The National Housing Affordability and Supply Council should include at least two council members who have appropriate qualifications, skills and experience in social or affordable rental housing or homelessness services.

4. Community Housing Providers

The legislation to clearly set out that registered Community Housing Providers (CHPs) are the regulated entities that will be recipients of support from Housing Australia.

5. Governance Clarity

Governance arrangements are clarified and streamlined across the National Housing Affordability and Supply Council; Minister's directions and priorities; implementation by Housing Australia; all the while there is a focus on accountability and a review of the HAFF that is appropriately timed.

6. Acute Housing Needs

Clarification is needed as to whether grants distributed by direction from the Minister for acute housing needs covers social and affordable housing.

Legislative Areas of Concern

1. Flexibility in the Housing Australia Future Fund Bill to allow for different funding options

PowerHousing has been conducting an options analysis around different funding options for the delivery of 30,000 social and affordable homes under the Housing Australia Future Fund. Our main focus has been on the Public Private Partnership (PPP) availability payment model given there are a number of precedent transactions including:

- Queensland – Housing Investment Fund (BHC, QIC and Australian Retirement Trust)
- New South Wales – Social and Affordable Housing Fund Phase 1 and 2
- Victoria – Ground Lease Model

Based on our analysis and feedback from our members who have been involved in these procurement processes, we view the PPP availability payment model as having potential shortcomings for consideration, particularly around the level of complexity involved and lack of scalability.

While the precedent transactions mentioned above have been successful, we question whether there is sufficient supply of land both in terms of location and scale (particularly for regional areas) to deliver 30,000 homes under these models which require a relatively large scale (300 to 1000+ homes) to justify the procurement costs involved. If we assume a more realistic average project size of 100-150 social and affordable homes, this would equate to 200-300 individual project finance transactions needing to be closed out to support the financing of these homes. Issues around this include:

- feedback we have received from Institutional Investors is that investments at this transaction scale with direct exposure to / underwriting individual projects is not preferred – they would prefer to have an aggregated exposure at significant scale / fund level directly with the Government, rather than underwrite individual projects of this type of scale to multiple CHPs and managing resources needed to support this process;
- feedback we have received from CHP members is that:
 - while the largest and commercially sophisticated members will be able to deliver transactions of this type, the view is that the model is potentially too complex, expensive and time consuming to be able to deliver 30,000 homes over 5 years. The selected funding model needs to be supportive of the delivery of smaller projects (relative to the total number of 30,000 homes) to enable broad participation across the Community Housing sector to support the successful delivery of a pipeline of this scale;
 - procurement of a PPP availability payment model is very expensive, noting members could have seven figure bid costs to pay for financial, legal and commercial advisors just to participate in the procurement process (i.e. even where they were unsuccessful) – we see this as less than ideal given the potential for significant amount of value leakage away from the affordable housing sector.
- In absence of further detail including the Investment Mandate, our financial modelling suggests that this approach will likely only deliver somewhere closer to 25,000 social and affordable homes.

One approach to removing direct project exposure to institutional investors is for NHFIC to act as a subordinated debt aggregator. However, this would involve the Government guaranteeing payment on the subordinated debt in addition to the senior debt that is already being guaranteed under the NHFIC Bond Aggregator. We question whether:

- the Government would be willing to guarantee the subordinated debt payments in addition to the guarantee it has in place on senior debt payments as well as the \$10 billion loan being taken out and invested into the HAFF; and

- there are any governance / commercial issues arising from having the same party underwriting both the Senior Debt and Subordinated Debt tranches in the same investments.

In summary, in isolation of further detail, our view is that the PPP availability payment model has some significant shortcomings if the objective is to deliver 30,000 social and affordable homes over 5 years, and other approaches should be considered.

While we do not have all the detail at this point as to what the full funding approach and procurement process looks like, what this highlights to us to optimize the program is the need for the Housing Australia Future Fund Bill to retain as much flexibility as possible so as not to constrain the consideration of different funding options (which could include for example concessional loans or conditional capital grants).

Section 36 of the Housing Australia Future Fund Bill 2023 caps the disbursements from the Fund at \$500 million per annum. The cap of disbursements reduces the flexibility of delivery from the HAFF, making delivery 30,000 homes over five years difficult to achieve on the face of it.

Recommendation 1

We recommend the cap on disbursements outlined in section 36 of Housing Australia Future Fund Bill 2023 be removed to ensure as much flexibility as possible is retained and not place a constraint on the consideration of different funding approaches.

2. Investment Mandate

Section 41, 43, 44, 45 and 48 of the Housing Australia Future Fund Bill 2023 deal with the Future Fund Investment Mandate, which binds the activities of the Future Fund Board and the Fund itself. The Investment Mandate that governs NHFIC¹ outlines a significant number of the functions, activities and requirements for NHFIC's operations. The Government is yet to release the Future Fund Investment Mandate. This makes it difficult to accurately understand the legislation, as many of its directions given to the Future Fund are not yet known.

The Investment Mandate is a critical document which will be a significant driver of whether the delivery of 30,000 social and affordable homes will be achieved. Further to our notes above, our view is that the Investment Mandate needs to be a flexible and practical framework which allows for the implementation of a funding approach which is simple, scalable and bankable for all stakeholders involved and demonstrate value for money.

PowerHousing and its members have significant experience in delivering social and affordable homes utilising numerous funding approaches and working in partnership with a wide range of stakeholders including NHIFC, banks, institutional investors, impact investors, developers, state governments, advisors and community partners. As the party in the middle who brings these deals together, our view is that we bring useful insights into what a simple, scalable and bankable delivery model looks like.

In terms of demonstrating value for money, our simplistic view is that as much of the value of the subsidy as possible should end up on the CHP sector balance sheet, as this ensures the reinvestment of all profits back into more social and affordable homes, resulting in the initial investment leaving behind an ongoing and growing legacy. We understand that there will be a number of issues that need to be worked through in setting a value for money assessment framework and designing the procurement process including length of housing outcomes, geographical real estate market differences, definition of affordable

¹ National Housing Finance and Investment Corporation Investment Mandate Direction 2018

housing (affordability with respect to market rent / income levels), as well as a wide range of partnerships that need to be considered including with State Governments.

What this highlights to us is that there are many issues which will need to be considered as the Investment Mandate gets drafted and minds turn to the funding and procurement approach.

Recommendation 2

We recommend extensive consultation be undertaken with PowerHousing and its members in relation to the Investment Mandate to leverage off their experience and ensure there is a flexible and practical framework in place to deliver 30,000 social and affordable homes. In our view, this will require an approach which:

- **is simple, scalable and bankable for all stakeholders involved;**
- **ensures as much of the value of the subsidy as possible ends up on the CHP sector balance sheet so that all profits can be reinvested back into more social and affordable homes, resulting in the initial investment leaving behind an ongoing and growing legacy.**

3. Membership of the Supply Council

Section 8 in the National Housing Supply and Affordability Council Bill 2023 outlines the membership of the Supply Council and subsection 22(2) provides the criteria to be met for members to be appointed to the Supply Council.

The Bill makes no prescription for the appointment of members with relevant experience in the delivery of social and affordable housing. Comparatively, the National Housing Finance and Investment Corporation Act 2018 paragraph 18(3)(b) states when outlining board members for NHFIC that:

(B) At least one board member has qualifications, skills or experience in social or affordable housing.

While the Supply Council has a broader remit than just social and affordable housing—it will also consider crucial measures to improve housing affordability—we also view the success of the Housing Australia Future Fund and its ability to deliver 30,000 homes over 5 years as being closely linked with the work of the Supply Council. As such, our recommendation is that the requirement that the Board of NHFIC (now Housing Australia) contains relevant expertise from social and affordable housing providers be replicated for the Supply Council.

Recommendation 3

The final membership of the National Housing Affordability and Supply Council should 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.

4. Community Housing Providers

Registered Community Housing Providers (CHPs) are subject to appropriate regulation that ensures the interests of residents, communities, investors, governments and stakeholders are protected. Not-for-profit CHPs also reinvest all surpluses for the benefit of the community, delivering more social and affordable housing to help meet demand. As the legislation is currently worded, there are a wide range of possible recipients of HAFF funding. There is a risk that, for example as happened with NRAS, investor products are designed to attract a wide range of investors including those where there is limited regulatory oversight, which could compromise the long-term intent of the program.

Clarity around CHPs being the recipients of support from the HAFF will 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.

Recommendation 4

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 of the Housing Australia Future Fund.

5. Governance Clarity

The Housing Australia Future Fund 2023 (HAFF Bill) and related bills create uncertainty over the governance, priorities and application of disbursements of 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 the Government and confusion for market participants.

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. Housing Australia would play a central role in disbursement of the funds.

The legislation, as it is currently articulated, does not appear to provide adequate transparency and clarity around governance. Without this clarity, there is significant risk that investors will not participate, which may lead to a failure to deliver the 30,000 homes.

Recommendation 5

We strongly recommend that the governance arrangements are clarified, and streamlined as follows:

- **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. Further that this advice is 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 investible 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 macroeconomic 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.

6. Acute Housing Needs

The power to make grants is set out in section 18 of the Bill. Section 18(1) would allow the Minister to make grants of financial assistance to a person or body in relation to acute housing needs.

This grant power allows the Commonwealth to make grants directly to community housing providers, people, private companies and other legal entities but only in relation to acute housing needs.

Acute housing need has a narrow definition and is described as referring to crisis housing offered to cohorts at serious risk of, or who are already experiencing homelessness. This includes short term and emergency housing, medium to long term transitional housing and specialist services in relation to housing. It does not specify social or affordable housing. Is the definition wide enough and is it possible for it to be widened?

Section 18(3) allows the Minister to make grants of financial assistance to a State or Territory in relation to acute housing needs, social housing or affordable housing. This means that a broader range of grants can be made directly to the States and Territories as compared with other entities, including CHPs.

Given the narrow definition of acute housing needs it is likely that the direct grant power in section 18(1) of the Bill will be limited to benefitting Community Housing Providers or housing associations that provide short term and emergency housing, medium to long term transitional housing and specialist services in relation to housing. Our CHP member cohort provides a broader range of housing, including social housing generally.

Broader grants from the Fund for the purposes of social and affordable housing could be available to the states or funneled through state programs but this may result in uncertainty of actual deliver. Accordingly, it is important we understand in partnership with CHPs:

- how the states intend to use these fund;
- what type of grants and programs they will be used for; and
- who will be able to access the grants and programs administered by the states.

Recommendation 6

We recommend that the legislation more clearly defines acute housing needs, and whether this includes social and affordable housing provision. If acute housing need does not cover social and affordable housing, the legislation needs to outline how grants will be used by for social and affordable housing provision.

Appendix: About PowerHousing Australia

PowerHousing Australia, as a Representative Peak body, has scale Community Housing Provider (CHP) Members across Australia committed to addressing housing need through growth of supply, best practice in housing and community development, and excellence in tenancy and asset management.

PowerHousing Australia and our 38 CHP members, provide social and affordable housing to 85,000 households and 145,000 tenants nationally (80% of total CHP housing nationally) across the country with the majority being low to moderate income earners and vulnerable Australians.

Members encourage self-reliance for people who cannot fully support themselves by employing strategies for sustainable social impact through scale partnerships, best practice sharing and collaboration.

Our 60 Affiliate Member partners include national finance investment, construction, materials, labour, software, housing data and supporting expertise including: ANZ, JLL, KPMG, Mettricon, Stockland, Bunnings, CoreLogic and others. This affiliate expertise connects and collaborates with our CHPs to help support these growth providers of social and affordable housing to deliver more housing outcomes in partnership with Australian governments.

PowerHousing Australia is based in Canberra in close proximity to the seat of Government in Australia, working closely with our Members and Affiliates to act as the independent voice for the growth providers of social and affordable housing.

Some recent media and research as reported nationally (partnered mostly with CoreLogic):

\$10b Housing Legislation: [Question Time Ministerial response calling out PowerHousing support](#) (Feb 2023)

\$10b Housing Legislation Media: [National Nine News lead political story](#) (Feb 2023)

Rental Crisis: [7 Sunrise program talking rental and affordable housing live to air](#) (Late 2022)

Super fund investment in the emerging affordable housing investment asset class: [AFR Chanticleer 'Why Super funds will turbocharge social housing'](#) (Budget day Oct 2022)

Housing affordability: [Sky News electorate election commentary](#) (Mid 2022)

Post Covid Price surge: [2022 Australian Afford Housing Report: Standard Housing Environmental Scan](#), and [ABC The Business feature](#) (Late 2021)

Early Covid housing uncertainty: [2021 Australian Affordable Housing Report: Standard House Report](#) as [raised by then housing Minister in Question Time](#) and [featured on ABC 7:30](#). (Mid 2020)