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Committee Secretary
Senate Economics Legislation Committee
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Dear Committee Secretary

Thank you for the invitation to provide a submission to the Senate inquiry into the governance and operation of the Northern Australia Infrastructure Facility (NAIF). I am pleased to provide a response on behalf of the Northern Territory Government.

While details of specific projects under consideration by the NAIF are generally commercial-in-confidence, the Northern Territory Government is satisfied that the NAIF has been forthcoming with information relating to potential projects in the Northern Territory. Further, the Northern Territory Government is satisfied that the NAIF has actively and openly engaged with relevant Northern Territory Government departments on matters such as its project assessment and approvals processes.

I would note that the Northern Territory Government does have some concerns about the NAIF. The Investment Mandate could be more flexible to allow for a wider consideration of what is defined as Infrastructure. Like, for example, strategic economic enabling infrastructure. The NAIF could also be more actively engaged at a local level in the Territory. I would note that the Board has only one member from the Territory and there is no permanent staff based in the Territory. A permanent staff member in the Territory would be a welcome development.

The Northern Territory Government continues to work collaboratively with the NAIF to advocate for Northern Territory projects and ensure the Board's risk appetite and project assessment processes are as accommodative as possible to the Northern Territory's circumstances.

The Northern Territory's submission responding to the Terms of Reference is attached.

Yours sincerely



MICHAEL GUNNER

27 JUL 2017

Northern Territory Government submission to the Senate Economics Reference Committee Inquiry into the Governance and Operation of the Northern Australia Infrastructure Facility

Introduction

Thank you for the invitation to provide a submission to the Senate inquiry into the governance and operation of the Northern Australia Infrastructure Facility (NAIF). This submission was prepared by the Northern Territory Department of Treasury and Finance on behalf of the Northern Territory Government.

Summary of the Northern Territory's Comments

From a Northern Territory Government perspective, the NAIF has generally been forthcoming with information relating to potential projects in the Northern Territory, and has actively and openly engaged with relevant Northern Territory Government departments on matters such as its Investment Mandate, project assessment processes and risk appetite statement.

During and after the establishment of the NAIF, the Northern Territory Government has been actively involved in discussions around the NAIF's Investment Mandate, risk appetitive statement and public interest test.

In particular, the discussion around the NAIF's Investment Mandate ultimately resulted in what the Northern Territory considers to be positive outcomes aimed at increasing the relevance of the NAIF to a wider variety of potential projects in northern Australia including:

- the ability for the NAIF to provide finance to smaller projects, even if their NAIF loan requirements are below \$50 million;
- the flexibility for the NAIF to consider projects that are not purely infrastructure projects; and
- allowing projects that do not directly serve multiple users to be considered if they assist with economic development of northern Australia.

Nevertheless, the Northern Territory still has some concerns that the current NAIF Investment Mandate may not be as flexible as it could be for many potential Northern Territory projects.

The Northern Territory Government continues to work collaboratively with the NAIF to advocate for Northern Territory projects and ensure the Board's risk appetite and project assessment processes are as accommodative as possible to the Northern Territory's circumstances, and provide the best outcomes for northern Australia.

Response to Terms of Reference

Item a. the adequacy and transparency of the NAIF's governance framework, including its project assessment and approval processes

While details of specific projects under consideration by the NAIF are generally commercial-in-confidence, the Northern Territory Government is satisfied that the NAIF has been forthcoming with information relating to potential projects in the Northern Territory. Further, the Northern Territory Government is satisfied that the NAIF has actively and openly engaged with relevant Northern Territory Government departments on matters such as its project assessment and approvals processes.

In August 2017, NAIF and Northern Territory Government officials are planning to meet in Darwin to conduct a detailed workshop on the NAIF's project application and approvals process, due diligence procedures, and the steps required to reach a financial close after the NAIF has made a positive investment decision.

Item b. the adequacy of the NAIF's Investment Mandate, risk appetite statement and public interest test in guiding decisions of the NAIF Board

During and after the establishment of the NAIF, the Northern Territory Government has been actively involved in discussions around the NAIF's Investment Mandate, risk appetite statement and public interest test.

In particular, the discussion around the NAIF's Investment Mandate ultimately resulted in what the Northern Territory considers to be positive outcomes aimed at increasing the relevance of the NAIF to a wider variety of potential projects in northern Australia including:

- the ability for the NAIF to provide finance to smaller projects, even if their NAIF loan requirements are below \$50 million;
- the flexibility for the NAIF to consider projects that are not purely infrastructure projects; and
- allowing projects that do not directly serve multiple users to be considered if they assist with economic development of northern Australia.

Nevertheless, the Northern Territory still has some concerns that the current NAIF Investment Mandate may not be as flexible as it could be for many potential Northern Territory projects.

The Northern Territory considers that eligible infrastructure should not be limited to specific structures (such as ports, rail, dams, roads and energy), but instead should allow the flexibility to take into consideration the strategic imperatives of linking people, goods, services and information, enabling increased economic activity, particularly in regional areas.

The Northern Territory acknowledges the NAIF is not going to be the sole source of debt finance for a project and accepts that projects will need to have both debt and equity funding.

However, the Northern Territory is also of the view that it may be beneficial for the NAIF to be more proactive in supporting projects, and effectively aim to 'crowd-in' the required private sector investment, whereby NAIF support for a project at an early stage provides the confidence and certainty to encourage private debt and equity investors to support a project.

Item c. processes used to appoint NAIF Board members, including assessment of potential conflicts of interest.

While the appointment of the NAIF Board is ultimately a matter for the Commonwealth Government, the Northern Territory Government was consulted and asked to provide a list of potential candidates.

The Northern Territory Government is pleased that the Northern Territory has representation on the NAIF Board, in the form of Mr Barry Coulter. Mr Coulter has significant experience in the Northern Territory, including as Deputy Chief Minister and Treasurer of the Northern Territory Government, and in various roles in the business and infrastructure sector.

While the Northern Territory is pleased to have representation on the NAIF Board, it is noted that only one director is from the Northern Territory. In contrast, there are four directors from Queensland, and two from Western Australia (including the Chair).

The Northern Territory would welcome the opportunity to provide any input into any future appointments to the NAIF Board.

Item d. the transparency of the NAIF's policies in managing perceived, actual or potential conflicts of interest of its Board members.

As with all boards, conflicts of interest and potential for conflicts of interest do arise from time to time.

The Northern Territory is of the view that through good governance, conflicts of interest can be appropriately managed. Accordingly, the Northern Territory would expect the NAIF Board to have robust measures in place relating to the disclosure and management of conflicts of interest.

Item e. the adequacy of the Northern Australia Infrastructure Facility Act 2016 and Investment Mandate to provide for and maintain the independence of decisions of the Board.

The Northern Territory has no specific comments to make about the Commonwealth Northern Australia Infrastructure Facility Act 2016 and the NAIF Investment Mandate in respect of its adequacy in providing and maintaining the independence of decisions of the Board.

In addressing item b. above, the Northern Territory has some comments around the general adequacy of the NAIF's Investment Mandate.

Item f. the status and role of state and territory governments under the NAIF, including any agreements between states and territories and the Federal Government

The Northern Territory has signed the Master Facility Agreement, which allows the NAIF to commence making loans to projects in the Northern Territory. The Northern Territory worked closely with the NAIF in the development of the Master Facility Agreement, and understands that it was the first jurisdiction to finalise and sign the Master Facility Agreement.

Given constitutional barriers, the NAIF is unable to provide loans directly to project proponents, and is instead required to pass funds through the relevant state or territory. As such, development and finalisation of the Master Facility Agreement included detailed work around the legal and financial relationship between the NAIF, Commonwealth Government, Northern Territory Government, and potential project proponents.

The Northern Territory undertook detailed work and obtained expert advice to ensure that the proposed financial arrangements under the Master Facility Agreement would not have any adverse implications for the Northern Territory's financial position or credit rating. The Northern Territory is satisfied that this is the case.

Item g. any other related matters.

The Northern Territory Government continues to work collaboratively with the NAIF to advocate for Northern Territory projects and ensure the Board's risk appetite and project assessment processes are as accommodative as possible to the Northern Territory's circumstances.

Overall, the Northern Territory is of the view that one of the most critical elements to the success of the NAIF in assisting with the development of northern Australia will be to have a pro-investment and risk tolerant outlook.

Clearly, NAIF support and facilitation of developments across northern Australia would be the optimal outcome for the nation.