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| The Hon Josh Frydenberg MP  Minister for the Environment and Energy  Senator the Hon Mathias Cormann  Minister for Finance |

29 November 2016

**Investment Mandate 2016 (No 2) – Consultation Draft**

Dear Ministers

Thank you for your correspondence of 24 November 2016 enclosing a consultation draft direction (Investment Mandate) for consideration of the CEFC Board, as required under section 66 of the *Clean Energy Finance Corporation Act 2012* (the **CEFC Act**). The Board welcomes the opportunity to be consulted and has asked that I respond on its behalf.

***Sustainable Cities Investment Program***

The Board acknowledges and welcomes the Government's direction to make available funding to support clean energy projects and businesses that provide productivity, accessibility and liveability benefits for cities. The CEFC sees a natural affinity in its activities with the Government’s agenda of more productive, accessible and liveable cities and we will work to deliver this target allocation of $1 billion over 10 years.

***Reef Funding Program***

The Board acknowledges and welcomes the Government's direction to make available funding to support delivery of the Government’s Reef 2050 plan. While the CEFC must continue to ensure that its investments meet the complying investment criteria under the CEFC Act, we understand that the Reef Funding Program should be focused on funding to projects or businesses that have a positive co-benefit for the health of the Reef.

As highlighted in the Explanatory Statement to the Investment Mandate 2016 (No 2), in considering eligibility of investments under the Reef Funding Program we will consider investments that provide positive co-benefits that are “direct”, by improving water quality, or “indirect”, by reducing emissions. As set out in the Explanatory Statement, we will focus the Reef Funding Program primarily on projects located in (and businesses that provide services or products to) the water catchment areas that flow into the Great Barrier Reef World Heritage area. The CEFC will work to deliver this target allocation of $1 billion over 10 years totalling direct and indirect Reef co- benefits.

***Clean Energy Innovation Fund***

The Board notes the Government's direction to reduce the amount available for funding to support innovation in the clean energy sector through the Clean Energy Innovation Fund (the **CEIF**). The Board will accordingly reduce the targeted amount under the CEIF to $200m, noting that this $800m reduction is a notional allocation rather than a cut in funding and that the funds will remain available in the special account for CEFC deployment in ordinary activities.

***Reporting Outcomes***

The Board acknowledges the new obligation set out in the Investment Mandate to report annually on non-financial outcomes of its investments, in addition to the general financial reporting that we undertake today. We look forward to working with the Department of Environment and Energy to develop an appropriate set of criteria and performance standards to enable us to provide useful information about our activities and our investments to the Department and the market more generally.

***Benchmark returns***

As we have noted in our responses to previous Investment Mandates issued to the CEFC (in February 2015, December 2015 and May 2016), the Board remains of the view that the current Portfolio Benchmark Return for the CEFC's core portfolio (i.e. investments other than those in the CEIF) of 3% to 4% over the 5-year Australian Government bond rate remains an unrealistically high return target for this market. It does not reflect the CEFC's considered approach to risk and the composition of the current investment portfolio. We attach a copy of our previous submissions on this point for the convenience of Minister Frydenberg, as he was not one of the CEFC’s Responsible Ministers at the time the responses were provided.

***Conclusion***

Subject to the comments noted above, the approach adopted in this consultation draft Investment Mandate represents an appropriate approach to allow the CEFC to support Australian Government policy priorities.

We thank you again for consultation and the constructive and positive engagement that you and your offices have offered on the Investment Mandate. The Board acknowledges this direction and, once given will undertake all reasonable steps to ensure that the CEFC complies with the Investment Mandate and the CEFC Act.

Yours

Jillian Broadbent AO

Chair

**Clean Energy Finance Corporation**