



Australian Government



Northern Australia Infrastructure Facility

Corporate Plan 2019-2020

www.naif.gov.au

Vision:
Transforming northern Australia through
financing the development of infrastructure

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1. Introduction

As Chair of the Northern Australia Infrastructure Facility (NAIF), and on behalf of the Board as the accountable authority, I am pleased to present our 2019-2020 Corporate Plan (Plan) as required under paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Khory McCormick

Chair

Northern Australia Infrastructure Facility

2. About us

NAIF's vision is to transform northern Australia through financing the development of infrastructure. NAIF's focus on public benefit, economic and population growth and Indigenous involvement in northern Australia, are key differentiators from other lenders.

NAIF is a \$5 billion lending facility to provide financial assistance (which may be concessional) to infrastructure projects. It advances Commonwealth Government funds via the governments of the Northern Territory, Queensland and Western Australia, to invest in the development of *Northern Australia economic infrastructure*.¹ It aims to encourage and complement private sector finance in the north.

A corporate Commonwealth entity

Financial Year (FY) 2019-20 will be NAIF's fourth year of operation. NAIF came into effect on 1 July 2016 as a corporate Commonwealth entity under the *Northern Australia Infrastructure Facility Act 2016* (NAIF Act), which was passed with bipartisan support. NAIF is an initiative of the Commonwealth Government's strategy to develop northern Australia.

NAIF's operations are also governed by other Commonwealth legislation including the *Public Governance and Performance Accountability Act 2013* (PGPA Act).

Responsible Minister

NAIF's responsible Minister is the Minister for Resources and Northern Australia. The Minister appoints NAIF's independent commercial Board and has given NAIF direction through the *NAIF Investment Mandate Direction 2018* (Investment Mandate) and the *Statement of Expectations*. NAIF's Board is solely responsible for making all Investment Decisions: being decisions to offer or not to offer financial assistance, by way of loan², to infrastructure projects that provide a basis for economic and population growth in northern Australia. Subject to provisions in the NAIF Act and Investment Mandate, the Board's decisions are unfettered.

NAIF's Role

The NAIF Investment Mandate outlines the mandatory criteria project proponents must meet for their project to be eligible for NAIF financial assistance.

For all projects there is a requirement for NAIF finance to be able to be repaid or refinanced.

The infrastructure that NAIF can finance is wide ranging and includes assets that facilitate the establishment or enhancement of business activity or increase economic activity in a region. Examples of the types of projects that may be eligible include, but are not limited to ports, airports, rail, roads, water, energy and communications networks, social infrastructure (including health, education, research, training and related accommodation facilities), processing facilities (including abattoirs and agricultural processing plants) and transshipment vessels. Eligible projects must bring new capacity online either through the construction of new infrastructure or by materially enhancing existing infrastructure.

NAIF can provide up to 100 per cent of debt funding for an eligible project provided there is appropriate risk sharing. However, when determining which projects to fund NAIF considers the potential of its investment to encourage private sector participation in financing the project. In contrast to private sector lending, NAIF's financing can be concessional, including longer loan tenor, or deferral of interest and principal repayments or security subordination. NAIF is only able to offer the minimum concessions necessary for a project to proceed. NAIF can accept a higher risk than

¹ See NAIF Act s3(2) for definition of *Northern Australia economic infrastructure*.

² Alternate Financing Mechanisms may be considered by the NAIF Board where: it may be more appropriate for a specific project; or it is necessary to encourage private sector participation in financing a project. In these cases, the NAIF must seek agreement from the responsible Minister who will seek agreement of the Treasurer and the Minister for Finance and consult with the relevant jurisdiction. Refer to s11 of the Investment Mandate for further detail.

commercial lenders, particularly where the risk relates to factors that are unique to investing in northern Australia, including distance, remoteness and climate.

NAIF projects must be of public benefit (being broad based and must demonstrate benefits to the broader economy and community), beyond those captured by a project proponent. In offering any concessions, NAIF must have regard to the extent of the forecast public benefit.

An Indigenous Engagement Strategy demonstrating objectives for Indigenous participation, procurement and employment, reflecting the Indigenous population in the region must also be developed by the proponent for each NAIF project.

Table 1: Types of Infrastructure NAIF can finance

Industry sectors – wide range of eligible asset types

Minerals & Energy	Agriculture	Tourism	Education	Medical	Transport
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Types of infrastructure NAIF can support

Water assets	Rail	Roads	Airports	Energy including renewables	Communications
Treatment, Distribution, Storage	Processing facilities	Marinas	Generation, Distribution, Storage	Abattoirs and agriculture processing plants	
Training or educational facilities	Health facilities and medical research	Seaports	Associated cargo / storage facilities	Transshipment vessels	



3. Our purpose

NAIF's primary purpose is to accelerate infrastructure development and thereby transform northern Australia by financing that generates:

- public benefit being broad based and including that outside of what is captured by the project proponent;
- longer term growth in the economy and population of northern Australia;
- potential to encourage private sector participation in the financing of northern Australia's infrastructure needs; and
- sustainable Indigenous participation, procurement and employment outcomes.

NAIF accelerates development to help unlock economic, social and growth opportunities for northern Australia, and more broadly.

NAIF financing can assist in:

- opening new markets and developing new, more reliable supply chains;
- reducing business costs through improving productivity, creating jobs and encouraging a larger population base by helping to attract and retain workers;
- making better use of existing infrastructure, for example, by improving capacity, safety and usability to overcome seasonal and other supply chain constraints; and
- helping to overcome diseconomies of scale by developing pathways to co-sharing and multi-user access to infrastructure.

4. Strategy and capability

NAIF’s strategic approach is designed to deliver on its vision for the benefit of all stakeholders.

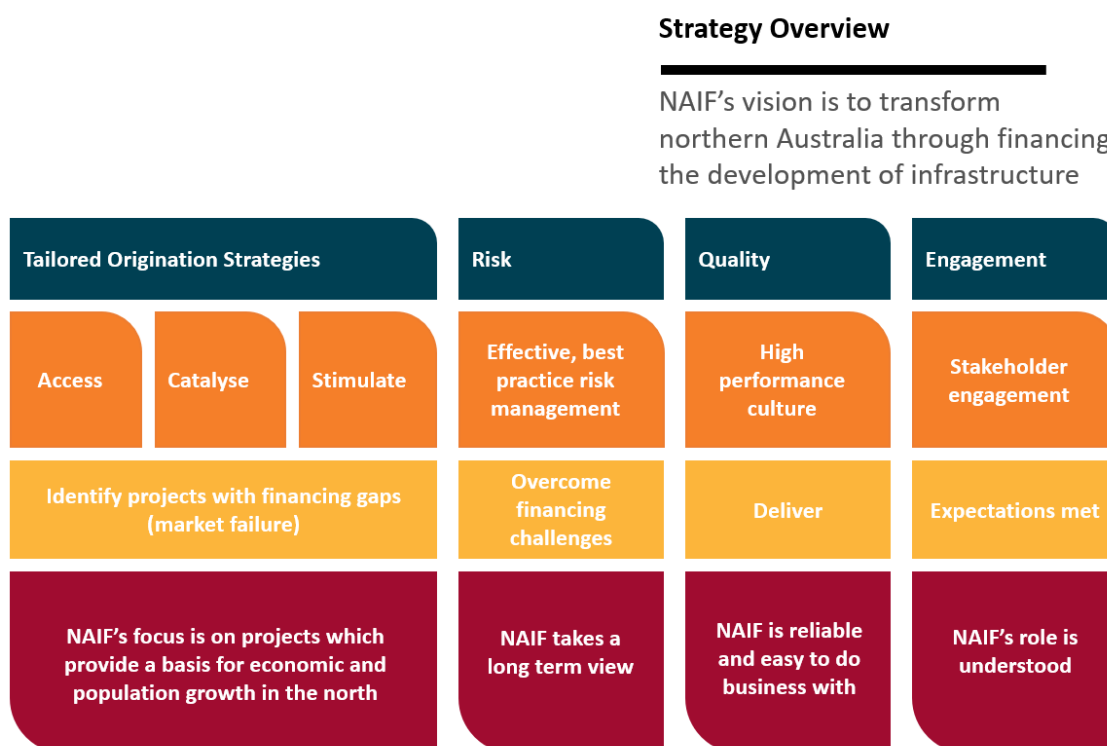
At the time of writing the NAIF Act provides for the making of Investment Decisions up to 30 June 2021. In accordance with its vision NAIF’s focus is on accelerating projects through the NAIF assessment process as quickly as they are ready to proceed for investment decisioning within the period to that date.

The legislative review of operations, required under section 43 of the NAIF Act is currently underway and will cover among other things:

- whether the time limit of 30 June 2021 for making decisions to provide financial assistance should be extended; and
- appropriate governance arrangements for NAIF after that date.

NAIF will review its strategy once the outcome of the legislative review is known.

Table 2: A clear and transparent strategy



4.1 Tailored origination strategies

NAIF originates projects for assessment and Investment Decision in different ways. In all cases the proponent (sponsor or equity investor) will be responsible for the delivery of the project. The role of NAIF however differs in each case as follows:

1. **Assessing investment ready projects:** These will be in the NAIF project pipeline having moved through its various stages from initial and preliminary enquiry, strategic assessment and due diligence. They will be largely managed through that process by the proponent who will have identified the project opportunity, procured and financed the project pre-feasibility and business case and appointed its advisors and consultants to help it develop and submit an Investment Proposal for consideration by the NAIF Board. The NAIF Executive provide support and feedback throughout the process.

2. **Catalysing identified opportunities:** There will be other instances which will require NAIF to be more proactive in facilitating aspects of the project which are already identified in some form. For example:
 - there may be a concept but neither a proponent nor a specific project yet identified. NAIF may be able to catalyse this concept, (albeit without commitment of any kind), by indicating that if a proponent or project and financeable business case could be developed, NAIF could potentially finance such a project type; or
 - by approving indicative terms on which NAIF could offer finance it may assist the proponent to secure support from other necessary project participants, and in that way play a pivotal role in the project moving forward at all or in its accelerated delivery. The Genex Kidston project is an example, NAIF provided a conditional approval and indicative term sheet in June 2018 which has been instrumental in accelerating the delivery of the Genex pumped hydro energy storage project. It brought confidence to the project's financial viability, overcoming challenges such as those associated with its remoteness, which was vital in building momentum with a range of other project participants and stakeholders, catalysing the project. When the project arrangements were more advanced the NAIF Board made an Investment Decision on 8 July 2019 to provide up to \$610 million of financial assistance for the project.
3. **Stimulation of new opportunities:** The NAIF Board has identified a need for strategic origination and augmentation of projects that are unlikely to be brought forward through existing channels. These iconic transformational projects are highly challenging to deliver and are also beyond the capacity of a single proponent, therefore requiring co-ordination, collaboration and alignment across Commonwealth, State and local Governments, across agencies and multiple stakeholders (both public and private). NAIF is looking to build on its established relationships with its stakeholder jurisdictions to contribute towards delivering on thematic approaches to infrastructure investment to drive growth. This may involve stimulation of broad strategies for example, introduce better energy solutions to remote Indigenous communities or better communication networks across northern Australia, or improve health delivery across the region. NAIF can contribute to the identification and evolution of these projects. This was a new strategy which the NAIF Board started to scope in FY18-19 and will continue to engage on with its stakeholder jurisdictions over FY19-20.

In each type of origination, NAIF's experienced infrastructure financiers will work with project sponsors, proponents, contractors, suppliers, financiers, advisers and government agencies across northern Australia and globally on projects in which NAIF can play a role, to ensure that eligible projects that generate long term, broad based public benefit proceed. All projects are assessed consistently in accordance with the requirement of the NAIF Act and Investment Mandate.

NAIF has wide referral channels through its relationships with Government stakeholders, equity investors (superannuation and other funds, corporates and individuals), lending organisations (domestic and international banks, bondholders and alternate financiers), financial advisers, building and other contracting bodies, consultants and industry associations. In addition, NAIF continues to engage closely with relevant industry and regional networks such as Development Commissions and Regional Development Australia (RDAs) in northern Australia and agencies such as Australian Trade and Investment Commission (Austrade).

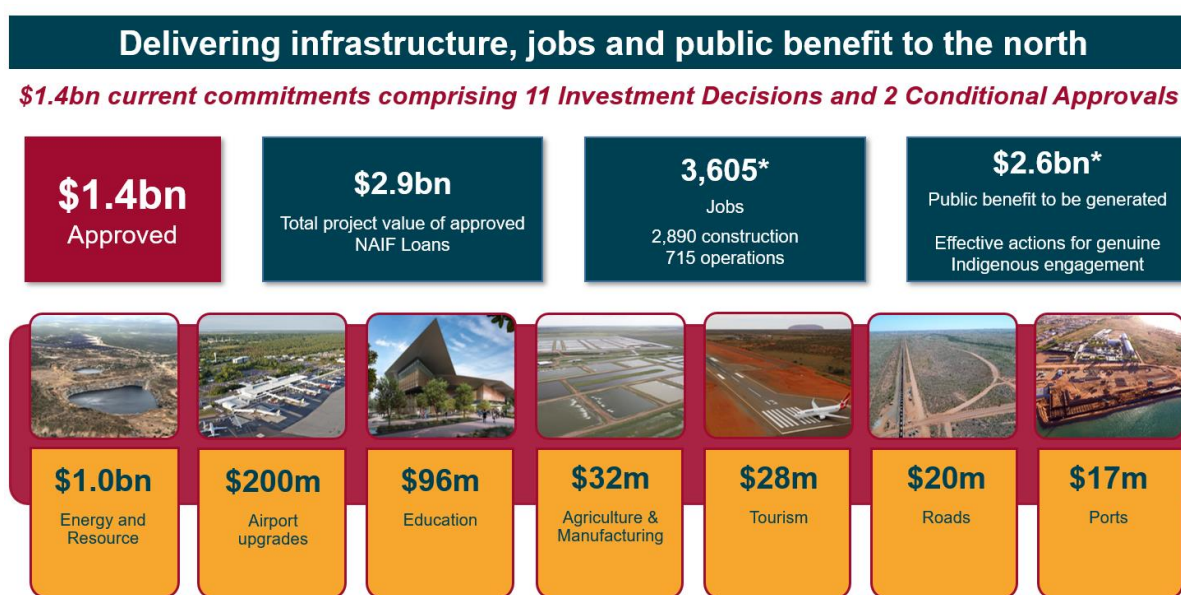
NAIF's origination team continues to educate the market on what NAIF can offer, and how it can deliver, through face-to-face meetings, and presentations at events and workshops.

Progress

- FY18-19 concluded with six Investment Decisions, to offer finance, being made between 1 July 2018 and 30 June 2019. Across these six Investment Decisions NAIF finance of \$479 million was committed for projects with a total capital value of \$1.405 billion.
- There was also an Investment Decision, to offer finance, of up to \$610 million, for the Genex Power Kidston Stage 2 Project. The substantial work associated with the Investment Decision was completed in FY18-19, with the date of the Investment Decision following shortly after on 8 July 2019.

- In FY18-19 the Board made two conditional approvals for a NAIF contribution of \$185 million and total project capital value of \$450 million. One of those is in the agricultural sector (commercial in confidence) and another in mining, being the provision of a \$160 million indicative term sheet to Verdant Minerals Limited for the Ammaroo Phosphate Project in the Northern Territory.
- The Investment Decisions referred to above comprised offers of finance for all three northern Australian jurisdictions and were diversified across various sectors.
- In the period since establishment on 1 July 2016 up to 31 July 2019, NAIF has to date delivered commitments totalling \$1.4 billion through eleven Investment Decisions and two Conditional Approvals with significant momentum demonstrated post the NAIF Investment Mandate changes which became effective on 2 May 2018.

Table 3: NAIF’s cumulative commitments since 1 July 2016 establishment to 31 July 2019



* Jobs and Public Benefit data for two conditional approvals not included at this stage

In FY18-19 there has been growth across the pipeline of project opportunities³:

- 141 new enquiries where NAIF actively engaged with proponents on potential projects;
- 75% increase in number of projects in due diligence compared to FY17-18 showing the increasing number of deals reaching the latter stages of NAIF’s assessment process; and
- 16 of the 28 projects (57%) in due diligence originated in FY18-19 showing the impact NAIF’s origination team is having in assisting to fast track appropriate projects for northern Australia in line with project development and proponent timeframes.

Refer to Table 4 following for illustration of due diligence pipeline by jurisdiction and sector as at 30 June 2019.

³ Data in this section including in Table 4 excludes the Genex Power Kidston Stage 2 Project as the substantial work associated with the Investment Decision was completed in FY18-19, with the date of the Investment Decision following shortly after on 8 July 2019.

Table 4: Pipeline projects in Due Diligence at 30 June 2019

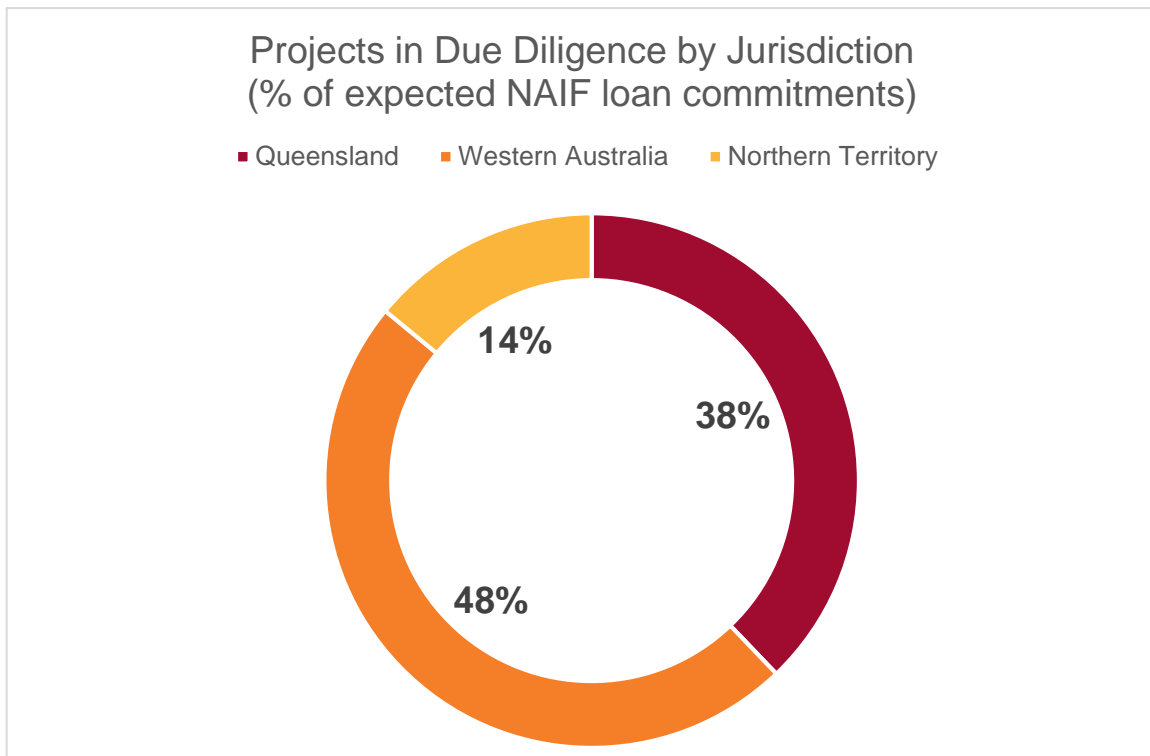
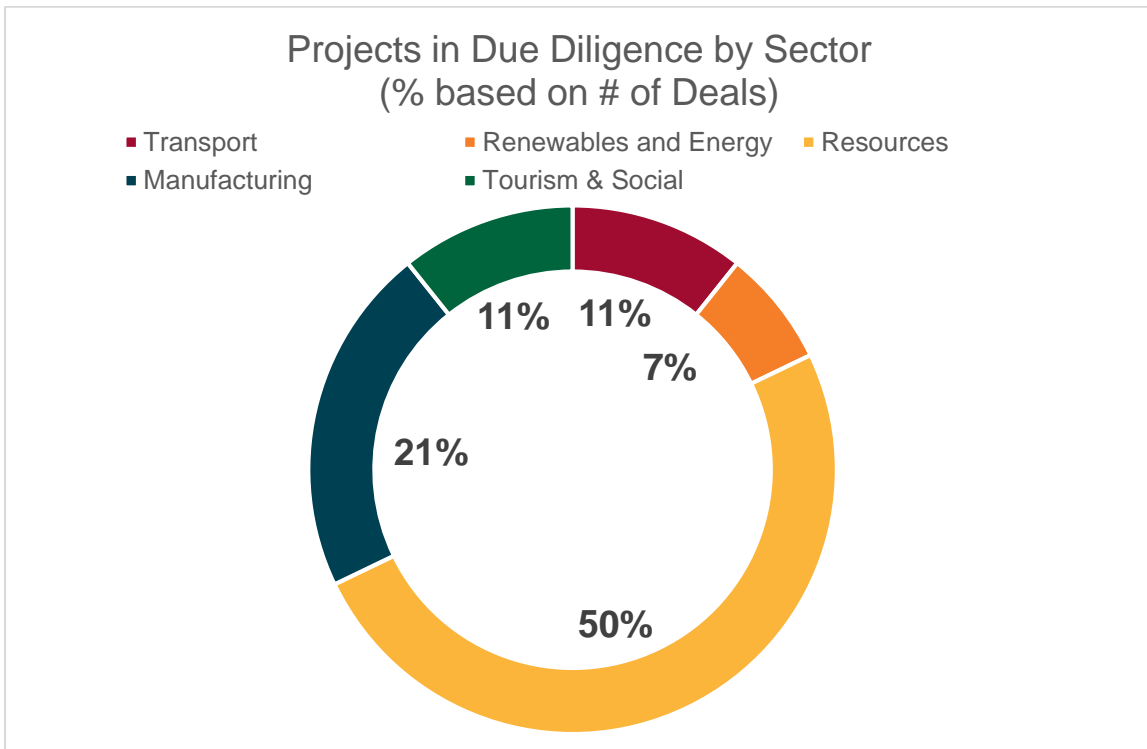


Table 5: Summary of Investment Decisions made 1 July 2018 to 31 July 2019⁴

	Pilbara Minerals ⁵	Sheffield	Townsville Airport	NT Airports	Commercial in Confidence ⁶	Kalium Lakes	Genex Power: Kidston Stage 2 ⁷
Location, Jurisdiction	Pilgangoora, WA	West Kimberley, WA	Townsville, QLD	Darwin, Tennant Creek, Alice Springs, NT	Commercial in confidence	Beyondie, WA	North west of Townsville, QLD
Asset	Upgrade of public road	LNG power station and reticulation, road upgrade, port infrastructure	Redevelopment and expansion of Townsville airport terminal including facility upgrades	Cold storage/export hub, solar energy farms, off-site multi-user battery, runway upgrades	Commercial in confidence	Gas pipeline, gas power station, new communication facilities, road upgrade, accommodation village	250MW pumped storage hydro project
NAIF Loan \$	\$19.5m	\$95.0m	\$50.0m	\$150.0m	\$90.0m	\$74.0m	\$610.0m
Total Project	\$25.0m	\$562.0m	\$80.0m	\$300.0m	\$188.0m	\$250.0m	Commercial in Confidence
Board ID	August 2018	August 2018	January 2019	January 2019	February 2019	February 2019	July 2019 ⁷
Indigenous Engagement Strategy	Preferential employment and procurement initiatives targeting local Indigenous workforce and businesses.	Aboriginal jobs (building to 40% in first 8 years of operation). Joint ventures with Indigenous suppliers. Cash royalties over 42 years.	Targets for Indigenous employment 3% and procurement 3%. Mandatory cross cultural awareness training.	Indigenous employment target of 10%. Procurement Plan and broader partnership opportunities including with Larrakia Development Corp.	Commercial in confidence	Support local Traditional Owners for employment, training and to improve retention. Procurement opportunities and Indigenous business capacity building.	Actively maximising job opportunities for the local Ewamian people, with requirements for subcontractors. Promote Indigenous businesses in the supply chain. Provide funding contribution to Ewamian owned tourist facility.
Jobs created	30 construction	400 construction 280 operational	207 construction 50 operational	1,000 construction 140 operational	Commercial confidence	140 construction 56 operational	510 construction 30 operational
Forecast Public Benefit	Benefits of: - up to \$27m over 17 year life of mine and road will remain in public hands and be available to all users, avoids traversing 3 significant rail crossings.	Benefits of: ->\$482m over the 42 year mine life including salaries staying in the region through DIDO workforce. Economic activity for Derby and Broome.	Benefits of: > \$82m including additional visitor spend and leisure amenity and safety benefit for passengers.	Benefits of > \$127m over 20 years incl growth in tourist numbers as well as be able to export more NT fresh agriculture and aquaculture.	Commercial in confidence	Benefits of: Up to \$169m and this mine will provide a domestic source of a product that is currently imported. Potentially generate a new export market.	Benefits of: \$814m (public benefit to the broader economy and community) including \$235m direct value added for Far North Queensland.

⁴ Substantial work associated with the Genex Power: Kidston Stage 2 Investment Decision, made on 8 July 2019, was completed in FY18-19.

⁵ This project will not proceed to financial close. Since NAIF's Investment Decision several changes to Pilbara Minerals' regional operating environment have resulted in the company reassessing its investment in the Pippingarra Road as its primary haulage route and as such this project will now not proceed. To support future expansion of the Pilgangoora Lithium-Tantalum Project, Pilbara Minerals is undertaking an internal infrastructure assessment to understand what investment is required to support a larger operation. Pilbara Minerals and NAIF are continuing to engage with regards to future infrastructure requirements and potential NAIF investment support.

⁶ Details of this project currently remain commercial in confidence while the proponent concludes commercial approvals and negotiations.

⁷ Refer to footnote 4 above.

NAIF contributed to the progression of projects through its pipeline by:

- working closely with project stakeholders at all the stages of the lifecycle of the proposed project. NAIF continuously reviews the pipeline of active enquiries to ensure that we can help, and fast track projects where applicable, and where projects have potential to reach an Investment Decision and to satisfy NAIF's mandatory criteria. All projects are assessed through a consistently applied assessment process;
- bringing expertise to help develop investors' understanding of how NAIF's concessional finance can support the development of their projects and to help structure financing terms;
- working closely with the jurisdictions and key stakeholders on a non-partisan basis to collaboratively advance projects in line with proponent timelines;
- sharing NAIF's learnings across jurisdictions to assist and optimise the process for them to approve and sign facility agreements and for the ongoing monitoring of transactions; and
- presenting at 36 events throughout Australia to further consolidate awareness and understanding of the NAIF mandate (equivalent to three presentations each month).

NAIF continues to partner with regional calls for tenders by the jurisdictions to highlight the opportunities for tenderers to utilise NAIF's mandate. For example, referencing opportunities to consider the NAIF mandate in expressions of interest associated with the Tropical North Global Tourism Hub. Examples of successful origination through this model is evidenced, for example in ongoing discussions with the selected tenderer for the Western Australia Lumsden Point General Cargo Facility (in which NAIF included detail in its call for tenders in FY17-18). Working with the jurisdictions in this way assists with:

- improving the public benefit outcomes of the projects being tendered and potentially also helps address other regional challenges if tenderers then contribute subsidies to other projects in the area if awarded the tender; and
- enabling proponents who may not otherwise be able to secure commercial bank finance to participate in the tender which may enable the project to proceed where it would not otherwise.

NAIF engages regularly with other Commonwealth agencies including:

- Infrastructure Australia, the Infrastructure and Project Financing Agency, among others, sharing learnings and identifying areas to leverage experiences for the benefit of shared constituents;
- NAIF has provided advice to assist the establishment of the Australian Infrastructure Financing Facility for the Pacific as well as support to the Regional Investment Corporation as it works to deliver on its mandate as a start-up government organisation; and
- NAIF has also engaged on a number of occasions with the Indigenous Reference Group.

Conversations and engagement with these organisations assist with identifying infrastructure gaps where NAIF's mandate may, in collaboration with other stakeholders, have an impact and particularly in the form described above in NAIF's third origination category of stimulating and building shared commitment to new opportunities.

4.2 Strategic deployment of NAIF's risk appetite

The design of the NAIF Act and Investment Mandate enables NAIF to respond to the challenges in financing infrastructure in northern Australia which have confronted investors in the past.

NAIF's Investment Mandate specifically provides that NAIF may have a high risk tolerance for factors unique to investing in northern Australia such as distance, remoteness and climate.

This means NAIF has tools available to assist projects overcome barriers common to infrastructure investment in northern Australia including for example increased labour, transport and materials costs due to remoteness and challenges in securing more expensive linking infrastructure. The north needs projects to be scalable to overcome the first mover disadvantage, to reduce productivity inefficiencies and challenges associated with remoteness, and be able to have a certain amount of flexibility to deal with seasonal extremes.

NAIF's unique way of applying concessions in accordance with its risk appetite is central to the NAIF value proposition.

The tools NAIF has available through its Investment Mandate to respond to the northern Australian investment landscape include a range of potential concessions. Relative to other lenders, NAIF's financing terms may:

- have longer tenors (up to the longest Commonwealth borrowing, currently nearly 31 years);
- have lower interest rates (not below the Commonwealth bond rate);
- be more patient (for example, an extended period for interest capitalisation beyond the construction period or deferral of loan repayments with extended interest only periods);
- have different fee structures; and
- be subordinated in cashflow or security.

This allows NAIF to structure finance in ways that align with the specific project needs and to take a longer term view of a project's economic life than private sector lenders can.

In granting concessions, the cost of the concessions is calibrated against the concessions needed for a project to proceed and a project's forecast public benefit. In addition, NAIF must only offer the minimum concessions for the project to proceed and will seek to structure reduction of concessions if the project is outperforming.

NAIF's mandate is to encourage infrastructure investment in northern Australia while, at the same time, being disciplined with taxpayers' money. The Board must also have regard to the potential effect of the investment to encourage private sector participation in financing a project. NAIF's Investment Mandate requires that the Board is satisfied that:

- NAIF is not the sole holder of financial risk in a project;
- there is a reasonable allocation of risk between NAIF and other sources of finance of a project, including that the Commonwealth does not have the majority financial risk in a project;
- NAIF can appropriately manage its risk exposure to each Project; and
- NAIF finance will be able to be repaid or refinanced.

The above principles are reflected in NAIF's Risk Management Framework which incorporates its Risk Appetite Statement (RAS).

Progress

NAIF has used its full range of concessions in the Investment Decisions listed in Table 5 including:

- long tenors with an average of 17.9 years and range between 10 and 30.25 years;
- interest rates at market equivalent, and also at the maximum concessional rate;
- extended capitalisation periods (average of 3.25 years) and extended interest only periods (average of 7.3 years); and
- senior secured (on six projects), and senior unsecured (on one).

We have:

- partnered with private sector lenders (on four of the Projects approved);
- approved lending for 100% of the debt finance on two Projects; and
- identified that the Commonwealth as a whole is not the majority equity holder in any of the projects approved.

NAIF's RAS provides a clear articulation of the Board's target level of risk in executing NAIF's strategic objectives. It guides decision making and includes tolerance measures that aim to embed the Board's risk appetite in NAIF processes. The RAS is developed in consultation with the responsible Minister and the relevant northern Australia jurisdictions.

In line with best practice NAIF adopts a continuous improvement approach and regularly reviews its risk appetite by considering emerging trends and risks, changes to existing risks and any changes to

NAIF's Investment Mandate and Government Policy. In FY18-19, this included a detailed review of the Board's RAS to ensure it remained appropriate, particularly in light of the revised Investment Mandate.

4.3 NAIF governance best practice and policy renewal

Under the Investment Mandate NAIF must have regard to Australian best practice government governance principles and Australian best practice corporate governance for Commercial Financiers when performing its functions, including annually reviewing its policies.

NAIF's core suite of governance policies has been benchmarked against similar agencies in the public and private sectors and reviewed by independent experts. These experts⁸ concluded that in their view the policies they reviewed reflect current Australian best practice as required by the Investment Mandate.⁹ NAIF continues this best practice review when there is a material change following a policy review.

NAIF's internal auditors confirmed compliance with NAIF's RAS for the Investment Decisions made in FY17-18 and are currently undertaking a similar audit for the FY18-19 Investment Decisions. This is an important annual key performance indicator relevant to organisational performance.

Progress

Additional progress in FY18-19 as part of its ongoing governance and risk policy review schedule included:

- NAIF's Board and its Board Audit and Risk Committee (BARC) met thirteen and five times respectively;
- NAIF's Board reviewed twenty policies, including a comprehensive review of NAIF's Privacy Policy and related procedures to remain responsive to changes in legislation;
- six new NAIF specific policies were approved,¹⁰ namely:
 - Complaint Handling
 - Corporate Information Security
 - Due Diligence Costs
 - Procurement
 - Records and Information Management
 - Staff Travel and Expenses;
- NAIF's Internal Auditor, McGrathNicol, has progressed on its two-year audit plan incorporating a number of risk and governance reviews including NAIF's Annual Performance Statement and NAIF Service Level Agreement (SLA) with Export Finance Australia.¹¹ All audits have identified positive practices and there have been no "Major" recommendations from these audits;
- The Australian National Audit Office (ANAO) released their audit report on the governance and integrity of NAIF in April 2019. The ANAO made six recommendations. NAIF accepted all recommendations made in the report and is working to comprehensively address and implement these recommendations.
- The audit came within thirty four months of NAIF's establishment and will enable the organisation to further develop its governance framework. It concluded that:
 - NAIF has an appropriate governance framework, including systems of risk management and internal control;
 - NAIF has an appropriate integrity policy framework;
 - its management of conflicts of interest were effective.

Recommended areas for improvement were around publishing more information and better recording of aspects of its decision making and also relating to measuring and reporting on

⁸ Allens Linklaters (reviewed twelve policies) and Australian Government Solicitor (AGS) (reviewed four policies) in FY16-17. AGS reviewed NAIF's Privacy Policy in FY18-19.

⁹ NAIF Investment Mandate Direction 2018, sec 17(1).

¹⁰ Prior to developing NAIF specific policies, NAIF had adopted and complied with Export Finance Australia's policies.

¹¹ From 1 July 2019, Export Finance and Insurance Corporation (Efic) is now known as Export Finance Australia.

certain performance targets. The six recommendations and NAIF's formal response in the ANAO final report are listed at Table 6.

Table 6: ANAO Recommendations and NAIF response

ANAO Recommendation	NAIF response in ANAO Audit Report
The NAIF publish criteria and all information necessary for applicants to submit complete applications for grants of financial assistance.	Agree: The NAIF Act and published Investment Mandate provide a comprehensive list of five mandatory criteria and at least an additional 27 requirements that the NAIF Board must either consider, have regard to or be satisfied with in making an Investment Decision. In addition, the NAIF website publishes a detailed outline containing other information required as a project is assessed. Notwithstanding this existing transparency NAIF undertakes to assist proponents by publishing case studies and further guidance.
The NAIF develop an information governance framework, electronic data and records management system, and appropriate records disposal authorities in line with National Archives of Australia requirements.	Agree: NAIF has commenced engagement with the National Archives of Australia (NAA) on the implementation of an information governance framework, including data and records management, in line with NAA requirements. NAIF will progress this work over 2019 to meet the requirements of the Australian Government's Digital Continuity 2020 Policy.
The NAIF publish more information about decisions, public benefit assessments, environmental assessments and Indigenous engagement strategies.	Agree: Taking into account the requirements of NAIF's legislative framework to uphold both public accountability and appropriately maintain commercial in confidence information NAIF commits to, at a project or portfolio level as appropriate, continue to publish more information, by way of case studies, about its Investment Decisions together with examples of expected public benefit, Indigenous engagement strategies and environmental outcomes from NAIF investments.
The NAIF cease the use of all non-official email accounts and servers to conduct official business.	Agree: NAIF has ceased the use of non-official email accounts, for any NAIF business. This does not extend to stakeholder or proponent engagement via the email accounts provided by those parties.
The NAIF select projects at each assessment stage on a consistent and transparent basis in accordance with published criteria, and retain adequate documentation to record the rationale for decisions made and actions undertaken.	Agree in principle: NAIF has and will continue to consistently select projects by assessment against the published NAIF requirements which will include at the strategic assessment stage whether mandatory criteria have potential to be satisfied and at the Investment Decision stage whether the requirements have been satisfied. NAIF will refine its published guidance material to elaborate on the type of information and factors that may be taken into account at each stage noting projects vary on their facts and that expert commercial judgement is always applied. In addition, while NAIF strenuously rejects any assertion that its decisions have not been based on robust and consistently applied processes, NAIF will strengthen its internal protocols around documenting its rationale for early stage assessments.
The NAIF revise its performance measures and targets to provide clearer accountability and transparency in the measurement of its performance, and measure and report on the realisation of public benefit.	Agree: NAIF's performance measures have been subject to review by its internal audit function, which has found the existing performance measures are considered relevant, reliable, complete and meaningful. The NAIF Board reviews all performance measures annually in a manner consistent with guidance provided through materials including the Public Governance, Performance and Accountability Act 2013 and Department of Finance Resource Management Guides. Within its capacity NAIF will monitor and publish information on public benefit realised through NAIF investments.

4.4 NAIF has established a high performance organisation

To help achieve its purpose of transforming northern Australia, NAIF invests in its people, processes and systems. NAIF also has access to the resources of Export Finance Australia under the SLA.

A key benefit of the SLA is the flexibility for NAIF to use Export Finance Australia's services as and when required, to use its own resources, or to access other specialist resources as considered necessary. This allows NAIF to meet the unique needs of its business, proponents and other stakeholders effectively.

The SLA arrangement also ensures an efficient use of existing Commonwealth resources, reducing the duplication of resourcing requirements across government entities. The SLA also allowed NAIF to transition from its start-up phase to its operational phase faster than it otherwise would, and shared learnings across teams have also been a key benefit to both organisations. NAIF has shared with other government agencies advice on the value add which the SLA arrangement provided to its establishment.

Progress

NAIF has consolidated throughout the year on its organisational objectives, adding specialty resources where required and encouraging a learning and performance culture. Progress has been made through:

- Growing its workforce since 30 June 2018 by 12% through the recruitment of additional Full Time Equivalent (FTE) to reach a total of twenty four FTE at 30 June 2019. This includes a specialist executive to work with proponents on their Indigenous Engagement Strategies, additional specialist execution FTE to replace Export Finance Australia specialists who had been filling some of these roles, and two additional senior legal counsel skilled in project finance;
- Specialist financial annual compliance training was 100% completed by all executives on the following topics:
 - Anti-money laundering awareness;
 - Cybersecurity incidents – management and obligations;
 - Privacy for the private sector – compliance essentials;
 - Fraud awareness; and
 - Whistle blower awareness for the public sector.
- External training and information sessions lead by specialised law firms for all executive on relevant legislative developments including:
 - The Foreign Influence, Espionage and Interference legislation;
 - Security over *Critical Infrastructure Act*;
 - Modern Slavery legislation;
 - Whistle-blower Reforms; and
 - Relevant issues arising out of the Commonwealth Bank of Australia (CBA) AML/CTF proceedings, the CBA APRA Report and the Banking Royal Commission.
- These information sessions by industry specialists supplement a series of internal training and information sessions. Over FY18-19 executive participated in tailored inhouse training, as part of the NAIF compliance program, on:
 - AML/CTF Program;
 - Conflicts of Interest;
 - Privacy; and
 - Australian Industry Participation requirements.

A two-day team offsite (which brought all NAIF staff from all four locations together for the first time) focussed on NAIF's strategic objectives, stakeholder mapping and building resilience.

4.5 Developing strong stakeholder relationships

NAIF continues to execute its stakeholder engagement plan to ensure that its purpose, operations and potential value to northern Australia are understood by key stakeholders. As Investment Decisions are made and projects commence construction activity, the role of NAIF in financing infrastructure projects will be seen in practice.

NAIF has a broad range of stakeholders who each require a customised engagement approach. This includes:

- **General Public:** As Australians with an interest in the growth and prosperity of our country, the realisation of the aspirations for northern Australia and appropriate use of NAIF's taxpayer funds, NAIF is accountable to the Australian public;
- **Commonwealth Government:** NAIF is an important initiative of the Government's agenda for economic and population growth for northern Australia and the Commonwealth at all levels (political, bureaucratic and agency) and can support NAIF's success (including policy, identification of priorities and progressing cross governmental collaboration, commitment and engagement with NAIF);
- **QLD, WA, & NT Governments:** The jurisdictions are key beneficiaries of the NAIF framework and are critical to achievement of its objectives. Servicing these stakeholders is a focus. NAIF partners with the jurisdictions to ensure appropriate projects are identified and to ensure NAIF finance is invested into their communities as quickly as feasible to optimise the amount of public benefit generated;
- **Indigenous Groups:** The Indigenous estate of northern Australia is significant, with 40 percent of the land mass directly owned or managed by Aboriginal and Torres Strait Islander peoples. The Indigenous population currently averages 15 percent across northern Australia, comprising over 60 percent in some sub-regions and over 25 percent of the Northern Territory (ABS 2016). The Aboriginal and Torres Strait Islander population is projected to increase to over 50% of the permanent population of northern Australia by 2040, further reinforcing the importance of relationships with Indigenous Australians;
- **Local Governments, RDA and industry bodies:** These groups are well placed to help promote NAIF and the reach of its mandate, identify suitable local proponents and key industry leaders, applying their knowledge of project opportunities and risks across the north can help NAIF clarify project scale, sustainability and success factors;
- **Investors:** It is important that potential sponsors or proponents and project participants and consultants who will need to be involved in moving a project from concept to financial close understand NAIF's mandate and value proposition. NAIF works closely with these constituents including to help them to identify opportunities that match the NAIF criteria and the new model of financing that the NAIF mandate has brought to the Australian market. NAIF also helps to fast track projects where that is possible; and
- **Other interest groups:** Communication plays an extremely important role in the articulation of the benefits and the opportunities afforded by NAIF investment and the expectations for delivery on NAIF's mandate and vision.

Progress

NAIF representatives continue to extensively engage with all categories of stakeholders.

"...from the very first dealings with NAIF staff we found them to be very professional and highly responsive... Throughout, what was a comprehensive and challenging process, NAIF staff worked closely with the University to ensure we had the best chance of achieving our ultimately positive outcome. It was an absolute pleasure working with them"¹²

- Since NAIF's inception, the Board, Chief Executive Officer and staff have collectively met with more than 5,561 interested stakeholders and given presentations that have reached audiences of at least 8,821 people (those figures cover engagements in FY18-19);

¹² Professor Sandra Harding, James Cook University Vice Chancellor and President, October 2018.

- Regional communities and their leaders are afforded opportunities to meet Directors and senior NAIF executives to discuss their strategic planning and infrastructure priorities:
 - Board meetings or stakeholder roundtables or events have been held or attended throughout northern Australia, including locations such as Mackay, Townsville, Cairns, as well as in centres where many of NAIF's financial and other project participants are located including Perth, Brisbane and Canberra.
- NAIF executive engage frequently with other lenders, project sponsors, advisers and participants through both pipeline development and due diligence and assessment processes. Opportunities to explain the NAIF mandate and discuss with other financiers how NAIF may be able to work with other lenders have been pursued.
- The NAIF Board members and NAIF senior executives have continued to meet regularly with jurisdictional government stakeholders to discuss upcoming projects and their priorities. Those associations have been strengthened through the making of Investment Decisions in each jurisdiction and progressing projects through final assessment stages;
- NAIF has met with a range of Indigenous people, groups, businesses and agencies throughout the year to develop its understanding of our Indigenous stakeholders and the role of NAIF in broader Indigenous economic development opportunities in the North, including contributing to the Indigenous Reference Group discussions with the Northern Australia Ministerial Forum. Meetings have also been held with Indigenous Business Australia and the Indigenous Land and Sea Corporation exploring opportunities for collaboration to derisk and therefore increase investment in Indigenous enterprise. NAIF has also engaged with a range of Traditional Owner groups, Prescribed Bodies Corporate, Native Title Representative Bodies, Indigenous businesses and agencies (Federally and across the jurisdictions) in relation to project Indigenous Engagement Strategies prior to the Board making its Investment Decisions;
- NAIF engages on a consistent basis with Members of Parliament from all political parties, both at a state and federal level, including through targeted meetings and correspondence on activities; and
- NAIF consults regularly with Commonwealth departments and agencies and broader networks including the RDA network, Development Commissions and the northern Australian based universities.

5. Our performance

NAIF's performance criteria have been designed to provide a clear illustration as to the extent to which NAIF is meeting expectations and fulfilling its purpose.

NAIF has developed two years of performance targets as the NAIF Act prohibits the Board from making a decision beyond the current legislated term (BCLT) of 30 June 2021. NAIF's legislative review of operation is scheduled to occur as soon as possible after 1 July 2019. The review will cover among other things:

- whether the time limit of 30 June 2021 for making decisions to provide financial assistance should be extended; and
- appropriate governance arrangements for NAIF after that date.

Within four months of NAIF having received direction post that review it will set appropriate targets to measure NAIF's success in the period post 30 June 2021.

Table 7: Our performance criteria

Performance criteria	Measure	2019-20 targets	2020-21	2021-23 ¹³
Public benefit	<i>Net public benefit for each NAIF Investment Decision¹⁴</i>	For each Investment Decision in the period, public benefit is forecast in accordance with the NAIF Public Benefit Guideline. ¹⁵		BCLT
		At a portfolio level (of all Investment Decisions in the period) quantified forecast public benefit > cost of concessions.		BCLT
		For each Investment Decision in the period, publish case studies outlining examples of forecast public benefit.		BCLT
		For each Investment Decision that has commenced drawdown, publish numerical data on project construction and operational jobs generated or supported by the project as reported annually by the Proponent.		BCLT
Indigenous engagement	<i>Sustainable Indigenous participation, procurement and employment</i>	For each Investment Decision in the period, there is an Indigenous engagement strategy. ¹⁶		BCLT
		For each Investment Decision in the period publish case studies outlining examples of proposed Indigenous engagement strategies.		BCLT

¹³ The two financial years beginning 1 July 2021 to 30 June 2023 are beyond the current legislated term (BCLT) for making Investment Decisions for NAIF which ends on 30 June 2021.

¹⁴ In this Table 7 reference to 'Investment Decision' means decisions to offer NAIF financial assistance.

¹⁵ NAIF Public Benefit Guideline can be viewed [here](#).

¹⁶ NAIF Indigenous Engagement Strategy Guideline can be viewed [here](#).

Performance criteria	Measure	2019-20 targets	2020-21	2021-23
Investment Decisions by NAIF Board	<i>Number of Investment Decisions per annum</i>	7 - 12	9 - 15	BCLT
	<i>Dollar value of NAIF Investment Decisions per annum</i>	\$1bn - \$2bn	\$1.25bn - \$2.5bn	BCLT
	<i>Total capital value of projects supported per annum</i>	\$1.25bn - \$3bn	\$2.0bn - \$4.0bn	BCLT
	<i>Over five year timeframe to 30 June 2021, demonstrate industry and geographic spread across Investment Decisions made</i>	Progress towards industry and geographic spread across Investment Decisions made.	Over five years to 30 June 2021, demonstrate industry and geographic spread across Investment Decisions made.	BCLT
Effective risk management	<i>Compliance with Risk Appetite Statement</i>	Independent annual audit confirms compliance with Risk Appetite Statement.		BCLT
Encourage private sector contribution to financing projects	<i>Number of projects involving private sector financing</i>	Greater than 50 per cent of projects supported have private sector financing.		BCLT
Raise awareness of NAIF value through dissemination of information to industry stakeholders	<i>Level of communication and stakeholder engagement activity</i>	<p>At least one Board Meeting held in each of the northern Australia jurisdictions per annum.</p> <p>>20 small group or conference presentations per annum.</p> <p>At least 4 newsletters per annum each distributed to a minimum of 2000 NAIF stakeholders.</p> <p>Increase in unique viewers of NAIF's website over previous financial year.</p>		BCLT
Building diverse pipeline of potential infrastructure projects	<i>Demonstrate industry and geographic spread of potential projects in the NAIF pipeline</i>	Demonstrate industry and geographic spread of potential projects in the NAIF pipeline.		BCLT
Achieve sound financial performance	<i>Operating expenditure is within the departmental appropriation budget</i>	Operating expenses per annum are within budget.		BCLT
	<i>At an Investment Decision portfolio level, over the life of the NAIF supported loans - transaction loan revenue exceeds NAIF operating costs and Commonwealth cost of borrowing</i>	At an Investment Decision portfolio level, over the life of the NAIF supported loans - transaction loan revenue is forecast to exceed NAIF operating costs and Commonwealth cost of borrowing.		BCLT

Before a project can be considered for an Investment Decision by the NAIF Board, the proponent must deliver a formal application for NAIF financial assistance, which it does by delivering an Investment Proposal. This is a comprehensive information package which will include a developed business case and financing assumptions. The development of that information is largely in the control of the proponent as the project progresses through due diligence. To reach that point, there will have been significant planning and development by the proponent taking the project concept from idea to an investment ready proposal.

6. Financials

Statement of Comprehensive Income

Table 8: Our financial expenditure

	Actual 2018/19 \$'000	Budget 2019/20 \$'000	Budget 2020/21 \$'000	Budget 2021/23 \$'000 ¹⁷
Total expenses	(10,038)	(10,370)	(10,916)	BCLT
Revenue from Government	9,505	10,340	10,886	BCLT
Own source revenue	56	30	30	
Total comprehensive income attributable to the Australian Government	(477)	0	0	BCLT
2016-17 carried forward surplus	2,109			
Total comprehensive income attributable to the Australian Government	(477)			
Balance of surplus	1,632			

Expenditure includes expenses relating to services provided by Export Finance Australia, covering transaction due diligence, credit, loan management and corporate and administrative services. Export Finance Australia also pay expenses on behalf of NAIF including for dedicated NAIF staff, Board expenses, travel and overhead costs. These costs are reimbursed to Export Finance Australia from NAIF through the SLA.

Revenue from Government is an appropriation received from the Department of Industry Innovation and Science (DIIS).

Interest and fees earned on NAIF facilities are reported in the accounts of DIIS as drawdowns from the \$5 billion appropriation from the Consolidated Revenue Fund.

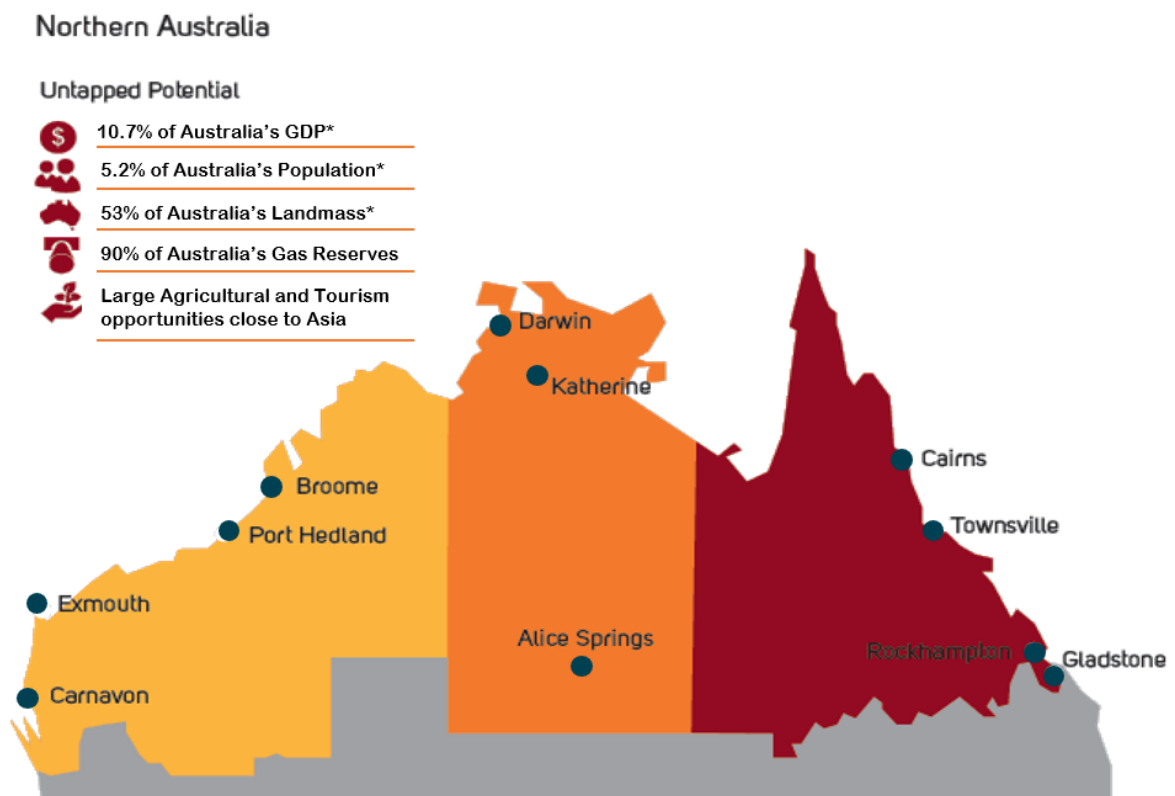
¹⁷ Budget will be confirmed post NAIF's review of operations scheduled for July 2019. This will cover among other things: (i) whether the time limit of 30 June 2021 for making decisions to provide financial assistance should be extended; and (ii) appropriate arrangements for the facility after that date.

7. A unique environment

There are a number of key external factors that, directly or indirectly, influence NAIF's operating environment and its ability to finance infrastructure projects, and therefore deliver on its purpose.

NAIF's focus is solely on northern Australia, which includes the Northern Territory, and those parts of Queensland and Western Australia above, and directly below or intersecting, the Tropic of Capricorn.

Table 9: Our environment



*Office of Northern Australia economic snapshot, July 2019

NAIF can provide a range of debt capital solutions, from senior debt to quasi equity to fund eligible infrastructure projects in northern Australia. Under its legislative framework NAIF does not provide equity capital, grants or fund feasibility studies.

The NAIF Investment Mandate prescribes that, in making an Investment Decision, the NAIF Board must consider a preference for a diversified portfolio, including with respect to industrial and geographic spread across the States and Territory that comprise northern Australia. Under the changes to the Investment Mandate there is no longer a stated preference for any minimum size of individual NAIF investments.

NAIF finance is only for construction activity (which includes materially enhancing existing infrastructure).

Table 10: A summary of factors that may impact NAIF's level of reported activity in a given year

Environmental factor	Why	Impact
<p>Government policy</p>	<p>NAIF operates under the NAIF Act and Investment Mandate, issued by the responsible Minister, as well as in partnership with the Queensland, Western Australian and Northern Territory governments.</p> <p>NAIF cannot invest in a project if the relevant State or Territory jurisdiction notifies NAIF in writing that it should not provide financial assistance, or as the lender of record, does not enter into the financing arrangements consistent with NAIF Investment Decisions.</p> <p>In addition, the responsible Minister may veto a transaction if it is inconsistent with Commonwealth objectives, may have adverse implications for Australia's security, or have an adverse impact on Australia's international reputation and relations.</p> <p>Most projects are also dependent on government support and a number of government approvals to proceed.</p>	<p>Any changes to the NAIF Act or Investment Mandate may impact the number of projects eligible for NAIF's assistance.</p> <p>The NAIF Act outlines that the responsible Minister must cause a review of the operation of the Act to be undertaken as soon as possible after the period of three years beginning when the Act commenced. This review has commenced in FY19-20.</p> <p>Any changes to regulatory settings or government priorities (State/Territory and Commonwealth) may impact the number of infrastructure projects in northern Australia.</p> <p>At the project level, the ability to gain the appropriate government approvals (e.g. environmental approvals) could impact a project's viability and/or timeline, and therefore the requirement for NAIF financing.</p>
<p>Project timelines</p>	<p>A wide range of expenditure and active, expert project development management is required to bring a project to the point where it is ready to finance. Activities include:</p> <ul style="list-style-type: none"> ▪ overall business planning and feasibility; ▪ financial analysis; ▪ engineering and permitting; ▪ environmental approvals; ▪ commercial development including contracts; ▪ legal, accounting and taxation analysis; and ▪ land identification and acquisition. <p>Based on data for previous Government procured infrastructure projects, the period between a project's conception to financial close can be up to three years, and even longer for proponent managed or higher risk projects.</p>	<p>Most of the projects that NAIF expects to make Investment Decision on in FY19-20 have been in development phase for over 12 months.</p> <p>NAIF indicates to project proponents, as early as possible, its willingness to support a viable project, so that financial close can be achieved as quickly as possible. For example, it may issue an indicative term sheet and/or seek conditional approval, which provides a degree of certainty and support to the proponent as its project is developed.</p> <p>Before a project can be considered for an Investment Decision by the NAIF Board, the proponent must deliver a formal application for NAIF</p>

<p>Project timelines (cont'd)</p>	<p>This timeline can be shorter for upgrades to existing infrastructure or businesses or projects requiring fewer approvals.</p>	<p>financial assistance, which it does by delivering an Investment Proposal. This is a comprehensive information package which will include a developed business case and financing assumptions. The development of that information is largely in the control of the proponent as the project progresses through due diligence. To reach that point, there will have been significant planning and development by the proponent taking the project concept from idea to an investment ready proposal.</p>
<p>Construction timetable and requirement for drawdowns</p>	<p>Consistent with the typical operation of project loans, proponents draw funds as required for construction activity. Funds are not deposited in one large sum.</p>	<p>Drawdown profiles are aligned to the construction needs of each project.</p> <p>Even when a loan is approved and financial close has occurred, construction can take 2-4 years or more. NAIF “money out the door” is dependent on the actual construction timetable which is dependent on the proponent needs and other factors including for northern Australia climate/ seasonality related events.</p>
<p>Level of investment activity and availability of alternative debt capital</p>	<p>NAIF’s role is to support project proponents, sponsors and investors, who wish to develop infrastructure projects that have a public benefit for northern Australia.</p> <p>Factors that may impact the level of infrastructure investment in northern Australia include:</p> <ul style="list-style-type: none"> ▪ the level of economic activity; ▪ government policy; ▪ general business climate and the level of investment in other associated industries; and ▪ availability of alternative investment options. <p>NAIF does not compete with other debt financiers, rather it works with them to encourage their participation alongside NAIF in the financing of infrastructure projects to benefit northern Australia.</p>	<p>NAIF’s ability to deploy funds depends on a pipeline of eligible infrastructure projects that are developed and investment ready.</p> <p>If finance from other sources becomes available for a project, this will reduce NAIF’s level of reported activity.</p>

Under the NAIF Investment Mandate, it must have regard to the potential of its investment to encourage private sector participation in the infrastructure financing market for northern Australia, by providing financing for projects that produce benefits to the region. A project may seek NAIF funding, but it may ultimately be fully funded without NAIF finance.

NAIF cannot be the sole holder of financial risk in each project, and the Commonwealth overall, must not have the majority financial risk in a project. NAIF is unable to offer financial assistance in the form of equity.

A result where NAIF has assisted to 'crowd in' the private sector, and no NAIF debt is required, this is regarded as a win for NAIF, as well as for stakeholders, as the project has gone ahead without the need for Commonwealth funds.

Similarly, a project will not proceed if equity is insufficient or the Commonwealth has the majority financial risk in a project.

8. A prudent approach to risk management

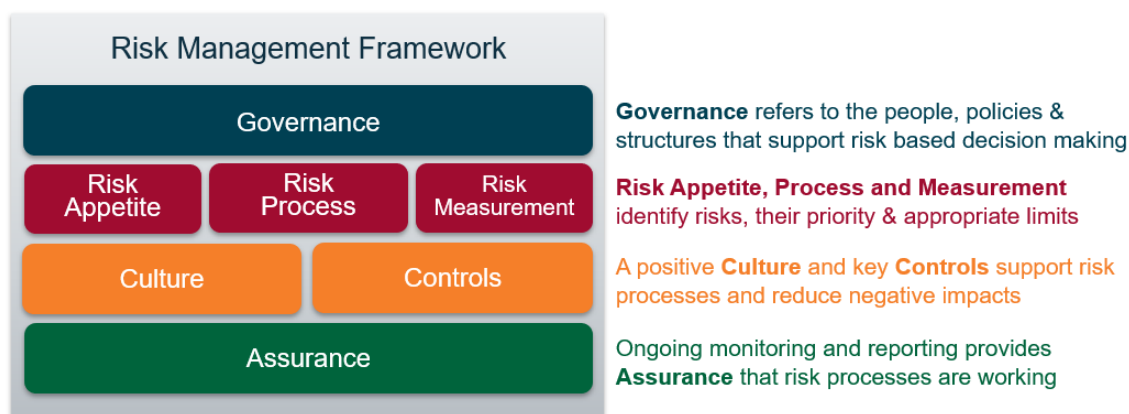
NAIF's Board recognises that effective, best practice risk management is integral to NAIF's functions and addressing financing challenges unique to NAIF's mandate. The design and implementation of NAIF's internal structures (rules, relationships, operational controls, policies, procedures and systems) enable it to make and implement decisions including Investment Decisions and manage risk prudently.

The Board ensures performance is appropriately balanced against risk taking.

NAIF's BARC is charged with ensuring NAIF's system of risk management, oversight and internal control remains appropriate for NAIF.

NAIF's approach to risk management is consistent with the International Standard for Risk Management and is designed to support NAIF in the achievement of its vision and strategic objectives. The figure below illustrates the key elements of NAIF's Risk Management Framework.

Table 11: NAIF's Risk Management Framework



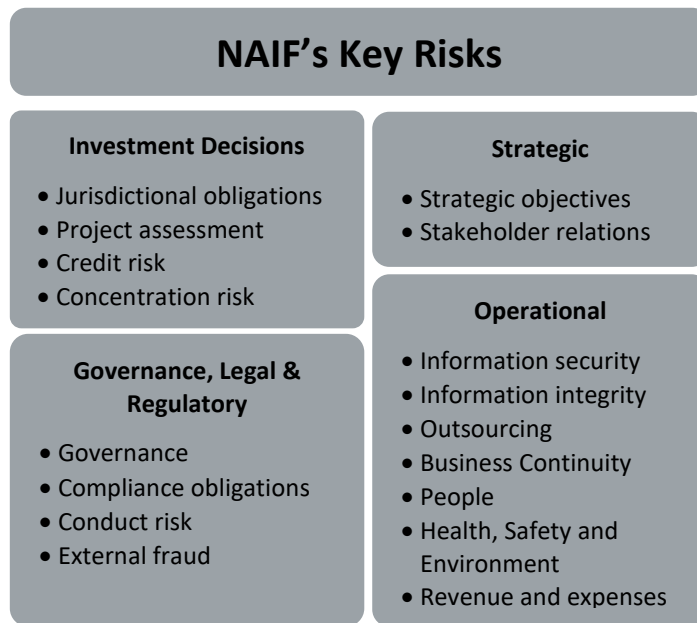
NAIF actively promotes a positive risk culture through:

- setting the tone from the top via open discussion, challenge and debate;
- risk awareness activities including risk discussions at team meetings;
- quarterly enterprise risk management forums;
- rewards and sanctions captured via performance reviews; and
- no fault incident reporting that focusses on transparency and resolution.

The Board's RAS guides its Investment Decision making and has enabled each project to proceed efficiently and with appropriate due diligence and assessment of credit and other risks. The RAS is not a public document as it describes in detail the way NAIF's risk appetite and tolerances (qualitative and quantitative) are established and controlled and as such is considered commercially sensitive.

In addition, NAIF must manage a comprehensive list of key governance, legal and operational risks maintained in a Risk Register together with key mitigating controls. NAIF regularly reviews its key risks and the effectiveness of key controls with results reported to the BARC. Key risks are represented in Table 12.

Table 12: Key Risks



NAIF is committed to best practice risk monitoring and reporting and continuous improvement including assessing emerging risks and opportunities. The Board, through the BARC receives quarterly enterprise wide risk reports. Risk discussions are robust to achieve effective resolution of identified issues. That approach enables the Board and its BARC to adopt timely and proactive risk management.

Fit for purpose policies ensure that NAIF operates in the public interest by balancing its public sector accountabilities with its mandate. NAIF has an ongoing program of review of its core suite of governance charters and policies. Twenty policies were reviewed by the Board over the FY18-19 period including six new policies (including Corporate Information Security Policy and Records and Information Management Policy).

More detail about NAIF's Risk Management Framework and its governance policies can be found [here](#).

Contact us

Northern Australia Infrastructure Facility

Level 7, 46-48 Sheridan Street
Cairns QLD 4870

PO Box 4896 Cairns QLD 4870

1300 466 243
naif.gov.au
naif@naif.gov.au



Australian Government



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