

# **Design and Establishment of the Regional Investment Corporation**

Across Entities

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Canberra ACT

17 June 2020

Dear Mr President  
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit across entities. The report is titled *Design and Establishment of the Regional Investment Corporation*. 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



Grant Hehir  
Auditor-General

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

## **AUDITING FOR AUSTRALIA**

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# Audit snapshot

## Auditor-General Report No.41 2019–20

### *Design and Establishment of the Regional Investment Corporation*



#### Why did we do this audit?

- ▶ The Regional Investment Corporation (RIC) was set up to streamline administration of \$4 billion in concessional loans across two schemes for farm businesses and national water infrastructure.
- ▶ RIC offered loans from 1 July 2018 which replaced a previous model for farm business loan delivery via the states and territories.



#### What did we find?

- ▶ The design and establishment of RIC was largely effective.
- ▶ The department provided sound advice to establish RIC but some assumptions could have been more robust.
- ▶ RIC's governance arrangements to administer loan schemes are not yet mature.
- ▶ RIC has established appropriate arrangements for loan delivery.



#### Key facts

- ▶ Establishment of RIC was a 2016 election commitment.
- ▶ RIC is a corporate Commonwealth entity with an independent Board.
- ▶ Loan interest rates are reviewed twice-yearly based on the Commonwealth's cost of funds.
- ▶ RIC contracts its farm business loans management to an external service provider.



#### What did we recommend?

- ▶ The Auditor-General made four recommendations on RIC that relate to:
  - ▶ maturing risk management;
  - ▶ enhanced performance reporting;
  - ▶ establishing a compliance and assurance strategy for RIC processes; and
  - ▶ annual tracking of the net cost of the farm business loan scheme (by the department).

## \$4 billion

has been committed for loans across two schemes, with \$2 billion for farm business loans over four years, and \$2 billion for national water infrastructure over eight years

## \$387 million

across 376 farms loans has been approved after the first 18 months operation

## 113 days

was the average number of business days for processing farm business loan applications from submission to decision in quarter two 2019–20

# Summary and recommendations

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## Background

1. The Regional Investment Corporation (RIC) was established by the *Regional Investment Corporation Act 2018*<sup>1</sup> and offered loans from 1 July 2018. It is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).
2. The establishment of RIC was the response to a June 2016 Coalition election commitment to fast-track the delivery of \$4 billion<sup>2</sup> in Commonwealth drought and water infrastructure loans. Previously loans were delivered via the states and territories.
3. RIC concessional loans to farm businesses are one of 11 measures<sup>3</sup> to support farmers facing drought. RIC also administers the National Water Infrastructure Loan Facility (NWILF) which is intended to help states and territories expand water infrastructure.

## Rationale for undertaking the audit

4. RIC was set up in 2018 with \$4 billion in Commonwealth financing to streamline administration of farm business and water infrastructure concessional loans. The ANAO previously examined the Department of Agriculture, Water and the Environment's<sup>4</sup> administration of concessional loans and found several deficiencies and areas for improvement.<sup>5</sup> This audit will examine the effectiveness of the design and establishment of RIC. It will include assessment of whether lessons from prior programs were adopted in the design of RIC and the extent to which its loan arrangements are effective.

## Audit objective and criteria

5. The objective of this audit was to assess the effectiveness of the design and establishment of the RIC. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:
  - was the design process effective?
  - are governance arrangements sound?
  - are loan arrangements effective?

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1 *Regional Investment Corporation Act 2018*, [Internet], available from <https://www.legislation.gov.au/Details/C2018A00006>, [accessed 1 November 2019].

2 The RIC election commitment was for \$4.5 billion, including \$2.5 billion in farm business loans, but with delay in establishing the entity and issues in moving existing loans to RIC, \$0.5 billion remained in the existing state schemes.

3 As at 21 February 2020.

4 This is the current name of the entity. At the time RIC was established it was the Department of Agriculture and Water Resources. From 30 May 2019 to 31 January 2020, it was the Department of Agriculture. In a 1 February 2020 Machinery of Government change, this department was subsumed into a new Department of Agriculture, Water and the Environment. All are termed 'the department' in this audit.

5 Auditor-General Report No. 28 2015-16 *Administration of Concessional Loans Programs*, [Internet] available from <https://www.anao.gov.au/work/performance-audit/administration-concessional-loans-programs> [accessed 20 January 2020].

## Conclusion

6. The design and establishment of RIC was largely effective. RIC is at the early stages of its roll-out of the farm business loans, the NWILF and other products. To optimise the outcomes from its products, RIC needs to improve its governance via enhanced risk management and developing a compliance and assurance strategy. Planned monitoring and evaluation requires review.

7. The design process to establish RIC was largely effective. The Department of Agriculture, Water and the Environment (the department) partially applied lessons from prior programs in developing RIC and managed constitutional constraints on Commonwealth loan delivery. However, it did not analyse the effectiveness of prior loans programs and more robust data should have been used to forecast loan uptake and default rates.

8. The department's advice on establishing the new entity was sound. The government chose the most costly entity option for RIC. The department followed legislative requirements to establish RIC, obtained stakeholder input on farm business loan settings and provided input for the Board to decide on the external service provider.

9. RIC's governance arrangements are partially sound. In establishing RIC, the department developed key governance structures and documents for RIC to support its initial operations. RIC is refining its governance arrangements. To ensure sound governance, RIC needs to enhance its risk management and oversight of external service provider data. Improvements are needed to the arrangements for performance management of the loans, including determining methodologies for each performance measure.

10. RIC has established largely effective loan delivery arrangements. A compliance and assurance strategy is needed to ensure compliance with RIC policies and procedures and annual tracking of farm business loan scheme net costs should be established. Uptake of the farm business loans has been increasing and work is underway to reduce processing times. However, there are no loans under the NWILF yet.

## Supporting findings

### The design process

11. Claims of inconsistent delivery of farm business loans across Australia was a key driver for the establishment of RIC. Establishment of RIC was partially informed by lessons from previous programs and stakeholder input. Previously recognised constitutional constraints on Commonwealth delivery of concessional farm business loans were managed. A prior ANAO audit recommendation to evaluate an earlier concessional drought loan scheme was not completed. Data deficiencies in loan uptake and default modelling noted in the prior audit were not actioned as part of the assumptions for RIC.

12. The advice provided to government on RIC's design was sound. The department had an appropriate framework for providing advice that allowed identification of key issues, informed by input from other government entities. Three entity structure options were assessed against consistency with the election commitment, ongoing cost and legal risk. The government made a decision that RIC would be a corporate Commonwealth entity to provide independent oversight of the concessional loans despite this being the highest cost option.



13. RIC was established in accordance with legislative requirements and offered loans from 1 July 2018. RIC Board appointments largely reflect the required skill sets. To support RIC's establishment, the department engaged stakeholders on farm business loan settings. It also undertook market engagement for the farm business loan external service provider, with the final decision taken by the RIC Board. The Board decided that RIC's head office would be in Orange.

### **Governance arrangements**

14. RIC's risk management arrangements are not yet appropriate and improvements should include regular reporting on the risk register to the Executive, relevant committees and the RIC Board.

15. Arrangements for administering the farm business loans have been clearly defined in a Memorandum of Understanding between the department and RIC. Responsibilities for administration of the NWILF are clearly defined in a Memorandum of Understanding between the relevant entities. Interest rates for the loan products are reviewed twice-yearly as required by legislation and appropriate accounting treatments for the loans have been established.

16. Performance measures are not yet well developed. RIC has plans in place to review and revise the performance measures over time. The data sources and methodology for evaluating the farm business loans should be specified. Performance measures for the loans should reflect delivery and program objectives, and be publicly reported.

17. RIC has largely appropriate controls in place over its own internal information and communications technology (ICT) environment and systems. While the contract with the service provider stipulates that the provider must put in place appropriate data controls, RIC does not have visibility of these arrangements or their adequacy.

### **Loan arrangements**

18. Appropriate loan service delivery arrangements are in place. There is clear public information on loan eligibility and conditions. The contract with the external service provider (Bendigo Bank) specifies responsibilities and includes provision for RIC to contract additional products. Amendments have been made to loan products in response to the continuing drought with two planned loan products not yet commenced.

19. RIC has been undertaking and planning suitable loan promotion activities, however, the effectiveness of these would be clearer if these activities were assessed against loan uptake data.

20. RIC has a suite of policies and procedures for loan assessments and approvals. The RIC Audit Committee has established an internal audit program that includes review of aspects of loan assessment and approvals. However, a compliance and assurance strategy is needed to ensure assessments and approvals are consistent with the policies and procedures.

21. RIC has not yet set any benchmarks or key performance indicators for the time taken to assess farm business loan applications. Loans that were approved in the second quarter of 2019–20 took an average of 184 days from application to settlement. Uptake of the farm business loans has been increasing and work is underway to reduce the time taken to process loans. The net cash impact of the farm business loans scheme should be monitored annually. There are as yet no loans under the NWILF.

## Recommendations

22. This report makes four recommendations, three directed to RIC and the fourth to the Department of Agriculture, Water and the Environment.

**Recommendation no.1**  
**Paragraph 3.10** RIC should finalise its risk management policy, including risk reporting requirements and more clearly articulate its risk appetite in line with the adoption of the Commonwealth Framework.

**Regional Investment Corporation response:** *Agreed.*

**Recommendation no.2**  
**Paragraph 3.68** RIC should update performance measures for the farm business loan scheme and implement baseline data and evaluation methodologies as required.

**Regional Investment Corporation response:** *Agreed.*

**Recommendation no.3**  
**Paragraph 4.38** RIC should develop and implement a compliance and assurance strategy which covers the accuracy and completeness of loan data from the external service provider and compliance with key RIC policies and procedures for loan assessment and approval.

**Regional Investment Corporation response:** *Agreed.*

**Recommendation no.4**  
**Paragraph 4.59** At the end of each financial year, the Department of Agriculture, Water and the Environment should review the overall difference between the expenses and revenue for the farm business loans and advise the government of the scheme's impact on Commonwealth underlying cash.

**Department of Agriculture, Water and the Environment response:** *Agreed.*

## Summary of entity response

23. Summary responses from audited entities are below. Entities' full responses are at Appendix 1.

### Department of Agriculture, Water and the Environment

The department acknowledges the ANAO's findings and recommendations and appreciates the opportunity to comment on the audit report on the Design and Establishment of the Regional Investment Corporation (RIC).

The report notes that the department's role in the design and establishment of the RIC was largely effective and constraints on the program were managed. The report also identifies that the department provided sound advice to the government on the RIC's design and the RIC was established in accordance with legislative requirements.

The department has adopted a continuous improvement approach to its practices and considered the findings of earlier audits when establishing the RIC. The department considers there are useful findings arising from this audit for any future program or scheme design.

The report places appropriate importance on the need for governance arrangements within the RIC to strengthen risk management and compliance of the scheme, whilst noting the RIC is still maturing and a relatively new entity.

The department considers that the recommendations will improve the loan programs administered by the RIC. The department will continue working closely with the RIC to ensure its loans continue to support growth and resilience in Australian farm businesses and rural and regional communities.

## **Regional Investment Corporation**

The Regional Investment Corporation (RIC) welcomes the audit's overall conclusions and findings. The RIC is pleased that the ANAO found that the design and establishment of the RIC was largely effective, the department's advice on establishing the new entity was sound and the RIC has established largely effective loan delivery arrangements.

The RIC agrees with the recommendations of the report directed to the RIC.

The RIC acknowledges the importance of appropriate governance arrangements to administer loan schemes and is taking action to update key governance and risk management documentation as the organisation's maturity transitions from initial operations.

The RIC is also updating performance measures for the farm business loan scheme and developing its compliance and assurance strategy to better inform performance reporting against delivery and program objectives and consistency with program guidelines, policies and procedures.

The RIC is committed to ensuring its staff are aware of, and fully comply with, their reporting requirements for risk and governance, enabling the RIC to meet its business, legislative and accountability requirements.

## **Department of Finance**

Finance notes the recommendation and findings provided in the extract of the report.

## Key messages from this audit for all Australian Government entities

24. 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.

### Policy/program design

- There are currently 98 non-corporate Commonwealth entities, 71 corporate Commonwealth entities and 18 Commonwealth companies.<sup>6</sup> Before establishing a new Commonwealth entity, there should be detailed analysis on effectiveness and efficiency grounds as to the optimal entity structure, including possibly using an existing entity.
- Entities should regularly review and update performance measures to ensure they accurately reflect the entity's purpose, align with evaluation plans and provide meaningful information to the Parliament and the public.
- Entities who are reliant on an external service provider should ensure there is an appropriate compliance framework in place over the delivery of these services.

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6 Flipchart of PGPA Act Commonwealth entities and companies, 2 September 2019 [Internet], available from [https://www.finance.gov.au/sites/default/files/2020-01/Flipchart%20February%202020\\_0.pdf](https://www.finance.gov.au/sites/default/files/2020-01/Flipchart%20February%202020_0.pdf), [accessed 4 February 2020]. Note that there has been an overall reduction of 22 in the number of entities since 2013–14.

## **Audit findings**

# 1. Background

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## Introduction

1.1 The total value of Australian agricultural production (including fisheries and forestry) was approximately \$69 billion (2.2 per cent of GDP) in 2018–19. The December 2019 Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) agricultural overview stated that:

The impact of drought continues to be felt across Australia's agricultural sector, contributing to a forecast unprecedented third consecutive year of falling production.<sup>7</sup>

1.2 The total value of agricultural production is forecast to be \$59 billion in 2019–20.<sup>8</sup> The February 2020 crop report notes summer crops in Queensland and northern New South Wales remain well below average.<sup>9</sup> In addition, there have been widespread impacts on livestock, crops and farm infrastructure as a result of the bushfires in December 2019 and January 2020.<sup>10</sup>

1.3 The 2014 *Agricultural Competitiveness Green Paper* (the Green Paper) observed that some rural segments and regions had higher than the national average and unsustainable debt.<sup>11</sup> Current national rural debt (including fisheries and forestry) totals \$80.2 billion. Approximately 95 per cent of this was provided by banks, three per cent by pastoral and other finance companies, and two per cent by government.<sup>12</sup>

## The Regional Investment Corporation (RIC)

1.4 The Regional Investment Corporation (RIC) is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). It was established by the *Regional Investment Corporation Act 2018* (RIC Act),<sup>13</sup> with detailed directions set out in the *Regional Investment Corporation Operating Mandate Direction 2018* (Operating Mandate). RIC's governance includes two responsible Ministers with a Board and CEO.<sup>14</sup>

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7 Australian Bureau of Agricultural and Resource Economics and Sciences, Agricultural overview: December quarter 2019, available from <https://www.agriculture.gov.au/abares/research-topics/agricultural-commodities/dec-2019/agriculture-overview> [accessed 19 February 2020].

8 Forecast as at March 2020, [Internet], available from <https://www.agriculture.gov.au/abares/research-topics/agricultural-commodities/mar-2020/agriculture-overview>, [accessed 6 March 2020].

9 February 2020 crop report [Internet], ABARES, available from [https://www.agriculture.gov.au/sites/default/files/documents/austcroprrt20200218\\_v1.0.0.pdf](https://www.agriculture.gov.au/sites/default/files/documents/austcroprrt20200218_v1.0.0.pdf) [accessed 19 February 2020].

10 ABC news, 7 January 2020, [Internet], available from <https://www.abc.net.au/news/2020-01-07/farmers-recount-heartbreaking-toll-of-bushfire-livestock-losses/11844696> [accessed 3 February 2020].

11 Agricultural Competitiveness Green Paper 2014, pages 72–74 PDF, [Internet], available from [https://agwhitepaper.agriculture.gov.au/sites/default/files/SiteCollectionDocuments/green\\_paper.pdf](https://agwhitepaper.agriculture.gov.au/sites/default/files/SiteCollectionDocuments/green_paper.pdf) [accessed 16 July 2019].

12 Calculated from Reserve Bank of Australia, Statistical Tables published 27 November 2019, Rural Debt by Lender – D9. Available from <https://www.rba.gov.au/statistics/tables/> [accessed 13 January 2020].

13 *Regional Investment Corporation Act 2018*, [Internet], available from <https://www.legislation.gov.au/Details/C2018A00006>, [accessed 1 November 2019].

14 The responsible Ministers for RIC as at 11 February 2020 are the Minister for Agriculture, Drought and Emergency Management and the Minister for Finance.

1.5 RIC's purpose is to encourage growth, investment and resilience in Australian farm businesses and rural and regional economies.<sup>15</sup> The RIC Act states that 'the rules may prescribe one or more programs to be administered by the Corporation'.<sup>16</sup>

1.6 Establishment of RIC delivered on a 2016 election commitment to establish a Regional Investment Corporation to fast-track the delivery of \$4 billion<sup>17</sup> in Commonwealth drought and water infrastructure loans. RIC offered loans from 1 July 2018<sup>18</sup> with \$2 billion available for farm business concessional loans and \$2 billion for the National Water Infrastructure Loan Facility (NWILF).

1.7 RIC administers individual farm business loans on behalf of the Department of Agriculture, Water and the Environment (the department).<sup>19</sup> For the NWILF loans, both RIC and the Department of Infrastructure, Transport, Regional Development and Communications (Infrastructure) provide advice to the responsible Ministers on individual loans.<sup>20</sup> RIC's centralised administration of farm business loans replaced delivery via the states and territories and was intended to improve loan delivery.<sup>21</sup>

### Concessional loan schemes

1.8 Concessional loans have more favourable terms and conditions than those offered by the commercial finance market, including interest rates below market levels. The Australian Government provides concessional loans as part of broader drought and rural assistance to farm businesses and households.

1.9 As at 30 April 2020 the department's website lists 11 Australian Government drought and rural support measures including RIC.<sup>22</sup> The other measures are the farm household allowance, financial counselling and well-being services, the drought community support initiative, tax

15 Department of Agriculture and Water Resources, Portfolio Budget Statement 2019–20, available from <http://www.agriculture.gov.au/SiteCollectionDocuments/about/budget/2019-20/2019-20-ric.pdf> [accessed June 2019].

16 *Regional Investment Corporation Act 2018*, Section 8 (5) [Internet], available from <https://www.legislation.gov.au/Details/C2018A00006>, [accessed 1 November 2019].

17 The RIC election commitment was for \$4.5 billion, including \$2.5 billion in farm business loans, but with delay in establishing the entity and issues in moving existing loans to RIC, \$0.5 billion remained in the existing state schemes. [Internet], available from <https://www.ric.gov.au/about> [accessed 9 January 2020].

18 RIC was established on 8 March 2018 in a preparatory stage for delivery of loans from 1 July 2018.

19 On 1 February 2020 the Department of Agriculture became part of the Department of Agriculture Water and the Environment – both termed 'the department' in this audit. [Internet], available from <https://www.pm.gov.au/media/new-structure-government-departments> [accessed 16 December 2019].

20 Infrastructure will pay funds to the state or territory and RIC manages on-going compliance with loan conditions.

21 The previous model required a Commonwealth agreement with each jurisdiction. There was some variations in loans between states and some delivery delays. These issues were noted in in Auditor-General Report No. 28 2015-16 *Administration of Concessional Loans Programs* and in a Senate Economics Legislation Committee Inquiry into a Reserve Bank Amendment Bill 2013, March 2015, pp. 43. [https://www.apf.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/RBA\\_Amendment\\_2013/Report](https://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Economics/RBA_Amendment_2013/Report) [accessed 20 January 2020].

22 Drought and rural support, Department of Agriculture. [Internet], available from <http://www.agriculture.gov.au/ag-farm-food/drought>, [accessed 30 April 2020].

deductions, rebates on farm water infrastructure, pest and weed management measures, a water for fodder program in the Murray Darling Basin, climate data and an on-line drought map.

1.10 Various drought and flood support measures, including concessional loans, are also provided by state and territory governments.<sup>23</sup> At the time of the 2014 Green Paper, the Australian Government had already introduced Farm Finance Concessional Loans that were to run until June 2015. The paper noted a stakeholder's suggestion to extend these on a permanent basis to improve profitability and support farmers facing difficult circumstances.

1.11 In the subsequent 2015 *Agricultural Competitiveness White Paper* (the White Paper),<sup>24</sup> the existing drought concessional loan scheme was extended for 12 months. A new drought concessional loan scheme was also established, comprising \$250 million a year for 10 years commencing in 2016–17. This later became the RIC scheme termed the farm business concessional loan scheme (with eight years remaining at the time of RIC's establishment).

### **RIC loan products**

1.12 At commencement, RIC also offered two farm business loan products (farm investment loans and drought loans). These loans provide concessional interest rates to eligible farm businesses that are experiencing financial difficulties but are considered financially viable in the long term.

1.13 After RIC commenced, AgRebuild loans were added to RIC's loan products in response to flooding in North Queensland.<sup>25</sup> On 7 November 2019 amendments were made to the drought loans to further assist farmers by providing an initial two year interest-free period, given the continuing drought (see Figure 1.1). A new loan product (AgBiz loans) was also announced at that time, targeting small businesses providing goods and services to drought-affected farms. Further changes from 24 March 2020 include a broadening of eligibility for drought loans, with applicants no longer required to demonstrate they are located in an 'affected area'.<sup>26</sup>

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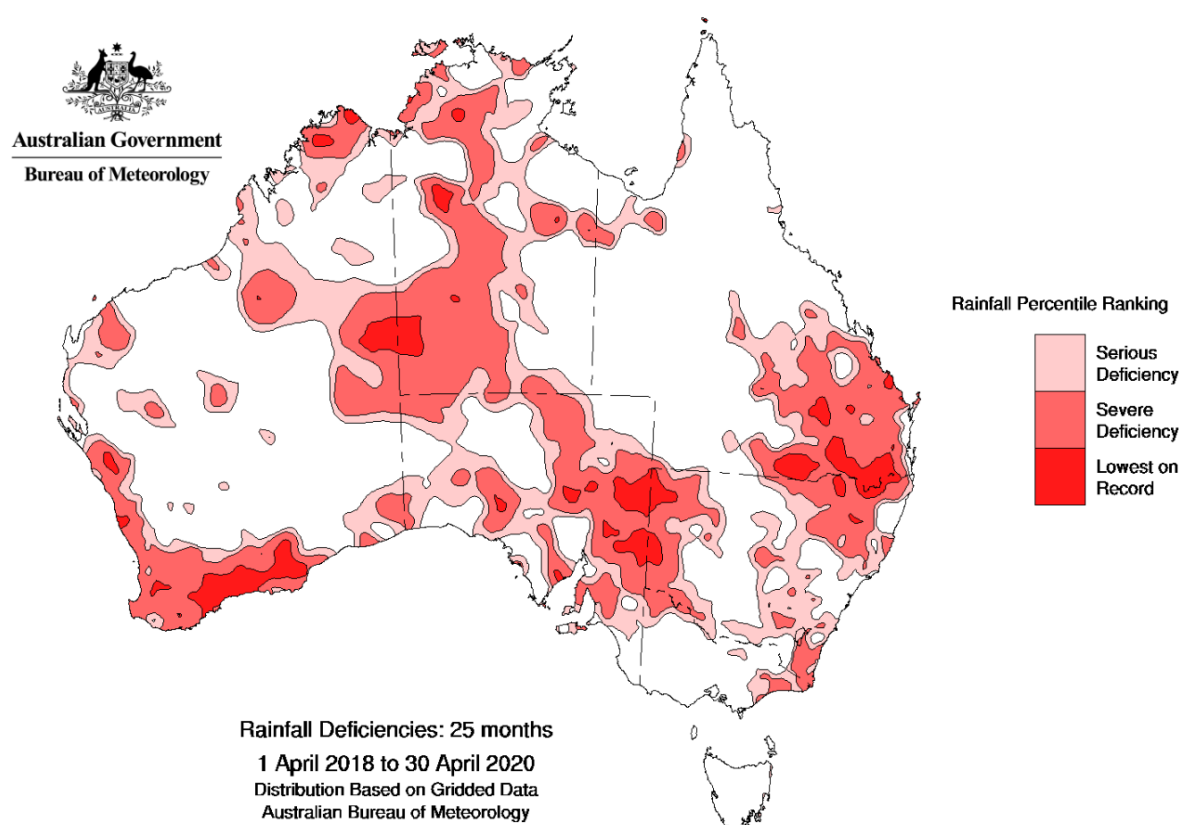
23 See for example: the Rural Assistance Authority (NSW) [Internet] available from <https://www.raa.nsw.gov.au> [accessed 6 February 2020].

24 Agricultural Competitiveness White Paper 2015, available <https://agwhitepaper.agriculture.gov.au/sites/default/files/SiteCollectionDocuments/ag-competitiveness-white-paper.pdf> [accessed 16 July 2019].

25 Regional Investment Corporation – Loans for farmers [Internet], available from <https://www.ric.gov.au/farmers>, [accessed 1 November 2019].

26 See *Regional Investment Corporation (Drought Loans Expansion) Rule 2020*, which commenced 24 March 2020. [Internet] available from <https://www.legislation.gov.au/Details/F2020L00329> [accessed 13 May 2020].



**Figure 1.1: Extent of rainfall deficiency across Australia as at 30 April 2020**

Source: The Bureau of Meteorology *Monthly Drought Statement*<sup>27</sup>

1.14 The \$2 billion NWILF was announced in the 2016–17 Commonwealth Budget.<sup>28</sup> It complements a key measure in the White Paper — the \$1.5 billion National Water Infrastructure Development Fund for which applications are now closed.<sup>29</sup> RIC is responsible for administering these loans but policy and program oversight responsibility lies with the infrastructure portfolio.<sup>30</sup>

1.15 The NWILF is intended to respond to gaps in the capital market for water infrastructure projects. State and territory governments are eligible for the loans, including via public/private partnerships. The loans are for water infrastructure such as dams and pipelines, where these are economically viable.<sup>31</sup>

27 Rainfall deficiencies 1 April 2018 to 30 April 2020. This latest version shows some improvements compared to prior versions. Bureau of Meteorology, *Monthly Drought Statement*, [Internet], [www.bom.gov.au/climate/drought/](http://www.bom.gov.au/climate/drought/), [accessed 18 March 2020].

28 Budget Paper 2 2016–17, page 80 of PDF [Internet], available from [https://archive.budget.gov.au/2016-17/bp2/BP2\\_consolidated.pdf](https://archive.budget.gov.au/2016-17/bp2/BP2_consolidated.pdf) [accessed 6 November 2019].

29 Development Fund [Internet] available from <https://www.nationalwatergrid.gov.au/nwi-development-fund> [accessed 2 March 2020].

30 Ongoing responsibility is now with the National Water Grid Authority, [Internet] available from <https://www.nationalwatergrid.gov.au/nwi-development-fund> [accessed 25 November 2019]. This is a division of the Department of Infrastructure, Transport, Regional Development and Communications. [Internet], available from <https://www.pm.gov.au/media/new-structure-government-departments> [accessed 16 December 2019].

31 2018-19 Mid-Year Economic and Fiscal Outlook, page 302, [Internet], available from [https://archive.budget.gov.au/2018-19/myefo/myefo\\_2018-19.pdf](https://archive.budget.gov.au/2018-19/myefo/myefo_2018-19.pdf), [accessed 1 November 2019].

## Funding for loans and operations

1.16 On commencement it was planned that RIC would deliver \$2 billion for farm business loans, with \$250 million per year, over eight years, until 30 June 2026. In August 2018, this funding was re-profiled to \$500 million per year, over four years, until 30 June 2022. The restructuring of the funding profile reflected the government's decision to double maximum loan amounts from \$1 million to \$2 million as part of a suite of measures to further assist drought affected farmers.<sup>32</sup>

1.17 Funding for the farm business loans is provided via an appropriation to the department that is transferred to RIC as loans are settled. The department accounts for the farm business loans separately to RIC operations.<sup>33</sup>

1.18 RIC had \$2 billion available for loans under the NWILF until the end of 2025–26. While RIC has not assessed any applications for loans under this fund, the New South Wales Government expressed interest in \$284 million in NWILF loan funding for two dam projects.<sup>34</sup> These are two projects that the Commonwealth has committed to support.

1.19 Funding for RIC's operating expenses is provided via an appropriation to the department with \$12.555 million in 2018–19 and a budget forecast of \$15.414 million in 2019–20. Loan funding for water infrastructure is appropriated to and remains with the infrastructure portfolio.

## Rationale for undertaking the audit

1.20 RIC was set up in 2018 with \$4 billion in Commonwealth financing to streamline administration of farm business and water infrastructure concessional loans. The ANAO previously examined the Department of Agriculture, Water and the Environment's<sup>35</sup> administration of concessional loans and found several deficiencies and areas for improvement.<sup>36</sup> This audit examined the effectiveness of the design and establishment of RIC. It will include assessment of whether lessons from prior programs were adopted in the design of RIC and the extent to which its loan arrangements are effective.

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32 This change in the maximum loan amount was detailed in the Explanatory Statement for a September 2018 amendment to the Operating Mandate. [Internet], available from <https://www.legislation.gov.au/Details/F2018L01293/Explanatory%20Statement/Text> [accessed 13 March 2020] and Regional Investment Corporation Operating Mandate (Amendment) Direction 2018. [Internet] available from <https://www.legislation.gov.au/Details/F2018L01293> [accessed 29 January 2020].

33 See latest RIC annual report [Internet], available from <https://www.ric.gov.au/about/reporting/annual-report-201819> [accessed 2 March 2020].

34 These projects are with the NSW government for: (1) upgrade of the Wyangala Dam; and (2) a new Dungowan Dam [Internet], available from <https://minister.infrastructure.gov.au/mccormack/media-release/billion-dollar-investment-nsw-dams> [accessed 29 January 2020].

35 This is the current name of the entity. At the time RIC was established it was the Department of Agriculture and Water Resources. From 30 May 2019 to 31 January 2020, it was the Department of Agriculture. In a 1 February 2020 Machinery of Government change, this department was subsumed into a new Department of Agriculture, Water and the Environment. All are termed 'the department' in this audit.

36 Auditor-General Report No. 28 2015-16 *Administration of Concessional Loans Programs*, [Internet], available from <https://www.anao.gov.au/work/performance-audit/administration-concessional-loans-programs>, [accessed 20 January 2020].

## Audit approach

### Audit objective, criteria and scope

1.21 The objective of this audit was to assess the effectiveness of the design and establishment of the Regional Investment Corporation. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- was the design process effective?
- are governance arrangements sound?
- are loan arrangements effective?

### Audit methodology

1.22 The main components of the audit methodology were:

- review of advice and briefing material provided to the government by the department;
- review of documentation held by the department, RIC and other entities;
- analysis of loan processing data; and
- interviews with relevant entity staff.

1.23 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately \$452,895.00.

1.24 The team members for this audit were Katherine Lawrence-Haynes, Kara Ball, Shay Simpson, Carissa Chen, Jacqueline Hedditch and Michael White.

## 2. Design process

### Areas examined

This chapter examines the effectiveness of the design process, implemented by the Department of Agriculture, Water and the Environment<sup>37</sup> (the department) to establish the Regional Investment Corporation (RIC).

### Conclusion

The design process to establish RIC was largely effective. The department partially applied lessons from prior programs in developing RIC and managed constitutional constraints on Commonwealth loan delivery. However, it did not analyse the effectiveness of prior loans programs and more robust data should have been used to forecast loan uptake and default rates.

The department's advice on establishing the new entity was sound. The government chose the most costly entity option for RIC. The department followed legislative requirements to establish RIC, obtained stakeholder input on farm business loan settings and provided input for the Board to decide on the external service provider.

2.1 To assess whether the design process to establish RIC was effective, three elements of the design process were examined:

- whether lessons and stakeholder input from previous programs were considered;
- whether sound advice was provided to the government on establishing RIC; and
- whether the entity was established in accordance with legislative requirements.

### Were lessons and stakeholder input from previous programs considered?

Claims of inconsistent delivery of farm business loans across Australia was a key driver for the establishment of RIC. Establishment of RIC was partially informed by lessons from previous programs and stakeholder input. Previously recognised constitutional constraints on Commonwealth delivery of concessional farm business loans were managed.

A prior ANAO audit recommendation to evaluate an earlier concessional drought loan scheme was not completed. Data deficiencies in loan uptake and default modelling noted in the prior audit were not actioned as part of the assumptions for RIC.

2.2 To assess whether lessons from previous programs and stakeholder input were considered in the establishment of RIC, four aspects were examined:

- how input, including from stakeholders, informed the concept for RIC;
- whether key findings from a relevant prior audit were considered;
- consideration of loan uptake and default assumptions; and

37 At the time of RIC's establishment the department was the Department of Agriculture and Water Resources. Between May and January 2020 the department was the Department of Agriculture. On 1 February 2020 it became part of the combined Department of Agriculture, Water and the Environment – all termed 'the department' in this audit. [Internet], available from <https://www.pm.gov.au/media/new-structure-government-departments> [accessed 16 December 2019].

- how loan scheme constitutional risk was identified and addressed.

## Input informing RIC

2.3 The 2016 Coalition election commitment was to establish RIC to:

Streamline Commonwealth financing and concessional loan processing to enable new dams to be financed quickly and ensure concessional drought loans are approved to help farmers in need.

2.4 However, establishing RIC was not informed by any substantive assessment of the effectiveness of the existing loans. The department had not finalised an evaluation strategy for these loans (see paragraph 2.13).

2.5 The National Farmer's Federation's 2016–17, 2018–19 and 2019–20 pre-budget submissions<sup>38</sup> stated that the lack of a consistent approach to drought measures led to 'confusion regarding the variety and certainty of assistance measures'. Its 2018–19 pre-budget submission (five months before RIC commenced) supported the establishment of RIC and said that loan administration had been inconsistent between jurisdictions, leading to low uptake.

2.6 A submission to a 2015 Senate Committee inquiry on a Private Members Bill on rural financing options<sup>39</sup> stated in reference to concessional drought loans: 'some states do not have effective machinery for delivery; many have lost the ability or simply refuse to participate.' The Committee did not support the Bill and said that 'the creation of a new [rural finance] Commonwealth entity could only be made following a comprehensive review of the nature and level of rural debt in Australia'. It also noted that alternative options would need to be examined.

2.7 In debate on the *Regional Investment Corporation Bill 2017*, a South Australian senator noted that there had been wide variation across states in the administrative costs for concessional loans, with relatively few loans approved in South Australia compared to other states.<sup>40</sup> Auditor-General Report No. 28 2015–16 *Administration of Concessional Loans Programs*<sup>41</sup> on the prior loan programs also stated that the decentralised delivery approach and bilateral agreements between the Commonwealth and each jurisdiction meant there were variations in the timing of access to concessional loans, which should be monitored to manage risks to fairness and consistency (see paragraphs 2.9 to 2.13 for further commentary on this audit).

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38 National Farmer's Federation pre-Budget submissions, 2016–17 (pages 6 and 33), 2017–18 (no reference), 2018–19 (recommendation 51 and pages 41 and 44), 2019–20 (page 36), [Internet], available from <https://www.nff.org.au/submissions-search.html?categoryid=3673>, [accessed 26 November 2019].

39 Senate Inquiry *Reserve Bank Amendment (Australian Reconstruction and Development Board [ARDB]) Bill 2015*. The ARDB concept was to improve the financial status of the agricultural sector and included facilitating access to funding with a power to use Reserve Bank funds (some parallels to the RIC model). See paragraphs 2.17–19, 4.51, 5.5 and 5.9. [Internet], available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/RBA\\_Amendment\\_2013/Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/RBA_Amendment_2013/Report), [accessed 3 December 2019].

40 Speeches for the RIC Bill 2017 [Internet], available from <https://www.senatorfawcett.com.au/speeches/bills-regional-investment-corporation-bill-2017-second-reading-2/> [accessed 26 November 2019].

41 Auditor-General Report No.28 2015–16 *Administration of Concessional Loans Programs*, see pages 10–11, [Internet], available from <https://www.anao.gov.au/work/performance-audit/administration-concessional-loans-programs>, [accessed 10 January 2020].

2.8 There have been various reviews of drought policy in Australia and its effectiveness in supporting long-term productivity. Earlier drought measures included grants to help cover interest costs (not concessional loans). A review undertaken by the Productivity Commission (PC) in 2009, found that interest cost support was ineffective as it targeted farms with high debt and low off-farm income. The PC *Trade and Assistance Review 2017–18* stated ‘it is too early to form a clear picture of the take up rates across the many drought programs or which measures are the most desired and effective.’<sup>42</sup> Sound evaluation of concessional loan products is required to support future drought policy and delivery of concessional loans (see paragraph 3.65).

### **Prior audit of concessional loans**

2.9 Auditor-General Report No. 28 2015–16 *Administration of Concessional Loans Programs*<sup>43</sup> examined the department’s administration of the two earlier concessional loan schemes<sup>44</sup> for farm finance and drought. This audit found that the establishment of the farm business loans was impacted by the department’s limited experience with concessional loan programs, short timeframes and a lack of consultation.

2.10 The audit highlighted that there was no appropriate modelling of demand for loan uptake and that robust data on default rates had not been provided. Further findings noted that the department had not established appropriate arrangements to evaluate the effectiveness of each loan scheme. There were four recommendations, with three agreed and one agreed in part.<sup>45</sup>

2.11 The department developed an implementation plan for the agreed recommendations that was tabled at its audit committee meeting in June 2016.<sup>46</sup> Improvements made in response to the recommendations informed RIC’s set-up. These included improved guidance, policies and oversight for loan assessment and approval and improved documentation of key decisions on design and implementation of the scheme.

2.12 In July 2017 the implementation plan was reported as complete and endorsed by the audit committee. However, two recommendation sub-parts on development of an evaluation strategy for current and future concessional loan programs and reporting were left until RIC’s establishment.

2.13 The department provided RIC with a draft monitoring and evaluation plan for its loan schemes for consideration by its Board<sup>47</sup> on inception (see paragraph 3.54). However, an evaluation strategy for the existing concessional loans was never finalised.

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42 Page 14 of the PDF of the Report [Internet], available from <https://www.pc.gov.au/research/ongoing/trade-assistance/2017-18>, [accessed 17 February 2020].

43 Auditor-General Report No.28 2015-16 *Administration of Concessional Loans Programs*, see pages 10-11, [Internet], available from <https://www.anao.gov.au/work/performance-audit/administration-concessional-loans-programs>, [accessed 10 January 2020].

44 Four main loan schemes for farm businesses have been administered by the department since 2013. The schemes examined in Auditor General Report No. 28 of 2015-16 were: the Farm Finance Concessional Loans Programs (\$420 million) and Drought Concessional Loans Program (\$270 million). The other schemes were: Drought Recovery Concessional Loans (\$200 million); and the Farm Business Concessional Loans Scheme (\$500 million) with loans for drought, dairy recovery and business improvement.

45 Broadly, these related to: assurance arrangements for loan delivery; meeting funding agreement conditions before payment; validation of third party information; and strategies for monitoring and evaluation.

46 At this time, two recommendations were implemented and two were pending.

47 The RIC Board later approved an updated version of the draft in December 2018.



## Loan uptake and default assumptions

### *Farm business loans*

2.14 Despite concerns identified in Auditor-General Report No. 28 2015–16 *Administration of Concessional Loans Programs* in regard to data deficiencies for loan uptake and default rates, the prior assumptions of a zero risk price for loan defaults and 100 per cent uptake of loan funding were carried forward to the agreed RIC model. This reflected the department's advice that the financial risks did not increase with delivery under RIC (management of loan impairments for RIC loans is detailed in paragraphs 3.35 to 3.39).

2.15 The default rate assumption was based on data from the prior loan scheme that was still early in the loan cycle, with principal repayments not due until 2018–19. This would not have provided a reliable estimate.<sup>48</sup> The department did not use data that was potentially more comparable, such as farm loan portfolio data held by the banking sector.

2.16 The assumption of 100 per cent uptake of loans was also not substantiated by robust data. There would have been merit in the department reviewing uptake data for previous farm business loan schemes and adjusting for the nature of the new loans and prevailing conditions.

### *National Water Infrastructure Loan Facility*

2.17 The National Water Infrastructure Loan Facility (NWILF) was set up in 2016 to progress significant water infrastructure projects. It was designed to complement the \$1.5 billion National Water Infrastructure Development Fund (NWIDF) announced in June 2015.<sup>49</sup>

2.18 The loan facility was established as demand for the NWIDF was expected to exceed available funding for capital.<sup>50</sup> Demand analysis was based on the take-up of the first round of the feasibility component of the NWIDF and estimates of capital funding required for potential projects in the 2014 Water Infrastructure Options Paper.

2.19 The department offered NWILF loans from February 2017 at an interest rate of 2.22 per cent. The Minister for Agriculture and Water Resources approved this rate based on estimated cost neutrality over the life of the scheme (with departmental administration).

2.20 The department's brief to the Minister on opening of the loan facility noted that administration by RIC was the preferred future option. Under RIC delivery, a rate of 2.55 per cent was estimated, although it was noted that this could be a disincentive given some states' lower borrowing rates. Nevertheless, an interest rate increase was anticipated when RIC opened.<sup>51</sup>

2.21 A question at October 2019 Senate Estimates was whether the NWILF is relevant if states can get funds at the same rate. RIC stated that 'there may be other aspects of the loan that might

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48 The department's statistics on arrears of the farm business loans at the time of compiling the costings (31 December 2016) were that two out of 872 were 90 days or more in arrears, 0.03 per cent of the loan book.

49 NWIDF [Internet], available from <https://www.nationalwatergrid.gov.au/nwi-development-fund> [accessed 21 November 2019].

50 Government approval for the NWILF occurred on 27 April 2016 linked to the 2016-17 Budget.

51 The actual opening rate for NWILF under RIC was 3.12 per cent.

be attractive, aside from just the interest rate'.<sup>52</sup> With some New South Wales interest in NWILF loans (see paragraph 1.18), ongoing monitoring of the factors behind loan take-up will be needed.

## Loan scheme constitutional risk

2.22 The *Commonwealth of Australia Constitution Act 1901* (the Constitution) establishes the authority and powers of the Commonwealth to undertake its activities. The previous farm loan schemes provided loan funding to states and territories under the state grants power (section 96) and the territories power (section 122) in the Constitution.

2.23 The department considered the constitutional basis and associated risk from the Commonwealth delivering loans direct to farmers, as there is no obvious legislative head of power. In doing so, the department obtained input from the Department of the Prime Minister and Cabinet, Department of Foreign Affairs and Trade, and the Attorney-General's Department. To reduce risk, the department broadened the purpose of the farm investment loans to draw on trade and commerce provisions. The drought loans<sup>53</sup> used the specified drought 'affected areas' definition<sup>54</sup> to draw on the external affairs power.<sup>55</sup> The requirement for the drought loan recipient to be located within an 'affected area' was removed in March 2020.

2.24 The department also advised on the compulsory transfer of existing farm loan agreements from state delivery agencies to RIC.<sup>56</sup> Based on the level of risk and sunk costs,<sup>57</sup> the Minister agreed existing loans would remain with the states to administer, with participants given the opportunity to refinance with RIC.<sup>58</sup>

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52 Senate Estimates Hansard: Rural and Regional Affairs and Transport Legislation Committee, 22 October 2019, page 157, [Internet], available from <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22committees%2Festimate%2F5c2d4995-750b-4236-82c5-3c732646129d%2F0000%22> [accessed 8 November 2019].

53 The 'trade and commerce power' refers to the Commonwealth's power to legislate with respect to trade and commerce with other countries and amongst the States under paragraph 51 (i) of the Constitution (the trade and commerce power) and the territories under section 122. This is used for the farm investment loans.

54 The 'affected areas' is defined by the *United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa* (the Desertification Convention) to which Australia is a party.

55 Later loan products and their constitutional basis:

- AgBiz loans, effected 17 January 2020, rely on the external affairs power and Australia's international obligations under the Desertification Convention, see Section 7 *Regional Investment Corporation (Small Business Drought Loans) Rules 2020*, [Internet] available from <https://www.legislation.gov.au/Details/F2020L00028> [accessed 11 March 2020]; and
- AgRebuild loans, effected 6 April 2019, rely on the implied 'nationhood power.' See Section 5(3) *Regional Investment Corporation (Agribusiness Natural Disaster Loans — 2019 North Queensland Flood Rule 2019*, [Internet], available from <https://www.legislation.gov.au/Details/F2019C00466> [accessed 11 March 2020].

56 The election commitment stated RIC would administer loans 'already delivered under the drought, drought recovery and farm finance concessional loans scheme'.

57 Novation of the loans would require states' consent, could attract potential compensation for the costs of novation, and there was a risk that some loans might not be able to be novated. Payment for administration of the loans for their full term had already been made to the states.

58 Some loans have been refinanced but the numbers are not tracked by RIC centrally. The refinanced loans are eligible for any interest free periods that apply to RIC loan products.



## Was sound advice provided to the government on establishing RIC?

The advice provided to government on RIC's design was sound. The department had an appropriate framework for providing advice that allowed identification of key issues, informed by input from other government entities. Three entity structure options were assessed against consistency with the election commitment, ongoing cost and legal risk. The government made a decision that RIC would be a corporate Commonwealth entity to provide independent oversight of the concessional loans despite this being the highest cost option.

2.25 To assess if sound advice was provided to the Australian Government on establishing RIC, three areas were examined (in addition to the matters considered in the previous section):

- the program structure and timing of advice;
- entity structure options; and
- entity costings.

### Program structure and timing of advice

2.26 The Minister for Agriculture and Water Resources assigned responsibility to the Department of Agriculture, Water and the Environment<sup>59</sup> for establishing RIC. The department developed an appropriate framework for providing advice with an implementation taskforce and program board.

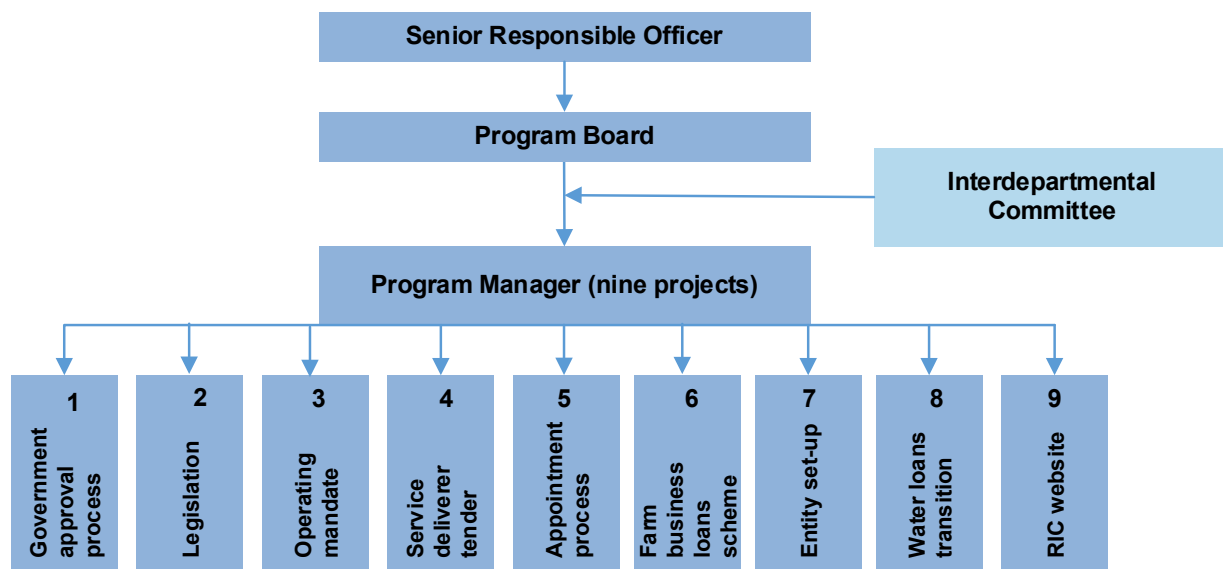
2.27 The department's initial advice focused on options for the entity structure and loan delivery issues. This advice was provided over eight months from August 2016, until government approval for RIC in March 2017. Advice post-approval focussed on establishment of the new entity and was provided until closure of the RIC program and handover to the new entity in July 2018 (see Appendix 1 for a timeline of key events).

2.28 The department established a taskforce, later recognised as a program, that organised work into nine project streams (see Figure 2.1). There was an overarching program plan with project plans, an implementation schedule, a stakeholder engagement plan and a communications plan.

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59 This is the current name of the department and at the time it was the Department of Agriculture and Water Resources. The department was later the Department of Agriculture from May 2019 to January 2020. On 1 February 2020 it became part of the combined Department of Agriculture Water and the Environment – all termed 'the department' in this audit. [Internet], available from <https://www.pm.gov.au/media/new-structure-government-departments> [accessed 16 December 2019].

**Figure 2.1: Component projects of the RIC Program**



Source: RIC program governance structure (the taskforce comprised the Program Manager and component projects).

2.29 The program board was chaired by a Deputy Secretary of the department. Initial membership comprised six senior officers from the department and later included an observer from the Department of Finance. The program board operated from September 2016 until three months after RIC first offered loans from 1 July 2018.

2.30 The deliberations and decisions of the program board were appropriately documented in agendas, agenda papers, meeting outcome notes and a decision log. Status reports on projects were provided to each meeting covering progress, risks and challenges.<sup>60</sup> The department also received assistance from an interdepartmental committee that met three times.

## Entity structure

2.31 RIC was established as a corporate Commonwealth entity, informed by departmental advice. This structure aligns with the Department of Finance guidance,<sup>61</sup> in that farm business loans could be viewed as a commercial offering. However, RIC does not recognise loans as assets in its balance sheet and does not carry the financial risk of the loans. It is not clear a corporate Commonwealth body was necessary for governance and independence reasons.

2.32 Various options for RIC's structure were canvassed and the chosen option was the most costly (see paragraph 2.35). Initially four options were assessed against consistency with the

<sup>60</sup> Reporting also included: fortnightly or as required updates on program progress to the Minister's Office; quarterly reporting to the department's Executive Management Committee and Secretary on outcomes to Board meetings and any key decisions; and a monthly Government Commitments Report.

<sup>61</sup> The Department of Finance guidance on 'Types of Australian Government Bodies' records reasons for using a non-corporate Commonwealth entity including direct accountability to the Parliament, primarily budget funded and subject to government policies. It says that a corporate Commonwealth entity may be suitable if the body will operate commercially; a multi-member accountable authority will provide optimal governance; there is a clear rationale for the assets of the body not to be owned or controlled by the government; and it requires a degree of independence from the policies and direction of the government. [Internet] <https://www.finance.gov.au/government/managing-commonwealth-resources/structure-australian-government-public-sector/types-australian-government-bodies> [accessed 19 February 2020].

election commitment, legal risk, financial implications, and the timeframe for implementation.<sup>62</sup> In response to Ministerial direction, the department scoped three further options:

- two non-corporate Commonwealth entity options (a statutory body supported by the department and a separate non-corporate statutory agency); and
- a corporate Commonwealth entity (arms-length commercial governance).<sup>63</sup>

2.33 The department recommended a statutory body as it offered statutory security for the loans, was aligned with delivering a 'government program', was quicker to establish and offered the lowest operating costs. However, the Minister's preferred option was a separate non-corporate statutory agency. The government's final decision in March 2017 was that RIC would be established as a corporate Commonwealth entity.

## Entity costings

2.34 The Coalition election commitment was for the entity to be fully funded over time from loan interest payments. In November 2016 initial calculations were put forward for interest rates for farm business loans and the NWILF under three structure options for RIC, and for the existing delivery by state agencies.<sup>64</sup> In each case the interest rate was calculated by applying an 'administrative cost margin' to the government's borrowing rate, which was based on the intention for cost neutrality over the lives of the schemes.

2.35 The calculations were based on estimates of operational costs and the cost of capital,<sup>65</sup> offset by revenue from interest payments.<sup>66</sup> Despite being the chosen entity form, over the life of the entity, the corporate Commonwealth entity option was 67 per cent more expensive than a statutory body and 15 per cent more expensive than the non-corporate statutory agency. The costing for RIC was later revised downwards by 11 per cent with adjustments including costs for an external service provider.

2.36 Given the value of interest payments would vary as the loan portfolio rolled out, it recognised that RIC would not be immediately self-funding (net cash costs would accrue in the earlier and later years of the scheme). The department advised that under the final model loan interest is not retained by RIC and is returned to the Consolidated Revenue Fund, with RIC operational costs funded by an annual appropriation. The need for the department to track the actual annual net costs for the loan schemes is covered in paragraphs 4.57 and 4.58 and in recommendation four.

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62 The four options were: (1) a new Commonwealth entity established through primary legislation; (2) a new Commonwealth bank entity established through primary legislation; (3) Commonwealth delivery of the loan schemes by an existing or new government entity through section 32 B of the *Financial Framework (Supplementary Powers) Act 1997*; or (4) delivery via contracting an existing state delivery agency.

63 The growing number of bodies administering loan products was noted but using an existing corporate Commonwealth entity was not proposed as a corporate Commonwealth entity was not the department's preferred option and due to the farms loans having a different client base to other government loan products.

64 The options had also been assessed in relation to: independence from government; future proofing to preserve arrangements beyond political cycles; and speed to establish.

65 The cost of capital was based on a six month average of the yield on the Commonwealth 10-year bond rate.

66 The administrative cost margin for RIC and the changing interest rates are outlined in Table 3.2.

2.37 Auditor-General Report No. 20 of 2019–20 *Audits of the Financial Statement of Australian Government Entities for the Period Ended 30 June 2019* noted growth in the loans provided by the Commonwealth, with a large proportion of these being concessional loans.<sup>67</sup> Since 2016–17, three new corporate Commonwealth entities, including RIC, have been established to deliver concessional loans. It also noted that there is a significant overhead cost associated with establishing and maintaining a Commonwealth entity irrespective of its size.

2.38 In the *Trade and Assistance Review 2017–18*,<sup>68</sup> the PC noted the proliferation of Commonwealth project finance facilities to fill market gaps but did not mention RIC. It proposed a review of the new financing measures and noted that they ‘have the potential to skew industry assistance to particular firms and projects with minimal public scrutiny until deals are done’.

2.39 The ANAO noted that there is an opportunity for government to draw on existing expertise and structures to manage concessional loans. There could be further scope to review the optimal/most cost-effective model for delivery of concessional loans.

## Was RIC established in accordance with legislative requirements?

RIC was established in accordance with legislative requirements and offered loans from 1 July 2018. RIC Board appointments largely reflect the required skill sets. To support RIC’s establishment, the department engaged stakeholders on farm business loan settings. It also undertook market engagement for the farm business loan external service provider, with the final decision taken by the RIC Board. The Board decided that RIC’s head office would be in Orange.

2.40 To examine if RIC was established in accordance with legislative requirements, five aspects of RIC’s set-up to deliver a functioning entity were considered:

- Board appointments;
- stakeholder engagement;
- use of an external service provider for loan delivery;
- RIC’s location; and
- closure of the overall RIC establishment program.

2.41 As part of its program of work, the department developed draft legislation for the *Regional Investment Corporation Act 2018*<sup>69</sup> (Project 2 in Figure 2.1). The RIC Act specifies an independent Board as the accountable authority,<sup>70</sup> with members appointed by the responsible Ministers.<sup>71</sup>

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67 Auditor-General Report No. 20 of 2019–20 *Audits of the Financial Statement of Australian Government Entities for the Period Ended 30 June 2019*, p. 20 [Internet], available from <https://www.anao.gov.au/work/financial-statement-audit/audits-financial-statements-australian-government-entities-period-ended-30-june-2019>, [accessed 7 February 2020].

68 Productivity Commission 2017–18 *Trade and Assistance Review*, Figure 1.4, S1.1 and 1.2, [Internet], available from <https://www.pc.gov.au/research/ongoing/trade-assistance/2017-18> [accessed 16 December 2019].

69 The legislation came into effect on 8 March 2018. It was subject to a review by the Senate Scrutiny of Bills Committee. See *Regional Investment Corporation Act 2018* <https://www.legislation.gov.au/Details/C2019C00282> [accessed 10 November 2019].

70 For the purposes of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

71 Section 17 and 18.

2.42 The Act provides for the responsible Ministers to give directions to RIC. The key vehicle for these directions is the Operating Mandate, which is subordinate legislation that sets out the government's expectations for the RIC, including the interest rate calculation methodology.<sup>72</sup>

## Board appointments

2.43 Under a specific project for RIC appointments (Project 5 in Figure 2.1), the department undertook a Board member selection process. There was advertising in national media and on Australian Government websites for potential members. A selection panel, and later two senior officials assisted by an executive search agency,<sup>73</sup> shortlisted potential candidates for Ministerial approval.<sup>74</sup>

2.44 The RIC Act requires the Board consist of a Chair and at least two, and no more than four, other members.<sup>75</sup> The Board first met in early April 2018 with three members including the Chair. A fourth member was added in late April 2018 and a fifth member in April 2019 (these member totals include the Chair).

2.45 Eligibility for appointment to the Board initially required qualifications, skills or experience in one or more of eight areas, or with expertise relevant to any additional programs. A ninth skills area was added in September 2019 to reflect a new function conferred on the board by the *Future Drought Fund Act 2019*.<sup>76</sup>

2.46 The Board's coverage of the required skills<sup>77</sup> is shown in Table 2.1 (changes in capacity reflect changes in Board membership). While individual board appointments have been largely consistent with the required skills sets, coverage of the required skills should be monitored. Emphasis should be placed on skills and experience in credit risk given the risk of loan defaults.

**Table 2.1: Regional Investment Corporation Board skills coverage**

Legislative skills basis for RIC Board appointment	2018			2019				2020
	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar
Agribusiness, financial viability in the agricultural sector								
Banking and finance								
Water infrastructure planning and financing								
Issues concerning rural industries and communities								

72 Section 11. Key directions specified in the operating mandate also relate to eligibility requirements and assessment criteria for the loan products.

73 There was a two part process given a delay in passage of the legislation.

74 The appointment process closure report noted that the Board was appointed and remuneration had been set.

75 *Regional Investment Corporation Act 2018*, section 16.

76 Under section 28 of the *Future Drought Fund Act 2019* the Drought Minister must request advice from the Regional Investment Corporation Board before making an arrangement or a grant.

77 The skills basis of the Board was determined by the department from: the selection panel's summary of proposed members; core skills communicated in Ministerial briefings; and qualifications from members' biographies.

Legislative skills basis for RIC Board appointment	2018			2019				2020
	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar
Economics								
Financial accounting or auditing	–	–	–	–	–	–	–	–
Government funding programs or bodies								
Law								
Drought resilience (added September 2019)								

Key:

	3+ Board members provide coverage		2–3 members provide coverage
	1 Board member provides coverage	–	No skills coverage on the Board

Note: The Chair is taken to be a member.

Source: ANAO analysis.

### *Potential conflict of interest*

2.47 The RIC Board Code of Conduct requires that declarations of interest must be sought and recorded at each Board meeting. A declaration of interest was recorded by the Chair at the 10 September 2019 ‘in-camera’ session of the Board given he advised of his intended resignation and acceptance of a role as an Independent Director of RIC’s external service provider. The Chair continued to chair this meeting.

2.48 The main matters covered were RIC’s strategic framework including performance measures, issues with the external service provider registering securities on RIC’s behalf, learnings from a meeting with Ministers on the government’s goal of \$100 billion in agricultural production by 2030, the planned launch of AgriStarter loans, the status of a project on Climate Smart loans, the status of the *Future Drought Fund Bill* and audit and budget updates.

2.49 The *Public Government, Performance and Accountability (PGPA) Act 2013* and the *PGPA Rule 2014*<sup>78</sup> have provisions for how a member of the accountable authority of a Commonwealth entity must disclose material personal interests that relate to the affairs of the entity. The official must make the disclosure at a meeting of the members of the accountable authority as soon as practicable after the official becomes aware of the interest and this is to be minuted.

2.50 In addition, if a matter in which the official has the interest is being considered at a meeting of the members of the accountable authority, the official must not be present while the matter is being considered at the meeting or vote on the matter.

<sup>78</sup> PGPA Act Section 13 (officials) and 29 (duty to disclose interests) and PGPA Rule Sections on disclosures of interest 14 (3) and (4) and 15 (2), [Internet] available from <https://www.legislation.gov.au/Details/C2017C00269> and <https://www.legislation.gov.au/Details/F2014L00911> [accessed 21 February 2020].

2.51 The Chair provided his resignation to the responsible Ministers by email on 19 September 2019, effective 3 October 2019.<sup>79</sup> In this advice, the Chair noted his recent appointment to the Board of Bendigo Bank, citing this as a conflict of interest with his position on the RIC Board and the reason for his resignation. Section 19 of the PGPA Act requires that the accountable authority must notify the responsible Minister as soon as practicable after the accountable authority becomes aware of any significant issue that has affected the entity.

2.52 The declaration of interest by the Chair was not recorded in the RIC conflicts of interest register on the basis that any potential conflict was removed on resignation. As a result, no mitigation action had been identified to address any potential conflicts of interest. It would have been prudent for the Acting Chair or RIC to investigate the implications of the former Chair's move to the external service provider when he signalled his resignation.

2.53 The updated risk register that was provided to the February 2020 meeting of the Board included two new risks relating to conflicts of interest. These risks included its Board (initially high risk) and within the external service provider (initially medium risk). The conflict of interest risk target was low after planned treatments. These treatments are internal auditing of conflict of interest disclosures and review of any decisions<sup>80</sup> a person made on behalf of RIC if they move to an employer that may pose a conflict of interest.

### **Stakeholder engagement on loan settings**

2.54 The department identified that effective stakeholder engagement would help to ensure the RIC is well understood and utilised. RIC's Operating Mandate refers to stakeholder engagement to ensure loan products are responsive to prevailing needs. In May 2017, after government approval of the RIC model, the department developed a stakeholder engagement plan for engagement activities up to RIC opening for business on 1 July 2018.

2.55 The plan did not cover engagement activities on the NWILF as the facility was already established. It identified seven categories of stakeholders,<sup>81</sup> an approach and level of engagement for each, with targeted engagement to be conducted in four phases.<sup>82</sup>

2.56 Development of the farm business concessional loan scheme was a specific project for the department (Project 6, Figure 2.1). The department's engagement on farm business loan settings covered how the broadened scheme purpose would operate and feedback on loan settings guidelines.

2.57 Prior to engagement, the department reviewed eligibility criteria, evidentiary requirements for applicants and loan purpose. This review examined previous concessional loan schemes and was informed by input from a consultant with expertise in administration of farm concessional loans at

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79 A new member was appointed as Chair of the Board on 27 March 2020, prior to which an existing member had been acting in the role.

80 The decisions are those made once the person commenced discussions on the potential new employment.

81 The seven broad categories of stakeholders were: (1) Peak industry bodies; (2) Industry bodies; (3) State and territory governments; (4) State and territory delivery agencies; (5) Finance and banking; (6) Commonwealth government; and (7) Internal stakeholders.

82 These were: (1) Information phase post announcement; (2) Information phase for the legislation / RIC Board; (3) Market analysis phase; and (4) Loan settings consultation phase.

the state level. The review informed development of draft guidelines for the new scheme and specific matters for stakeholder consultation.

2.58 The draft guidelines were to ensure the scheme met its objectives and remained consistent with the relevant constitutional powers (see paragraph 2.23). The department sought approval from the Minister on the draft loan settings and the issues for stakeholder consultation.<sup>83</sup>

2.59 Consultation covered how to streamline delivery of loans, the characteristics of 'financial need' and 'viability' and how to assess these, evidence for eligibility and how to communicate the scheme to farmers. The department met with more than 40 stakeholders across the target groups in the engagement plan.<sup>84</sup> Priority issues were identified on practical implementation of eligibility criteria<sup>85</sup> and options for loans to new entrants to the farming sector.

2.60 To address these issues the department consulted with individual stakeholders who had offered suggestions, and sought legal and technical advice. The department's final position on key loan settings was detailed in Schedule 1 to the Operating Mandate.

2.61 The department communicated key stakeholder issues to the program board in November 2017. The issues were also communicated to the Minister in March 2018 as part of seeking approval for the Operating Mandate, and to the RIC Board in May 2018 in finalising the draft loan guidelines. The initial program guidelines largely addressed the issues raised through stakeholder engagement and later changes reflected further feedback.<sup>86</sup>

### **Use of an external service provider for farm business loans**

2.62 The RIC establishment program included a specific project for a service delivery tender (see Project 4, Figure 2.1). This recognised that the new entity would require support for loan delivery, at least initially, in order to open for business on 1 July 2018.

2.63 The stakeholder engagement plan included a market analysis phase to assess supplier interest, industry capability and service structures for any external loan service provider procurement process. Organisations that were engaged were selected with Australian Bankers' Association input, based on requirements including experience in agribusiness. Participating organisations comprised six banks, five state-based agencies delivering concessional loans and the Commonwealth's export finance entity.

2.64 The department used information from the market analysis session to develop a report on service delivery options. Six options were examined, including an open tender, direct sourcing of services from an existing provider and managing loans in-house. Despite feedback indicating limited capacity in the commercial market to meet the expected start date, the department initiated an approach to market by open tender intended to achieve farm business loan availability by 1 July 2018.

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83 Engagement was supported by a public discussion paper.

84 Stakeholder categories for engagement on farm business loan settings were: (1) peak industry bodies; (2) industry bodies; (3) state and territory government; and (4) state and territory delivery agencies.

85 Key issues associated with practical implementation of eligibility criteria were: evidentiary support to demonstrate the requirement to 'supply products into supply chains that are interstate or overseas' for farm investment loans; and potential exclusion of some farm businesses from the 'affected area' for drought loans.

86 For example, an increase in the maximum loan amount from \$1 million to \$2 million.



2.65 A Request for Expressions of Interest for an external service provider was published on AusTender in February 2018. While the department managed the tender process, the RIC Board was to make the final decision, with this approach confirmed by the Minister.

2.66 Two providers were shortlisted in April 2018 which was reported to the RIC Board. In May 2018, the Board considered a report by the evaluation panel assessing refined responses from the two providers against an evaluation criteria, risk and value for money. In June 2018, the RIC Board agreed to finalise a service agreement with the Bendigo and Adelaide Bank (Bendigo Bank).

## Location

2.67 On 16 May 2017 the Minister announced that RIC would be located in Orange, New South Wales. Prior to this, the department had advised the Minister of options to be able to direct the permanent location of the RIC head office based on his stated preference for Orange.

2.68 In its advice, the department identified that as a corporate Commonwealth entity, the permanent location of the RIC would be at the discretion of the RIC Board unless formally stipulated through a legislative instrument. The agreed approach was for a specific provision in the enabling legislation to allow for the responsible Ministers to instruct RIC on its location. The government later agreed to remove this provision in response to Senate debate on the Bill in February 2018.

2.69 At its second meeting, the Board decided that RIC's head office would be in Orange. This was based on information the department provided on the advantages of Orange over alternatives and the government's preferred location.

## Completion of the RIC establishment program

2.70 RIC offered loans from 1 July 2018 as planned. There were project closure reports for all the RIC project streams (except for the government approval process). The 19 July 2018 overall program closure report concluded that RIC had been established as a corporate Commonwealth entity. All program outputs, including legislative aspects, were closed off.

2.71 The closure report for the project to develop the Operating Mandate as subordinate legislation stated that this instrument had been tabled in Parliament and the project should move into business-as-usual management. The entity establishment closure report concluded that draft corporate policies and procedures and other documents had been provide to RIC's Board for consideration.

2.72 The department conducted a series of internal audits: *Regional Investment Corporation - Systems under Development Audit* in 2017–18. This examined overall program governance controls, as well as specific projects from the post-approval phase: RIC Board appointments; transition of water loans; and service delivery procurement. It concluded that planning processes and governance arrangements were largely effective and made nine recommendations. The majority of these prompted updates to the program or risk register and all recommendations were reported as implemented in a September 2018 Internal Audit Assurance Branch final status report.

### 3. Governance arrangements

#### Areas examined

This chapter examines whether governance arrangements for the Regional Investment Corporation (RIC) are sound.

#### Conclusion

RIC's governance arrangements are partially sound. In establishing RIC, the department developed key governance structures and documents for RIC to support its initial operations. RIC is refining its governance arrangements. To ensure sound governance, RIC needs to enhance its risk management and oversight of external service provider data. Improvements are needed to the arrangements for performance management of the loans, including determining methodologies for each performance measure.

#### Areas for improvement

The ANAO made two recommendations to establish more comprehensive reporting on risk and enhance evaluation / reporting for farm business loans.

3.1 To assess whether the governance arrangements for the Regional Investment Corporation (RIC) are sound, four key areas that contribute to governance were examined:

- RIC's risk management framework;
- arrangements for loan administration;
- the establishment of performance measures for RIC activities; and
- the maturity of data controls.

#### Has an appropriate risk management framework been developed?

RIC's risk management arrangements are not yet appropriate and improvements should include regular reporting on the risk register to the Executive, relevant committees and the RIC Board.

3.2 Overall RIC's risk management framework is maturing and its planned improvements (see below) are necessary. When assessed against the *Commonwealth Risk Management Capability Maturity Model*, RIC's current maturity is ranked between developed and systematic.<sup>87</sup>

#### The risk framework and policy

3.3 As a corporate Commonwealth entity RIC is not required to comply with the *Commonwealth Risk Management Policy*.<sup>88</sup> However, in line with the Board's instruction, the risk management

87 The Commonwealth Risk Management Capability Maturity Model has six states of maturity: Fundamental; Developed; Systematic; Integrated; Advanced; and Optimal. [Internet], available from [https://www.finance.gov.au/sites/default/files/2019-11/commonwealth-risk-management-maturity-model\\_1.pdf](https://www.finance.gov.au/sites/default/files/2019-11/commonwealth-risk-management-maturity-model_1.pdf), [accessed 6 November 2019].

88 The Commonwealth Risk Management Policy [Internet], available from <https://www.finance.gov.au/government/comcover/commonwealth-risk-management-policy> [accessed 10 January 2020].

framework is consistent with the nine elements of this policy and was considered by the Board in December 2018. Finalisation of RIC's Risk Management Policy is in its business planning activities for 2019–20 and will include risk reporting requirements.<sup>89</sup>

3.4 Roles and responsibilities for risk management are consistently defined across the risk management framework, Accountable Authority Instructions and charters for the Audit Committee and Board. The Executive Manager Corporate Services is responsible for the risk management framework supported by a governance manager role.

3.5 The Executive Manager Corporate Services reports to the CEO monthly including on risk, with the November 2019 report noting the risk register was being reviewed. The Executive Management Committee considers risk matters at its (at least) monthly meetings.

3.6 RIC has an appropriately detailed enterprise risk register, developed in November 2018 and updated in May and August 2019. The risk register (with 21 risks and separate fraud risks) was updated and reported to the RIC Audit Committee on 4 February 2020. This was further revised with 32 risks (refer to paragraph 2.53 on the additional conflict of interest risks) and reported to the Board on 25 February 2020.

3.7 Under Section 13.1 of the Commonwealth Risk Management Policy an entity must define its risk appetite in a 'statement or series of statements that describes the entity's attitude toward risk taking'. RIC's Risk Appetite Statement states that accepting some risk in business practices promotes efficiency and innovation. The statement does not specify the extent to which it will accept high risks post planned treatments, although it states zero tolerance for workplace health and safety risks.

3.8 Based on existing controls, the latest risk register lists ten high risks<sup>90</sup>, 15 medium risks and seven low risks. The target risk ratings after additional planned controls are for two remaining high risks, 17 medium risks and 13 low risks. The two remaining high risks relate to risk management and effective implementation of government directions.

3.9 The set of risks changed between the different iterations of the risk register. RIC has stated that there is further work to be done to ensure that the risk register is complete and maintained. In line with elements six and nine<sup>91</sup> of the Commonwealth Risk Management Policy, RIC also needs to ensure there is regular reporting to the Executive, relevant committees/Board on the status of all risks and any control gaps.<sup>92</sup>

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89 The department developed a draft risk management policy and a risk management framework for the RIC Board to consider and endorse prior to RIC commencing operations on 1 July 2018.

90 Broadly, these ten risks relate to risk identification, implementing government directions, the government possibly using a different entity to administer loans, external service provider delivery, decreased NWILF funding, breaches to internal control systems, business disruption, the culture being too risk adverse, internal conflict of interest and loss of key personal. There is one risk related to credit risk initially rated as low (loans are not repaid), with current controls, including policies and procedures, noted.

91 These are six: communicating and consulting on risk and nine: reviewing and continuously improving the management of risk.

92 Note that element 6 of the Commonwealth Risk Management Policy requires complete and timely flow of information between decision makers.

## Recommendation no. 1

3.10 RIC should finalise its risk management policy, including risk reporting requirements and more clearly articulate its risk appetite in line with the adoption of the Commonwealth Framework.

**Regional Investment Corporation response:** *Agreed.*

3.11 *The Regional Investment Corporation (RIC) will finalise its risk management policy and risk reporting requirements. The RIC has engaged expert advice to assist with the identification of improvements in the evaluation of RIC's risk appetite. Following a review of the forthcoming recommendations, RIC will more clearly articulate its risk appetite statement in line with the Commonwealth Framework.*

## Have arrangements for administering loans been clearly defined?

Arrangements for administering the farm business loans have been clearly defined in a Memorandum of Understanding between the department and RIC. Responsibilities for administration of the National Water Infrastructure Loan Facility (NWILF) are clearly defined in a Memorandum of Understanding between the relevant entities. Interest rates for the loan products are reviewed twice-yearly as required by legislation and appropriate accounting treatments for the loans have been established.

3.12 To assess the arrangements for administering the loans, four areas were examined:

- setting of loan scheme interest rates;
- how the loans are accounted for;
- governance documentation, focusing on memoranda of understanding that define entity roles and responsibilities; and
- loan impairment arrangements.

### Interest rates

3.13 The Operating Mandate stipulates the Board must set a variable interest rate for both loan schemes<sup>93</sup> in accordance with a methodology that is to be agreed by the responsible Ministers.<sup>94</sup> The methodology is to set out key components of the interest rate and its process of review.<sup>95</sup>

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93 Regional Investment Corporation Operating Mandate Direction 2018. Section 8(1) [Internet] available from <https://www.legislation.gov.au/Details/F2019C00882>

94 *ibid.*, Section 8(2).

95 *ibid.*, Section 8(2)(a) and (b).

3.14 The draft interest rate methodology was prepared by the department and applies the assumptions agreed by the government for administrative cost margins for the loan schemes<sup>96</sup> and the Commonwealth's borrowing costs.<sup>97</sup>

3.15 In May 2018 the Board reviewed the interest rate methodology prepared by the department. On 22 June 2018 the responsible Ministers agreed that the interest rate put forward by the Board, was consistent with the mandate. The Operating Mandate, including the interest rate methodology, came into effect 16 June 2018.<sup>98</sup>

3.16 A key element of the methodology is the administrative cost margins applied to the loan schemes. The administrative cost margin was set at 0.88 per cent (farm business loans) and 0.42 per cent (NWILF) above the Commonwealth cost of capital (10 year bond rate).<sup>99</sup>

3.17 The July 2018 opening rates were 3.58 per cent (farm business loans) and 3.12 per cent (NWILF), given a 2.7 per cent bond rate. As required, RIC reviews the interest rates each May and November based on the current bond rate. Any changes are made in February and August.

3.18 Rates were reduced to 3.11 per cent (farm business loans) and 2.65 per cent (NWILF) in May 2019 (the bond rate had declined to 2.23 per cent). In January 2020, the Acting Chair of RIC advised the responsible Ministers that the interest rates would be reduced on 1 February 2020 based on the November 2019 review (see Table 3.1) This was announced on 31 January 2020, noting that some loans are currently interest-free for two years (see Table 4.1).

**Table 3.1: Interest rate spread for the loans at February 2020<sup>a</sup>**

A	B	C	D
Market rate for agribusiness loans <sup>b</sup>	Commonwealth cost of funds	Interest rate for farm business loans	Interest rate for NWILF
5.67%	1.23%	2.11%	1.65% <sup>c</sup>

Note a: Originally, over the life of the scheme, interest repayments were intended to cover scheme costs through the difference between (C and B) and (D and B), each multiplied by the value of the loans, with this calculation done over all years of the loans, with net present value adjustments.

Note b: This is the most recent estimate provided by RIC. RIC records the interest rate that applicants are paying with their commercial lender when they apply for a RIC loan. However, actual market interest rates vary over time and between customers. The annual value of the concession to farmers (discount expense to the Commonwealth) is based on the difference between A and C multiplied by the value of the loans.

Note c: The annual value of the concession to states and territories is based on the difference between the cost of funds to states and D, multiplied by the value of the loans. If the state borrowing rate is lower than the NWILF interest rate, it will be a cost to the state.

Source: RIC documentation on interest rate reviews.

96 The administrative cost margin was set at 0.88 per cent for farm business loans and 0.42 per cent for the NWILF above the Commonwealth's cost of capital.

97 The Commonwealth borrowing cost will be calculated based on an average of the daily 10-year Commonwealth bond rate over a specified six month period.

98 Regional Investment Corporation Operating Mandate Direction 2018. Endnote 3 — Legislation history [Internet] available from <https://www.legislation.gov.au/Details/F2019C00882>

99 RICs administrative costs are to be reviewed after 18 months of operation to inform any adjustments to this.

## Accounting for the loan schemes

3.19 The Portfolio Budget Statement (PBS)<sup>100</sup> shows that for 2019–20 RIC was allocated \$15.414 million for operating expenses as a payment to corporate entities (draw-down) by the department. This excludes farm business loan funds that are accounted for by the department. The budget for operating expenses had \$4.148 million in employee expenses with 32 staff forecast and \$11.266 million in supplier expenses, including for the external service provider contract.<sup>101</sup>

3.20 Extra funding for additional administration, including for the for the new AgBiz loans, was allocated to RIC in 2019–20 and reported in the Agency Additional Estimates Statements. This was \$63,000 in 2019–20, with \$8.3 million extra across the forward estimates.

3.21 However, RIC is forecasting an operating loss of the order of \$5 million in 2019–20. A review of RIC administrative costs to inform future funding and interest rates has been scoped. The increased costs are driven by an increase in RIC's lending services charge under the contract with Bendigo Bank.

3.22 The contract is based on a core volume of 300 loans, with an additional charge for each loan over that. Earlier in 2019–20 RIC had estimated that there would be 550 loan applications but it now estimates 1200 given demand for the two year interest-free period for drought loans.

3.23 The PBS records various departmental drought program 'expenses not requiring appropriation in the budget year'.<sup>102</sup> This includes pre-paid administrative costs for prior drought concessional loan schemes and the 'discount expense' for the current farm business loan scheme under RIC (\$54.853 million in 2018–19 and forecast at \$111.729 million in 2019–20).

3.24 The discount expense is an accounting treatment representing the difference between scheme loan interest rates and the market cost of funds. It is effectively the opportunity cost of not providing the funds at market rates.<sup>103</sup>

3.25 The 2018–19 departmental annual report records concessional loans interest received as \$23.483 million but this includes prior state and territory loan schemes.<sup>104</sup> The department advised that RIC received \$154,060 in loan and bank interest in 2018–19, with \$1.317 million to-date in 2019–20.

3.26 Transactions for the NWILF are recognised in the financial statements of the policy owner, the Department of Infrastructure, Transport, Regional Development and Communications (Infrastructure).<sup>105</sup> Annual administered expenses for the NWILF were recorded as not for

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100 2019–20 Agriculture and Water Resources Portfolio Budget Statement, page 38, [Internet], available from <https://www.awe.gov.au/sites/default/files/2020-01/pbs-2019-20-agriculture-and-water.pdf>. [accessed 16 February 2020]

101 In the 2018–19 RIC financial statements audit closing letter, ANAO noted that the accounting policies, as disclosed in the financial statements, are appropriate and have been consistently applied.

102 The ANAO agreed with a May 2019 Department of Agriculture position that accounting for farm business loans would be in the department's financial statements (funds received by RIC and paid to businesses are in RIC's cash flow).

103 Department of Finance, Resource Management Guide 115: accounting for concessional loans, November 2016, [Internet], available from <https://www.finance.gov.au/sites/default/files/rmg-115-accounting-for-concessional-loans.pdf>, [accessed 4 November 2019]. It also complies with Accounting Standard AASB 9.

104 Department of Agriculture and Water Resources Annual Report 2018–19 page 170. [Internet], available from <https://www.agriculture.gov.au/about/reporting/annualreport>, [accessed 20 November 2019].

105 This is the title of the department from 1 February 2020, post machinery of government changes.

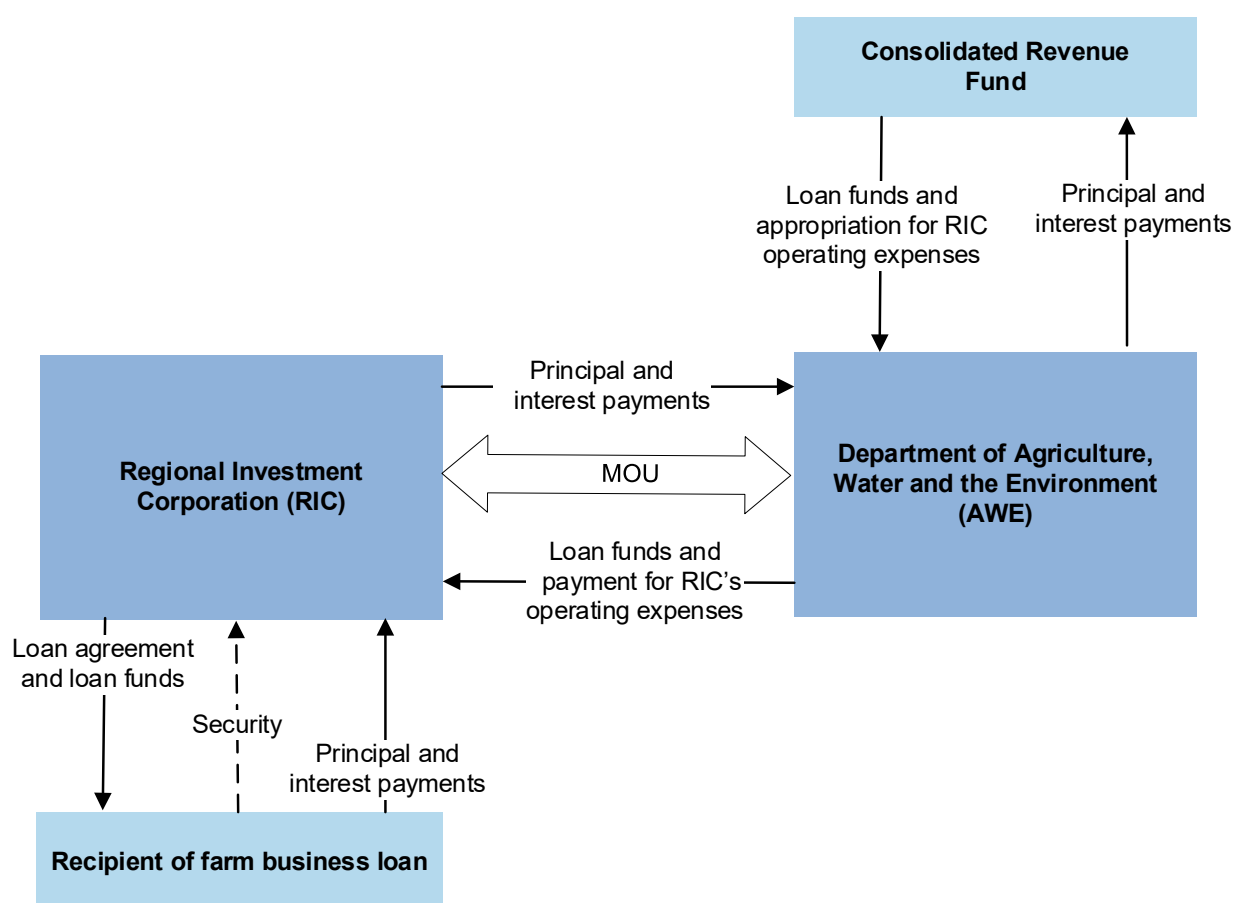
publication in the 2019–20 Infrastructure PBS, with Infrastructure noting that no loans have yet been issued. Infrastructure advised that the actual number of loans issued for 2019–20 is expected to remain at zero, and did not provide comment on reporting intended for the 2020–21 Budget papers.

## Governance documentation

### *Memoranda of Understanding for the farm business loans*

3.27 Two Memoranda of Understanding (MOU) between the department and RIC on administration of the farm business loans and the new AgBiz loans came into effect on 28 January 2020 and clarified relative entity roles. These specify that the department has policy responsibility for RIC and supports the responsible Ministers. RIC is responsible for administration of loans, including making decisions on loan applications and managing loan agreements, including loan enforcement and recovery (refer to Figure 3.1).

**Figure 3.1: Arrangements for the farm business loans<sup>a</sup>**



Note a: RIC holds the principal and interest payments before returning these funds (including any interest it earns from these funds) to the Department (AWE) monthly. RIC retains reimbursements from loan recipients for any 'transaction costs' it incurs for the loans from third parties.

Source: ANAO analysis of legislation and the relevant MOUs and Portfolio Budget Statements.

3.28 The MOUs require regular meetings between the entities and cooperative information sharing. It stipulates access by RIC to the department's appropriation for loans, and RIC's responsibility to return principal and interest payments to the department.<sup>106</sup> Under the MOUs, RIC must provide an annual assurance letter to the department on its management of the loans.

### *Memorandum of Understanding for the National Water Infrastructure Loan Facility*

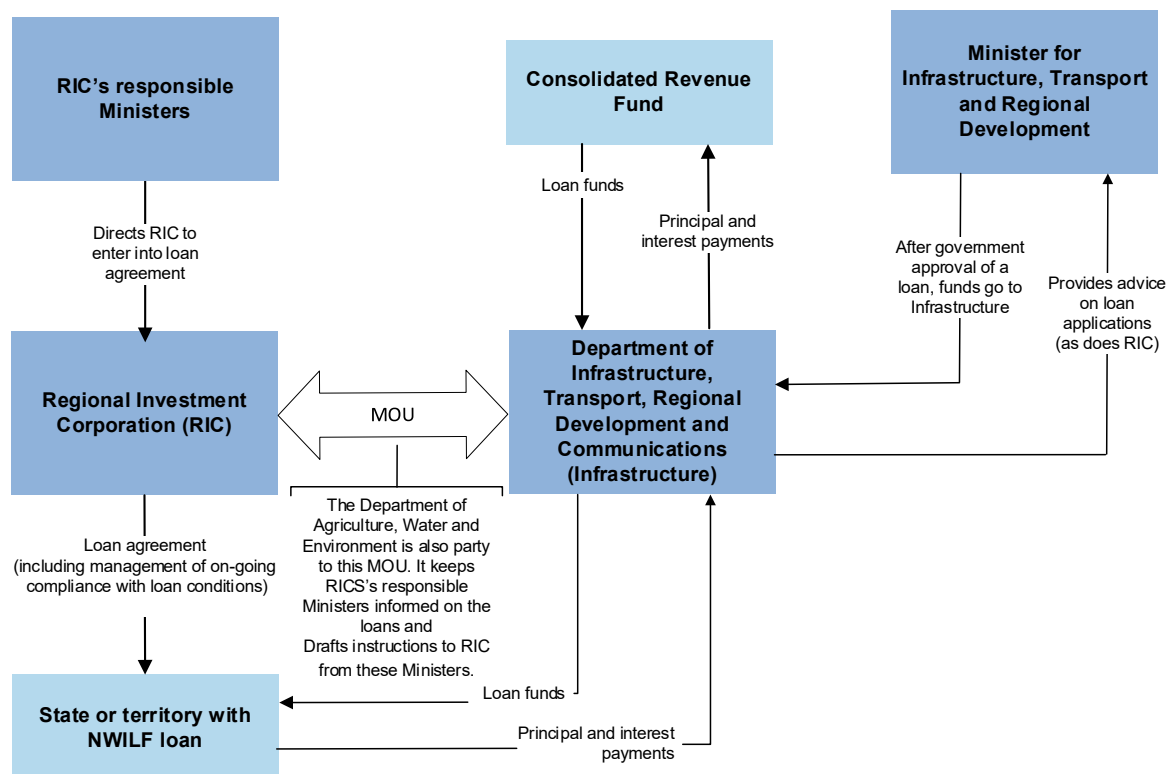
3.29 A three-way NWILF MOU between RIC, the department and Infrastructure came into effect on 9 November 2018. This was also clear on the relative roles of the entities.

3.30 Under the MOU, RIC is responsible for managing loan applications and agreements. The department has policy responsibility and keeps RIC's responsible Ministers informed on loans and drafts directions to RIC from these Ministers.

3.31 Infrastructure is the policy owner with a focus on program oversight. This oversight includes making and receiving loan payments, and support to the Minister for Infrastructure, Transport and Regional Development.

3.32 Both RIC and Infrastructure provide advice on loan applications to the Minister for Infrastructure, Transport and Regional Development. RIC informs its responsible Ministers on this advice. After a government decision on a loan, RIC's responsible Ministers direct RIC to enter into a loan agreement and the Minister for Infrastructure, Transport and Regional Development approves the loan funds being provided to Infrastructure (refer to Figure 3.2).

**Figure 3.2: Arrangements for the National Water Infrastructure Loan Facility**



Source: ANAO analysis of the relevant MOU and Portfolio Budget Statement.

<sup>106</sup> The loan interest and principal payments are held by RIC before being transferred to the department. Under the MOU RIC provides the department with data on the monthly discount expense for the loans.



3.33 The MOU states that parties need to ensure all other parties are aware of relevant advice provided to Ministers as early as practicable. Interactions to date have been limited to the pre-application loan phase with RIC being a third party to changes to the loan schemes.

3.34 RIC undertook a review of governance arrangements in May 2019. Given the recommendations of this, RIC developed stakeholder engagement registers (for both loan schemes) and has commissioned work to document NWILF loan processes by the end of February 2020.

### **Loan impairment arrangements**

3.35 The farm business loan MOUs cover RIC's responsibility for loan enforcement and recovery. As noted in paragraph 2.14, no cost was attributed to the possibility of default on the loans at the time RIC was established. A March 2019 submission to the Minister for Finance on RIC's prospective involvement in the North QLD flood recovery acknowledged that the introduction of livestock as security could create higher default risks.<sup>107</sup>

3.36 Under the MOU RIC is to use the department's model to calculate loan impairment biannually based on RIC's loan data. RIC is also to pursue the recovery of funds from loan recipients in accordance with RIC's prudential and arrears management policies and procedures.<sup>108</sup> However, the credit risk for the loans resides with the Commonwealth not RIC.

3.37 In line with this, RIC has an arrears and problem loan policy and procedure. RIC may take farm business loan recovery and foreclosure action but any decision on foreclosure (or waiving of a farm business loan) must be made by the Board and cannot be delegated.<sup>109</sup>

3.38 The RIC review policy and procedure requires the external service provider to undertake an annual problem loan review to monitor for any increase in risk so that appropriate strategies can be put in place to minimise the possibility of loss.<sup>110</sup> None have been required to date.<sup>111</sup>

3.39 In July 2019 the department approved an \$8.256 million concessional loan impairment provision for 2018–19 (1.2 per cent of the portfolio's value, an increase of \$7.846 million on the prior year).<sup>112</sup> This amount also covers prior loans managed by the states and territories. As at 31 October 2019 RIC and the department had not identified any loan defaults.

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107 The submission on the Queensland flood loans stated that the rule for flood loans, as with other existing loan products, allows RIC to consider a number of forms of security including security related to land, registered livestock mortgages and registered water rights.

108 The draft MOU also says that the department will undertake an impairment review of loans on a biannual basis in accordance with Commonwealth legislation and accounting standards, based on RIC data.

109 A waiver (last resort) may be a result of farm debt mediation and includes if debt cannot be legally recovered.

110 Partial 'behavioural' reviews (whether the accounts are in order) are done in each year that a full review is not undertaken. A full review is required in years 3, 5 and 9 or as documented in the loan approval conditions. A full review is also required when the behavioural review criteria is not satisfied.

111 At 20 January 2020 only one loan had passed the annual review date but it had no indicators to warrant review.

112 New accounting rules for 2018–19 that changed the ways of assessing impairment had an impact. The loan impairment rate for 2019–20 has not yet been finalised.

## Have appropriate performance measures been established?

Performance measures are not yet well developed. RIC has plans in place to review and revise the performance measures over time. The data sources and methodology for evaluating the farm business loans should be specified. Performance measures for the loans should reflect delivery and program objectives, and be publicly reported.

3.40 The extent to which appropriate performance measures<sup>113</sup> have been established for the loans that RIC administers was examined by considering:

- internal and external reporting;
- RIC corporate plan performance measures;
- RIC plans for monitoring and evaluation; and
- possible refinements to performance information.

### Internal and external reporting

3.41 RIC's Operating Mandate requires reports to be provided to the responsible Ministers quarterly for farm business loans and annually for NWILF loans. Reports are to include loan uptake and financial performance data. RIC's reports to its Board include CEO status updates.

3.42 In line with the requirement, quarterly reports on the farm business loan have been provided to the responsible Ministers and the RIC Board. These reports detail the number of loans and their value. The 2018–19 NWILF annual report is qualitative as no loans have been issued and outlined awareness building and stakeholder engagement.

3.43 External reporting occurs predominately through the annual report.<sup>114</sup> Given its recent establishment, the 2018–19 RIC Annual Report contains more data than the previous year's report.<sup>115</sup> It includes key statistics on the entity staffing profile of 19 people, that there were 212 loan applications assessed and 166 approved loans valued at \$156 million.

3.44 Plans for products, risk management, awareness raising and performance measures were also detailed in the 2018–19 RIC Annual Report.<sup>116</sup> Performance measures contained in the annual report reflected the entity's early stage of operation and the RIC 2018–19 Corporate Plan.<sup>117</sup> The performance measures included: building the workforce and systems; establishing procedures; establishing loan delivery; \$250 million being available for farm business loans; accurate disbursement of loans; and NWILF roll-out.

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113 Department of Finance, *Resource Management Guide No. 131: Developing good performance information* p. 4, [Internet], available from <https://www.finance.gov.au/government/managing-commonwealth-resources/developing-good-performance-information-rmg-131>, [accessed 11 November 2019].

114 RIC has also released some ad-hoc information on loan numbers through media announcements.

115 The 2017–18 report noted that it provides details about RIC operations from establishment on 8 March 2018 with the focus on establishing business processes ahead of delivering loans from 1 July 2018.

116 RIC 2018–19 Annual Report [Internet], available from [https://www.ric.gov.au/search?search\\_api\\_fulltext=annual+report](https://www.ric.gov.au/search?search_api_fulltext=annual+report) [accessed 27 November 2019].

117 RIC 2018–19 Corporate Plan [Internet], available from <https://www.ric.gov.au/sites/default/files/SiteCollectionDocuments/ric-corporate-plan.pdf> [accessed 27 November 2019].

## RIC's purpose and corporate plan measures

3.45 *The Regional Investment Corporation Act 2018* (the Act) states that RIC's main functions include administering the farm business and NWILF loans and programs prescribed by the rules in accordance with the Operating Mandate. RIC's functions also include setting and adjusting loan scheme interest rates, and on its own initiative or at the request of a responsible Minister, provide advice on activities that could be undertaken by the Corporation.<sup>118</sup>

3.46 RIC's Operating Mandate states that the Corporation will deliver farm business loans that:

(a) support the long-term strength, resilience and profitability of Australian farm businesses by helping them to build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas; or

(b) assist farm businesses to prepare for, manage through and recover from periods of drought.<sup>119</sup>

3.47 The Operating Mandate also states that RIC will administer water infrastructure loans to the state and territories to support long-term regional economic growth and development by investing in economically viable water infrastructure that will provide secure and affordable water.

3.48 Broadly consistent with the policy objectives, RIC's 2019–20 Corporate Plan states its purpose is to 'provide loans that support the growth and resilience in Australian farm businesses and rural and regional communities'.

3.49 The 2019–20 Corporate Plan<sup>120</sup> performance measures were updated from establishment-phase measures of the previous year's plan. The new measures are focussed on building awareness, strengthening delivery of RIC's functions and improving products, and are specified for 2019–20 to 2021–2023.

3.50 Specific 2019–20 performance measures include \$500 million being made available in loans to farmers in 2019–20. They also include completing a case study on baseline brand awareness, market research to establish baselines for farm balance sheet strength, and 100 per cent of loan monies being correctly disbursed.

3.51 RIC's corporate plan performance measures are not yet well developed and include a mixture of management level information and outputs. However, RIC intends to review and revise the measures over time as its maturity increases.

3.52 This review of performance measures is intended to ensure the entity is able to accurately measure and report against long term outcomes and its purpose.<sup>121</sup> It is anticipated that these measures will inform future corporate plans and annual reports.

118 *Regional Investment Corporation Act Section 8 Functions of the Corporation* [Internet], available from <https://www.legislation.gov.au/Details/C2019C00282> [accessed 13 March 2020].

119 *RIC Operating Mandate 2018* Section 6(3) (and 6(4) for the NWILF) [Internet] available from <https://www.legislation.gov.au/Details/F2019C00882> [accessed 13 March 2020].

120 *Regional Investment Corporation Corporate Plan 2019–20* [internet] <https://ric.govcms.gov.au/sites/default/files/documents/Regional%20Investment%20Corporation%20Corporate%20plan%202019%202020.pdf> [accessed September 2019].

121 The monitoring and evaluation plans will need to be updated to reflect changes to products/new products. The RIC outcome statement for the 2020–21 Budget is being updated to reflect the support for businesses dependent on farms.

3.53 While RIC's stated purpose in its corporate plan reflects its objectives, RIC may not yet have the data to determine if the policy objectives of the loans have been met.

### **RIC monitoring and evaluation plans**

3.54 As part of establishment activities for RIC, the department provided RIC with a monitoring and evaluation plan for the farm business loans scheme and the NWILF. These plans were provided to the RIC Board in July 2018 and RIC audit committee in February 2019.<sup>122</sup>

3.55 Measurement of many of the farm business loan and NWILF medium and long term performance measures would require significant data and analysis. This may be beyond the scope of the data that RIC currently holds to administer the loans.

#### *Farm business loan monitoring and evaluation plan*

3.56 The monitoring and evaluation plan for farm business loans includes performance measures for the short, medium and long term (see Table 3.2). These reflect the objective of the loans to encourage growth, investment and resilience in Australian farm businesses and rural and regional economies.

**Table 3.2: Short, medium and long term performance measures for the farm business loan scheme**

Short term KPIs	Medium term KPIs	Long term KPIs
Farm businesses 'in need' are eligible for a RIC loan	Farm businesses improved their capacity to meet financial commitments	Economic improvement for farm businesses
	Farm business' agricultural productivity improves	Farm businesses improved their capacity to service commercial debt
	Farm businesses using loans to maintain or improve market diversity	Farm businesses use loans to diversify their supply chains
	Farm business's production and sales performance is maintained / increased	Farm business' production and sales performance is maintained / increased
RIC loan interest rate is less than the commercial rate	Farm businesses are better prepared for drought	Loans used for debt-restructuring to enable savings and investment
	Farm businesses manage through / recover from drought	Loans used to create increased capacity or sustainability of farm businesses
	Farm businesses are in a better financial position	Loans used on activities or equipment that contributed to drought preparedness
		Farm businesses implement their Drought Management Plan

Source: RIC Farm Business Monitoring and Evaluation Plan.

3.57 The monitoring and evaluation plan has a table with performance outcomes and service levels to help identify if service delivery is an impediment to the uptake of the loans. For example, there is a target service level for the farm business loan call centre. However, there is no reference

<sup>122</sup> The RIC Board later approved an updated version of the drafts in December 2018. Its audit committee noted the plan and stated 'further amendments to the plans may be required'.

to performance measures for loan assessment times, although RIC is developing these (see paragraph 4.44).

3.58 The short term outcomes will be assessed during year two of each loan. However, these two measures could be reviewed more regularly as they have on-going relevance for the farm business loan scheme. Medium term outcomes will be assessed during year six of each loan and long term outcomes will be examined at the end of the ten year loan term.

3.59 Sources of data for the performance measures (including client surveys and loan portfolio reports) are recorded. There is no reference to the collection or use of baseline data when the loans are approved, although some baseline research is mentioned in the 2019–20 corporate plan.<sup>123</sup> The monitoring and evaluation plan does not include an overall methodology for the work but states that there is potential to engage ABARES either to assist with survey design or to carry out sector or region specific analysis.

3.60 The farm business loan monitoring and evaluation plan is a reasonable basis for assessment of the program to provide input into future program design.

### *NWILF evaluation plan*

3.61 The NWILF evaluation plan has performance questions including whether states and territories are submitting applications for projects. Performance measures are recorded for possible water infrastructure projects. The short term performance measures are the number of projects commenced and that \$1 billion has been allocated.

3.62 Performance measures for the medium term include economic growth in a region due to the projects, cost of water has reduced and greater water access and security. These and the long term performance measures (the number of loans for dams, number of loans for improvements in infrastructure and a decrease in the market value of water) reflect the policy objective of the loans.

3.63 Infrastructure developed its own Monitoring and Evaluation Plan for the NWILF in July 2018. This included two key evaluation questions on program design and program delivery which reference baseline data and how well the loan facility has been implemented.

3.64 This plan includes a Loan Facility Program Logic and there are two high level performance measures on establishment of the NWILF facility and an increase in available water. With no loans in place, there is no evidence of any activity in response to this plan. NWILF performance measures could be reviewed once a first loan has been negotiated.

### **Possible refinements to performance reporting**

3.65 Robust performance data is required on the loan schemes to inform future drought policy and concessional loan delivery. The importance of this is highlighted in the findings of previous relevant ANAO audits that examined two earlier farm concessional loan schemes and the National

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123 Challenges in undertaking evaluations are identified in a research paper commissioned by the Australian Public Service Review Panel in 2019. The paper highlights the importance of establishing baseline data for outcomes evaluations. Page 19 [Internet] available from <https://www.apsreview.gov.au/sites/default/files/resources/appendix-b-evaluation-aps.pdf> [accessed 18 March 2020.]

Water Infrastructure Development Fund (NWIDF), which is the complementary funding mechanism to the NWILF.

3.66 Auditor-General Report No.28 2015–16 *Administration of concessional loan programs* found that the annual reports did not provide sufficient information to enable stakeholders to determine if the objectives of each program were being met.<sup>124</sup> Auditor-General Report No.30 2017–18 *Design and governance of the National Water Infrastructure Development Fund* found that public reporting of fund performance had been limited to activity based indicators or status information.<sup>125</sup>

3.67 RIC should ensure that its monitoring and evaluation of the loan schemes includes consideration of how well the loans were targeted. Performance measures should be based on sound analysis, reflect customer satisfaction<sup>126</sup> and policy objectives, and be publicly reported.

## Recommendation no. 2

3.68 RIC should update performance measures for the farm business loan scheme and implement baseline data and evaluation methodologies as required.

**Regional Investment Corporation response:** *Agreed.*

3.69 *The RIC has engaged expert advice to assist with the identification of improvements in the RIC's loan delivery process, develop service delivery standards to assess performance and identify the ongoing data needs of the RIC. Following a review of the forthcoming recommendations, RIC will update performance measures for the farm business loan scheme and implement appropriate data and evaluation methodologies.*

## Have appropriate controls been established over data?

RIC has largely appropriate controls in place over its own internal information and communications technology (ICT) environment and systems. While the contract with the service provider stipulates that the provider must put in place appropriate data controls, RIC does not have visibility of these arrangements or their adequacy.

3.70 To examine the appropriateness of data controls, both RIC's controls and its arrangements with the external service provider (Bendigo Bank) contract were examined. The Bendigo Bank contract is discussed in more detail in Chapter 4.

124 The audit recommended an evaluation strategy for current and any future concessional loans programs, refining measurement tools and publicly reporting on established performance measures. Page 56. [Internet], available from <https://www.anao.gov.au/work/performance-audit/administration-concessional-loans-programs>, [accessed 11 November 2019].

125 The audit recommended a monitoring and evaluation plan for the NWIDF. Page 46 [Internet], available from <https://www.anao.gov.au/work/performance-audit/design-and-governance-national-water-infrastructure-development-fund> [accessed 10 January 2020].

126 Details of 30 complaints to RIC to date were reported to the Board in December 2019.

## RIC systems

3.71 The department undertook the initial work to establish information and communications technology (ICT) arrangements for RIC. RIC's ICT environment consists of its own internal systems, as well as remote access to a partition of the Bendigo Bank systems.

3.72 RIC has adopted an Australian Signals Directorate (ASD) certified cloud service provided by Microsoft Azure.<sup>127</sup> A December 2018 review on RIC's compliance with ASD's Information Security Manual (ISM)<sup>128</sup> found non-compliance with some controls.

3.73 These primarily related to those assuming the presence of on-premise infrastructure. RIC implemented compensatory controls that address the intent of the ISM where there is non-compliance.

3.74 ASD recommends that organisations implement the 'Essential Eight' cyber security threat mitigation strategies as a baseline.<sup>129</sup> RIC completed a 2019 cyber security survey for the ASD which included questions on Essential Eight compliance.

3.75 It also did an Essential Eight assessment in March 2020 which indicated that it was compliant with the four most important components of the Essential Eight.<sup>130</sup> It meets two of the others and is partially compliant with two (configure Microsoft Office macros and user application hardening). RIC has indicated that it is examining how controls for these may be strengthened.

3.76 An internal audit on RIC ICT controls was reported on to the RIC Audit Committee in May 2019. The report identified risks in relation to system access including authentication. RIC has advised that additional controls were implemented in response to the recommendations.

3.77 RIC has established a high level control framework to manage its ICT environment that incorporates risk management and mitigation strategies, and audit and review activities. This includes an ICT change management procedure that is intended to provide a standardised method for managing all system changes and ensure appropriate decision making and record keeping.

3.78 RIC has also developed an ICT Incident Response Plan to describe its approach to protecting, containing and responding to ICT related security incidents. RIC applied this incident response plan

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127 This means using web-based applications rather than installing software or storing data on a computer.

128 The Australian Government Information Security Manual (ISM) March 2020 is a cyber-security framework. RIC is a corporate Commonwealth entity and it is not compulsory for it to follow the ISM, but in line with the Attorney-General's recommendation, the RIC Board agreed to apply the ISM as a better practice framework. [Internet], available from [https://www.cyber.gov.au/sites/default/files/2020-03/Australian%20Government%20Information%20Security%20Manual%20%28March%202020%29\\_0.pdf](https://www.cyber.gov.au/sites/default/files/2020-03/Australian%20Government%20Information%20Security%20Manual%20%28March%202020%29_0.pdf). [accessed 21 February 2020].

129 For each Essential Eight mitigation strategy, ASD has mapped the set of ISM controls that apply. Not all ISM controls map to the Essential Eight as ISM includes additional supporting security controls. There is also a maturity model for the Essential Eight. [Internet], available from <https://www.cyber.gov.au/publications/essential-eight-to-ISM-mapping> and <https://www.cyber.gov.au/publications/essential-eight-maturity-model> [accessed 11 March 2020].

130 Previously, the Essential Eight included a mandatory 'Top 4' (see Auditor General Report No. 53 of 2017-18 *Cyber Resilience*) [Internet], available from [https://www.anao.gov.au/sites/default/files/ANAO\\_Report\\_2017-2018\\_53a.pdf](https://www.anao.gov.au/sites/default/files/ANAO_Report_2017-2018_53a.pdf) [accessed 19 March 2019]. However, the focus is now on all eight with the maturity model for these. RIC is fully compliant with the Top 4 (application whitelisting, patching applications, patching operating systems and restrict administrative privileges). The other strategies are disabling untrusted Microsoft Office macros, user application hardening, multi-factor authentication, and daily backup of systems and data.



to intrusion attempts to four RIC user accounts in August 2019. RIC has also developed a draft Business Continuity Plan.

3.79 An internal audit on RIC Governance, reported on to the audit committee in May 2019, recommended that RIC develop processes to manage the privacy of personal information. RIC has developed a Privacy Policy, Privacy Management Plan and Data Breach Response Plan but its Privacy Impact Statement is still under development.

3.80 Overall, the current controls over the internal environment are largely appropriate. However, there is currently a single officer responsible for managing RIC's ICT operations. This may require review as the number of RIC loans and products increases.

### **External service provider systems**

3.81 RIC has a contract and supporting documentation in place with its external service provider (Bendigo Bank) to deliver loan management activities. Bendigo Bank's AgriBanking System is provided under the contract for applicant and loan information.

3.82 Under the contract, RIC data remains the property of RIC at all times. The contract stipulates that Bendigo Bank must maintain the security and privacy of RIC data in its possession through appropriate security management processes and governance systems.<sup>131</sup> Bendigo Bank's AgriBanking System is to comply with the ISM requirements, however at the time of the audit RIC has not verified this.

3.83 Bendigo Bank is required to meet standard Australian Prudential Regulation Authority (APRA)<sup>132</sup> and other rules for authorised deposit-taking institutions.<sup>133</sup> Bendigo Bank's compliance with relevant legal obligations is outlined in the Service Provider Compliance Plan. Further, Bendigo Bank's compliance with its obligations under an Originating and Servicing Agreement (including legal compliance) is to be tested through an internal audit scheduled to start in February 2020.

3.84 Control requirements have been defined in the contract with Bendigo Bank. RIC advised that a review of loan applications and associated data entry is conducted by the RIC credit and risk team at the time of decisions on loans. The internal audit will also cover Bendigo Bank's compliance with the requirements for management of data and the validity of controls for the security and privacy of personal information.

3.85 RIC noted that its assurance of the accuracy and completeness of loan data from the external service provider could be strengthened. This could be conducted as part of the recommended Compliance and Assurance Strategy (see Recommendation 3).

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131 The contract is supported by an Operational Separation Plan on how the service provider will avoid conflicts of interest between RIC work and its other work. This includes requirements for data separation.

132 APRA website, [Internet], available from <https://www.apra.gov.au/industries/authorised-deposit-taking-institutions>, [accessed 8 November 2019].

133 Under the contract Bendigo Bank must comply with all requirements under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* and *Rules*.



## 4. Loan delivery arrangements

### Areas examined

This chapter examines whether the loan arrangements are effective including uptake of the loans.

### Conclusion (and/or findings)

RIC has established largely effective loan delivery arrangements. A compliance and assurance strategy is needed to ensure compliance with RIC policies and procedures and annual tracking of farm business loan scheme net costs should be established.

Uptake of the farm business loans has been increasing and work is underway to reduce processing times. However, there are no loans under the NWILF yet.

### Area/s for improvement

The ANAO made two recommendations to develop and implement a compliance and assurance strategy and to monitor the balance between revenue and expenditure for the farm business loans.

4.1 To assess the appropriateness of RIC's loan delivery arrangements, four aspects were considered:

- the loan service delivery arrangements including specification of loan conditions;
- promotion of the loan products;
- whether assessment and approvals are consistent with guidelines; and
- timeliness of loan delivery.

### Are appropriate service delivery arrangements in place?

Appropriate loan service delivery arrangements are in place. There is clear public information on loan eligibility and conditions. The contract with the external service provider (Bendigo Bank) specifies responsibilities and includes provision for RIC to contract additional products. Amendments have been made to loan products in response to the continuing drought with two planned loan products not yet commenced.

4.2 To assess whether appropriate service delivery arrangements are in place for RIC's loans, two aspects were examined:

- whether the loan features and conditions are clearly articulated; and
- the service delivery arrangements, focussing on the contracted loan management activities.

## Loan features and conditions

### Farm business loans

4.3 RIC has clear information on its website on the eligibility and conditions for farm business loans.<sup>134</sup> Amendments were made to these loans on 7 November 2019 as part of a wider Commonwealth government announcement ‘*Step up in drought Budget support.*’<sup>135</sup>

4.4 A key feature of the 7 November announcement (see Table 4.1) was a new loan product (AgBiz) for small businesses providing goods or services to drought-affected farms.<sup>136</sup> In addition, the Operating Mandate was amended to make drought-related loans interest-free for two years. Further changes were made to drought loans from 24 March 2020 by the Drought Loans Expansion Rule<sup>137</sup> that removed the requirement for applicants to demonstrate they are located in an ‘affected area’.

**Table 4.1: Key features of the farm business loans**

Loan feature <sup>a</sup>	Farm investment loans	Drought loans	AgBiz loans	AgRebuild (Queensland)
Purpose	<ul style="list-style-type: none"> <li>build and maintain access to markets interstate/over seas</li> </ul>	<ul style="list-style-type: none"> <li>prepare for, manage through or recover from drought</li> </ul>	<ul style="list-style-type: none"> <li>for small businesses supplying goods or services to drought-affected farms.<sup>d</sup></li> </ul>	<ul style="list-style-type: none"> <li>to aid flood recovery (restock and restore/replace farm infrastructure)</li> </ul>
Eligible loan uses	<ul style="list-style-type: none"> <li>refinance debt</li> <li>new debt for operating expenses or capital</li> </ul>			
Eligibility <sup>b</sup>	<ul style="list-style-type: none"> <li>applicant must contribute at least 75% of their labour to the farm/business and earn at least 50% of income from the farm/business, and</li> <li>are in need of financial help and financially viable in the long term</li> </ul>			<ul style="list-style-type: none"> <li>applicant must contribute the majority of their labour to the farm business and derive the majority of their income from it</li> <li>has suffered flood damage and is experiencing hardship and is viable long-term</li> </ul>

<sup>134</sup> There is summary information as well as detailed guidance on eligibility, evidence for farm viability, loan security, requirements for drought management plans, allowable uses of loan funds, and conflicts of interest.

<sup>135</sup> Prime Minister: *Step up in drought Budget support*, Media Release, 7 November 2019, [Internet], available from <https://www.pm.gov.au/media/step-drought-budget-support> [accessed 11 November 2019].

<sup>136</sup> These loans were available from 20 January 2020 with details on the RIC website. RIC advised the responsible Ministers of finalisation of the AgBiz Guidelines on 17 January 2020.

<sup>137</sup> See *Regional Investment Corporation (Drought Loans Expansion) Rule 2020*, which commenced 24 March 2020. [Internet] available from <https://www.legislation.gov.au/Details/F2020L00329> [accessed 13 May 2020].

Loan feature <sup>a</sup>	Farm investment loans	Drought loans	AgBiz loans	AgRebuild (Queensland)
	<ul style="list-style-type: none"> <li>mainly sell product interstate or overseas</li> </ul>	<ul style="list-style-type: none"> <li>[prior to 24 March 2020] must be located in an 'affected area'</li> <li>must have a drought management plan</li> </ul>	<ul style="list-style-type: none"> <li>[prior to 24 March 2020] must be located in an 'affected area'</li> </ul>	<ul style="list-style-type: none"> <li>farmers impacted by the North and far North Queensland floods in January and February 2019 (in eligible Local Government areas)</li> </ul>
Financial conditions	<ul style="list-style-type: none"> <li>security must be provided / at least 50% of total debt must stay with a commercial lender / a commercial lender must support the loan</li> </ul>			
	<ul style="list-style-type: none"> <li>up to \$2 million, 10 year term, first 5 years interest only and then principal and interest</li> </ul>	<ul style="list-style-type: none"> <li>up to \$2 million, 10 year term, (now includes an interest-free period (no repayments) for the first 2 years<sup>c</sup>) then 3 years interest only and then principal and interest</li> </ul>	<ul style="list-style-type: none"> <li>up to \$500,000 10 year term, (interest-free period (no repayments) for the first 2 years) then 3 years interest only and then principal and interest</li> </ul>	<ul style="list-style-type: none"> <li>up to \$5 million, 10 year term, available until 30 June 2020, first two years interest free (no repayments) then 3 years interest only and then principal and interest</li> </ul>

Note a: Interest rates are presented in Table 3.1

Note b: In line with the constitutional head of power, the detailed farm investment loan guidelines state that the farm business must solely or mainly or intend to solely or mainly supply products into supply chains that are interstate and/or outside Australia.

Note c: Participants with existing loans can access the interest-free period.

Note d: Businesses not directly linked to the farming sector e.g. the local hairdresser, would not be eligible.

Source: ANAO presentation of data from the RIC website [Internet]: available from <https://www.ric.gov.au> [accessed 6 February 2019 and 13 May 2020] and announcement by the Prime Minister, 'Step up in drought support', 7 November 2019 [Internet], available from <https://www.pm.gov.au/media/step-drought-budget-support>, [accessed 8 November 2019].

4.5 AgriStarter loans, intended to help prospective farmers purchase a farm, have been established under a rule<sup>138</sup> but are not yet available. On its own initiative, the RIC Board has been considering development of a Climate Smart loans program<sup>139</sup> to support farm investment to reduce emissions and increase resilience to climate change (supported by Australian National

138 *The Regional Investment Corporation (AgriStarter Loans) Rule 2019* commenced on 12 April 2019, with an amended version commencing on 1 August 2019 [Internet], available from <https://www.legislation.gov.au/Details/F2019C00763> [accessed 6 March 2020].

139 The Climate Smart initiative did not result from a Ministerial direction and there has been no government announcement on this potential product.

University research). The department also consulted on new plantation development concessional loans in late 2019, with \$500 million planned to be available.<sup>140</sup>

### **NWILF loans**

4.6 The current features of NWILF loans are clearly detailed on the RIC website. These loans are intended to accelerate construction of major projects, build sustainable water infrastructure, enhance water security and provide affordable water. They are for up to 49 per cent of the funding for state and territory government water infrastructure that is construction ready.

4.7 The 2018–19 Mid-Year Economic and Fiscal Outlook stated that adjustments would be made to the NWILF to increase the number of commercially viable projects that can access funding.<sup>141</sup> In March 2019 the Minister for Finance approved changes to encourage uptake of the loans: the minimum NWILF loan amount was reduced from \$50 million to \$10 million and the maximum loan term was increased from 15 to 30 years. The RIC website shows that an interest-only period applies for up to five years during construction.

4.8 Despite in-principle agreement by the government in December 2018 to amend the scheme and enable loans direct to local governments and the private sector, these changes are yet to be implemented. Advice to the Minister in March 2019 noted that this change presents constitutional risks, as there is no clear head of constitutional power. Primary responsibility for progressing the policy and implementation issues associated with these changes was transferred from the Department of Agriculture, Water and the Environment<sup>142</sup> (the department) to Infrastructure in December 2019.

### **External loan management services**

4.9 In June 2018 Bendigo Bank was selected as RIC’s external service provider for loan management services (see paragraph 2.66). These services were formalised in a three year contract, to 30 June 2021, with an option for a two year extension.<sup>143</sup>

4.10 RIC has developed procedures to support the receipt and assessment of loan applications that align with the service provider’s systems. The contract sets out the roles and responsibilities of each party. Key requirements of Bendigo Bank are that it:

- determines eligibility and recommends to RIC on whether a loan should be approved;

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140 This consultation followed the Australian Government announcement that it would ‘Support the planting of 1 billion new plantation trees by developing special Plantation Development Concessional Loans under the Regional Investment Corporation’. The November 2019 Consultation Paper notes that the purpose of the loans is increasing demand for wood products with stalled supply and the need to reduce emissions. [Internet], available from <https://haveyoursay.agriculture.gov.au/plantation-development-concessional-loans> [accessed 6 March 2020].

141 2018-19 Mid-Year Economic and Fiscal Outlook, page 7, [Internet], available from [https://archive.budget.gov.au/2018-19/myefo/myefo\\_2018-19.pdf](https://archive.budget.gov.au/2018-19/myefo/myefo_2018-19.pdf), [accessed 1 November 2019].

142 Up until May 2019 the department was the Department of Agriculture and Water Resources, It was then the Department of Agriculture until becoming part of the Department of Agriculture Water and the Environment on 1 February 2020 – all termed ‘the department’ in this audit. [Internet], available from <https://www.pm.gov.au/media/new-structure-government-departments> [accessed 16 December 2019].

143 To date, there have been no variations to the contract.

- complies with the assessment guidelines and operating policy and procedures of RIC and maintains loan documents, records of all payments, transactions and files; and
- reports against 11 service level targets on a monthly basis.<sup>144</sup>

4.11 Regular contact is maintained between the two parties through fortnightly meetings of the credit assessor staff from RIC and Bendigo Bank, a fortnightly credit working group and a monthly contract working group.<sup>145</sup>

4.12 Compliance with target service levels are reported to the RIC Board. To date no breaches of the target service levels have been reported. The December 2019 Board meeting noted plans to refine the target service level reporting.

4.13 RIC may request that the service provider provide additional services and was required to give 40 business days written notice of the date on which these services are required to commence. However, the 40 days has now been waived by Bendigo Bank to help progress the 7 November 2019 changes.

## Does RIC effectively promote the uptake of loans?

RIC has been undertaking and planning suitable loan promotion activities, however, the effectiveness of these would be clearer if these activities were assessed against loan uptake data.

4.14 To assess if RIC is effectively promoting the loans, RIC's mandate in relation to loan promotion and its communication strategies for the loan products were considered.

### Loan promotion activities

4.15 RIC's Operating Mandate requires it to promote the availability of loan products via engagement with relevant stakeholders.<sup>146</sup> In line with this, RIC has communication strategies, but has not yet undertaken an assessment of their effectiveness. RIC does not currently correlate the location of loan applications with promotional or awareness raising activities.

### *Farm business loan 2018 communications*

4.16 A 2018 communications strategy was completed for farm business loans.<sup>147</sup> The primary target audience for the strategy was farm businesses and farmers. The secondary target audiences included: rural financial counsellors; accounting bodies; the Rural Women's Network; agribusiness banks; the National Farmers' Federation; and local, state and federal Members of Parliament.

4.17 The strategy listed promotion events between August and November, such as a RIC trade stand at the October 2018 National Farmers' Federation Congress in Canberra. Eleven other events

144 The 11 service level targets cover: (1) loan assessment timeframe: 75 per cent of loan applications assessed within 20 days and (2) 90 per cent loan applications within 30 business days; (3) accurate vetting of loan applications; (4) data management; (5) compliance with regulatory requirements; (6) RICs access to the bank's IT system; (7) accuracy of payments; (8) payment processing timeframes; (9) customer experience / service delivery; (10) responsiveness to RIC; and (11) minimising assessment of unsuccessful applications.

145 There is also a form for feedback to Bendigo Bank assessors from RIC and a policy exception register.

146 See 'Our legislative obligations', Regional Investment Corporation Operating Mandate Direction 2018, Section 15 (1) and (2), RIC website [Internet], available from <https://www.ric.gov.au/about/reporting>, [accessed 11 November 2019].

147 This covered 'farm business loans' and did not distinguish between farm investment and drought loans.

were scheduled across Queensland, New South Wales, South Australia and Western Australia, including information sessions.

4.18 A full list of completed events between September 2018 and February 2020 reflects this and records later events including information stands, presentations and seminars. Overall there were 20 events in Queensland, 24 in New South Wales, nine in Tasmania, eight in Victoria, eight in South Australia, one in Western Australia and one in the Australian Capital Territory.

4.19 A specific communication plan was later developed for the AgRebuild loans, with key messages and an implementation plan. The key target audience was farm businesses in north Queensland affected by the January–February 2019 floods.<sup>148</sup>

4.20 The plan records that a business development manager for Queensland joined the organisation in June 2019 on a twelve month contract. RIC July 2019 quarterly reporting to responsible Ministers noted that ‘for AgRebuild, our team has been on the ground in North Queensland engaging with graziers, banks, accountants and local councils to raise awareness of this new loan’.

### *Current communications*

4.21 A draft overall communications strategy for 2019–20 was developed and updated to a RIC Engagement Strategy 2020, covering all current and planned loan products. This was presented to the Board in February 2020. The strategy has three communication objectives to: raise awareness of RIC and its products; improve the customer experience; and establish a future-focused brand and reputation.

4.22 The strategy includes stakeholder maps for the farm business loans and the NWILF. Core stakeholders for the farm business loans include local members of parliament and the media and secondary ones include organisations representing farmers and local government.

4.23 Supporting market research found that, while only 31 per cent of farmers surveyed are aware of RIC, the concept of a government loan is of interest, particularly as an alternative to commercial lenders. To help refine messaging the market research identified four distinct audience segments based on financial security and business acumen such as ‘savvy forward thinker’ (predicted to be 34 per cent of the market).

4.24 The strategy includes a customer relationship management system project. There are also to be two six-week advertising campaigns covering drought loans (March–April 2020) and all RIC products (May–June 2020). A Regional Investment Forum is to be held in June 2020.

4.25 The strategy says that linking the communication on farm business loans and the NWILF more closely will be beneficial. This is to focus on the benefits delivered by effective long-term water solutions through increased irrigation and sustainable farming.

4.26 The 2018–19 NWILF report to responsible Ministers noted that RIC had engaged with stakeholders with an interest in NWILF, including key state, territory and Commonwealth departments, local government, project proponents, consultants, academia and water associations.

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148 A broader audience was recognised including local banks, local governments, accountants, and the rural financial counselling service.

It stated that new and existing large-scale water infrastructure opportunities including dams and recycled water schemes were being explored.

## Are assessments and approvals of loans consistent with guidelines?

RIC has a suite of policies and procedures for loan assessments and approvals. The RIC Audit Committee has established an internal audit program that includes review of aspects of loan assessment and approvals. However, a compliance and assurance strategy is needed to ensure assessments and approvals are consistent with the policies and procedures.

4.27 To examine whether the assessment and approvals of loans are consistent with guidelines two areas were examined:

- the policy and procedures that RIC has in place for loan assessment and approval; and
- assurance over compliance with policies and procedures for farm business loans.<sup>149</sup>

### Policy and procedures for farm business loan assessment and approval

4.28 RIC has developed a suite of policies and procedures to govern how farm business loans are assessed and approved. Key are:<sup>150</sup>

- Applications Requirements: includes the application form, initial processing by the external service provider (Bendigo Bank) and the mandatory information applicants are to provide;
- Assessment Process: details how Bendigo Bank will assess the loans application in detail, before being sent to RIC for assessment;
- Approvals Authority (June 2019): includes the CEO's delegations established for loan approvals, the role of the Bendigo Bank, communications between RIC and Bendigo Bank on lending requests, an exceptions register and arrangements for internal appeals;
- a template for recording the overall assessment and loan decision; and
- settlement and loan documentation, including content in loan documents.

4.29 RIC makes decisions on loans informed by Bendigo Bank's assessment. The delegation matrix for loan decisions that applied from June 2019 is shown in Figure 4.1. It is based on the credit risk rating (derived from the credit risk grade and the security cover grade), with colour coding for delegation amounts linked to the credit risk rating.

<sup>149</sup> NWILF processes were not examined as there are no loans yet.

<sup>150</sup> There are also internal review, credit risk rating, security requirements and valuation requirements policies and procedures and a complaints handling policy, procedure and process map.

**Figure 4.1: Loan approval delegation based on credit risk rating**

Credit risk grade	Security cover grade						CEO	Committee	EM Credit and Risk	Senior Credit Officer	Credit Officer
		A	B	C	D	E					
	A	1	1	1	1	2	\$5.0m	\$5.0m	–	–	–
	B	1	1	1	2	2					
	C	2	2	2	3	3	\$5.0m	\$5.0m	\$1.0m	–	–
	D	3	3	3	4	4					
	E	4	4	4	5	6	\$5.0m	\$5.0m	\$2.5m	\$1.0m	\$0.5m
	F	5	5	5	7	7					
	G	7	7	7	8	8	\$5.0m	\$5.0m	\$5.0m	\$1.5m	\$1.0m
	H	8	8	8	9	9					

Source: RIC Approvals Authority policy and procedure.

4.30 RIC has a detailed process map for the farm business concessional loans. In this each party is allocated a ‘swim lane’ and the interactions are shown across these rows. This includes risk control points, risk control checks, quality points and quality point checks.

4.31 Bendigo Bank uses an Agribusiness Banking System (ABS) for applicant and loan data. RIC has read-only access to this system and maintains a separate spreadsheet to track and report on the status of applications and loans.

4.32 For each loan a decision minute is to be signed off by the approving officer. As part of 2018–19 ANAO financial statements auditing, the delegates’ approval of loans was reviewed (no issues were identified with all loans approved by the CEO in that year).<sup>151</sup>

4.33 As at 30 October 2019 all loans were reported to the RIC Board as being in order with none in arrears. The overall loan portfolio was noted as robust with 93 per cent either being well secured or having sound prospects of viability.

## Assurance over compliance with loan policies and procedures

### *RIC Audit Committee oversight*

4.34 The RIC Audit Committee reviews RIC’s financial reporting, performance reporting, risk oversight and internal control systems. In November 2018 the audit committee approved the RIC internal audit work program 2019–22, with eight audits relevant to lending services:

- RIC’s management of the external service provider (2019–20 and 2021–22) and its compliance with the service level agreement (2019–20 and 2021–22);
- water infrastructure loan assessment (2021–22);
- investment decision-making and due diligence (2020–21); and
- risk management and records management (both 2020–21).

<sup>151</sup> Further testing of delegations is likely for 2019–20.



4.35 A key recommendation in a prior 2019 internal audit on governance was to conduct a training needs analysis for each RIC employee and deliver training on RIC's legislative and governance obligations. As at 22 January 2020, RIC's mandatory training register shows that all current staff have completed mandatory training that covers work health and safety, Commonwealth resource management, risk and fraud and cyber security.

4.36 RIC has advised ANAO that it does not conduct statistically valid testing or analysis of compliance with key policies and procedures. Presently, it relies on periodical testing of procedural effectiveness through the internal audit process described above.

4.37 RIC should develop a compliance and assurance strategy for its suite of policies and procedures, including for loan assessment and approval. In line with paragraph 3.85, this should also cover the accuracy and completeness of loan data provided by the external service provider.<sup>152</sup>

### Recommendation no. 3

4.38 RIC should develop and implement a compliance and assurance strategy which covers the accuracy and completeness of loan data from the external service provider and compliance with key RIC policies and procedures for loan assessment and approval.

**Regional Investment Corporation response:** *Agreed.*

4.39 *The RIC has engaged expert advice to assist with the identification of improvements in the RIC's loan delivery process, develop service delivery standards to assess performance and identify the ongoing data needs of the RIC. Following a review of the forthcoming recommendations, RIC will develop and implement a compliance and assurance strategy to cover the accuracy and completeness of loan data from the external service provider and compliance with key RIC policies and procedures for loan assessment and approval.*

### ANAO financial statements audit

4.40 During the 2018–19 ANAO financial statements audit the ANAO performed testing over the new entity establishment processes. Testing included loan administration processes undertaken by RIC on behalf of the department. Overall, the control environment was assessed as effective but control weaknesses that pose a low business or financial risk were identified relating to the financial statements preparation process, bank account withdrawals, journal entries and the timeliness of credit card acquittals.

4.41 The ANAO did not test processes for assessment and issuing of loans in 2018–19 as total loans were not material to the department's financial statements, where they are recorded. However, it was observed that RIC places a high level of reliance on the Bendigo Bank services. In 2019–20, the ANAO will review and test how RIC monitors the arrangements and obtains its own assurance that the service provider is delivering in accordance with the agreement.

<sup>152</sup> Under its contract with RIC, Bendigo Bank is required to keep proper and adequate books of account, loan documents and files and records of all payments and other transactions. RIC has read-only access to a partition of the Bendigo Bank system and under the contract Bendigo Bank provides RIC with recommendations and supporting documentation on whether to approve a loan. Under the contract, RIC may audit the external service provider's compliance with the contract.

## Have loans been delivered to intended recipients in a timely manner?

RIC has not yet set any benchmarks or key performance indicators for the time taken to assess farm business loan applications. Loans that were approved in the second quarter of 2019–20 took an average of 184 days from application to settlement. Uptake of the farm business loans has been increasing and work is underway to reduce the time taken to process loans. The net cash impact of the farm business loans scheme should be monitored annually. There are as yet no loans under the NWILF.

4.42 To assess the timeliness of loan delivery, the average length of time for loan assessment and the number of loan applications were analysed. The status of negotiations for NWILF loans was also examined. With the increasing uptake of the farm business loans, review of the net costs of the scheme is warranted.

### Timeliness of assessment of farm business loan applications

4.43 Under its contract, Bendigo Bank reports on timeliness and the customer experience. This includes service level targets for 75 per cent of applications to be assessed within 20 business days and 90 per cent of applications to be provided to RIC for decision within 30 business days.

4.44 From May 2019, RIC's average workflow timeframe was 156 working days from submission of the loan application to release of loan funds.<sup>153</sup> For loans that are not approved, the timeframe is 104 days as the release of funds stage does not apply. However, these times are not targets and KPIs are being developed.

4.45 For loans that reached one or more of the four workflow stages in quarter two 2019–20, the average number of business days for each stage was:

- 29 days for submission — the time<sup>154</sup> from when an application is submitted to when it is deemed complete and all mandatory information necessary for assessment has been received;
- 15 days for assessment — the time taken<sup>155</sup> for the external service provider to assess a completed application and provide a recommendation to RIC on its outcome;
- 54 days for decision — the time taken for RIC to make a final decision;<sup>156</sup> and
- 68 days for settlement — the time from RIC's final decision to disbursement of loan funds for approved applications.

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153 This average timeframe was established through an external review for process improvement in June 2019. It noted that this timeframe is not comparable to commercial outfits for reasons that all RIC's clients are new and require on-boarding and many loans are high risk and often require security valuations.

154 In ANAO analysis, time has been measured by the number of business days and does not include national and NSW public holidays (i.e. where RIC head office is located).

155 This period includes 'stop the clock' provisions/delay due to applicants needing to provide more information.

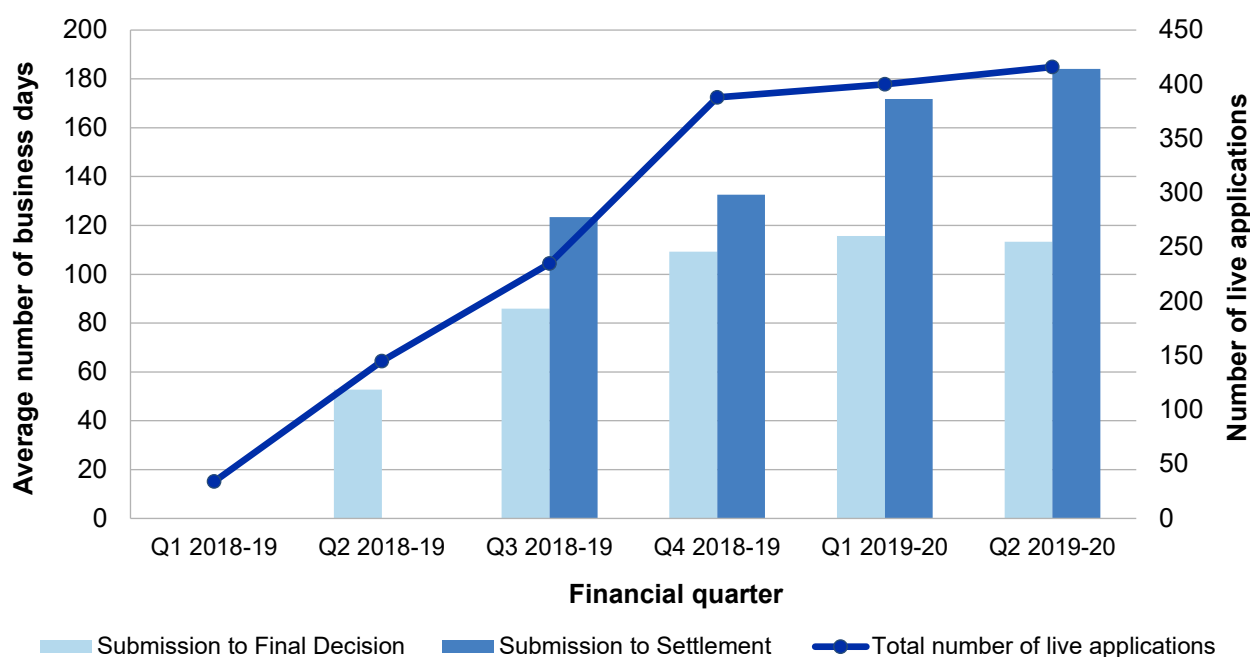
156 As defined by the date recorded in the external service provider's Agribusiness System.

4.46 For loans on which a decision was made in quarter two of 2019–20, the total time to a decision averaged 113 days.<sup>157</sup> For loans that were settled in that quarter the average total processing time was 184 days.<sup>158</sup> This average has increased across financial quarters since RIC's commencement, together with the total number of 'live' loan applications<sup>159</sup> being processed (see Figure 4.2).

4.47 The average period from final decision to settlement has generally comprised the longest portion of processing time. While it includes various steps,<sup>160</sup> the majority of time in this phase is attributed to negotiating the deed of priority<sup>161</sup> with the applicant's existing commercial lender.

4.48 Of the 30 complaints RIC has received as at December 2019, 87 per cent related to timeliness, poor communication and/or cumbersome processes. RIC has initiated a program of business improvements to address identified delays. This includes active engagement with the banking sector and earlier initiation of deeds of priority in the loan cycle.

**Figure 4.2: Average loan processing times and total number of live applications**



Note: Timeframes and totals are based on the end date of applications through loan phases. Applicants settled in a particular quarter are counted in that quarter irrespective of submission date.

Source: ANAO analysis.

157 The 113 days is not the sum of figures in stages one to three in paragraph 4.45. Different time spans and sets of applications apply. Each timeframe in paragraph 4.45 relates to loans that completed that particular stage in quarter two. The 113 days is the time between application and decision for loans that were decided in quarter two. For some of these loans, the earlier stages were completed in prior quarters with different average processing times to those in paragraph 4.45. This explanation also applies to the 184 days which is not equal to the totals of the four stages in paragraph 4.45.

158 For this same period: the median was 185 days; the longest was 288 days; and the shortest was 72 days.

159 Live loan applications are all applications as recorded in the system at the end of the quarter, except for incomplete submissions and settled loans.

160 For example, review of loan information for quality assurance and preparation loan documentation.

161 A Deed of Priority is a contract between creditors that establishes the rank (or priority) of creditors in relation to the security for a debtor in common. It sets out the rights of the parties to recover debts from the debtor.

## Numbers and value of farm business loans

4.49 RIC originally had \$2 billion available to lend to farm businesses over eight years from 1 July 2018 to 30 June 2026. This was re-profiled over four years. A 28 March 2019 submission to the Minister for Finance on RIC funding stated that RIC will be provided with \$500 million in each of 2019–20 and 2020–21 for its existing farm business loan products. At the time the Department of Finance stated these amounts should be adequate to cover uptake of the new AgRebuild loans, with later review if required.<sup>162</sup>

4.50 In response to the recent updates to drought loans and the anticipated uptake of these products, the government has now brought forward \$235 million of funds from 2022–23. Therefore a total of up to \$735 million is available for the RIC farm business loans in 2019–20.

4.51 The July 2019 quarterly report provided to responsible Ministers and the Board included full year data for 2018–19. Decisions were made on 212 loan applications, with 166 loans approved at a value of \$156 million (25 farm investment loans and 141 drought loans). The average value of the farm investment loans was \$693,390 and for drought loans this was \$980,076.

4.52 The July 2019 quarterly report data is that no loans were approved in the first quarter, nine loans were approved in the second quarter, 31 loans were approved in the third quarter and 126 were approved in the fourth quarter. The September 2019 quarterly report was submitted to the responsible Ministers in December 2019.

4.53 Reporting for the end of December 2019 showed that 210 loans had been approved for 2019–20, worth \$232 million (six farm investment, 191 drought loans and 13 AgRebuild). This means that 46 per cent of the original \$500 million in funding for 2019–20 has been committed half way through the year.

4.54 Overall RIC had approved 376 loans by the end of 2019. As at the end of October 2019, the largest numbers of loans were for grain, sheep, and beef farming and specialised beef cattle farming (130 and 69 respectively). Loan statistics reported to the responsible Ministers are included in Appendix 2.

## NWILF loans

4.55 Up to \$2 billion is available for lending under the NWILF with lending planned until the end of 2025–26. As at 23 January 2020, there are no applications for loans under the NWILF.

4.56 However, the New South Wales Government expressed interest in \$284 million of NWILF loan funds for two dam projects which the Commonwealth Government has committed to support.<sup>163</sup> Discussions with the NSW Government are continuing on this.

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162 The March submission also noted that in the 2018–19 Budget RIC's administrative funding was re-profiled to bring forward funds to meet the additional costs of delivering the flood loans.

163 This covers a \$650 million upgrade of Wyangala Dam in the state's Central West and a \$480 million new Dungowan Dam near Tamworth. Ministerial Media Release [Internet], available from <https://minister.infrastructure.gov.au/mccormack/media-release/billion-dollar-investment-nsw-dams> [accessed 16 January 2020].

## Expenditure and revenue for the loan scheme

4.57 The total value of concessional loans and the interest rates determine the revenue stream for the scheme. The two year interest-free period for drought and AgBiz loans announced on 7 November 2019 means forecast revenue from loan interest payments will be reduced.

4.58 Loan conditions may be further reviewed depending on the drought and other prevailing conditions. The department should monitor all the revenue and expenditure for each loan scheme each year, with an initial focus on the farm business loans, to help keep the government informed of this for budget, cost-benefit analysis and policy-setting considerations.

### Recommendation no. 4

4.59 At the end of each financial year, the Department of Agriculture, Water and the Environment should review the overall difference between the expenses and revenue for the farm business loans and advise the government of the scheme's impact on Commonwealth underlying cash.

**Department of Agriculture, Water and the Environment response:** *Agreed.*

4.60 *The department agrees with this recommendation. The RIC is intended to be cost neutral, meaning it will be fully funded from interest payments over the life of the loan programs it administers. There is a need to monitor the cash impact of the farm business loan scheme annually and ensure the government remains informed on the overall cost of the scheme.*

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Grant Hehir  
Auditor-General

Canberra ACT  
17 June 2020



## **Appendices**

## Appendix 1 Entity responses



Australian Government  
Department of Agriculture,  
Water and the Environment

ANDREW METCALFE AO  
SECRETARY

20 May 2020

Mr Grant Hehir  
Auditor-General for Australia  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Mr Hehir

Thank you for your letter of 15 April 2020 regarding the Australian National Audit Office Proposed Report under S.19 of the *Auditor-General Act 1997* Design and Establishment of the Regional Investment Corporation (RIC). The Department of Agriculture, Water and the Environment (the department) acknowledges the findings and recommendations and appreciates the opportunity to comment on the report.

The department agrees with Recommendation 4 and notes Recommendations 1, 2 and 3 which are directed to the RIC.

The report recognises the complexity in establishing a new Corporate Commonwealth Entity with a specific lending function. It acknowledges the department's role in establishing the new entity was largely effective and sound. The department will continue working closely with the RIC to ensure the loans it administers continue to support growth and resilience in Australian farm businesses and rural and regional communities.

The department's response is enclosed for publication in the final Report.

I would like to thank you and the audit team for the collaborative and professional approach adopted during the audit process, and the audit team's willingness to engage with us. We look forward to the upcoming tabling of the final Report.

Thank you again for the opportunity to comment on the proposed report.

Yours sincerely

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Ref: RIC 181

Mr Grant Hehir  
Auditor-General for Australia  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

13 May 2020

Dear Mr Hehir

Thank you for your correspondence of 15 April 2020 seeking comment from the Regional Investment Corporation (RIC) on the Australian National Audit Office's (ANAO) proposed report on the *Design and Establishment of the Regional Investment Corporation*.

The RIC welcomes the audit's overall conclusions and findings. The RIC is pleased that the ANAO found that: the design process to establish the RIC was largely effective; the department's advice on establishing the new entity was sound; and the RIC has established largely effective loan delivery arrangements.

The RIC further welcomes ANAO's acknowledgement that the RIC is at the early stages of its roll-out of farm business loans, the National Water Infrastructure Loan Facility and other products, and the contribution this has made to the immaturity of RIC's governance arrangements. The RIC acknowledges the importance of appropriate governance arrangements to administer loan schemes and is taking action to update key governance and risk management documentation as the organisation's maturity transitions from initial operations.

The RIC agrees with the recommendations in the proposed report and is taking action to implement these recommendations.

The RIC's response to the proposed report is at [Attachment A](#).

The RIC's response to the recommendations is at [Attachment B](#).

Yours sincerely

Karen Smith-Pomeroy  
Chair

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**Australian Government**  
**Department of Finance**

**Rosemary Huxtable PSM**  
**Secretary**

Our Ref: EC20-000200

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Mr Hehir

I refer to the Australian National Audit Office's (ANAO) correspondence dated 15 April 2020 providing an extract of the proposed audit report *Design and Establishment of the Regional Investment Corporation* and seeking the Department of Finance's (Finance) response.

Thank you for the opportunity to respond to the matters raised in the extract of the proposed report.

Three of the report's four recommendations are for the RIC and have been redacted from Finance's extract of the audit report, while the fourth recommendation is directed to the Department of Agriculture, Water and the Environment. Accordingly, Finance's summary response to the report is:

*Finance notes the recommendation and findings provided in the extract of the report.*

Finance will continue to work collaboratively with the Department of Agriculture, Water and the Environment to support relevant Ministers when exercising their responsibilities regarding the RIC.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Huxtable', with a stylized flourish at the end.

Rosemary Huxtable  
Secretary

5 May 2020

One Canberra Avenue, Forrest ACT 2603 • Telephone 02 6215 3445  
Internet [www.finance.gov.au](http://www.finance.gov.au)



**Australian Government**

**Department of Infrastructure, Transport,  
Regional Development and Communications**

**Secretary  
Simon Atkinson**

EC20-000215

Mr Grant Hehir  
Auditor-General for Australia  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Mr Hehir

Thank you for providing the Department of Infrastructure, Transport, Regional Development and Communications with an Extract of the proposed report of the Design and Establishment of the Regional Investment Corporation.

The Department notes the Extract of the Report and that the proposed report does not contain any findings or recommendations for the Department of Infrastructure, Transport, Regional Development and Communications.

The Department welcomes the report and will consider the findings of the published report in any future policy development with regards to the National Water Infrastructure Loan Facility.

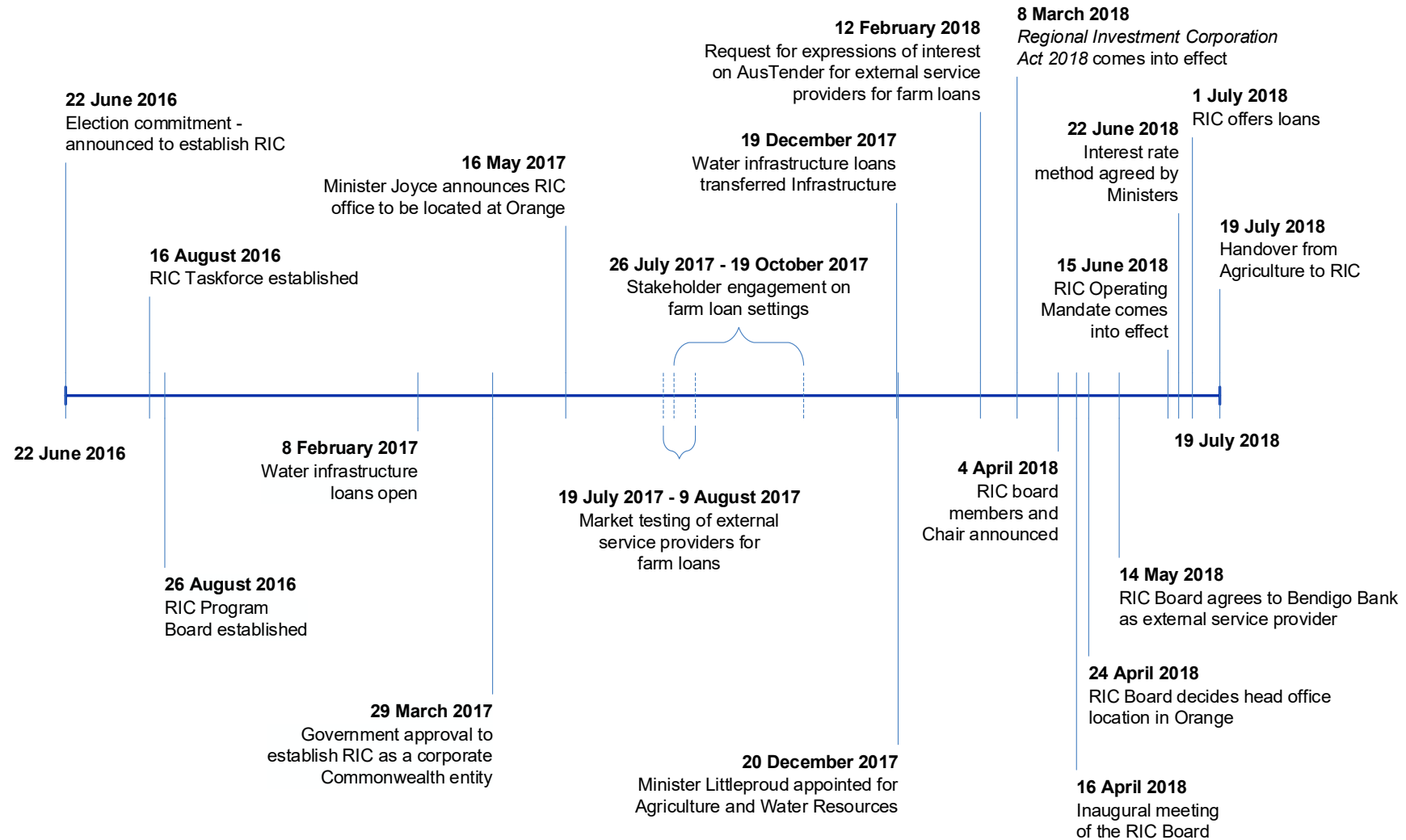
Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Atkinson'.

Simon Atkinson

6 May 2020

## Appendix 2      Timeline of key events in design and establishment of the Regional investment Corporation



## Appendix 3 Farm business loan statistics

**Table A.1: Number and value of complete loan applications by loan product from commencement to end of December 2019**

Product	Activity	Number	Value
Farm Investment	Applications	70	\$56,777,907
	Approvals	31	\$26,743,638
	Settlements	24	\$18,251,780
Drought	Applications	514	\$476,838,163
	Approvals	332	\$312,923,678
	Settlements	151	\$137,661,847
AgRebuild	Applications	24	\$79,656,768
	Approvals	13	\$47,800,000
	Settlements	10 <sup>a</sup>	\$6,050,000

Note a: Actual figure not used for consistency with RIC's practice to not show statistics where the total volume is less than 10 to prevent potential identification of individual applicants.

Source: From the quarterly report to responsible Ministers on farm business loans, 18 February 2020.

**Table A.2: Number and value of complete loan applications by industry from commencement to 30 December 2019**

Industry	Farm Investment		Drought		AgRebuild	
Beef Cattle Farming (Specialised)	12	\$9,352,860	91	\$74,691,734	20	\$71,514,000
Dairy Cattle Farming	12	\$13,637,858	31	\$26,212,984		
Grain-Sheep or Grain-Beef Cattle Farming	10	\$5,913,500	190	\$195,597,245	10	\$ 2,050,000
Other Grain Growing	10	\$1,532,247	33	\$30,269,550	–	–
Sheep-Beef Cattle Farming	10	\$5,065,819	76	\$68,635,673	–	–
Sheep Farming (Specialised)	10	\$2,175,000	33	\$25,888,570	–	–
Other	–	–			–	–
Beekeeping	–	–	10	\$310,000	–	–
Cotton Growing	–	–	10	\$9,280,000	–	–
Grape Growing	10	\$1,190,000	10	\$3,143,500	–	–
Other Crop Growing n.e.c	10	\$750,000	10	\$10,999,078	–	–
Other Fruit and Tree Nut Growing	10	\$3,740,000	10	\$5,126,500	–	–

Industry	Farm Investment			Drought	AgRebuild	
Other Livestock Farming n.e.c	–	–	10	\$8,002,450	–	–
Pig Farming	10	\$1,807,095	–	–	–	–
Stone Fruit Growing	10	\$1,335,000	10	\$1,600,000	–	–
Sugar Cane Growing	10	\$2,055,000	–	–	–	–
Vegetable Growing (Outdoors)	10	\$2,253,500	10	\$3,670,456	–	–
Turf Growing	–	–	10	\$1,347,351	–	–
Apple and Pear Growing	10	\$1,400,000	10	\$587,000	–	–
Rice Growing	–	–	10	\$1,475,000	–	–
Citrus Fruit Growing	10	\$2,000,000	10	\$300,000	–	–

Source: From the quarterly report to responsible Ministers on farm business loans, 18 February 2020.

**Table A.3: Number and value of complete loan applications by jurisdiction from commencement until 30 December 2019**

Jurisdiction	Number	Value
ACT	0	\$0
NSW	357	\$359,207,580
NT	10	\$3,729,234
QLD	121	\$154,556,066
SA	40	\$34,407,759
TAS	5	\$3,362,858
VIC	72	\$51,608,951
WA	10	\$4,341,506

Source: From the quarterly report to responsible Ministers on farm business loans, 18 February 2020.