



Mr Grant Hehir
Auditor-General
Australian National Audit Office
PO Box 707
CANBERRA ACT 26001

19 March 2019

Dear Auditor-General

Thank you for the opportunity to respond to the Australian National Audit Office's (ANAO) proposed audit report of the Northern Australia Infrastructure Facility (NAIF) under Section 19 of the *Auditor-General Act 1997* (the Report). This letter summarises NAIF's response to the main issues raised in the audit.

NAIF has already or will in the near term, adopt all recommendations in the Report as outlined in NAIF's responses (refer the respective recommendation paragraphs within the detail of the Report).

Context of Report

The ANAO has approached this audit with an interest in overseeing the governance and transparency of a defined group of financing investment-focused entities that have been established by the Commonwealth in recent years. In addition to NAIF, these include Clean Energy Finance Corporation (CEFC) and the Regional Investment Corporation.

The ANAO's preference is to see these entities adhere to 'template' governance policies and frameworks. NAIF accepts there are some instances where there may be merit in this and indeed had the benefit of that approach in its arrangements with Export Finance and Insurance Corporation (Efic). However, ANAO also would seek to have those agencies which have been established to operate in a commercial context to conform to modes of organisational set up, decision-making and function execution that are aligned to the ANAO's preferences.

This point of view is evident from the ANAO's engagement with NAIF, from the fact that the Report's remit broadened to include these matters subsequent to referral, and from the ANAO's position that the entities should default to an established public sector

governance framework without an overlay of peer (whether public or private sector) lending institutions' best practice.

NAIF simply notes these observations regarding the ANAO's preferences to provide context for those considering this Report.

Integrity of processes

The integrity of NAIF's processes is of utmost importance to the organisation and in its view they are effective.

NAIF assesses each project according to a consistent process. Each project has unique characteristics that determine whether and how rapidly it can progress through NAIF processes and when it is capable of satisfying NAIF's requirements. Also NAIF's management of its pipeline will always call for the exercise of commercial judgement. That creates variability, as projects progress at different rates, enter periods of inaction or hiatus, or are modified (sometimes materially). It may be clear early that a project will meet criteria, for others they may be established as only having potential in that regard but allow an expert view that NAIF's conditions will subsequently be met. That is not evidence of a lack of consistency of policy or approach, but rather the natural outcome of consistently applying a single process to the differing parameters of each project to assess against the NAIF requirements. If NAIF had no regard to each project's specific circumstances, or failed to exercise commercial judgement, it would almost certainly risk causing detriment to the Commonwealth and proponents alike.

NAIF is satisfied that it has had adequate oversight of the NAIF project pipeline of proposals and the management of individual projects. The fact that it has not rejected a proposal presented for formal consideration is evidence that the filtering and management process is effective, rather than the reverse. It has not been demonstrated that any project has been advantaged, disadvantaged or delayed as a result of any failure on the part of the NAIF organisation.

Since its establishment NAIF has ensured that appropriate frameworks and policies have been in place for all decisions taken.

NAIF's process is disciplined and its decisions are thoroughly documented. NAIF nonetheless will strengthen its internal protocols around documenting its rationale for early stage assessments.

Transparency

NAIF is keenly aware of its responsibility as a steward of public resources to be as transparent as reasonably practicable.

The organisation's disposition is to publish information where doing so does not compromise the interests of the Commonwealth or risk breaching NAIF's legislated

obligation to have regard to industry best practice. This obligation, which is in the nature of a two way consent, includes the obligation to protect commercially sensitive information, and arises from an understanding that the Commonwealth's own interests (including the protection of its reputation) are best served by the protection of confidential information. Confidentiality helps avoid disclosures that might deter proponents, or that might lead private financiers to conclude they can lessen their exposure to a project, in turn increasing demands on the public purse or lessening the achievement of NAIF's objectives.

In striking a balance between transparency and commercial confidentiality, NAIF regularly benchmarks its practices against public peers and equivalent private sector organisations. NAIF's practices are in conformance with these norms.

NAIF protects its information sources through an appropriate Corporate Information Security Policy which in line with its obligations as a corporate Commonwealth entity, has regard to better practice such as the Commonwealth's Protective Security Policy Framework.

Speed of decisions

NAIF is aware that many Australians are eager to see investment decisions that expedite the development of Northern Australia. The organisation is comprised of individuals who themselves are committed to the same outcome.

NAIF is agile and responsive. It moves at the same or a faster pace relative to other market participants in both the private and public sector but has been, and (by reason of its legislative design) will continue to be limited by the capacity and willingness of proponents to progress their proposals. Where possible, NAIF has endeavoured to accelerate proposals by adopting an innovative and flexible approach consistent with proper standards of governance. The NAIF record shows that its approach is working. As one comparison, the US Transport Infrastructure and Innovation program, created in 1998 to perform a function similar to NAIF, invested in just two projects in its first six years, despite the size of the US market and the poor state of its transport infrastructure. In the past 10 months to 1 March 2019 NAIF has made nine Investment Decisions and three current conditional approvals totalling ~\$1.3 billion of dollar value of NAIF investment.

NAIF seeks to make decisions on projects as early as possible. The NAIF Act specifies the current last date for investment decisions (being 30 June 2021), but this does not create a statutory requirement for NAIF to make decisions on all projects in its pipeline by that date. Projects may not be ready to be managed by NAIF to an outcome of granting or refusing NAIF financial assistance by a deadline. The pace of movement of a project through NAIF's processes is largely governed by the project proponents themselves. It is based on the complex interplay of bespoke factors, for instance industry

type or geography. The time a project spends within the NAIF system is not determinative of its outcome.

NAIF does not discount any opportunity peremptorily. To do so may damage the commercial value of the proponent (making it explicit that it was unsuccessful in obtaining 'gap' finance). It is not possible for NAIF to accelerate all projects at the same pace. The rate of approval or rejection of a project in no way is informative of the failure of integrity in NAIF's process.

Text Changes requested

Attached is a list of factual text corrections that NAIF suggests might be made in the final Report (Attachment 2).

Concluding remarks

NAIF acknowledges the professionalism of ANAO officers and thanks the Office for this Report.

Yours sincerely



Khory McCormick

Chair

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