



Australian Government



Northern Australia Infrastructure Facility

Corporate Plan 2016-17

www.naif.gov.au

Developing Northern Australia

“It is not just about commercial economic growth – which is a key objective. It is also growth at a very personal level. NAIF is about supporting and improving our way of life here in the north.”

“The talent and ingenuity lies within the region. NAIF wants to be a catalyst for bringing these ideas to fruition. “

“We will look back and be proud, knowing that we leveraged an opportunity today, for tomorrow and future generations.”

Northern Australia Infrastructure Facility, Chair

Ms Sharon Warburton

Speech delivered at the Developing Northern Australia Conference, Cairns

19 June 2017

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 the NAIF's interim 2016-2017 Corporate Plan (Plan). The Plan covers the Financial Year 2016-17, as the NAIF came into effect on 1 July 2016. The Board will publish a full four-year Corporate Plan for Financial Year 2017-18 to Financial Year 2020-21 in August 2017, as required under paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Ms Sharon Warburton
Chair
Northern Australia Infrastructure Facility

Strategic vision: To pursue transformational change

The NAIF's strategic vision is to transform northern Australia by financing new or enhancing infrastructure development through the generation of:

- public benefit
- longer-term growth in population and the economy
- greater private sector participation in financing northern Australia infrastructure development
- sustainable Indigenous participation, procurement and employment

Purpose

The NAIF's purpose¹ is to enable transformational growth in the economies and population in northern Australia by facilitating investment in economic or social infrastructure with financing delivered through² the Queensland, Western Australian and Northern Territory Governments.

The NAIF offers up to \$5 billion in debt or alternative financing mechanisms, which may be on concessional terms to encourage and complement, where possible, private sector investment in infrastructure that benefits northern Australia. The NAIF is designed to help transform northern Australia through the construction of infrastructure. This includes airports, pipelines, ports and roads, as well as communication, energy, rail and water infrastructure. The NAIF's investments will support growth in sectors across the north, such as agribusiness, tourism, energy and resources.

The NAIF's operations are governed by Commonwealth legislation and overseen by an independent commercial Board. The NAIF came into effect on 1 July 2016 as a corporate Commonwealth entity under the *Northern Australia Infrastructure Facility Act 2016* (NAIF Act).

The NAIF Act (Section 7) defines the NAIF's functions as follows:

- a) to grant financial assistance to States and Territories for the construction of Northern Australia economic infrastructure;*
- b) to determine terms and conditions for the grants of financial assistance; and*
- c) as agreed between the Facility and the States and Territories, to provide incidental assistance to the States and Territories in relation to financial arrangements and agreements related to the terms and conditions of the grants of financial assistance.*

The NAIF is a major long-term initiative of the Australian Government's *Our North, Our Future: White Paper on Developing Northern Australia*. Policy responsibility for the NAIF sits with the Department of Industry, Innovation and Science.

¹ The functions of the NAIF are outlined in Section 7 of the NAIF Act 2016, available [here](#).

² Under the Master Facility Agreement between NAIF, the Commonwealth and the relevant jurisdiction, finance can be provided by direction directly from the Commonwealth to the proponent.

Environment

The NAIF is a lender, not a provider of grant funds. It can provide senior or subordinated debt through to quasi-equity (but not equity). The NAIF aims to fill gaps in the infrastructure debt financing market for projects that, if developed will generate public benefit for northern Australia and more broadly, national benefit. Northern Australia as it relates to NAIF's Investment Mandate includes the Northern Territory, and those parts of Queensland and Western Australia above, and directly below or intersecting with the Tropic of Capricorn.

Factors that may impact the NAIF's level of reported activity include:

1) Availability of private and other capital

The NAIF has strong relationships with many financiers and through the encouragement of private sector participation, aims to 'crowd-in' other sources of capital. The NAIF is mandated³ to work in partnership, not in competition, with other financiers so that its loans do not exceed 50 per cent of the total infrastructure debt financing for each project.

2) Government policy

The NAIF also acts in partnership with relevant State and Territory Governments. The involvement of the States and Territory helps to maximise the gains from the NAIF's infrastructure investment in northern Australia. The NAIF must not make an Investment Decision if, at any time, the relevant State or Territory jurisdiction provides written notification that financial assistance should not be provided to a project.

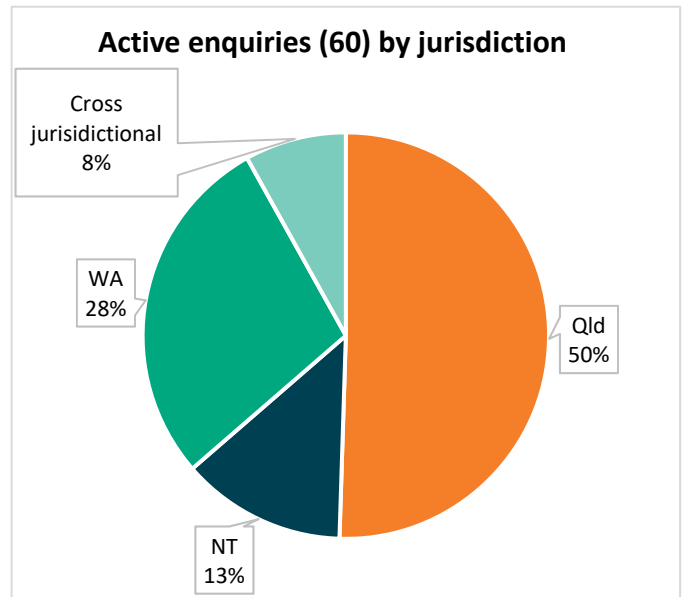
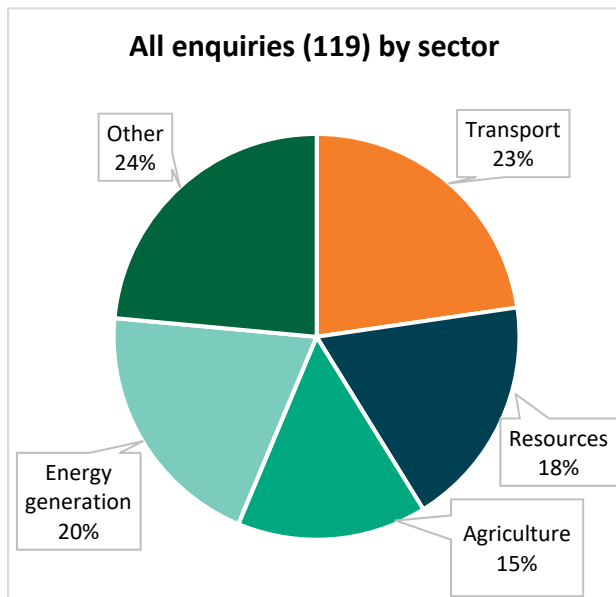
The Minister for Resources and Northern Australia (Minister) is responsible for the NAIF, including for the appointment of Board Members and issuing directions about the framework in which the NAIF performs its functions. The Minister must not direct, or have the effect of directing the Board to invest in a particular project, but has a role in determining whether a NAIF loan would be inconsistent with the objectives and policies of the Commonwealth Government. The Minister must also consider if a NAIF loan would have adverse implications for Australia's international or domestic security, or on Australia's international reputation or foreign relations.

Changes to government policies, regulatory settings, or priorities at the State, Territory and Commonwealth level, may also impact the number of new infrastructure projects in northern Australia. Most infrastructure projects require a number of government approvals to proceed. The ability of a project to gain and finalise approvals could impact a project's viability and/or timeline, and therefore the requirement for NAIF financing.

Business strategies and planned outcomes

The NAIF is building a strong list of potential investment projects. As at 1 June 2017, the NAIF has received 119 enquiries from projects across a range of sectors including transport, agriculture, energy, communications, tourism, water and resources. These enquiries are spread across Western Australia, the Northern Territory and Queensland, including some cross-jurisdictional.

³ See Northern Australian Infrastructure Facility Investment Mandate Direction 2016, Schedule 1, Mandatory Criteria 5.



In the context of northern Australia’s challenges, the NAIF is well-positioned to catalyse and drive longer-term economic and population growth in the north.

Proponent-led and NAIF facilitated origination

The NAIF engages with project proponents, financiers, project advisors, other project participants, government and industry groups on infrastructure projects identified by proponents. Where applicable, the NAIF will look to introduce other sources of capital to proponent-led projects. The NAIF also aims to generate private or public sector interest in identified infrastructure gaps in northern Australia. The NAIF thereby identifies infrastructure drivers to capitalise on the strong existing pipeline of projects, and also facilitates new projects for its potential investment proposal pipeline.

An active and engaged independent Board

The NAIF has an independent skills-based Board that makes decisions about how to invest the \$5 billion of finance appropriated for the NAIF.⁴ The Board provides oversight and guidance to the NAIF’s Executive. The Board has a strong mix of regional northern Australia knowledge, backgrounds in the private and public sector, and business skills required for infrastructure financing. Members are only eligible to be appointed to the NAIF Board if they have experience or expertise in one or more of the following:

- banking and finance
- private equity or investment by way of lending or provision of credit
- economics
- infrastructure planning and financing
- engineering
- government funding programs or bodies
- financial accounting or auditing
- law.⁵

⁴ See NAIF Act 2016 s 41, the Commonwealth Consolidated Revenue Fund is appropriated to the extent of \$5 billion for the purposes of providing grants of financial assistance to the States and Territories for the construction of Northern Australia economic infrastructure.

⁵ Board Member eligibility is outlined in Section 15 of the NAIF Act 2016.

With expertise in infrastructure, finance, construction, government and law, Board members have been actively leveraging their networks to engage with targeted stakeholders to attract interest in investing in partnership with the NAIF to develop northern Australia.

Board members have directly engaged with regional economic and community leaders across the north including meetings in Cairns, Townsville, Rockhampton, Darwin, Broome, Port Hedland, Kununurra and Gove, to raise awareness of the NAIF's objectives and to generate pipeline activity. Board activities are strengthened by the public presence of the Chief Executive Officer, Ms Laurie Walker and Executive Origination team. The Board and the NAIF team work closely together to share their regional knowledge.

The independent NAIF Board provides strategic insight in achieving its priorities

A high-performing organisation

The NAIF understands that it must be a viable, credible and reliable source of finance for the market to engage with it. Building a high-performing organisation that is agile, flexible and easy to do business with is critically important to achieving the NAIF's strategic vision. The NAIF has a team with the commercial acumen, project finance and lending experience, and government insight to achieve that goal.

The team is comprised of highly-experienced specialist infrastructure financiers from a mix of commercial and investment banks with lending, financial advisory and equity arranging skills, to help structure bankable projects aligned with the NAIF's Investment Mandate.

Service Level Agreement with Efic

Australia's export credit agency, Efic (Export Finance and Insurance Corporation) provides services to the NAIF through a Service Level Agreement (SLA). This agreement allows the NAIF to access the expertise of Efic's 110 full-time equivalent staff.

Efic is an experienced 'market gap' financier, with expertise in managing large and complex lending transactions. The NAIF also exists to fill a market gap in infrastructure lending, leveraging off its own and Efic's expertise and resources to support the provision of infrastructure investment in northern Australia.

Since its establishment, the NAIF has utilised nearly half of Efic's personnel in various capacities including the Chief Financial Officer, Financial Controller, Chief Risk Officer, General Counsel, Senior Legal Counsel, Board Secretary, Head of Compliance, Head of Human Resources, Head of Information Technology, Project Finance Environment and Technical Review, and Portfolio Management.

The services provided by Efic under the SLA include:

- a) transaction services, such as due diligence, credit assessment, environment and technical review, and loan management; and
- b) administrative and corporate services, such as secretariat and board secretary, legal, compliance, financial management and reporting, human resources, information technology and communications, and property management.

A key benefit of the SLA is the flexibility for the NAIF to use Efic's services as and when required, to use its own resources, or to access other resources if it chooses. This allows the 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.

Strategic partnerships and stakeholder engagement

The NAIF has been actively articulating its strategic vision and the value proposition of its Investment Mandate to a broad spectrum of stakeholders. All levels of the NAIF have been pursuing a comprehensive engagement program. The NAIF Board, Chief Executive Officer and Executive team have met directly with more than 1,500 interested stakeholders and presented at 15 events, reaching audiences of over 2,000 people. This level of engagement emphasises the importance that the NAIF places on building strategic partnerships through targeted stakeholder engagement.

The NAIF has established relationships and protocols for working with the Commonwealth, Queensland, Western Australian and Northern Territory Governments. These protocols were developed based on mutually-agreed principles that govern the relationship between the NAIF, the relevant State/Territory and the responsible Minister, in relation to the advancing of financial assistance from the NAIF to a proponent, pursuant to the NAIF's functions under the NAIF Act and the terms of the Investment Mandate.



Public awareness and interest in the NAIF is building. This is evidenced by a comprehensive schedule of forward events that the NAIF will participate in over the next 12 months, which will provide multiple opportunities to further engage with key stakeholders and promote the NAIF.

Effective risk management

Investing in infrastructure in northern Australia faces unique challenges including from factors such as distance, remoteness and climate.⁶ The NAIF is specifically mandated to develop a Risk Appetite Statement (RAS)⁷ that guides its investment decisions, noting it may have a high risk tolerance for those challenges.

The NAIF is also mandated to 'crowd in' or encourage private sector participation in financing infrastructure in the north, while operating only as a gap financier by contributing up to 50 per cent of the debt for the project

⁶ See *Our North, Our Future: White Paper on Developing Northern Australia*, p 84.

⁷ See Northern Australian Infrastructure Facility Investment Mandate Direction 2016, section 12.

infrastructure. This must be achieved through the contribution of the minimum amount of finance or concessional terms for a project to proceed.⁸ The NAIF envisages that it may achieve that objective by taking higher risk to complement the private sector where it can be aligned with an identifiable public benefit to northern Australia.

At all relevant times, the NAIF has had in place the appropriate frameworks required for any decisions made. This includes its Risk Management Framework and Risk Appetite Statement, which were both developed in consultation with the Commonwealth, Queensland, Western Australian and Northern Territory Governments. These well-managed governance and risk frameworks underpin a strong risk culture to support a high performance organisation that is empowered to facilitate quality origination of viable infrastructure projects. Refer below for more detail.

Best practice governance

Since commencement on 1 July 2016, the NAIF has invested significant effort in developing its governance and risk framework. In doing so it has leveraged the 60 years of Efic’s experience and expertise as a well credentialed and respected lender. Independent reviews of the NAIF’s governance policies by private and public sector experts have concluded that the NAIF’s frameworks are best practice. Publication of governance materials on the NAIF website demonstrates a high level of transparency with public access to 11 of 13 governance policies compared to five published by Efic and two published by the Clean Energy Finance Corporation.

NAIF strives to be an agile, commercially-focused business that is easy to do business with

Success to date

The table below summarises some key achievements of the NAIF in its first year, and their impact in positioning the NAIF to achieve its vision over the coming years.

ACHIEVEMENTS	IMPACT
Formation of the NAIF’s head office	Establishing the NAIF’s head office in Cairns allows the Chief Executive Officer and Executive to develop strong local relationships, and have regular communication with regional economic and business groups, local councils, and community leaders across northern Australia.

The NAIF is well-connected, engaged and active in northern Australia

Recruitment of personnel with extensive infrastructure financing expertise	The NAIF has secured a talented team with the expertise required to achieve its mandate. It has access to approximately 120 Full Time Equivalent (FTE) staff. This includes 7.6 specialist FTE employed by the NAIF (five based in Cairns including the Chief Executive Officer and three based in Sydney). A further 3 contracted FTE will commence in July 2017 (one of which will be based in Cairns). It also includes 2.5 FTE seconded to the NAIF from Efic (on a full time or permanent part-time basis), in addition to access on an ‘as needs’ basis to all Efic staff through the SLA.
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⁸ See Northern Australian Infrastructure Facility Investment Mandate Direction 2016, section 9(2).

ACHIEVEMENTS

IMPACT

Having senior infrastructure financiers 'on the ground' in northern Australia and one of Australia's financial services capitals (Sydney) has assisted in the identification of potential transactions through effective engagement with local project participants, equity investors, commercial and other debt financiers, contractors, operators and key suppliers.

The NAIF has in place experienced origination and transaction execution teams

Development of a diversified investment proposal pipeline

As at June 2017, the NAIF has 60 active transactions in its pipeline across different sectors and regions, with the potential to reach financial close on at least five transactions by June 2018.

The NAIF has grown a strong potential pipeline in less than 12 months of operation

Established a best practice governance framework, including an endorsed Risk Appetite Statement

The NAIF's governance framework and policies have been benchmarked against peers in the public and private sectors. The NAIF has a comprehensive suite of governance policies that are appropriate for its size and functions. Independent expert reviews of the suite of the NAIF's governance policies concluded that they comply with the very high requirement of the NAIF's Investment Mandate, and reflect current Australian best practice government governance principles, and current Australian best practice corporate governance for Commercial Financiers. The NAIF has also developed a Public Benefit Guideline and an Indigenous Engagement Strategy Guideline to support consideration of these mandatory criteria as outlined in the Investment Mandate.

The NAIF operates within a best practice governance framework

Broad and comprehensive domestic stakeholder engagement

The NAIF Board and Executive have built an extensive domestic network and are growing their international network of potential proponents, financiers, government stakeholders, community and economic regional leaders to actively pursue bankable potential projects.

The NAIF is responsive and understands the needs of its stakeholders

The four-year Corporate Plan, to be published in August 2017, will have details of the NAIF's strategies and capabilities, and the Key Performance Indicators and targets.

Business financial performance

Independent market analysis of government-procured infrastructure projects demonstrates a long period of between 19 to 32 months from project conception to a point where a project is ready to be assessed by lenders, and then a further 3 to 6 months of commercial negotiations to reach financial close (i.e. ~2 to 3 years). This can significantly increase for higher risk projects.

Given the NAIF is operating under a Proponent-Led (not a Government-Led model) as a gap financier, and with the challenges of financing in northern Australia, those timelines can reasonably be expected to be longer.

As at June 2017, there are five transactions in the due diligence stage and the NAIF is targeting financial close of its first transaction in the September quarter 2017.

In the above context, that is significant progress over the first 11 months of the NAIF's operation.

Based on the current pipeline, there is potential to finalise at least five transactions in Financial Year 2017-18

Efficient support structure

The establishment of the SLA with Efic has generated significant efficiencies for the NAIF's Government stakeholder, which is reflected in the substantially lower estimated expenses of \$6.1 million for the NAIF in its first year of operation, relative to a new government stand-alone entity. These include expenses incurred under the SLA to access approximately 53 specialist Efic staff and the operation of the NAIF headquarters in Cairns, Queensland. By way of comparison with the Clean Energy Finance Corporation, which was established as a stand-alone entity during the 2012-13 year (i.e. its first year of operations) \$18.38 million was appropriated for it. Actual expenses were \$8.38 million (11 staff). For 2013-14 (i.e. its second year of operations) \$8 million was appropriated and actual expenses were \$18.135 million (48 staff). Therefore through the SLA arrangements NAIF have already generated substantial efficiencies.

The table below outlines estimated and budgeted expenditure:

Financial Year ended June 2017	FY17 (Estimate) (Estimate)	FY17(Budget)
New commitments	0	0
Value of new commitments	0	0
Estimated revenue*	0	0
Expenditure**	\$6.1m	\$8.1m

*Revenue earned by the NAIF includes interest earned and fees charged, and is reported in the accounts of the Department of Industry and Innovation Science.

** Expenditure includes expenses relating to Efic, which provides services including transaction due diligence, credit, loan management, corporate and administrative services, specialist staff engaged under contract, and Board, travel and overhead costs.

Risk management and oversight

The NAIF's Risk Management Framework conforms to the *Public Governance, Performance and Accountability Act 2013*, the Commonwealth Risk Management Policy and the International Standard for Risk Management, AS/NZS ISO31000.

The NAIF may have a higher risk tolerance around factors that are unique to investing in northern Australian infrastructure, such as its distance from major centres, its remote location and its unique climate. The Board will also consider the need for a loan to encourage the participation of private sector financiers into a project. This may be achieved by the NAIF's different risk tolerances and ability to provide concessional financing terms, such as longer periods of capitalisation of interest, interest only periods, later repayment of principal debt servicing or offering longer tenors than other lenders.

Over time, through the NAIF's successful financing of projects in the north, it will seek to generate greater private market appetite for infrastructure financing opportunities in northern Australia.

The NAIF's approach to risk management is as follows:

- 1. Risk Management Policy.** This sets the principles and objectives that govern risk management activities, defines the roles, responsibilities and accountabilities for managing risk, and establishes the basis for development of the NAIF's risk framework, stakeholder communication and risk monitoring.
- 2. Risk Management Framework.** This describes the tools and processes adopted by the NAIF to operationalise its Risk Management Policy. This framework consists of the Risk Management Process, Risk Measurement Criteria and Risk Appetite Statement.
- 3. Risk Register.** This provides a day-to-day tool for monitoring and reporting risk.

The NAIF Board members are highly skilled and experienced non-executive directors. They are aware of their duties and obligations, particularly around disclosure of conflicts of interest, as required under the *Public Governance, Performance and Accountability Act 2013* and compliance with the NAIF's policies including the NAIF's Conflict of Interest Policy.

More detail about the NAIF's risk management approach is available on [our website](#).

Conclusion

The NAIF has successfully managed its establishment phase while retaining focus on all areas of its business. The momentum in its transaction pipeline is strong. There is much opportunity for further achievement and realisation of its important mandate objectives over the forward planning years.