

# Melbourne Climate Futures



THE UNIVERSITY OF  
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## Submission to Amendments to the Housing Australia Investment Mandate Decision

The government is seeking views on exposure draft amendments to the Housing Australia Investment Mandate Direction 2018 and accompanying explanatory statement. These amendments will provide direction to Housing Australia in its delivery of social and affordable homes under the Housing Australia Future Fund (HAFF) and National Housing Accord.

This submission comes from Melbourne Climate Futures' (MCF) Sustainable Finance Hub at the University of Melbourne. MCF is the University's interdisciplinary initiative on climate change and the Sustainable Finance Hub provides research aiming to integrate environmental, social and governance factors (ESG) into the financial system.

The recommendations below draw specific on this climate and sustainable finance related expertise.

### Key recommendations

Housing Australia ought to explicitly integrate climate considerations in its delivery of 40,000 social and affordable homes under the HAFF and the Accord. In particular, ss 28J and 28V might be expanded to include consideration of the following matters in financial decision-making:

1. The extent to which the project will deliver social and affordable housing that is fit for purpose in future environmental, social and economic circumstances, including reflecting the impacts of climate change.
2. Whether the financing decision will incentivise additional investment aligned with ESG-related goals such as emissions reduction and climate adaptation and resilience.
3. The extent to which the financing decision would increase housing on "an equitable, as needs basis across Australia" including prioritising those most vulnerable and least resilient to the impacts of climate change.
4. Whether the financing decision will contribute to Australia's climate change mitigation and adaptation goals.

Each of these matters is elaborated upon below.

### Future-focused, fit-for-purpose housing

Despite domestic and international action to reduce global greenhouse gas emissions, Australia is already experiencing, and will continue to experience, the impacts of climate change over the short, medium and long-term. For example, the National Climate Risk Assessment methodology points to the following hazard categories that will affect Australia:

- Bushfires, grassfires and air pollution;
- Changes in temperature, including extremes;
- Coastal and estuarine flooding;
- Coastal Erosion and shoreline change;
- Convective storms including hail;
- Drought and increasing aridity;
- Extratropical Storms;
- Ocean warming and acidification;
- Riverine and flash flooding; and
- Tropical cyclones.

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Most, if not all, of these hazards will have implications for the built environment and communities. All domains of Australian society, including the housing sector, therefore need to ensure that they are responsive to this changing environmental, social, political and economic context. In other words, homes and buildings built to last 50-100 years should be built to be resilient to climate forecasts for 50-100 years into the future.

Financing decisions for social and affordable housing therefore ought to prioritise investments that will deliver homes that are fit for purpose under future climate change scenarios. Aspects of this might include:

- Coordination with local planning schemes to ensure that homes are being built in places that are not exposed to unacceptable risks and that are conducive to a quality of life.
- Requiring buildings to go beyond compliance with baseline standards so that they contribute to Australia's net zero trajectory emphasising, for example, reducing bills for social and affordable housing residents so that they are not left behind in the energy transition.
- Requiring buildings to go beyond compliance with baseline standards so that they are resilient to the impacts of climate change, providing residents with an environment conducive to a healthy life in a climate changed world.
- Investing in buildings and surrounding areas so that the built environment contributes to climate mitigation, adaptation and resilience goals through e.g. electrification, no natural gas, solar panels, energy efficiency upgrades, low carbon construction and building materials etc.
- Considering how other financial instruments might be packaged into investments e.g. offering green loans, supporting the ongoing availability of insurance (noting the dangers of insurability of non-climate resilient homes), valuation of homes.
- Partnering with community organisations to deliver programs to support the resilience of people and their homes in future climate scenarios.

## **Incentivise private investments**

Institutional investors, domestically and globally, are increasingly seeking to integrate climate-related risks and opportunities into their portfolios and investment decisions. This is supported by the increase in reporting frameworks such as global sustainability disclosure standards and green taxonomies.

There may therefore be an opportunity for finance through the HAFF and National Housing Accord to incentivise additional private sector participation in financing decisions if the project includes sustainability criteria.

However, in attaching sustainability criteria to these financing decisions, it is important to recognise that not all green investments have the same mitigation and adaptation potential e.g. ensuring a building has EV chargers has different potential to using low embodied carbon construction materials and has different potential again to electrifying the whole building. Moreover, there could be unintended consequences from some measures e.g. electrification could destabilise the grid.

Financing decisions ought to be cognisant of some of these complexities and aim to incentivise institutional investors to provide finance to projects with the greatest greenhouse gas mitigation and climate adaptation and resilience potential.

## **Prioritise most impacted groups**

Certain groups of Australians are most at risk to experiencing the adverse impacts of climate change. These include those experiencing socio-economic disadvantage, older people, children, people with health conditions, First Nations people and those in rural, urban and coastal communities.

These groups may also experience financial barriers due to the impacts of climate change. For example, APRA's Climate Vulnerability Assessment with the banks found that there may be pockets of Australia where people are no longer able to access a home loan e.g. parts of Northern Australia. Insurance availability and affordability is already a significant concern. Whole communities in particular regions may need to be relocated as the physical (e.g. flooding) and transition risks (e.g. coal mining regions) of climate change become apparent.

As such, social and affordable housing investment decisions might therefore also prioritise supporting these groups most impacted by climate change now and into the future.

## **Contribution to Australia's climate change goals**

Social and affordable housing is an area where the Government has clear levers to ensure that the built environment contributes to the country's climate change mitigation and adaptation goals. As such, in financing decisions, Housing Australia might ensure that the built environment contributes to these climate policy priorities.

On the mitigation side, this includes, for example, ensuring that social and affordable housing is aligned with the built environment sectoral decarbonisation plan. On the adaptation and resilience side, this means, for example, aligning social and affordable housing with the National Climate Risk Assessment and the National Adaptation Plan.

Moreover, it is important that mitigation and adaptation are not seen in isolation from each other and considered in the broader context of achieving 'healthful' and equitable

outcomes for people. For example, it is possible to imagine housing that is not greenhouse gas intensive but not resilient to the impacts of extreme weather events.

As such, financing decisions might prioritise buildings that are aligned with Australia's trajectory towards net zero greenhouse gas emissions and that provide residents with a place to live that promotes good health and social outcomes.

# Appendix

At present, the draft Housing Australia Investment Mandate Direction 2018 sets out criteria for financing decisions as below:

<b>Schedule 1—Housing Australia Future Fund Facility Part 4A—Housing Australia Future Fund Facility Division 2—Criteria for financing decisions</b>	<b>Schedule 2—Implementation of National Housing Accord Part 4B—National Housing Accord Facility Division 2—Criteria for financing decisions</b>
<p>28J Matters to be considered when making financing decisions</p> <p>(1) In making a financing decision under this Part, Housing Australia must have regard to the following:</p> <ul style="list-style-type: none"><li>(a) the extent to which the financing decision would increase one or more of the following on an equitable, as needs basis across Australia (including in regional, rural and remote Australia):<ul style="list-style-type: none"><li>(i) social housing;</li><li>(ii) affordable housing;</li><li>(iii) housing that addresses an acute housing need;</li></ul></li><li>(b) the likely effect of the project on the supply and ongoing availability of social housing and affordable housing, and housing addressing acute housing needs;</li><li>(c) whether the dwellings constructed under the project:<ul style="list-style-type: none"><li>(i) are close to work, schools, transport and other amenities; and</li><li>(ii) support improved productivity and liveability;</li></ul></li><li>(d) the extent to which the project’s workforce (whether or not employed directly by the project proponent) will support greater participation of apprentices, in particular female apprentices and female trade apprentices in the building and construction industries;</li><li>(e) the extent to which financing the project would assist Housing Australia to achieve the outcome mentioned in section 10A;</li><li>(f) whether finance under the HAFFF is needed to encourage private sector participation in financing the project;</li><li>(g) whether finance under the HAFFF would complement, leverage or support other State or Territory finance or activities;</li><li>(h) any relevant report by or advice from the National Housing Supply and Affordability Council covered by subsection (2);</li><li>(i) the object of the Act and the limits set in the Act;</li><li>(j) where the project proponent is a HAFFF special purpose vehicle—the extent to which its underlying eligible members will be involved in the project over its duration;</li><li>(k) where the project proponent is a constitutional corporation—the extent to which the support would assist the corporation in the performance or development of its activities, functions, relationships or business.</li></ul>	<p>28V Matters to be considered when making financing decisions</p> <p>In making a financing decision under this Part, Housing Australia must have regard to the following:</p> <ul style="list-style-type: none"><li>(a) the extent to which the financing decision would increase affordable housing on an equitable, as needs basis across Australia (including in regional, rural and remote Australia);</li><li>(b) the likely effect of the project on the supply and ongoing availability of affordable housing;</li><li>(c) whether the dwellings constructed under the project:<ul style="list-style-type: none"><li>(i) are close to work, schools, transport and other amenities; and</li><li>(ii) support improved productivity and liveability;</li></ul></li><li>(d) the extent to which the project’s workforce (whether or not employed directly by the project proponent) will support greater participation of apprentices, in particular female apprentices and female trade apprentices in the building and construction industries;</li><li>(e) whether finance under the NHAF is needed to encourage private sector participation in financing the project;</li><li>(f) whether finance under the NHAF would complement, leverage or support other Commonwealth, State or Territory finance or activities;</li><li>(g) the object of the Act and the limits set in the Act;</li><li>(h) where the project proponent is a NHAF special purpose vehicle—the extent to which its underlying eligible members will be involved in the project over its duration;</li><li>(i) where the project proponent is a constitutional corporation—the extent to which the support would assist the corporation in the performance or development of its activities, functions, relationships or business.</li></ul>