

Design and Establishment of the National Reconstruction Fund Corporation

National Reconstruction Fund Corporation

Department of Industry, Science and Resources

Department of Finance

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Canberra ACT
26 June 2025

Dear President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the National Reconstruction Fund Corporation, the Department of Industry, Science and Resources and the Department of Finance. The report is titled *Design and Establishment of the National Reconstruction Fund Corporation*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely



Dr Caralee McLiesh PSM
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

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Audit snapshot

Auditor-General Report No.49 2024–25

Design and Establishment of the National Reconstruction Fund Corporation



Why did we do this audit?

- ▶ The National Reconstruction Fund Corporation (NRFC) was established on 18 September 2023 to facilitate increased flows of finance into priority areas of the Australian economy.
- ▶ This audit provides assurance to Parliament on the effectiveness of the design and establishment of NRFC.



Key facts

- ▶ The Department of Industry, Science and Resources (DISR) led the design and establishment of the NRFC with support from the Department of Finance.
- ▶ NRFC's seven priority investment areas are: value-add in resources; value-add in agriculture, forestry and fisheries; transport; medical science; renewables and low emission technologies; defence capability; and enabling capabilities.



What did we find?

- ▶ The design of the NRFC was largely effective and its establishment was partly effective in governance and fund management arrangements.
- ▶ The design of NRFC was largely effective by DISR and the Department of Finance.
- ▶ NRFC's governance arrangements are largely sound, with scope to develop a financial strategy and improve oversight of performance reporting.
- ▶ NRFC's fund arrangements are partly effective, with scope to finalise the investment strategy, stakeholder engagement framework; and improve investment procedures, records and compliance monitoring.



What did we recommend?

- ▶ There were seven recommendations to NRFC to establish a financial strategy, review its performance reporting and to obtain conflict of interest declarations and confidentiality agreements from suppliers. NRFC should finalise its investment strategy, investment procedures and assurance. NRFC's Board should be informed of the risks relating to its Embargo Register.
- ▶ NRFC agreed with all seven recommendations.

\$15 bn

to invest, of which \$5 billion credited on establishment and \$10 billion to be credited before 2 July 2029

\$550 m

investment target in Corporate Plan 2024–25

\$434.5 m

across nine investments as at 31 May 2025

Summary and recommendations

Background

1. The National Reconstruction Fund was announced by the Minister for Industry and Science on 25 October 2022¹, as part of the 2022–23 Federal Budget, as a \$15 billion investment to ‘diversify and transform Australia’s industry and economy.’
2. The Department of Industry, Science and Resources (DISR) took the lead for the design and establishment of the National Reconstruction Fund Corporation (NRFC). The Department of Finance provided support to DISR in the design and establishment of the NRFC.
3. The NRFC is a corporate Commonwealth entity established under the *National Reconstruction Fund Corporation Act 2023* (NRFC Act). It commenced on 18 September 2023 and is governed by an independent board. Under the NRFC Act, the Minister for Industry and Science and the Minister for Finance are the responsible ministers. In performing its investment functions, the NRFC Board is required to comply with the NRFC Act, the *National Reconstruction Fund Corporation (Investment Mandate) Direction 2023* (NRFC Investment Mandate)² and the *National Reconstruction Fund Corporation (Priority Areas) Declaration 2023*.³
4. On 19 November 2024, the NRFC announced its first two investments: a \$100 million partnership with Resource Capital Funds, which includes a \$40 million investment in Russell Mineral Equipment.⁴ As at 31 May 2025, the NRFC has announced nine investments totalling \$434.5 million.⁵
5. In December 2024, Parliament passed the *Future Made in Australia Act 2024*. The Future Made in Australia measure establishes a ‘Front Door for investors with major transformational proposals within the Treasury portfolio’⁶, an Investor Council to support the Front Door and the involvement of Specialist Investment Vehicles in the Investor Council.⁷

Rationale for undertaking the audit

6. The NRFC was announced on 25 October 2022 as a \$15 billion vehicle through which the Australian Government will ‘facilitate increased flows of finance into priority areas of the

1 Minister for Industry and Science, ‘Backing regional industry and delivering secure jobs of the future’, media release, 25 October 2022 [Internet], available from <https://www.minister.industry.gov.au/ministers/husic/media-releases/backing-regional-industry-and-delivering-secure-jobs-future> [accessed 12 December 2024].

2 *National Reconstruction Fund Corporation (Investment Mandate) Direction 2023* [Internet], available from <https://www.legislation.gov.au/F2023L01564/asmade/text> [accessed 26 December 2024].

3 *National Reconstruction Fund Corporation (Priority Areas) Declaration 2023* [Internet], available from <https://www.legislation.gov.au/F2023L00716/asmade/text> [accessed 26 December 2024].

4 NRFC’s investment of \$40 m in Russell Mineral Equipment is from NRFC’s \$100 m investment in Resource Capital Funds. NRFC, *National Reconstruction Fund Corporation Quarterly Investment Report*, Canberra, 31 December 2024 [Internet], available from <https://www.nrf.gov.au/sites/default/files/documents/2025-01/NRFC%20Investment%20Report%204th%20quarter%202024.pdf> [accessed 13 March 2025].

5 NRFC, *Our Investments*, Canberra, [Internet] available from <https://www.nrf.gov.au/our-investments> [accessed 17 June 2025].

6 Australian Government, *Budget 2024–25*, Mid-year Economic and Fiscal Outlook 2024–25, A Front Door for investors, p. 14, Commonwealth of Australia, Canberra 2024, available from <https://budget.gov.au/content/myefo/download/myefo2024-25.pdf> [accessed 17 February 2025].

7 *ibid.*

Australian economy, through targeted investments to diversify and transform Australian industry, create secure, well-paying jobs and boost sovereign capability.’

7. The audit provides assurance to the Parliament as to whether the design and establishment of the NRFC was effective.

Audit objective and criteria

8. The objective of this audit was to assess the effectiveness of the design and establishment of the NRFC.

9. To form a conclusion against the objective, the following high-level criteria were adopted.

- Was the design process effective?
- Are governance arrangements sound?
- Are the Fund arrangements effective?

Conclusion

10. The design of the NRFC was largely effective, the establishment of the NRFC’s governance and fund arrangements was partly effective. There are opportunities to improve NRFC’s governance by establishing a financial strategy and reviewing its performance reporting. Further, there is scope for the NRFC Board to finalise its investment strategy, stakeholder engagement framework and some investment procedures, and to establish assurance over its investment compliance.

11. The design process for the NRFC was largely effective. Due diligence checks for one member of the NRFC Board were not documented. DISR applied lessons from similar programs and considered stakeholder feedback. Stakeholder engagement was largely consistent with better practice — with opportunities to close the loop with stakeholders, and documenting lessons to improve future engagement activities. Constitutional risks to investments were assessed and approaches to manage these were outlined in advice to government and the NRFC Board. Advice on establishing a new corporate Commonwealth entity was sound. Appointments to the NRFC Board were consistent with the NRFC Act.

12. NRFC’s governance arrangements are largely sound. The NRFC Board and CEO appointments, Board meetings and remuneration arrangements have been established under the NRFC Act. Investment Policies have been published pursuant to section 75 of the NRFC Act. NRFC’s reporting arrangements for its annual report, corporate plan, budget estimates, performance measures and statements have been established, with 2024–25 performance to be reported against ‘at least three identified areas of the economy’ out of seven under the National Reconstruction Fund Corporation (Priority Areas) Declaration 2023. NRFC’s risk management, fraud and corruption control arrangements, and accountable authority instructions are underway and progressing as at March 2025. NRFC’s corporate policies are progressing as at March 2025. The NRFC Audit and Risk Committee (ARC) reviewed NRFC’s arrangements for risk management, internal controls, financial reporting except it did not review NRFC’s performance reporting arrangements for 2023–24 in line with the ARC charter and section 17 of the PGPA Rule. Recruitment is continuing, with the asset management function for investments underway as at March 2025. NRFC Board is yet to develop a financial strategy. NRFC has processes for managing

procurement, recruitment, declaring gifts and benefits, and Freedom of Information (FOI). Access to NRFC's released information under FOI is not consistent with guidelines from the Australian Information Commissioner.

13. NRFC's fund management arrangements are partly effective. The NRFC Board has approved investments without finalising its investment strategy and stakeholder engagement framework. NRFC's investment strategy and stakeholder engagement framework, listed as outputs within NRFC's Corporate Plan 2023–24, were not completed. A draft investment strategy, draft stakeholder engagement framework, and the absence of a plan to evaluate them, limits the effectiveness of the NRFC Board's fund promotion.

14. NRFC's processes to assess investments against its legislative requirements are developing and partly effective. NRFC's existing procedures relating to due diligence, risk management and assessing concessionality need clearly defined requirements for officials. NRFC is developing investment procedures relating to: credit risk, national security assessments, and investment impact. Investment assessment processes have gaps in: due diligence, risk management, and considerations of concessionality. NRFC's Board has not received its Embargo Register to manage associated risks. NRFC did not obtain conflict of interest declarations and confidentiality agreements from suppliers who assisted with investment due diligence.

15. NRFC has established investment targets; and as at 31 May 2025, NRFC had announced investments totalling \$434.5 million of a target of \$550 million. At 31 March 2025, NRFC's Board has not developed a financial strategy and aligned it to its draft investment strategy and stakeholder engagement framework, to inform and support the timely deployment of its investments.

Supporting findings

Design process

16. Lessons from similar programs were considered and addressed in the design and establishment of the NRFC. DISR assessed external reviews of Specialist Investment Vehicles (SIVs), prior ANAO audits and engaged with stakeholders to identify lessons on the design and establishment of the NRFC. A key lesson relating to the need for investment-ready projects for the NRFC, and steps to address this were outlined in advice to government. (See paragraphs 2.4 to 2.11)

17. Stakeholder input on key design parameters of the NRFC was considered and included in advice to government. DISR undertook a structured approach to consulting stakeholders and analysing feedback received. Stakeholder engagement was largely consistent with the APS framework for engagement and participation — with opportunities to close the loop with all stakeholders who have contributed, and documenting lessons to improve future engagement activities being identified. (See paragraphs 2.12 to 2.18)

18. DISR established an appropriate framework for providing advice to government. Advice was based on lessons learned from other SIVs, stakeholder input, and understanding the policy context of the election commitment. Advice outlined risks and approaches to manage risks. Advice on a corporate Commonwealth entity (CCE) being the preferred vehicle to establish the NRFC was based on DISR's assessment that a CCE provided the most effective way to achieve

policy objectives, and was most closely aligned with the election commitment of the NRFC being modelled on the Clean Energy Finance Corporation. Appointments to the NRFC Board were consistent with NRFC Act, except that due diligence checks were not documented for one member appointed to the NRFC Board in October 2023. (See paragraphs 2.19 to 2.55)

Governance arrangements

19. NRFC Board and CEO appointments, Board meetings and the Board and CEO's remuneration arrangements have been established under the NRFC Act. A Board skills matrix was developed for commencement appointments. NRFC Board members, NRFC CEOs and acting CEO made conflicts of interest declarations and maintain conflicts of interest registers. NRFC experienced leadership changes in the 16 months from its commencement to January 2025, with two CEO appointments and two acting CEO appointments. NRFC has established its risk management, fraud and corruption risk management and reporting arrangements under the PGPA Act, with some elements in progress. The NRFC ARC reviewed NRFC's arrangements for risk management, internal controls, financial reporting except for NRFC's performance reporting. Corporate policies continue to be in progress as at March 2025. The NRFC Board has yet to develop a financial strategy to support its financial sustainability and return on investment. Processes are in place for managing procurements, recruitment, declaring gifts and benefits, and managing Freedom of Information, with an opportunity to make available released information for downloading from its website. (See paragraphs 3.2 to 3.57)

20. NRFC has established its Investment Policies under section 75 of the NRFC Act. The NRFC Board has established the Board Investment Committee to provide oversight of investment decision processes, including investment delegations and policies for managing conflicts of interest and personal trading. Recruitment for roles supporting investments management was continuing as at March 2025, and the investments were made prior to establishing the investment asset management function. (See paragraphs 3.58 to 3.71)

21. NRFC has established and published its performance measures in its Corporate Plan 2023–24 and Corporate Plan 2024–25. NRFC reported in its 2023–24 performance statement that it had achieved its performance measure of finalising its core corporate, risk and investment policies. These 'core' policies were not defined and there were 39 policies and related documents outstanding at June 2024. NRFC's performance measures in 2024–25 incorporate measures to report that investments meet at least three of the seven economic priority areas, there is an opportunity to ensure that measures in future years report against all seven economic priority areas. Controls for performance information and methodologies for performance reporting are in development as at March 2025. (See paragraphs 3.72 to 3.79)

Fund arrangements

22. NRFC's Board and senior executives have engaged with Commonwealth entities, industry stakeholders and prospective applicants. NRFC's Corporate Plans for 2023–24 and 2024–25 have set out objectives and performance measures for partnering and engaging with stakeholders. In October 2023, the NRFC Board decided to formalise engagement activities. NRFC's investment strategy and stakeholder engagement framework were in draft and not finalised in 2023–24. A Stakeholder Engagement Strategy was approved by the NRFC Executive Leadership Team in May 2025. NRFC does not have a plan to periodically evaluate the effectiveness of its engagement

activities. NRFC's outputs relating to its investment strategy and stakeholder engagement framework outlined in its Corporate Plan 2023–24 were not completed. NRFC has made investment decisions and engaged with stakeholders without an endorsed investment strategy and stakeholder engagement framework. A draft investment strategy and stakeholder engagement framework limit the effectiveness of the NRFC Board's fund promotion activities to achieve the performance measures it has set to deliver NRFC's performance outcomes. (See paragraphs 4.2 to 4.9)

23. NRFC's processes and controls to assess and approve applications are developing as at March 2025. NRFC's existing investment procedures address its legislative requirements except for national security and First Nations impact, which are under development. NRFC's approach to assessing investments has gaps in due diligence, investment risk assessment, and concessionality. These gaps impact the consistency of investment assessments, completeness of risk advice provided to the NRFC Board, and the NRFC Board's assurance over compliance with its legislative requirements. The NRFC Board has not received updates on the Embargo Register to prevent members from inadvertently dealing in entities on whom the NRFC holds inside information. NRFC has not obtained confidentiality agreements or conflict of interest declarations from suppliers undertaking due diligence on investments. There is scope to improve the consistency of documenting how NRFC's investments crowd-in and do not crowd-out other market participants. (See paragraphs 4.12 to 4.62)

24. NRFC's budget estimates and performance measures establish investment targets across the current and forward years from 2024–25 to 2027–28. As at 31 May 2025, NRFC had announced investments totalling \$434.5 million against a target of \$550 million for 2024–25. The NRFC Board has established quarterly monitoring arrangements for its investment target through its 'Operating Plan FY2025.' NRFC took between six and nine months to assess and approve investments reviewed by the ANAO. As at 31 March 2025, NRFC's Board has not developed a financial strategy that links with its investment strategy and stakeholder engagement framework to support it to deploy investments in a timely manner, and to generate returns to fund its operating expenses. (See paragraphs 4.67 to 4.71)

Recommendations

Recommendation no. 1 The National Reconstruction Fund Corporation Board establish a financial strategy to support its activities to maintain financial viability and return on investment.
Paragraph 3.23

National Reconstruction Fund Corporation response: *Agreed.*

Recommendation no. 2 The National Reconstruction Fund Corporation Board ensure that the Audit and Risk Committee review all future performance reporting arrangements in accordance with its charter and to ensure its compliance with paragraph 17(2)(b) of the PGPA Rule.
Paragraph 3.35

National Reconstruction Fund Corporation response: *Agreed.*

**Recommendation no. 3
Paragraph 4.10** The National Reconstruction Fund Corporation Board finalise its investment strategy and stakeholder engagement framework and develop a plan to evaluate effectiveness.

National Reconstruction Fund Corporation response: *Agreed.*

**Recommendation no. 4
Paragraph 4.35** The National Reconstruction Fund Corporation:

- (a) obtain conflict of interest declarations from its suppliers who assist with investment due diligence and re-validate declarations when the due diligence report is finalised, as part of the monitoring of conflicts of interests; and
- (b) execute confidentiality agreements with suppliers who assist it with its investments.

National Reconstruction Fund Corporation response: *Agreed.*

**Recommendation no. 5
Paragraph 4.45** The National Reconstruction Fund Corporation Board should be informed of the risks associated with its Embargo Register.

National Reconstruction Fund Corporation response: *Agreed.*

**Recommendation no. 6
Paragraph 4.63** The National Reconstruction Fund Corporation Board:

- (a) ensure existing procedures outline the roles and responsibilities of relevant officials and executives and set out the minimum requirements for due diligence, risk management, assessing concessionality and record keeping; and
- (b) finalise and endorse investment procedures that are under development to assess, approve and manage investments.

National Reconstruction Fund Corporation response: *Agreed.*

**Recommendation no. 7
Paragraph 4.64** The National Reconstruction Fund Corporation Board establish assurance arrangements and assign responsibilities to ensure the consistent:

- (a) application of investments in accordance with the *National Reconstruction Fund Corporation Act 2023* and National Reconstruction Fund Corporation (Investment Mandate) Direction 2023; and
- (b) storage of records for investment assessment processes, assessments and decisions.

National Reconstruction Fund Corporation response: *Agreed.*

Summary of entity responses

25. Relevant parts of the proposed audit report were provided to the National Reconstruction Fund Corporation, the Department of Industry, Science and Resources, and the Department of

Finance. Summary responses are reproduced below and full responses are at Appendix 1. Improvements observed by the ANAO during the course of this audit are listed in Appendix 2.

National Reconstruction Fund Corporation

The NRFC welcomes the ANAO's report and its finding that the NRFC's governance arrangements are largely sound. As the report notes, the NRFC was established on 18 September 2023, with the performance audit commencing less than a year into its operations. This early assessment of the Corporation's governance processes provides assurance of the direction taken and offers useful insights to inform the Corporation's commitment to continuous improvement.

The NRFC agrees with all recommendations and is committed to their implementation in a timely manner. We note that in all areas identified by the ANAO, active steps are being taken to ensure effective governance processes, including a number of areas where the recommended actions are already complete or where significant progress has already been achieved. Further work is underway to fully implement the remaining recommendations. The NRFC's Audit and Risk Committee will oversee this implementation.

Department of Industry, Science and Resources

The department acknowledges the opportunity to comment on the report, noting it only had access to extracts relevant to the department.

In 2022, the Australian Government committed to establishing the National Reconstruction Fund (NRF) to support, diversify and transform Australia's industry and economy.

To inform the NRF's design, the department conducted extensive stakeholder engagement and public consultation. This included input from government and external stakeholders. Participants included representatives from business, unions, financial institutions, First Nations communities, regional groups, government and the public. This comprehensive process informed the NRF's structure, legislation, and successful establishment by September 2023.

In response to the one identified opportunity for improvement, the department acknowledges the release of RMG 127 in July 2024 and has updated its processes to ensure alignment with this latest guidance.

Department of Finance

The Department of Finance (Finance) welcomes ANAO's performance audit report on the Design and Establishment of the National Reconstruction Fund Corporation (Report). The report concludes that the implementation and governance of the NRFC was largely effective. Finance notes that the due diligence documentation did not meet the standard of Resource Management Guide 127 – Specialist Investment Vehicles (RMG 127), however this guide was not in place at the time of the appointment.

Finance agrees with the ANAO's suggested area for improvement to document NRFC board appointment processes. Consistent with guidance in RMG 127, Finance commits to ensuring that all board appointment processes and considerations are thoroughly and accurately documented. This includes retaining all relevant records to ensure transparency and accountability. Finance has already implemented these measures to support the effective governance and oversight of the National Reconstruction Fund Corporation (NRFC).

Key messages from this audit for all Australian Government entities

26. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Governance and risk management

- When establishing new entities, accountable authorities should establish all corporate policies as early as possible to ensure the appropriate operations of all parts of the entity.
- Accountable authorities should ensure conflicts of interest and information confidentiality arrangements are managed and monitored from suppliers.
- Accountable authorities should ensure that there is an appropriate compliance framework to have assurance that legislative obligations and internal policies are being complied with.
- Accountable authorities of specialist investment vehicles should ensure that their financial and investment strategies, and fund promotion activities are aligned in order to demonstrate performance, accountability for financial sustainability and measure their alignment with policy objectives.

Transparency of reporting

- Governance and oversight arrangements of SIVs should include consideration of how information will be reported to promote transparency, accountability, and the expected financial impact of new policies.

Audit findings

1. Background

Introduction

1.1 The National Reconstruction Fund was announced by the Minister for Industry and Science on 25 October 2022⁸, as part of the 2022–23 October Federal Budget, as a \$15 billion investment to ‘diversify and transform Australia’s industry and economy’ with ‘\$50 million provided over two years to establish the framework for the fund.’

1.2 The Department of Industry Science and Resources (DISR) took the lead in the design and establishment of the NRFC. The Department of Finance provided support to DISR in the design and establishment of the NRFC.

1.3 The NRFC is a corporate Commonwealth entity established under the *National Reconstruction Fund Corporation Act 2023* (NRFC Act). It commenced on 18 September 2023 and is governed by an independent board that reports to Parliament through the Minister for Industry and Science and the Minister for Finance (the responsible ministers).

1.4 The 2023–24 Federal Budget provided NRFC with \$53.2 million⁹ in appropriations to support NRFC’s operations. The 2025–26 Federal Budget outlines that appropriations for NRFC’s operations are allocated until 2025–26, after which the NRFC is funded through own-sourced revenue.¹⁰ The \$15 billion investment is provided through the NRFC special account created under subsection 51(1) of the NRFC Act, with \$5 billion credited at commencement¹¹ and \$10 billion to be credited before 2 July 2029.¹² The NRFC special account is administered by DISR.¹³ Section 54 of the NRFC Act provides that NRFC may request a payment from the special account for its liabilities and expenses. Section 55 of the NRFC Act provides that the payment to NRFC requires the written authorisation by the nominated Minister.

1.5 The NRFC is governed by the NRFC Act, National Reconstruction Fund Corporation (Investment Mandate) Direction 2023 (NRFC Investment Mandate), and the *National*

8 Minister for Industry and Science, *Backing regional industry and delivering secure jobs of the future*, media release, 25 October 2022 [Internet], available from <https://www.minister.industry.gov.au/ministers/husic/media-releases/backing-regional-industry-and-delivering-secure-jobs-future> [accessed 12 December 2024].

9 This appropriation incorporated \$39 million in annual appropriations for ordinary annual services and \$14.2 million for equity injections. *Portfolio Budget Statements 2023–24 Budget Related Paper No. 1.11 — Industry, Science and Resources Portfolio*, Canberra, 9 May 2023, p. 199 [Internet], available from <https://www.industry.gov.au/sites/default/files/2023-05/2023-24-department-of-industry-science-resources-pbs.pdf> [accessed 26 March 2025].

10 Own-sourced revenue are income from investments and interest income — see *Portfolio Budget Statements 2025–26 Budget Related Paper No. 1.11 — Industry, Science and Resources*, Canberra, 25 March 2025, p. 209 [Internet], available from <https://www.industry.gov.au/sites/default/files/2025-03/2025-26-department-of-industry-science-resources-pbs.pdf> [accessed 26 March 2025].

11 NRFC Act, paragraph 52(1)(a).

12 *ibid.*, subsection 52(4).

13 The DISR financial statements 2023–24 reported the NRFC special account with a balance of \$5 billion as at 30 June 2024 — *DISR Annual Report 2023–24*, Canberra, 14 October 2024, p. 133 [Internet], available from <https://www.industry.gov.au/sites/default/files/2024-10/dsr-annual-report-2023-24.pdf> [accessed 26 March 2025].

Reconstruction Fund Corporation (Priority Areas) Declaration 2023.¹⁴ These documents require NRFC's investments to be:

- constitutionally-supported and not prohibited¹⁵, in priority areas¹⁶ of the Australian economy, and solely or mainly Australian-based (see Appendix 4)¹⁷;
- subject to due diligence¹⁸ and risk management¹⁹ of investments, Australia's national security,²⁰ and the Commonwealth's reputation²¹;
- assessed for environmental, labour, social and governance matters²²;
- assessed for the desirability of transforming industry by attracting private sector finance²³ and avoid displacing alternative public and private finance,²⁴ creating jobs²⁵, improving Australian industry participation²⁶ and economic participation of historically underrepresented groups²⁷, improving sustainability and circular economy principles²⁸; and
- subject to limits on concessional financial accommodation, limits on equity investments and limits on guarantees.²⁹

1.6 On 12 July 2021, the Joint Committee of Public Accounts and Audit (JCPAA) resolved to inquire into the use of alternative financing mechanisms in government expenditure.³⁰ The inquiry report recommended that the Minister for Finance 'improve transparency for equity investments to budget reporting'.³¹ On 30 September 2022, the Department of Finance advised the JCPAA that

14 National Reconstruction Fund Corporation (Priority Areas) Declaration 2023 [Internet], available from <https://www.legislation.gov.au/F2023L00716/asmade/text> [accessed 26 December 2024].

15 Section 63 of the NRFC Act.

16 The seven priority areas of the economy are: value-add in resources; transport; medical science; defence capability; renewables and low emission technologies; value-add in agriculture, forestry and fisheries; and enabling capabilities.

17 Section 69 of the NRFC Act. NRFC's Guidelines for solely or mainly Australian-based investments is outlined at Appendix 4.

18 NRFC Investment Mandate, paragraph 9(1)(a).

19 *ibid.*

20 *ibid.*, paragraph 10(2)(b).

21 *ibid.*, section 13.

22 NRFC Act, section 75.

23 *ibid.*, paragraphs 17(3A)(a) and (b).

24 NRFC Investment Mandate, paragraph 12(b).

25 NRFC Act, paragraph 17(3A)(d).

26 NRFC Investment Mandate, section 19.

27 NRFC Act, subsection 17(4).

28 NRFC Investment Mandate, paragraph 10(2)(a).

29 *ibid.*, sections 16–18.

30 Joint Committee of Public Accounts and Audit, *Inquiry into Alternative Financing Mechanisms*, Terms of Reference, Canberra, [Internet], available from https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Alternative_finance/Terms_of_Reference [accessed 15 April 2025].

31 Joint Committee of Public Accounts and Audit, *Report 490 Alternative Financing Mechanisms*, Canberra, March 2022, [Internet], available from https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024804/toc_pdf/Report490AlternativeFinancingMechanisms.pdf;fileType=application%2Fpdf [accessed 15 April 2025].

‘options for enhancing the transparency of equity investments will be considered by the Government ahead of the 2023–24 Budget.’³²

1.7 In July 2024, the Department of Finance (Finance) advised NRFC that, as part of the 2023–24 Federal Budget, a ‘new centralised oversight and governance function for Specialist Investment Vehicles (SIVs)’ was being established within Finance. The advice provided by Finance to NRFC was that it was developing ‘an agreed Joint Minister Oversight Model (Model), establishing a consistent role for the Minister for Finance across all existing and future SIVs’ and ‘a resource management guide (RMG) for SIVs outlining principles of best practice’ to be published in July 2024. Finance further advised NRFC that ‘to allow SIVs time to implement the Model and consider the usefulness of the RMG, a transitional year is being provided, with the expectation the Model is adopted in full by SIVs before 1 July 2025.’

1.8 In July 2024, the Department of Finance published *RMG 127 — Specialist Investment Vehicles*.³³ RMG 127 provides guidance to existing SIVs on ‘Planning and reporting’ noting that data on investment composition, policy impact, commercial performance, operational performance and treasury function/liquidity will be captured. Further, RMG 127 states that:

A consolidated view of the SIV landscape, including the Commonwealth’s exposure to risk, SIV performance, deployment of capital and liquidity needs is required to ensure the continued accountability and effectiveness of the SIVs portfolio. It also assists with key government policy decisions (including at Budget and MYEFO). To support this, SIVs will provide half yearly reporting to Finance on key commercial and policy metrics.³⁴

1.9 On 19 November 2024, the NRFC announced its first two investments: a \$100 million partnership with Resource Capital Funds which includes a \$40 million investment in Russell Mineral Equipment.³⁵ As at 31 May 2025, the NRFC has announced nine investments totalling \$434.5 million.³⁶

1.10 In December 2024, Parliament passed the *Future Made in Australia Act 2024*. The Future Made in Australia measure establishes a ‘Front Door for investors with major transformational

32 Joint Committee of Public Accounts and Audit, *Inquiry into Alternative Financing Mechanisms*, Government Response, Canberra, March 2022, [Internet], available from https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Alternative_finance/Government_Response [accessed 17 April 2025].

33 Department of Finance, *Resource Management Guide for Specialist Investment Vehicles*, Canberra, 5 August 2024 [Internet], available from <https://www.finance.gov.au/government/managing-commonwealth-resources/specialist-investment-vehicles-sivs-rmg-127> [accessed 20 June 2025].

34 Department of Finance, *Resource Management Guide for Specialist Investment Vehicles RMG 127*, Canberra, 28 August 2024, [Internet] available from <https://www.finance.gov.au/government/managing-commonwealth-resources/specialist-investment-vehicles-sivs-rmg-127/planning-and-reporting> [accessed 15 April 2025].

35 NRFC’s investment in Russell Mineral Equipment is from NRFC’s \$100 m investment in Resource Capital Funds. NRFC, *National Reconstruction Fund Corporation Quarterly Investment Report*, Canberra, 31 December 2024 [Internet], available from <https://www.nrfc.gov.au/sites/default/files/documents/2025-01/NRFC%20Investment%20Report%204th%20quarter%202024.pdf> [accessed 13 March 2025].

36 NRFC, *Our Investments*, Canberra, [Internet] available from <https://www.nrfc.gov.au/our-investments> [accessed 17 June 2025].

proposals within the Treasury portfolio,³⁷ an Investor Council to support the Front Door³⁸ and the involvement of Specialist Investment Vehicles in the Investor Council.³⁹

Rationale for undertaking the audit

1.11 The NRFC was announced on 25 October 2022 as a \$15 billion vehicle through which the Australian Government will ‘facilitate increased flows of finance into priority areas of the Australian economy, through targeted investments to diversify and transform Australian industry, create secure, well-paying jobs and boost sovereign capability.’⁴⁰

1.12 The audit provides assurance to the Parliament as to whether the design and establishment of the NRFC was effective.

Audit approach

Audit objective, criteria and scope

1.13 The objective of this audit was to assess the effectiveness of the design and establishment of the National Reconstruction Fund Corporation (NRFC).

1.14 To form a conclusion against the objective, the following high-level criteria were adopted.

- Was the design process effective?
- Are governance arrangements sound?
- Are the Fund arrangements effective?

Audit methodology

1.15 The audit methodology involved:

- reviewing records of DISR, Finance and the NRFC;
- meetings with relevant staff/contractors; and
- walkthroughs of relevant processes and systems.

1.16 The ANAO has co-operative evidence gathering arrangements in operation with entities. On 11 April 2025 NRFC advised the ANAO that it was unable to voluntarily provide certain information requested by the ANAO due to legislative restrictions on the disclosure of requested information. On 24 April 2025, the Acting Auditor-General issued NRFC and KPMG (a service provider to NRFC) with notices to provide information and produce documents pursuant to section 32 of the *Auditor-General Act 1997* to enable them to provide the requested information taking account

37 Australian Government, *Budget 2024–25*, Mid-year Economic and Fiscal Outlook 2024–25, A Front Door for investors, p. 14, Commonwealth of Australia, Canberra, 2024, p. 14, available from <https://budget.gov.au/content/myefo/download/myefo2024-25.pdf> [accessed 17 February 2025].

38 *ibid.*

39 *ibid.*

40 DISR, *Portfolio Budget Statements 2024–25 Budget Related Paper No. 1.11 — Industry, Science and Resources Portfolio*, p. 207, DISR, Canberra, 14 May 2024 [Internet], available from <https://www.industry.gov.au/sites/default/files/2024-05/2024-25-department-of-industry-science-resources-pbs.pdf> [accessed 26 December 2024].

of legislative requirements. NRFC and KPMG provided the information requested within the specified time, following receipt of the notice.

1.17 The audit was open to contributions from the public. The ANAO received and considered one submission from the public.

1.18 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$406,000.

1.19 The team members for this audit were Will Tse, Christian Coelho, Samuel Skelton, Nick Adamson, Nathan Callaway, and David Tellis.

2. Was the design process effective?

Areas examined

This chapter examines the effectiveness of the design process to establish the National Reconstruction Fund Corporation (NRFC), implemented by the Department of Industry, Science and Resources (DISR) with support from the Department of Finance.

Conclusion

The design process for the NRFC was largely effective. Due diligence checks for one member of the NRFC Board were not documented. DISR applied lessons from similar programs and considered stakeholder feedback. Stakeholder engagement was largely consistent with better practice — with opportunities to close the loop with stakeholders, and documenting lessons to improve future engagement activities. Constitutional risks to investments were assessed and approaches to manage these were outlined in advice to government and the NRFC Board. Advice on establishing a new corporate Commonwealth entity was sound. Appointments to the NRFC Board were consistent with *National Reconstruction Fund Corporation Act 2023* (NRFC Act).

Area for improvement

The ANAO suggested that, consistent with guidance in *RMG 127 — Specialist Investment Vehicles*, NRFC board appointment processes and considerations should be accurately and fully documented with records retained.

2.1 The Australian Public Service (APS) Commission's Delivering Great Policy Advice model sets out four elements⁴¹ of delivering great policy advice:

1. clear on intent — clarity on policy intent and role of those providing advice;
2. well informed — advice is informed through past lessons and feedback from stakeholders;
3. practical to implement — advice provides practical solutions and an evaluation plan; and
4. influential — the right stakeholders have been engaged in the process.

2.2 The Delivering Great Policy Advice model fits in with other policy advice processes such as the cabinet process, budget process, impact analysis and legislation process.⁴² The APS framework for engagement and participation provides better practice principles and standards on stakeholder engagement to improve policy advice, impact and outcomes.⁴³

2.3 As the portfolio department, DISR took the lead in the design and establishment of the NRFC. The Department of Finance supported DISR with the design and establishment of the NRFC, in particular with: financial modelling and appointments to the NRFC Board.

41 Australian Public Service Commission (APSC), *Australian Public Service Academy — Delivering Great Policy*, APSC, Canberra [Internet], available from <https://www.apsacademy.gov.au/aps-craft/strategy-policy-evaluation/delivering-great-policy> [accessed 25 December 2024].

42 *ibid.*

43 *APS framework for engagement and participation*, Department of Industry, Science and Resources, August 2021, Canberra, [Internet], available from <https://www.industry.gov.au/publications/aps-framework-engagement-and-participation> [accessed 8 December 2024].

Were lessons from similar programs considered?

Lessons from similar programs were considered and addressed in the design and establishment of the NRFC. DISR assessed external reviews of Specialist Investment Vehicles (SIVs), prior ANAO audits and engaged with stakeholders to identify lessons on the design and establishment of the NRFC. A key lesson relating to the need for investment-ready projects for the NRFC, and steps to address this were outlined in advice to government.

Lessons considered from prior ANAO audits

2.4 In November 2022, DISR identified and considered lessons learned from five⁴⁴ prior ANAO performance audits of SIVs relevant to the design and establishment of the NRFC. The lessons DISR identified were:

- NRFC's record keeping processes for all levels of meetings where potential projects to be funded are discussed.
- Alignment between (investment) assessment criteria and the Investment Mandate, and making these publicly available 'so applicants are able to assess whether their projects fits [sic] the NRFC's mandate before applying'.
- The NRF [National Reconstruction Fund] will make sure the information governance framework and electronic data and records management system is NAA [National Archives of Australia]—compliant.
- Annual performance reporting to enable a comprehensive assessment of overall progress against its purpose.
- NRFC to develop and implement the required policies and procedures for risk management, compliance and assurance, and performance indicators to assess applications.

Lessons considered from other reviews and international government-backed funds

2.5 DISR reviewed a 2021 Boston Consulting Group (BCG) report on SIVs prepared for the Department of Finance. The BCG report assessed 'whether SIVs are collectively operating in the

44 DISR considered the following ANAO reports:

Auditor-General Report No. 33 2018–19, *Governance and Integrity of the Northern Australia Infrastructure Facility*, ANAO, Canberra, 2019, available from <https://www.anao.gov.au/work/performance-audit/governance-and-integrity-the-northern-australia-infrastructure-facility> [accessed 8 December 2024];

Auditor-General Report No. 44 2018–19, *Effectiveness of the Export Finance and Insurance Corporation*, ANAO, Canberra, 2019, available from <https://www.anao.gov.au/work/performance-audit/effectiveness-export-finance-and-insurance-corporation> [accessed 8 December 2024];

Auditor-General Report No. 41 2019–20, *Design and establishment of the Regional Investment Corporation*, ANAO, Canberra, 2020, available from <https://www.anao.gov.au/work/performance-audit/design-and-establishment-the-regional-investment-corporation-0> [accessed 8 December 2024];

Auditor-General Report No. 26 2020–21, *Investments by the Clean Energy Finance Corporation*, ANAO, Canberra, 2020, available from <https://www.anao.gov.au/work/performance-audit/investments-by-the-clean-energy-finance-corporation> [accessed 8 December 2024]; and

Auditor-General Report No. 28 2020–21, *Administration of the National Housing Finance and Investment Corporation*, ANAO, Canberra, 2021, available from <https://www.anao.gov.au/work/performance-audit/administration-the-national-housing-finance-and-investment-corporation> [accessed 8 December 2024].

most efficient, transparent and outcome-orientated manner possible.’ The BCG report outlined the three guiding principles for the creation of any new SIVs. These principles covered the: rationale and policy issue the new SIV would address; clearly defined and delineated mandates ‘to ensure efficient and effective alignment’; and the operating model. These principles were considered and addressed in advice to government on the design of the NRFC.

2.6 DISR analysed international government-backed funds from: Canada, Singapore, New Zealand, Israel, United States of America, and Ireland. Lessons identified from the BCG report and analysis of international funds covered:

- investment teams drawing on inter-connected structures across topic-specific investment teams, including governance approaches and centralised back-office functions;
- well-defined processes for collaboration and sharing best practice (amongst SIVs and industry groups);
- transparent and consistent metrics to track and assess performance; and
- well-defined mandates to manage and grow deal pipelines.

2.7 DISR considered how the Australian Renewable Energy Agency’s A-Lab Incubate⁴⁵ model could be adapted to address a lesson about potential delays in investment-ready projects for the NRFC. In February 2025, DISR advised the ANAO that it had considered submissions to the Senate Economics References Committee Inquiry into the Australian Manufacturing Industry⁴⁶ and reviewed the Independent Review of the Regional Investment Corporation.⁴⁷

Lessons considered from stakeholder engagement

2.8 DISR engaged with stakeholders and SIVs and identified and considered the following lessons on the design of the NRFC:

- The nexus between the rate of return and achievement of the policy objectives i.e., a high rate of return could impact projects that would be selected by the board at the expense of higher risk projects. This could also result in investment selection not addressing the market gap.
- Investment caps on concessional finance and that these could impact effectiveness of the NRFC.
- Potential competition between SIVs as was experienced when the Northern Australian Infrastructure Facility was established, and due to the focus of the NRFC on renewables, and agriculture, forestry and fisheries.

45 The A-Lab Incubate program aimed to generate renewable energy projects that could be funded to accelerate Australia’s transition to renewable energy. Australian Renewable Energy Agency Annual report, 2018–19, p. 149, [Internet], available from <https://arena.gov.au/assets/2019/10/arena-annual-report-2018-19.pdf>. [accessed 7 March 2025].

46 Parliament of Australia, Senate Standing Committee on Economics — The Australian Manufacturing Industry, August 2021, Canberra [Internet], available from https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/REFSManufacturing [accessed 20 June 2025].

47 Department of Agriculture, Forestry and Fisheries, *Independent Review of the Regional Investment Commission*, February 2021, Canberra [Internet], available from <https://www.agriculture.gov.au/sites/default/files/documents/independent-review-of-the-regional-investment-corporation.pdf> [accessed 20 June 2025].

- Appropriate controls over concessional finance so that funding recipients do not benefit from concessional finance at the expense of returns for the NRFC and its policy objectives.

Lessons considered in advice to government

2.9 Advice to government in September 2022 identified and considered a lesson from other SIVs relating to significant delays to investment if a dedicated approach to pipeline development was not undertaken in designing and establishing the NRFC.

2.10 In September 2022, DISR prepared an Issues Paper ‘to support the development and continuity’ of a pipeline of projects for the NRFC upon commencement. The paper mapped over 80 industry support programs from state, territory and Commonwealth agencies to the seven priority areas using public information. The assessment included a Technology Readiness Level⁴⁸ and Commercial Readiness Index.⁴⁹ This analysis identified priority areas that had more industry support than others, potential funding gaps in support for projects at the commercial trial and scale-up stage, and ‘this is likely to impact project development and the pipeline of projects available for consideration by the NRFC in the short and longer term.’ Paragraph 2.25 discusses the NRFC Pipeline project.

2.11 Lessons on the design of the NRFC relating to the rate of return, risks of competition between SIVs, and limits on concessional finance were considered and addressed through the NRFC Act and the NRFC Investment Mandate.

Was stakeholder input considered?

Stakeholder input on key design parameters of the NRFC was considered and included in advice to government. DISR undertook a structured approach to consulting stakeholders and analysing feedback received. Stakeholder engagement was largely consistent with the APS framework for engagement and participation — with opportunities to close the loop with all stakeholders who have contributed, and documenting lessons to improve future engagement activities being identified.

2.12 The principles within the APS framework for engagement and participation⁵⁰, state that ‘aspiring to the principles will help ensure engagements go beyond seeking buy-in, and instead tap the public’s expertise and lead to better policy, programs and services.’⁵¹

2.13 DISR’s stakeholder engagement framework and approach for the design and establishment of the NRFC was approved by government in September 2022. The proposed stakeholder

48 ‘Technology Readiness Levels are a type of measurement system used to assess the maturity level of a particular technology.’ National Aeronautics and Space Administration, *Technology Readiness Levels* [Internet], available from <https://www.nasa.gov/directorates/somd/space-communications-navigation-program/technology-readiness-levels>. [accessed 24 March 2025].

49 ‘Commercial Readiness Index is a tool to assess the readiness of a technology project.’ Department of Climate Change, Energy, the Environment and Water (New South Wales), *Low Carbon Product Manufacturing*, February 2024, p. 5 [Internet], available from <https://www.energy.nsw.gov.au/sites/default/files/2024-02/NSW-202402-LCPM-construction-ready-supplementary-guidance.pdf> [accessed 24 March 2025].

50 DISR, *APS framework for engagement and participation*, DISR, Canberra, August 2021 [Internet], available from <https://www.industry.gov.au/publications/aps-framework-engagement-and-participation> [accessed 8 December 2024].

51 *ibid.*

engagement framework aimed to identify market gaps in each priority area and options to transform and scale-up Australian industry, through:

- a National Reconstruction Fund Reference Group — an advisory group comprising investment and industry experts who would advise on the NRFC's overarching design and Investment Mandate;
- Industry Working Groups — to engage with industry and receive advice on how to support the objectives of the NRFC in each priority area;
- an Inter-departmental Committee — to support consultation across the Commonwealth on specific policy issues; and
- Senior Officials Meetings — for consulting states and territories.

2.14 DISR's draft Collaborative Stakeholder Plan (June 2022) outlined the department's role, scope of engagement activities and engagement tactics for engaging with: departmental stakeholders, Commonwealth entities, ministerial stakeholders, states and territories, the proposed National Reconstruction Fund Reference Group⁵², proposed Industry Working Groups, and the NRFC Pipeline team. Commonwealth and ministerial stakeholders were categorised into tiers and by priority areas.

2.15 DISR developed a Communication Plan (November 2022) which outlined: communication objectives, key messages, target audiences and a table of communication activities. Two of the six objectives of communication activities were to 'increase awareness of the NRFC, its goals and objectives, and its critical role in transforming Australia's industry and economy to guide communication and stakeholder engagement activities' and 'raise awareness of the consultation process, helping to increase engagement and make it more meaningful, comprehensive, inclusive and effective.'

2.16 An assessment of DISR's stakeholder engagement activities against the ten standards within the APS framework for engagement and participation is presented in Table 2.1. DISR's approach to engaging with stakeholders was largely consistent with the APS standards, except for closing the loop with stakeholders who contributed to the public consultation and having a documented feedback loop for capturing lessons from stakeholder engagement activities.

Table 2.1: Assessment of stakeholder engagement against APS standards for engaging with stakeholders

#	Australian Public Service (APS) standards for engaging with stakeholders	ANAO assessment
1	Define the objective. Clearly define the engagement's objectives, which may include understanding the problem and what expertise should be tapped.	●
2	Choose the right approach. Make sure the way of engaging matches the problem at hand.	●
3	Manage expectations. Be honest about what is on the table. That is, what is yet to be decided and what has already been decided.	●

52 The National Reconstruction Fund Reference Group was a temporary advisory group comprising investment and industry experts established to advise on the NRFC's overarching design and Investment Mandate. The group was different to the Project team established by DISR and Finance.

#	Australian Public Service (APS) standards for engaging with stakeholders	ANAO assessment
4	Choose the right people for the job. Ensure participants with suitable expertise, skills and knowledge are being engaged for the problem.	●
5	Be transparent. Explain the objectives and process to participants at the outset.	●
6	Provide sufficient information. Ensure information that is essential to participants' roles is made available to them.	●
7	Provide opportunities to be heard. Be inclusive and ensure diverse voices are heard — not just the loudest.	●
8	Understand all views. Ensure the views presented are fairly considered at the decision-making stage.	●
9	Close the loop. Explain how participants' contributions were taken into account in a timely manner.	◐ ^a
10	Continuous improvement based on feedback. Ensure that there is a feedback mechanism to capture lessons learnt.	○ ^b

Key:

- Activities were consistent with the APS standards for engaging with stakeholders.
- ◐ Activities were partly consistent with the APS standards for engaging with stakeholders.
- No evidence of activities undertaken per the APS standards for engaging with stakeholders.

Note a: Stakeholders who participated in public consultation received an email acknowledging their contributions and were provided a link to register to stay informed of updates. Stakeholders were not informed of how their feedback had been considered and incorporated into the design of the NRFC.

Note b: Stakeholder engagement activities did not have a feedback mechanism to capture lessons learnt.

Source: ANAO analysis of DISR information.

2.17 Stakeholder feedback covered the investment mandate, priority areas of investment and the NRFC legislation. The National Reconstruction Fund Reference Group considered consultation insights. The National Reconstruction Fund Reference Group's report was provided to, and noted by the Minister for Industry and Science and the Minister for Finance.

2.18 Advice to government on the NRFC's design parameters, Investment Mandate, Priority Areas and enabling legislation, included insights and feedback from consultation, as well as options to address stakeholder feedback. Broadly, this covered: the rate of return, risk of competition and duplication between SIVs, concessional loan facilities, and environmental, social and governance requirements.

Was sound advice provided to the government on establishing the NRFC?

DISR established an appropriate framework for providing advice to government. Advice was based on lessons learned from other SIVs, stakeholder input, and understanding the policy context of the election commitment. Advice outlined risks and approaches to manage risks. Advice on a corporate Commonwealth entity (CCE) being the preferred vehicle to establish the NRFC was based on DISR's assessment that a CCE provided the most effective way to achieve policy objectives, and was most closely aligned with the election commitment of the NRFC being modelled on the Clean Energy Finance Corporation. Appointments to the NRFC Board

were consistent with NRFC Act, except that due diligence checks were not documented for one member appointed to the NRFC Board in October 2023.

Framework for providing advice

2.19 DISR led the design and establishment of the National Reconstruction Fund with assistance from the Department of Finance. A timeline of key events is presented in Appendix 3.

2.20 Advice to government was delivered on two separate occasions. The initial advice in September 2022 focused on the entity structure options, risks and sensitivities including constitutional risks and high-level financial implications. The initial advice indicated that detailed costings and advice on the investment mandate would be provided in the later advice as part of the 2023–24 Federal Budget, following stakeholder consultation. On 20 September 2022, government approved the establishment of an Inter-departmental Committee⁵³ to support the establishment of the NRFC, develop its investment mandate, and establish framework legislation for the NRFC.

2.21 DISR established a framework to provide advice. This comprised a Secretaries Inter-departmental committee (IDC) which met on two occasions and a National Reconstruction Fund (NRF) IDC⁵⁴ chaired by the Head of Division, Manufacturing, DISR.⁵⁵ The NRF IDC held 10 meetings between August 2022 and February 2023. The NRF IDC coordinated feedback on the NRFC's design parameters, investment mandate and priority areas and the Cabinet submissions.

2.22 Following the second advice to government in April 2023 which sought approval for establishing the NRFC, DISR began developing an Establishment Project Plan in May 2023. The Project Plan stated that the 'project has accountability that spans two ministers and two departments.' The Project Plan identified Single Accountable Officers in the departments for project delivery as:

- DISR — Head of Division, Manufacturing and NRF division⁵⁶;
- DISR — Chief Financial Officer, for the Export Finance Australia agreement; and
- Department of Finance — First Assistant Secretary, Commercial Investments.

2.23 The Establishment Project Plan outlined 11 workstreams: Project Management and Governance; Contract — Back Office Operational and Investment Services; NRFC Board; NRF Reference Group; NRFC Governance and Reporting; Investment Policies; NRFC Staffing; Investment Opportunities; NRFC Legislation; Investment Mandate; and Communications.

2.24 The project team assessed risks and documented four risks in a risk register, tracked issues and actions and maintained traffic light updates for each weekly meeting. The project's risk assessment process was appropriate for the timely establishment of the NRFC. Ministerial

53 The Inter-departmental Committee was to comprise senior representatives from: Department of Industry, Science and Resources (DISR), Department of Finance (Finance), Department of the Prime Minister and Cabinet (PM&C), and the Treasury.

54 The NRF IDC included representative from: DISR, Finance, PM&C, Treasury, Department of Agriculture, Water and the Environment, Department of Foreign Affairs and Trade, Austrade, Department of Employment and Workplace Relations, Department of Education, Department of Health, Disability and Ageing, Clean Energy Finance Corporation.

55 On 2 January 2023, DISR's Manufacturing division was renamed Manufacturing and NRF.

56 DISR's Manufacturing division, as referred to at paragraph 2.21, was changed to the Manufacturing and NRF division by January 2023.

stakeholders were informed of project progress via a Priority and Delivery Committee⁵⁷ update. Following the establishment of the NRFC in September 2023, DISR prepared a project closure report. The project closure report is discussed at paragraph 2.55.

2.25 DISR also developed an NRFC Pipeline project plan and engaged with potential proponents for the NRFC. The purpose of the project was to ‘facilitate engagement of potential NRF projects and investments during the establishment phase and ultimately enable early NRF investments once it is up and running.’ DISR developed an NRFC Pipeline Tracker that listed over 90 general investment prospects and tracked the Pipeline project’s interactions with 20 entities. The tracker considered the entity’s alignment with the NRF, priority area and where possible, a brief description of the project. In November 2024, DISR advised the ANAO that the NRF Pipeline tracker was provided to the NRFC.

Entity structure

2.26 In March 2021, the Australian Labor Party’s election commitment on establishing the NRF was:

The Fund will be legislated and be governed by an independent Board using the successful model which Labor created through the Clean Energy Finance Corporation.

It will provide \$15 billion of investment through a combination of loans, equity, co-investment and guarantees. The Fund will be administered on the basis that it will achieve a return to cover borrowing costs, with an expected positive underlying cash impact.⁵⁸

2.27 Advice to government on the preferred entity structure for the NRFC was based on the policy objective of modelling the NRF on the Clean Energy Finance Corporation (CEFC), which was the stated election commitment. In this context, the advice was to establish a new corporate Commonwealth entity as the preferred option as it provided control over policy outcomes and was most closely aligned to the election commitment of the NRF being modelled on the CEFC.

2.28 The advice to government included the risks and benefits, excluding costings, of three other options:

- branded function within DISR with the NRF a statutory board supported by a new division of DISR; or
- expanding the function of an existing SIV as an existing Corporate Commonwealth Entity; or
- consolidating existing SIVs to incorporate the NRF objectives and deliverables.

2.29 The advice to government indicated that the costs for three options could be provided if government chose to explore them.

2.30 Advice to government on the design and establishment of the NRFC:

57 Members of the Priority and Delivery Committee are: the Prime Minister, the Minister for Finance and the Treasurer. Australian Government Directory, Priority and Delivery Committee, Canberra, 13 July 2022, [Internet], available from <https://www.directory.gov.au/commonwealth-parliament/cabinet/cabinet-committees/priority-and-delivery-committee> [accessed 24 March 2025].

58 Australian Labor Party, *Labor’s Plan for a National Reconstruction Fund Creating Jobs and Driving Investment*, March 2021 [Internet], available from [Labor’s Plan for a National Reconstruction Fund Creating Jobs and Driving Investment](#) [accessed 10 December 2024].

- set out the policy context within which the NRFC was to be designed and established;
- was based on lessons from other SIVs, stakeholder feedback and consultation with other Commonwealth entities;
- covered key categories of risks: constitutional, delivery, financial, policy and reputational. Outlined approaches to address and manage risks;
- was based on the evidence and analysis, for example, the financial modelling considered data and information from existing SIVs; and
- presented different options to achieve the NRFC's stated policy objectives and considered the longer-term SIV policy objectives.

Entity costings

2.31 The Australian Labor Party's 2021 election commitment stated that the 'Fund will be administered on the basis that it will achieve a return to cover borrowing costs, with an expected positive underlying cash impact'.⁵⁹

2.32 DISR was allocated \$9 million (for 2022–23) and \$34.5 million (for 2023–24) for establishing the NRFC in the October 2022–23 Federal Budget.⁶⁰ DISR transferred \$14.2 million for capital expenses to the NRFC on 6 February 2024.⁶¹

2.33 DISR and the Department of Finance engaged Ernst & Young (EY)⁶² to develop a 15-year financial model for the NRFC to 'support the Investment Mandate development and budget costing (balance sheet, cash flow, operating and income statements).' DISR and the Department of Finance used the financial model to inform advice to government in April 2023. The financial model was developed using information from other SIVs, EY's proprietary Intellectual Property and information from Moody's, Bloomberg, and Pitchbook (2022).

2.34 The financial modelling outlined two different scenarios for the investment outlay over a seven year period. The key categories of assumptions in the model covered: investment allocation by instrument (debt, equity and guarantees); concessional versus non-concessional terms; priority area; business lifecycle stage; rates of return; default rates; tenor; margin; operating and capital costs and minimum cash balances (i.e., cash available for investment each year).

2.35 A key assumption of the financial modelling based on CEFC was that NRFC's investment profile would comprise about 85 per cent in debt investments, 10 per cent in equity and

59 Australian Labor Party, *Labor's Plan for a National Reconstruction Fund Creating Jobs and Driving Investment*, March 2021, [Internet], available from <https://anthonyalbanese.com.au/media-centre/labors-plan-for-a-national-reconstruction-fund-creating-jobs-and-driving-investment-30-march-2021> [accessed 10 December 2024].

60 Australian Government, *Portfolio Budget Statements 2022–23, Budget Related Paper No. 1.11 — Industry Science and Resources Portfolio*, p. 22, Commonwealth of Australia, Canberra, 2022, [Internet], available from https://www.industry.gov.au/sites/default/files/2022-10/October_2022-23_Industry%2C%20Science%20and%20Resources_PBS.pdf [accessed 11 December 2024].

61 Australian Government, *Portfolio Budget Statements 2023–24, Budget Related Paper No. 1.11 — Industry Science and Resources Portfolio*, p. 199, Commonwealth of Australia, Canberra, 2023, [Internet], available from <https://www.industry.gov.au/sites/default/files/2023-05/2023-24-department-of-industry-science-resources-pbs.pdf> [accessed 15 April 2025]

62 The EY contract was valued at \$273,968 and was in effect from 25 January 2023 to 31 March 2023. AusTender, Contract Notice view CN3950302, available from <https://www.tenders.gov.au/Cn/Show/853e2411-d6da-4d84-bc6c-67aae28d309f> [accessed 7 February 2024].

five per cent in guarantees over the medium to long term. Paragraph 4.21 discusses NRFC's current investment profile based on investment applications.

2.36 Based on the financial model, advice to government identified a risk that the NRFC may not generate sufficient returns to cover expenses for the first three years. The 2023–24 Federal Budget allocated \$53.2 million to the NRFC.⁶³ Advice to government set out that a positive cumulative return over the medium to long-term would support the NRFC being financially sustainable, covering its operating expenses, and delivering a small positive return. Paragraph 3.22 discusses the NRFC's financial strategy.

Management of constitutional and other risks

2.37 The *Commonwealth of Australia Constitution Act 1901* (the Constitution) establishes the authority and powers of the Commonwealth to undertake its activities.

2.38 Advice to government outlined that there are limitations on NRFC's ability to make equity investments under the Constitution. Section 63 of the NRFC Act sets out the investment functions of the NRFC and allows the NRFC to provide financial accommodation relating to priority areas of the Australian economy to constitutional corporations to assist them in carrying out their activities (paragraph 63(1)(a)); individuals or entities (other than constitutional corporations and states or territories) to assist them to carry out constitutionally-supported activities (paragraph 63(1)(b)); and states and territories by way of a grant of financial assistance (paragraph 63(1)(d)).

2.39 Paragraph 63(1)(c) of the NRFC Act provides that the NRFC may 'acquire equity interests' where 'any of the entity's activities are in a priority area of the Australian economy' and 'all of the entity's activities are constitutionally-supported activities.'

2.40 DISR prepared a Board Information Pack to induct and inform NRFC Board members of their legislative obligations. The Board Information Pack stated that the NRFC Board should seek 'advice whenever it is performing its investment function under s63(1)(b) and s63(1)(c).' Paragraphs 4.22 to 4.24 discuss the NRFC's Board approach to seeking legal advice and assessing constitutional risks for its investments.

2.41 DISR's advice to government also outlined the following risks and potential mitigations: delivery risks; potential overlap with other SIVs; international trade and investment law risks; gender equality risk; national security risks; and financial, policy and reputational risks. DISR engaged Maddocks⁶⁴ as a probity advisor during the design and establishment of the NRFC. Maddocks developed a probity framework that was approved and maintained by DISR. As required by the probity framework, DISR maintained an NRF probity and conflict of interest register. DISR also incorporated Maddocks advice on the probity risk register for Industry Working Group members.

63 Australian Government, *Portfolio Budget Statements 2023–24, Budget Related Paper No. 11 — Industry Science and Resources Portfolio*, p. 199, Commonwealth of Australia, Canberra, 2024, [Internet], available from <https://www.industry.gov.au/sites/default/files/2023-05/2023-24-department-of-industry-science-resources-pbs.pdf> [accessed 11 December 2024].

64 The Maddocks contract was valued at \$81,236.80. AusTender, Contract Notice view CN3919847, available from <https://www.tenders.gov.au/Cn/Show/67b92685-3a0e-45c9-9821-986f60c141da> [accessed 7 February 2025].

Appointments to the NRFC Board

2.42 The Australian Government established the Review of Public Sector Board Appointments Processes⁶⁵ in February 2023 ‘to ensure appointments are based on merit.’⁶⁶ The review’s final report to the government was ‘expected to be published in late 2023’⁶⁷ and it has not been released. The report was provided to the APS Commissioner on 4 August 2023.⁶⁸ On 13 September 2023, the Secretaries Board received an update on the Review of Public Sector Board Appointments.⁶⁹

2.43 In July 2024, the Department of Finance published *Resource Management Guide (RMG) 127 Specialist Investment Vehicles*⁷⁰ (SIVs) which provides guidance to SIV entities in meeting the requirements of the PGPA framework, including appointments to a board. *RMG 127 Specialist Investment Vehicles* sets out ‘a suggested appointment process’ for entities where ‘ministers do not wish to reappoint or do not express a view’ on the process for board appointments.⁷¹

2.44 On 3 April 2023, in consultation with the Department of Finance, DISR agreed the approach for the Board appointment process. The agreed process involved engaging NGS Global⁷² to prepare nominations briefs; complete due diligence on each ministers’ preferred candidates; ministers would receive appointments briefs along with supporting information; and the Board and Chair would be appointed after the ‘Prime Minister and/or Cabinet’ approved the appointees proposed by the ministers.

2.45 Section 18 of the NRFC Act requires the NRFC Board to consist of a Chair and at least six, and no more than eight members. Subsection 19(2) of the NRFC Act requires the ministers to be satisfied that board appointees have substantial experience or expertise and professional credibility and

65 The Department of Prime Minister and Cabinet engaged Lynelle Briggs AO to undertake the review at a cost of \$176,000. AusTender, Contract Notice view CN3960069, available from <https://www.tenders.gov.au/Cn/Show/df6315f1-3468-4596-9f96-89ec217a3c26> [accessed 28 March 2025].

66 Australian Public Service Commission, *Review of Public Sector Board Appointments Processes*, February 2023, Canberra [Internet], available from <https://www.apsc.gov.au/initiatives-and-programs/workforce-information/research-analysis-and-publications/state-service/state-service-report-2023/integrity/review-public-sector-board-appointments-processes> [accessed 24 March 2025].

67 *ibid.*

68 Australian Public Service Commission, Freedom of Information disclosure log, Correspondence between the Commissioner and Ms Lynelle Briggs in relation to the Review of Public Sector Board Appointment Processes, p. 1, 12 March 2024, Canberra [Internet], available from <https://www.apsc.gov.au/sites/default/files/2024-03/LEX%20744%20-%20Documents.pdf> [accessed 14 April 2025].

69 Prime Minister and Cabinet, Secretaries Board Communiqués, 13 September 2023, Canberra [Internet], available from <https://www.pmc.gov.au/sites/default/files/resource/download/secretaries-board-communicue-130923.pdf>.

70 Department of Finance, *RMG 127 — Specialist Investment Vehicles (SIVs)*, Finance, Canberra, 4 July 2024, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/specialist-investment-vehicles-sivs-rmg-127> [accessed 5 December 2024]. RMG 127 was released in July 2024 and was expected to be implemented by 1 July 2024 (see paragraph 3.7).

71 Department of Finance, *RMG 127 — Specialist Investment Vehicles (SIVs)*, Finance, Canberra, 4 July 2024, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/specialist-investment-vehicles-sivs-rmg-127> [accessed 5 December 2024].

72 The Department of Finance engaged NGS Global under a panel arrangement. The Department of Finance advised the ANAO in February 2025 that the NGS Global contract value for the selection of NRFC Board members was \$32,000 (out of a total of \$320,828.98). AusTender, Contract Notice view CN3948787, available from <https://www.tenders.gov.au/Cn/Show/?Id=9ca3d9cc-bc57-4d0b-80cd-3ca35b96a63a> [accessed 17 February 2025].

significant standing in one of 10 fields, or a field the ministers consider appropriate.⁷³ In appointing members, the NRFC Act also requires the ministers to ensure the board members collectively have an appropriate balance of experience or expertise, professional credibility and significant standing in the required fields⁷⁴ and are not an employee of the Commonwealth, or the holder of a full-time office under the law of the Commonwealth.⁷⁵ None of the nine members were Commonwealth employees or held a full-time office under the law of the Commonwealth.

2.46 Following the executive search process undertaken by NGS Global, the Minister for Industry and Science and the Minister for Finance appointed the Chair and seven members to the NRFC Board on 9 August 2023.⁷⁶ In appointing the NRFC Board members, for each proposed appointee, the ministers were provided with the curriculum vitae, interests declarations and details of due diligence checks.⁷⁷

2.47 The responsible ministers were also provided with a Board Skills Matrix which presented the skills and experience of the Board members against groupings of fields required in the NRFC Act and each Priority Area.

2.48 On 6 October 2023, the ministers through their offices advised DISR and the Department of Finance of their wish to appoint a specified ninth member to the NRFC Board. The proposed appointee was not shortlisted by the executive search process. On 13 October 2023, DISR submitted an appointment brief to the Minister for Industry and Science. The brief included the Board skills matrix; the appointee's curriculum vitae, private interests declaration; and letter to the Prime Minister seeking his, or at his discretion, Cabinet's approval of the proposed appointment of the ninth member. The ninth member was appointed to the NRFC Board on 16 October 2023.

2.49 DISR's appointment brief to the Minister for Industry and Science outlined that while there was no legislative requirement to undertake a process that was similar to the members that were appointed in August, the ninth appointment may attract scrutiny. The ASX Corporate Governance Council has issued *Corporate Governance Principles and Recommendations*.⁷⁸ The Corporate Governance Principles and Recommendations 'apply to all entities admitted to the ASX official list as an ASX listing' and are considered best practice for other entities to adopt as 'they reflect a contemporary view of appropriate corporate governance standards.'⁷⁹ Recommendation 1.2(a) of

73 The fields are: banking and finance; venture capital, private equity or investment by way of lending or provision of credit; economics; government funding programs or bodies; accounting; law; a priority area of the Australian economy; industrial relations; industry growth; and commercialisation of innovative research.

74 NRFC Act 2023, subsection 19(2A).

75 *ibid.*, subsection 19(3).

76 *National Reconstruction Fund Board announced*, Minister for Industry and Science, Canberra, 2023, [Internet], available from <https://www.minister.industry.gov.au/ministers/husic/media-releases/national-reconstruction-fund-board-announced> [accessed 10 December 2024].

77 Due diligence checks covered searches of: Australian Securities and Investments Commission banned and disqualified directors registers, involvement in companies under investigation, adverse media and social media posts, and court databases.

78 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* 4th Edition [Internet], February 2019, available from <https://www.asx.com.au/content/dam/asx/about/corporate-governance-council/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 5 February 2025].

79 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* 4th Edition, The application of the Principles and Recommendations, p. 2 in the document, p. 5 of the PDF, [Internet], February 2019, available from <https://www.asx.com.au/content/dam/asx/about/corporate-governance-council/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 5 February 2025].

the Corporate Governance Principles and Recommendations states that listed entities should undertake appropriate checks before appointing a director or senior executive or putting someone forward for election as a director.⁸⁰

2.50 The Department of Finance, in its appointment brief to the Minister for Finance on the ninth NRFC Board appointee, stated that formal due diligence with an external provider was not undertaken due to time constraints, the department conducted desktop due diligence and was satisfied the appointment did not present significant risk.

2.51 Desktop due diligence checks were not documented by the Department of Finance and DISR on the ninth NRFC Board appointee. On 17 December 2024, DISR advised the ANAO that due diligence was undertaken consistent with other candidates and included 'google [sic] and desktop and media searches', and that due to 'compressed timeframes this was all verbal'.

2.52 The external executive search firm took one business day to provide due diligence checks and supporting reports for five members appointed in August 2023.

2.53 The skills matrix provided to the ministers to inform their decisions is summarised in Table 2.2 below. The NRFC Board's appointees' skills and experience were appropriately reflected in the skills matrix presented to the ministers.

Table 2.2: Number of Board appointees who meet the required skills as at October 2023

Board members	Fields listed under subsection 19(2) of the NRFC Act				Priority areas						
	A	B	C	D	1	2	3	4	5	6	7
Number of members	6	9	7	8	2	2	1	2	2	2	1

Key: Fields listed under subsection 19(2) of the NRFC Act:

A — Industry / Manufacturing (Industrial Relations paragraph 19(2)(j) and Industry Growth paragraph 19(2)(k));

B — Commercial / Financial (Banking and Finance paragraph 19(2)(c), Venture Capital, Private Equity or investment by way of lending or provision of credit paragraph 19(2)(d), Economics paragraph 19(2)(e), Accounting paragraph 19(2)(g), and Commercialisation of Innovative research paragraph 19(2)(ka));

C — Legal & Governance (Law paragraph 19(2)(h));

D — Government (Government funding programs or bodies paragraph 19(2)(f)).

Priority areas:

1 — Renewables & low emission technologies, **2** — Medical Science, **3** — Transport, **4** — Value-add in agriculture, forestry and fisheries sectors, **5** — Value-add in resources, **6** — Defence capability, **7** — Enabling capabilities.

Note: Some NRFC Board appointees have skills across multiple fields and priority areas.

Source: ANAO analysis.

80 ASX Corporate Governance Council, Corporate Governance Principles and Recommendations 4th Edition, Recommendation 1.2(a), [Internet], February 2019, available from <https://www.asx.com.au/content/dam/asx/about/corporate-governance-council/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 5 February 2025].

Opportunity for improvement

2.54 Consistent with guidance in *RMG 127 — Specialist Investment Vehicles*, NRFC board appointment processes and considerations should be accurately and fully documented with records retained.

Project closure report

2.55 DISR's project closure report assessed the outcomes of the establishment project, status of remaining activities, and lessons learned. The closure report outlined the status of nine of 11 project workstreams. Two workstreams relating to Investment Policies and Investment Opportunities were not referred to. For completeness, the project closure report should have linked outcomes and any post project activities to each of the 11 workstreams outlined in the Establishment Project Plan.

3. Are governance arrangements sound?

Areas examined

This chapter examines whether governance arrangements for the National Reconstruction Fund Corporation (NRFC) are sound.

Conclusion

NRFC's governance arrangements are largely sound. The NRFC Board and CEO appointments, Board meetings and remuneration arrangements have been established under the NRFC Act. Investment Policies have been published pursuant to section 75 of the *National Reconstruction Fund Corporation Act 2023* (NRFC Act). NRFC's reporting arrangements for its annual report, corporate plan, budget estimates, performance measures and statements have been established, with 2024–25 performance to be reported against 'at least three identified areas of the economy' out of seven under the National Reconstruction Fund Corporation (Priority Areas) Declaration 2023. NRFC's risk management, fraud and corruption control arrangements, and accountable authority instructions are underway and progressing as at March 2025. NRFC's corporate policies are progressing as at March 2025. The NRFC Audit and Risk Committee (ARC) reviewed NRFC's arrangements for risk management, internal controls, financial reporting except it did not review NRFC's performance reporting arrangements for 2023–24 in line with the ARC charter and section 17 of the PGPA Rule. Recruitment is continuing, with the asset management function for investments underway as at March 2025. NRFC Board is yet to develop a financial strategy. NRFC has processes for managing procurement, recruitment, declaring gifts and benefits, and Freedom of Information (FOI). Access to NRFC's released information under FOI is not consistent with guidelines from the Australian Information Commissioner.

Areas for improvement

The ANAO made two recommendations for the NRFC Board to develop a financial strategy, and ensure that its ARC provides oversight of performance reporting arrangements in line with the PGPA Rule. Further, the ANAO suggests that NRFC make its FOI-released information available for download on its website and to ensure its performance measures reflect all economic priority areas in future reporting periods.

3.1 The NRFC Act establishes governance arrangements for the appointment of the NRFC Board, the appointment of the Chief Executive Officer (CEO), and the operational arrangements of the NRFC Board among other requirements. As the accountable authority under the PGPA Act, the NRFC Board must comply with the requirements applicable to corporate Commonwealth entities. The Department of Finance published *Resource Management Guide (RMG) 127 Specialist Investment Vehicles*⁸¹ (SIVs) which provides guidance to SIV entities in meeting the requirements of the PGPA framework.

81 Department of Finance, *RMG 127 — Specialist Investment Vehicles (SIVs)*, Finance, Canberra, 4 July 2024, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/specialist-investment-vehicles-sivs-rmg-127> [accessed 5 December 2024]. RMG 127 was released in July 2024 and was expected to be implemented by 1 July 2025 (see paragraph 3.7).

Are there appropriate corporate structures and supporting policies in place?

NRFC Board and CEO appointments, Board meetings and the Board and CEO’s remuneration arrangements have been established under the NRFC Act. A Board skills matrix was developed for commencement appointments. NRFC Board members, NRFC CEOs and acting CEO made conflicts of interest declarations and maintain conflicts of interest registers. NRFC experienced leadership changes in the 16 months from its commencement to January 2025, with two CEO appointments and two acting CEO appointments. NRFC has established its risk management, fraud and corruption risk management and reporting arrangements under the PGPA Act, with some elements in progress. The NRFC ARC reviewed NRFC’s arrangements for risk management, internal controls, financial reporting except for NRFC’s performance reporting. Corporate policies continue to be in progress as at March 2025. The NRFC Board has yet to develop a financial strategy to support its financial sustainability and return on investment. Processes are in place for managing procurements, recruitment, declaring gifts and benefits, and managing Freedom of Information, with an opportunity to make available released information for downloading from its website.

Governance arrangements under the NRFC Act

3.2 The NRFC Act establishes governance arrangements for establishing the NRFC Board and its operations, the appointment of Board members and the Chief Executive Officer.

Appointment and commencement of the NRFC Board

3.3 Subsection 19(1) of the NRFC Act requires that the Minister for Industry and Science and Minister for Finance (‘responsible ministers’)⁸² appoint NRFC Board members through written instruments of appointment. Section 21 of the NRFC Act provides that the period of appointment of NRFC Board members must not be more than four years. Section 18 of the NRFC Act provides that the NRFC Board is to consist of a Chair and at least six and no more than eight members.

3.4 At NRFC’s commencement on 18 September 2023, the responsible ministers appointed eight members to the NRFC Board through written instruments of appointment. The ninth member of the NRFC Board was appointed on 16 October 2023. The instruments of appointment for NRFC Board members provide that the terms of appointment for all Board members have been made for three or four years (see Table 3.1).

Table 3.1: NRFC Board members’ commencement and term

Board member	Commencement	End of term	Term of appointment (years)
Martijn Wilder AM (Chair)	18 September 2023	17 September 2027	4
Ahmed Fahour AO	18 September 2023	17 September 2026	3
Dr Katharine Giles	18 September 2023	24 November 2024 ^a	4 ^a

82 Department of Finance, *National Reconstruction Fund Corporation*, Finance, Canberra, 9 August 2024 [Internet] available from <https://www.finance.gov.au/government/specialist-investment-vehicles/national-reconstruction-fund-corporation> [accessed 11 December 2024].

Board member	Commencement	End of term	Term of appointment (years)
The Hon Kelly O'Dwyer	18 September 2023	17 September 2027	4
Daniel Petre AO	18 September 2023	17 September 2026	3
Kathryn Presser AM	18 September 2023	17 September 2026	3
Karen Smith-Pomeroy	18 September 2023	17 September 2026	3
Daniel Walton	18 September 2023	17 September 2027	4
Glenn Thompson	16 October 2023	15 October 2027	4
Kellie Benda	4 March 2025	3 March 2028	3 ^b

Note a: Dr Katharine Giles resigned from her position on the NRFC Board effective 25 November 2024.

Note b: DISR advice to the Minister for Industry and Science in February 2025 on the NRFC Board vacancy and the potential new candidate for the NRFC Board outlined candidates in four categories for the minister's decision. These categories of candidates were: candidates 'from the previous search process'; candidates who were 'suggested by Dr Giles/NRFC Chair'; a candidate who was 'put forward by the Minister'; and candidates 'put forward by the department from desktop research.' The selected candidate was the only candidate 'put forward by the Minister' in DISR's advice.

Source: Information from the Department of Industry, Science and Resources and the NRFC.

3.5 Subsection 28(3) of the NRFC Act requires the NRFC Board to convene at least six meetings each calendar year. The NRFC Board convened its first meeting on the date of NRFC's commencement on 18 September 2023. The NRFC Board convened seven meetings in 2023 and nine meetings in 2024. Further, the Board had convened out of session for nine items in 2023 and 26 items in 2024.

Board performance and skills matrix

3.6 As outlined at paragraphs 2.47 and 2.53, a skills matrix was developed for the first eight appointments to the NRFC Board in line with subsection 19(2) of the NRFC Act (see Table 2.2). The skills matrix was subsequently updated in the advice to the Minister for Industry and Science on the ninth appointment to the NRFC Board.

3.7 In July 2024, the Department of Finance (Finance) advised NRFC that, as part of the 2023–24 Federal Budget, it was developing a 'Joint Minister Oversight Model (Model) ... for the Minister for Finance across all existing and future SIVs' and 'a resource management guide (RMG) for SIVs outlining principles of best practice.' The advice provided that consideration of the RMG be undertaken 'by SIVs before 1 July 2025.'

3.8 *RMG 127 — Specialist Investment Vehicles*⁸³ provides that 'a formal and regular performance evaluation process should be in place to instil confidence in the responsible minister(s), Finance Minister, the Parliament and the public that the board is effective in performing its functions and delivering on the strategic objectives set out by the Government,'⁸⁴ and that 'it is good practice for performance evaluations of the board and its members to be conducted at least

83 Department of Finance, *RMG 127 — Specialist Investment Vehicles (SIVs)*, Finance, Canberra, 4 July 2024, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/specialist-investment-vehicles-sivs-rmg-127> [accessed 5 December 2024].

84 Department of Finance, *RMG 127 — Specialist Investment Vehicles (SIVs)*, Board and Corporate Governance, Finance, Canberra, 4 July 2024, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/specialist-investment-vehicles-sivs-rmg-127/board-and-corporate-governance> [accessed 19 December 2024].

annually.’ In relation to the skills matrix, it provides that the ‘board skills matrix should be reviewed at least annually following board performance evaluations.’⁸⁵

3.9 The NRFC Board Charter⁸⁶ provides that ‘the Board will review its performance ... no less than biennially [once every two years].’ At its March 2025 meeting, the NRFC Board approved a paper on ‘RMG 127 alignment.’ In relation to the Board skills matrix, NRFC plans to ‘develop an approach to design and implementation of [sic] a Board skills assessment/mapping process’ by 7 March 2025. The process would then be incorporated into the ‘Board Information Pack’ by 30 June 2025.

Board remuneration

3.10 Section 23 of the NRFC Act provides that NRFC Board members’ remuneration is to be determined by the Remuneration Tribunal. The determination⁸⁷ provides that the NRFC Board Chair’s remuneration to be \$132,610 and for other NRFC Board members to be \$65,920.

Appointment and remuneration of the Chief Executive Officer

3.11 In the 16 months from its commencement to 31 January 2025, NRFC experienced leadership changes in the CEO position, with two CEO appointments and two acting CEO appointments (including two extensions). Section 36 of the NRFC Act establishes the position of the NRFC CEO. Section 38 of the NRFC Act provides that the NRFC CEO may be appointed by the NRFC Board after consultation with the responsible ministers and within six months of the commencement of the NRFC Act.⁸⁸ Section 40 of the NRFC Act provides that the Board may appoint an acting CEO by written instrument and after consultation with the responsible ministers.

3.12 The NRFC Board appointed an acting CEO on 20 October 2023 for a term of three months (ending 20 January 2024), supported by the responsible ministers. The acting CEO term was extended, following a referral to the Prime Minister, on 19 December 2023 in accordance with the Cabinet Handbook.⁸⁹ The extension term was the earlier of the commencement of the substantive CEO or 17 March 2024.

3.13 The NRFC Board commenced its recruitment process for the NRFC CEO in September 2023. In relation to the process, the NRFC Board provided to the Minister for Industry and Science and Minister for Finance on 23 December 2023 that:

85 *ibid.*

86 NRFC, *National Reconstruction Fund Corporation Board Charter*, NRFC, Canberra, January 2024 [Internet], available from https://www.nrfc.gov.au/sites/default/files/documents/2024-05/nrfc_board_charter.pdf [accessed 19 December 2024].

87 Remuneration Tribunal, *Remuneration Tribunal (Remuneration and Allowances for Holders of Part-time Public Office) Determination 2024*, Office of Parliamentary Counsel, Canberra, p. 8, available from <https://www.remtribunal.gov.au/sites/default/files/2024-09/PTO%202024%20-%20Compilation%20No.%201.pdf> [accessed 5 December 2024].

88 Subsection 38(4) of the NRFC Act provides that the Board must appoint the first CEO no later than six months after the commencement of the NRFC Act. Section 2 of the NRFC Act provides that commencement occurred on 18 September 2023.

89 Paragraph 114, that ‘where a significant government appointment is proposed, the responsible minister must write to the Prime Minister seeking approval of the appointment before any action is finalised’ — Department of the Prime Minister and Cabinet, *Cabinet Handbook 15th Edition*, Department of the Prime Minister and Cabinet, Canberra, 2022, available from https://www.pmc.gov.au/sites/default/files/resource/download/cabinet-handbook-15th-edn-august-2024_1.pdf [accessed 5 December 2024].

[The Board commenced] a comprehensive search process in September 2023. The process included a combination of public advertisement, direct approaches and research and engagement activities and was supported by search firm Johnson Partners. The NRF Board insisted the search process delivered a diverse range of highly qualified candidates for consideration.

The search process identified a list of over 200 candidates. A shortlisting process, along with appropriate due diligence and background checks, was undertaken. A subgroup of the Board interviewed seven prospective candidates, recommending two for final interview and consideration by the full Board.

After careful assessment, the Board's preferred candidate is Mr Ivan Power.

3.14 The responsible ministers referred the matter for the Prime Minister's approval under paragraph 114 of the Cabinet Handbook⁹⁰, which was confirmed on 30 January 2024. The NRFC CEO commenced⁹¹ on 13 February 2024 for a five-year term, within six months of the NRFC commencing as required by subsection 38(4) of the NRFC Act. The NRFC CEO took 'extended leave ... [from] late May 2024'⁹² and resigned on 12 September 2024.

3.15 An acting CEO appointment took effect from 3 June 2024, following consultation and support from the responsible ministers for the term of three months (ending on 2 September 2024). An extension to the acting CEO's term was sought by the NRFC Board, which was referred to the Prime Minister for decision on 4 September 2024. On 8 October 2024, the Prime Minister provided his decision for the acting CEO to continue until 2 December 2024. From the date when the acting CEO's term ended on 2 September 2024 until the Prime Minister approved the extension of the acting CEO arrangement, 36 days had lapsed.

3.16 The responsible ministers were consulted on a further extension to the acting CEO's term and the appointment of the new CEO by the NRFC Board on 24 November 2024. On 10 December 2024, the Department of Industry, Science and Resources advised NRFC that, following 'government processes,' the 'permanent appointment and the acting arrangement for the CEO have been agreed as proposed,' with the acting arrangement ending on 27 January 2025 and the new CEO commencing on 28 January 2025.⁹³

3.17 NRFC advised the ANAO in February 2025 that the 'position of the Chief Executive Office of the NRFC has not been vacant at any time,' and that CEO appointments are made by the NRFC Board and by consultation with the government under section 40 of the NRFC Act (see paragraph 3.11). Further, it advised the ANAO in March 2025 that CEO delegations were not exercised during the periods between government approvals.

90 *ibid.*

91 NRFC, *National Reconstruction Fund Corporation Board appoints Ivan Power as CEO*, NRFC, Canberra, 1 February 2024, [Internet] available from <https://www.nrf.gov.au/news-and-media-releases/national-reconstruction-fund-corporation-board-appoints-ivan-power-ceo> [accessed 6 December 2024].

92 NRFC, *Statement by the National Reconstruction Fund Corporation Chair regarding senior executive roles*, NRFC, Canberra, 12 September 2024, available from <https://www.nrf.gov.au/news-and-media-releases/statement-national-reconstruction-fund-corporation-chair-regarding-senior-executive-roles> [accessed 6 December 2024].

93 NRFC, *Our executive*, Canberra, 28 January 2025 [Internet], available from <https://www.nrf.gov.au/who-we-are/our-executive-0#:~:text=David%20Gall%20is%20the%20Chief,drive%20long%2Dterm%20economic%20growth>. [accessed 8 March 2025].

3.18 Section 41 of the NRFC Act provides that the NRFC CEO's remuneration is to be determined by the Remuneration Tribunal. The Remuneration Tribunal determined that the NRFC CEO is a 'Principal Executive Office' (PEO) at the PEO Band E.⁹⁴ Further, it provided to the NRFC Board that the NRFC CEO position would receive 'a Total Remuneration Reference Rate (TRRR) of \$832,000; maximum 'at risk' performance pay of 40 per cent of total remuneration; and a total maximum achievable remuneration outcome of \$1223,040 [*sic*].'⁹⁵

NRFC staff remuneration

3.19 The NRFC Board approved the NRFC Remuneration Policy at its September 2024 meeting. The meeting minutes noted that NRFC's remuneration strategy was underway. NRFC advised the ANAO that 'current salaries are derived by industry benchmarking using data from the Financial Industry Remuneration Group (FIRG).'

Strategy and planning

3.20 Paragraph 17(1)(a) of the NRFC Act provides that the Board is to decide the NRFC's strategies and policies. The NRFC Board undertook a strategy session at its December 2023 meeting, which covered the need for a 'long-term investment strategy,' the 'prioritisation to deliver early investments in 2024,' 'investment due diligence considerations' and to 'prioritise a panel of experts from which NRFC can draw on required skills and expertise as needed while in-house talent is identified and recruited.'

3.21 The 2023–24 Federal Budget provided NRFC with \$53.2 million⁹⁶ in appropriations to support NRFC's operations. In July 2024, the NRFC Board agreed the NRFC 'Operations Plan FY25' including NRFC's internal budget allocations. In March 2025, the 2025–26 Federal Budget outlines that appropriations for NRFC's operations are allocated until 2025–26, after which the NRFC is funded through own-sourced revenue.⁹⁷ The 2025–26 Budget in the portfolio budget statements⁹⁸ for NRFC was approved by the NRFC Board in February 2025. The NRFC Board paper on the budget incorporated the NRFC Chief Investment Officer's 'high-level revenue assumption' and the Chief Finance Officer's application of 'probability and considered timing of the revenue to derive a revenue for each line' of investment revenue for 2025–26.

3.22 In June 2025, NRFC advised the ANAO that:

94 Remuneration Tribunal, List of Principal Executive Offices, Remuneration Tribunal, Canberra, 18 December 2023, [Internet] available from <https://www.remtribunal.gov.au/sites/default/files/2023-12/PEO%20list%20for%20website%2018.12.2023.pdf> [accessed 5 December 2024].

95 Letter from the Remuneration Tribunal to the NRFC Board, dated 30 November 2023.

96 This appropriation incorporated \$39 million in annual appropriations for ordinary annual services and \$14.2 million for equity injections. *Portfolio Budget Statements 2023–24 Budget Related Paper No. 1.11 — Industry, Science and Resources Portfolio*, Canberra, 9 May 2023, p. 199 [Internet], available from <https://www.industry.gov.au/sites/default/files/2023-05/2023-24-department-of-industry-science-resources-pbs.pdf> [accessed 26 March 2025].

97 Own-sourced revenue are income from investments and interest income — see *Portfolio Budget Statements 2025–26 Budget Related Paper No. 1.11 — Industry, Science and Resources*, Canberra, 25 March 2025, p. 209 [Internet], available from <https://www.industry.gov.au/sites/default/files/2025-03/2025-26-department-of-industry-science-resources-pbs.pdf> [accessed 26 March 2025].

98 *Portfolio Budget Statements 2025–26 Budget Related Paper No. 1.11 — Industry, Science and Resources Portfolio*, Canberra, 25 March 2025 [Internet], available from: <https://www.industry.gov.au/sites/default/files/2025-03/2025-26-department-of-industry-science-resources-pbs.pdf> [accessed 15 April 2025].

As at 31 March 2025, the NRFC Board's financial strategy is contained within multiple documents including financial modelling updates, operating plans, corporate plans, and PBS papers. Collectively, these documents articulate the organisation's intent toward achieving self-sustainability, and attaining return on investment (ROI) targets. For 2025-26 and beyond the NRFC Financial Strategy will consolidate and augment this work into an overarching strategy and, will detail specific mechanisms and processes to be deployed including improved outreach activities, more focused front of house selection, deal finalisation assessment and ongoing asset management. The 2025-26 Financial Strategy will be endorsed by the NRFC Board in September 2025.

Recommendation no. 1

3.23 The National Reconstruction Fund Corporation Board establish a financial strategy to support its activities to maintain financial viability and return on investment.

National Reconstruction Fund Corporation response: Agreed.

3.24 *The NRFC's Board-approved approach as set out in its Investment Mandate is to achieve financial self-sustainability and to target the Portfolio Benchmark Return. While this approach is contained across a number of corporate documents, a dedicated Financial Strategy will be developed to clearly articulate the Corporation's pathway toward reaching self-sustainability, including milestones and timeframes. The Financial Strategy will integrate with other strategy documents and is targeted to be endorsed in September 2025.*

Governance arrangements under the *Public Governance, Performance and Accountability Act 2013* and other requirements

Risk management and system of internal control

3.25 Section 16 of the PGPA Act requires accountable authorities to establish appropriate systems of risk management and internal controls.

3.26 The NRFC Board endorsed the Risk Management Framework in May 2024 after ARC endorsement. The NRFC Board endorsed the Risk Appetite Statement in August 2024 after ARC consideration at its February 2024 and April 2024 meetings.

3.27 The NRFC draft risk register was presented to the NRFC ARC for endorsement in July 2024. Following a risk workshop in August 2024, the NRFC Board suggested that risk reporting be 'updated to identify each of the top five strategic, operating and emerging risks.' In subsequent ARC meetings in September and November 2024, the NRFC Quarterly Risk Report was provided, incorporating NRFC's top five strategic, operational and emerging risks. The identified risks included NRFC's investments compliance including compliance with the Commonwealth Constitution, recruitment of staff, operations such as work health and safety and system outage, investment controls relating to security of critical infrastructure and national security assessments, conflicts of interest, macroeconomic and interest rate risks, among other risks considered.

3.28 In relation to controls, the November 2024 Quarterly Risk Report outlines that 'work to build the NRFC Obligation Library completed on schedule. Effort now going into identifying individual controls.' See paragraph 3.53 for discussion on NRFC's approach to its legal and regulatory obligations.

Fraud and corruption risk management

3.29 Section 10 of the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule)⁹⁹ sets out requirements applying to accountable authorities relating to preventing, detecting and responding to fraud and corruption. It specifies that Commonwealth entities are to conduct assessments of fraud and corruption risks regularly¹⁰⁰ and to develop and implement fraud and corruption control plans¹⁰¹, among other requirements.

3.30 The NRFC Fraud and Corruption Control Policy was reviewed at the NRFC ARC meeting in July 2024 and approved by the NRFC Board in August 2024. The NRFC Fraud and Corruption Control Policy contains requirements to comply with the PGPA Rule 10, and provides, at section 13.7, that ‘the Board oversees compliance with this policy through the ARC.’ The NRFC ARC Charter¹⁰² provides that it is responsible for:

reviewing and ensuring the effectiveness of the NRFC’s fraud and corruption control arrangements having satisfied itself that the NRFC has appropriate systems, procedures and practices in place to detect, capture and effectively respond to any actual, suspected or alleged fraud and corruption affecting the NRFC.

3.31 NRFC developed a fraud and corruption risk assessment (July 2024) and a Fraud and Corruption Control Plan (October 2024). These documents were not tabled to the NRFC Board (as NRFC’s accountable authority) or the ARC to support its role in overseeing compliance with the NRFC Fraud and Corruption Control Policy. In February 2025, NRFC advised the ANAO that ‘requiring oversight bodies to receive the detailed underlying risk assessments and full line-item control plans across all risk types risks ‘snowing’ the ARC Committee [*sic*] with information, leaving them unable to act in a risk-based way.’ NRFC further advised the ANAO that the committee would instead ‘continue to meet this responsibility by receiving and reviewing the fraud and corruption control testing outcomes set out in the Quarterly Risk Report for the period ending 31 December 2024.’

3.32 In February 2025, the report to the ARC stated that NRFC had:

completed targeted control testing focusing on the management of fraud and corruption risk as required under the Fraud and Corruption Control Plan. The review identified two control gaps, four partially effective controls and three low-risk findings — e.g. a need to increase Management oversight of situations where employees are not required to obtain individual written quotes or contracts are signed without internal legal review. The review did not identify any material non-compliance that would elevate the current fraud and corruption risk rating.

99 As a corporate Commonwealth entity (CCE), NRFC is required to comply with the provisions of the PGPA Rule 2014 that relate to CCEs, including Section 10 the Fraud and Corruption Control Rule. The Commonwealth Fraud and Corruption Control Framework provides guidance to CCEs on establishing frameworks to manage fraud and corruption risks. Attorney-General’s Department (AGD), *Commonwealth Fraud and Corruption Control Framework*, AGD, Canberra, 1 July 2024 [Internet], available from <https://www.counterfraud.gov.au/sites/default/files/2024-06/cfpc-framework-2024.pdf> [accessed 24 December 2024].

100 PGPA Rule, paragraph 10(a).

101 *ibid*, paragraph 10(b).

102 NRFC, *Audit and Risk Committee Charter*, section 3.5, paragraph e, p. 6, NRFC, Canberra, August 2024, available from <https://www.nrf.gov.au/sites/default/files/documents/2024-08/audit-and-risk-committee-charter-august-2024.pdf> [accessed 7 December 2024].

Reporting arrangements

3.33 The PGPA Act and PGPA Rule outline the requirements for reporting corporate plans, budget estimates (portfolio budget statements), annual reports, financial statements and annual performance statements (see Table 3.2).

Table 3.2: Reporting arrangements under the PGPA Act and PGPA Rule

Reporting requirement	PGPA Act and PGPA Rule requirements	NRFC reporting	Aligned with PGPA requirements
Corporate plan	Section 35 (PGPA Act) Section 16E (PGPA Rule)	NRFC Corporate Plans ^a	◆
Budget estimates	Section 36 (PGPA Act)	Portfolio Budget Statements	◆
Annual report	Section 45 (PGPA Act) Sections 17BB–17BF (PGPA Rule)	NRFC Annual Report ^b	◆
Performance statement	Section 39 (PGPA Act) Section 16F and paragraph 17(2)(b) (PGPA Rule)	NRFC Performance Statement ^c	▲ ^d

Key: ◆ NRFC was consistent with PGPA Act and PGPA Rule requirements.

▲ NRFC was partly consistent with PGPA Act and PGPA Rule requirements.

Note a: NRFC, *Corporate Plan 2023–24*, NRFC, Canberra, February 2024, [Internet] available from [nrf.gov.au/sites/default/files/documents/2024-05/nrfc_corporate_plan_2023-2024.pdf](https://www.nrf.gov.au/sites/default/files/documents/2024-05/nrfc_corporate_plan_2023-2024.pdf) [accessed 7 December 2024] and NRFC, *Corporate Plan 2024–25*, NRFC, Canberra, August 2024, [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-08/nrfc_corporate_plan_2024-2025.pdf [accessed 7 December 2024].

Note b: NRFC, *Annual Report 2023–24*, NRFC, Canberra, 31 October 2024, [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-10/nrfc_annual_report_2023-2024.pdf [accessed 7 December 2024].

Note c: *ibid.*, p. 20

Note d: NRFC's ARC did not review the appropriateness of its performance reporting in accordance with paragraph 17(2)(b) of the PGPA Rule (see paragraph 3.34).

Source: NRFC published information and ANAO analysis.

3.34 Paragraph 17(2)(b) of the PGPA Rule provides that the functions of a Commonwealth entity's audit committee must include reviewing the appropriateness of the accountable authority's performance reporting (see paragraph 3.39). The NRFC ARC Workplan 2024 established that it would review NRFC's annual performance reporting in its June 2024 meeting. The relevant meeting of the ARC (rescheduled from June to July 2024) did not contain papers on NRFC's performance reporting for 2023–24 prior to the NRFC Board's consideration. The NRFC Board considered its draft performance statement (on 11 September 2024) and provided its endorsement (on 30 September 2024) as part of its processes for the annual report.

Recommendation no. 2

3.35 The National Reconstruction Fund Corporation Board ensure that the Audit and Risk Committee review all future performance reporting arrangements in accordance with its charter and to ensure its compliance with paragraph 17(2)(b) of the PGPA Rule.

National Reconstruction Fund Corporation response: *Agreed.*

3.36 *The NRFC acknowledges the requirement for performance reporting to progress through the Audit and Risk Committee (ARC). This work has already commenced with reporting for the NRFC 2026-29 Corporate Plan, the 2025-26 Annual Report and detailed performance statement progressing through the ARC.*

Investments reporting

3.37 Section 82 of the NRFC Act requires the reporting of all investments made in each quarter within one month after the end of each quarter. ANAO identified that NRFC has published quarterly investment reports¹⁰³ within one month after the end of each quarter. As at 31 May 2025, NRFC has published seven quarterly investment reports (for two quarters in 2023, four quarters in 2024 and one quarter in 2025). Eight investments were reported across these reports, totalling \$407.5 million.¹⁰⁴

Board governance committees

3.38 Subsection 45(1) of the PGPA Act requires the accountable authority to establish an audit committee and section 17 of the PGPA Rule sets out the minimum requirements relation to audit committees of Commonwealth entities. Subsection 48(1) of the NRFC Act provides that the Board may establish committees to advise or assist in the performance of the Board or of NRFC's functions.

Audit committee

3.39 The NRFC Board established its ARC at commencement on 18 September 2023 with a written charter (21 February 2024 and updated on 2 August 2024) covering the functions of financial reporting, performance reporting, system of risk oversight and management, and system of internal control, as required under section 17 of the PGPA Rule. Membership of the ARC consists of three of the NRFC Board members.¹⁰⁵ The ARC has reviewed papers on NRFC risk management, progress for internal controls (see paragraphs 3.27 to 3.28); and financial reporting and financial statements. As outlined at paragraph 3.34 the ARC did not review the arrangements for NRFC's annual performance statement 2023–24.

103 NRFC, *NRFC investment reports*, NRFC, Canberra [Internet], available from <https://www.nrf.gov.au/who-we-are/our-governance/reporting> [accessed 13 June 2025].

104 NRFC announced a ninth investment of \$27 million on 30 May 2025. NRFC, *NRFC Our investments*, Canberra [Internet], available from <https://www.nrf.gov.au/our-investments> [accessed 17 June 2025]. The nine investments announced by the NRFC total \$434.5 million (see paragraphs 4, 13, 22, 1.9 and 4.73).

105 The NRFC ARC consists of Kathryn Presser (Chair), Ahmed Fahour AO and Karen Smith-Pomeroy. Refer to 'Board composition and committee membership', *NRFC Annual Report 2023–24*, p. 29, NRFC, Canberra, 31 October 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-10/nrfc_annual_report_2023-2024.pdf [accessed 8 December 2024].

Other board governance committees

3.40 The NRFC Board established two other board committees: the Remuneration, People and Culture Committee and the Board Investment Committee at NRFC's commencement on 18 September 2023. The NRFC Board approved the written charter for the Remuneration, People and Culture Committee on 21 February 2024. The Remuneration, People and Culture Committee consists of four NRFC Board members.¹⁰⁶ The NRFC Board approved the written charter for the Board Investment Committee on 14 June 2024. The members of the Board Investment Committee are all the members of the NRFC Board.¹⁰⁷

Procurement

3.41 NRFC is not required to comply with the Commonwealth Procurement Rules¹⁰⁸ as a corporate Commonwealth entity that has not been prescribed under section 30 of the PGPA Rule.¹⁰⁹ The NRFC Board approved its Procurement Policy in February 2024. The Procurement Policy provides 'core principles' of value for money, encouraging competition and efficient, effective, economical and ethical procurement. The NRFC Board approved procurement delegations in September 2023 and in May 2024.

3.42 The NRFC Board established its Incident Management Policy in May 2024 which provides that NRFC maintain an incident register including any known policy non-compliance, among other requirements. As at 24 March 2025, the NRFC Incident Register identified four procurement related incidents relating to: 'an employee ... executing commercial agreements without a delegation'; 'engagement terms ... entered into without completing internal legal review as part of contracts review process'; a procurement instance where the 'vendor due diligence process [was] not followed to review contract'; and 'employee made small purchase (\$13) on office equipment without expenditure delegation.' The incident relating to vendor due diligence is further discussed at paragraphs 4.33 and 4.34.

Staff recruitment

3.43 NRFC's budget in the 2024–25 Federal Budget estimated that its average staffing level as 104 staff in 2024–25. In the 2025–26 Federal Budget, this was revised to 58 staff in 2024–25 and 81 staff in 2025–26.

3.44 At its July 2024 meeting, the NRFC Board approved the budget of \$3.1 million for 'recruitment expenses' for 2024–25. NRFC advised the ANAO in April 2025 it had incurred:

- Expenditure to 20 recruitment firms of \$575,267 in 2023–24 and \$1,052,545 in the 2024–25 financial year to 28 February 2025. In this period, the highest expenditure was made to Executive Interim Management of \$278,742.

106 *ibid.*, the NRFC Remuneration, People and Culture Committee consists of Daniel Walton (Chair), Glenn Thompson, the Hon Kelly O'Dwyer and Dr Katharine Giles (resigned on 25 November 2024).

107 *ibid.*, the NRFC Board Investment Committee is chaired by Daniel Petre AO.

108 Paragraph 2.2 of the Commonwealth Procurement Rules provide that they apply to officials from non-corporate Commonwealth entities and prescribed corporate Commonwealth entities listed in section 30 of the PGPA Rules — Department of Finance, *Commonwealth Procurement Rules*, Finance, Canberra, 1 July 2024 [Internet], available from https://www.finance.gov.au/sites/default/files/2024-06/Commonwealth_Procurement_Rules-1-July-2024.pdf [accessed 27 March 2025].

109 Federal Register of Legislation, *Public Governance, Performance and Accountability Rule 2014* [Internet] available from <https://www.legislation.gov.au/F2014L00911/latest/text> [accessed 27 March 2025].

- Expenditure to six contractor firms of \$578,274 in 2023–24 and \$1,597,696 in the 2024–25 financial year to 28 February 2025. In this period, the highest expenditure in Executive Interim Management of \$1,482,365.

3.45 On 6 June 2025, NRFC advised the ANAO that:

All recruitment partner procurement arrangements were undertaken in alignment with the NRFC policies. The processes undertaken were driven by the need to quickly recruit suitably qualified leadership, and the need for immediate staff capability and capacity. All relevant limited tenders were undertaken under the direct authority of the CEO, and with advice from the NRFC's Chief Financial Officer confirming the availability of funds. In undertaking those decisions, the Accountable Authority in all cases considered a value for money outcome for NRFC, having due regard for the requirement, process, value, approvals and decision basis.

3.46 Workforce planning arrangements provided to the NRFC Board report that there is a focus on recruitment for investment management and legal teams. In February 2025, NRFC advised the ANAO that it was in the 'process of recruiting a Director of Asset Management situated in the Investments Team with guidance from the Chief Investment Officer'. In June 2025, NRFC advised the ANAO that 'the position of Director Asset Management within the Investments Team was filled' in March 2025, 'and is working with business areas to map and document relevant processes.'

Gifts, benefits and hospitality

3.47 The NRFC Board approved its Gifts, Benefits and Entertainment Policy in May 2024. The policy provides 'general principles' that NRFC employees are to demonstrate 'that they cannot be improperly influenced or create a perceived or actual conflict of interest' in managing gifts, benefits and entertainment and establishes the NRFC gifts register if the gift, benefit or entertainment meets certain thresholds.

3.48 As at 27 March 2025, the NRFC gift register contained 25 accepted gifts, benefits or entertainment and two declined items. Of the accepted items, 23 were valued with an overall total of \$7,870, and two were estimated to be less than \$300.¹¹⁰

Freedom of information

3.49 The *Freedom of Information Act 1982* provides 'the right to request access to government-held information.'¹¹¹ NRFC has established guidance on its website for making requests to NRFC.¹¹² NRFC has established intranet guidance for managing freedom of information, which outlines the responsibilities for staff, the management processes and training materials for staff.

110 One item was for an NRFC employee's attendance at a 'networking event hosted at the Formula 1 Australian Grand Prix 2024' and the other was Qantas Chairman's Lounge access for three years for the NRFC CEO and spouse.

111 Office of the Australian Information Commissioner, *Freedom of Information*, Canberra [Internet], available from <https://www.oaic.gov.au/freedom-of-information> [accessed 28 March 2025].

112 NRFC, *Freedom of Information*, Canberra, 31 December 2023 [Internet] available from <https://www.nrf.gov.au/freedom-information> [accessed 28 March 2025].

3.50 As at March 2025, the NRFC information disclosure log¹¹³ has published 10 disclosures to freedom of information requests. The first two information releases¹¹⁴ (February 2024) are documents available from the NRFC website. All other information releases are ‘available on request to foi@nrf.gov.au.’ Guidelines issued by the Australian Information Commissioner provides that entities ‘should seek to make all documents released in response to FOI [Freedom of Information] requests available for download from the disclosure log or another website (s 11C(3)(a) or (b)) ... This approach is consistent with the objects of the FOI Act.’¹¹⁵

Opportunity for improvement

3.51 NRFC could make all documents released in response to Freedom of Information requests available for download from its website disclosure log in accordance with the Freedom of Information Guidelines.

Corporate policies

3.52 At its first two meetings on NRFC’s commencement (18 September 2023 — see paragraph 3.5), the NRFC Board approved five corporate policies for corporation information security, IT acceptable use, physical security, corporate seal¹¹⁶ and conflicts of interest. From February 2024 and following the commencement of Board governance committees (see paragraphs 3.38 to 3.40), endorsement of policies was supported through the relevant Board governance committee prior to their consideration and approval by the NRFC Board.

3.53 At its February 2024 meeting, the ARC noted a paper titled ‘Obligations and Compliance Review Processes: Status update,’ which provided an ‘update on implementation of management’s approach to ensuring and monitoring compliance with laws, regulations and other legal obligations,’ a ‘Legislative Obligations Map’ and a ‘Policies Governance Framework.’ The legislative obligations map specifies the policies, procedures and related documents to meet compliance obligations, with the paper noting that some of these document have been approved and others remained in development, including Accountable Authority Instructions and 73 other policies, procedures and related documents (see Table 3.3).

113 NRFC, *Information disclosure log*, Canberra, 5 February 2025 [Internet] available from <https://www.nrf.gov.au/information-disclosure-log> [accessed 28 March 2025].

114 NRFC, *Disclosure log number: FY124–01*, Canberra, 20 February 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-02/fy24-01_documents.pdf [accessed 28 March 2025] and NRFC, *Disclosure log number: FY124–02*, Canberra, 20 February 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-02/fy24-02_document.pdf [accessed 28 March 2025].

115 Australian Information Commissioner, *FOI Guidelines*, p. 350, Canberra, compiled in April 2025 [Internet], available from https://www.oaic.gov.au/data/assets/pdf_file/0020/250391/FOI-Guidelines-Compilation-April-2025.pdf [accessed 14 April 2025].

116 Paragraph 11(2)(b) of the NRFC Act requires NRFC to have a corporate seal. The Australian Securities and Investments Commission (ASIC) provides that ‘A company may have a common seal and use it to execute documents under its constitution.’ ASIC, *Australian Company Numbers* [Internet], available from <https://asic.gov.au/for-business/registering-a-company/steps-to-register-a-company/australian-company-numbers/> [accessed 17 April 2025].

Table 3.3: Number of policies, procedures and related documents listed in NRFC's legislative obligations map (February 2024)

Board or board committee responsible	Number of policies, procedures and related documents
Board	6
Audit and Risk Committee	37
Remuneration, People and Culture Committee	21
Board Investment Committee	10

Source: NRFC Audit and Risk Committee, February 2024.

3.54 Further, the February 2024 NRFC Board meeting considered the NRFC Work Health and Safety Policy, among other policies. The Work Health and Safety Policy decision was not recorded in the NRFC Board minutes. Following ANAO enquiries, the NRFC Board formally approved the Work Health and Safety Policy at its January 2025 meeting.

3.55 In two updates to the NRFC Board on the progress of developing its corporate policies:

- In April 2024, the 'Executive Update' reported '18 core policies approved by the Board to date' and 46 'remaining policy approvals targeting Board presentation prior to end-of-September'.
- In August 2024, the 'progress implementing policy framework'¹¹⁷ showed 24 policy framework documents had an 'approved' status and 28 documents did not.

3.56 Following ANAO enquiries, two further updates were provided:

- In the January 2025 NRFC Board meeting, the 'policy review schedule 2025' was tabled which showed 32 items of 'existing policy'; information on three policies that NRFC is 'planning to introduce'; and no information on the other policies that were previously reported without an 'approved' status.
- In the March 2025 NRFC ARC meeting, the 'policy framework progress update' was tabled which showed 32 in the 'current policies register' and 29 items listed as 'policies that remain under active development or consideration.'

Accountable authority instructions

3.57 The ANAO was provided with a draft of the NRFC Accountable Authority Instructions (dated January 2024). In February 2025, NRFC advised the ANAO that 'While there is no requirement for the NRFC to have an Accountable Authority Instruction (AAI), the NRFC is currently reviewing its approach in light of the ANAO's finding [in this audit] to ensure it is fit for purpose, reflecting best practice. The NRFC anticipates this work including the development of an AAI will be complete by the end of FY25.' In June 2025, NRFC advised the ANAO that the NRFC Board had approved its AAI on 5 June 2025.

¹¹⁷ The 'progress implementing policy framework' was in Appendix 3 of the NRFC Board paper 'Risk Report — 18 September 2023 to 30 June 2024' which was marked as 'Draft for discussion' on its cover page.

Have arrangements for administering the Fund been established?

NRFC has established its Investment Policies under section 75 of the NRFC Act. The NRFC Board has established the Board Investment Committee to provide oversight of investment decision processes, including investment delegations and policies for managing conflicts of interest and personal trading. Recruitment for roles supporting investments management was continuing as at March 2025, and the investments were made prior to establishing the investment asset management function.

Investment guidance and policies

3.58 Section 75 of the NRFC Act provides that the NRFC Board must establish written Investment Policies. Subsection 75(3) requires the NRFC to publish the Investment Policies on its website.

3.59 Prior to establishing the Investment Policies under section 75 of the NRFC Act, the NRFC Board convened out-of-session on 14 December 2023 to consider investment guidance 'for businesses seeking investment from the NRFC' which 'includes a draft guideline as required under section 70 of the NRFC Act on Australian based investment, which is modelled on the CEFC's [Clean Energy Financing Corporation's] published guideline for the equivalent requirement in the CEFC Act.' The NRFC Board reviewed and endorsed the NRFC investment guidance, including the 'Guidelines on solely or mainly Australian based investments' on 20 December 2023.

3.60 The NRFC Board reviewed the draft Investment Policies on 27 May 2024, and finalised and approved them for publication on 1 June 2024.¹¹⁸ Table 3.4 compares the Investment Policies against the requirements in Section 75 of the NRFC Act.

Table 3.4: Requirements of Investment Policies — Section 75 of the NRFC Act

Information requirements of Investment Policies ^a	ANAO assessed
NRFC's investment functions and investment powers — paragraph 75(1)(a)	✓
NRFC's consideration of impacts to First Nations Australians — paragraph 75(1)(aa)	✓
NRFC's benchmarks and standards — paragraph 75(1)(b)	✓
NRFC's risk management — paragraph 75(1)(c)	✓
NRFC's consideration of environmental, labour, social and governance matters — paragraph 75(1)(ca)	✓
References to the NRFC Investment Mandate — subsection 75(2)	✓
Published by Board as soon as practicable — subsection 75(3)	✓
Published on website — subsection 75(4)	✓

Key: ✓ NRFC's Investment Policies include this element of the requirements under Section 75 of the NRFC Act.

118 NRFC, *NRFC Investment Policies*, NRFC, Canberra, May 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-06/nrfc_investment_policies_2024.pdf [accessed 9 December 2024].

Note a: Subsection 75(5) of the NRFC Act provides for the periodic review of the Investment Policies and subsection 75(6) provides for review of the Investments Policies if the NRFC Investment Mandate is changed. There has been no change to the NRFC Investment Mandate and no reviews of the Investment Policies at the time of this ANAO analysis.

Source: NRFC Act and NRFC's Investment Policies.

Board Investment Committee, investment delegations and resourcing

3.61 As outlined at paragraph 3.40, the NRFC Board established the Board Investment Committee at NRFC's commencement on 18 September 2023 and established its Charter in June 2024. The Board Investment Committee consists of the NRFC Board.

3.62 The Board Investment Committee met seven times in 2024. At its first meeting in March 2024, the Board Investment Committee reviewed and endorsed the NRFC Investment Governance Framework — investment approval process, standard operating procedures for enquiries management including expression of interest triaging and assessment, and investment parameters support investment risk appetite and thresholds. NRFC's standard operating procedures supporting its investment processes are discussed at paragraphs 4.13 to 4.55.

3.63 The Board Investment Committee has reviewed the NRFC investment update and pipeline report at each meeting (since August 2024), and has also reviewed the investment approach (July 2024) and draft investment strategy (September 2024). Paragraph 4.7 discusses NRFC's draft investment strategy.

3.64 Section 88 of the NRFC Act provides that the NRFC Board may delegate all or any of its powers or functions to the CEO. The Board Investment Committee reviewed the draft Investment Delegations Schedule in March 2024. The NRFC Board agreed NRFC's Investment Delegations Schedule in June 2024. The Investment Delegations Schedule sets out the NRFC Board's delegations to the NRFC CEO to make delegated investment decisions.

3.65 As outlined at paragraph 3.46, in June 2025, NRFC advised the ANAO that the position of Director Asset Management was filled in March 2025.

Conflicts of interest and embargo register and personal trading policies

3.66 As outlined at paragraph 3.52, NRFC established its conflicts of interest policy at its commencement Board meeting. The NRFC Board approved its Embargo Register and Personal Trading Policy on 21 February 2024.

3.67 In relation to declarations, the conflicts of interest policy requires all officials to 'disclose details of any material interest that relates to the affairs of the NRFC,' and 'should consider: (a) any offices or positions that they hold or used to hold in any relevant organisations; (b) any memberships, shares or other securities that they possess; (c) property that they possess; (d) contracts or proposed contracts; and (e) any other interests that they may have or that their family members, friends, or associates may have.'

3.68 The NRFC Board maintains a 'Board Register: Conflict of Interest Declarations' which lists the 'directorship' positions of other entities for each NRFC Board member. Further, some NRFC

Board members have declared ‘government employment’¹¹⁹ positions, advisory positions, family-held positions and those held by associates. The Board Register: Conflict of Interest Declarations is in the papers for each Board meeting since its October 2023 meetings. Board members’ conflicts are managed through not participating in discussion or decisions on matters or entities where they have disclosed an interest. NRFC’s Board agenda packs are redacted to not share information with NRFC Board members on items where members have declared an interest.

3.69 NRFC CEOs and acting CEO made conflict of interest declarations. The declarations identified directorships, financial interest, shareholdings and trusts. No items were identified as requiring mitigation.

3.70 The NRFC has established an Embargo Register that lists the details of entities on whom the NRFC holds market-sensitive information. The NRFC’s Embargo Register and Personal Trading Policy prohibits officials and their associated designated persons¹²⁰ from dealing in securities when in possession of confidential information of that entity, without first obtaining NRFC’s approval. For the NRFC’s Board members, the Embargo Register and Personal Trading policy states that:

Members of the Board and external members of committees are not required to seek pre-trade approval for Personal Trading. However, members of the Board and external members of committees are required to be familiar with the entities listed on the relevant Embargo Register as provided, and to ensure they do not trade in those entities or related financial products.

3.71 Paragraphs 4.42 to 4.43 discuss how NRFC’s Embargo Register and Personal Trading Policy has been implemented.

Have appropriate performance measures been established?

NRFC has established and published its performance measures in its Corporate Plan 2023–24 and Corporate Plan 2024–25. NRFC reported in its 2023–24 performance statement that it had achieved its performance measure of finalising its core corporate, risk and investment policies. These ‘core’ policies were not defined and there were 39 policies and related documents outstanding at June 2024. NRFC’s performance measures in 2024–25 incorporate measures to report that investments meet at least three of the seven economic priority areas, there is an opportunity to ensure that measures in future years report against all seven economic priority areas. Controls for performance information and methodologies for performance reporting are in development as at March 2025.

119 Subsection 19(3) of the NRFC Act states that members of the NRFC Board cannot be an employee of the Commonwealth or the holder of full-time office under the law of the Commonwealth. The ‘government employment’ category records details of the Board members’ part-time office holder appointments to the boards of other Specialist Investment Vehicles. The declared part-time office holder positions are not Commonwealth employment positions as they are not made under the *Public Service Act 1999* (Cth), or some other Act. Australian Government Solicitor, Embedded Contractors, Legal Briefing, Canberra, 20 July 2023 [Internet], available from https://www.ags.gov.au/sites/default/files/2023-07/Legal%20briefing_Embedded%20contractors_20%20July%202023.pdf [accessed 14 March 2025].

120 The NRFC’s Embargo Register and Personal Trading policy defines designated persons as: spouse; children under 18 years of age; any nominees, including investment managers; a trust of which the official or their family, or any family-controlled company are the trustee or beneficiary; a person in partnership with official or any of their connected persons; a company which the official or their family controls.

Establishment and appropriateness of performance measures

3.72 Sections 16E and 16EA of the PGPA Rule establishes the requirement for reporting performance measures in the corporate plan.

3.73 The NRFC Board considered the NRFC performance measures at its meeting in July 2024 and August 2024 meetings. The NRFC published its performance measures in its Corporate Plan 2023–24¹²¹ and Corporate Plan 2024–25.¹²²

3.74 Section 3 of the NRFC Act outlines that the object of the NRFC is to facilitate the increased flows of finance into priority areas of the Australian economy. NRFC's performance measures in its Corporate Plan 2024–25 incorporate measures related to funding investments in accordance with the first allocation of \$5 billion (under paragraph 52(1)(a) of the NRFC Act) to support the flows of finance (see Table 4.2). A performance measure relating to leveraging private capital has a performance target ratio of '1:1 across the investment portfolio.'¹²³ This measure goes to paragraph 17(3A)(b) of the NRFC Act 'attracting private sector financial or investments into the priority areas of the Australian economy.' Further, NRFC's performance measures reflect the priority areas of the Australian economy.¹²⁴ The National Reconstruction Fund Corporation (Priority Areas) Declaration 2023 outline seven areas as the priority areas, the NRFC's performance measures provide that it aims to achieve an 'investment portfolio [that] covers at least 3 identified areas of the economy' in 2024–25. The performance measures for investment in the seven priority areas of the economy for future financial years 'will continue to be developed and refined in coming years.'

Opportunity for improvement

3.75 NRFC could ensure that its performance measures incorporate measures against all priority areas of the economy in future reporting periods in accordance with National Reconstruction Fund Corporation (Priority Areas) Declaration 2023.

3.76 NRFC's other performance measures incorporate: making investments in line with its investment portfolio's rate of return in line with the NRFC Investment Mandate; meeting the NRFC Act public policy objectives (section 17); and ensuring an appropriate spread of investments to at least three states and/or territories. Further, the NRFC measures for the level of investments, private capital and return on investments provide assessments over the forward years of the NRFC Corporate Plan. Paragraphs 4.3 and 4.5 discuss NRFC's performance measures relating to partnering and engaging with stakeholders.

121 NRFC, *Corporate Plan 2023–24*, NRFC, Canberra, 2024 [Internet], available from https://www.nrfc.gov.au/sites/default/files/documents/2024-05/nrfc_corporate_plan_2023-2024.pdf [accessed 8 December 2024].

122 NRFC, *Corporate Plan 2024–25*, NRFC, Canberra, 2024 [Internet], available from https://www.nrfc.gov.au/sites/default/files/documents/2024-08/nrfc_corporate_plan_2024-2025.pdf [accessed 8 December 2024].

123 *ibid.*, p. 14 [Internet].

124 The priority areas of the economy are outlined in National Reconstruction Fund Corporation (Priority Areas) Declaration 2023 (see paragraph 1.5).

Controls for reporting performance measures

3.77 Section 16EA of the PGPA Rule provides that performance information and methodologies are to be reliable and verifiable. As outlined at paragraph 3.34, the ARC did not review the performance reporting as part of the NRFC annual performance statement in accordance with the PGPA Rule and the ARC charter section 3.7. As outlined at paragraph 3.55, the NRFC Board meeting in April 2024 noted a paper which outlined that 46 policies and related documents remained outstanding. In May and June 2024, the NRFC Board approved seven policies¹²⁵, resulting in 39 items outstanding at June 2024.¹²⁶ The NRFC reported in its annual performance statement 2023–24 that, for the measure of ‘core corporate, risk and investment policies are finalised’, it had ‘achieved’ against this target.¹²⁷ The performance measure did not define the ‘core’ policies. In February 2025, NRFC advised the ANAO that ‘NRFC is confident that the achievement of core policies is accurate and appropriate within the Annual Report 2023–24. These core policies were identified as policies that directly related to the initial operations of the NRFC, and have been drafted, approved and put in place.’ Based on the outstanding policies and related documents at 30 June 2024, ‘core’ policies excluded records and data management policies and procedures and the fraud control policy. As outlined at paragraph 3.56, a paper to the NRFC ARC provided that 29 policy and related documents were outstanding as at March 2025.

3.78 In February 2025, the NRFC advised the ANAO that to support its 2024–25 performance reporting, the:

activities [would] include: reporting against Operating Plan and Corporate Plan ... defining performance reporting data requirements ... developing an Integrated Deal Portal to support business process and data integrity, defining specific data elements used in the Quarterly Investment Report to be reflected into internal and external performance reporting; and reviewing performance against indicators for inclusion into the next Corporate Plan and supporting internal Operating Plan.

3.79 In June 2025, the NRFC advised the ANAO that its ‘controls for performance information and methodologies for performance reporting’ are expected to ‘be in place for 2025–26.’

125 The NRFC Board approved out-of-session in May 2024 its risk management framework; compliance management framework; gifts, benefits and entertainment policy; privacy policy; credit reporting policy and incident management policy. Further, as discussed in paragraph 3.60, the Investment Policies were approved in June 2024.

126 Based on the listing of policies and related documents in the April 2024 Board paper, the 39 outstanding items as at June 2024 were the: acceptable use policy (IT); access control policy (IT); third-party cyber risk management framework; mobile phone policy; information barriers policy; information, records and data management policies and procedures; freedom of information guidance; risk appetite statement; business continuity and recovery plan; fraud control policy; ESG policy; anti-money laundering and counter-terrorism funding compliance program; modern slavery policy and remediation framework; principles for suppliers; cash investment guidelines; cash management policy; leave policy; remuneration, performance and capability policy; salary packaging; relocation expenses policy; nominees directorship policy; employee referral program guidelines; conference and seminar policy; professional memberships policy; sexual harassment policy; remote and flexible working and guidelines; media and communications and social media policy; study and development support policy; employment screening policy; reconciliation action plan; relationship with government and ministers policy; working with industry bodies, unions, NGSO’s and lobbyist policy; credit and investment criteria; investment delegations; investment lifecycle process guide; impact framework; First Nations investment screening procedures; valuation policy; security of critical infrastructure guidance.

127 NRFC annual performance statement 2023–24, *Annual Report 2023–24*, p. 23, NRFC, Canberra, 31 October 2024 [Internet], available from https://www.nrfc.gov.au/sites/default/files/documents/2024-10/nrfc_annual_report_2023-2024.pdf [accessed 8 December 2024].

4. Are fund arrangements effective?

Areas examined

This chapter examines whether the National Reconstruction Fund Corporation's (NRFC's) arrangements to manage the fund are effective, including fund promotion, investment assessments and approvals, and timeliness of investments.

Conclusion

NRFC's fund management arrangements are partly effective. The NRFC Board has approved investments without finalising its investment strategy and stakeholder engagement framework. NRFC's investment strategy and stakeholder engagement framework, listed as outputs within NRFC's Corporate Plan 2023–24, were not completed. A draft investment strategy, draft stakeholder engagement framework, and the absence of a plan to evaluate them, limits the effectiveness of the NRFC Board's fund promotion.

NRFC's processes to assess investments against its legislative requirements are developing and partly effective. NRFC's existing procedures relating to due diligence, risk management and assessing concessionality need clearly defined requirements for officials. NRFC is developing investment procedures relating to: credit risk, national security assessments, and investment impact. Investment assessment processes have gaps in: due diligence, risk management, and considerations of concessionality. NRFC's Board has not received its Embargo Register to manage associated risks. NRFC did not obtain conflict of interest declarations and confidentiality agreements from suppliers who assisted with investment due diligence.

NRFC has established investment targets; and as at 31 May 2025, NRFC had announced investments totalling \$434.5 million of a target of \$550 million. At 31 March 2025, NRFC's Board has not developed a financial strategy and aligned it to its draft investment strategy and stakeholder engagement framework, to inform and support the timely deployment of its investments.

Areas for improvement

The ANAO made five recommendations aimed at: finalising NRFC's investment strategy and stakeholder engagement framework (including evaluation arrangements); obtaining conflict of interest declarations and confidentiality agreements from suppliers; providing the NRFC Board with its Embargo Register; finalising investment assessment policies and procedures; and monitoring compliance with investment policies and procedures. The ANAO identified one opportunity to improve the consistency of documenting considerations of crowding-in and not crowding-out other market participants.

4.1 The *National Reconstruction Fund Corporation Act 2023* (NRFC Act), National Reconstruction Fund Corporation (Investment Mandate) Direction 2023 (NRFC Investment Mandate), and NRFC's internal policies establish the arrangements for considering investment proposals, decision-making for investments and administering NRFC's investments. Appropriate investment strategies and plans to promote the NRFC support stakeholders' knowledge, and that fund promotion aligns with NRFC's objectives and outcomes.

Is the Fund effectively promoted?

NRFC's Board and senior executives have engaged with Commonwealth entities, industry stakeholders and prospective applicants. NRFC's Corporate Plans for 2023–24 and 2024–25 have set out objectives and performance measures for partnering and engaging with stakeholders. In October 2023, the NRFC Board decided to formalise engagement activities. NRFC's investment strategy and stakeholder engagement framework were in draft and not finalised in 2023–24. A Stakeholder Engagement Strategy was approved by the NRFC Executive Leadership Team in May 2025. NRFC does not have a plan to periodically evaluate the effectiveness of its engagement activities. NRFC's outputs relating to its investment strategy and stakeholder engagement framework outlined in its Corporate Plan 2023–24 were not completed. NRFC has made investment decisions and engaged with stakeholders without an endorsed investment strategy and stakeholder engagement framework. A draft investment strategy and stakeholder engagement framework limit the effectiveness of the NRFC Board's fund promotion activities to achieve the performance measures it has set to deliver NRFC's performance outcomes.

4.2 Section 17 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), requires the NRFC Board as the accountable authority to encourage officials of the NRFC to cooperate with others to achieve common objectives, where practicable.¹²⁸ Section 14 of the NRFC Investment Mandate requires the NRFC Board to cooperate and collaborate with other Commonwealth entities, and with any state or territory entities.¹²⁹ Section 12 of the NRFC Investment Mandate requires the NRFC Board to consider the potential effect of NRFC's investment practices on other market participants, and the efficient operation of the Australian financial market, and avoid displacing alternative private and public sector financing in each priority area of the Australian economy, to the extent that this is reasonably practicable.¹³⁰

4.3 At its meeting on 12 October 2023, the NRFC Board decided to formalise NRFC's communication and stakeholder engagement activity. NRFC's Corporate Plan 2023–24 listed 'Stakeholder engagement framework and program is implemented' as an output for 'Partnering and engaging.'¹³¹ The measurement criteria for this output was 'List of partner organisations.' NRFC's annual performance statement assessed this 'achieved' without stating whether its stakeholder engagement framework and program was implemented. For Investments and impact the outputs were 'Investment strategy and investment policies and procedure are approved and published where relevant.' The measurement criteria were: total capital committed during calendar year 2024 and total proposal value leveraged. NRFC's annual performance statement assessed these as 'on track' without referring to the status of the investment strategy. Paragraph 4.7 discusses NRFC's draft investment strategy. NRFC's Corporate Plan 2024–25 listed 'Stakeholder

128 PGPA Act 2013, section 17.

129 National Reconstruction Fund Corporation (Investment Mandate) Direction 2023, section 14.

130 *ibid.*, section 12.

131 NRFC, *Corporate Plan 2023–24*, p. 10, NRFC, Canberra, April 2024 [Internet], available from https://www.nrfc.gov.au/sites/default/files/documents/2024-05/nrfc_corporate_plan_2023-2024.pdf [accessed 14 February 2025].

Partnership & Engagement¹³² as a key activity, with performance measures, targets and expected outcomes.¹³³

4.4 The NRFC commenced developing a stakeholder engagement framework¹³⁴ to cover the period from 2023 to 2025. The draft Stakeholder engagement framework considered a phased approach, policy objectives and priorities. The draft stakeholder engagement framework did not include a plan to evaluate the effectiveness of fund promotion and engagement activities.

4.5 Between March 2024 and June 2024, NRFC engaged two firms: Honner¹³⁵ and Frost*collective¹³⁶ to assist with developing NRFC's branding and strategic communications.

4.6 NRFC's Chief Investment Officer who commenced with the NRFC in July 2024¹³⁷ has engaged with stakeholders to promote the NRFC during September and October 2024. The CIO engaged with Specialist Investment Vehicles (SIVs), banks, industry bodies, and investment funds.

4.7 In September 2024, the NRFC Board provided feedback on NRFC's draft Investment Strategy to the Chief Investment Officer. The NRFC advised the ANAO in February 2025 that it 'anticipates further discussions with the Board regarding the (draft) Investment Strategy before the end of FY25.'

4.8 On 1 November 2024, the ANAO enquired about NRFC's timeframes to finalise its stakeholder engagement framework. In February 2025, the NRFC advised the ANAO that between March 2024 to May 2024, NRFC's Chief Executive Officer and Chief Operating Officer had promoted the NRFC 'in all capital cities'; and that 'stakeholder engagement plans' will be finalised by 'the end of FY25.' In June 2025, the NRFC advised the ANAO that the NRFC Executive Leadership Team approved the NRFC Stakeholder Strategy¹³⁸ on 16 May 2025.

4.9 NRFC's outputs relating to its investment strategy and stakeholder engagement framework outlined in its Corporate Plan 2023–24 were not completed. NRFC has engaged with stakeholders and made investment decisions without an endorsed investment strategy or stakeholder engagement framework. Paragraph 4.20 discusses NRFC's approved investments, and paragraph 4.71 discusses NRFC's approach to deploying its investments in a timely manner. A draft

132 NRFC, *Corporate Plan 2024–25*, p. 14, NRFC, Canberra, August 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-08/nrfc_corporate_plan_2024-2025.pdf [accessed 14 February 2025].

133 *ibid.*

134 In May 2025, NRFC's Executive Leadership Team approved the NRFC Stakeholder Engagement Strategy. In June 2025, NRFC advised the ANAO that the Stakeholder Engagement Strategy 2025–26 replaced the draft Stakeholder engagement framework 2023–2025.

135 Honner was engaged at a cost of \$167,915. NRFC, *Senate Order for Entity Contracts Listing 1 January 2024 – 31 December 2024*, p. 2, available from, <https://www.nrf.gov.au/sites/default/files/documents/2025-02/Senate%20Order%20for%20Entity%20Contracts%201%20January%202024-31%20December%202024.pdf> [accessed 17 February 2025].

136 Frost*collective was engaged at a cost of \$162,375. NRFC, *Senate Order for Entity Contracts Listing 1 January 2024 – 31 December 2024*, p. 1, available from <https://www.nrf.gov.au/sites/default/files/documents/2025-02/Senate%20Order%20for%20Entity%20Contracts%201%20January%202024-31%20December%202024.pdf> [accessed 17 February 2025].

137 NRFC, *National Reconstruction Fund Corporation (NRFC) announces first Chief Investment Officer*, NRFC, Canberra, 2023 [Internet], available from <https://www.nrf.gov.au/news-and-media-releases/national-reconstruction-fund-corporation-announces-first-chief-investment-officer> [accessed 9 December 2024].

138 In June 2025, NRFC advised the ANAO that the Stakeholder Engagement Strategy 2025–26 replaced the draft Stakeholder engagement framework 2023–2025.

investment strategy and stakeholder engagement framework limit the effectiveness of the NRFC Board's fund promotion activities to achieve NRFC's investment performance outcomes.

Recommendation no. 3

4.10 The National Reconstruction Fund Corporation Board finalise its investment strategy and stakeholder engagement framework and develop a plan to evaluate effectiveness.

National Reconstruction Fund Corporation response: *Agreed.*

4.11 *The NRFC's updated Stakeholder Engagement Strategy, including performance measures and KPIs was approved in May 2025 and it is being implemented. The NRFC Board noted an updated Investment Strategy in June 2025. The effectiveness of the NRFC's investment approach is measured as part of the annual performance statement. A refined set of performance measures and metrics have been developed and implemented as part of the 2025-26 corporate planning process.*

Are assessments and approvals of applications consistent with the NRFC Act and NRFC Investment Mandate?

NRFC's processes and controls to assess and approve applications are developing as at March 2025. NRFC's existing investment procedures address its legislative requirements except for national security and First Nations impact, which are under development. NRFC's approach to assessing investments has gaps in due diligence, investment risk assessment, and concessionality. These gaps impact the consistency of investment assessments, completeness of risk advice provided to the NRFC Board, and the NRFC Board's assurance over compliance with its legislative requirements. The NRFC Board has not received updates on the Embargo Register to prevent members from inadvertently dealing in entities on whom the NRFC holds inside information. NRFC has not obtained confidentiality agreements or conflict of interest declarations from suppliers undertaking due diligence on investments. There is scope to improve the consistency of documenting how NRFC's investments crowd-in and do not crowd-out other market participants.

Requirements for NRFC's investments

4.12 Section 3 of the NRFC Act provides that the NRFC was established to increase flows of finance to priority areas of the Australian economy. The explanatory memorandum to the National Reconstruction Fund Corporation Bill 2023 stated that the NRFC would 'support, diversify and transform Australia's industry and economy through targeted investments, crowding in private co-investment in projects.'¹³⁹ Paragraphs 4.49 to 4.53 discuss how NRFC's investment processes address these objectives.

4.13 As outlined in paragraph 1.5, the NRFC Act and the NRFC Investment Mandate set out requirements for NRFC's investments.

139 Parliament of Australia, National Reconstruction Fund Corporation Bill 2023, Revised Explanatory Memorandum, Clause 3: Object, p. 9, Canberra [Internet], available from https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6955_ems_1d2402ff-f993-4b24-afd5-a06b7dbd376e/upload_pdf/JC008238.pdf;fileType=application%2Fpdf [accessed 7 April 2025].

4.14 The NRFC Board has set out its Investment Policies¹⁴⁰ under section 75 of the NRFC Act; and established investment governance arrangements through the Board Investment Committee under section 48 of the NRFC Act. The NRFC advised the ANAO in February 2025 that the responsibility for assessing each investment lies with the Board Investment Committee and the NRFC Board for approval. Paragraphs 3.61 to 3.63 discuss the Board Investment Committee and paragraphs 3.58 to 3.60 discuss the Investment Policies. The NRFC has also established a management-level committee to review and provide oversight of investment decisions and make investment recommendations to the Board Investment Committee.

4.15 The NRFC has published the steps of its investment process on its website.¹⁴¹ The investment steps published online are largely consistent with the investment phases described within NRFC's Investment Approval Process document except for asset management which has not been established. In February 2025, the NRFC advised the ANAO that the 'asset management function is being recruited to currently that will bring additional process clarity.' As discussed in paragraph 3.46, the NRFC advised the ANAO that the 'position of Director Asset Management' was filled in March 2025. An overview of NRFC investment assessment and approval processes is presented in Table 4.1.

Table 4.1: NRFC's investment process

Step ^a	NRFC investment approval process phases outlined in internal documents	Paragraph
One	Pre-screen — to assess whether the investment meets NRFC's threshold requirements under the NRFC Act and NRFC Investment Mandate.	See paragraphs 4.22 to 4.29
Two	Phase 1 — Commercial evaluation — to assesses the commercial and impact of the opportunity and focuses on: whether the opportunity aligns with the NRFC Act and NRFC Investment Mandate; investment parameters; commercial risks and mitigation options; initial strategic rationale for the NRFC investment; and key risks and mitigants.	See paragraphs 4.30 to 4.59
	Phase 2 — Detailed due diligence — to validate the proponent's business plan; identify risks and outline mitigations; review historical and forecast financial performance; consider financing structure, terms and conditions, including security; review credit information (rating, default and loss data); proposed investment structure; final term sheets and transaction documents.	
Three	Documentation and financial close — to execute finance documentation, enter contracts into NRF systems, and disburse funds from the NRF to the investee.	See paragraphs 4.60 to 4.62
Four		
Five	Asset management and exit — as at March 2025, NRFC's asset management function and exit processes are yet to be developed.	See paragraph 4.15
Six		

Note a: Investment step in NRFC's investment guidance published on its website.

Source: NRFC documentation.

140 NRFC, *NRFC Investment Policies*, NRFC, Canberra, May 2024 [Internet], available from https://www.nrfc.gov.au/sites/default/files/documents/2024-06/nrfc_investment_policies_2024.pdf [accessed 9 December 2024].

141 Investment Guidance, National Reconstruction Fund Corporation, 2023, Canberra [Internet], available from <https://www.nrfc.gov.au/what-we-do/investment-guidance> [accessed 13 March 2025].

4.16 NRFC has been developing procedures and templates to support the assessment of its investments. These are: enquiries management; initial screen template; funds due diligence template; reputational risk screening procedure (effective November 2024); Investment Gate 1 and Gate 2¹⁴² report templates which include an assessment of risks associated with investments. Procedures for conducting national security assessments and undertaking shadow credit risk ratings¹⁴³ remain under development as at March 2025. Paragraphs 4.38 to 4.48 discuss the status of investment risk assessment procedures.

4.17 NRFC's initial screening process to determine which investment applications are assessed and proceed to step two of the investment process is outlined in Table 4.1. NRFC advised the ANAO in March 2025 that decisions to not consider investment applications past step one are made by the Chief Investment Officer and the Investment Team at weekly meetings.

4.18 NRFC's transaction teams 'perform and manage the key activities required' for each step of the investment process. The transaction teams comprise officials from the following business areas: Investments, Legal, Operational Risk and Compliance, Policy and Impact, and Portfolio Management. NRFC's Investment Approval Process states that the 'Transaction Team Lead must clearly define the roles and responsibilities' for all transaction team members. The Investment Approval Process document does not set out what roles and responsibilities will be established, and how they will be communicated and coordinated.

4.19 In December 2024, the NRFC advised the ANAO that a list of all investment procedures and templates for the end-to-end management of its investments was 'under development.' Further, the NRFC advised that existing templates are 'working documents that have been designed and approved by the Investment Officer and are being implemented to bring structure to consideration throughout the investment process.'

NRFC's investment processes and approvals

4.20 The NRFC announced its first investment on 19 November 2024. As at 31 May 2025, NRFC had announced nine investments.¹⁴⁴ The ANAO reviewed two of NRFC's investments.

4.21 During the design of the NRFC, the financial model estimated NRFC's investment profile as 85 per cent debt, 10 per cent equity and 5 per cent guarantees (see paragraph 2.35). Proposals for investments that have reached Phase 1 and Phase 2 are 45 per cent equity and 55 per cent debt as at 5 March 2025. Paragraph 4.15 and Table 4.1 discuss NRFC's investment phases. In February 2025, the NRFC advised the ANAO that the modelling during establishment of the NRFC had 'not been endorsed by the NRFC Board and there is no expectation that NRFC will be considering organisation performance against these metrics.'

142 Investment Gate 1 reports allow the Executive Investment Committee to approve an investment to proceed to formal due diligence and the Investment Gate 2 supports the Board Investment Committee and Board to approve an investment.

143 Shadow Credit Ratings are internal credit risk indicators used by the NRFC to assess the risk of default of its debt investments at Financial Close and at the time of ongoing Annual Review.

144 NRFC, Our Investments, Canberra, 19 November 2024 [Internet], available from <https://www.nrf.gov.au/our-investments> [accessed 10 June 2025].

Processes to provide financial accommodation that is not prohibited, constitutionally supported, in a priority area and solely or mainly Australian-based

Constitutionally-supported financial accommodation

4.22 Section 63 of the NRFC Act sets out the types of financial accommodation the NRFC Board can provide and the conditions that must be met in providing financial accommodation. As outlined in paragraphs 2.37 to 2.41, due to constitutional limitations for equity investments, NRFC's Chief Legal Officer provides the NRFC Board with legal advice and guidance on constitutional matters relating to its investments. This is undertaken during steps one and two of NRFC's investment process described in Table 4.1.

4.23 At its meeting on 24 July 2024, the NRFC Board approved the following approach to equity investments: NRFC may consider deployment of an investment note structure, or seek legal advice on relevant legislative requirements with the advice to be provided to the Board for review and discussion as part of the investment approval process.

4.24 For both investments reviewed by the ANAO, the NRFC followed the Board-approved approach to investments.

Solely or mainly Australian-based

4.25 Section 69 of the NRFC Act provides that NRFC's investments¹⁴⁵ are to be solely or mainly Australian-based. The NRFC's Guidelines on solely or mainly Australian-based investments¹⁴⁶ set out 10 factors that the NRFC Board considers. These factors are outlined in Appendix 4. The factors are not weighted.¹⁴⁷ NRFC assesses whether investments are solely or mainly Australian-based in step one and two outlined in the investment process in Table 4.1.

4.26 In the two instances reviewed by the ANAO, NRFC documented an assessment of solely or mainly Australian-based in the Phase 1 investment papers. One investment was assessed by NRFC as meeting two of 10 factors. The two factors were: where the project was primarily located and where the expenditure for the project will be incurred. The other investment was assessed as meeting three of 10 factors. The three factors were: where the project was primarily located, where the intellectual property related to the project will be primarily located and where the project's management will be primarily located.

In a priority area and not prohibited

4.27 Subsection 63(1) of the NRFC Act requires NRFC's financial accommodation to be provided for purposes relating to priority areas of the Australian economy. NRFC assesses and documents this during steps one and two of the investment process outlined in Table 4.1. For both investments

145 References to investments include those made by the NRFC or a designated subsidiary of the NRFC.

146 NRFC Guidelines on solely or mainly Australian-based, NRFC, Canberra, 2024 [Internet], available from <https://www.nrfc.gov.au/what-we-do/investment-guidance/guidelines-solely-or-mainly-australian-based-investments> [accessed 8 March 2025].

147 In response to a question at Senate Estimates about whether the factors are weighted, the NRFC's acting Chief Executive Officer stated that 'The guidance ... lists a number of factors that the board will have regard to when considering the nature of the investment and the extent to which it is wholly, solely or mainly Australian based. There isn't a particular weighting on any one of those factors over another.' Senate Economics Legislation Committee, p. 94, Canberra, 5 June 2024 [Internet], available from https://www.apf.gov.au/-/media/Estimates/economics/bud2425/Hansards/Economics_Legislation_Committee_2024_06_05.pdf [accessed 3 April 2025].

reviewed by the ANAO, NRFC documented the priority area each investment related to in the Phase 2 investment papers presented to the NRFC Board.

4.28 Subsection 63(3) of the NRFC Act prohibits the NRFC from directly financing: the extraction of coal or natural gas, or the construction of pipeline infrastructure primarily for extracting natural gas, or the logging of native forests. NRFC assesses whether proposed investments are prohibited during steps one and two of the investment process outlined in Table 4.1.

4.29 In both instances reviewed, NRFC documented how the investments did not contravene subsection 63(3) of the NRFC Act in the Phase 1 investment papers.

Investment due diligence processes

4.30 Section 9 of the NRFC Investment Mandate requires NRFC to undertake appropriate due diligence and credit and investment risk assessment in targeting its rate of return. Paragraph 4.60 discusses the rate of return consideration when investments are approved. NRFC undertakes due diligence during steps one and two of the investment process outlined in Table 4.1. The Investment Approval Process document states that the Phase 1 investment paper will ‘include a proposed execution plan’ and the ‘scope of due diligence.’ In relation to the investment due diligence process, NRFC’s Investment Approval Process document does not outline:

- how the NRFC assesses and reports potentially adverse information to the NRFC Board;
- circumstances in which NRFC will place reliance on due diligence undertaken for counterparties, and who within the NRFC can approve reliance on these due diligence reports; or
- records management requirements in relation to source documents and NRFC’s decisions on investment due diligence reports.

4.31 NRFC’s Investment Approval Process document sets out that investments are presented to the Board Investment Committee for decision-making after all relevant due diligence has been completed. NRFC undertakes this as part of the Phase 2 investment paper in step two of the investment process outlined in Table 4.1.

4.32 NRFC undertook due diligence for both investments. For one investment:

- there was no evidence of NRFC’s financial due diligence on a counterparty;
- NRFC relied on financial, taxation and legal due diligence reports requested by, and completed for a counterparty — despite advice from the counterparty that NRFC could not rely on those due diligence reports as they were not completed for NRFC’s purposes;
- there was no evidence of how risks identified from due diligence relating to income tax compliance, superannuation guarantee compliance and the classification of employees and contractors were assessed by NRFC’s investment team and reported to the NRFC Board.¹⁴⁸ External advice sourced by NRFC on the due diligence reports did not identify ‘any red flags which would materially impact NRFC or prevent NRFC’s entry into the transaction, but have indicated a number of issues that NRFC should be aware of’. One matter was flagged as ‘NRFC to note for reputational risk assessment.’ This external advice

148 In March 2025, NRFC advised the ANAO that the investment team discussed these matters and determined that they were not material to raise with the NRFC Board. Documentation of NRFC’s assessment of the materiality of this information was not available.

was provided to the NRFC after the NRFC Board had approved the investment and the investment agreement had been executed. NRFC Board papers since the approval of the investment do not refer to this information; and

- the Chief Investment Officer did not sign-off on the final technical due diligence report which was listed as a condition in the NRFC Board paper which sought the NRFC Board's approval for the investment.

4.33 NRFC's Conflict of Interest Policy requires the confirmation and monitoring of conflicts of interest when engaging suppliers. NRFC's Investment Approval Process document does not refer to NRFC's Conflict of Interest Policy, or how conflicts of interest of the transaction team or of external parties engaged to support investments are managed. The ANAO *Audit Insights on Management of Conflicts of Interest in Procurement Activity and Grant Programs* states: It is important that ... an appropriate process is implemented to monitor whether disclosures may need to be updated, including in cases where the role of individuals change.¹⁴⁹

4.34 For both investments reviewed by the ANAO, in March 2025, NRFC advised that it did not obtain conflict of interest declarations or confidentiality agreements from suppliers undertaking due diligence. Better practice on handling confidential, market-sensitive information suggests that 'it is good practice for companies to bind their advisers and other service providers by entering into confidentiality agreements before passing on confidential, market-sensitive information.'¹⁵⁰ Following ANAO enquiries, both these matters were added into NRFC's incident register. The conflict of interest matter was described as an 'ANAO identified' incident where the 'vendor due diligence process not followed'. The matter relating to confidentiality agreements was recorded as an 'Employee identified' incident with the description 'lack of CA [Confidentiality Agreements]'. The NRFC incident register is further discussed at paragraph 3.42.

Recommendation no. 4

4.35 The National Reconstruction Fund Corporation:

- (a) obtain conflict of interest declarations from its suppliers who assist with investment due diligence and re-validate declarations when the due diligence report is finalised, as part of the monitoring of conflicts of interests; and
- (b) execute confidentiality agreements with suppliers who assist it with its investments.

National Reconstruction Fund Corporation response: *Agreed.*

(a) The NRFC's management of conflicts of interest requires its suppliers undertaking investment due diligence assessments (and related work) to provide declarations prior to commencing this work. The process has been updated to ensure further assurance is obtained prior to investment decisions being taken and to ensure this is appropriately documented.

149 Australian National Audit Office, *Insights: Management of Conflicts of Interest in Procurement Activity and Grant Programs*, ANAO, Canberra, June 2020, available from <https://www.anao.gov.au/work/audit-insights/management-of-conflicts-of-interest-in-procurement-activity-and-grants-programs> [accessed 12 March 2025].

150 *Handling confidential, market-sensitive information: Principles of good practice*, Governance Institute of Australia & Australian Investor Relations Association, 2014, p. 5 [Internet], available from <https://www.asx.com.au/content/dam/asx/about/corporate-governance-council/160215-handling-confidential-information-guidance.pdf> [accessed 1 April 2025].

(b) The NRFC processes require confidentiality undertakings from its suppliers, where appropriate, to protect the NRFC's confidential information. Such undertakings can take the form of a specific confidentiality agreement or the inclusion of provisions in broader supply agreements. Where reliance is placed on due diligence reports provided by an external adviser, confidentiality undertakings may be included in the underlying engagement agreement or reliance letter.

Investment risk management processes

Investment risk management

4.36 Section 75 of the NRFC Act and section 13 of the NRFC Investment Mandate outline NRFC's requirements to manage risks to investments and the Commonwealth's reputation. Paragraph 10(2)(b) of the NRFC Investment Mandate requires the NRFC to have regard to national security. NRFC's Risk Management Framework (February 2024) outlines how investment risks are assessed for: debt investments, equity investments in managed funds, and direct equity investments. For debt investments, the Risk Management Framework refers to NRFC's Shadow Credit Rating Methodology to assess the expected loss in the event of a default. As of March 2025, NRFC's Shadow Credit Rating Methodology was in draft. NRFC's Risk Management Framework does not refer to risk analysis requirements for guarantees, or to Constitutional risks for direct equity investments.

4.37 NRFC's Risk Appetite Statement states that it has a higher risk appetite for equity investments, credit risk, and equity risk, to achieve policy outcomes. NRFC's risk appetite for reputational damage and policy outcomes is 'as low as reasonably practical.' NRFC's Risk Management Framework does not outline criteria to assess risks to determine whether they are within the NRFC Board's risk appetite. Investment templates and procedures such as the reputational risk screening procedure do not outline how information relating to an entity's ownership, key management personnel, environmental record, associations, and taxation compliance, may impact the reputational risk rating of an investment.

4.38 The Risk Management Framework states that 'Investment criteria and guidelines are set out in the NRFC Investment Policies and various internal risk management guidelines.' The ANAO requested information on the 'various internal risk management guidelines' on 13 November 2024. In March 2025, NRFC provided the ANAO with its draft Investment Risk guidelines.

4.39 For both investments reviewed by the ANAO the investment papers presented to the NRFC Board outlined risks specific to each investment and mitigation actions.

Reputational risk management

4.40 Section 13 of the NRFC Investment Mandate states that the Corporation 'must not ... act in a way that is likely to cause damage to the Commonwealth's reputation.' NRFC assesses reputational risks to its investments during step 2 of the investment process outlined in Table 4.1. As outlined in paragraph 4.37, NRFC's investment documents do not outline criteria to assess information against the NRFC's Board risk appetite.

4.41 The provision of financial accommodation by NRFC may be a designated service under section 6 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*. In June 2025, NRFC advised the ANAO that 'cases of financial accommodation through an equity investment ... are not considered a designated service'. Section 4.12.1 of the *Anti-Money Laundering and*

Counter-Terrorism Financing Rules Instrument 2007 (No. 1)¹⁵¹ requires entities such as NRFC to identify the beneficial owner or owners before providing the designated service, or as soon as possible after the service has been provided. The NRFC has established an Anti-Money Laundering and Counter-Terrorism Financing Compliance Program and undertakes a reputational risk assessment that considers: entity structure, directors, key management personnel and shareholders. Details of the ultimate beneficial owners helps identify where controlling or parent entities are based and incorporated. For both investments reviewed by the ANAO, a reputational risk assessment prepared and considered by the NRFC Investment team was not presented to the NRFC Board. One of the investments was considered a designated service by the NRFC. For this investment, NRFC advised the ANAO in June 2025, that it obtained details of the ultimate beneficial owner before investment funding was provided.

4.42 As discussed in paragraph 3.70, NRFC Personal Trading and Embargo Register policy requires NRFC Board members to be ‘familiar with entities listed on the relevant embargo register’ and to not trade in those entities. In February 2025, the NRFC advised the ANAO that ‘the contents of the Embargo Register are not shared with the Board’ as the NRFC ‘proactively applies conflict management arrangements to minimise the actual or potential risk of a Board member improperly using information accessed, gained or made available by virtue of their role.’

4.43 The NRFC further advised the ANAO that a reference to NRFC Board members to be ‘familiar with entities listed on the relevant embargo register’:

is intended to refer to the Board members’ responsibility for handling potential Inside Information in accordance with the PGPA Act and the Corporations Act generally, and not to the procedural aspect of whether the entity in question is listed on the internal Embargo Register.

4.44 As at March 2025, the NRFC Board had not been provided with details of entities listed on the Embargo Register to prevent NRFC Board members from inadvertently dealing in entities on whom the NRFC holds inside information.

Recommendation no. 5

4.45 The National Reconstruction Fund Corporation Board should be informed of the risks associated with its Embargo Register.

National Reconstruction Fund Corporation response: Agreed.

4.46 *The NRFC maintains a robust assurance system to assist Board members in managing risks associated with investment decisions, which is in line with published best practice for similar organisations. Access to, and use of, the NRFC Embargo Register is managed through a dedicated team, with Board members informed about risks with the Embargo Register on a case-by-case basis. We will work with the Board to identify any necessary practice improvements.*

National security assessments

4.47 Paragraph 10(2)(b) of the NRFC Investment Mandate requires the NRFC to have regard to national security. NRFC is developing its national security assessment methodology and considers

151 Section 4.12.1, Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1), available from <https://www.legislation.gov.au/F2007L01000/latest/text> [accessed 8 March 2025].

the list of Critical Technologies in the National Interest.¹⁵² In February 2025, the NRFC advised the ANAO that it had consulted relevant Commonwealth entities on its approach, and that it plans to align its screening procedures with better practice due diligence tools. In March 2025, NRFC advised the ANAO that this work was ongoing. In June 2025, NRFC advised the ANAO that ‘National Security Assessments and supporting processes have been in place since March 2025.’

4.48 Of the two investments reviewed by the ANAO, NRFC assessed one investment as requiring a national security assessment. NRFC’s national security assessment for that investment outlined how the ‘deal was expected to reduce Australia’s national security risk over time.’

Investment impact assessment processes

4.49 Paragraph 12(a) of the NRFC Investment Mandate requires the NRFC to consider impacts of its investment practices on other market participants; and the efficient operation of the Australian financial market. Paragraph 12(b) of the NRFC Investment Mandate requires the NRFC to avoid displacing alternative private and public sector financing in each priority area of the Australian economy, to the extent that this is reasonably practicable.

4.50 NRFC assesses the impact of an investment on other market participants during phase one and two of the investment approval process outlined in Table 4.1. For one investment reviewed by the ANAO, the NRFC Board paper outlined other private and public investors who were contributing to funding, and that the NRFC’s investment would not proceed unless a minimum investment from other private and public investors was made. The impact assessment presented to the NRFC Board stated that the investee’s management believed ‘that NRFC’s investment will help crowd-in’ more capital; and that NRFC’s investment would facilitate ‘the flows of capital into the business.’ For the other investment by the ANAO, the impact assessment stated that the ‘investment structure also offers potential follow-on investment opportunities to support business growth’. The NRFC Board paper did not outline how the investment would contribute to crowding-in and not crowding-out other market participants.

4.51 Paragraph 17(3A) of the NRFC Act requires the Board to have regard to the desirability of: transforming Australia’s industry and economy; attracting private sector finance into priority areas; supporting decarbonisation; creating secure jobs and a skilled and adaptable workforce; enhancing Australia’s resilience against supply chain vulnerabilities; and encouraging the commercialisation of Australian innovation and technology. NRFC assesses these factors during steps one and two of the investment approval process outlined in Table 4.1. For both investments reviewed by the ANAO, NRFC documented how each investment supported Australia’s industrial capability and value-adding opportunities; decarbonisation; creating secure jobs; enhancing supply chain resilience; and encouraging the commercialisation of Australian innovation and technology.

4.52 Subsection 17(4) of the NRFC Act requires the Board to have regard to the desirability of encouraging and improving economic participation by historically underrepresented groups, including: women, and First Nations Australians; and people with a disability; and people of culturally and linguistically diverse backgrounds. Further, paragraph 75(1)(ca) of the NRFC Act requires the Board to consider environmental, social, labour and governance matters in making

152 List of Critical Technologies in the National Interest, Department of Industry, Science and Resources, Canberra, May 2023 [Internet], available from <https://www.industry.gov.au/publications/list-critical-technologies-national-interest> [accessed 8 March 2025].

investments. NRFC's Impact and Policy team assesses the impact of investments during step 2 of the investment process outlined in Table 4.1.

4.53 In December 2024, the NRFC advised the ANAO that it considers the impact of investments on all underrepresented groups stated in the legislation. For both investments reviewed by the ANAO, NRFC documented its assessment of the investment impact of 'encouraging and improving economic participation by historically underrepresented groups' in the Phase 2 investment papers that were presented to the NRFC Board. For one investment, an assessment of improving economic participation by women and people of diverse backgrounds was referred to. An assessment of First Nations Australians and people with a disability was not documented. For the second investment, gender equity and representation was considered. An assessment of First Nations Australians, people with a disability, and people from culturally and linguistically backgrounds was not documented.

4.54 As outlined in paragraph 4.32, for one investment, matters identified by the external due diligence reports on an investee's taxation compliance, superannuation guarantee compliance, and classification of employees and contractors were not documented in the impact assessment presented to the NRFC Board.

4.55 Subsection 19(1) of the NRFC Investment Mandate requires the NRFC to ensure that an Australian Industry Participation plan is completed for an investment where required by the Australian Government's Australian Industry Plan policy.

4.56 The NRFC assesses the requirement for Australian Industry Participation plans through a questionnaire. For one approved investment NRFC assessed it within the threshold for an Australian Industry Participation Plan. In this instance, NRFC consulted the Department of Industry, Science and Resources (DISR) which advised that an Australian Industry Participation plan was not required as 'it is unlikely to further increase opportunities for Australian industry.'

Opportunity for improvement

4.57 The National Reconstruction Fund Corporation could document consistently how its investments crowd-in and do not crowd-out other market participants.

Limits on investments and concessionality

4.58 Sections 16, 17 and 18 of the NRFC Investment Mandate set out limits and conditions for the NRFC Board providing guarantees and concessional financial accommodation. NRFC may document whether investments are concessional in the Phase 1 investment paper, during step two of the investment process outlined in Table 4.1. The Phase 1 template does not outline the considerations officials must have when assessing whether the financial accommodation is concessional. Further, NRFC prepares accounting policy position papers which may document the NRFC's position on whether the terms of the financial accommodation are concessional.

4.59 As discussed at paragraph 4.58, section 16 of the NRFC Investment Mandate requires the NRFC Board to be satisfied that concessional financial accommodation is the most appropriate way of achieving policy outcomes, based on reasonable qualitative assessment, and the concessionality

is the minimum that would achieve benefits and allow the investment to proceed.¹⁵³ NRFC presented draft accounting policy position papers for both investments to the NRFC Audit and Risk Committee after the investments had been approved by the NRFC Board. In one instance, considerations of concessionality were documented in the Phase 1 investment paper and the accounting policy position paper. For the other investment, considerations of concessionality were not documented.

Investment approvals

4.60 As discussed in paragraph 3.64, the NRFC Board has issued investment delegations to the NRFC CEO under section 88 of the NRFC Act. In approving investments, the NRFC Board considers the amount of investment sought, NRFC's assessment of the expected rate of return, associated risks, and compliance with legislative requirements. The NRFC Board also considers the recommendation of the Board Investment Committee for each investment. The NRFC Board's decisions on investments are recorded in the NRFC Board's meeting minutes. Investments are approved in steps three and four of the investment process outlined in Table 4.1.

4.61 In one instance reviewed by the ANAO, the NRFC Board approved an amount that was higher than the amount in the investment papers. The higher amount was considered by the Board Investment Committee, where the minutes stated that it had considered a higher revised amount which was 'a result of another key investor adjusting the quantum [*sic*] their proposed investment.' The NRFC's Board's minutes do not document the deliberations of the higher amount.

4.62 In another instance reviewed by the ANAO, the Investment Management Agreement stated that the NRFC at its discretion could invest an additional amount which was equal to the NRFC Board-approved amount. There was no evidence of the Board's approval of the discretionary amount. In March 2025, the NRFC advised the ANAO that the option to exercise the discretionary amount 'would need further approval from the Board.'

Recommendation no. 6

4.63 The National Reconstruction Fund Corporation Board:

- (a) ensure existing procedures outline the roles and responsibilities of relevant officials and executives and set out the minimum requirements for due diligence, risk management, assessing concessionality and record keeping; and
- (b) finalise and endorse investment procedures that are under development to assess, approve and manage investments.

National Reconstruction Fund Corporation response: Agreed.

(a) The NRFC will review and update its existing procedures relating to investment assessment, approvals and management in Q1 2025/26 to ensure the minimum requirements and roles and responsibilities of relevant officials and executives are clearly articulated.

(b) The NRFC has procedures in place to support the robust assessment of investments. In line with an approach to continual improvement as the Corporation matures, the regular review and update of these investment procedures will be prioritised to ensure consistent assessment,

153 NRFC Investment Mandate Direction 2023 Explanatory Statement, Canberra, 2023 [Internet], available from <https://www.legislation.gov.au/F2023L01564/latest/downloads> [accessed 14 February 2025].

approval and management of investments. The next review of these procedures will be completed in Q1 2025/26.

Recommendation no. 7

4.64 The National Reconstruction Fund Corporation Board establish assurance arrangements and assign responsibilities to ensure the consistent:

- (a) application of investments in accordance with the *National Reconstruction Fund Corporation Act 2023* and National Reconstruction Fund Corporation (Investment Mandate) Direction 2023; and
- (b) storage of records for investment assessment processes, assessments and decisions.

National Reconstruction Fund Corporation response: *Agreed.*

4.65 *The NRFC has robust processes in place to ensure appropriate assessment of investment proposals consistent with the investment approach is articulated on our website. All investment papers contain information to enable decision makers to form a view on the proposal against the requirements set out in our legislative framework.*

4.66 *The NRFC will review these processes and establish assurance arrangements to ensure consistent presentation and assessment of legislative requirements, as well as processes for appropriate record keeping of investment documentation in line with legislative obligations and the Corporation's own requirements. This work is expected to be completed by the end of Calendar Year 2025.*

Have investments occurred in a timely manner?

NRFC's budget estimates and performance measures establish investment targets across the current and forward years from 2024–25 to 2027–28. As at 31 May 2025, NRFC had announced investments totalling \$434.5 million against a target of \$550 million for 2024–25. The NRFC Board has established quarterly monitoring arrangements for its investment target through its 'Operating Plan FY2025.' NRFC took between six and nine months to assess and approve investments reviewed by the ANAO. As at 31 March 2025, NRFC's Board has not developed a financial strategy that links with its investment strategy and stakeholder engagement framework to support it to deploy investments in a timely manner, and to generate returns to fund its operating expenses.

4.67 The Portfolio Budget Statement 2023–24 for the Industry, Science and Resources Portfolio¹⁵⁴ provided the first set of budget estimates for NRFC prior to its commencement on 18 September 2023. The budget provides an estimate of \$325 million in advances and loans and \$25

154 *Portfolio Budget Statements 2023–24, Budget Related Paper No. 1.11 — Industry, Science and Resources Portfolio*, DISR, Canberra, 9 May 2023, p. 203 [Internet], available from industry.gov.au/sites/default/files/2023-05/2023-24-department-of-industry-science-resources-pbs.pdf [accessed 9 December 2024].

million of investments in shares for 2023–24.¹⁵⁵ The NRFC financial statements 2023–24 reported zero investments against these estimates.¹⁵⁶

4.68 NRFC has established a performance measure of when investments are to occur on an annual basis for the four-year period of its Corporate Plan 2024–25. Table 4.2 outlines the revised investment targets published in the NRFC Corporate Plan 2024–25.¹⁵⁷

Table 4.2: NRFC investment targets 2024–25 to 2027–28, NRFC performance measures

Financial year	Investment targets (\$ million)
2024–25	550
2025–26	1,050
2026–27	2,505
2027–28	3,050

Source: NRFC Corporate Plan 2024–25

4.69 NRFC established internal monitoring against its investment target as part of Board reporting arrangements. At its July 2024 meeting, the NRFC Board approved the NRFC Operating Plan FY2025 and Budget. The Operating Plan FY2025 specifies that the measure for NRFC's investment target is to be monitored on a quarterly basis. The first reporting to the NRFC Board of its Operating Plan FY2025 occurred at its October 2024 meeting. Against the 2024–25 investment target of \$550 million, the NRFC Board paper reported zero investments made during the first quarter. As at 31 May 2025, the NRFC had announced nine investments totalling \$434.5 million.¹⁵⁸

4.70 As discussed at paragraph 3.22, as at 31 March 2025, NRFC did not have a financial strategy that links with its draft investment strategy and draft stakeholder engagement framework¹⁵⁹ to drive investment decisions. NRFC's investment targets are not supported by formal plans to deploy investments in a timely manner to generate returns and fund operating expenses. In June 2025, NRFC advised the ANAO that it is consolidating existing plans into an overarching Financial Strategy for 2025–26 that will be endorsed by the NRFC Board in September 2025.

4.71 NRFC has not established time-based targets for the six main steps¹⁶⁰ in its investment process. In February 2025, the NRFC advised the ANAO that it 'is not considering time-based targets for the investment process beyond the existing time expectations for general enquiries that is reflected in our Corporate Plan.' NRFC's performance target for general enquiries in its Corporate

155 *ibid.*, column '2023–24 Budget', p. 217.

156 NRFC, *NRFC Annual Report 2023–24*, p. 58, NRFC, Canberra, 31 October 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-10/nrfc_annual_report_2023-2024.pdf [accessed 9 December 2024].

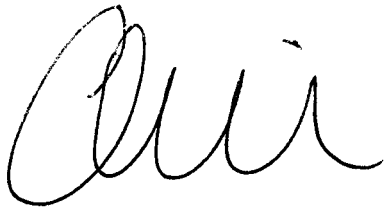
157 NRFC, *Corporate Plan 2024–25*, p. 14, NRFC, Canberra, August 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-08/nrfc_corporate_plan_2024-2025.pdf [accessed 9 December 2024].

158 NRFC, *Our investments*, Canberra [Internet], available from <https://www.nrf.gov.au/our-investments> [accessed 17 June 2025].

159 In May 2025, NRFC's Executive Leadership Team approved the NRFC Stakeholder Engagement Strategy. In June 2025, NRFC advised the ANAO that the Stakeholder Engagement Strategy 2025–26 replaced the draft Stakeholder engagement framework 2023–2025.

160 NRFC, *Investment Guidance*, NRFC, Canberra, 6 November 2024 [Internet], available from <https://www.nrf.gov.au/what-we-do/investment-guidance> [accessed 10 December 2024].

Plan 2024–25 is ‘90% of general enquiries responded to in 10 days.’¹⁶¹ The Operational Plan FY2025 outlines that this target is monitored monthly through a ‘Stakeholder Engagement Tracker.’ For the two investments reviewed by the ANAO, NRFC took between six and nine months to assess and approve the investments. In June 2025, NRFC advised the ANAO that engagement with applicants during application assessments is iterative and depends on a range of factors.



Dr Caralee McLiesh PSM
Auditor-General

Canberra ACT
20 June 2025

161 NRFC, *Corporate Plan 2024–25*, p. 14, NRFC, Canberra, August 2024 [Internet], available from https://www.nrf.gov.au/sites/default/files/documents/2024-08/nrfc_corporate_plan_2024-2025.pdf [accessed 10 December 2024].

Appendices

Appendix 1 Entity responses

National Reconstruction Fund Corporation



Dr Caralee McLiesh PSM
Auditor-General
Australian National Audit Office

13 June 2025

Dear Dr McLiesh,

ANAO Performance Audit Report on the Design and Establishment of the National Reconstruction Fund Corporation (NRFC)

Thank you for your correspondence of 16 May 2025 seeking comment in response to the Australian National Audit Office's Performance Audit of the Design and Establishment of the National Reconstruction Fund Corporation (NRFC).

The NRFC welcomes the ANAO's report and its findings that the NRFC's governance arrangements are largely sound. As the report notes, the NRFC was established on 18 September 2023, with the Performance Audit commencing less than a year into its operations. This early assessment of the Corporation's governance processes provides assurance of the direction taken and offers useful insights to inform the Corporation's approach to continuous improvement.

The Board is committed to ensuring the systems of assurance and oversight are supporting the NRFC's delivery of its mandate. The NRFC agrees with all recommendations and their implementation will be overseen by the NRFC's Audit and Risk Committee.

We note that in all areas identified by the ANAO, active steps are being taken to ensure effective governance processes, including a number of areas where the recommended actions are already complete or where significant progress has already been achieved.

- NRFC's performance reporting systems and processes have been enhanced.
- The NRFC's Stakeholder Engagement Strategy has been updated and was approved in May 2025. Its implementation has already commenced.
- An updated NRFC Investment Strategy was noted by the Board at its meeting in June 2025.

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nrf.gov.au

- Access to, and use of, the NRFC Embargo Register is managed through a dedicated team, with Board members informed about risks on a case-by-case basis, in line with industry best practice.
- Implementation of the organisation's National Security Assessments and supporting processes have been in place since March 2025 and are fully integrated into our investment decision frameworks.

Further work is underway to fully implement the remaining recommendations.

We would like to thank the ANAO audit team for the professional and collaborative manner in which they conducted the audit. The ANAO's recommendations and insights are timely and will provide the Board and management with effective guidance in positioning the organisation for success in the future.

Yours sincerely,



Martijn Wilder AM
Chair



Kathryn Presser AM
Chair – Audit and Risk Committee



David Gall
Chief Executive Officer

Department of Industry, Science and Resources



Australian Government
Department of Industry,
Science and Resources

OFFICE OF THE SECRETARY

Meghan Quinn PSM

Dr Caralee McLiesh PSM
Auditor-General for Australia
Australian National Audit Office
Via email: OfficeoftheAuditorGeneralPerformanceAudit@anao.gov.au

Dear Dr ~~McLiesh~~ *Caralee*

Proposed report under s.19 of the *Auditor-General Act 1997*: Design and Establishment of the National Reconstruction Fund Corporation: Extract for the Department of Industry, Science and Resources

Thank you for providing the Department of Industry, Science and Resources (the department) the opportunity to comment on the Australian National Audit Office's (ANAO) above-mentioned report extract. I note we have received extracts of the report as it relates to the department and have therefore not commented on the document in its entirety.

In 2022, the Australian Government committed to the establishment of the National Reconstruction Fund (NRF) to support, diversify and transform Australia's industry and economy, helping to create secure, well-paid jobs, securing future prosperity, and driving sustainable economic growth.

As noted in the report extracts, the department together with the Department of Finance (DoF) led the design and establishment of the NRF Corporation (NRFC). The NRFC is a corporate Commonwealth entity governed by Board investing in Australian businesses using direct loans, equity investments, and guarantees.

To support the design and establishment of the NRFC, the department undertook extensive stakeholder engagement and public consultation to inform thorough analysis and advice to government. This process yielded nearly 1,500 suggestions from Commonwealth, state and territory governments to inform the process, and over 250 submissions from a diverse range of external stakeholders. The department facilitated more than 48 virtual consultations and engaged with over 430 organisations and individuals through targeted roundtables and one-on-one meetings.

Consultations included engagement with business and peak industry organisations, unions, financiers, other Special Investment Vehicles, indigenous stakeholders, regional development associations, state and territory governments and members of the public. Additionally, 10 whole-of-government interdepartmental committee meetings were convened and led by this department.

To provide advice to the Ministers, a secretary's interdepartmental committee was also established. To ensure strategic input and sectoral breadth, a reference group comprising respected professionals from various fields was established, alongside the formation of industry working groups to provide detailed insights across each priority area.

All of this work informed advice to government, the approach, structure and design of the NRF, and the legislation subsequently passed Parliament. By September 2023, the NRFC had been established.

Despite the extensive nature of the consultation and the efficiency with which the NRFC was established, the department accepts the opportunity for improvement outlined in our extract of the section 19 report. We are currently working to align our processes with the Department of Finance's recent guidance documents, including RMG 127 (released in July 2024) in relation to Specialist Investment Vehicles, to ensure full and accurate record keeping.

May I extend my thanks to the ANAO for its professionalism and collaborative approach throughout this audit process.

Yours sincerely

A handwritten signature in black ink, appearing to be 'MG' followed by a flourish.

13 June 2025

Department of Finance



Australian Government Department of Finance

Jenny Wilkinson PSM
Secretary

Our Ref: EC25-000798

Dr Caralee McLiesh PSM
Auditor-General for Australia
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr McLiesh *Caralee*

Thank you for your letter of 16 May 2025 providing an extract of your proposed audit report on the Design and Establishment of the National Reconstruction Fund Corporation.

Finance wishes to thank the Australian National Audit Office (ANAO) for its collaboration and engagement throughout this audit. Finance welcomes the opportunity to continue to improve our internal processes relating to the establishment and governance of the National Reconstruction Fund Corporation (NRFC) and the Specialist Direct Investment Vehicles more broadly.

Finance acknowledges the conclusion that the design process for the NRFC was largely effective except for documentation of due diligence checks for one member of the NRFC Board. While RMG 127 – Specialist Investment Vehicles (RMG 127) was not in effect when the NRFC was established Finance accepts the suggested area for improvement, consistent with RMG 127, that NRFC board appointment processes and considerations should be accurately and fully documented.

Finance is committed to the effective implementation of ANAO recommendations and suggested areas for improvement and has already taken steps to address those identified in this audit.

Yours sincerely

A handwritten signature in blue ink that reads "J. Wilkinson".

Jenny Wilkinson
Secretary

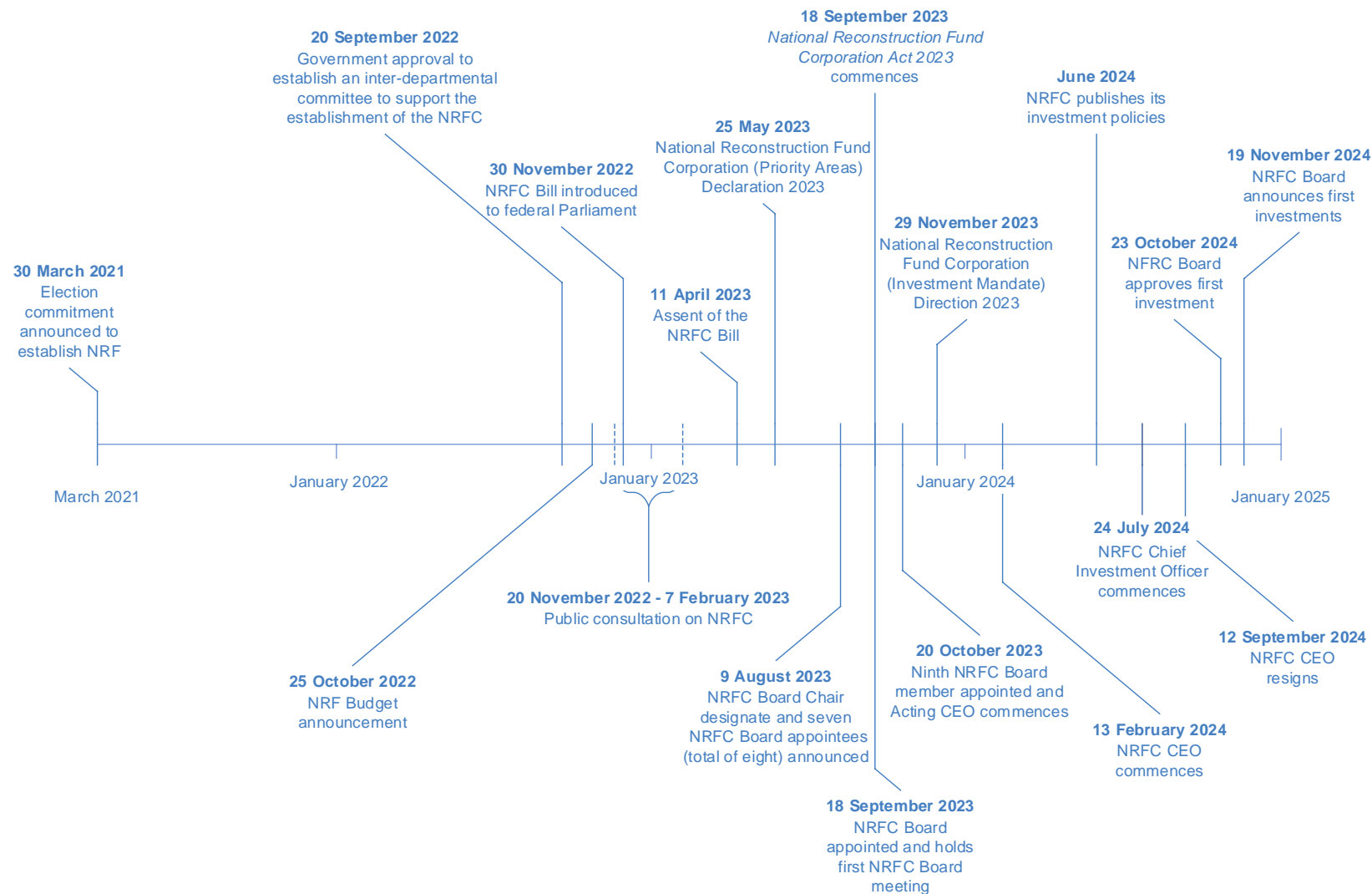
11 June 2025

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Appendix 2 Improvements observed by the ANAO

1. The existence of independent external audit, and the accompanying potential for scrutiny improves performance. Improvements in administrative and management practices usually occur: in anticipation of ANAO audit activity; during an audit engagement; as interim findings are made; and/or after the audit has been completed and formal findings are communicated.
2. The Joint Committee of Public Accounts and Audit (JCPAA) has encouraged the ANAO to consider ways in which the ANAO could capture and describe some of these impacts. The ANAO's corporate plan states that the ANAO's annual performance statements will provide a narrative that will consider, amongst other matters, analysis of key improvements made by entities during a performance audit process based on information included in tabled performance audit reports.
3. Performance audits involve close engagement between the ANAO and the audited entity as well as other stakeholders involved in the program or activity being audited. Throughout the audit engagement, the ANAO outlines to the entity the preliminary audit findings, conclusions and potential audit recommendations. This ensures that final recommendations are appropriately targeted and encourages entities to take early remedial action on any identified matters during the course of an audit. Remedial actions entities may take during the audit include:
 - strengthening governance arrangements;
 - introducing or revising policies, strategies, guidelines or administrative processes; and
 - initiating reviews or investigations.
4. In this context, the below actions were observed by the ANAO during the course of the audit. It is not clear whether these actions and/or the timing of these actions were planned in response to proposed or actual audit activity. The ANAO has not sought to obtain assurance over the source of these actions or whether they have been appropriately implemented.
 - Following ANAO enquiries, the NRFC Board formally documented its approval of the NRFC Work Health and Safety Policy in January 2025. The policy was initially tabled to the NRFC Board in February 2024. (See paragraph 3.54)
 - NRFC provided updates on the development of its corporate policies at the January 2025 meeting of the NRFC Board and the March 2025 meeting of the NRFC Audit and Risk Committee. (See paragraph 3.56)
 - In June 2025, NRFC advised the ANAO that the NRFC Board had approved its Accountable Authority Instructions. (See paragraph 3.57)
 - In June 2025, NRFC advised the ANAO that the NRFC Executive Leadership Team approved the NRFC Stakeholder Strategy on 16 May 2025. (See paragraph 4.8)
 - NRFC documents identified that it had commenced a review of its vendor due diligence processes and its investment approval processes to complete confidentiality agreements. (See paragraph 4.34)
 - In June 2025, NRFC advised the ANAO that 'While the NRFC does not provide directors or employees access to the Embargo Register' it maintains 'a robust assurance system for ensuring access to inside information is precluded for all staff and Board members' and that 'upcoming Board meetings will further consider ongoing arrangements.' (See paragraph 4.44)
 - In June 2025, NRFC advised the ANAO that its National Security procedures were in place since March 2025. (See paragraphs 4.47 to 4.48)

Appendix 3 Timeline of key events in the design and establishment of the National Reconstruction Fund Corporation



Source: ANAO analysis of Department of Industry, Science and Resources records, National Reconstruction Fund Corporation records and public information.

Appendix 4 NRFC Guidelines on solely or mainly Australian-based investments

1. Section 69 of the *National Reconstruction Fund Corporation Act 2023* provides that the NRFC Board must take reasonable steps to ensure that each investment is at all times solely or mainly Australian-based. In making this determination, NRFC's Guidelines on solely or mainly Australian-based investments¹⁶² provide that the NRFC Board would consider:

- where the relevant project will be primarily located
- where the relevant project will be primarily used or exploited
- where the activity being funded by the investment will be primarily undertaken
- where the expenditure for the project will be primarily incurred
- where the intellectual property related to the project will be primarily located
- where the project's management will be primarily located
- where the project's operational activities will be primarily located
- whether (and to what extent) any benefits will flow to Australia in a manner consistent with the object of the NRFC Act and functions of the NRFC set out in the NRFC Act
- the nature of the investment recipient's nexus (or proposed nexus) with Australia, including without limitation, the current or future location of its assets, employees, costs and/or revenues and whether it is (or plans to be) registered with the Australian Taxation Office (ATO) with an Australian Business Number (ABN)
- any other matters the Board deems appropriate in the circumstances.

162 NRFC, *Guidelines for solely and mainly Australian-based investment*, Canberra, 23 January 2024 [Internet], available from <https://www.nrf.gov.au/what-we-do/investment-guidance/guidelines-solely-or-mainly-australian-based-investments> [accessed 2 April 2025].