



## Policy costing

Government-owned affordable housing build	
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens
Date costing completed:	10 March 2023
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period
	<input checked="" type="checkbox"/> Confidential (Public release requested on 17 March 2023) <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>Under the proposal, the Australian Government would establish an Australian Government housing trust (the Trust) outside the general government sector and provide \$5 billion equity injection per year (indexed by CPI) into the Trust to fund the construction of public and affordable housing.</p> <ul style="list-style-type: none"> <li>the \$5 billion equity funding from the Australian Government would be matched by the states and territories.</li> <li>Ownership of all housing would be retained by the Trust, with equity being equally split between the Australian Government and the state and territory governments.</li> <li>State and territory and local taxes such as stamp duty or land tax, would be waived.</li> <li>The Trust would be required to keep costs of land and construction consistent with costs reported in <a href="#">Social housing as infrastructure: an investment pathway</a> by the Australian Housing and Urban Research Institute (the AHURI report), allowing for appropriate indexation.</li> </ul> <p>Under this proposal, rent collected from eligible residents (less maintenance and management costs) would be re-invested to construct more housing.</p> <p>The proposed housing profiles split by dwelling type and residents are outlined below.</p> <ul style="list-style-type: none"> <li><b>50% of homes constructed would be public housing:</b> <ul style="list-style-type: none"> <li>The profile of dwellings would be similar to existing state and territory owned public housing.</li> <li>Residents eligible for public housing would have a median household income in the lowest quintile or households with government payments as main source of income.</li> <li>Rents would be set at 25% of median household income for eligible residents.</li> </ul> </li> <li><b>50% of homes constructed would be affordable housing:</b></li> </ul>	

- Affordable housing dwellings would be a mixture of 50% apartments, 25% semi-detached and 25% freestanding.
- Residents eligible for affordable housing would have a median household income in the second quintile.
- Rents would be set at 30% of median household income for eligible residents.

The request also sought additional information related to the proposal:

- 1) The number of public and affordable homes constructed each year over the period to 2032-33.
- 2) The number of additional homes that could be constructed using rental returns annually over the period to 2032-33.
- 3) The cumulative number of homes being constructed over the period to 2032-33.
- 4) The total amount of rental returns from public and affordable housing received each year over the period to 2032-33.

The proposal is ongoing and would be in effect from 1 July 2023.

## Costing overview

The proposal would be expected to decrease the fiscal balance by around \$904 million, the underlying cash balance by around \$824 million, and the headline cash balance by around \$16,394 million over the 2022-23 Budget forward estimates period. The impacts on the fiscal and underlying cash balances mainly reflect increases in the public debt interest (PDI) for the annual housing trust equity injections and departmental expenses. These are partially offset by a decrease in administered expenses on Commonwealth Rent Assistance (CRA) as CRA recipients move into public housing dwellings constructed under the proposal. The headline cash balance impact also reflects the equity injections into the housing trust.

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. Additional information related to the proposal is provided at Attachment B.

The financial implications of the proposal are uncertain and highly sensitive to assumptions around negotiations with state and territory governments, the speed of approvals, capacity within the construction industry, the cost of land and dwelling construction, the uptake by households of the dwellings delivered under the proposal and annual operating costs.

It is uncertain whether the Trust will be able to achieve land and construction costs consistent with the AHURI report. There is potential the Trust would not be able to meet these specified costs, in which case the number of dwellings that would be constructed and the associated savings from CRA would decrease, increasing the expected costs of this proposal.

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 of if and how state and territory governments would contribute to the proposed policy. Past experience has shown that the Australian Government often has to make adjustments to policy to ensure state and territory governments agree to participate. There is a significant risk that the specified funding arrangements between the Australian government and the state and territory governments would not be agreed to prior to the policy implementation date.

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

**Table 1: Government owned affordable housing build – Financial implications (\$m)<sup>(a)</sup>**

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	-	-137.0	-297.1	-470.0	<b>-904.1</b>
Underlying cash balance	-	-117.0	-267.1	-440.0	<b>-824.1</b>
Headline cash balance	-	-5,117.0	-5,487.1	-5,790.0	<b>-16,394.1</b>

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

- Indicates nil.

## Key assumptions

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

- The Trust would be able to be established and state and territory governments would agree to match the Australian Government's \$5 billion equity contribution per annum by 1 July 2023.
- The Trust would be able to achieve land and construction costs consistent with the cost structure reported in the AHURI report.
  - The cost of construction would grow over the medium term in line with the dwelling investment implicit price deflator projected by the Treasury as at the 2022-23 October Budget.
  - The costs of land acquisition would grow over the medium term in line with nominal GDP as projected by the Treasury at the 2022-23 October Budget.
- There would be sufficient capacity within the building industry to construct dwellings up to the amount of the annual investment on an ongoing basis, noting factors such as the 2032 Olympic games may affect this assumption.
- As a result of timing lags in construction, the first residential tenancies would begin in 2025 following construction commencements in 2023-24.
  - This is informed by data from the Australian Bureau of Statistics, which indicate construction lags of 18, 24 and 36 months for freestanding dwellings, semi-detached dwellings, and apartments, respectively.
- All residential tenancies would be filled over the span of the policy, reflecting the current large unmet demand for social housing.
- Household income would grow in line with projections for average weekly earnings from the 2022-23 October Budget.
- Annual property repair costs once completed would be around 1% of the estimated cost to construct each dwelling, and property management fees would represent a portion of rental income based on an average of fees in each Australian state.
- All households that would move into the public housing dwellings constructed under this proposal (around 117,000 over 10 years to 2032-33) would otherwise receive the CRA.
  - They are households in the lowest income quintile or with government payments as their main source of income.

- This compares with around 1.5 million individuals or households receiving the CRA at the end of June 2021.
- The departmental staffing profile to deliver this proposal would reflect a service delivery profile akin to similar programs.
  - In the first year of the proposal, departmental costs would be double the ongoing annual costs, due to start-up costs such as establishing staffing resources, program teams and government engagement.

## Methodology

The administered expenses were estimated as follows:

- The equity injection amount was set and indexed as specified in the proposal.
- Average land and construction costs per dwelling were estimated based on the average cost for each dwelling type in each geographic location from the AHURI report, taking into account construction timing lags reported by the ABS and the relevant price inflation over time projected by the Treasury.
- The number of dwellings that would be constructed (prior to reinvestment of rental returns) was estimated based on the equity injection amount and the estimated average land and construction costs per dwelling, with dwelling composition for:
  - the public housing based on the share of needed growth projected in the AHURI report
  - the affordable housing composition as per the specification.
- Rental income to be reinvested was estimated by multiplying the estimated number of dwellings constructed using the injected equity by the rent amounts calculated as per the specification. Property repair costs and property management fees were also subtracted from the rental income. The number of dwellings from the reinvested rental income was then estimated using the same approach listed above.
- Savings from reduced CRA expenditure were estimated based on the average CRA payment published by the Department of Social Services and the estimated total number of dwellings constructed (including the additional dwellings constructed from the rental income reinvestment).

The departmental expenses were estimated based on the estimated workforce required to deliver the proposal.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.<sup>1</sup>

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<sup>1</sup> [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Costings\\_and\\_budget\\_information](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information)

## Data sources

The Department of Finance and the Treasury provided economic parameters as at the 2022-23 October Budget.

Australian Bureau of Statistics (2019) [Average dwelling completion times](#), accessed 7 March 2023.

Australian Bureau of Statistics (2021) [Rent \(weekly\) dollar values \(RNTD\) | Australian Bureau of Statistics \(abs.gov.au\)](#), accessed 7 March 2023.

Australian Bureau of Statistics (2022) [Australian System of National Accounts](#), accessed 7 March 2023.

Australian Bureau of Statistics (2022) [Household Income and Wealth, Australia](#), accessed 7 March 2023.

Australian Housing and Urban Research Institute Limited (2018) [Social housing as infrastructure: an investment pathway](#), accessed 7 March 2023.

Department of Social Services (2022) [Expanded DSS Demographics December 2022](#), accessed 7 March 2023.

Department of Social Services (2023) [Commonwealth Rent Assistance | Department of Social Services, Australian Government \(dss.gov.au\)](#), accessed 7 March 2023.

Which Real Estate Agent (2023) [Property Management Fees](#), accessed 7 March 2023.

## Attachment A – Government-owned affordable housing build – financial implications

Table A1: Government-owned affordable housing build – Fiscal balance (\$m)<sup>(a)</sup>

	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
<b>Expenses</b>													
<i>Administered</i>													
<i>Commonwealth rent assistance</i>	-	-	11.6	48.8	103.3	162.4	224.3	288.7	355.7	425.0	497.0	60.4	2,116.8
<b>Total – administered</b>	-	-	11.6	48.8	103.3	162.4	224.3	288.7	355.7	425.0	497.0	60.4	2,116.8
<i>Departmental</i>													
<i>Departmental costs</i>	-	-37.0	-18.7	-18.8	-19.0	-19.1	-19.2	-19.4	-19.5	-19.6	-19.8	-74.5	-210.1
<b>Total – departmental</b>	-	-37.0	-18.7	-18.8	-19.0	-19.1	-19.2	-19.4	-19.5	-19.6	-19.8	-74.5	-210.1
<b>Total – expenses</b>	-	-37.0	-7.1	30.0	84.3	143.3	205.1	269.3	336.2	405.4	477.2	-14.1	1,906.7
<b>Total (excluding PDI)</b>	-	-37.0	-7.1	30.0	84.3	143.3	205.1	269.3	336.2	405.4	477.2	-14.1	1,906.7
<i>PDI impacts</i>	-	-100.0	-290.0	-500.0	-730.0	-970.0	-1,220.0	-1,500.0	-1,790.0	-2,110.0	-2,450.0	-890.0	-11,660.0
<b>Total (including PDI)</b>	-	-137.0	-297.1	-470.0	-645.7	-826.7	-1,014.9	-1,230.7	-1,453.8	-1,704.6	-1,972.8	-904.1	-9,753.3

(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: Government-owned affordable housing build – Underlying cash balance (\$m)<sup>(a)</sup>

	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
<b>Payments</b>													
<i>Administered</i>													
<i>Commonwealth rent assistance</i>	-	-	11.6	48.8	103.3	162.4	224.3	288.7	355.7	425.0	497.0	60.4	2,116.8
<b>Total – administered</b>	-	-	11.6	48.8	103.3	162.4	224.3	288.7	355.7	425.0	497.0	60.4	2,116.8
<i>Departmental</i>													
<i>Departmental costs</i>	-	-37.0	-18.7	-18.8	-19.0	-19.1	-19.2	-19.4	-19.5	-19.6	-19.8	-74.5	-210.1
<b>Total – departmental</b>	-	-37.0	-18.7	-18.8	-19.0	-19.1	-19.2	-19.4	-19.5	-19.6	-19.8	-74.5	-210.1
<b>Total – payments</b>	-	-37.0	-7.1	30.0	84.3	143.3	205.1	269.3	336.2	405.4	477.2	-14.1	1,906.7
<b>Total (excluding PDI)</b>	-	-37.0	-7.1	30.0	84.3	143.3	205.1	269.3	336.2	405.4	477.2	-14.1	1,906.7
<i>PDI impacts</i>	-	-80.0	-260.0	-470.0	-690.0	-920.0	-1,180.0	-1,450.0	-1,740.0	-2,060.0	-2,390.0	-810.0	-11,240.0
<b>Total (including PDI)</b>	-	-117.0	-267.1	-440.0	-605.7	-776.7	-974.9	-1,180.7	-1,403.8	-1,654.6	-1,912.8	-824.1	-9,333.3

(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: Government-owned affordable housing build – Headline cash balance (\$m)<sup>(a)</sup>

	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
<b>Payments</b>													
<b>Administered</b>													
<i>Commonwealth rent assistance</i>	-	-	11.6	48.8	103.3	162.4	224.3	288.7	355.7	425.0	497.0	60.4	2,116.8
<i>Housing trust - equity injection</i>	-	-5,000.0	-5,220.0	-5,350.0	-5,480.0	-5,610.0	-5,750.0	-5,900.0	-6,050.0	-6,200.0	-6,350.0	-15,570.0	-56,910.0
<b>Total – administered</b>	-	<b>-5,000.0</b>	<b>-5,208.4</b>	<b>-5,301.2</b>	<b>-5,376.7</b>	<b>-5,447.6</b>	<b>-5,525.7</b>	<b>-5,611.3</b>	<b>-5,694.3</b>	<b>-5,775.0</b>	<b>-5,853.0</b>	<b>-15,509.6</b>	<b>-54,793.2</b>
<b>Departmental</b>													
<i>Departmental costs</i>	-	-37.0	-18.7	-18.8	-19.0	-19.1	-19.2	-19.4	-19.5	-19.6	-19.8	-74.5	-210.1
<b>Total – departmental</b>	-	<b>-37.0</b>	<b>-18.7</b>	<b>-18.8</b>	<b>-19.0</b>	<b>-19.1</b>	<b>-19.2</b>	<b>-19.4</b>	<b>-19.5</b>	<b>-19.6</b>	<b>-19.8</b>	<b>-74.5</b>	<b>-210.1</b>
<b>Total – payments</b>	-	<b>-5,037.0</b>	<b>-5,227.1</b>	<b>-5,320.0</b>	<b>-5,395.7</b>	<b>-5,466.7</b>	<b>-5,544.9</b>	<b>-5,630.7</b>	<b>-5,713.8</b>	<b>-5,794.6</b>	<b>-5,872.8</b>	<b>-15,584.1</b>	<b>-55,003.3</b>
<b>Total (excluding PDI)</b>	-	<b>-5,037.0</b>	<b>-5,227.1</b>	<b>-5,320.0</b>	<b>-5,395.7</b>	<b>-5,466.7</b>	<b>-5,544.9</b>	<b>-5,630.7</b>	<b>-5,713.8</b>	<b>-5,794.6</b>	<b>-5,872.8</b>	<b>-15,584.1</b>	<b>-55,003.3</b>
<i>PDI impacts</i>	-	-80.0	-260.0	-470.0	-690.0	-920.0	-1,180.0	-1,450.0	-1,740.0	-2,060.0	-2,390.0	-810.0	-11,240.0
<b>Total (including PDI)</b>	-	<b>-5,117.0</b>	<b>-5,487.1</b>	<b>-5,790.0</b>	<b>-6,085.7</b>	<b>-6,386.7</b>	<b>-6,724.9</b>	<b>-7,080.7</b>	<b>-7,453.8</b>	<b>-7,854.6</b>	<b>-8,262.8</b>	<b>-16,394.1</b>	<b>-66,243.3</b>

(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 – Government owned affordable housing build – additional information

**Table B1: Public and affordable dwellings constructed from ongoing \$5 billion investment<sup>(a)</sup>**

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
<b>Public housing</b>											
<i>Apartments</i>	-	-	-	-	620	640	640	640	630	620	620
<i>Low-rise</i>	-	-	-	1,870	1,940	1,940	1,920	1,900	1,880	1,860	1,840
<i>Attached</i>	-	-	-	4,660	4,820	4,830	4,790	4,740	4,680	4,630	4,580
<i>Freestanding</i>	-	-	6,020	6,230	6,240	6,190	6,130	6,060	5,990	5,920	5,850
<b>Total public housing</b>	-	-	<b>6,020</b>	<b>12,760</b>	<b>13,620</b>	<b>13,590</b>	<b>13,480</b>	<b>13,340</b>	<b>13,190</b>	<b>13,040</b>	<b>12,890</b>
<b>Affordable housing</b>											
<i>Apartments</i>	-	-	-	-	6,580	6,820	6,820	6,770	6,700	6,620	6,550
<i>Low-rise</i>	-	-	-	1,650	1,700	1,710	1,690	1,680	1,660	1,640	1,620
<i>Attached</i>	-	-	-	1,650	1,700	1,710	1,690	1,680	1,660	1,640	1,620
<i>Freestanding</i>	-	-	3,290	3,410	3,410	3,380	3,350	3,310	3,270	3,240	3,200
<b>Total affordable housing</b>	-	-	<b>3,290</b>	<b>6,700</b>	<b>13,400</b>	<b>13,610</b>	<b>13,560</b>	<b>13,430</b>	<b>13,290</b>	<b>13,140</b>	<b>12,990</b>

(a) Public and affordable dwellings constructed includes assumed matched funding contribution from the States.

- Indicates nil.

**Table B2: Additional public and affordable dwellings constructed from rental returns**

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
<i>Additional public housing</i>	-	-	-	20	70	200	440	730	1,020	1,320	1,630
<i>Additional affordable housing</i>	-	-	-	10	40	130	290	530	830	1,120	1,430
<b>Total additional housing</b>	-	-	-	<b>30</b>	<b>110</b>	<b>330</b>	<b>730</b>	<b>1,260</b>	<b>1,850</b>	<b>2,440</b>	<b>3,060</b>

- Indicates nil.

**Table B3: Cumulative total public and affordable dwellings constructed<sup>(a)</sup>**

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Cumulative total
<i>Total public housing</i>	-	-	6,020	12,780	13,690	13,790	13,920	14,070	14,210	14,360	14,520	117,360
<i>Total affordable housing</i>	-	-	3,290	6,710	13,440	13,740	13,850	13,960	14,120	14,260	14,420	107,790
<b>Dwellings constructed</b>	-	-	<b>9,310</b>	<b>19,490</b>	<b>27,130</b>	<b>27,530</b>	<b>27,770</b>	<b>28,030</b>	<b>28,330</b>	<b>28,620</b>	<b>28,940</b>	<b>225,150</b>

(a) Includes public and affordable dwellings constructed from initial annual \$5 billion indexed investment, and dwellings constructed from rental returns.

- Indicates nil.

**Table B4: Yearly rental returns from the public and affordable housing stock (\$m)<sup>(a)</sup>**

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
<i>Public housing rental returns</i>	-	-	21.3	90.1	192.3	305.3	426.8	558.3	700.5	854.3	1,020.2
<i>Affordable housing rental returns</i>	-	-	29.9	124.2	322.5	604.2	909.3	1,238.9	1,595.2	1,980.7	2,396.8
<b>Total rental returns</b>	-	-	<b>51.2</b>	<b>214.3</b>	<b>514.8</b>	<b>909.5</b>	<b>1,336.1</b>	<b>1,797.2</b>	<b>2,295.7</b>	<b>2,835.0</b>	<b>3,417.0</b>

(a) Yearly rental returns are total rental returns before property management and repair fees are deducted.

- Indicates nil.