Parliamentary
Budget Office

Building One Million Homes	
Party:	Australian Greens

Summary of proposal:

Component 1 would establish a federal housing trust (the trust) to construct and manage dwellings in partnership with states, territories and community housing providers.

The trust would be established outside the general government sector and would be allowed to make a profit. All funding from the Australian Government would be provided in the form of equity.

- Over 20 years, the trust would construct 1,000,000 new environmentally sustainable residential dwellings which adhere to universal design principles to be operated by the Australian Government, partner states, territories and housing providers.
  - The trust would be required to construct dwellings at an average cost of $300,000 each in 2022-23, indexed in line with growth in land and construction costs.
- 875,000 of the dwellings would be residential tenancies.
  - 750,000 dwellings constructed by the trust would be allocated for rent by low-income households.
  - The remaining 125,000 rentals would be universal access rentals.
  - Tenants in trust homes pay the lower of 25% of their income or market rent.
  - Rental income from trust homes would first go to the operator to cover operating costs.
  - Anything in excess of operating costs would be split 2:1 between the Australian Government and the states and territories.
- 125,000 dwellings would be part of a shared equity ownership scheme (the scheme).
  - The occupant would buy 50% to 75% of the equity in each of these dwellings.
  - With a 10% deposit, participants in the scheme can access a loan from the Australian Government at the government bond rate.
  - The states and territories would waive the stamp duty, if applicable.
  - Each homeowner in the scheme would pay a share of the operating costs proportionate to their equity stake.
  - Sales of the equity stake by owners would be limited to the trust as sole purchaser. The purchase price would be set at a fair rate based on the national average dwelling price rise during the life of the share equity arrangement, capped at 7.5% per annum price increase on a cumulative basis.
  - Tenants in the trust's rental tenancies would have the option of purchasing their dwelling through the scheme.

- The Australian Government would provide two-thirds of the required funding per dwelling. State and territory governments would provide the remaining third. Contributions from state and territory governments could include provisions of land, either as free title or leasehold.

Component 2 would establish a capital grants fund to provide state and territory governments with $1.5 billion each year for 3 years and then $2.5 billion divided evenly over the next 7 years for public housing improvements and construction, and investment in high quality Specialist Disability Accommodation and transitional housing options.

Both components would start from 1 July 2022.

Costing overview

The proposal would be expected to decrease the fiscal balance by $8,870 million, the underlying cash balance by $6,330 million and the headline cash balance by $42,910 million over the 2022-23 Budget forward estimates period.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications over the period to 2032-33 is provided at Attachment A.

The financial implications of the proposal are uncertain and highly sensitive to assumptions around the speed of construction, capacity within the construction industry, the cost of land and dwelling construction, the number of households that would access residential tenancies and the scheme, annual operating costs and changes in the 10-year government bond rate.

It is uncertain whether the trust would be able to achieve an average cost per dwelling of $300,000, taking into account the requirement that dwellings be environmentally sustainable and adhere to universal design principles. There is potential the trust would not be able to meet the specified average cost per dwelling for such a large scheme. To the extent that cost overruns increase the average cost per dwelling, the cost of this proposal would increase or the scheme would fall short of other objectives such as the number of dwellings constructed or intended construction standards.

The impact of this proposal on property markets is highly uncertain and the Parliamentary Budget Office (PBO) has not made any assessment of flow-on impacts on property prices, rents or on the supply and demand of residential properties in this costing. Additionally, the PBO has not undertaken any analysis on how and if state and territory governments would contribute to the scheme. Past experience has shown that the Australian Government often has to make adjustments to their policy to ensure state and territory governments agree to participate. Furthermore, the location and types of housing provided under this proposal would be limited by the requirement to keep the average cost per dwelling at $300,000.

It is uncertain whether the provision of funding to the trust would be able to be classified as equity, as the trust would not be expected to generate a capital return within its first 10 years of operation.

Consistent with *PBO Guidance 02/2015*, public debt interest expense impacts have been included in this costing because the equity injections and concessional loans provided under this proposal involve financial asset transactions.

The fiscal, underlying cash and headline cash balance impacts differ in the treatment of interest and dividend payments, and the flow of loan principal and equity amounts. In particular, only the fiscal balance reflects the concessional loan discount expense, associated unwinding income, and loan write-downs, and only the headline cash balance includes transactions related to loan principal amounts. The impact on net debt will be broadly consistent with movements in the headline cash balance. A note on the accounting treatment of concessional loans is included at Attachment B.

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

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-2,009.1	-2,461.5	-2,669.8	-1,730.2	**-8,870.6**
Underlying cash balance	-1,649.0	-1,727.0	-1,939.0	-1,011.0	**-6,326.0**
Headline cash balance	-6,819.0	-12,217.0	-12,409.0	-11,461.0	**-42,906.0**

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

Key assumptions

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

- The trust would be able to be established outside the general government sector as a public non-financial corporation.
- The construction of residential dwellings would occur evenly over the 20-year period.
  - Fewer dwellings would be constructed in the first year than following years with the difference being made up over the life of the proposal.
- While the trust remains unprofitable, dividends would not be required to be paid out and all revenues would contribute towards building and operating costs.
  - When the trust begins to generate a profit, it would be expected to pay corporate taxation and return a dividend to the Australian Government and the states and territories.
  - This is consistent with the requirements for the Australian Government investment in the trust to be treated as equity funding.
- There would be sufficient capacity within the building industry to construct the specified number of dwellings over the 20-year timeframe.
  - Known and unforeseen factors, such as the 2032 Olympic games, may affect this assumption.
- The cost of construction and land acquisition would increase at a rate consistent with historical growth in construction costs, as provided by the Australian Bureau of Statistics.
- Residential tenancies and participants in the scheme would begin in 2022-23, the first year of the proposal.
  - All residential tenancies and scheme places would be filled each year over the span of the policy.
  - The transfer of equity from the Australian Government to scheme participants would occur in the same year.
- Household income for low-income households would be similar to the bottom quintile of average household income.
  - Rent for low-income tenancies would be set to 25% of household income.
  - Household income would grow in line with projections for average weekly earnings.

- Rent for universal access residential tenancies would be set to the median national market rent for houses.
  - Market rent would increase at a rate consistent with historical growth in the national rent index, as provided by the Australian Bureau of Statistics.
- Around 20% of tenants in the trust's rental tenancies would convert to the scheme and purchase their dwelling.
  - This would occur uniformly over the 20-year period and conversions would be distributed evenly between low-income household tenancies and universal access rentals.
- The scheme would sell an equity stake of around 63% for each dwelling.
- The sale of an equity stake by a scheme member would be re-sold by the trust in the same financial year.
- The costs associated with waiving stamp duty taxes have not been factored into this response as costs are assumed to impact state and territory governments as opposed to the Australian Government.
  - There could be possible impacts of this to the Australian Government which have not been assessed by the PBO.
- Annual operating costs of the scheme would be around 1% of the estimated dwelling price.
- The Australian Government loan interest rate would be in line with the government 10-year bond rate.
- Market interest rates would move in line with the Reserve Bank of Australia's current housing loan lending rates.
- The maturity of the scheme loans would be 30 years.
- Debt not expected to be repaid would be 1.5% of debt issued.
- State and territory governments would contribute to the scheme as specified in the proposal.
- All income from rents paid and sales of housing equity would go towards operating costs, and no income would be redistributed to the Australian Government or states and territories.
  - Any imbalances between Australian Government and state or territory expenditure would be reconciled at the conclusion of the construction program.
- The departmental staffing profile to deliver this proposal would reflect a service delivery profile similar to Services Australia and other large programs, adjusted for the level of effort required.

Methodology

The financial implications of this proposal were derived by estimating the net amount of funding required to be provided by the Australian Government to the trust, taking into account the cost of constructing the specified number of dwellings, rental incomes, revenue from the sale of housing equity under the scheme and the proportion of costs that would be met by the states and territories.

Housing construction costs were based on the specified maximum average cost of $300,000 per dwelling in 2022-23 and grown in line with historical growth in housing construction costs.

Rental income from residential tenancies was calculated by estimating average yearly rental income multiplied by the number of households. Rental income for tenancies reserved for low-income households was around 25% of household income based on household income for the bottom quintile of households. For the universal access tenancies rental income was based on national market rent for houses.

The financial impact of the equity sold to occupants as part of the scheme was calculated as a percentage of the estimated dwelling price in each year of the scheme. The remaining equity share would be retained by the Australian Government. The deposit to be paid by participants was calculated as 10% of the dwelling price for the relevant year.

The loan amount was calculated by subtracting the deposit paid from the equity stake and was treated as a concessional loan.

Operating costs for the scheme were based on a percentage of the total value of dwellings in the scheme. The costs were split between the occupant and the Australian Government based on the average equity stake of each party.

The departmental expenses were estimated based on the workforce required to deliver other significant service delivery programs.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

The Department of Finance provided the standard departmental costing template as at the *Pre-election Economic and Fiscal Outlook 2022-23*.

Economic parameters used in the model were provided by the Department of Finance and the Treasury as at the *Pre-election Economic and Fiscal Outlook 2022-23*.

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Davidson P; Bradbury B; Wong M & B; Hill P (2020) *Inequality in Australia, 2020 Part 2: Who is affected and why*, Australian Council of Social Service and UNSW, Sydney, accessed 28 April 2022.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Building One Million Homes – financial implications

Table A1: Building One Million Homes – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Administered non-tax													
Income from unwinding of discounts	*18.0*	*56.0*	*94.0*	*132.0*	*172.0*	*211.0*	*250.0*	*288.0*	*327.0*	*365.0*	*402.0*	***300.0***	***2,315.0***
Interest accrued from loans	*29.0*	*87.0*	*146.0*	*204.0*	*263.0*	*327.0*	*397.0*	*474.0*	*557.0*	*647.0*	*744.0*	***466.0***	***3,875.0***
Total – revenue	**47.0**	**143.0**	**240.0**	**336.0**	**435.0**	**538.0**	**647.0**	**762.0**	**884.0**	**1,012.0**	**1,146.0**	**766.0**	**6,190.0**
Expenses													
Administered													
Concessional loan discount expense	*-349.0*	*-721.0*	*-744.0*	*-769.0*	*-794.0*	*-808.0*	*-823.0*	*-838.0*	*-853.0*	*-869.0*	*-885.0*	***-2,583.0***	***-8,453.0***
Write downs	*-19.1*	*-39.5*	*-40.8*	*-42.2*	*-43.5*	*-45.0*	*-46.4*	*-48.0*	*-49.5*	*-51.1*	*-52.8*	***-141.6***	***-477.9***
Grant payments	*-1,500.0*	*-1,500.0*	*-1,500.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-*	***-4,860.0***	***-7,020.0***
Total – administered	***-1,868.1***	***-2,260.5***	***-2,284.8***	***-1,171.2***	***-1,197.5***	***-1,213.0***	***-1,229.4***	***-1,246.0***	***-1,262.5***	***-1,280.1***	***-937.8***	***-7,584.6***	***-15,950.9***
Departmental													
Departmental costs	*-108.0*	*-54.0*	*-55.0*	*-55.0*	*-55.0*	*-56.0*	*-56.0*	*-56.0*	*-57.0*	*-57.0*	*-57.0*	***-272.0***	***-666.0***
Total – departmental	***-108.0***	***-54.0***	***-55.0***	***-55.0***	***-55.0***	***-56.0***	***-56.0***	***-56.0***	***-57.0***	***-57.0***	***-57.0***	***-272.0***	***-666.0***
Total – expenses	**-1,976.1**	**-2,314.5**	**-2,339.8**	**-1,226.2**	**-1,252.5**	**-1,269.0**	**-1,285.4**	**-1,302.0**	**-1,319.5**	**-1,337.1**	**-994.8**	**-7,856.6**	**-16,616.9**
Total (excluding PDI)	**-1,929.1**	**-2,171.5**	**-2,099.8**	**-890.2**	**-817.5**	**-731.0**	**-638.4**	**-540.0**	**-435.5**	**-325.1**	**151.2**	**-7,090.6**	**-10,426.9**
PDI impacts	***-80.0***	***-290.0***	***-570.0***	***-840.0***	***-1,110.0***	***-1,410.0***	***-1,730.0***	***-2,090.0***	***-2,470.0***	***-2,890.0***	***-3,380.0***	***-1,780.0***	***-16,860.0***
Total (including PDI)	**-2,009.1**	**-2,461.5**	**-2,669.8**	**-1,730.2**	**-1,927.5**	**-2,141.0**	**-2,368.4**	**-2,630.0**	**-2,905.5**	**-3,215.1**	**-3,228.8**	**-8,870.6**	**-27,286.9**

(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.

\- Indicates nil.

Table A2: Building One Million Homes – Underlying cash balance ($m)[a]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Receipts													
Administered non-tax													
Loan interest received	*29.0*	*87.0*	*146.0*	*204.0*	*263.0*	*327.0*	*397.0*	*474.0*	*557.0*	*647.0*	*744.0*	***466.0***	***3,875.0***
Total – receipts	**29.0**	**87.0**	**146.0**	**204.0**	**263.0**	**327.0**	**397.0**	**474.0**	**557.0**	**647.0**	**744.0**	**466.0**	**3,875.0**
Payments													
Administered													
Grant payments	*-1,500.0*	*-1,500.0*	*-1,500.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-*	***-4,860.0***	***-7,020.0***
Total – administered	***-1,500.0***	***-1,500.0***	***-1,500.0***	***-360.0***	***-360.0***	***-360.0***	***-360.0***	***-360.0***	***-360.0***	***-360.0***	***-***	***-4,860.0***	***-7,020.0***
Departmental													
Departmental costs	*-108.0*	*-54.0*	*-55.0*	*-55.0*	*-55.0*	*-56.0*	*-56.0*	*-56.0*	*-57.0*	*-57.0*	*-57.0*	***-272.0***	***-666.0***
Total – departmental	***-108.0***	***-54.0***	***-55.0***	***-55.0***	***-55.0***	***-56.0***	***-56.0***	***-56.0***	***-57.0***	***-57.0***	***-57.0***	***-272.0***	***-666.0***
Total – payments	**-1,608.0**	**-1,554.0**	**-1,555.0**	**-415.0**	**-415.0**	**-416.0**	**-416.0**	**-416.0**	**-417.0**	**-417.0**	**-57.0**	**-5,132.0**	**-7,686.0**
Total (excluding PDI)	**-1,579.0**	**-1,467.0**	**-1,409.0**	**-211.0**	**-152.0**	**-89.0**	**-19.0**	**58.0**	**140.0**	**230.0**	**687.0**	**-4,666.0**	**-3,811.0**
PDI impacts	***-70.0***	***-260.0***	***-530.0***	***-800.0***	***-1,070.0***	***-1,370.0***	***-1,690.0***	***-2,050.0***	***-2,430.0***	***-2,840.0***	***-3,320.0***	***-1,660.0***	***-16,430.0***
Total (including PDI)	**-1,649.0**	**-1,727.0**	**-1,939.0**	**-1,011.0**	**-1,222.0**	**-1,459.0**	**-1,709.0**	**-1,992.0**	**-2,290.0**	**-2,610.0**	**-2,633.0**	**-6,326.0**	**-20,241.0**

(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.

\- Indicates nil.

Table A3: Building One Million Homes – Headline cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Administered non-tax													
Loan interest received	*29.0*	*87.0*	*146.0*	*204.0*	*263.0*	*327.0*	*397.0*	*474.0*	*557.0*	*647.0*	*744.0*	***466.0***	***3,875.0***
Loan principal repayments	*40.0*	*130.0*	*220.0*	*310.0*	*410.0*	*500.0*	*610.0*	*710.0*	*820.0*	*930.0*	*1,050.0*	***700.0***	***5,730.0***
Total – receipts	**69.0**	**217.0**	**366.0**	**514.0**	**673.0**	**827.0**	**1,007.0**	**1,184.0**	**1,377.0**	**1,577.0**	**1,794.0**	**1,166.0**	**9,605.0**
Payments													
Administered													
Housing trust - Equity injection	*-3,930.0*	*-7,980.0*	*-7,970.0*	*-7,950.0*	*-7,920.0*	*-7,880.0*	*-7,830.0*	*-7,760.0*	*-7,670.0*	*-7,560.0*	*-7,430.0*	***-27,830.0***	***-81,880.0***
Loans made	*-1,280.0*	*-2,640.0*	*-2,720.0*	*-2,810.0*	*-2,900.0*	*-3,000.0*	*-3,100.0*	*-3,200.0*	*-3,300.0*	*-3,410.0*	*-3,520.0*	***-9,450.0***	***-31,880.0***
Grant payments	*-1,500.0*	*-1,500.0*	*-1,500.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-360.0*	*-*	***-4,860.0***	***-7,020.0***
Total – administered	***-6,710.0***	***-12,120.0***	***-12,190.0***	***-11,120.0***	***-11,180.0***	***-11,240.0***	***-11,290.0***	***-11,320.0***	***-11,330.0***	***-11,330.0***	***-10,950.0***	***-42,140.0***	***-120,780.0***
Departmental													
Departmental costs	*-108.0*	*-54.0*	*-55.0*	*-55.0*	*-55.0*	*-56.0*	*-56.0*	*-56.0*	*-57.0*	*-57.0*	*-57.0*	***-272.0***	***-666.0***
Total – departmental	***-108.0***	***-54.0***	***-55.0***	***-55.0***	***-55.0***	***-56.0***	***-56.0***	***-56.0***	***-57.0***	***-57.0***	***-57.0***	***-272.0***	***-666.0***
Total – payments	**-6,818.0**	**-12,174.0**	**-12,245.0**	**-11,175.0**	**-11,235.0**	**-11,296.0**	**-11,346.0**	**-11,376.0**	**-11,387.0**	**-11,387.0**	**-11,007.0**	**-42,412.0**	**-121,446.0**
Total (excluding PDI)	**-6,749.0**	**-11,957.0**	**-11,879.0**	**-10,661.0**	**-10,562.0**	**-10,469.0**	**-10,339.0**	**-10,192.0**	**-10,010.0**	**-9,810.0**	**-9,213.0**	**-41,246.0**	**-111,841.0**
PDI impacts	***-70.0***	***-260.0***	***-530.0***	***-800.0***	***-1,070.0***	***-1,370.0***	***-1,690.0***	***-2,050.0***	***-2,430.0***	***-2,840.0***	***-3,320.0***	***-1,660.0***	***-16,430.0***
Total (including PDI)	**-6,819.0**	**-12,217.0**	**-12,409.0**	**-11,461.0**	**-11,632.0**	**-11,839.0**	**-12,029.0**	**-12,242.0**	**-12,440.0**	**-12,650.0**	**-12,533.0**	**-42,906.0**	**-128,271.0**

(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.

\- 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[2]

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.[3] 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 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.

[2] The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

[3] 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.