National Housing Infrastructure Facility Consultation: Cbus Infrastructure Submission

The Australian Government's plan to address social housing includes, among other measures, establishing a $1 billion National Housing Infrastructure Facility ("NHIF") which will use tailored financing to partner with local governments ("LGs") in funding infrastructure to unlock new housing supply.

The purpose of this paper is to respond to the issues raised in the Commonwealth Treasury's ("Treasury") consultation paper released in September 2017.

Issues for consideration

Treasury welcomes feedback on the issues raised in Section 3, including on:	
1	**Infrastructure** — Noting the examples identified in **Table 4**, what types of infrastructure do LGs fund, deliver and own? What types of infrastructure could be prioritised to address infrastructure bottlenecks?
2	**Design features** — Are the design features appropriate, including the considerations that the NHIF could take into account when assessing projects?
3	**Financing options** — Are the types of tailoring potentially available under the NHIF's three types of finance sufficiently flexible?
4	**Metrics** — What metrics could enable assessment of infrastructure bottlenecks and housing supply and affordability pressures?
5	**Financing arrangements** — Could the NHIF expand 'eligible applicants' to include a consortium of investors, such as institutional investors, social impact investors, CHPs and other stakeholders (for example, state and territory governments)? In addition, what could a partnership with LGs involving a NHIF equity injection look like? Are there further opportunities for aligning the interests of investors and other stakeholders to create incentives for co-investment to accelerate housing developments? Given the long lead times associated with the infrastructure construction, what are the appropriate repayment timeframes (on the loans and equity)?
6	**Complementarity** — Given existing state and territory lending facilities, how can the NHIF position itself so that it complements state and territory financing schemes and private sector finance options?
7	**Affordable housing** — Should the NHIF also focus on facilitating the supply of affordable housing, including for key workers? If so, what is the most effective way to achieve this objective?
8	**Value uplift** — How should the NHIF factor value uplift and associated value capture schemes into its investment decisions?

Background

Cbus has invested $4.03 billion in infrastructure assets globally on behalf of members, which represents circa 11% of the investment portfolio under the Growth (Cbus MySuper) default superannuation option. The infrastructure portfolio is well-diversified by sector and geographic location, with 38 assets including roads, airports, seaports and water and electricity utilities.

Australian assets represent almost 60% of the Cbus infrastructure allocation, with the balance invested in international core infrastructure managed by IFM Investors and Hastings. Cbus also has co-investments with IFM Investors on the NSW Ports assets and the Indiana Toll Road in the United States. Examples of investments in Australia include Southern Cross Station, Port of Melbourne, Port of Brisbane, Melbourne Airport, Perth Airport, Eastern Distributor and Brisbane Airport.

Cbus has implemented several recent internal changes as a result of its Next Generation Investment Framework. For infrastructure, this included the establishment of a direct investment strategy for both greenfield assets (defined as assets that are yet to be constructed) and brownfield assets (assets that are in the operational phase). Investing in domestic greenfield projects creates strong alignment with the Cbus membership base in the construction industry and will generate jobs.

This direct investment approach will complement our existing fund investments and co-investments under what Cbus refers to as a hybrid infrastructure strategy. In anticipation of ongoing growth, Cbus is expanding its internal investment resources and expertise in the infrastructure area. Managing a portion of our infrastructure assets in-house is expected to drive higher net returns over the long-term, providing Cbus with greater control over how members' super is invested and reducing costs.

Cbus has been actively involved in the social and affordable housing space. The fund is currently considering potential opportunities through the NSW Government's second phase of the Social and Affordable Housing Fund initiative, as well as the Victorian Government's proposed $1 billion Social Housing Growth Fund. Superannuation can potentially play an important role in contributing to a social housing solution, particularly in terms of improving supply. Cbus is also somewhat uniquely placed to finance and deliver assets that contain a mix of infrastructure and property characteristics through the ability to partner with wholly-owned property developer Cbus Property.

Responses

Specific responses from Cbus in relation to the questions posed in section 3 of the September 2017 NHFIC Consultation Paper are outlined below.

1. **Infrastructure** — *Noting the examples identified in Table 4, what types of infrastructure do LGs fund, deliver and own?*

LGs typically provide and own the following types of infrastructure assets:

- Certain regional airports.
- Local roads.
- Local bridges and culverts.
- Water, storm water and wastewater infrastructure (may be shared with State-owned water utilities such as Sydney Water in urban areas, varies between States).
- Parklands.
- Community recreation, cultural and sporting facilities.
- Some electricity infrastructure (e.g. undergrounding of power lines, new connections) funded through contributions to utilities.
- Other types of buildings.

LGs also have planning responsibility for new infrastructure including rezoning of land, subdivision approval, town and environmental planning, development assessment and building regulation.

What types of infrastructure could be prioritised to address infrastructure bottlenecks?

The following are types of essential infrastructure that could potentially be prioritised to address infrastructure bottlenecks:

- Local road upgrades and/or new roads to ensure access to new community hubs.
- Water, storm water and wastewater services.
- Site remediation to remove hazardous waste or contamination.
- Certain electricity/connection infrastructure.

2. **Design features** — *Are the design features appropriate, including the considerations that the NHIF could take into account when assessing projects?*

Some comments on selected design features are outlined below.

Total financing available

Cbus considers that the total available finance appears to be reasonable.

Eligible applicants

While LGs are eligible applications, the NHIF should consider expanding this definition to allow for options where the LG forms part of a consortium with CHPs, private sector capital providers/institutional investors.

By way of example, LGs could play a role alongside private sector consortia to deliver additional social housing supply under the NSW Government's Social and Affordable Housing

Fund Phase 2 initiative. It is understood that the NSW Government is keen to encourage LGs to potentially provide surplus land to private sector consortia of CHPs, not-for-profits, financiers, equity investors and advisors.

Quantum of funding for projects

The proposed approach to avoid specifying minimum and maximum funding requirements will ensure flexibility for NHIF. In order to provide some further guidance to applicants, it may be useful to include information on the types of projects that may be better suited to other forms of Federal, State or LG assistance.

Further detail on the proposed evaluation criteria for applications would be useful.

3. **Financing options** — *Are the types of tailoring potentially available under the NHIF's three types of finance sufficiently flexible?*

The financing options under the NHIF's three types of finance appear to provide an adequate amount of flexibility. Further detail on the proposed terms of debt, equity and grants would be required to get a better understanding of how these products would interact with traditional financing options.

4. **Metrics** — *What metrics could enable assessment of infrastructure bottlenecks and housing supply and affordability pressures?*

Government agencies such as Department of Family and Community Services in NSW publish a variety of statistics on the agency's website that highlight social housing demand across various regional areas. Likewise, housing affordability data should also be readily available.

Ideally, available data on local government areas with a high demand for social and affordable housing should be overlaid with data on available essential public amenities such as roads, schools, and hospitals. This will assist in identifying priority areas where new housing developments can be located, or conversely, where infrastructure bottlenecks and backlogs need to be addressed in order to facilitate supply. LG planning data and records should be available to help identify potential infrastructure issues that may affect potential development sites.

Various audit reports are also available that could shine additional light on potential infrastructure bottlenecks, such as the 2013 Office of Local Government review of infrastructure backlog of NSW councils.

5. Financing arrangements — *Could the NHIF expand 'eligible applicants' to include a consortium of investors, such as institutional investors, social impact investors, CHPs and other stakeholders (for example, state and territory governments)?*

As per the response to question 2 above, Cbus considers that the definition of eligible applicants should be expanded to include institutional investors, development partners, and CHPs.

Social housing is an area of focus for superannuation funds such as Cbus. Superannuation can potentially play an important role in contributing to a social housing solution, particularly in terms of improving supply. Cbus is also well placed to consider assets that contain a mix of infrastructure and property characteristics through the ability to partner with wholly-owned property developer Cbus Property.

Potential Cbus investments in appropriately-structured projects in the social and affordable housing sector would provide:

- much-needed affordable housing for key workers and the Australian community;
- jobs for the construction industry; and
- a commercial rate of return for members.

However, as opposed to not-for-profit and charity participants in social and affordable housing projects, Cbus and other superannuation investors require a commercial rate of return for members. Social and affordable housing projects are unlikely to meet investment hurdle rates without some form of appropriately structured government assistance.

In addition, what could a partnership with LGs involving a NHIF equity injection look like?

Consideration would need to be given to how equity is repaid to NHIF. Additional work would be required to consider governance arrangements if the eligible applicants definitions was expanded to include institutional investors.

Are there further opportunities for aligning the interests of investors and other stakeholders to create incentives for co-investment to accelerate housing developments?

Consideration could be given to models that have been successfully deployed overseas (e.g. UK, Germany), although the social housing landscape and relative industry size differs considerably to the domestic market.

Given the long lead times associated with infrastructure construction, what are the appropriate repayment timeframes (on the loans and equity)?

The appropriate repayment timeframes will vary for different asset sub-classes.

6. **Complementarity** — *Given existing state and territory lending facilities, how can the NHIF position itself so that it complements state and territory financing schemes and private sector finance options?*

Given that the NHIF is a national scheme, a comprehensive review of the relevant state-based schemes for social housing related infrastructure development needs to be undertaken in order to guide the key parameters.

7. **Affordable housing** — *Should the NHIF also focus on facilitating the supply of affordable housing, including for key workers? If so, what is the most effective way to achieve this objective?*

Consistent with the comments above, if the eligible applicant's definition was expanded to include institutional investors, it would be necessary to ensure the NHIF complements rather than competes with state-based programs aimed at increasing the supply of key worker accommodation, such as the Social and Affordable Housing Fund in NSW and the Victorian Social Housing Growth Fund.

8. **Value uplift** — *How should the NHIF factor value uplift and associated value capture schemes into its investment decisions?*

Value capture is an emerging source of funding available for the development of new infrastructure projects. For example, it is understood that the NSW State Government is considering value capture on the Parramatta Light Rail project.

However, this is a complex area, with many key policy questions to address e.g. who benefits from the infrastructure and importantly, who has the capacity to pay?

Addition work is required to address these issues.