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Auditor-General Report No.28 2020–21
Performance Audit

Administration of the National Housing Finance and Investment Corporation

National Housing Finance and Investment Corporation

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT

22 January 2021

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the National Housing Finance and Investment Corporation. The report is titled *Administration of the National Housing Finance and Investment Corporation*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — http://www.anao.gov.au.

Yours sincerely

Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Audit snapshot

Auditor-General Report No.28 2020–21

Administration of the National Housing Finance and Investment Corporation

Why did we do this audit?

- The National Housing Finance and Investment Corporation (NHFIC) has been in operation since June 2018 to improve housing outcomes through increasing the supply of affordable housing. NHFIC offers loans, investments, grants and loan guarantees to encourage investment in affordable housing.
- NHFIC is supported by the Australian Government with funding of more than $2 billion for its operations and its reserves.
- The Australian Government has provided a guarantee for all of NHFIC's debts (other than to the Commonwealth) in relation to NHFIC's contracts and transactions executed before 1 July 2023.

Key facts

- NHFIC delivers five programs: the Affordable Housing Bond Aggregator; the National Housing Infrastructure Facility; capacity building; the First Home Loan Deposit Scheme and research.
- NHFIC is supported by Export Finance Australia (EFA) for its support functions and accommodation.

What did we find?

- The administration of NHFIC is partly effective.
- NHFIC has incorporated design expectations into its strategies and has developed frameworks to deliver against its Investment Mandate.
- NHFIC's implementation and reporting does not clearly demonstrate that it is achieving its purpose to 'improve housing outcomes for Australians'.

What did we recommend?

- The Auditor-General made five recommendations to address deficiencies in NHFIC's:
  - monitoring and reporting on performance under its services agreement with EFA;
  - risk management;
  - compliance management; and
  - measuring and presenting its achievements in delivering 'improved housing outcomes'.
- NHFIC agreed to all five recommendations.

$1.2 billion

raised by NHFIC through three bond issuances between March 2019 and June 2020.

9983

First Home Loan Deposit Guarantees issued between 1 January 2020 and 30 June 2020.

26

loans provided to community housing providers up to June 2020 with a combined value of $1.3 billion.

Summary and recommendations

Background

1. In June 2018 the National Housing Finance and Investment Corporation (NHFIC) was established under the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act) to 'improve housing outcomes for Australians, particularly vulnerable Australians who need social and affordable housing'.[1] NHFIC is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*. NHFIC is part of the Treasury portfolio and reports to the Assistant Treasurer and Minister for Housing (minister). NHFIC is subject to the minister's directions outlined in the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Investment Mandate).

2. NHFIC was established to help reduce pressure on housing affordability. It does this through the provision of loans, investments, grants and loan guarantees to encourage investment in housing, with a particular focus on affordable housing.

3. NHFIC's services are delivered through five programs which are: the Affordable Housing Bond Aggregator (AHBA), the National Housing Infrastructure Facility (NHIF), capacity building, the First Home Loan Deposit Scheme (FHLDS) and research. A high level description of each of the programs is summarised in Table S.1 below.

Table S.1: Summary of NHFIC's programs

Program	Description
1. Affordable Housing Bond Aggregator	To make loans to registered community housing providers, using money borrowed from the Commonwealth and by raising finance by the issue of bonds on the commercial market.
2. National Housing Infrastructure Facility	To provide finance for eligible infrastructure projects that would not otherwise have proceeded, or would only have proceeded at a much later date or with a lessor impact on new affordable housing.
3. Capacity Building	To provide support for capacity building to assist registered community housing providers to further develop their financial and management capabilities. This support is provided by NHFIC entering into contracts with persons or entities to provide services to registered community housing providers.
4. First Home Loan Deposit Scheme	To facilitate first home buyers entering into the housing market sooner. To issue up to 10,000 guarantees each financial year for loans to first home buyers with a deposit of between 5 and 20 per cent of the property's value.
5. Research	To support the monitoring of housing demand, supply and affordability in Australia. Highlighting current and potential future gaps between housing supply and demand, while also complementing existing housing-related research.

Source: Investment Mandate.

1 House of Representatives, Bills, National Housing Finance and Investment Corporation Bill 2018, Second Reading, Speech, Hansard, 15 February 2018, p. 1623.

Rationale for undertaking the audit

4. The primary function of NHFIC is to improve housing outcomes for Australians through increasing the supply of affordable housing. The availability of affordable housing has been of interest to the Parliament. In the 2019–20 financial year, NHFIC expenses were in excess of $101 million of which concessional loan provisions were $74.5 million.[2] During this period NHFIC issued bonds to the value of $877 million.[3] The audit will provide assurance to the Parliament on the effectiveness of NHFIC's administration following its first two years of operation.

Audit objective and criteria

5. The audit objective was to assess the effectiveness of the administration of NHFIC. To form a conclusion against this objective, the following high-level criteria were applied:

- Have the design expectations for NHFIC been effectively incorporated into its service delivery arrangements?
- Has NHFIC implemented frameworks to deliver on the Investment Mandate?
- Has NHFIC established appropriate arrangements to measure and report on its impact?

Conclusion

6. The administration of NHFIC is partly effective. While NHFIC has established administrative arrangements for five programs which align to the NHFIC Act and the Investment Mandate, its implementation and reporting does not clearly demonstrate that it is achieving its purpose to 'improve housing outcomes'. NHFIC's administration should be improved in relation to: management of its Services Agreement (SA) with Export Finance Australia (EFA); risk management and compliance management; and measuring and presenting its achievements in delivering 'improved housing outcomes'.

7. The establishment of NHIFC was largely consistent with relevant legislative and policy requirements. There were shortcomings primarily related to its arrangements to monitor and report on performance under its SA with EFA and its implementation of risk management.

8. NHFIC's management of delivery against the Investment Mandate is partly effective. NHFIC has established mechanisms to monitor its performance and compliance against the Investment Mandate. However, greater assurance is required to meet the obligations set out in NHFIC's governance charters. The measuring and presenting of NHFIC's delivery against its legislative object to 'improve housing outcomes' was not transparent in corporate plans and was ambiguous in information provided to the NHFIC Board for decision-making.

9. NHFIC's arrangements for measuring and reporting on its impact are partly appropriate. NHFIC has prepared three corporate plans which identified the overall organisational purpose, aims to achieve its purpose and strategic objectives. NHFIC's performance framework did not provide an adequate level of insight into the effectiveness and efficiency of NHFIC's delivery of its legislative object. The performance measures established by NHFIC were not sufficiently reliable and complete.

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2 National Housing Finance and Investment Corporation, *Annual Report 2019–20*, September 2020, p. 61.

3 National Housing Finance and Investment Corporation, *Annual Report 2019–20*, September 2020, p. 13.

Supporting findings

Establishment and design expectations

10. NHFIC's strategies and operating model are consistent with the NHFIC Act and Investment Mandate. Two programs (NHIF and capacity building) fell short of the expectations set out in NHFIC's business plans and internal budgets.

11. NHFIC was largely effective in establishing the operations of the organisation. The NHFIC Board was established and has an approved charter to govern its operations. In accordance with the charter, the board has established committees to advise or assist in the performance of the board's functions. Each of these committees has a charter that has been approved by the board. The NHFIC Board and the Audit and Risk Committee did not implement governance arrangements in a way that was intended to fulfil their legislative and charter obligations.

12. NHFIC's establishment of support functions was largely appropriate. NHFIC has made arrangements for the delivery of establishment services and operational services through a SA with EFA. The performance monitoring that has been undertaken was not documented and focused on inputs. NHFIC acquittal of EFA invoices under the SA is the primary mechanism for monitoring the costs of service delivery. This process should be more rigorous.

13. NHFIC has a range of policy documents that include a requirement to apply risk management techniques at the transaction level. All of these documents have been approved by the Audit and Risk Committee, and are applied in the operation of relevant programs. However, the structure and implementation of organisational risk management in NHFIC is missing elements and is inconsistently applied across the organisation.

Delivery against the Investment Mandate

14. NHFIC has established mechanisms to monitor its performance and compliance against the Investment Mandate. However, NHFIC requires additional measures to give greater assurance that the NHFIC Board is meeting its compliance obligations under the Investment Mandate and its governance charters.

15. NHFIC's investment decisions are partly effective in demonstrating additionality in outcomes. NHFIC's corporate plan should provide further information to allow NHFIC to demonstrate whether its performance resulted in 'improved housing outcomes'. NHFIC's loan, investment and grant assessment guidelines require specific consideration and assessment of the additionality for projects at the transaction level. However, the level of additionality is not consistently measured or presented in submissions for NHFIC Board approval.

Measuring and reporting on impact

16. NHFIC has established a partly appropriate performance measurement framework. NHFIC has identified a range of performance measures aligned to its strategic and legislative objectives. NHFIC's performance measures should provide greater insight to the Parliament and public into how NHFIC is achieving its legislative object and an understanding of the efficiency and effectiveness of its operations.

Recommendations

Recommendation no.1 **Paragraph 2.76**	The National Housing Finance and Investment Corporation implement rigorous monitoring and reporting of performance under the Services Agreement between Export Finance Australia and NHFIC. **National Housing Finance and Investment Corporation response:** *Agreed.*
Recommendation no.2 **Paragraph 2.98**	The National Housing Finance and Investment Corporation review and update the risk framework and risk assessments to better support the NHFIC Board in the identification and treatment of risks. **National Housing Finance and Investment Corporation response:** *Agreed.*
Recommendation no.3 **Paragraph 3.18**	The National Housing Finance and Investment Corporation implement additional measures to give greater assurance over the quality of, and compliance with, legislation, policies and procedures. **National Housing Finance and Investment Corporation response:** *Agreed.*
Recommendation no.4 **Paragraph 3.34**	The National Housing Finance and Investment Corporation present more consistent and transparent information to the NHFIC Board on how it contributes to 'improved housing outcomes'. **National Housing Finance and Investment Corporation response:** *Agreed.*
Recommendation no.5 **Paragraph 4.33**	The National Housing Finance and Investment Corporation strengthen its performance measures to address its legislative object 'to improve housing outcomes' and to provide a greater understanding of its efficiency and effectiveness in delivering outcomes. **National Housing Finance and Investment Corporation response:** *Agreed.*

Summary of National Housing Finance and Investment Corporation response

17. A summary response from NHFIC is provided below. The full response can be found at Appendix 1.

> The National Housing Finance and Investment Corporation (NHFIC) acknowledges the ANAO's findings and recommendations and welcomes the opportunity to comment on the Audit Report on the effectiveness of the administration of NHFIC.
>
> We agree with the five recommendations noted in the Report and have already made significant progress in responding to the findings. The implementation of the recommendations by the ANAO will be overseen by NHFIC's Audit and Risk Committee.
>
> NHFIC is only two and a half years old and we welcome the Report highlighting that $1.2 billion of social bonds had been issued between March 2019 and June 2020, that 9,983 First Home Loan Deposit Scheme (FHLDS) guarantees were issued in the first six months of the Scheme's operation, and that $1.3 billion in loans were made to 26 community housing providers by June 2020.
>
> As a relatively new entity that is still maturing, the timing of the report has been very helpful in highlighting findings that will enhance the existing governance arrangements. NHFIC was

established to be operational by 1 July 2018 with two key functions (the Affordable Housing Bond Aggregator (AHBA) and the National Housing Infrastructure Facility (NHIF)). NHFIC was given two additional functions (FHLDS and Research) following the May 2019 Federal election and a further function (the New Home Guarantee (NHG)) following the October 2020 Federal budget. NHFIC is focussed on administering these functions efficiently and effectively.

The Report places appropriate importance on the need for effective monitoring and reporting of governance arrangements. This includes the review of service level agreements and robust risk management policies and compliance practices. We have already enhanced our governance arrangements with the recruitment of specialist staff as part of our commitment to a continuous improvement approach to our policies and practices.

We also welcome the Report's focus on NHFIC's primary function of improving housing outcomes for Australians. We are reviewing our internal and external reporting measures to ensure they are consistent and transparent for the Board and to demonstrate to the public and the Parliament how NHFIC is achieving its purpose.

Key messages from this audit for all Australian Government entities

18. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Governance and risk management

- An effective compliance framework:
  - lists relevant policies against which compliance is being measured;
  - includes a description of relevant roles and responsibilities for undertaking compliance activities and reporting;
  - identifies specific roles with accountability for compliance under relevant policies;
  - identifies the compliance activities to be undertaken and at what intervals; and
  - describes who has responsibility for any subsequent action (or acceptance) for instances of non-compliance.
- Risk management is most effective when risks that are not within the documented risk appetite/tolerance levels are identified and effectively treated.

Performance and impact measurement

- Audit committee responsibilities for assurance over performance reporting can be supported by a structured assessment of both the individual performance measures and of the performance narrative as a whole.
- Where a component of an entity's purpose is additionality, performance measures should be developed and reported on that capture the achievement of those measures. This reporting should demonstrate that the specific outputs or outcomes were delivered over and above what would have been delivered without the entity's contribution.
- It is not sufficient for entities to demonstrate that they have undertaken the programs and activities set out in legislation, without also demonstrating achievement of outcomes from those programs and activities.

Audit findings

1. Background

Introduction

1.1 The May 2015 Senate Economic References Committee Inquiry into Affordable Housing identified a range of issues relating to Australian Government interventions to address gaps in both the supply and demand for social and affordable housing.[4] In 2017 the Council on Federal Financial Relations (CFFR) noted that the issue of affordable housing was 'a structural problem in Australia where the demand for affordable housing outstrips its supply, leading to lengthy social housing waitlists and some low-income households facing rental stress or being unable to retain housing at all'.[5]

1.2 The CFFR identified and commented on the roles of the Commonwealth, state and territory and local governments for affordable housing. The primary responsibility for affordable housing lies with states and territories, with the Commonwealth Government role being largely 'providing funding assistance for affordable housing rather than delivery.'[6] It went on to say 'different States and Territories have taken different approaches to the way in which they deliver affordable housing. Some states and territories include housing as part of their human services or welfare portfolios, while others have adopted a more commercial/property focus, acting primarily as a developer and/or landlord, with support services provided by other parts of government'.[7] Local government also has relevant responsibilities through building approval, urban planning and development processes and may be involved in the provision of public housing directly.[8]

1.3 On 7 January 2016, the Australian Government announced the establishment of an Affordable Housing Working Group (Working Group) following a request from treasurers at the CFFR meeting in October 2015.[9]

1.4 In 2016 the Department of the Treasury established the Working Group, which included representatives of the Australian Government and state jurisdictions, as follows.

- Commonwealth Treasury;
- Commonwealth Department of Social Services;
- New South Wales Treasury;

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4 The Senate, Economics References Committee, Out of reach: The Australian housing affordability challenge, May 2015.

5 The Department of the Treasury, Affordable Housing Working Group, *Terms of Reference* [Internet], The Department of the Treasury, available from https://treasury.gov.au/sites/default/files/2019-03/C2016-050_Terms_of_Reference.pdf p. 1 [Accessed on 25 October 2020].

6 Council on Federal Financial Relations, *Supporting the implementation of an affordable housing bond aggregator* [Internet], The Department of the Treasury, September 2017, available from https://treasury.gov.au/sites/default/files/2019-03/170921-AHWG-final-for-publication.pdf p. 23 [Accessed on 25 October 2020].

7 ibid.

8 ibid p. 51.

9 The Department of the Treasury [Internet], The Department of the Treasury, available from https://treasury.gov.au/consultation/council-on-federal-financial-relations-affordable-housing-working-group-innovative-financing-models [Accessed on 25 October 2020].

- Victoria Department of Treasury and Finance; and
- Western Australia Department of Treasury.

1.5 The Working Group defined affordable housing as:

> that which reduces or eliminates housing stress for low income and disadvantaged families and individuals in order to assist them with meeting other essential basic needs on a sustainable basis, whilst balancing the need for housing to be of a minimum appropriate standard and accessible to employment and services.[10]

1.6 The Working Group delivered its report, *Innovative Financing Models to Improve the Supply of Affordable Housing*, to Heads of Treasuries on 3 November 2016. This report concluded that a 'bond aggregator model … would provide affordable housing providers with access to cheaper and longer tenor[11] debt; freeing up capital for the construction of new affordable housing.'[12] The CFFR agreed to the recommendations of the report. In the 2017–18 Budget, the Australian Government announced the establishment of the National Housing Finance and Investment Corporation (NHFIC), to operate an affordable housing bond aggregator and administer the National Housing Infrastructure Facility (NHIF).[13]

1.7 NHFIC was established under the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act). NHFIC was established to 'improve housing outcomes for Australians, particularly vulnerable Australians who need social and affordable housing'.[14] As a corporate Commonwealth entity NHFIC is subject to regulations as set out in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).

1.8 NHFIC is part of the Treasury portfolio and reports to the Assistant Treasurer and Minister for Housing (the minister).

Governing legislation

1.9 The objectives and responsibilities of NHFIC are set out in a range of documents including the NHFIC Act and the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Investment Mandate).

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10 The Department of the Treasury, Affordable Housing Working Group, *Terms of Reference* [Internet], The Department of the Treasury, available from https://treasury.gov.au/sites/default/files/2019-03/C2016-050_Terms_of_Reference.pdf p. 1 [Accessed on 25 October 2020].

11 Tenor in this context means the period of the loan.

12 Council on Federal Financial Relations, Innovative Financing Models to Improve the Supply of Affordable Housing, October 2016, p. 3.

13 The Department of the Treasury, *Budget 2017, Fact Sheet 1.8, Reducing Pressure on Housing Affordability, Establishing the National Housing Finance and Investment Corporation* [Internet], available from https://archive.budget.gov.au/2017-18/glossies/factsheets/FS_18_Housing_Affordability.pdf [Accessed on 25 October 2020].

14 House of Representatives, Bills, *National Housing Finance and Investment Corporation Bill 2018, Second Reading, Speech*, Hansard, 15 February 2018, p. 1623.

NHFIC Act

1.10 The object of the NHFIC Act is to establish NHFIC to improve housing outcomes for Australians by:

(a) strengthening efforts to increase the supply of housing; and

(b) encouraging investment in housing (particularly in the social or affordable housing sector); and

(c) providing finance, grants or investments that complement, leverage or support Commonwealth, State or Territory activities relating to housing; and

(d) contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia.[15]

1.11 The object of the NHFIC Act was amended in October 2019 to include:

(e) assisting earlier access to the housing market by first home buyers.

1.12 The NHFIC Act provides that NHFIC performs its functions in accordance with one or more directions given by the minister (the Investment Mandate).[16]

Investment Mandate

1.13 In performing its functions, NHFIC must take all reasonable steps to comply with the Investment Mandate. The first Investment Mandate, dated 3 July 2018, outlined three activities to be performed by NHFIC:

- establishment and operation of the Affordable Housing Bond Aggregator (AHBA);
- establishment and operation of the National Housing Infrastructure Facility (NHIF); and
- support for capacity building to assist registered community housing providers to further develop their financial and management capabilities.

1.14 On 12 November 2019 the Investment Mandate was amended to include two additional activities:

- establishment and operation of the First Home Loan Deposit Scheme (FHLDS); and
- research into housing affordability in Australia.

1.15 These activities underpin the five programs operated by NHFIC. A high level description of these programs is set out in Table 1.1. The programs are described in detail later in this document.

Table 1.1: Programs administered by NHFIC

Program	Description
1. Affordable Housing Bond Aggregator	To make loans to registered community housing providers, using money borrowed from the Commonwealth and by raising finance by the issue of bonds on the commercial market.
2. National Housing Infrastructure Facility	To provide finance for eligible infrastructure projects that would not otherwise have proceeded, or would only have proceeded at a much later date or with a lessor impact on new affordable housing.

15 *National Housing Finance and Investment Corporation Act 2018*, section 3.

16 *National Housing Finance and Investment Corporation Act 2018*, section 4.

Program	Description
3. Capacity Building	To provide support for capacity building to assist registered community housing providers to further develop their financial and management capabilities. This support is provided by NHFIC entering into contracts with persons or entities to provide services to registered community housing providers.
4. First Home Loan Deposit Scheme	To facilitate first home buyers entering into the housing market sooner. To issue up to 10,000 guarantees each financial year for loans to first home buyers with a deposit of between 5 and 20 per cent of the property's value.
5. Research	To support the monitoring of housing demand, supply and affordability in Australia. Highlighting current and potential future gaps between housing supply and demand, while also complementing existing housing-related research.

Source: Investment Mandate.

1.16 The Investment Mandate outlines the activities to be performed by NHFIC and the allocation, maintenance and repayment of funds. It also outlines financing mechanisms and eligibility criteria for lending and financing decisions and expectations related to governance, including reasons for decisions, good corporate citizenship and transparency of operations. The Investment Mandate requires NHFIC to 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: environmental issues; social issues; and governance issues'.[17]

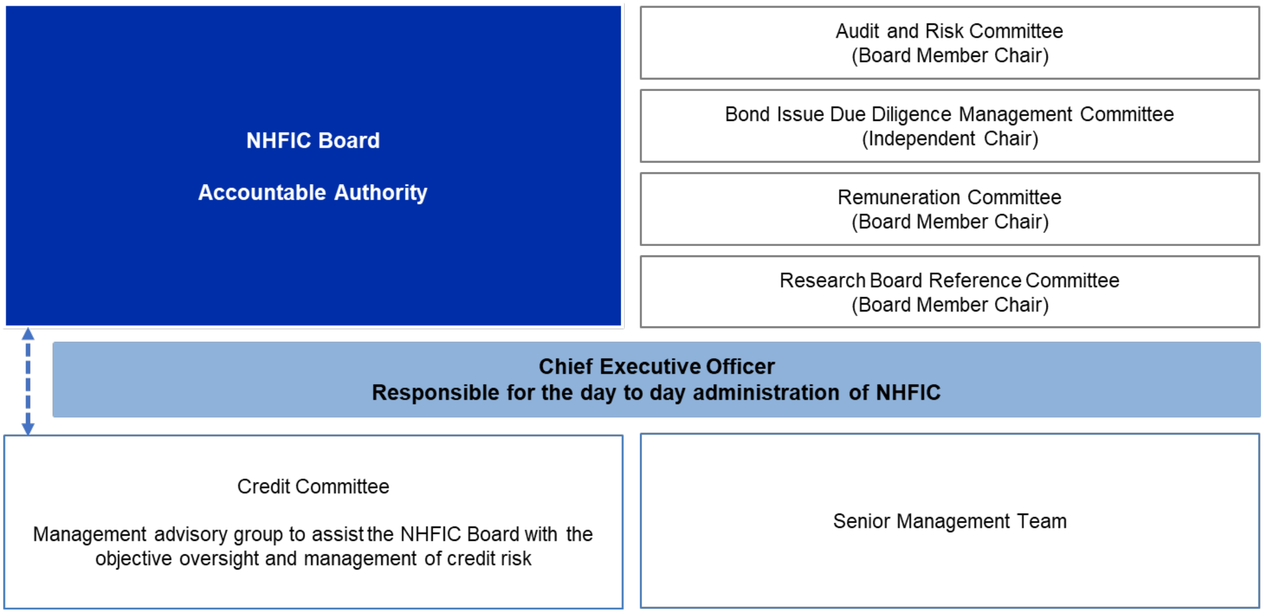
Board

1.17 NHFIC is governed by a board. The board consists of a chair and six members. The board is the accountable authority of NHFIC. The functions of the board are: to decide, within the scope of the Investment Mandate, the strategies and policies to be followed by NHFIC; to ensure the proper, efficient and effective performance of NHFIC's functions; and to perform any other functions conferred on the board by the NHFIC Act. The board must also ensure that NHFIC maintains commercially sound and sufficient levels of capital and reserves.

1.18 The NHFIC Board is supported by four committees: the Audit and Risk Committee; the Bond Issue Due Diligence Management Committee; the Remuneration Committee and the Research Board Reference Committee. The Chief Executive Officer (CEO) is responsible for the day-to-day administration of NHFIC. The CEO is required to act in accordance with policies and strategies determined by the board. A management group, known as the Credit Committee, has also been established as a management advisory committee to the board to assist with the oversight and management of credit risks arising from NHFIC's functions. The CEO attends all board meetings and is invited to, and frequently attends, all committee meetings. Figure 1.1 depicts the NHFIC governance structure.

17 *National Housing Finance and Investment Corporation Investment Mandate Direction* 2018, section 31.

Figure 1.1: NHFIC governance structure



Source: ANAO analysis of NHFIC's governance structure.

1.19 In addition to its 28 full time equivalent staff, NHFIC has contracted with Export Finance Australia (EFA) for the delivery of its support functions under a Services Agreement.

Funding and government guarantees

1.20 The Australian Government, through the Department of the Treasury, has provided operating funding for four years to assist with the establishment of NHFIC operations. Operating funding for the four years has been budgeted at approximately $80 million. Operating funds provided during the first two years of NHFIC's operations was approximately $45 million.

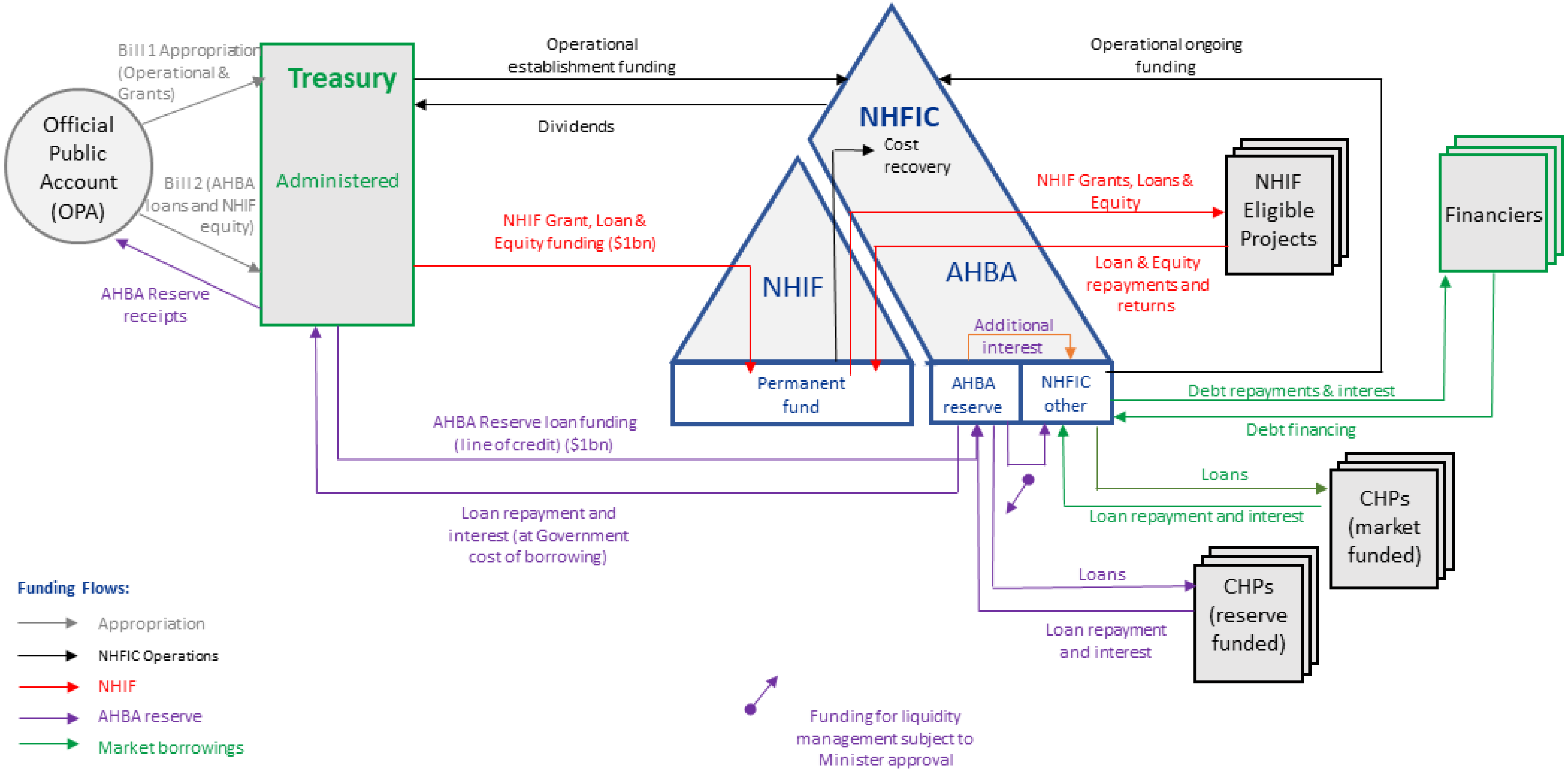
1.21 In addition, the Australian Government has provided $200 million a year over five years ($1 billion between 2018–19 and 2022–23) for NHIF.

1.22 The NHFIC Special Account, established in accordance with section 47A of the NHFIC Act, is operated by the Department of the Treasury. The purpose of the special account is to provide NHFIC with access to loan funding of up to $1 billion as a warehouse facility (see paragraph 2.8) for the operation of the AHBA (the reserve).

1.23 Section 34 of the Investment Mandate states that the board must not enter into a transaction which would result in the sum of the total guaranteed liabilities of NHFIC and the current value of the AHBA reserve to exceed $2 billion.[18] As at 30 September 2020 this cap had not been reached. An illustration of NHFIC's funding flows is shown in Figure 1.2.

18 Subsequent to the audit, the liability cap was increased to $3 billion by the *National Housing Finance and Investment Corporation Investment Mandate Amendment (New Home Guarantee) Direction 2020*, dated 6 October 2020.

Figure 1.2: NHFIC's funding flows



Source: NHFIC Board Handbook April 2019.

NHFIC and the community housing sector

1.24 The purpose of the AHBA is to engage with, and leverage the work of, the community housing sector. The community housing sector is broadly made up of not-for-profit organisations managed by boards of directors elected by their members. Community housing providers (CHPs) manage a range of housing services including social and affordable housing for people who are on very low to moderate incomes and transitional and crisis accommodation for people who are homeless.[19] In Australia, most[20] CHPs are regulated through the National Regulatory System for Community Housing (NRSCH). The NRSCH identifies CHPs as Tier 1, Tier 2 or Tier 3 depending on the corporate status, scale and development activities of the CHP. Table 1.2 outlines the categorisation of CHPs in Australia. As at 30 September 2020, there was a total of 359 CHPs registered by the NRSCH and state based regulatory agencies.

Table 1.2: Distribution of registered community housing providers

Primary jurisdiction	Tier 1	Tier 2	Tier 3	Total
Australian Capital Territory	1	3	10	**14**
New South Wales	23	14	123	**160**
Northern Territory	0	3	1	**4**
Queensland	3	9	72	**84**
South Australia	5	10	14	**29**
Tasmania	2	0	0	**2**
Victoria[a]	N/A	N/A	N/A	**40**
Western Australia	4	6	16	**26**
Total	**38**	**45**	**236**	**359**

Note a: At 30 September 2020, Victoria did not classify its CHPs in line with the NRSCH tiers.

Source: ANAO analysis of public information on registered community housing providers.

Rationale for undertaking the audit

1.25 The primary function of NHFIC is to improve housing outcomes for Australians through increasing the supply of affordable housing. The availability of affordable housing has been of interest to the Parliament. In the 2019–20 financial year, NHFIC expenses were in excess of $101 million of which concessional loan provisions were $74.5 million.[21] During this period NHFIC issued bonds to the value of $877 million.[22] The audit will provide assurance to the Parliament on the effectiveness of NHFIC's administration following its first two years of operation.

19 Community Housing Industry Association [Internet], available from https://communityhousing.org.au/about_us/what-is-community-housing [Accessed on 25 October 2020].

20 Victoria and Western Australia have implemented state based regulatory systems and are not part of the National Regulatory System for Community Housing (NRSCH).

21 National Housing Finance and Investment Corporation, *Annual Report 2019–20*, September 2020, p. 61.

22 National Housing Finance and Investment Corporation, *Annual Report 2019–20*, September 2020, p. 13.

Audit approach

Audit objective, criteria and scope

1.26 The audit objective was to assess the effectiveness of the administration of NHFIC. To form a conclusion against this objective, the following high-level criteria were applied:

- Have the design expectations for NHFIC been effectively incorporated into its service delivery arrangements?
- Has NHFIC implemented frameworks to deliver on the Investment Mandate?
- Has NHFIC established appropriate arrangements to measure and report on its impact?

Audit methodology

1.27 In undertaking the audit the Australian National Audit Office (ANAO):

- examined documentation held by NHFIC (and the Department of the Treasury) including strategies, policies, procedures, frameworks, guidelines, board papers and minutes, and internal reporting;
- reviewed specific documentation relating to individual program set-up, costs and outcomes, loan assessment criteria, credit risk management, risk management and performance monitoring; and
- interviewed relevant entity staff, provider staff and board members.

1.28 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of $236,987.

1.29 Team members for this audit were Mark Rodrigues and Axiom Associates Pty Ltd.

2. Establishment and design expectations

Areas examined

This chapter examines whether NHFIC developed strategies, an operating model, governance arrangements, support functions and an approach to risk management that was consistent with the relevant legislative and policy requirements.

Conclusion

The establishment of NHIFC was largely consistent with relevant legislative and policy requirements. There were shortcomings primarily related to its arrangements to monitor and report on performance under its Services Agreement (SA) with Export Finance Australia (EFA) and its implementation of risk management.

Areas for improvement

The ANAO made two recommendations aimed at addressing the need for NHFIC to:

- implement rigorous monitoring and reporting of performance under the SA between EFA and NHFIC; and
- review and update the risk framework and risk assessments to better support the board in the identification and treatment of risks.

2.1 The *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Investment Mandate), and its subsequent amendments, required the National Housing Finance and Investment Corporation (NHFIC) to establish, and make operational, five programs. NHFIC is required under the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act) to ensure 'the proper, efficient and effective performance of its functions'. This includes the development and implementation of strategies, an operating model, governance arrangements, support functions and an approach to risk management.

Are NHFIC's strategies and operating model consistent with the NHFIC Act and Investment Mandate?

NHFIC's strategies and operating model are consistent with the NHFIC Act and Investment Mandate. Two programs (NHIF and capacity building) fell short of the expectations set out in NHFIC's business plans and internal budgets.

2.2 The five programs implemented by NHFIC are delivered through individual service delivery mechanisms that encompass in-house service delivery, partnership arrangements and outsourced functions.

2.3 To assess whether NHFIC's administration of programs was effective, the ANAO examined whether:

- the operating model used for the program aligned to the Investment Mandate;
- there were operational and financial plans to build capacity and capability into the management and administration of the program;
- there was a clear plan for maturation of the programs that had been approved by the board;

- policies and procedures had been developed to support operations; and
- the programs met the expectations outlined in the Investment Mandate and NHFIC's internal planning and budget projections.

2.4 The ANAO performed its assessment on each of NHFIC's programs. Figure 2.1 summarises the results of the assessment. NHFIC results indicate that, in spending and performance, each program is at a different stage of implementation relative to expectations. Each of the five programs is described in detail in this chapter.

Figure 2.1: Analysis of NHFIC's establishment of programs

	AHBA	NHIF	Capacity Building	FHLDS	Research
The operating model used for the program aligned to the *Investment Mandate*	✓	✓	✓	✓	✓
There were operational and financial models to build capacity and capability	✓	✓	✓	✓	✓
There was a clear plan for the maturation of the program that had been approved by the Board	✓	✓	✓	✓	✓
Policies and procedures had been developed to support operations	✓	✓	N/A	✓	N/A
The program met expectations outlined in the Investment Mandate and internal plans and budgets	**Exceeded expectations**	**Fallen short of expectations**	**Fallen short of expectations**	**Met expectations**	**Met expectations**

Source: ANAO analysis of NHFIC board papers.

Affordable Housing Bond Aggregator (AHBA)

Operating model

2.5 In 2017 the Department of the Treasury commissioned a consultant to provide a plan for the establishment of an Australian affordable housing bond aggregator. The plan proposed that the affordable housing bond aggregator should operate a 'pass-through' model where borrowers (community housing providers (CHP)) funding requirements were equally matched to funding sourced from the domestic capital market through the issue of bonds. This would have the effect of providing lower-cost and longer-term loans than were available to CHPs directly. In the report the consultant found that the benefit of an Australian affordable housing bond aggregator could be equivalent to 1.4 per cent per annum in interest costs.

2.6 NHFIC is able to offer AHBA loans at a lower interest rate than can be obtained by CHPs directly. It can do this because it is able to issue bonds at interest rates that reflect the financial support provided by the Australian Government. The Australian Government has guaranteed any money that is payable by NHFIC, other than to the Commonwealth, for contracts and transactions entered into until 30 June 2023.[23] As a result of this guarantee, NHFIC has gained a Standard & Poors (S&P) rating as follows.

> On Feb. 11, 2019, S&P Global Ratings assigned its 'AAA' long-term and 'A-1+' short-term issuer credit ratings to Australian government entity National Housing Finance and Investment Corp. (NHFIC). The rating outlook is stable. At the same time, we assigned our 'AAA' long-term rating to the proposed senior unsecured notes to be issued under NHFIC's debt issuance program.

2.7 The importance of the Australian Government guarantee to the rate of interest for NHFIC bonds was referred to in the 1 September 2020 board papers which concluded that 'if the explicit guarantee is removed NHFIC still may be able to issue non-guaranteed bonds, but the pricing dynamics, quantum of available funding, and the investor base would be very different'.

Operational and financial plans

2.8 The Australian Government agreement to provide up to $1 billion in loans to NHFIC provides it with a reserve warehouse loan facility. NHFIC's *AHBA Reserve Business Plan 2018–19* explained the functioning of the reserve as follows.

> NHFIC funds AHBA loans by issuing its own bonds into the wholesale capital market. It can also use the AHBA Reserve for this purpose, including:
>
> - As a warehouse facility for approved AHBA loans prior to refinancing via a bond issuance at a later date. This enables NHFIC to build a portfolio of loans of sufficient scale over several months to support a bond.
> - To provide construction funding which directly supports the development of new dwellings. The flexibility of the line of credit enables CHPs to make progressive drawdowns through the construction phase of a project prior to take-out finance at completion and financing of the loan via a bond issuance.
> - To fund AHBA loans that will not be refinanced via a bond issuance, in circumstances where it is difficult or costly to match the terms of the loan and bond.
>
> The AHBA Reserve allows NHFIC to offer financing at a competitive price and a range of tenors while giving it the time to build confidence and scale in its bond issuances.

2.9 In December 2018 the NHFIC Board approved the engagement of UBS and ANZ as bond issuance dealers to facilitate NHFIC's bond issuance by 'considering marketing and investor options for the NHFIC's Debut Bond Issuance and bringing the bonds to market in the most efficient and cost-effective manner'.

2.10 The first NHFIC bond was issued on 28 March 2019 for a principal amount of $315 million with an interest rate of 2.38 per cent and a maturity date of 28 March 2029.[24] This bond was matched to a pool of nine loans to CHPs varying in size from $3.8 million to $70 million.

Policies and procedures

2.11 The NHFIC Act and Investment Mandate set out the purposes and eligibility criteria for AHBA loans. At a high level, the Investment Mandate requires the board to provide loans to CHPs at the lowest cost and most appropriate tenor possible.

---

23 *National Housing Finance and Investment Corporation Act 2018*, section 51.

24 The average yield for a 10 year Australian government bond on 29 March 2019 was 1.7 per cent. Sourced from *AMP Capital Market Update* 29 March 2019.

2.12 AHBA loans can be used to:

- acquire or construct new housing stock;
- maintain existing housing stock;
- assist with working capital requirements and/or general corporate requirements; and
- re-finance existing debts.

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

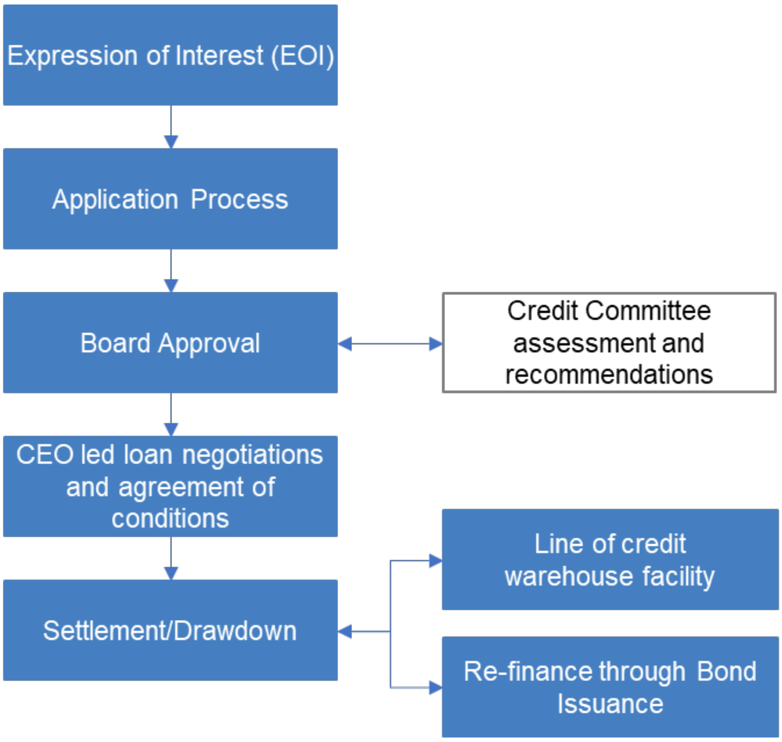
> (a) the purpose for which the loan is being sought and the extent to which that purpose supports affordable housing outcomes;
>
> (b) the credit-worthiness of the registered community housing provider;
>
> (c) the terms on which any private sector finance would be available to the registered community 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 and the limits set in the Act.[25]

2.14 NHFIC has developed guidelines and an *Investment Risk Evaluation Process* to support the board's decision-making for AHBA loans that address all the Investment Mandate requirements. The *Investment Risk Evaluation Process* was provided to the minister in December 2018.

2.15 All AHBA loan applications are subject to an assessment process to determine eligibility and alignment to the requirements of the Investment Mandate. A summary of the process is illustrated in Figure 2.2.

25 *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, section 19.

Figure 2.2: AHBA loan assessment process



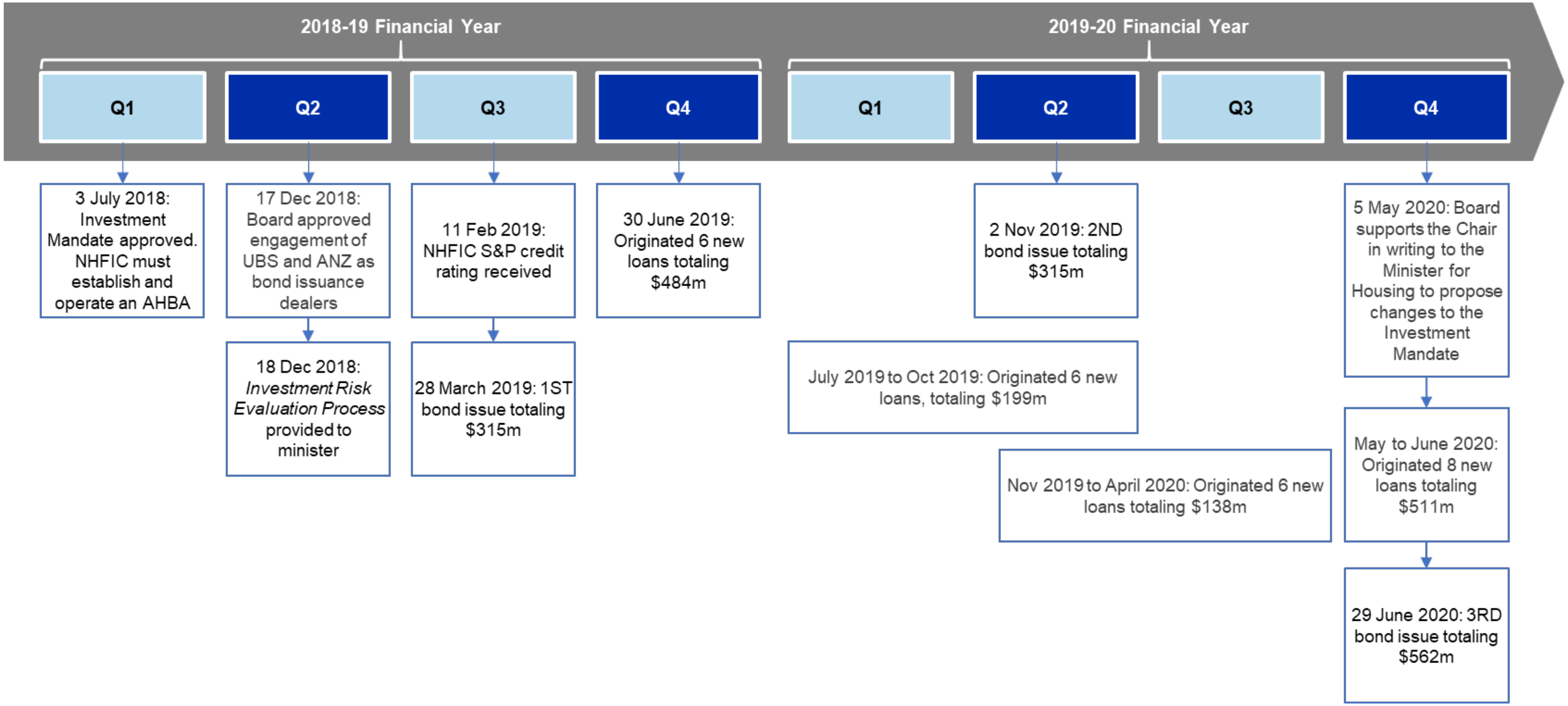
Source: ANAO analysis of *NHFIC Guidelines: For Affordable Housing Bond Aggregator Loans*.

Delivery of program expectations and approach for maturation of the program

2.16 Between July 2018 and June 2020 there were three bond issuances by NHFIC with a total value of approximately $1.2 billion. It also originated[26] and gained board approval for 26 loans to Tier 1 CHPs totalling approximately $1.3 billion. A chronology of the AHBA activities is illustrated in Figure 2.3.

26 Origination is the process by which a potential borrower applies for a new loan, and NHFIC processes that application. Origination in NHFIC includes all the steps from receipt of an EOI through to the preparation of documents for loan approval.

Figure 2.3: Chronology of AHBA activities



Source: ANAO analysis of NHFIC board papers.

2.17 In June 2019 NHFIC provided its *AHBA Reserve Business Plan 2018–19* to the Treasurer. This business plan forecast the use of the AHBA reserve until the end of financial year 2022–23. The high demand from CHPs for NHFIC loans has meant that NHFIC has exceeded the forecasts set out in this business plan.

2.18 One measure of performance of the AHBA is its ability to reduce the interest rate to CHPs while retaining sufficient margin to meet operational and financing costs. The margin retention by NHFIC is illustrated in Table 2.1.

Table 2.1: NHFIC margin on AHBA loans

	Bond Issue 2 November 2019	Bond Issue 3 3 June 2020
Bond coupon rate	1.52%	1.41%
Fixed loan rate to CHPs	2.07%	2.06%
NHFIC margin	**0.55%**	**0.65%**

Source: ANAO analysis of NHFIC board papers.

2.19 Overall, the implementation of the AHBA program has exceeded the expectations set out in NHFIC's *AHBA Reserve Business Plan 2018–19*. This plan estimated that as at 30 June 2020 the total value of NHFIC's loans would be $580 million. As at 30 June 2020 NHFIC had gained board approval for 26 loans totalling approximately $1.3 billion.

National Housing Infrastructure Facility (NHIF)

Operating model

2.20 The Investment Mandate requires NHFIC to establish and operate the NHIF to make infrastructure loans, investments and grants. The purpose of NHIF is:

> [T]o 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.[27]

Policies and procedures

2.21 Under the Investment Mandate the scope for which NHIF loans, investments and grants could be made is for projects that:

> (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

27 *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, p. 12.

(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.[28]

2.22 These are reflected in the *NHFIC Guidelines: For National Housing Infrastructure Facility Loans, Grants and Equity Investments* and the *NHIF Lending Policy*. The *NHIF Lending Policy* refers to a *NHIF Scope Inclusions Table* which includes elements intended to provide greater clarity over the meaning of 'critical infrastructure' when assessing applications. It includes, for example, provision of gas supply between the mains and the building envelope, external fire protection and subdivision works.

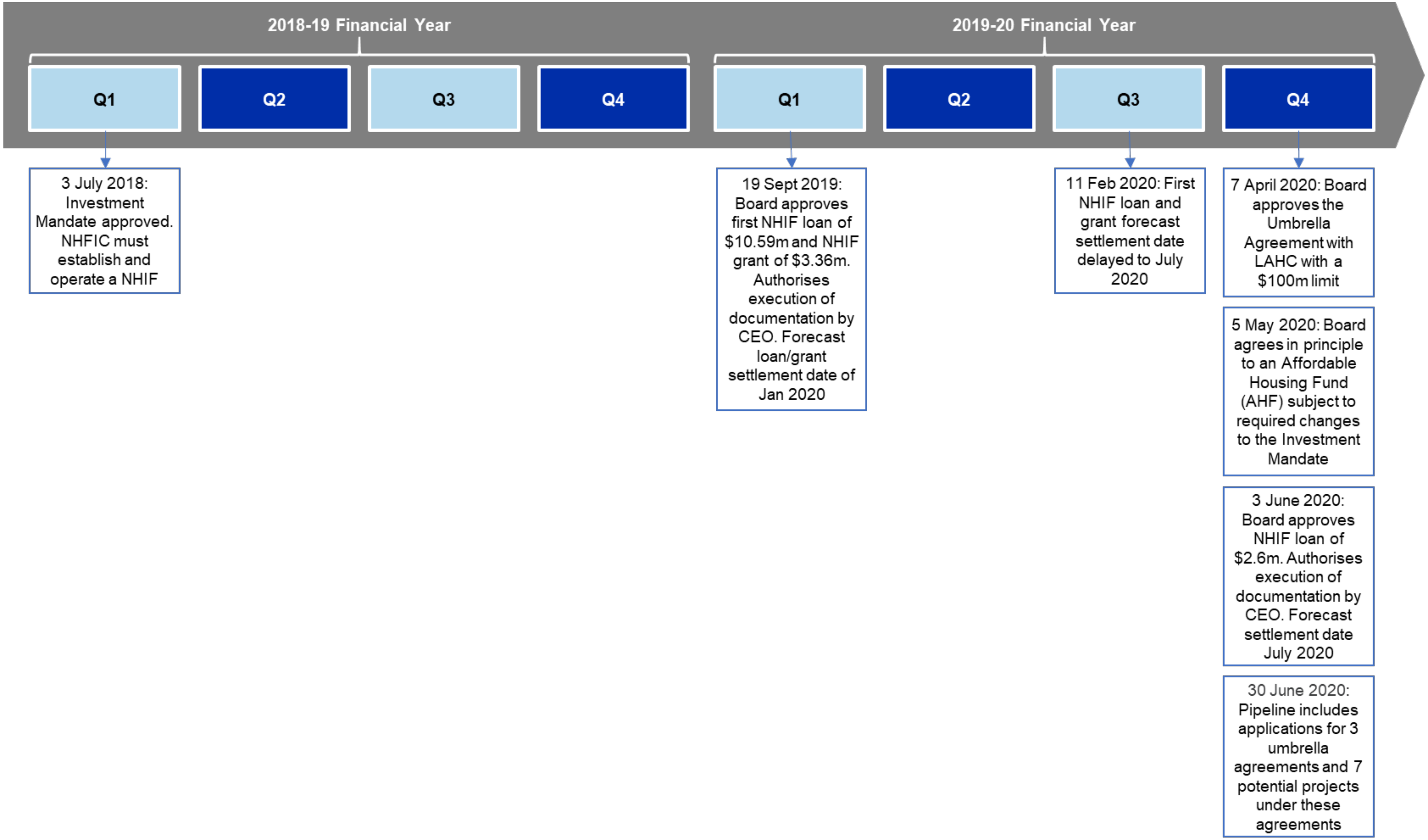
Delivery of expectations

2.23 Between July 2018 and June 2020 the Australian Government provided $400 million for the operation of NHIF. Of this funding, $70 million was provided for loans, investment and grants. As at 30 June 2020, the board had approved one grant application with a value of approximately $3.6 million. The additional funding of $330 million was provided for loans and equity investments/concessional loans. As at 30 June 2020, the board had approved NHIF loans for two projects with a total value of $13.2 million. The forecast settlement for these loans is expected to be in the 2020–21 financial year. Whilst these represent approvals for the use of NHIF funding, the actual NHIF expenditure to 30 June 2020 was approximately $268,000.

2.24 The level of infrastructure loans, investments and grants through NHIF has fallen short of expectations set out in NHFIC's internal budget projections which included an expected expenditure of $10 million against actual expenditure of approximately $268,000. A chronology of NHIF activities is illustrated in Figure 2.4.

28 *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, section 23.

Figure 2.4: Chronology of NHIF activities



Source: ANAO analysis of NHFIC board papers.

Operational and financial plans, including approach to maturation of the program

2.25 In April 2020, NHFIC endeavoured to address the lack of demand for NHIF loans, investments and grants through the negotiation of 'umbrella agreements' with state and territory governments.

2.26 The umbrella agreements were designed to provide certainty for the overall level of funding that may be available to a state or territory under NHIF. The availability of this funding requires the state or territory to submit sufficient eligible projects and for these to be approved by NHFIC. The umbrella agreements were also intended to streamline contractual arrangements through the use of a set of common terms and conditions.

2.27 All projects submitted under an umbrella agreement are to be assessed for eligibility against the requirements of the Investment Mandate. In April 2020 the board approved an umbrella agreement of up to $100 million with the New South Wales Land and Housing Corporation. As at 30 September 2020, no projects had been approved under this umbrella agreement. NHFIC is discussing potential umbrella agreements with other jurisdictions.

2.28 In another measure to address the lack of demand for NHIF funding, NHFIC considered proposing a broader eligibility definition for the use of NHIF funding. On 5 May 2020 the board agreed, in principle, to set up the Affordable Housing Fund (AHF) subject to the necessary changes to the Investment Mandate. The AHF proposal involved the re-tasking of unused NHIF funds away from funding only infrastructure to broader construction purposes. The board also approved, prior to any Investment Mandate changes, a budget of $50,000 for AHF set up activities between 1 April 2020 and 30 June 2020.[29]

Capacity Building

Operating model

2.29 Under the Investment Mandate, NHFIC may provide support to registered CHPs to further develop their financial and management capabilities (capacity building). The Investment Mandate indicates that this 'support would be provided by the NHFIC entering into contracts with persons or entities to provide services to registered community housing providers'.[30]

2.30 The total value of the amounts payable by NHFIC under capacity building contracts must not exceed $1.5 million for its initial term (to 30 June 2023 subject to ministerial change).[31]

Operational and financial plans

2.31 In October 2018 the board approved the engagement of the Community Housing Industry Association (CHIA) to provide capacity building services primarily through the establishment and administration of a panel of consultants to provide business advisory services to CHPs where their funding applications had been declined by NHFIC. Under this arrangement NHFIC would grant the CHP up to $20,000 for the provision of these business advisory services through the panel arrangement (the grants). In September 2020 the board approved an extension to the CHIA contract for one year.

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29 The 2020–21 Budget did not include changes to the Investment Mandate that would allow for changes to the use of NHIF funding.

30 *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, section 29M.

31 *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, section 15.

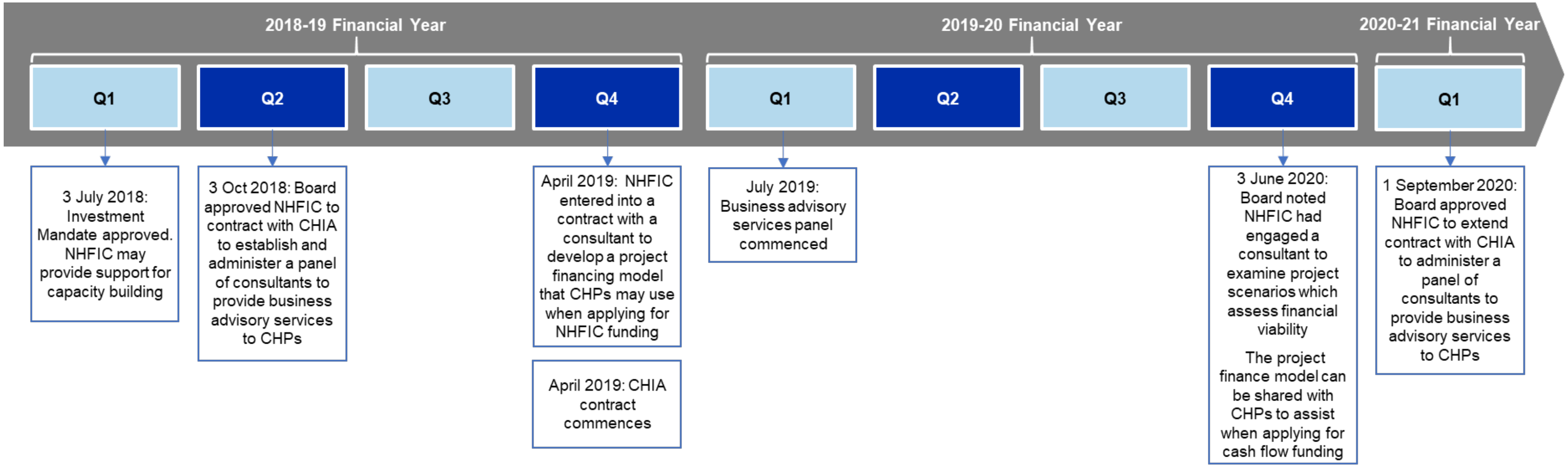
2.32 In addition to the CHIA panel administration services, NHFIC engaged three consultants to develop financial models that would assist CHPs in their internal financial management and in applying for NHFIC finance. As at 30 June 2020, the total value of the CHIA panel administration services and financial consultancies was $226,000.

2.33 The first application for a business advisory services grant using the panel was referred by NHFIC to CHIA on 24 September 2019. As at September 2020 a total of 12 applications for grants had been referred to CHIA and three grants to CHPs were partially or fully funded. At 30 June 2020, total expenditure on grants was approximately $42,000.

Delivery of expectations and approach to maturation of the program

2.34 As at 30 June 2020, two capacity building grants had been completed, a further six were in progress. The total spending on capacity building grants and contracts was approximately $268,000. NHFIC does not have financial projections for the capacity building program. To assess whether the program was on track, the ANAO assumed that the available funding would be spent evenly throughout the initial funding term of the program. As at 30 June 2020, the notional funding available was $600,000 and expenditure was $268,000, less than half of this available notional funding. A chronology for capacity building activities is illustrated in Figure 2.5.

Figure 2.5: Chronology of capacity building activities



Source: ANAO analysis of NHFIC board papers.

First Home Loan Deposit Scheme

Operating model

2.35 Under the NHFIC Act and Investment Mandate, as amended in October 2019 and November 2019 respectively, NHFIC must establish and operate a scheme to issue guarantees to eligible lenders in relation to eligible loans under the First Home Loan Deposit Scheme (FHLDS). The purpose of FHLDS is to facilitate first home buyers entering into the housing market sooner. NHFIC may issue up to 10,000 guarantees each financial year for loans to first home buyers with a deposit of between 5 and 20 per cent of the property's value.[32]

Operational and financial plans

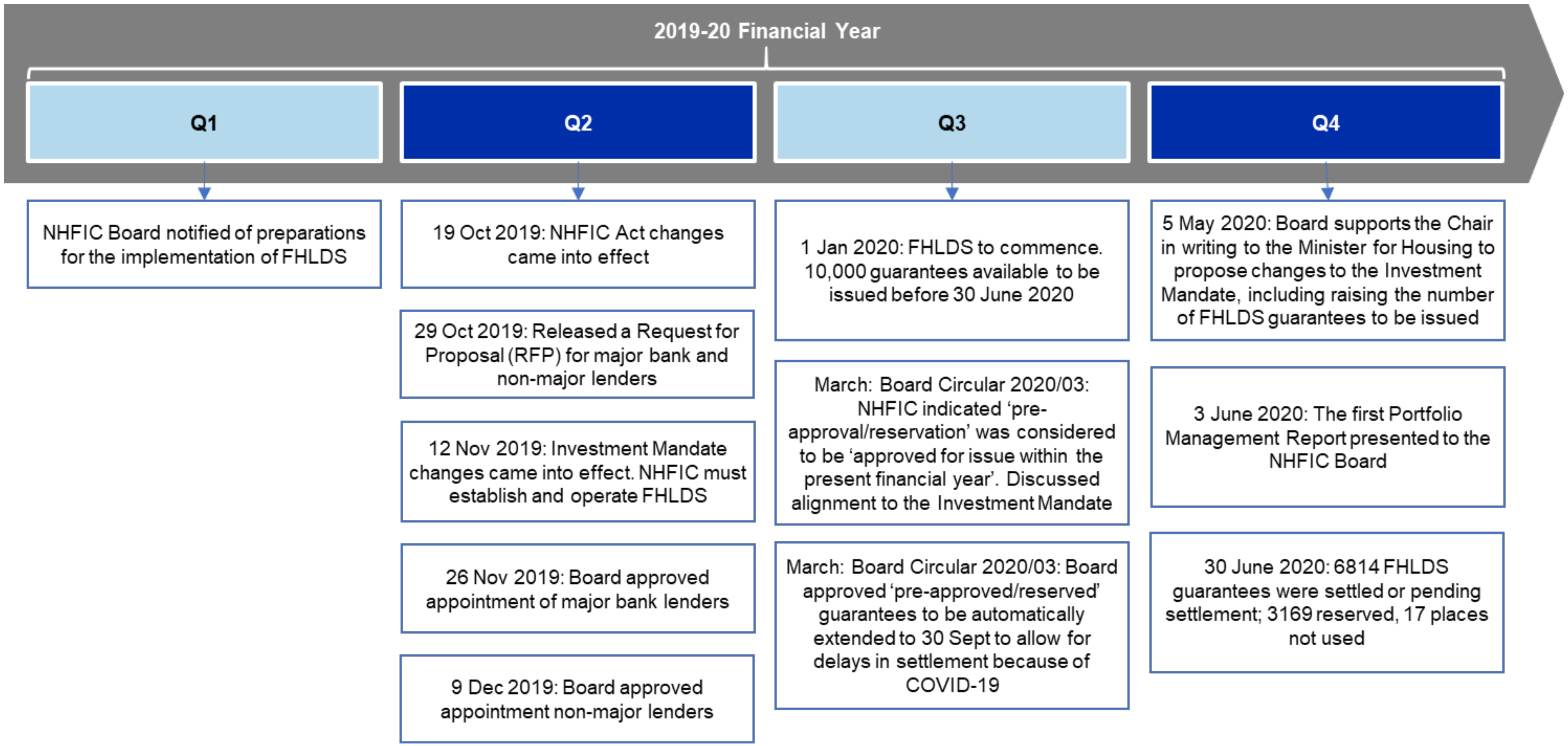
2.36 In August 2019 the NHFIC Board was provided with information about the planning for the implementation of FHLDS. Between August 2019 and October 2019 NHFIC spent $2.1 million[33] preparing for the implementation of FHLDS. This spending was primarily for the development of the FHLDS portal and preparation for the procurement of major bank and non-major lenders to administer the program.

2.37 A chronology of the implementation activities for FHLDS is illustrated in Figure 2.6.

32 FHLDS would have the effect of saving a first home buyer approximately $15,000 for a house costing $500,000.

33 A small portion of this spend related to research.

Figure 2.6: Chronology of FHLDS activities



Source: ANAO analysis of NHFIC board papers.

Policies and procedures

2.38 The Investment Mandate sets out the eligibility for the FHLDS guarantee. This is determined by an income test, a prior property ownership test, a minimum age test, a citizenship test, a deposit requirement and an owner-occupier requirement. In addition, a property price cap (the maximum property purchase price) is applied. The level of the property price cap is determined by the postcode or suburb of the property.

2.39 The eligibility test and the annual provision of the 10,000 guarantees is through two major bank lenders (5000) and non-major lenders (5000).[34] The lenders were selected through a competitive procurement process. Areas for consideration during the evaluation of bids from potential lenders were consideration of loan default rates and the procedures adopted by the potential lenders in relation to managing defaults and customer hardship. For example, a winning lender's submission showed five year default rates of 1.6 per cent for high loan to valuation ratio (90–95 per cent) loans. This was assessed a being low and a positive attribute of the lender's submission.

2.40 NHFIC has developed a portal for the administration of the scheme which can be directly accessed by the lenders. When a potential FHLDS applicant applies for a loan with an eligible lender, the eligibility for a FHLDS guarantee is to be assessed by the lender using *Scheme Rules*. Where the applicant meets the requirements a guarantee place is 'reserved' in the NHFIC portal. This reserved guarantee is considered by NHFIC to be 'issued' under the Investment Mandate.

Delivery of expectations and approach to maturation of the program

2.41 FHLDS commenced on 1 January 2020. As at 30 June 2020, 9983 of the 10,000 available guarantees had been 'issued'. A breakdown of the available guarantees was: 6814 were settled or pending settlement; 3169 had been reserved; and 17 guarantees had elapsed or ceased.[35] The Investment Mandate expectation for the issue of 10,000 FHLDS guarantees has been met.

Research

Operating model

2.42 The Investment Mandate requires NHFIC to conduct research into housing affordability in Australia. The purpose of NHFIC's research function is to support the monitoring of housing demand, supply and affordability in Australia by highlighting current and potential future gaps between housing supply and demand, while complementing existing housing related research. The Australian Government agreed to provide $7.1 million in funding over four years for the research activities. Under the Investment Mandate NHFIC must:

> (a) conduct comprehensive research into housing demand, supply and affordability in Australia, including current and potential future gaps between housing supply and demand; and

34 A complete list of major bank lenders and non-major lenders is included at Appendix 2.

35 In this context: 'settled' means the guarantee is active and the property transaction has settled, 'ceased' means that there would no longer be a property purchase using the guarantee, and 'elapsed' means that the time available to use the reserved guarantee has passed.

(b) complement existing research, reflecting on the adequacy of construction rates and land supply to meet future needs.[36]

Operational and financial plans

2.43 In November 2019 the board considered and noted a *NHFIC Research Function Work Program* which highlighted potential areas of research that NHFIC could undertake. The work program outlined:

- background and context to housing-related policy problems;
- NHFIC's stakeholder engagement and feedback on the current housing research and data landscape;
- a snapshot of reputable housing research bodies in comparable countries, including the nature and scope of their research, and data and website functions;
- analysis of the resources (including staffing) needed to deliver the work program; and
- potential work focus areas including a flagship publication, core ongoing work, and discrete research projects.

Delivery of expectations and approach to maturation of the program

2.44 In August 2019 the NHFIC Board was provided with information about the planning for the implementation of research activities.

2.45 A chronology of the planning and implementation activities for research is illustrated in Figure 2.7.

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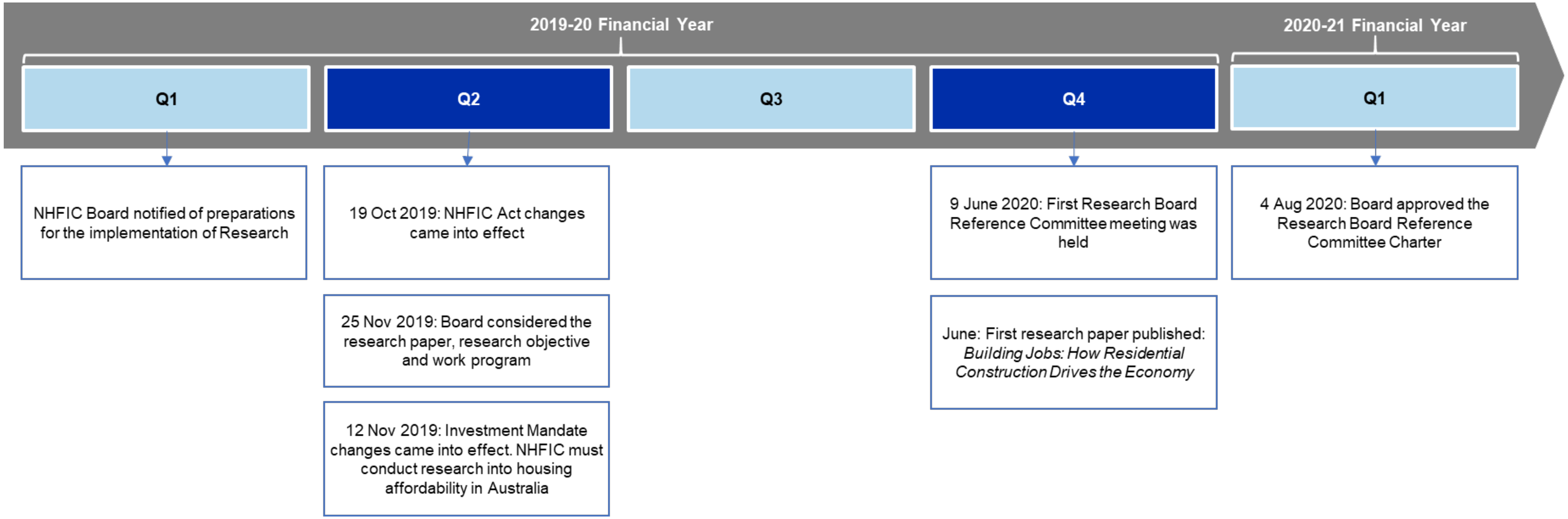
36 *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, section 29M.

Figure 2.7: Chronology of research activities



Source: ANAO analysis of NHFIC board papers.

2.46 As at 30 June 2020 spend on research was approximately $720,000 against a budget of $940,000. One research publication, which does not clearly align to the object of the NHFIC Act, had been released by NHFIC. It was titled *Building Jobs: How Residential Construction Drives the Economy*. The research program implementation has met the expectations set out in NHFIC's internal planning and budget projections.

Did NHFIC effectively manage the establishment and operation of the organisation?

NHFIC was largely effective in establishing the operations of the organisation. The NHFIC Board was established and has an approved charter to govern its operations. In accordance with the charter, the board has established committees to advise or assist in the performance of the board's functions. Each of these committees has a charter that has been approved by the board. The NHFIC Board and the Audit and Risk Committee did not implement governance arrangements in a way that was intended to fulfil their legislative and charter obligations.

2.47 As a corporate Commonwealth entity NHFIC is subject to regulations as set out in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).

2.48 To assess whether NHFIC has effectively managed the establishment and operation of the organisation, the ANAO examined whether:

- NHFIC established governance arrangements to support its strategies and operations that reflected best practice; and
- governance arrangements were implemented in line with the PGPA Act, PGPA Rule, NHFIC Act and Investment Mandate.

NHFIC Board

2.49 The NHFIC Act requires the establishment of a board. The board should consist of a chair and at least four, and no more than six, other members.[37] The board members collectively should have an appropriate balance of qualifications, skills or experience in social or affordable housing, banking and finance, law, infrastructure planning and financing, local government, and/or public policy. The NHFIC Board comprises a chair and six members with skills and experience consistent with these requirements.

2.50 The NHFIC Board has approved a charter to govern its operations. The charter sets out the board's role and responsibilities, composition, structure and membership requirements. The charter includes specific roles and responsibilities of the board related to: strategy; risk management and governance; financial management and reporting; and corporate governance and social responsibility. To discharge its responsibilities, the board has held 28 meetings in the last 24 months. Board meeting papers ranged between 150–400 pages. In addition, the board approved 19 out-of-session papers.

2.51 In accordance with the charter, and pursuant to section 47 of the NHFIC Act, the board has established committees to advise or assist in the performance of the board's functions. The NHFIC

37 *National Housing Finance and Investment Corporation Act 2018*, section 17.

Board has established four committees: the Audit and Risk Committee; the Bond Issue Due Diligence Management Committee; the Remuneration Committee; and the Research Board Reference Committee. Each of these committees has a charter that has been approved by the board.

Audit and Risk Committee

2.52 The Audit and Risk Committee was established to provide independent assurance and to review the risk management and engagement practices of NHFIC. In addition, the Audit and Risk Committee was set up to comply with the duty imposed on the board under section 16 of the PGPA Act to establish and maintain a system of risk oversight and management. Pursuant to section 17 of the PGPA Rule, the Audit and Risk Committee's charter states that its:

> primary function is to review the appropriateness of the board's:
>
> - financial reporting;
> - performance reporting;
> - system of risk oversight and management; and
> - system of internal control for NHFIC.

2.53 The Audit and Risk Committee should also make recommendations to the board on ways in which the risk culture and risk management behaviours across all levels of NHFIC may be improved. The Audit and Risk Committee met 16 times over the last 24 months. The Audit and Risk Committee comprises four board members, it is routinely attended by all board members. The Audit and Risk Committee meeting papers ranged between 10–300 pages.

2.54 The Audit and Risk Committee did not consistently perform all of its functions set out in section 17 of the PGPA Rule and its charter. In particular the Audit and Risk Committee did not:

- review NHFIC's annual performance statement and recommend acceptance by NHFIC's Board in 2018–19 and 2019–20;
- review NHFIC's systems and procedures for assessing and reporting the achievement of the entity's performance against measures established in the *Portfolio Budget Statements* and corporate plans in 2018–19, 2019–20 or 2020–21;
- review and consider the performance measures in the corporate plans for 2019–20 and 2020–21;
- review the processes for developing and implementing NHFIC's fraud control arrangements (Fraud Control Plan/fraud risk assessment); and
- monitor, to a sufficient level, compliance with NHFIC's obligations under the PGPA Act.[38]

2.55 The first three of these functions were performed directly by the board rather than on the recommendation of the Audit and Risk Committee as required by the PGPA Rule and as intended by the Audit and Risk Committee charter.

38 On 5 June 2019 the Audit and Risk Committee requested that 'a document be prepared for the Audit and Risk Committee meeting summarising how NHFIC is complying with the Public Performance and Accountability Act. This summary is to be included as part of Management's annual sign-off provided to the Chair'.

Bond Issue Due Diligence and Management Committee

2.56 The Bond Issue Due Diligence and Management Committee was set up to assist the Board of NHFIC to:

- achieve optimal pricing on bonds issued by NHFIC in the Australian wholesale debt capital market (Bond Issuances);
- conduct due diligence and verification procedures to ensure information contained in the information memorandum and other material provided to investors in connection with offers of any bonds under Bond Issuances (Offering Materials) is correct, accurate and not misleading or deceptive or likely to mislead or deceive (including by omission) as NHFIC and its directors and officers can incur liability under statute and the general law;
- optimise the utilisation of NHFIC's funding sources for its Affordable Housing Bond Aggregator (AHBA) loans business;
- optimise the investment of NHFIC's capital and reserves and short-term surplus cash; and
- manage NHFIC's exposures to interest rate risk and liquidity risk.

2.57 The Bond Issue Due Diligence and Management Committee is chaired by an independent member. The Bond Issue Due Diligence and Management Committee met 14 times over the last 24 months. Meeting papers ranged from 10–50 pages.

Remuneration Committee

2.58 The Remuneration Committee was established to review and make recommendations to the board in relation to the payment of bonuses at NHFIC and the remuneration of the Chief Executive Officer (CEO). The charter requires the Remuneration Committee to meet at least once a year.

Research Board Reference Committee

2.59 The role of the Research Board Reference Committee as set out in its charter is to:

- provide guidance and feedback on NHFIC's research priorities and agenda;
- provide guidance on aspects of individual research projects, including engagement of contractors or advisers in connection with research projects; and
- assess and make recommendations to the board in relation to NHFIC's research function consistent with the relevant legislative requirements and NHFIC's Investment Mandate.

2.60 The committee met five times between 9 June 2020 and 24 July 2020. The charter for the Research Board Reference Committee was approved in August 2020.

2.61 The NHFIC Board and its committees have not reviewed their performance since their establishment. At 30 September 2020 the board has been in operation for more than two years. The Australian Institute of Company Directors has suggested that reviews of boards and committees annually represents better practice and notes that 'it is now common practice for boards to run an externally facilitated board evaluation every three to four years and to conduct lighter touch internally managed processes in each of the years in between'.[39]

39 Australian Institute of Company Directors, Director Tools, *Board evaluation and director appraisal – Board performance*, p. 2.

Has NHFIC established appropriate support functions?

NHFIC's establishment of support functions was largely appropriate. NHFIC has made arrangements for the delivery of establishment services and operational services through a Services Agreement (SA) with Export Finance Australia (EFA). The performance monitoring that has been undertaken was not documented and focused on inputs. NHFIC acquittal of EFA invoices under the SA is the primary mechanism for monitoring the costs of service delivery. This process should be more rigorous.

2.62 NHFIC has a Services Agreement (SA) for establishment services and operational services with Export Finance Australia (EFA). The agreement covers back office services such as information technology, finance and accommodation, and front office services such as origination and loan/finance management. NHFIC relies on EFA to provide most of its corporate services (these are referred to collectively as 'support functions'). The value of payments to EFA for support functions is approximately $850,000 per annum. In addition, EFA processes all of NHFIC's financial transactions such as salaries and invoice payments which are recharged to NHFIC.

2.63 To assess whether NHFIC has established appropriate support functions, the ANAO examined whether:

- the support functions were proportionate to the level of operations for the organisations;
- the board had performed sufficient assessment as to the ongoing use of the SA; and
- NHFIC had satisfied itself that it was getting value for money from the SA.

Support function coverage

2.64 The Department of the Treasury put into place arrangements to facilitate the operation of NHFIC in preparation for the NHFIC Act coming into effect in June 2018. One of the actions taken by the Department of the Treasury was to negotiate and agree a services agreement with EFA (then known as the Export Finance and Insurance Corporation) to provide support functions. This agreement came into effect on 1 June 2018 and was for an initial term of twelve months. The agreement was novated to NHFIC on 26 September 2018.

2.65 The SA covers establishment services and operational services. The services encompass governance support and compliance services, secretariat services, reporting, loan transaction services, loan management services, legal services and marketing services. Corporate services under the SA include the provision of IT systems and services, accommodation, human resource management support and financial support. The SA allows NHFIC to determine the types of services and the quantity of services to be provided by EFA.

Assessment of the ongoing use of the services agreement

2.66 On 5 August 2019 NHFIC and EFA signed an extension to the initial agreement. The extension was for the period 5 August 2019 to 30 June 2020. All other terms and conditions remained unchanged.

2.67 On 17 July 2020 NHFIC and EFA signed a further extension to the SA. The second extension was for the period 1 July 2020 to 30 June 2021. All other terms and conditions remained unchanged.

2.68 The support functions provided under the SA underpin the operations of NHFIC. Extensions to the agreements have not been executed in a timely fashion and this has exposed NHFIC to an unnecessary, albeit small, risk of service disruption.

2.69 In June 2019 KPMG provided a report on its *Diagnostic Review* which assessed compliance with statutory requirements such as the PGPA Act, NHFIC Act, Investment Mandate and other legal obligations. One area considered was the services agreement with EFA. KPMG concluded that:

> When reviewing the option to extend the services … NHFIC should consider institutionalising the appropriate governance arrangements. While the agreement is operating effectively, it is currently reliant on personal relationships. The NHFIC also may wish to consider implementing their own internal framework for monitoring and managing the performance of these arrangements to ensure they are receiving the agreed level of service and assurance.

2.70 As a result of this report, the Audit and Risk Committee agreed on 13 June 2019 to take certain actions. These were:

- a report to be presented to the Audit and Risk Committee annually which benchmarks the fees and charges NHFIC pays to EFA and those which NHFIC could reasonably expect to pay in the open market; and
- to monitor the KPMG action plan which included the following: 'CFO with the assistance of Legal & Compliance to set up a formal process to monitor and manage performance of all the service agreements, mainly the SA with Export Finance'.

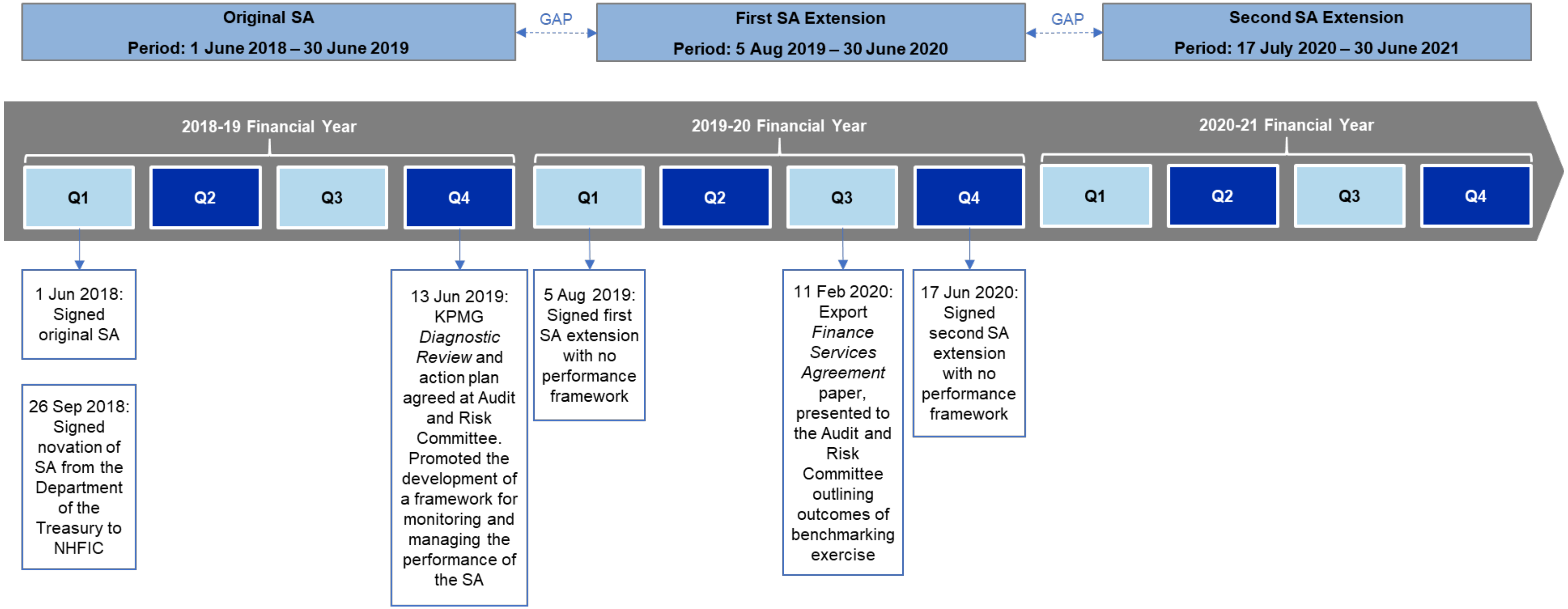
2.71 In response, management indicated that the Chief Finance Officer (CFO) and Legal & Compliance would hold monthly meetings for monitoring and managing the performance of EFA to ensure that NHFIC was receiving the agreed level of service and assurance.

2.72 On 12 August 2019, the CFO reported to the board that the SA with EFA would be finalised and the extension would include performance measures. The SA had already been signed (5 August 2019) and did not include any performance measures.

Value for money

2.73 On 11 February 2020, an internally prepared paper *Export Finance Services Agreement* was presented to the Audit and Risk Committee. This paper was intended to address the actions identified by the Audit and Risk Committee and to provide a benchmarking of the fees and charges NHFIC pays under the agreement. The paper examined salary levels and on-costs charged under the agreement. It did not consider the level of services provided, the quality of the performance of services, value for money or alternatives for service delivery. At the same meeting, management reiterated its intention to 'establish a monitoring and performance management report and performance will be assessed on an ongoing basis and formally completed yearly'. Illustrated in Figure 2.8 is a chronology of the implementation of the SA between EFA and NHFIC.

Figure 2.8: Chronology of the implementation of the SA between EFA and NHFIC



Source: ANAO analysis of NHFIC board papers.

2.74 NHFIC has indicated that the acquittal of EFA invoices is the primary mechanism for monitoring costs under the SA. In addition to the services provided directly (refer to paragraph 2.62), EFA processes all of NHFIC's financial transactions. Each quarter EFA sends an invoice for these services under the agreement. The invoice is supported by a spreadsheet of transactions that represent direct costs under the SA and transactions processed by EFA on behalf of NHFIC. The invoiced services comprise full time staffing costs, part time staffing costs, EFA allocated costs, NHFIC costs, and board costs. For the period October 2019 to June 2020 the three invoices ranged in value between approximately $1 million and $3 million. The number of transactions for direct costs, allocated costs and reimbursements in each supporting spreadsheet was approximately 1500. The details in the spreadsheet are limited, for example the direct salary payments do not show the name of the employee to which they relate.

2.75 The NHFIC Financial Controller reviews the spreadsheet and recommends CEO approval by email. The email and spreadsheet do not indicate what checks, authorisations or analysis has been performed.

Recommendation no.1

2.76 The National Housing Finance and Investment Corporation implement rigorous monitoring and reporting of performance under the Services Agreement between Export Finance Australia and NHFIC.

National Housing Finance and Investment Corporation response: *Agreed.*

2.77 *NHFIC has a Service Agreement (SA) in place with Export Finance Australia (EFA) since its inception in mid-2018 that provides for the delivery of key support services to NHFIC such as finance, information technology, treasury, human resources and accommodation. The SA between NHFIC and EFA is based on a cost recovery charging model. It has been managed by senior staff from both NHFIC and EFA through the ongoing oversight of services provided and the associated costs, which for the more substantive costs has included external benchmarking. This arrangement has enabled NHFIC to effectively establish itself quickly and respond in an agile and cost-effective way to requests from Government in delivering new functions over short timeframes.*

2.78 *However, NHFIC recognises that there is scope to better formalise these arrangements as noted in the recommendation and will implement more rigorous monitoring and reporting of the SA by:*

- *Formally scheduling monthly meetings, to complement the existing informal meetings between EFA as service provider and NHFIC as service receiver, to discuss quality of service, efficiency of service and value for money.*
- *Documenting and minuting all meetings between NHFIC and EFA regarding the SA and report outstanding action items to senior management.*
- *Implementing KPIs for core, common and strategic functions provided under the SA and report performance against these KPIs to the Board at least semi-annually.*
- *Engaging the NHFIC Audit and Risk Committee (ARC) to review the SA prior to its expiry and seek formal approval by the ARC to continue the SA arrangements, including periodically reviewing the SA as part of the independent internal audit program.*

Did NHFIC develop appropriate risk management arrangements?

NHFIC has a range of policy documents that include a requirement to apply risk management techniques at the transaction level. All of these documents have been approved by the Audit and Risk Committee, and are applied in the operation of relevant programs. However, the structure and implementation of organisational risk management in NHFIC is missing elements and is inconsistently applied across the organisation.

2.79 NHFIC is a corporate Commonwealth entity and is not required to comply with the *Commonwealth Risk Management Policy,* however Part 6, subsection 31(1) of the Investment Mandate states that NHFIC must have regard to 'Australian best practice government governance principles … when performing its functions'. NHFIC operates in a risk environment that requires consideration of government objectives, commercial banking objectives and shared risks with the Commonwealth and its lending partners. *NHFIC's Accountable Authority Instructions* (AAIs) directs the CEO to have 'regard to the requirements of the *Commonwealth Risk Management Policy* and the AS/NZS/ISO 3100:2009 Standard' (ISO 31000).[40] The AAIs also require the CEO 'to ensure that the risk management framework is integrated with other business processes'.

2.80 To assess whether NHFIC has developed appropriate risk management arrangements, the ANAO examined whether:

- the approach to risk management reflected the requirements of the Investment Mandate and the AAIs;
- the approach to risk management was fit-for-purpose; and
- risk management was appropriately embedded into key business processes.

Approach to risk management

2.81 NHFIC's risk management framework comprises three documents: the AAIs; the *Risk Appetite Statement* and the *Risk Control Matrix*.

2.82 The AAIs provide instructions to all officials on risk management with specific directions to the CEO and to officials. In relation to risk management, the CEO is directed to:

- develop and maintain a written risk management policy that outlines the NHFIC's risk management framework, which has regard to the requirements of: – the Commonwealth Risk Management Policy; and – the AS/NZS/ISO 3100:2009 Standard;
- ensure that the risk management framework is integrated with other business processes;
- determine and describe in the risk management policy the attributes of the risk culture that the NHFIC seeks to develop;
- implement arrangements to ensure the effective communication and reporting of risk, both within the NHFIC and with relevant external stakeholders;
- assess and maintain sufficient capability and resourcing to both implement the NHFIC's risk management framework and manage its risks;

40 At the time of drafting the AAI, the 2009 risk management standard had been superseded and the relevant standard was ISO 31000:2018 *Risk management – Guidelines*. However the framework for risk management remained largely unchanged between the 2009 and 2018 standards.

- review and update the NHFIC's risk management framework, the application of its risk management practices, and its risks on a regular basis; and
- establish processes for risk management reviews, which must be effectively documented and endorsed at the appropriate level within the NHFIC.

2.83 Under the direction all officials 'must refer to and act in accordance with the NHFIC's risk management framework to ensure that your risk management practices are aligned to the NHFIC's appetite and tolerance for risk, and consistent with the NHFIC's methodology to assess and treat risks'.

2.84 The *Risk Appetite Statement* sets the boundaries for the risks that NHFIC may accept in order to achieve its objectives within risk policies, risk tolerances and operational limits. The *Risk Appetite Statement* articulates NHFIC's principles and tolerances for risk management.

2.85 The *Risk Control Matrix* is:

> NHFIC's internal register of risks facing the organisation. As well as identifying risks to NHFIC, the Risk Control Matrix outlines the controls or risk mitigation in place, assesses the likelihood and consequence of each risk before and after mitigation or controls are applied, and will over time assist in identifying early warning signals.

2.86 The *Risk Control Matrix* includes a 'risk heat map', definitions for likelihood and consequence, specifies the 'degree of management focus' to be applied to residual risk levels and includes a risk register containing the top tier risks (a total of sixteen risks across the organisation).

2.87 NHFIC's risk management framework does not reflect the requirements of the *Commonwealth Risk Management Policy* and ISO 31000 in the following respects.

2.88 Under Element 2 and Element 7 of the *Commonwealth Risk Management Policy* entities are required to give specific consideration to shared risks. While NHFIC considers shared risks at the transaction level, for example, it explicitly shares credit risks, NHFIC's risk framework does not include reference to, or consideration of, shared risks. Given NHFIC's reliance on third parties to assist with service delivery, NHFIC's contribution to the management of shared risks should be transparent.

2.89 Paragraph 6.5.2 and 6.5.3 of ISO 31000 require the selection of risk treatment options and the preparation and implementation of risk treatment plans. NHFIC's risk management framework does not include guidance on the development of risk treatment plans or mechanisms to hold management accountable for the implementation of any risk treatment plans. Of the sixteen top tier risks identified in the *Risk Control Matrix*, fourteen were rated as 'moderate' or 'high' which under the *Risk Control Matrix* guidance require risk reduction strategies to be developed. No risk reduction strategies have been developed and there is no plan or accountability for the reduction of the rating of these risks to tolerable risk levels.

2.90 The top tier risk register identifies risks at a relatively high level, it does not provide an assessment of operational risks. NHFIC has developed an operational risk assessment for the FHLDS program, it has not developed operational risk assessments for AHBA, NHIF, capacity building or research.

2.91 In addition, NHFIC is required to comply with section 10 of the PGPA Rule which, amongst other things, requires the conduct of a fraud risk assessment. As at 30 September 2020, the NHFIC Audit and Risk Committee and Board had not been provided with a fraud risk assessment.

2.92 NHFIC's *Risk Control Matrix* document identifies the business continuity plan and disaster recovery plan as key controls. NHFIC's *Business Continuity Plan* states that it is an important component of NHFIC's risk management framework. It also states that 'risk analysis should be used in conjunction with the business impact analysis to identify the business continuity planning arrangements that will need to be implemented for each critical process'. It also states that a risk analysis should be completed at the time of business continuity plan testing. At 30 September 2020, no risk analysis or business impact analysis had been prepared.

2.93 NHFIC has a range of policy documents that include a requirement to apply risk management techniques at the transaction level. These documents include:

- *Investment Risk Evaluation Process*;
- *Risk Rating Manual*;
- *Credit Policy Manual*; and
- *Anti-money laundering and counter-terrorism financing program*.

2.94 All of these documents have been approved by the Audit and Risk Committee, and are applied in the operation of relevant programs to which they apply. Figure 2.9 is an illustration of NHFIC's risk framework, risk documents and key risk activities undertaken, including the development of risk assessments.

Figure 2.9: Risk management within NHFIC

Risk management framework	**Accountable Authority Instructions, Aug 2019** Instructions to officials with regards to risk management and fraud control	**Risk Appetite Statement, July 2020** Principles and tolerances for risk management. Top tier risks	**Risk Control Matrix, Sept 2020** NHFIC's internal register of risks and methodology for assessing the likelihood and consequences of risk	
Policy documents requiring transaction / activity level risk management	**Fraud Control Policy, January 2020** Policy and approach to fraud prevention and detection	**Fraud Control Plan, Aug 2020 (draft)** Fraud control framework and detailed fraud risk assessment	**Business Continuity Plan, April 2019** Outlines business continuity arrangements including roles and responsibilities and evacuation procedures	
	Investment Risk Evaluation Process, Dec 2018 The Board investment risk evaluation process for the AHBA and NHIF	**Risk Rating Manual, Oct 2018** Risk grade methodology in assessing the credit risk profile for all lending exposures	**Credit Policy Manual, Oct 2018** Credit risk standards and processes including lending criteria	**Anti-money laundering and counter-terrorism financing (AML/CTF) program, Nov 2018** Approach to identifying managing and mitigating money laundering and terrorism financing risks
Specific risk assessments	**Risk Assessment of FHLDS, Sept 2020**	**COVID-19 Risk Management Summary, June 2020**		

Source: ANAO analysis of NHFIC board papers.

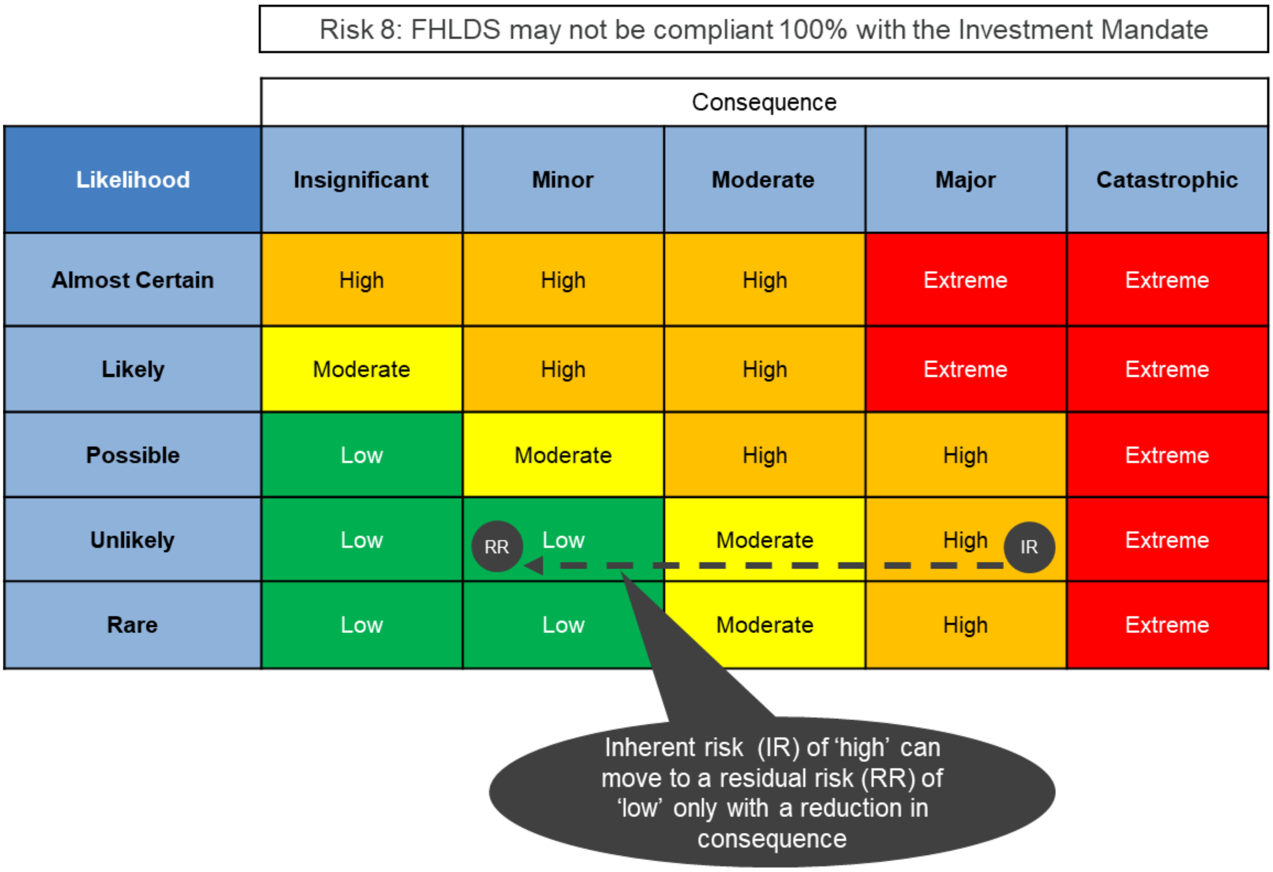
Implementation of risk management in business processes

2.95 Each of the risk assessments prepared (top tier risks, FHLDS, fraud and COVID–19) have used different approaches to risk assessment. Only the top tier risk assessment uses the approach set out in NHFIC's *Risk Control Matrix* document. The different approaches to risk assessment have arisen because the risk assessments have:

- focused inconsistently on inherent or residual risk;
- used different terminology and definitions for likelihood and consequence; and
- employed different risk matrices to determine the overall risk rating.

2.96 In addition, NHFIC has applied the FHLDS risk framework incorrectly. For example, the risk assessment for FHLDS includes residual risk assessments that are not consistent with the FHLDS risk rating scales. This is illustrated in FHLDS Risk 8 which is described as: 'FHLDS may not be compliant 100% with the Investment Mandate'. The inherent risk rating for this risk was assessed as 'high'. The control identified against this risk was: 'FHLDS team to monitor any proposed changes against the IM before the execution'. As a result of this control, a residual risk rating of 'low' was recorded in the FHLDS risk register and reported to the board. As the stated control could only reduce the 'likelihood of the risk event' a 'low' residual risk rating was not in accordance with the rating scales. The residual risk rating of 'low' could only have been achieved if the control reduced the consequences of the risk from 'major' to 'minor'. This is illustrated in Figure 2.10.

Figure 2.10: Example risk from the FHLDS risk assessment – Risk 8



Source: Risk assessment of FHLDS, September 2020.

2.97 One purpose of risk management is to assist organisations in 'making informed decisions'.[41] NHFIC's approach to risk management has resulted in inconsistent and incomplete risk assessments which has the potential to adversely affect its decision-making.

Recommendation no.2

2.98 The National Housing Finance and Investment Corporation review and update the risk framework and risk assessments to better support the NHFIC Board in the identification and treatment of risks.

National Housing Finance and Investment Corporation response: *Agreed.*

2.99 *NHFIC has implemented a range of risk management practices across its different functions. This includes developing and adapting policies to accommodate new functions such as the FHLDS, including the satisfaction of SOC2 testing requirements. As NHFIC matures, the strategy is to increase the sophistication of the risk framework consistent with the plan outlined below. We have also recruited a dedicated risk management officer, who is currently developing strategies to ensure the Board is provided with a comprehensive, ongoing view of the risks NHFIC faces and how those risks are being managed.*

2.100 *NHFIC acknowledges, however, that there is scope to develop a more holistic risk approach to support management and the Board as noted in the recommendation and since completion of the audit has:*

- *Conducted a high-level review of the risk management framework with a view to ensuring that NHFIC establishes a robust, living risk management framework that aligns with the developing nature of NHFIC's operations and provides risk information to the Board in a timely and complete manner.*
- *Obtained Board approval of a Risk Management Policy that has regard to the Commonwealth Risk Management Policy and ISO 31000 2018 Risk Management.*
- *Undertaken a compliance review of NHFIC's existing risk management arrangements and structures in relation to the Comcover Risk Management Maturity Model with an aim to establishing a target risk management maturity position for NHFIC and compliance with the elements of the Commonwealth Risk Management Policy.*
- *Engaged additional risk management expertise to review, revise and embed a risk management framework that meets NHFIC's needs and complies with its Investment Mandate and the Accountable Authority Instructions.*

41 Standards Australia, *ISO 31000:2018 Risk management – Guidelines*, 2018, p. 5.

3. Delivery against the Investment Mandate

Areas examined

This chapter examines whether NHFIC has managed service delivery in accordance with the Investment Mandate. It examines the effectiveness of monitoring performance and compliance and the transparency of the achievement of additionality in outcomes.

Conclusion

NHFIC's management of delivery against the Investment Mandate is partly effective. NHFIC has established mechanisms to monitor its performance and compliance against the Investment Mandate. However, greater assurance is required to meet the obligations set out in NHFIC's governance charters. The measuring and presenting of NHFIC's delivery against its legislative object to 'improve housing outcomes' was not transparent in corporate plans and was ambiguous in information provided to the board for decision-making.

Areas for improvement

The ANAO made two recommendations aimed at addressing the need for NHFIC to:

- implement additional compliance measures to give greater assurance over the quality of, and compliance with, legislation, policies and procedures; and
- develop and implement an approach to measuring and presenting how it has achieved 'improved housing outcomes' that provides consistent and transparent information to the NHFIC Board.

3.1 Section 12 of the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act) requires the National Housing Finance and Investment Corporation (NHFIC) to take all reasonable steps to comply with the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Investment Mandate). The Investment Mandate includes provisions that require performance and compliance that aligns with a range of legislation and better practice approaches to service delivery. The Investment Mandate requires NHFIC to undertake five programs with different strategic objectives, performance measures and compliance requirements. Each of the programs is delivered through individual service delivery mechanisms that encompass in-house service delivery, partnership arrangements and outsourced functions.

Has NHFIC established mechanisms to monitor its performance and compliance against the expectations of the Investment Mandate?

NHFIC has established mechanisms to monitor its performance and compliance against the Investment Mandate. However, NHFIC requires additional measures to give greater assurance that the NHFIC Board is meeting its compliance obligations under the Investment Mandate and its governance charters.

3.2 NHFIC has implemented a range of policies and procedures in each of its programs that are explicitly designed to ensure compliance with the requirements of the Investment Mandate, at a task/transaction level. However, performance and compliance management requires broader assurance to the board about whether the execution of those policies and procedures is providing an acceptable level of adherence to the Investment Mandate.

3.3 To assess whether NHFIC has established mechanisms to monitor its performance and compliance, the ANAO examined whether:

- performance and compliance monitoring addressed all outcomes identified in the Investment Mandate; and
- performance and compliance monitoring was systematic and regular.

3.4 NHFIC has a range of performance and compliance requirements. These arise directly from the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), NHFIC Act, and Investment Mandate and through other subsidiary directions such as the *NHFIC Accountable Authority Instructions* (AAIs) and internal policies. NHFIC has also entered into a range of service delivery arrangements, such as contracts with third parties, which may impose compliance obligations on NHFIC such as to conduct regular audits of third party transactions.

3.5 The board charter imposes performance and compliance obligations on the board in respect of 'ensuring ethical behaviour and compliance with NHFIC's own governing documents' and 'monitoring and evaluating NHFIC's compliance with its corporate governance standards'. In addition, the board has responsibilities for 'reviewing and approving NHFIC's systems of internal compliance and control, audit, risk management (including the credit risk strategy and significant credit risk policies) and legal compliance systems, to determine the integrity and effectiveness of those systems'.

3.6 The Audit and Risk Committee charter includes a specific role to 'monitor NHFIC's compliance with obligations under the PGPA Act, and any other relevant laws' and to 'monitor NHFIC's compliance with policies and controls approved by NHFIC's Board'.

3.7 The obligations of the NHFIC Board and the Audit and Risk Committee, taken together, represent the requirements for monitoring the performance and compliance of the organisation.

3.8 The international standard *ISO 19600:2014 Compliance Management* (ISO 19600) sets out the principles for better practice in compliance management and is itself based on 'the principles of good governance, proportionality, transparency and sustainability'.[42] Important aspects of the standard relevant to NHFIC are:

- the identification of compliance obligations and their implications;
- the identification and analysis of compliance risks;
- documented compliance objectives and plans to achieve them;
- establishing compliance reporting processes; and
- assignment and communication of responsibilities for compliance.

3.9 NHFIC's Board has put in place a range of mechanisms to provide assurance about whether or not NHFIC is meetings its performance and compliance obligations. These mechanisms encompass reporting against specific activities and programs, specific performance reports, and compliance reports that address identified compliance obligations. Figure 3.1 illustrates the components of performance and compliance reporting within NHFIC.

42 Standards Australia, *ISO 19600:2014 Compliance Management Self Assessment Checklist*, 2014, p. 2.

Figure 3.1: NHFIC performance and compliance reporting

Performance and compliance approach documents	Board reports	Review and consultancies	Formal external reports
Compliance Plan	Monthly Pipeline Report (AHBA and NHIF)	**Internal Audit** (*Decision Making Framework*, July 2020)	**Annual Report** (Financial Statements and Annual Performance Statement)
Compliance with responsibilities under NHFIC's approved policies	Portfolio Management Report (AHBA)	**Consultancies** KPMG *Diagnostic Review*, June 2019	Formal reports to the minister
Compliance and Risk Calendar 2020	FHLDS Dashboard and Monthly Periodic Loan Report Dashboard		
	Quarterly Compliance Report		
	Ad hoc papers on performance and outcomes (e.g. Export Finance Services Agreement benchmarking paper)		

Source: ANAO analysis of NHFIC board papers.

3.10 Individual policies and procedures contain a range of compliance requirements at the task/transaction level. Where assurance over compliance with these policies and procedures is required by the NHFIC Board and the Audit and Risk Committee, NHFIC has implemented compliance management (assurance) which is supported by four documents:

- *Compliance Plan*;
- *Compliance with the responsibilities under NHFIC's approved policies*;
- *Compliance and Risk Calendar 2020*; and
- *Quarterly Compliance Reports*.

3.11 The *Compliance Plan* sets out a table that includes the source of compliance obligations, related NHFIC policies and procedures, the area responsible for compliance and frequency of compliance review. This document does not identify or analyse compliance risks, does not establish compliance reporting processes and does not prioritise or assign specific compliance activities or responsibilities.

3.12 The *Compliance with the responsibilities under NHFIC's approved policies* document is a table that identifies approved NHFIC policies, a description of relevant responsibilities and activities and identifies NHFIC officials and board members with responsibilities under those policies. The document does not identify who is responsible for assessing levels of compliance with the identified policy requirements. This document does not assign or communicate responsibilities for monitoring compliance.

3.13 The *Compliance and Risk Calendar 2020* outlines review activities and compliance tasks to be completed throughout the calendar year. It does not identify when a compliance task will be completed or reported, the extent of the tasks or compliance risks to be addressed. It does not include compliance reporting processes or assign communication responsibilities.

3.14 *The Quarterly Compliance Reports* are provided to the Audit and Risk Committee and the board. The purpose of these reports is to provide an update about NHFIC risk and compliance activities during the quarterly governance period. The report addresses a range of matters including, updates to policies and procedures, complaints, incidents, training, insurance and a listing of contracts. The report does not identify all compliance implications or associated risks.

3.15 These four documents taken together do not provide sufficient assurance to the NHFIC Board or the Audit and Risk Committee that their compliance obligations have been identified, assessed and met. Each of the documents have gaps, for example, not all Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) requirements have been identified[43]; there are overlaps between documents, in that several NHFIC policies are included in each of the documents; and there is no clear articulation of the level of compliance expected or being achieved.

3.16 To assist the NHFIC Board and the Audit and Risk Committee to meet their compliance obligations, NHFIC has engaged consultants to provide assurance to support NHFIC's in-house compliance activities. For example, in 2019, a *Diagnostic Review* assessed compliance with statutory requirements such as the PGPA Act, NHFIC Act, Investment Mandate and other legal obligations. In 2020, the Audit and Risk Committee commissioned an internal audit on the *Decision Making Framework* which was focused on whether NHFIC was meeting the requirements of the Investment Mandate. The focus of these reviews was on the existence of policies and procedures rather than the quality of, or compliance with, those policies and procedures.

3.17 NHFIC's compliance reporting does not provide sufficient analysis of the activities undertaken or the level of comfort that can be taken from these compliance activities. For example, the required annual review of policies does not provide assurance about the quality of the policies themselves, or the level of compliance with the policies, only that the policies have been reviewed.

43 For example, the documents do not include references to the requirements of PGPA Rule 10 *Preventing, detecting and dealing with fraud* or PGPA Rule 17 *Audit committee for Commonwealth entities*.

Recommendation no.3

3.18 The National Housing Finance and Investment Corporation implement additional measures to give greater assurance over the quality of, and compliance with, legislation, policies and procedures.

National Housing Finance and Investment Corporation response: *Agreed.*

3.19 *NHFIC has developed procedures for ensuring compliance with relevant legislation, practices and guidelines. At an operational level our legal team have regard to our Compliance Plan when advising the organisation on NHFIC's legislative powers. The legal team also assess all transactions to be approved by the Board as compliant with NHFIC's relevant Investment Mandate requirements and the NHFIC Act.*

3.20 *NHFIC acknowledges, however, that there is scope to develop additional measures to ensure greater assurance over the quality of, and compliance with, legislation, policies and procedures and since completion of the audit has:*

- *Established oversight of compliance within the Executive Risk Committee Charter to ensure awareness, rigor and development of the culture of compliance within the senior management group for subsequent reporting to the ARC and Board.*
- *Obtained Board approval of a Compliance Policy that has regard to AS ISO 19600:2015 Compliance Management Systems.*
- *Engaged additional compliance expertise and realigned responsibilities to subject matter experts to ensure that specialised compliance obligations are reviewed on a regular basis to confirm the currency of the broad compliance framework. The review of policies will occur on a bi-annual basis (unless there is a significant change to the policy environment warranting immediate review). Policy review reports will be provided to the Executive Risk Committee.*
- *Investigated a general compliance training/awareness program, supported by targeted, risk-based compliance training to support management roles that have specific compliance exposures. In addition to improvement of the understanding and awareness of compliance obligations and processes, compliance training will underpin the development of a culture of compliance within NHFIC.*

Do NHFIC's investment decisions demonstrate additionality in outcomes?

NHFIC's investment decisions are partly effective in demonstrating additionality in outcomes. NHFIC's corporate plan should provide further information to allow NHFIC to demonstrate whether its performance resulted in 'improved housing outcomes'. NHFIC's loan, investment and grant assessment guidelines require specific consideration and assessment of the additionality for projects at the transaction level. However, the level of additionality is not consistently measured or presented in submissions for NHFIC Board approval.

3.21 The object of the NHFIC Act is to 'improve housing outcomes'.[44] This reflects the intention of the legislation for NHFIC to 'deliver better outcomes' as set out in the Second Reading Speech for the *National Housing Finance and Investment Corporation Bill 2018*.[45] For NHFIC to demonstrate the achievement of its object it must show the extent of improvement and delivery of a better outcome. This increment on the existing arrangements for affordable housing underpins the concept of 'additionality'. It is not sufficient for NHFIC to demonstrate that it has undertaken the programs and activities set out in the NHFIC Act and Investment Mandate, without also demonstrating achievement of additionality as an outcome from those programs and activities.

3.22 To assess whether NHFIC's investment decisions demonstrated additionality in outcomes, the ANAO examined whether:

- NHFIC considered additionality in its strategies;
- NHFIC considered additionality in its program guidelines and assessment criteria; and
- decision-making reflected additionality.

Additionality in NHFIC strategies

3.23 NHFIC has prepared three corporate plans since being established. These corporate plans set out NHFIC's purpose, values, strategic objectives, operating environment, capability, performance measures and risk management approach. The corporate plans identify a hierarchy of how the identified strategic objectives will lead to improved housing outcomes for Australians.

3.24 NHFIC's corporate plans do not provide performance measures of whether strategic objectives achieved additionality or 'improved housing outcomes'. NHFIC does include narrative, in its annual performance statements, that provides examples of how it has demonstrated improved housing outcomes through its programs at the strategic level. As an example, in the annual performance statement for the period ended 30 June 2020, NHFIC included information about the Affordable Housing Bond Aggregator (AHBA) as follows:

> Collectively, the loans advanced in 2019–20 support the provision of over 1,000 new dwellings and over 4,000 existing dwellings in most states and territories around Australia. It is anticipated that these loans will save the CHPs approximately $130 million in interest payments over their terms.

3.25 By not including performance measures relevant to additionality, NHFIC does not provide sufficient accountability and transparency for the achievement of its legislative object to 'improve housing outcomes' to the Parliament and the public. This is discussed further in Chapter 4 (paragraphs 4.24–4.27).

Additionality in program guidelines and assessment criteria

3.26 NHFIC has developed a range of program guidelines and assessment criteria for its AHBA, National Housing Infrastructure Facility (NHIF) and First Home Loan Deposit Scheme (FHLDS) programs. Each of these documents includes reference to the requirements of the NHFIC Act and Investment Mandate. For example, the *Credit Policy Manual*, which applies to both AHBA and NHIF financing, includes a requirement to consider and assess applications against the requirements of

44 *National Housing Finance and Investment Corporation Act 2018*, section 3.

45 House of Representatives, Bills, N*ational Housing Finance and Investment Corporation Bill 2018, Second Reading, Speech*, Hansard, 15 February 2018, p.1623.

the Investment Mandate. This includes a requirement to assess the application against whether the financing 'would complement, leverage or support other Commonwealth, State or Territory finance or activities'. The *NHIF Lending Policy* includes a further requirement that the finance should 'not duplicate or replace private commercial finance or funding from other government or non-government sources'.

3.27 For FHLDS, the 'better outcome' or 'additionality' relates to the objective of 'first home buyers entering into the housing market sooner'. NHFIC has developed *Scheme Rules,* derived from the requirements set out in the NHFIC Act and Investment Mandate, which include eligibility criteria for the property, borrowers and lenders. The arrangements with FHLDS lending providers includes a requirement for them to apply the eligibility criteria to potential borrowers and the property being purchased. It also requires lending providers to conduct, and report to NHFIC on, 'internal audits' over the application of the eligibility criteria and provides for a further review by NHFIC of loans made by the lending providers. The eligibility criteria include that the:

- property must be residential;
- property must be for owner occupation;
- price of the property must be below the identified price cap;
- borrower(s) must be Australian citizens and more than 18 years old;
- borrower(s) must satisfy the income test;
- loan to value ratio must be between 80 and 95 per cent; and
- loan must be for principal and interest and with a loan term of no more than 30 years.

3.28 The eligibility criteria do not directly address the object of the NHFIC Act to 'improve housing outcomes for Australians by … assisting earlier access to the housing market by first home buyers'.

Additionality in decision-making

3.29 The decision-making templates that are provided to the board for AHBA and NHIF transactions include consideration of the potential for 'better outcomes'/'additionality' in four main areas:

- statement of the loan outcomes;
- statement of the purposes of the loan;
- whether the loan complements, leverages or supports other Commonwealth, state or territory finance or activities; and
- assessment against the object of the NHFIC Act and the limits set in the NHFIC Act.

3.30 To illustrate the presentation of information to the board for approval, the ANAO has summarised two applications that were submitted to the board in May 2020. There were inconsistencies within the applications and they did not provide an unambiguous statement of potential additionality arising from the applications. These have been described in the case studies below.

Case study 1. AHBA loan (A) approval process

In a submission to the board for approval for an AHBA loan of $144 million, the impact of the loan was stated differently in two parts of the submission. Under the heading 'Loan Details – Purpose' it was stated that: 'The purpose of the loan is to increase the supply of social/affordable housing and it will achieve this by the following outcomes … Delivery of a further 201 … dwellings by FY20'.

Under the heading 'The object of the NHFIC Act and the limits set in the NHFIC Act' it was stated that: 'It is anticipated the loan will improve housing outcomes for Australians by delivering 500 social and affordable dwellings'.

This AHBA loan application was for the refinancing of existing loans. The information presented to the board did not unambiguously address the 'improved housing outcomes' that would result from NHFIC's financing of the transaction. The presentation of the outcomes of the projects as a whole, rather than the incremental difference that NHFIC is making, does not provide a sound basis for board decision-making.

Case study 2. AHBA loan (B) approval process

In a submission to the board for approval for an AHBA loan of $65 million, the impact of this loan was stated differently in two parts of the submission. Under the heading 'Loan Details – Outcomes' it was stated that: 'The loan will result in interest cost savings of circa $6.5 million over the loan term. This saving will be applied to assist with cash flow requirements and to fund current and future housing projects (c.19 dwellings over 10 years, assuming an average cost of $350k per dwelling)'.

Under the heading 'The object of the NHFIC Act and the limits set in the NHFIC Act' it was stated that: 'It is anticipated the loan will improve housing outcomes for Australians by increasing the supply of 59 social dwellings'.

This AHBA loan application was for the refinancing of existing loans. The information presented to the board did not unambiguously address the 'improved housing outcomes' that would result from NHFIC refinancing of the loan. The presentation of the outcomes of the projects as a whole, rather than the incremental difference that NHFIC is making, does not provide a sound basis for board decision-making.

3.31 Currently submissions to the board are inconsistent in presenting information about the impact of potential NHFIC transactions, frequently dealing with outcomes of the projects as a whole rather than the incremental difference that NHFIC is making. NHFIC, because of its strong credit rating and positioning in the market, can make loans more cheaply than community housing providers (CHPs) could obtain otherwise. Where NHFIC's loans have primarily been made to refinance existing loans the 'better outcome' or 'additionality' that NHFIC achieves is an interest saving, it is not the project outcomes themselves.

3.32 The following case study summarises the analysis of another loan application presented to the board for approval with particular focus on the extent to which the loan 'complements, leverages or supports other Commonwealth, state or territory finance or activities'.

Case study 3. AHBA loan (C) approval process

The AHBA loan of $210 million was sought, primarily, to refinance several existing projects and two new construction projects comprising a mix of social, affordable and private housing.

The applicant was proceeding with the projects and had an existing financing facility from the Clean Energy Finance Corporation (CEFC) for $140 million of which $87 million had been drawn, and a loan from the CHPs parent company.

Under the heading 'Whether the loan complements, leverages or supports, other Commonwealth, state or territory finance or activities' the assessment included references to state and Commonwealth assistance schemes. The assessment did not consider whether refinancing an existing Commonwealth (CEFC) loan may be relevant to whether the loan 'complements' Commonwealth financing activities.

3.33 Between July 2018 and June 2020 NHFIC's Board approved 26 loans with a total value of approximately $1.3 billion. Of these loans, approximately 60 per cent was for refinancing of existing loans with a value of $791 million.

Recommendation no.4

3.34 The National Housing Finance and Investment Corporation present more consistent and transparent information to the NHFIC Board on how it contributes to 'improved housing outcomes'.

National Housing Finance and Investment Corporation response: *Agreed.*

3.35 *Improved housing outcomes as defined within the NHFIC Act has several different elements, which can have different applications depending on the function and the context. Therefore, NHFIC has developed a tailored approach to its assessment and reporting to the Board. In the case of the AHBA and NHIF, NHFIC has developed a Board approved template for transaction approvals detailing the terms of the transaction and the improved housing outcomes, such as additional housing supply, that are expected to arise from the transaction. In comparison, for the FHLDS much of the Scheme's operational requirements have been prescribed in the Investment Mandate and NHFIC's relationship is with the panel of lenders, who in turn are interfacing with first home buyers. Therefore, NHFIC's assessment and reporting has focused on the number of FHLDS places allocated, the composition of such places and the lending behaviour of the panel of lenders.*

3.36 *Nonetheless, NHFIC acknowledge its current Board reporting could be enhanced for greater consistency and transparency by clearly identifying the incremental impact that NHFIC's involvement can have on improving housing outcomes. NHFIC currently seeks to capture this information in its assessment and documentation, however, will enhance the quality and the consistency of this information through:*

- *Enhancing the decision-making templates used by NHFIC when presenting information to the Board for approval.*
- *Clearly identifying the value of the project as a whole and the incremental difference NHFIC is making by its financial support.*
- *Peer review of transaction approval papers submitted to the Board to ensure consistency of information presented.*
- *Periodic review by the Board of the decision-making template to ensure all relevant information on specific transactions are adequately covered for internal and external reporting.*

4. Measuring and reporting on impact

Areas examined

This chapter examines whether NHFIC has established an appropriate performance measurement framework. This included examination of whether NHFIC's purpose was clear and succinct and whether NHFIC's performance measures were relevant, reliable and complete.

Conclusion

NHFIC's arrangements for measuring and reporting on its impact are partly appropriate. NHFIC has prepared three corporate plans which identified the overall organisational purpose, aims to achieve its purpose and strategic objectives. NHFIC's performance framework did not provide an adequate level of insight into the effectiveness and efficiency of NHFIC's delivery of its legislative object. The performance measures established by NHFIC were not sufficiently reliable and complete.

Area for improvement

The ANAO made one recommendation aimed at NHFIC strengthening performance measures that address its legislative object 'to improve housing outcomes' by providing a greater understanding of its efficiency and effectiveness in delivering outcomes.

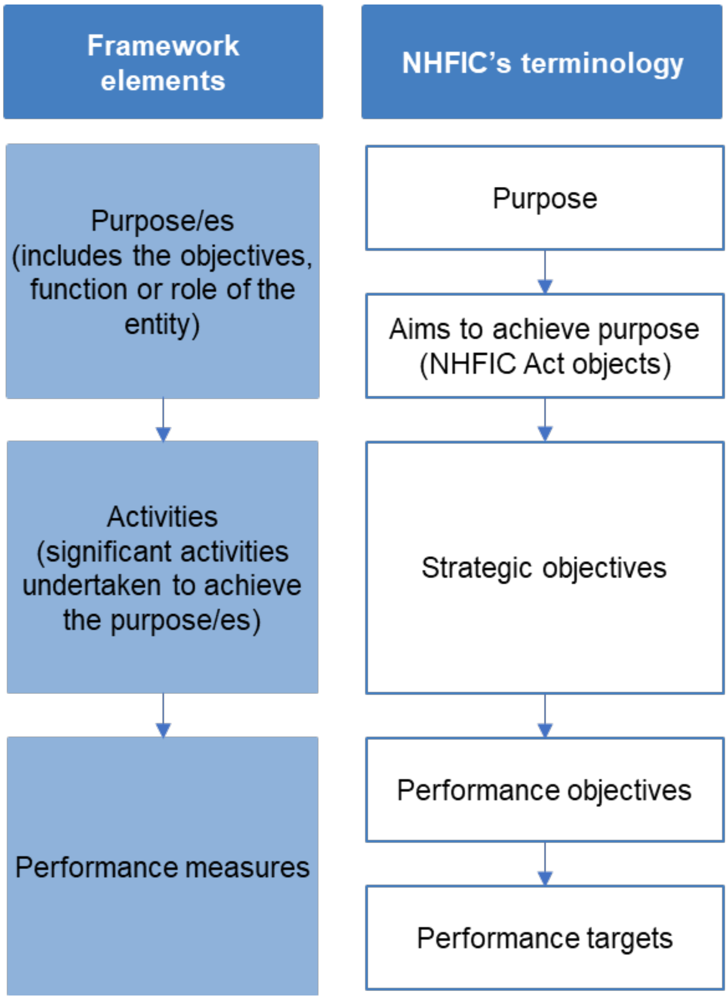
4.1 The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) provides the basis for the Commonwealth performance framework (the framework). The framework consists of the PGPA Act, the accompanying Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) and guidance issued by the Department of Finance. It is principles-based and requires entities to publish planned performance information, to allow an assessment of entities' progress against their purposes when reported at year-end.

Has NHFIC established an appropriate performance measurement framework?

NHFIC has established a partly appropriate performance measurement framework. NHFIC has identified a range of performance measures aligned to its strategic and legislative objectives. NHFIC's performance measures should provide greater insight to the Parliament and public into how NHFIC is achieving its legislative object and an understanding of the efficiency and effectiveness of its operations.

4.2 Under section 35 of the PGPA Act the National Housing Finance and Investment Corporation (NHFIC) must prepare a corporate plan, and under subsection 39(1) it must prepare an annual performance statement. The performance statement must include information about the entity's performance in achieving its purposes. Figure 4.1 illustrates how NHFIC has structured its performance information in its corporate plans.

Figure 4.1: NHFIC's hierarchy of performance information



Source: ANAO analysis of NHFIC's corporate plans.

4.3 To assess whether NHFIC has established an appropriate performance measurement framework, the ANAO examined whether:

- NHFIC's purpose was clear and succinct;
- NHFIC's activities adequately addressed the purpose; and
- performance measures were relevant, reliable and complete.

NHFIC's purpose

4.4 Section 16E of the PGPA Rule requires an entity's corporate plan to state the entity's purpose over the next four years. The PGPA Act defines purpose as including the objectives, functions or role of an entity. The aim of the purpose statement is to give context to the significant activities that the entity will pursue over that period, and should be stated in a relevant and concise manner.

4.5 Well-expressed purpose statements make it clear who benefits from an entity's activities, how they benefit and what is achieved when an entity successfully delivers its purposes. Essentially, purposes describe the value an entity seeks to create or preserve. The corporate plan is also expected to ‘set the foundations upon which a reliable performance narrative can be built’[46], and appropriate performance information assists an entity in meeting this expectation.

4.6 NHFIC has prepared three corporate plans (2018–19, 2019–20 and 2020–21). Each of these corporate plans identifies the overall organisational purpose and aims to achieve its purpose. These ‘aims to achieve purpose’ have been taken from section 3 of the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act). An illustration of how NHFIC’s purpose has evolved over time is shown in Figure 4.2.

46 Department of Finance, *2017–18 corporate plans LESSONS LEARNED*, April 2018.

Figure 4.2: NHFIC's purpose expressed in its three corporate plans

2018-19 Corporate Plan

Purpose	To improve housing outcomes for Australians by contributing to efforts to increase the supply of housing, particularly affordable housing				
Aims to achieve purpose (NHFIC Act objects)		Encouraging investment in housing, particularly in the social or affordable housing sector	Providing finance, grants or investments that complement, leverage or support Commonwealth, state or territory activities that relate to housing	Contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia	

2019-20 Corporate Plan

Purpose	To improve housing outcomes for Australians by contributing to efforts to increase the supply of housing, particularly affordable housing				
Aims to achieve purpose (NHFIC Act objects)	Strengthening efforts to increase the supply of housing	Encouraging investment in housing, particularly in the social or affordable housing sector	Providing finance, grants or investments that complement, leverage or support Commonwealth, state or territory activities that relate to housing	Contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia	

2020-21 Corporate Plan

Purpose	To improve housing outcomes for Australians				
Aims to achieve purpose (NHFIC Act objects)	Strengthening efforts to increase the supply of housing	Encouraging investment in housing, particularly in the social or affordable housing sector	Providing finance, grants or investments that complement, leverage or support Commonwealth, state or territory activities that relate to housing	Contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia	Assisting earlier access to the housing market by first home buyers

Source: ANAO analysis of NHFIC's corporate plans.

4.7 The 2019–20 financial year included a change to NHFIC's legislative object and activities. The NHFIC Act and *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Investment Mandate) were amended in October 2019 and November 2019 respectively. The amendments included the addition of one means by which NHFIC should achieve its object by 'assisting earlier access to the housing market by first home buyers' and two new activities: First Home Loan Deposit Scheme (FHLDS) and research.

4.8 Information included in NHFIC's *2019–20 Corporate Plan* was not amended to accommodate changes in the NHFIC Act or Investment Mandate. *Resource Management Guide 132 – Corporate plans for Commonwealth entities*, February 2020, states that:

> A corporate plan can be varied during a reporting period if an accountable authority considers it appropriate. For example, a corporate plan could be varied to recognise:
>
> - any new purposes or key activities for an entity (for example, as a result of machinery-of-government changes);
> - significant changes in an entity's operating environment (such as significant changes in economic conditions); or
> - significant changes in the way an entity intends to measure or assess its performance.

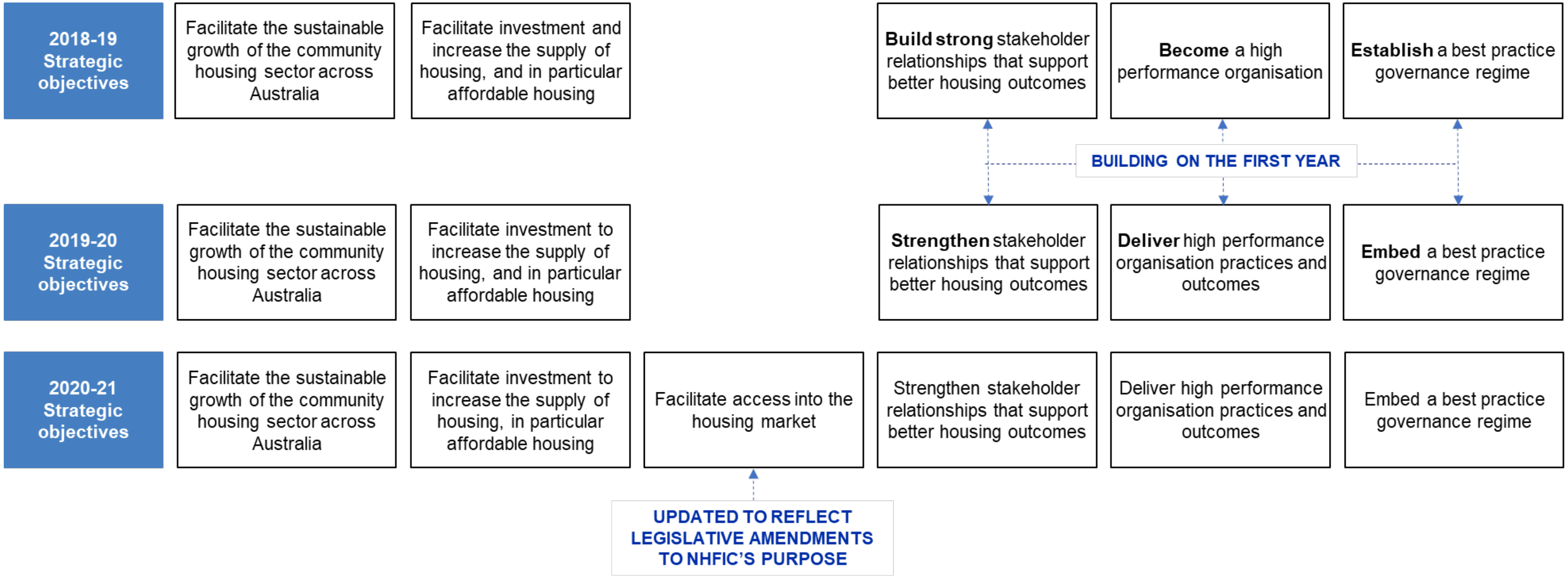
4.9 NHFIC's Accountable Authority (the board) did not consider whether amendments to the NHFIC Act and Investment Mandate warranted a change to the *2019–20 Corporate Plan*. The amendment was addressed in the *2020–21 Corporate Plan* published in August 2020.

4.10 An impact of not updating the *2019–20 Corporate Plan* was that NHFIC did not identify how it intended to measure and assess the efficiency and effectiveness of its performance for its new legislative object and activities. The annual performance statement for the year ended 30 June 2020 included narrative information on what was achieved by its new programs. However, without established performance measures there is reduced accountability and transparency for achievements to the Parliament and public and reduced insight into how NHFIC was achieving its purpose.

NHFIC's activities

4.11 NHFIC's activities have been expressed in the corporate plan as 'strategic objectives' (illustrated at Figure 4.1). These strategic objectives are the activities NHFIC intends to pursue over the reporting period to achieve its purpose. NHFIC's strategic objectives evolved over the three reporting periods from 2018–19 to 2020–21. This is illustrated in Figure 4.3.

Figure 4.3: NHFIC's activities expressed over its three corporate plans



Source: ANAO analysis of NHFIC's corporate plans.

4.12 A focus of the 2018–19 strategic objectives was to build strong stakeholder relationships, become a high performance organisation and to establish a best practice governance regime. The *2019–20 Corporate Plan* aimed to build on the outcomes of the first year of operation. The NHFIC strategic objectives were updated to reflect the first year of establishment through focusing on strengthening, delivering and embedding strategies rather than developing strategies.

NHFIC's performance measures

4.13 RMG 131 – *Developing good performance information* (RMG 131) issued by the Department of Finance in May 2020 provides practical information to support Commonwealth entities in developing good performance information. It states that performance information is important for accountability because it requires meaningful information to be provided to Parliament and the public to assist them in understanding how an entity is performing and how the entity is using its resources.[47]

4.14 RMG 131 outlines the characteristics of performance measures. It states that each performance measure must relate directly to one or more of the entity's purposes or key activities. That is, each performance measure should be aligned to what the entity is trying to achieve. In the context of an entity's purposes, performance measures should:

- relate directly to one or more of the entity's purposes;
- use sources of information and methodologies that are reliable and verifiable;
- provide an unbiased basis for the measurement and assessment of the entity's performance;
- where reasonably practicable, comprise a mix of qualitative and quantitative performance measures;
- include measures of the entity's outputs, efficiency and effectiveness; and
- provide a basis for an assessment of the entity's performance over time.[48]

4.15 NHFIC has identified a range of performance measures aligned to its strategic objectives. The performance measures comprise a specific performance objective and related performance targets. Table 4.1 summarises the breakdown of performance measures linked to strategic objectives for each of NHFIC's reporting periods.

47 The Department of Finance, *RMG 131 – Developing good performance information* (RMG 131), May 2020 p. 5.

48 The Department of Finance, *RMG 131 – Developing good performance information* (RMG 131), May 2020, p. 11.

Table 4.1: Breakdown of performance measures in NHFIC's reporting periods

		Performance measures	
Reporting period	Strategic objectives	Performance objectives	Performance targets
2018–19	5	13	16
2019–20	5	14	17
2020–21	6	10[a]	15[b]

Note a: In the *2020–21 Corporate Plan* NHFIC has linked two performance objectives to multiple strategic objectives. To avoid duplication, we have counted these once in the assessments performed.

Note b: In the *2020–21 Corporate Plan* NHFIC has linked five performance targets to multiple performance objectives. To avoid duplication, we have counted these once in the assessments performed.

Source: ANAO analysis of NHFIC's corporate plans.

4.16 The *2020–21 Corporate Plan* did not identify any performance measures for one of NHFIC's strategic objectives (embed a best practice governance regime). Not identifying performance measures for one of its strategic objectives may impact the public's understanding of how NHFIC is achieving its purpose.

4.17 To provide an assessment of NHFIC's performance measures over time, the ANAO used the information contained in RMG 131 to assess the performance measures included in NHFIC's corporate plans between 2018–19 and 2020–21. The criteria used for the assessment were whether performance measures were relevant, reliable and complete. The detailed assessment characteristics used have been described at Appendix 3. A summary analysis of the assessment is set out below. Overall, the performance measures were assessed as either met, largely met, partly met or not met against the assessment criteria.

Table 4.2: Summary of ANAO assessment of performance measures

Corporate Plan	Relevant	Reliable	Complete
2018–19	Partly	Not met	Partly
2019–20	Largely	Partly	Partly
2020–21	Largely	Partly	Partly

Source: ANAO analysis of NHFIC's corporate plans.

Relevant

4.18 For 2018–19 nine of the thirteen performance measures were found to have one or more deficiencies in relation to 'relevance' to the related strategic objective. The main reasons for this were the use of non-specific terms such as 'appropriate' or 'significant'. In addition, the performance measures did not provide sufficient insight into the actual performance required to demonstrate achievement. For example the use of 'continue to' perform certain actions.

4.19 For 2019–20 six of the fourteen performance measures were found to have at least one deficiency in relation to 'relevance' to the related strategic objective. The main reasons for this were the same as for the previous year. This was because similar performance measures were used although they had been amended to reflect progress in the organisation. For example 'establish protocols' in 2018–19 became 'implement protocols' in 2019–20.

4.20 For 2020–21 four of the ten performance measures had one or more deficiencies in relation to 'relevance' to the related strategic objective. The main reasons for this were related to the ability to define the benefit and focus of the performance measure and stating the performance measure in plain English. Examples of the assessment of relevance are included in Table 4.3.

Table 4.3: Examples of ANAO's assessment of NHFIC's performance measures against the 'relevant' criteria

Strategic objective	Performance measure	ANAO 'relevant' assessment criteria results	Overall assessment
2018–19: Become a high-performance organisation	Highly experienced and skilled workforce: Continue to recruit workforce with appropriate expertise to enable the NHFIC to deliver its functions	The performance measure does not clearly indicate who will 'benefit' and how they will benefit from the entity's activities. The performance measure does not provide sufficient information or signal the impacts of activities to inform users	× Benefit × Focus ✓ Understandable
2020–21: Facilitate access into the housing market	Administer the FHLDS to support first home buyers purchase of their first home sooner: Work collaboratively with participating lenders to enhance the operation and integrity of the Scheme and support first home buyers	The performance measure lacks focus, it is not clear how 'collaboration' informs whether the strategic objective is being achieved. The performance measure is not 'understandable' because it does not provide sufficient information on the impacts of the activities to inform users	✓ Benefit × Focus × Understandable
2020–21: Facilitate the sustainable growth of the community housing sector across Australia	Provide loans to registered CHPs to support the provision of more social and affordable housing: Expand offering under the AHBA loan facility in terms of dollar value, types of lending, range of CHPs and geographic coverage across Australia	The performance measure does not fully outline the benefit in plain English and is not understandable. It does not explain who will benefit from the activity (e.g. expand geographical coverage to what) or the attribution of the components of the performance measure to the strategic objective	✓ Benefit × Focus × Understandable

Source: ANAO analysis of NHFIC's corporate plans.

Reliable

4.21 For 2018–19 eleven of the thirteen performance measures had deficiencies in terms of reliability. In particular the performance measures tended to be unmeasurable, could be subject to bias or lacked the necessary specificity in their measurement.

4.22 For 2019–20 ten of the fourteen performance measures were found to have at least one deficiency in relation to reliability. The reasons were similar to the previous year. Performance measures did not use and disclose information sources and methodologies and performance measures were open to interpretation.

4.23 For 2020–21 six of the ten performance measures had deficiencies in terms of reliability. The reasons were similar to both the previous years. Particularly, performance measures did not include targets or benchmarks or indicate information sources or how achievement would be measured. Examples of the assessment of reliability are included in Table 4.4.

Table 4.4: Examples of ANAO's assessment of NHFIC's performance measures against the 'reliable' criteria

Strategic objective	Performance measure	ANAO 'reliable' assessment criteria results	Overall assessment
2020–21: Strengthen stakeholder relationships that support better housing outcomes	Provide loans to registered CHPs to support the provision of more social and affordable housing: Implement protocols with each registrar nationally	The performance measure is not free from bias, there is no clear interpretation of results. What does 'implement protocols with each registrar nationally' mean in plain English. Particularly as the same performance measure was included in 2019–20 and was assessed by NHFIC in its annual performance statement as 'achieved' despite the narrative included in the annual performance statement which indicated 'the ongoing development of protocols with Queensland and Victoria'.	✓ Measurable × Free from bias
2020–21: Facilitate investment to increase the supply of housing, in particular affordable housing	Provide finance for eligible infrastructure projects to unlock new and accelerate housing supply: Expand NHIF roll-out to finance infrastructure projects across Australia	The performance measure is not free from bias. There is no clear interpretation of results, what is 'expand', what is the benchmark. Would one project be considered achievement of this performance measure?	✓ Measurable × Free from bias
2020–21: Facilitate the sustainable growth of the community housing sector across Australia	Provide loans to registered CHPs to support the provision of more social and affordable housing: Issue bonds to support the AHBA loan facility with a mix of tenors	The performance measure is not measurable, no target or benchmark has been provided. The performance measure is not free from bias as there is no clear interpretation of results, is issuing one bond sufficient to record achievement against this performance measure?	× Measurable × Free from bias

Source: ANAO analysis of NHFIC's corporate plans.

Complete

4.24 The assessment of complete relates to performance measures being 'balanced' and 'collective'. In terms of balanced, performance measures should reflect a combination of measurement types (effectiveness, efficiency and outputs) and bases (quantitative and qualitative).

4.25 RMG 131 states that an entity's performance measures must include measures of the entity's outputs, efficiency and effectiveness, if these are appropriate measures of the entity's performance in the context of its purposes.[49] Historically, output measures have been the predominant means by which many entities have measured their performance. However, an entity's proper use of public resources can reasonably be expected to include the capacity to measure and assess the efficiency and effectiveness of these activities.

4.26 Table 4.5 summarises the ANAO's classification of NHFIC's performance measures as either efficiency, effectiveness or output.

Table 4.5: Classification of NHFIC's performance measures

Number of performance measures				
Corporate Plan	Efficiency	Effectiveness	Output	**Total**
2018–19	2	–	11	**13**
2019–20	2	–	12	**14**
2020–21	4	–	6	**10**

Source: ANAO analysis of NHFIC's performance measures.

4.27 Overall, the balance of NHFIC's performance measures is 'output' oriented. NHFIC has focused on performance measures related to the quantity and value of activities performed. For example the number of loans approved. It has also identified efficiency measures which identify the level of effort needed to deliver services. For example, achievement of benchmark returns or spend within operational budgets. No effectiveness performance measures were identified which assessed how well NHFIC delivered 'improved housing outcomes'. The absence of effectiveness performance measures limits NHFIC's performance narrative, particularly given the NHFIC Act and Investment mandate emphasis on 'improved housing outcomes' (previously discussed in Chapter 3, paragraphs 3.23–3.25).

4.28 In addition, despite NHFIC categorising five of its 2020–21 performance measures as 'qualitative' in the corporate plan, the analysis of the relevant performance measures has identified that only one of these included qualitative characteristics. Most of the performance measures identified a number of 'things to be undertaken', or to 'expand' activities, which lend themselves to quantitative information rather than qualitative information. Examples of these are illustrated in Table 4.6.

Table 4.6: Examples of ANAO's assessment of NHFIC's performance measures as 'qualitative' or 'quantitative'

Performance measure	ANAO 'qualitative' or 'quantitative' assessment criteria results
Provide grants for capacity building services to assist CHPs in applying for NHFIC finance: Target – Issue grants for capacity building services through the Capacity Building Program, supporting more CHPs to access NHFIC finance	NHFIC classified this as a 'qualitative' performance measure. The measure lends itself to quantitative measurement through the number or value of issued capacity building grants

49 The Department of Finance, *RMG 131 – Developing good performance information*, May 2020, p. 18.

Performance measure	ANAO 'qualitative' or 'quantitative' assessment criteria results
Provide loans to registered CHPs to support the provision of more social and affordable housing: Issue bonds to support the AHBA loan facility with a mix of tenors	NHFIC classified this as a 'qualitative' performance measure. The measure lends itself to quantitative measurement through the number/value of issued bonds compared with the number/value of loan facilities. The measure also lends itself to quantitative comparison of AHBA loan tenors with market loan tenors

Source: ANAO analysis of NHFIC's corporate plans.

4.29 In terms of 'collective', performance measures should demonstrate the extent of achievement against the organisation's purpose. Across the three years, more than half of the performance measures were too narrowly focused to demonstrate the extent of achievement against the strategic objectives.

4.30 In 2015, guidance from the Department of Finance advised that performance information could be categorised by how it communicates accountability, strategic, tactical, or management related information.[50] ANAO considers that 'well-presented and easily interpreted accountability information is essential to enable governments to coordinate policy, clarify objectives, enhance transparency and accountability, improve service delivery, and keep the wider community informed. While strategic, tactical, and management performance information are also important, they should be used to support and advance accountability information, rather than replace it. Performance measures that address these lower levels of information, without sufficient connection to accountability information, may not be appropriate to include in the corporate plan and performance statements'.[51] ANAO analysis of NHFIC's performance measures into these categories is shown in Table 4.7.

Table 4.7: ANAO analysis of categories of NHFIC's performance measures

	Category of performance measures			
	Accountability	Strategic	Tactical	Management
2018–19	–	5	2	6
2019–20	–	6	3	5
2020–21	–	7	2	1

Source: ANAO analysis of NHFIC's corporate plans.

4.31 NHFIC has not identified any 'accountability' performance measures. There are approximately 50 per cent strategic and 50 per cent tactical/management performance measures.

4.32 NHFIC's performance measures are not sufficiently reliable and complete to provide insight into the effectiveness and efficiency of NHFIC's performance. Overall, NHFIC's performance framework and performance measures do not provide meaningful information about NHFIC's achievement of its legislative object 'to improve housing outcomes'.

50 The Department of Finance*, Resource Management Guide No.131: Developing Good Performance Information*, April 2015, p. 11.

51 Auditor-General Report No.17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*, 17 December 2018, p. 21.

Recommendation no.5

4.33 The National Housing Finance and Investment Corporation strengthen its performance measures to address its legislative object 'to improve housing outcomes' and to provide a greater understanding of its efficiency and effectiveness in delivering outcomes.

National Housing Finance and Investment Corporation response: *Agreed.*

4.34 *NHFIC is committed to supporting the Parliament and public in assessing how well it is achieving its purpose. The Corporate plan outlines a range of both quantitative and qualitative performance metrics designed to measure the impact NHFIC has in facilitating the growth of the CHP sector, increased housing supply and access to the housing market. The Annual Performance Statement in the Annual Report details the outcomes against these targets, as well as adding estimated interest rate savings and housing supply outcomes.*

4.35 *NHFIC will look to RMG 131 to include performance metrics that are more relevant, reliable and complete. We will also focus on measures that demonstrate efficiency and effectiveness. One measure of NHFIC's effectiveness is through housing supply targets. This can be difficult because each loan can result in a very different supply outcome. These outcomes depend on the location, type of community housing, input from other financiers and support from government, while for refinancing, interest rate savings will vary based on the term and lender.*

4.36 *Nevertheless, NHFIC acknowledges that the reporting could be strengthened to enable a greater understanding of its performance metrics in measuring housing outcomes. NHFIC will continue to mature and refine its performance measurement framework including the information provided in its Corporate Plans by:*

- *Reviewing its current performance measures against RMG 131 to ensure they are clearly written and understandable to readers, including defining the benefit and focus of NHFIC's activities.*
- *Clearly outlining the method for measurement or assessment of KPIs and identifying information sources for independent verification.*
- *Strengthening performance metrics to focus on efficiency and effectiveness, in addition to existing metrics that focus on output.*
- *Strengthening the commentary in the Corporate Plan about how NHFIC's activities improve housing outcomes.*

Grant Hehir
Auditor-General

Canberra ACT
22 January 2021

Appendices

Appendix 1 National Housing Finance and Investment Corporation response

Australian Government

National Housing Finance and Investment Corporation

11 January 2021

Mr Grant Hehir
Auditor General
Australian National Audit Office

Dear Mr Hehir

NHFIC comments on proposed report under s.19 of the *Auditor-General Act 1997*

Thank you for your letter of 24 November 2020 providing the proposed audit report (the Report) on the *Administration of the National Housing Finance and Investment Corporation (NHFIC)*. NHFIC agrees with the Report's five recommendations and has developed or is developing operational responses that seek to address these recommendations.

The Report was separated into three areas focusing on:

- establishment and design;
- delivery against the Investment Mandate; and
- measuring and reporting on impact.

We are pleased with the Report's conclusions in relation to the "establishment and design" of NHFIC which noted that NHFIC's strategies and operating model are consistent with the NHFIC Act and Investment Mandate, NHFIC was largely effective in establishing the operation of the organisation, NHFIC's establishment of support functions were largely appropriate, and that NHFIC has a range of policy documents that include a requirement to apply risk management techniques at the transaction level.

As a relatively new Commonwealth entity that has been given additional functions, NHFIC has been progressively strengthening and refining its systems, procedures and reporting mechanisms, and the Report's findings will greatly assist with this ongoing process. We will continue to operate in a manner consistent with the relevant requirements and guidance relating to the effective management and operation of a Commonwealth corporate entity.

As part of fulfilling its obligations, NHFIC has also been building its in-house capabilities and expertise and supplements this with specialist external advice to provide the necessary assurances. This has been demonstrated for example through the engagement by NHFIC of KPMG to provide an initial diagnostic of NHFIC's operations after 12 months and the engagement of the Australian Government Solicitor to advise on critical tasks.

The Report places appropriate importance on the need for effective monitoring and reporting of governance arrangements. This includes the review of service level agreements and robust risk management policies and compliance practices. We have already enhanced our governance arrangements with the recruitment of additional specialist staff and during the audit the Board approved an updated Risk Management Policy and Compliance Policy.

It is our intention to complete a full review of our risk management and compliance policies during 2021 that has regard to relevant Commonwealth risk management policies and international (ISO) requirements.

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The Report notes in relation to “delivery against the Investment Mandate” that NHFIC has established mechanisms to monitor its performance and compliance against the Investment Mandate although NHFIC’s investment decisions are partly effective in demonstrating additionality in outcomes.

When investment decisions are made, NHFIC includes in the analysis details on improved housing outcomes, either through funding social or affordable housing or providing cost savings to community housing providers for reinvestment in the sector. However, our current Board reporting could be enhanced by clearly identifying the incremental impact that NHFIC’s involvement can have on improving housing outcomes.

The Report also notes in relation to “measuring and reporting on impact” that NHFIC has established a partly appropriate performance management framework.

The Board acknowledges the Report’s focus on NHFIC’s primary function of improving housing outcomes for Australians. As noted in our 2019-20 Annual Report, during 2019-20 NHFIC advanced $882 million in loans to community housing providers through the Affordable Housing Bond Aggregator which collectively supported the provision of over 1,000 new dwellings and over 4,000 existing dwellings. The Board also approved $116.6 million in National Housing Infrastructure Facility deals to support infrastructure works enabling the delivery of social and affordable housing. The First Home Loan Deposit Scheme continues to receive strong demand across the first home buyer market with all 10,000 available places reserved in 2020. The Research function, which supports the monitoring and analysis of housing demand, supply and affordability, released its first research paper, “Building Jobs: How Residential Construction Drives the Economy”, in June 2020.

It is important these achievements are clearly articulated in our internal reporting to the Board and external reporting through our Corporate Plan and Annual Performance Statement. We are committed to enhancing our performance management framework to demonstrate improved housing outcomes and strengthening our performance measures on NHFIC’s efficiency and effectiveness in delivering those outcomes.

The findings and recommendations contained in the ANAO Report will provide substantial assistance to the ongoing implementation of NHFIC’s objectives to increase the effectiveness of its risk management, reporting systems and governance. While NHFIC has made substantial progress since its establishment two and a half years ago, the Board and Management are very committed to continuous improvement in everything NHFIC does in the course of delivering better housing outcomes for Australians.

On behalf of the Board and staff of NHFIC, I would like to thank the officers of the ANAO who conducted the audit in a very professional and courteous manner and always displayed a willingness to consult throughout the process.

Yours sincerely

Brendan Crotty
Chair
National Housing Finance and Investment Corporation

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Appendix 2 List of major bank lenders and non-major lenders

Major bank lenders

- National Australia Bank
- Commonwealth Bank

Non-major lenders

- Australian Military Bank
- Auswide Bank
- Bank Australia
- Bank First
- Bank of Heritage Isle
- Bank of Us
- Bendigo Bank
- Beyond Bank
- Border Bank
- Community First Credit Union
- Credit Union Australia
- Defence Bank
- Endeavour Mutual Bank
- Firefighters Mutual Bank
- Gateway Bank
- G&C Mutual Bank
- Health Professionals Bank
- Indigenous Business Australia
- Mortgage Port
- My State Bank
- Peoples Choice Credit Union
- Police Bank
- P&N Bank
- Q Bank
- Queensland Country Bank
- Regional Australia Bank
- Sydney Mutual Bank
- Teachers Mutual Bank
- The Mutual Bank
- Uni Bank
- WAW

Appendix 3 ANAO criteria for the assessment of the appropriateness of performance information

1. To undertake an assessment against RMG 131 – *Developing good performance information*, the ANAO has applied the following audit criteria. These criteria have been applied for audits of performance information since Auditor-General Report No.58 2016–17 *Implementation of the Annual Performance Statements Requirements 2015–16*. The assessment characteristics and explanations have been updated over time to reflect the ANAO's methodology development. The assessment has been undertaken on NHFIC's performance measures. NHFIC's performance measures comprise a specific performance objective and related performance targets. These performance measures have a direct link to NHFIC's strategic objectives.

Table A.1 Criteria for the assessment of the appropriateness of performance information

Finance guidance		Assessment characteristics	Explanation
Relevant	**Individual assessment**	Benefit *The performance criterion clearly indicates who will benefit and how they will benefit from the entity's activities.*	The performance criterion should explain who will benefit from the activity and how the recipient benefitted.
		Focus *The performance criterion should address a significant aspect/s of the purpose, via the activities.*	The performance criterion should assist significantly in informing whether the purpose is being achieved, and the attribution of the entity's activities to it is clear.
		Understandable *The performance criterion should provide sufficient information in a clear and concise manner.*	The performance criterion should be stated in plain English and signal the impacts of activities to inform users.
Reliable		Measurable *The performance criterion should use and disclose information sources and methodologies that are fit-for-purpose.*	The performance criterion should be capable of being measured to demonstrate the progress of fulfilling the purpose. This includes documenting a basis or baseline for measurement or assessment, for example a target or benchmark.
		Free from Bias *The performance criterion should be free from bias and where possible, benchmarked against similar activities.*	The performance criterion should allow for clear interpretation of results and provide an objective basis for assessment.
Complete	**Overall assessment**	Balanced *The performance criteria should provide a balanced examination of the overall performance story.*	The performance criteria should reflect a balance of measurement types (effectiveness and efficiency), bases (quantitative and qualitative) and timeframes (short, medium and long-term).
		Collective *The performance criteria should collectively address the purpose.*	The performance criteria should demonstrate the extent of achievement against the purpose through the activities identified in the corporate plan.