

National Housing Finance and Investment Corporation Investment Mandate Direction 2018

I, Scott Morrison, Treasurer, give this Direction under subsection 12(1) of the *National Housing Finance and Investment Corporation Act 2018*.

Dated Year

Scott Morrison **[DRAFT ONLY—NOT FOR SIGNATURE]**

Treasurer

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Part 1—Preliminary

1 Name

This Direction is the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*.

2 Commencement

This Direction commences on the day after it is registered.

3 Authority

This Direction is made under subsection 12(1) of the *National Housing Finance and Investment Corporation Act 2018*.

4 Definitions

In this Direction:

***AHBA*** (for Affordable Housing Bond Aggregator) means the bond aggregator established for section 6 and Part 3.

***capacity building contract*** means a contract made under Part 5 with a person or entity for the provision of services to a registered community housing provider.

***Commercial Financier*** means a private sector body that provides finance or investment into infrastructure projects.

***financing decision*** means a decision to make a loan, investment or grant.

***financing proposal*** means a proposal made to the NHFIC seeking a loan, investment or grant.

***infrastructure*** loan, investment or grant means a loan, investment or grant made under Part 4.

***minimum target value***,of the Permanent Fund—see section 14.

***NHIF*** (for National Housing Infrastructure Facility) means the facility established for section 7 and Part 4.

***Permanent Fund***—see section 13.

***project proponent*** means the entity responsible for a project.

***special purpose vehicle***—see subsection 22(2).

***underlying eligible member***, of a special purpose vehicle—see subsection 22(2).

5 Purpose of this Direction

The purpose of this Direction is to give directions to the Board in relation to the performance of the NHFIC’s functions under section 8 of the Act.

Note: This Direction, with any other directions made under subsection 12(1) of the Act, together constitute the Investment Mandate for the NHFIC.

Part 2—Activities and allocation of funds

Division 1—Activities

6 Establishment and operation of Affordable Housing Bond Aggregator

The NHFIC must establish a bond aggregator to provide loans to registered community housing providers (the ***AHBA***), and operate it in accordance with Part 3.

7 Establishment and operation of National Housing Infrastructure Facility

The NHFIC must establish and operate a facility (the ***NHIF***) to make infrastructure loans, investments and grants in accordance with Part 4.

8 Support for capacity building

The NHFIC may provide support for capacity building in accordance with Part 5.

9 No further activities

The NHFIC must not spend money (including making loans, investments or grants) otherwise than:

(a) for the purposes of sections 6 to 8; or

(b) to make an investment in accordance with section 59 of the *Public Governance, Performance and Accountability Act 2013*; or

(c) for incidental purposes.

10 Application of commercial standards to making financing decisions

Except as provided in this Direction, the NHFIC must operate with a commercial approach when making financing decisions.

Division 2—Allocation and repayment of funds—AHBA

11 AHBA initial reserve

(1) Of the amounts appropriated for the purposes of the NHFIC, the Board may allocate up to $150 million to provide an initial reserve for the AHBA.

(2) The NHFIC must repay to the Commonwealth an amount equal to the amount that it allocated to the AHBA under subsection (1), adjusted to cover the Commonwealth’s cost of borrowing, by 30 June 2023.

12 Payment of AHBA dividends

The Board must consider recommending the payment of a dividend under section 49 of the Act if the average return of the AHBA over the long term is substantially above the benchmark return set for the Board under section 20.

Division 3—Allocation and maintenance of funds—NHIF and capacity building

13 Establishment of Permanent Fund

(1) The NHFIC must establish a fund (the ***Permanent Fund***) for the purposes of Part 4 (National Housing Infrastructure Facility) and Part 5 (Support for capacity building), that consists at any time of:

(a) funds available for the purposes of making infrastructure loans, investments and grants or capacity building contracts; and

(b) any current infrastructure loans or investments.

(2) The Board may allocate amounts appropriated for the purposes of the NHFIC to the Permanent Fund.

14 Minimum target value of Permanent Fund

(1) The Board must aim to maintain the value of the Permanent Fund in the medium to long term at no less than the minimum target value.

(2) For this Direction the ***minimum target value*** of the Permanent Fund at a particular time is the sum of the amounts appropriated by the Parliament for the purposes of the NHFIC less the total value of:

(a) the amounts allocated to the AHBA under subsection 11(1); and

(b) the amounts payable by the NHFIC under infrastructure grants made up to that time; and

(c) the amounts payable by the NHFIC under capacity building contracts made up to that time;

adjusted to cover the Commonwealth’s cost of borrowing.

15 Limit on grants and capacity building contracts

(1) The total value of the amounts payable by the NHFIC under infrastructure grants and capacity building contracts must not exceed $175 million.

(2) The total value of the amounts payable by the NHFIC under capacity building contracts must not exceed $1.5 million.

Part 3—Affordable housing bond aggregator

The affordable housing bond aggregator

The affordable housing bond aggregator operates by the NHFIC making loans to registered community housing providers, raising the finance by the issue of bonds on the commercial market. The mechanism will allow money to be raised on a larger scale and on different terms to those that would be possible for the individual providers; the savings will be passed on to the providers in the form of lower interest loans and reduced refinancing risks, enabling them to improve housing outcomes for their clients.

Division 1—Financing mechanisms and eligibility

16 Eligibility for loans

(1) The NHFIC must not provide loans through the AHBA to an entity other than a registered community housing provider.

(2) The NHFIC may specify eligibility criteria that must be satisfied by registered community housing providers, or classes of providers.

17 Financing mechanism

The NHFIC must seek security from providers for any loan, at least commensurate with existing security arrangements with Commercial Financiers.

Division 2—Criteria for lending

18 Purpose of the AHBA

The Board must aim to provide loans to registered community housing providers at the lowest cost and most appropriate tenor possible, after recovering operational and financing costs and building capital reserves in accordance with this Division.

19 Matters to be considered when making lending decisions

In deciding whether to make a particular loan, and in setting its conditions, the Board must have regard to the following matters:

(a) the purpose for which the loan is being sought;

(b) the credit-worthiness of the registered community housing provider;

(c) what private sector finance, if any, would be available to the registered community housing provider;

(d) the likelihood that the NHFIC will receive a return from the loan and the likely extent of that return;

(e) the quality of any security available from the registered community housing provider;

(f) the expected price of funds raised by the NHFIC bonds during the life of the loan;

(g) whether the loan would complement, leverage or support other Commonwealth, State or Territory finance or activities;

(h) the object of the Act.

20 Benchmark return

The Board must target an average return on its loans to registered community housing providers that allows it to build an adequate capital reserve in accordance with subsection 48(1) of the Act.

21 Risk level

(1) In targeting the benchmark return for the AHBA and operating with a commercial approach, the NHFIC must seek to develop a portfolio that in aggregate has an acceptable but not excessive level of risk, having regard to the terms of the Act and the purpose of the AHBA.

(2) Within 6 months of the commencement of this Direction, the Board must agree a suitable investment risk evaluation process to assess the AHBA risk, and must advise the Minister of the process chosen.

Part 4— National Housing Infrastructure Facility

The National Housing Infrastructure Facility

The purpose of the NHIF is to overcome impediments to the provision of housing that are due to the lack of necessary infrastructure. It does this by providing finance for eligible infrastructure projects that would not otherwise have proceeded, or that would only have proceeded at a much later date or with a lesser impact on new affordable housing.

Division 1—Financing mechanisms and eligibility

22 Eligible project proponents

(1) To be eligible for finance under the NHIF, a project proponent must be:

(a) a local governing body as defined in section 4 of the *Local Government (Financial Assistance) Act 1995*;

(b) a local government-owned investment corporation or utility provider that is a corporation to which section 51(xx) of the Constitution applies;

(c) a State government-owned utility provider that forms part of the State or that is a corporation to which section 51(xx) of the Constitution applies;

(d) a Territory government-owned utility provider;

(e) a registered community housing provider; or

(f) an entity that is a special purpose vehicle.

(2)For this section:

(a) an entity is a ***special purpose vehicle*** if:

(i) it has a purpose of undertaking housing infrastructure-enabling projects; and

(ii) at least one of its members is an underlying eligible member; and

(b) a member of a special purpose vehicle is an ***underlying eligible member*** if it is an entity mentioned in paragraphs (1)(a) to (e).

23 Eligible projects

Finance under the NHIF must be provided for a project only if the project:

(a) would provide critical infrastructure to support new housing, particularly new affordable housing, including (but not limited to):

(i) new or upgraded infrastructure for services such as water, sewerage, electricity, telecommunications or transportation; or

(ii) site remediation works including the removal of hazardous waste or contamination; and

(b) would not itself provide housing; and

(c) would not provide community infrastructure, such as parks, day-care centres or libraries; and

(d) would be unlikely to proceed, or would be likely to proceed only at a much later date, or with a lesser impact on new affordable housing, without finance under the NHIF.

24 Financing mechanisms

(1) Eligible projects may be funded through any combination of loans, investments and grants.

Loans

(2) The NHFIC may provide, but is not limited to, the following loan concessions:

(a) longer loan tenor than offered by Commercial Financiers;

(b) lower interest rates than offered by Commercial Financiers;

(c) extended periods of capitalisation of interest beyond construction completion;

(d) deferral of loan repayments or other types of tailored loan repayment schedules;

(e) lower or different fee structures than those offered by Commercial Financiers.

(3) The NHFIC must seek security from eligible applicants for any loan, at least commensurate with existing security arrangements with Commercial Financiers.

Investments

(4) The NHFIC may make an investment in relation to a project by acquiring an equity interest in the project proponent.

Grants

(5) Grant proposals seeking other forms of financing from the NHIF as part of a blended financing arrangement are to be preferred.

Division 2—Criteria for financing decisions

25 Matters to be considered when making financing decisions

(1) The NHFIC must be satisfied of the following in order to provide finance under the NHIF:

(a) the project proponent is eligible;

(b) the project is eligible;

(c) the risk that any loan will not be repaid does not exceed an acceptable level.

(2) In making a financing decision, the NHFIC must have regard to the following:

(a) where the project proponent is a special purpose vehicle—the extent to which its underlying eligible members are involved in the project;

(b) the likely effect of the project on the supply of affordable housing;

(c) the extent of any concession that it would be appropriate to offer;

(d) the quality of the security available from the applicant;

(e) the credit-worthiness of the project proponent;

(f) whether finance under the NHIF is needed to encourage private sector participation in financing the project;

(g) whether finance under the NHIF would complement, leverage or support other Commonwealth, State or Territory finance or activities;

(h) the object of the Act.

26 Matters to be considered when determining concessions

(1) In determining any concession to be granted in making a financing decision, the NHFIC must have regard to the following:

(a) the extent and mix of all concessions necessary for the proposal to proceed;

(b) the extent of any public benefit that would result from the housing-enabling infrastructure;

(c) the object of the Act.

(2) The NHFIC must limit the concessions offered to the minimum required for the proposal to proceed in the proposed timeframe.

(3) The NHFIC may propose contract terms to ensure that the NHIF is not providing greater concessions than necessary.

27 Benchmark rate of return

The Board is to target an average return that allows it to at least maintain the minimum target value set under section 14.

28 Risk level

(1) In targeting the benchmark return for the NHIF and operating with a commercial approach, the NHFIC must seek to develop a portfolio that in aggregate has an acceptable but not excessive level of risk, having regard to the terms of the Act and the purpose of the NHIF.

(2) Within 6 months of the commencement of this Direction, the Board must agree a suitable investment risk evaluation process to assess the NHIF risk, and must advise the Minister of the process chosen.

Part 5—Support for capacity building

Capacity building

The NHFIC may provide support for capacity building under this Part to assist registered community housing providers to further develop their financial and management capabilities. This support would be provided by the NHFIC entering into contracts with persons or entities to provide services to registered community housing providers for this purpose.

29 Support for capacity building

The NHFIC may enter into contracts with persons or entities to provide services to registered community housing providers for the purpose of developing their financial and management capabilities.

Part 6—General governance matters

30 Reasons for decisions

(1) This section applies when an entity has made a financing proposal to the NHFIC.

(2) Where it is practicable to do so, the NHFIC should provide reasons to the entity for making a financing decision, or a decision not to provide finance, in respect of the proposal.

31 Good corporate citizenship

The NHFIC must have regard to Australian best practice government governance principles, and Australian best practice corporate governance for Commercial Financiers, when performing its functions, including developing and annually reviewing policies with regard to:

(a) environmental issues;

(b) social issues; and

(c) governance issues.

32 Transparency of operations

(1) The NHFIC must publish the following guidance on its website for the NHIF:

(a) the format in which a financing proposal is to be provided to the NHFIC;

(b) the process the NHFIC will follow when making financing decisions;

(c) any other matters the NHFIC considers necessary.

(2) Within 6 months of making a financing decision under the NHIF, the NHFIC must publish the following information relating to the decision on the NHFIC’s website, subject to commercial confidentiality:

(a) the name of the project proponent;

(b) the goods or services involved;

(c) the location of the project;

(d) the financing mechanism used;

(e) the amount of the financing mechanism.

33 Reputation

The NHFIC must not act in a way that is likely to cause damage to the Australian Government’s reputation, including its reputation in Australian and international financial markets.

34 Approval needed if guaranteed liabilities to exceed $2 billion

(1) The Board must not enter into a transaction which would result in the total guaranteed liabilities of the NHFIC exceeding the cap.

Note: A transaction entered into in breach of this section would still be covered by the guarantee under the Act.

(2) In this section:

***cap*** means $2 billion or a higher amount approved by the Minister and the Minister for Finance.

***total guaranteed liabilities of the NHFIC***, at a particular time, means the sum of the current values of all amounts that are, or can as a consequence of current liabilities of the NHFIC be expected to be:

(a) payable to a person other than the Commonwealth; and

(b) guaranteed by the Commonwealth under section 54 of the Act.