

Submission to Amendments to the Housing Australia Investment Mandate Direction

The interim National Housing Supply and Affordability Council (the Council) welcomes the opportunity to make a submission on the exposure draft amendments to the National Housing Finance and Investment Corporation Investment Mandate Direction 2018 (to be renamed the Housing Australia Investment Mandate Direction 2018) and accompanying explanatory statement.

Background of the Council

The interim Council was established on 1 January 2023 to provide independent, evidence-based expert advice to Government on housing supply and affordability across the housing spectrum. On 14 September 2023, both Houses of the Parliament passed the National Housing Supply and Affordability Council Bill 2023 that will permanently establish the Council.

Members of the Council are experts from across the housing sector, including on homelessness, social and affordable housing, planning, local government, industry and academia. The Council also engages with, and learns from, the diverse perspectives of stakeholders who are just as committed to achieving real reform in this space as we are.

The Council's task is to build the evidence base for national housing policy through its research, housing supply and demand forecasts, and by working to improve data availability and quality. This work will form the basis of the Council's annual report to the Minister on its research into housing supply and affordability.

Housing Australia's new legislated responsibilities

Housing Australia has a significant legislated role to provide grants and loans to address Australia's social, affordable and acute housing needs. The Council recognises that this role, and the significant increase in funding to be administered by Housing Australia, is considerable. The principle of supporting Housing Australia to meet this priority underpins this submission.

Program scope and targets

The Council notes the challenges and distributional impacts of Housing Australia's work. In its deliberations to inform this submission, the Council considered aspects of the program that could be broadened in scope or targets that could be set. However, at this early stage it is critical that funding begin to flow and dwellings be built to meet Australia's chronic undersupply of homes, particularly of social, affordable and acute housing stock.

With this in mind, the Council considered a range of non-binding factors that Housing Australia should take into account when executing its Investment Mandate. These factors should also be considered in the legislated review scheduled for 2026 (see separate section below).

These factors include, firstly, that Housing Australia consider the impact of its investment activity on State and Territory efforts to expand, in net terms, the total social housing stock (that is, States and Territories ought not to be incentivised to substitute Housing Australia funds for their own investment in social and affordable housing).

Relatedly, the Commonwealth has set ambitious national targets for new housing and consideration should be given to how the increase in the overall housing stock is measured to ensure it is an accurate representation of new housing added. Housing Australia should be cognisant of the overall housing stock effects that result from its financing decisions and ensure this is measured appropriately.

Secondly, that Housing Australia considers the inevitable cost and market disadvantages faced in regional, rural and remote housing markets. The Council is of the view that Housing Australia should correct for market biases favouring commercial feasibility in metropolitan areas.

Thirdly, that Housing Australia considers the ultimate Net Present Value cost of securing social and affordable housing through a proposed deal relative to some consistent benchmark, for example, the cost of procurement through traditional public sector acquisition and operation.

Fourthly, that Special Purpose Vehicles and other corporate vehicles retain or utilise tax concessions for their intended purposes. This will ensure they do not unintentionally support investor returns. This could be achieved by maintaining the requirement that these vehicles be registered as Community Housing Providers.

As the Council noted in its inaugural report, *Barriers to Institutional Investment, Finance and Innovation in Housing*, the institutional investor market is nascent. Housing Australia can play an important role in catalysing the market, by encouraging potential applicants to access institutional capital to support the emergence of an institutional market. Accessing institutional capital is one way to increase housing supply, which would improve affordability and ease rental shortages.

Definitions

Different definitions of affordable housing across (and within) jurisdictions add to complexity and administrative costs and stymie scalability of the sector. Definitions of other frequently used terms, such as social housing and 'well located' housing, also vary significantly.

The Council notes that there are broad definitions for social and affordable housing included in the Explanatory Memorandum of the Act (Clause 18, section 1.66 and 1.67).

In July 2023 the Council recommended in its report that “Commonwealth, and state and territory governments, with input from the community housing sector, should develop and adopt common definitions of matters related to social and affordable housing, including consistent definitions of ‘affordable’. These definitions should be progressively applied to regulatory systems, planning schemes, funding agreements and government policies.”

Housing Australia will have regard to the broad definitions in the Explanatory Memorandum, however it should also have regard to the outcomes of any subsequent work that flows from the Council’s recommendation regarding definitions.

The Council’s role in the Investment Mandate

The Council notes that the Investment Mandate at Section 28J requires the Housing Australia Board to consider any relevant report by or advice from the Council in relation to unmet social housing or affordable housing needs, or unmet acute housing needs. The Council welcomes this requirement on the Housing Australia Board.

The Council considers that the Housing Australia Board should also consider the Council’s broader range of reports and advice when making financial decisions in relation to the National Housing Accord Facility (Section 28V), given that the outcomes of these financial decisions will address affordable housing supply.

Legislated review in 2026

The Council notes under section 65 of the *Housing Australia Future Fund Act* the Housing Minister must cause a review of the operation of the Act by 31 December 2026. The review must consider the extent to which grants and transfers have improved housing outcomes for Australians.

The Council considers that this review should be broad in nature and include three aspects:

Firstly, that a public sector comparator be used to examine the cost of administering a program such as the Housing Australia Future Fund (HAFF) versus the costs if government funded the full amount of projects directly. Given the HAFF is a Private Public Partnership (PPP), the Council is of the view that there should be public transparency around whether spending is efficient, or if funding could have been used more effectively.

Secondly, that potential unintended outcomes that may arise from the HAFF program be examined. For example, there may be a possible overdependency on Housing Australia as the only perceived pathway to creating new social or affordable housing stock may result in the HAFF program unintentionally disincentivising alternative financiers of supply. Flow on effects may include a contraction of financiers in the social and affordable housing sectors, and contribute to the reduction of investment in housing supply overall.

When making their financing decisions, the Housing Australia Board should be mindful of building broader industry capacity and capability, by supporting project financial structures, designs, innovations and outcomes that have potential to be applied on subsequent projects across the broader housing sector.

Thirdly, that forms of aggregation by investors be monitored and considered. The Council is aware that the minimum threshold of institutional investors may exceed the level of individual projects, requiring forms of aggregation by investors within the Community Housing Provider sector. In its recent report, the Council suggested that this be monitored, and if necessary, that Housing Australia consider the support required. This may be an area for investigation during the legislated review in 2026.

Conclusion

The Council is looking forward to the commencement of Housing Australia's work program and will continue to work closely with Housing Australia on improving housing outcomes for Australians.