This guide contains material that has been prepared to assist Commonwealth entities and companies to apply the principles and requirements of the Public Governance, Performance and Accountability Act 2013 and associated rules, and any applicable policies. In this guide the: mandatory principles or requirements are set out as things entities and officials ‘must’ do; and actions, or practices, that entities and officials are expected to take into account to give effect to those principles and/or requirements are set out as things entities and officials ‘should consider’ doing.
Contents

AUDIENCE ............................................................................................................................... 2
KEY POINTS ............................................................................................................................. 2
PART 1 - OVERVIEW ............................................................................................................... 2
   Definition ................................................................................................................................. 2
   Application ............................................................................................................................... 2
   Principles ................................................................................................................................. 2
   Mandate and Objectives ......................................................................................................... 3
PART 2 – BOARD AND CORPORATE GOVERNANCE ......................................................... 4
   Board Responsibility and Conduct ......................................................................................... 4
   Board Appointments and Performance ............................................................................... 5
PART 3 – PLANNING AND REPORTING ............................................................................. 8
   Requirements .......................................................................................................................... 8
   Corporate Plans ...................................................................................................................... 10
   Corporate Plans for publication ............................................................................................ 13
   Progress Reports .................................................................................................................... 13
   Annual Reports ..................................................................................................................... 14
   Keeping Shareholder Ministers Informed .............................................................................. 14
PART 4 – FINANCIAL GOVERNANCE ................................................................................ 16
   Capital Structure and Dividend Policy .................................................................................. 16
   Financial Targets for GBEs ................................................................................................... 17
   Managing Risks ...................................................................................................................... 18
   GBE Borrowings .................................................................................................................... 18
PART 5 – OTHER GOVERNANCE MATTERS .................................................................... 19
   Workplace Relations ............................................................................................................. 19
   Partly Owned GBEs ............................................................................................................... 19
   Partly Owned Subsidiaries of GBEs and Joint Ventures involving GBEs ............................ 20
   Arrangements for GBEs Being Established, Sold, Restructured or Wound Up ....................... 21
Audience

This Guide applies to Government Business Enterprises (GBEs) that are Commonwealth entities (entity GBEs) and wholly-owned Commonwealth companies (company GBEs). These GBEs are subject to the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and prescribed in the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule). Company GBEs are also subject to the Corporations Act 2001 (the Corporations Act) while entity GBEs are also subject to their enabling legislation.

Key points

- **Laws/rules/policy:** This Guide outlines the oversight arrangements for entity GBEs and company GBEs that are prescribed in the PGPA Rule as subject to the PGPA Act.
- **Purpose:** To provide guidance regarding board and corporate governance, planning and reporting, financial governance and other governance matters.
- **Reference previous guidance:** This Guide replaces the Commonwealth Government Business Enterprise Governance and Oversight Guidelines, October 2011.

Part 1 - Overview

Definition

1.1 A GBE is a Commonwealth entity or Commonwealth company as defined in section 8 of the PGPA Act and prescribed in section 5 of the PGPA Rule to the PGPA Act.

Application

1.2 The Commonwealth Government Business Enterprise Governance and Oversight Guidelines (the GBE Guidelines) apply to GBEs that are entity GBEs and company GBEs.

a. When forming subsidiaries or entering into joint ventures, GBE Directors should consider the compliance of their company constitution or any shareholders agreement of the subsidiary with the GBE Guidelines.

1.3 For GBEs that are Commonwealth companies and that are not wholly-owned companies, the extent to which these GBE Guidelines apply will be identified in legislation applying specifically to the GBE, the company constitution or shareholders’ agreement (see paragraphs 5.3 to 5.12 of this Guide for more detail).

1.4 This Guide must be read in conjunction with the PGPA Act, the PGPA Rule and the Resource Management Guides (http://www.finance.gov.au/resource-management/performance) that may be issued from time to time under the PGPA Act.

Principles

1.5 The main features of the Commonwealth's relationship with its GBEs are:

a. a strong interest in the performance and financial returns of the GBE

b. reporting and accountability arrangements that facilitate best practice governance and active oversight by the Commonwealth

b. action by the Commonwealth in relation to the strategic direction of its GBEs where it prefers a different direction from the one proposed.

---

\(^1\) That is, where the Commonwealth has a 100 per cent ownership interest in the company.
1.6 The Commonwealth’s ownership interest is generally represented by two ‘Shareholder Ministers’. The Shareholder Ministers are the Responsible Minister (that is the Minister responsible for the GBE) and the Finance Minister. The Finance Minister is generally the sole Shareholder Minister for those GBEs within the Finance portfolio.

1.7 The key principles underpinning the GBE Guidelines are:

a. Shareholder Ministers exercise strategic control consistent with their accountability to the Parliament and the public
b. Shareholder Ministers set clear objectives for GBEs
c. The directors of a GBE develop the business strategies and handle the day-to-day management policies
d. The directors of a GBE ensure that:
i. the GBE’s activities are conducted so as to minimise any divergence of interests between the GBE and its shareholders
ii. GBEs are managed in the best interests of the entity as a whole
iii. GBEs and their officers maintain the highest standards of integrity, accountability and responsibility.

e. Required standards of disclosure to Shareholder Ministers are satisfied. Consistent with requirements under the PGPA Act, this includes consultation with Shareholder Minister(s) on matters of significance, and regular and timely disclosure of information:
i. which may affect the value of the GBE
ii. which may influence government decisions in relation to the GBE
iii. in which the government has a legitimate interest.

f. Information is produced for the Shareholder Minister(s) and the community according to the highest standards:
i. where appropriate, information enables ready comparison with other relevant information.

**Mandate and Objectives**

1.8 A principal objective for each GBE is that it adds to its shareholder value. To achieve this it should:

a. operate efficiently, that is, at minimum cost for a given scale and quality of outputs
b. price efficiently:
i. a GBE should set prices taking into account economic forces, including the level of demand for, and the enterprise’s capacity for and cost of supplying, individual goods and services
ii. the Government may impose price conditions on GBEs providing goods and services in a monopolistic market or Community Service Obligations (CSOs). Such price conditions and CSOs, where appropriate, would be in addition to those arising from regulation by the Australian Competition and Consumer Commission and generally specified in legislation or through contractual arrangements.

---

2 Under section 8 of the PGPA Act, the Finance Minister is the Minister who administers the PGPA Act.
c. earn at least a commercial rate of return, given the obligations in (a) and (b) above to price and operate efficiently:
   i. This means recovering the full cost of the resources employed, including the cost of capital
   ii. Working towards a principal financial target and a dividend policy, agreed in advance with the Shareholder Ministers, with the principal financial target to be set on the basis that each GBE should be required to earn commercial returns at least sufficient to justify the long-term retention of assets in the business, and to pay commercial dividends from those returns.

1.9 In addition to setting a principal financial target, the Shareholder Minister(s) may set other financial targets and non-financial targets, for particular GBEs, on a case-by-case basis in consultation with the GBE (refer also to paragraphs 4.7 to 4.13).

1.10 A GBE should operate in the industry sector, and provide the goods and services (including CSOs), that the government has mandated.
   a. The government may impose service quality standards on GBEs providing goods and services in a monopolistic market or CSO goods and services
   b. In providing each GBE with a clear mandate and set of objectives, the Shareholder Minister(s) will ensure that the objectives include any requirements to meet the government's explicitly stated social and economic policy objectives.

1.11 The mandate of a GBE will be considered by the Shareholder Minister(s) as part of the annual corporate planning process. In addition, the Shareholder Minister(s) will, where appropriate, periodically undertake a stand-alone review of the mandate.

1.12 Under sections 22 and 93 of the PGPA Act, the Finance Minister may make a government policy order (GPO) that specifies the Government policy that applies in relation to a GBE. The GPO will take effect once registered on the Federal Register of Legislative Instruments, which will include details of the policy and its application. Ministerial orders to GBEs, including those prescribed in enabling legislation and company constitutions will be provided in writing.

Part 2 – Board and Corporate Governance

Board Responsibility and Conduct

2.1 The general conduct of directors (for GBE companies) and of boards (for GBE entities) is subject to the provisions of the PGPA Act, the Corporations Act (for a wholly-owned company GBE), enabling legislation (where it exists), common law and equity.

2.2 Boards have ultimate responsibility for the performance of the GBE, and are fully accountable for this to the Shareholder Minister(s). Boards should implement effective governance frameworks to support their role and responsibilities, and report on their implementation in the Annual Report.

2.3 Board members have their fiduciary and other duties drawn to their attention by the Shareholder Minister(s) in, or with, correspondence offering appointment, and are to fully accept the individual responsibility this places on them.
   a. Appointment letters for all directors and Chief Executive Officers (CEOs) should include the following:
      i. director powers and duties (attaching a link to the PGPA Act and the GBE Guidelines)
ii. A copy of the GBE’s constitution or enabling legislation
iii. General public sector performance and accountability obligations, including that the GBE may be subject to Parliamentary scrutiny and audit processes
iv. Information on the operations of the GBE, full details of their legislative obligations, their public sector accountability obligations and directors’ responsibilities, and outlining the circumstances in which the GBE will bear the cost of directors obtaining independent professional advice in carrying out their duties
v. The term of appointment and remuneration arrangements (with particular reference to Remuneration Tribunal (Tribunal) arrangements)
vi. Reference to Directors and Officers insurance arrangements, confidentiality of information and board decisions, conflict of interest matters, and induction arrangements.

b. Directors should formally respond to the letter of appointment within 30 days of receipt and provide an undertaking to advise the Shareholder Minister(s) if there is any change in circumstances that might impact on their ability to be a director.

2.4 Boards should continue to regularly monitor the ongoing independence of each director and the board generally to ensure that they continue to exercise unfettered and independent judgement.

a. The board should ensure that a director does not have any interests that derogate from carrying out the role intended with diligence and care

b. It is desirable that the board establish and maintain a formal register of directors’ interests to ensure potential conflicts can be identified and managed.

2.5 In particular, the Government expects GBE boards to establish and maintain a code of conduct for directors (including any subsidiaries), employees and contractors and that GBEs, in undertaking their business, avoid activities that could give rise to questions about their political impartiality. For example, GBEs should not make direct or indirect political donations or participate in activities that would bring the Government into disrepute. GBEs may wish to consult with the Shareholder Minister(s) on any sensitive issues affecting its business activities.

2.6 The code of conduct may cover the following matters: being professional; customer service; work practices and performance; conflict of interest; relationship with suppliers; gifts and benefits; outside employment; appropriate use of assets and resources; and confidentiality of information, including privacy considerations in written and electronic form.

**Board Appointments and Performance**

2.7 GBE boards and any subsidiaries are to comprise directors with an appropriate mix of skills, who are to be appointed on the basis of their individual capacity to contribute to the board, having an appropriate balance of relevant skills (such as commerce, finance, accounting, law, marketing, workplace relations, management and other skills relevant to the GBE’s operations) to enable them to contribute to the achievement of the GBE’s objectives.

a. Boards should draw on outside expertise where necessary to augment their own skills
b. The Chair should not be an executive of the GBE, unless otherwise agreed by the Shareholder Minister(s). This clause does not apply to any subsidiaries.

c. The appointment of departmental officers (referred to as officials under the PGPA Act) to GBE boards may only be considered in exceptional circumstances, having regard to their possession of the skills referred to above, any potential conflicts of interest that might arise, and the particular circumstances of the GBE (such as GBEs in winding-down mode). In such cases, the appointed departmental officers are to act in the best interests of the GBE and at all times in accordance with the PGPA Act, the Corporations Act (for company GBEs), the Public Service Act 1999, and particularly the APS Values and APS Code of Conduct. All appointed board members are to act in accordance with the Shareholder Ministers’ objectives for the GBE.

2.8 The Chair should head a board committee which shall provide the Shareholder Minister(s), through the board, with recommendations on board composition and membership.

a. The Chair should, following consultation with the Shareholder Minister(s), develop an Annual Board Plan which includes:
   i. The medium-term aims in relation to board composition, taking into account the strategic objectives of the GBE
   ii. A forecast of likely board vacancies
   iii. An assessment of the skill and diversity requirements of the board in the context of the strategic requirements of the GBE and Government policy objectives regarding diversity in board composition. This is to have consideration of any assessment undertaken on the board’s performance (paragraph 2.20 refers).

b. The Chair should write to the Shareholder Minister(s) at least three months prior to a vacancy arising on the board or in the role of CEO.
   i. Following consultation with the Shareholder Minister(s), the board may provide, through the Chair, a shortlist of candidates for board vacancies
   ii. Additional processes for identifying board candidates such as public advertising or the use of executive search processes may be undertaken by agreement with the Shareholder Minister(s), to help ensure appointments are drawn from the best possible field of candidates
   iii. Chairs may recommend the reappointment of an existing director where this is sought by the director and where appropriate (i.e. based on evidence of good performance, where the tenure falls within the requirements set out in legislation applying to the GBE and where the term has not been excessive).
   iv. All recommendations for appointment should have regard to any government skill and diversity requirements and policies
   v. Through the Chair, the board should advise the Shareholder Minister(s) about its preferred candidate for the position of CEO. The CEO is directly accountable to the board and it is expected that potential candidates would be identified through public advertising or executive search processes.

2.9 The Shareholder Minister(s) may elect to appoint a candidate not proposed by the Chair.

2.10 Any decision to appoint the CEO as a director is at the discretion of the Shareholder Minister(s) and the CEO recruitment and succession arrangements undertaken by the board should reflect this.

2.11 Boards should implement and maintain a succession plan for CEO positions and provide an annual assurance to the Shareholder Minister(s) that this is the case.
2.12 Where a Board appointment is proposed, the Shareholder Minister(s) will consult the Prime Minister seeking his/her, or at his/her discretion, the Cabinet's approval of the appointment before each appointment is finalised.

2.13 Board appointment and reappointment terms to GBEs and any subsidiaries will be consistent with Government policy. The process and consideration of Board appointments and reappointments are outlined in the Cabinet Handbook available on the Department of the Prime Minister and Cabinet’s website.

2.14 The Tribunal determines remuneration for directors that is compatible with their roles and responsibilities. In setting remuneration, the Tribunal may take into consideration a range of information including but not limited to the workload and work value of the office, fees in the private sector, wage indices and other economic indices and rates set for other bodies. The Tribunal may also consider factors such as the non-cash benefits provided and the public interest and personal status involved in holding the office.

2.15 GBEs should have clear policies regarding the remuneration of directors on subsidiary boards. Remuneration of subsidiary board members should be set at a level proportionate to the Tribunal decision for the parent GBE board taking into consideration, but not limited to, factors such as the decision making, workload and time commitments of directors on the subsidiary board.

2.16 Clear remuneration policies should also exist for circumstances where directors hold positions on both the GBE parent and subsidiary board, or the GBE executive and subsidiary board, such that the policies reflect the additional responsibility and time commitment of the director.

2.17 Boards review annually the composition of all subsidiary boards giving regard to any changes in the parent company's strategies, independence and expertise of the directors.

2.18 The Shareholder Minister(s) may, at their discretion, remove directors at any time prior to the completion of their term of appointment.

   a. In the event that a GBE is not performing satisfactorily, the Shareholder Minister(s) will initiate prompt remedial action. Dismissal of the directors would be considered, particularly in any case of failure to keep Minister(s) adequately informed, and in situations of ongoing under-performance in respect of financial or other aspects of the operations of the business.

   b. A director may be placed in a situation where continuing to be a GBE director could embarrass the GBE or the Shareholder Minister(s). In such situations, they should raise the issue with their Chair immediately. The Chair in turn will decide whether it is necessary to raise the issue with the Shareholder Minister(s). In a worst case situation, the director may be asked to resign, or failing that, be removed.

2.19 Boards should work with departmental officials, as representatives of the Shareholder Minister(s), to develop and implement appropriate induction and development programs for directors. Induction programs should incorporate information on general public sector, legal, performance and accountability obligations.

2.20 On an annual basis the boards of the GBE and its subsidiaries will assess its performance; and the boards will assess the performance of the Chair. The performance assessment of the GBE Board is to feed in to the GBE's Annual Board Plan. Unless otherwise directed by the Shareholder Minister(s), on a biennial basis (every two years) a performance
assessment of the GBE Board is to be undertaken by an independent external party and the Chair will provide the report to the Shareholder Minister(s).

a. Part of any board performance assessment will include a review of the level of director attendance at board meetings. Directors are expected to attend all scheduled board meetings, and attendance is to be reported in the annual report. Chairs are to raise on-going non-attendance issues with the Shareholder Minister(s) for consideration and possible further action.

2.21 On an annual basis the GBE board should assess the performance of the CEO against predetermined criteria and a written record of its content will be retained by the GBE board. Chairs are to provide annual written confirmation to the Shareholder Minister(s) that this process has been completed.

2.22 Boards should ensure that board committees and/or subsidiaries do not duplicate work performed by the CEO and management. The composition and charter of each board committee should be reviewed annually by 1 December each year to ensure that they remain appropriate in the context of the governance needs of the GBE.

### Part 3 – Planning and Reporting

#### Requirements

3.1 The planning and reporting requirements for GBEs are contained in the PGPA Act and PGPA Rule with additional requirements for Commonwealth companies contained in the Corporations Act. The planning and reporting requirements can be summarised as follows:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Commonwealth Entities</th>
<th>Commonwealth Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Plan content</td>
<td>Sections 35 of the PGPA Act and 16(E) of the PGPA Rule.</td>
<td>Sections 95 of the PGPA Act and 16(E) of the PGPA Rule.</td>
</tr>
<tr>
<td>Annual Reports</td>
<td>Sections 39 (inclusion of an Annual Performance Statement) and 46 of the PGPA Act and 16(F) of the PGPA Rule.</td>
<td>The Corporations Act, Section 97 of the PGPA Act and any relevant Rules.</td>
</tr>
<tr>
<td>Financial Statements</td>
<td>Section 42 of the PGPA Act</td>
<td>The Corporations Act.</td>
</tr>
<tr>
<td>Additional Notification Requirements (Significant Events)</td>
<td>Section 19 of the PGPA Act and any relevant Rules.</td>
<td>Section 91 of the PGPA Act and any relevant Rules.</td>
</tr>
<tr>
<td>Supplementary Interim Reports</td>
<td>Section 19 of the PGPA Act</td>
<td>Section 91 of the PGPA Act.</td>
</tr>
</tbody>
</table>
3.2 GBEs should provide the Shareholder Minister(s) with a series of annual corporate planning and reporting documents for comment and review by the key dates shown in Table 2 (including dates legislated in the PGPA Act and PGPA Rule).

- **a.** GBEs are to engage with the Shareholder Minister(s) early in the reporting and planning processes to allow sufficient time for each GBE to build government priorities into the processes.

- **b.** In reviewing the documents, the Shareholder Minister(s) may seek clarification of the information provided, or request certain amendments.

**Table 2: Best Practice Timetable (including key legislated dates) for GBE Plans, Reports and Dividends**

- **Final Corporate Plan**
  - Submitted to Shareholder Minister(s) by 31 August each year

- **Final Corporate Plan for publication**
  - Submitted to Shareholder Minister(s) and published on the GBE's website by 31 August each year

- **Progress Report June quarterly report**
  - Submitted to Shareholder Minister(s) by 31 August each year

- **Annual Report**
  - Submitted to Shareholder Minister(s) by 30 September each year for tabling in Parliament

- **Final Dividend**
  - Paid by 30 October each year

- **Progress Report September quarterly Report**
  - Submitted to Shareholder Minister(s) by 11 November each year

- **Progress Report December quarterly report**
  - Submitted to Shareholder Minister(s) by 11 February each year

- **Interim Dividend**
  - Paid by 30 April each year

- **Progress Report March quarterly report**
  - Submitted to Shareholder Minister(s) by 11 May each year

- **Draft Corporate Plan**
  - Submitted to Shareholder Minister(s) by 30 June each year following consideration by shareholder departments. Shareholder Minister(s) may choose to provide comments and/or approve by 15 August each year

- **Draft Corporate Plan for publication**
  - Submitted to Shareholder Minister(s) by 30 June each year following consideration by shareholder departments. Shareholder Minister(s) may choose to provide comments and/or approve by 15 August each year
Corporate Plans

3.3 Corporate Plans are to be prepared in accordance with the appropriate section of the PGPA Act, PGPA Rule and Corporations Act (refer summary at paragraph 3.1).

a. Corporate Plans must cover a period of at least 4 years, starting on the first day of the reporting period for which the plan is prepared. Details of matters to be included in Corporate Plans as far as they are applicable are outlined in the following table.

<table>
<thead>
<tr>
<th>PGPA Rule Minimum Requirements</th>
<th>Matters to be included in Corporate Plans for GBEs</th>
</tr>
</thead>
</table>
| Introduction                  | • Statement that the plan has been prepared for paragraph 35(1)(b) of the PGPA Act, reporting period for which the plan is prepared and the reporting periods covered by the plan.  
• Reference to any other legislation applicable to the preparation of the plan. |
| Purposes                      | • The purposes of the GBE, including:  
  a. the objectives, functions and role of the entity for the period covered by the plan  
  b. the strategies and policies that the entity will follow in the period to achieve its purposes. |
| Environment                   | • Strategic assessment of the operating environment – an outline and an assessment of the environment the GBE will operate in for the period covered by the plan.  
• The investment and financing programmes, including strategies for managing financial risk.  
• Details of community service obligations of the GBE, and the strategies and policies the GBE is to follow to carry out those obligations.*  
• Dividend policy.*  
• Details of any Ministerial direction on specific matters to be addressed. |
| Performance                   | • A summary of how the GBE and any subsidiary will achieve the GBE’s purposes and how this will be measured.  
• Financial and non-financial measures of performance.  
• Financial targets and projections, including those outlined in Table 4.*  
• Review of performance against previous Corporate Plan targets.  
• Analysis of factors likely to affect achievement of targets or create significant financial risks for the GBE and the Commonwealth. |
| Risk oversight and management | • A summary of the risk oversight and management systems, including an analysis of key risks, accountabilities for managing risk, mitigation strategies and their alignment to the objectives and plans of the GBE, consistent with the 2014 Commonwealth Risk Management Policy. |
| Capability                    | • The key strategies and plans for each reporting period to achieve the GBE’s purpose, including:  
  a. human resource strategies and industrial relations strategies  
  b. price control and quality control strategies for goods or services supplied by the GBE under a monopoly.” |

* Requested by the Finance Minister under section 19, 1(b) and 91, 1(b) of the PGPA Act.
b. Under section 19(1)(b) and 91(1)(b) of the PGPA Act, the Finance Minister requests that supplementary information be provided by GBEs in their Corporate Plan. The supplementary information required is (unless otherwise agreed in writing):

i. details of the broad mandate of the GBE (including a summary of core activities that are in line with existing core competencies, and proposed non-core activities that require new competencies to be developed), together with a summary of those functions that may require its retention as a government owned GBE

ii. an estimate of the current commercial value of the Commonwealth's investment in the GBE and how that value was derived, with the expectation that a discounted cash flow methodology would be used as the valuation basis, unless otherwise agreed by the Finance Minister

iii. financial projections, to be prepared in the same format as the progress and final report and consisting of a profit and loss statement, balance sheet and cash flow statement

iv. capital expenditure projections linked to the physical assets of the GBE (where material), its business objectives and acquisition, maintenance and disposal plans

v. cash flow (liquidity) projections

vi. a summary of the GBE's risk management policies, material risks and strategies for managing these risks. This is in addition to the requirements set out in paragraph 4.15 (refer guidance in Part 4, Financial Governance)

vii. proposed borrowing(s) (refer guidance in Part 4, Financial Governance).

c. If the GBE has a subsidiary (or subsidiaries), sections 35(5) and 95(4) of the PGPA Act require the Corporate Plan to cover both the GBE and its subsidiaries

d. GBEs are to incorporate targets for the following minimum key performance indicators (KPIs) across a minimum of a five-year period (at least one prior year and four forward years) in Corporate Plans, and if appropriate, results are to be reported in progress reports as outlined in Table 4
Table 4: Minimum Key Performance Indicators for Corporate Plans

<table>
<thead>
<tr>
<th>Measure</th>
<th>Key Performance Indicator</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Performance</strong></td>
<td>Total shareholder return</td>
<td>(Commercial value at end, less commercial value at start plus dividends paid less equity injected)/commercial value at start</td>
</tr>
<tr>
<td></td>
<td>Dividend yield</td>
<td>Dividends paid/average commercial value</td>
</tr>
<tr>
<td></td>
<td>Dividend payout ratio</td>
<td>Dividends/net profit after tax (NPAT)</td>
</tr>
<tr>
<td></td>
<td>EBIT</td>
<td>Earnings before net interest and tax</td>
</tr>
<tr>
<td></td>
<td>EBITDA</td>
<td>Earnings before net interest, tax, depreciation, amortisation and fair value adjustments for financial instruments</td>
</tr>
<tr>
<td></td>
<td>Return on equity (RoE)</td>
<td>Net profit after tax/average equity</td>
</tr>
<tr>
<td></td>
<td>Net profit after tax (NPAT)</td>
<td>The bottom line of the Income Statement</td>
</tr>
<tr>
<td></td>
<td>Underlying net profit after tax</td>
<td>The bottom line of the Income Statement adjusted for one-off items and Australian Accounting Standards Board (AASB) fair value movements</td>
</tr>
<tr>
<td><strong>Business Efficiency</strong></td>
<td>Operating margin</td>
<td>EBITDA/operating revenue</td>
</tr>
<tr>
<td></td>
<td>Return on capital employed</td>
<td>EBIT adjusted for AASB fair value movements (net of tax)/average capital employed. Capital employed is defined as total assets less current liabilities</td>
</tr>
<tr>
<td></td>
<td>Debtors age (days)</td>
<td>(Debtors/revenue) x 365</td>
</tr>
<tr>
<td><strong>Leverage/Solvency</strong></td>
<td>Gearing Ratio</td>
<td>Net interest bearing debt/net interest bearing debt plus equity</td>
</tr>
<tr>
<td></td>
<td>Interest Cover</td>
<td>EBITDA/interest paid</td>
</tr>
<tr>
<td></td>
<td>Current ratio</td>
<td>Current assets/current liabilities</td>
</tr>
<tr>
<td></td>
<td>Liquidity Ratio</td>
<td>Cash and equivalents/current liabilities</td>
</tr>
<tr>
<td><strong>Customers and Stakeholders</strong></td>
<td>Customer Satisfaction</td>
<td>Percentage of customers rating the GBE very good or excellent as determined by survey</td>
</tr>
<tr>
<td></td>
<td>Meeting Community Service obligations</td>
<td>Adherence to specific government directives, which cause GBEs to depart from otherwise commercial decisions, regarding the conditions of supply of goods or services</td>
</tr>
<tr>
<td><strong>Staff</strong></td>
<td>Staff Retention and turnover rates</td>
<td>Number of staff replaced/average number of staff for the period</td>
</tr>
<tr>
<td></td>
<td>Staff Satisfaction</td>
<td>Percentage of staff very/extremely satisfied as determined by survey</td>
</tr>
<tr>
<td></td>
<td>Lost time injury frequency rates and OHS incident rate</td>
<td>Lost time injuries per million hours worked</td>
</tr>
<tr>
<td></td>
<td>Wages expense ratio</td>
<td>Cost of wages and salaries/operating revenue</td>
</tr>
</tbody>
</table>
e. The Shareholder Minister(s) may propose and agree other indicators that are relevant to measure the performance of the GBE, which are to be included in the Corporate Plan prior to the Shareholder Minister(s) approving the plan.

3.4 The Shareholder Minister(s) may elect to meet with the directors of a GBE prior to responding to the Corporate Plan.

3.5 The response by the Shareholder Minister(s) will:
   a. usually be within 45 days of receipt of the plan
      i. Draft Corporate Plans should be provided to departmental officers for discussion with the GBE prior to being endorsed by the board to ensure a timely response
   b. include (if necessary) any proposed changes to the Corporate Plan to better reflect the Government’s policies and objectives for the GBE.

3.6 All GBE Corporate Plans and subsequent updates, reports or supplementary information are confidential to the Shareholder Minister(s), their advisers and departments.

**Corporate Plans for publication**

3.7 The directors of a company GBE or the board of an entity GBE and the Shareholder Minister(s) will annually agree to a version of the Corporate Plan which will be a public document, in accordance with section 16E (3) and (4) of the PGPA Rule.

3.8 This document can take the form of a redacted Corporate Plan or a Statement of Corporate Intent (SCI) previously drafted by GBEs. However, it should address the minimum requirements of the Corporate Plan as prescribed by the PGPA Rule (which is also outlined in Table 3) and in doing so include sufficient non-sensitive information to inform how the GBE plans to deliver on its purpose.

3.9 GBEs are to arrange for this document to be provided to the Shareholder Minister(s) consistent with timings outlined in Table 2, and publish it on the GBE’s website by the end of the second month of the reporting period for which it is prepared.

**Progress Reports**

3.10 Confidential quarterly progress reports are to be provided by the Chair to the Shareholder Minister(s) by the dates specified in Table 2 (following clause 3.2). The minimum requirement for progress reports is that they should include:
   a. analysis of the GBE’s quarterly and year-to-date performance against Corporate Plan forecasts for the corresponding period, including detailed analysis of revenue and expense (including capital expenditure) performance for the period and explanations for deviations from Corporate Plan forecasts
   b. financial statements, the format of which is approved by the Finance Minister
   c. analysis of the GBE’s performance against its broader Corporate Plan objectives (such as its KPIs and operational performance targets/forecasts where relevant) including any major achievements during the period along with explanations for any changes to strategies
   d. commentary on any emerging issues and risks or changes to risk factors that might have a material impact on performance. Details of strategies for managing any
material risks that were not identified in the Corporate Plan should also be provided. This is in addition to the requirements set out in paragraph 4.15

e. a clear statement of the GBE’s outlook for the rest of the financial year in terms of meeting its full year re-forecast outturn, key risks and opportunities arising and management plans

f. commentary on progress in meeting CSOs (where relevant).

3.11 Shareholder Minister(s) may elect to respond to the Chair with specific comments on the progress report.

3.12 All progress reports are confidential to the Shareholder Minister(s), their advisers and the department(s).

**Annual Reports**

3.13 The directors of a GBE are required to provide an annual report to the Shareholder Minister(s) in accordance with the requirements of the PGPA Act.

a. Where a GBE is a Commonwealth entity the annual report is prepared in accordance with the PGPA Act, the entity’s enabling legislation and any other applicable legislation and guidance issued by the Finance Minister or portfolio. The annual report must also include an Annual Performance Statement

b. Where a GBE is a company, the annual report is prepared in accordance with the PGPA Act and the Corporations Act

c. GBEs should include comments on performance against the financial and non-financial expectations outlined in the Corporate Plan for publication relating to that financial year, including on any subsidiary.

3.14 GBEs should detail in their annual report key governance practices. This information can be modelled against the Australian Securities Exchange Corporate Governance Principles. Details should include, but are not limited to:

a. board committees of the company and their main responsibilities

b. education and performance review processes for directors

c. ethics and risk management processes.

3.15 Financial statements of GBEs and their subsidiaries, associated with annual reports are audited, or reported on, by the Auditor-General.

3.16 GBEs are to note that the Auditor-General is able to conduct a performance audit of an entity GBE or a wholly-owned company GBE, or any of its subsidiaries, in the circumstances outlined in the Auditor-General Act 1997.

**Keeping Shareholder Ministers Informed**

3.17 Notification requirements are contained in the PGPA Act for both entity and company GBEs.

3.18 In accordance with the PGPA Act, the board of an entity GBE or the directors of a company GBE are required to keep the Shareholder Minister(s) informed of the operations of the GBE and its subsidiaries and should follow a disclosure principle which
is similar to the continuous disclosure requirements of the Australian Securities Exchange listing rules.

a. Should a GBE become aware of any information that may have a material effect on its value and/or performance, that information must be provided immediately to the Shareholder Minister(s)

b. Directors are required to provide such other information in relation to the GBE’s operations as the Shareholder Minister(s) require(s), within the time limits set by the Minister(s)

c. Where there are two Shareholder Ministers, all correspondence and reports from GBEs should be sent to both Ministers simultaneously. Whilst Shareholder Ministers will consult in relation to all correspondence, they may decide that, in relation to some matters, one of the Ministers will correspond on behalf of both Ministers

d. The Shareholder Minister(s) may consult with the Prime Minister and/or Treasurer about any material matter (as defined above) affecting the value of the GBE and in doing so may provide copies of Corporate Plans, progress reports and correspondence on other major matters to the Prime Minister and/or the Treasurer for possible comment.

3.19 The Shareholder Minister(s) will, in consultation with the board, define further guidance and limits on the activities of a GBE. This will be documented in the form of a Commercial Freedoms Framework (CFF) appropriate to the commercial activities, environment and risk profile of the GBE, having regard to the GBE’s mandate as agreed by the Government while ensuring adequate Shareholder Minister(s) oversight.

3.20 Proposals for significant business initiatives should be developed for inclusion in the normal corporate planning cycle. The threshold value at which an initiative is considered significant will be agreed and defined within the CFF.

a. Should an urgent initiative arise which is unable to wait for inclusion in the planning cycle, it is to be treated as a notifiable significant issue, pursuant to section 19 (entity GBEs) and section 91 (wholly-owned company GBEs) of the PGPA Act. GBEs are required to notify the Shareholder Minister(s) prior to entering into any identified business opportunities. These should include, but not be limited to, new business ventures, major contracts and capital raising proposals.

3.21 Unless otherwise agreed, GBE boards are required to submit all business cases outlining new proposals to the Shareholder Minister(s) for consideration either as part of the Corporate Plan or separately for urgent initiatives. GBEs should distinguish between business cases that relate to core business and those that relate to non-core business. The threshold dollar value for consultation for proposed non-core business opportunities will be lower than that for core business opportunities and are to be agreed in consultation between the board and the Shareholder Minister(s) as part of the annual corporate planning process. As a minimum, business cases should address the following:

a. the rationale for the project and an explanation of how it fits into the GBE’s corporate strategy

b. cost, anticipated return (net present value), effect on shareholder value and some measure of the project’s risk
c. key assumptions around revenue and costs (including base case, scenarios and sensitivity analysis), plus key risks and mitigation strategies

d. proposed funding strategy

e. the impact on the GBE’s capital structure and credit rating (if applicable)

f. expected outcome, and impact on future dividends.

3.22 GBEs should allow a reasonable amount of time (not less than 10 working days) for the Shareholder Minister(s) and their department(s) to respond to any business case, and factor that into the decision making timeframe.

3.23 All business case proposals, subsequent updates and supplementary information are confidential to the Shareholder Minister(s), their advisers and the department(s).

3.24 GBEs are to conduct Annual Strategic Meetings, to which the Shareholder Minister(s) or their delegate(s) are invited to attend. The focus of the meetings will be to discuss both the board’s and the GBE’s performance over the past year and to engage on the development of strategy going forward.

Part 4 – Financial Governance

Capital Structure and Dividend Policy

4.1 Each GBE and its subsidiaries should target an optimal capital structure (the combination of financial liabilities and equity used to fund the assets of the GBE) that is agreed annually between the board and the Shareholder Minister(s) in the Corporate Plan consultation process.

a. An optimal capital structure is one that, in light of economic, industry and GBE specific factors, would provide for an investment grade credit rating, whilst at the same time imposing a discipline on the GBE to optimise efficiency. The target credit rating is BBB

b. As part of developing a target optimal capital structure, consideration will be given to the forecast level of capital expenditure in the GBE’s Corporate Plan, and appropriate options for funding capital expenditure (including via retained earnings or debt). Consideration will also be given to longer term objectives outlined in a GBE’s Corporate Plan

c. In providing for a GBE to expand its capital base through retained earnings, any proposed future capital expenditure should add shareholder value. That is, as a minimum, capital expenditure plans should meet a hurdle rate of return that is consistent with the GBE’s principal financial target (Refer 1.8 and 4.7 – 4.13 ‘Financial Targets for GBEs’).

4.2 The level of estimated dividends (and forecast payout ratio) for a GBE and its subsidiary is to be agreed annually between the directors and the Shareholder Minister(s) through the Corporate Plan consultation process and should have regard to the maintenance of, or progress toward, its optimal capital structure.

a. The level of estimated dividends shall be driven by the desired capital structure, the profitability of the enterprise, and the level of agreed future capital expenditure

b. The proposed dividend payout ratio and estimated dividend payment should be included in the Corporate Plan for each year covered by the plan
c. The agreed dividend payout ratio should take account of the Government’s preference for dividends over capital gains
d. Profits generated by subsidiaries are to be taken into account in agreeing the level of estimated dividends and forecast payout ratio.

4.3 Dividends should be paid in two instalments: an interim dividend and a final dividend.
   a. Interim dividends are paid by 30 April and final dividends by 30 October
   b. The Shareholder Minister(s) may agree on variations to those dates, after consultation with the board of the GBE.

4.4 Interim and final dividends to be paid should be agreed between the board and the Shareholder Minister(s), as soon as possible after the quarterly progress reports for the periods ending December and June have been received by the Shareholder Minister(s).

4.5 The capital structure of a GBE is to be reviewed where the application of dividend policy has not led to, or is unlikely to lead to, an optimal capital structure within a reasonable period of time.

4.6 Dividend policy for partly owned GBEs should have regard to the above principles, the extent of Commonwealth ownership and the views of other shareholders.

**Financial Targets for GBEs**

4.7 All GBEs are required to add to shareholder value in their operations with a view to at least meeting financial targets agreed by the Shareholder Minister(s) in the Corporate Plan.
   a. Increases in shareholder value are achieved when the GBE’s Weighted Average Cost of Capital (WACC) is exceeded, regardless of whether or not the target return is reached. However, where a GBE achieves a return which is less than its financial target, it has not achieved the minimum return acceptable to the shareholder, and the shareholder would expect the adoption of strategies aimed at achieving the target.

4.8 Setting appropriate financial targets aims to:
   a. ensure that GBEs operate and price their goods and services efficiently
   b. provide an environment for GBEs which is competitively neutral with the private sector.

4.9 GBEs (other than those covered under paragraph 4.10) should target a specific WACC. This principal financial target requires the GBE to earn returns sufficient to cover the cost of debt and the required return on equity. WACC is used to estimate the required rate of return on total assets, taking into account the different required rates of return attached to the different components of the GBE’s capital structure.
   a. The cost of debt is the expected rate at which the GBE is able to borrow
   b. The required return on equity is the risk free rate plus a risk premium appropriate to the GBE.

4.10 For GBEs that are service-based and therefore carry little debt as part of their optimal capital structure, the cost of the equity element of the WACC can be targeted (rather than the WACC itself) as the principal financial target. This target is the risk free rate (government bond rate) plus a risk premium appropriate to the GBE.

4.11 Any other financial targets which might be set for particular GBEs, on a case-by-case basis consistent with the requirements of paragraph 3.3 of these Guidelines, should be consistent with the objective of increasing shareholder value. In some cases, such as for
newly established GBEs, it may be appropriate to target the achievement of relevant principal and other financial targets over the medium-term. Nevertheless, establishing appropriate financial targets is required to drive the decisions of the GBE.

4.12 The Shareholder Minister(s) will agree with each GBE the methodology they will use to measure performance against their principal financial target and other financial targets. These measures will be based on shareholder value added and the change in shareholder value added year-on-year.

4.13 Financial targets should not be adjusted for any unfunded components of CSOs. Rather, any adjustments considered necessary should be made, notionally, to the GBE's actual revenues.

Managing Risks

4.14 GBE boards are responsible for managing risks. Boards should therefore establish processes and practices within the GBE to manage all risks associated with the GBE’s operations.

4.15 GBE boards should keep the Shareholder Minister(s) informed of risk management strategies by outlining them in Corporate Plans and progress reports, and other reports when necessary. In addition, and unless otherwise qualified because of circumstances applying to a particular GBE, Corporate Plans and progress reports should contain a statement from the board that the GBE has appropriate risk management policies and practices in place and that adequate systems and expertise are being applied to achieve compliance with those policies and procedures.

4.16 The Commonwealth, as a shareholder, is sensitive to commercial risk. In some circumstances, it may therefore choose to set limits on the activities of particular GBEs; for example on liabilities, financial exposures, use of derivative instruments, etc.

a. In normal circumstances, a GBE should only use derivative financial instruments for the purpose of hedging exposures.

4.17 As a general rule the Commonwealth will not provide formal guarantees of GBE liabilities. Accordingly, GBE boards should take this policy into account when making decisions which affect a GBE’s operations and performance.

a. Guarantees provided in the past continue to apply to existing borrowings until they mature, in order to protect the interests of investors.

4.18 GBE boards are expected to engage in normal tax planning activities that are within the spirit of the law. It is not appropriate for GBEs to lead the market in aggressive tax planning strategies.

GBE Borrowings

4.19 Ongoing oversight of GBE borrowings is an integral part of the Corporate Plan and progress report processes outlined in Part 3 of these Guidelines.

4.20 The Government will consider sanctioning borrowing proposals beyond the first forward year for GBEs that have a proven track record of good performance and accountability, and which provide appropriate justification (including expected rates of return) in Corporate Plans to support proposed capital expenditure programs.

4.21 GBEs will usually borrow from financial markets. Borrowing from the Commonwealth Budget requires the specific approval of the Finance Minister. GBE boards should be aware that some lenders will want to include in their loan documentation the right to call up their loan(s) if the control of the GBE changes. The Shareholder Minister(s) prefer(s) that GBE boards do not agree to such clauses being included in loan documentation or to
any other clauses that would be triggered, at the lender’s discretion, by an ownership change.

4.22 Wholly-owned company GBEs should generally avoid issuing debt securities that would bring them within the definition of a "disclosing entity" under the Corporations Act.
   a. This will minimise the potential for conflict between the information provision requirements of the PGPA Act, this Guide and the Corporations Act.

**Part 5 – Other Governance Matters**

**Workplace Relations**

5.1 Subject to these Guidelines, GBEs are free to manage relations with their employees consistent with the *Fair Work Act 2009* and in accordance with the following:
   a. the CEOs of GBEs are, with limited exceptions, covered by the Remuneration Tribunal’s Principal Executive Offices (PEO) Classification Structure. As such, the Board, where it is the employing body, may determine remuneration for the office, consistent with the PEO framework set by the Tribunal. The Tribunal may seek the views of Shareholder Minister(s) prior to agreeing to any new or changed arrangements to these packages
   b. GBEs are encouraged to apply the Government’s workplace relations policy
   c. any matters specified from time-to-time by the Minister responsible for workplace relations policy, after consultation with the Prime Minister and the Finance Minister
   d. in making appointments of executive, management and senior staff, GBEs are to have regard to Government policy on fostering a culture that embraces diversity.

5.2 Superannuation arrangements for GBEs are covered by the *Superannuation Benefits (Supervisory Mechanisms) Act 1990* (the Act). GBEs (except with respect to any staff employed under the *Public Service Act 1999*) are able to establish and operate superannuation arrangements of their choice, provided that any relevant prescribed requirements made under the Act are complied with.

**Partly Owned GBEs**

5.3 Where the Government decides to move to, or adopt, partial ownership of a GBE these Guidelines should apply to the maximum extent possible, consistent with minimising the risk of a potential oppression action by minority shareholders under Part 2F.1 of the Corporations Act.

5.4 Government approval is required for any proposal to set up a partly owned GBE, or to change Commonwealth ownership of an existing GBE from whole to partial ownership (including by the introduction of employee share ownership schemes). The approval may anticipate a continuous process of a reduced share or level of Commonwealth ownership leading to transfer of the controlling interest to other parties and to eventual sale of all of the Commonwealth’s interest.

5.5 Where the Government decides to move to partial ownership of a GBE in which it is likely to retain a controlling interest for a period of time, the Shareholder Minister(s), in consultation with the Attorney-General, should, before any shares in the GBE are sold or issued:
   a. review any enabling or other relevant legislation and the company constitution or memorandum and articles of association (M&As) of the GBE (as applicable), to assess the extent to which they are consistent with these guidelines
b. provide, through a shareholders’ agreement with potential owners and/or changes to the enabling legislation and the M&As or company constitution (where applicable), for these guidelines to apply to the maximum extent consistent with the policy objectives the Government is pursuing through its movement to partial ownership of the GBE.

5.6 In negotiations with potential other owners of a GBE that the Commonwealth will not control, the Shareholder Minister(s) should aim to have the GBE Guidelines applied to the maximum extent possible, having regard to the policy objectives of the government in the circumstances.

**Partly Owned Subsidiaries of GBEs and Joint Ventures involving GBEs**

5.7 GBEs are generally free to establish partly owned subsidiaries, purchase control of other companies or enter into joint venture arrangements; however under paragraph 3.18 of these Guidelines they are required to notify the Shareholder Minister(s) of significant proposals to form subsidiaries, joint ventures, etc.

a. When becoming involved in joint ventures, GBEs should generally adopt the incorporated form or enter into the joint venture through a subsidiary.

5.8 Where a GBE establishes a wholly-owned subsidiary, or purchases a 100% interest in a company (thereby creating a subsidiary), the board of the GBE should ensure, prior to any move to partial ownership of the subsidiary, that no obstacles are present in the company constitution and any shareholders’ agreement of the subsidiary to prevent the GBE from complying with these guidelines for as long as the Commonwealth has a controlling interest in the subsidiary through the GBE.

a. Where the GBE has any subsidiary it will ensure that control of the affairs of that subsidiary will be exercised by a majority of the directors of that subsidiary, who are directors or employees of the GBE or have been approved by the Shareholder Minister(s) for appointment as directors of that subsidiary.

5.9 Where a GBE establishes a subsidiary with less than 100% ownership or purchases a controlling interest in a company with less than a 100% ownership, the directors of the GBE should ensure, primarily through the company constitution and any shareholders’ agreement of the subsidiary, that the subsidiary operates so as to enable the GBE to comply with these guidelines to the maximum extent possible, for as long as the Commonwealth has a controlling interest in the subsidiary through the GBE, consistent with not exposing the subsidiary to any significant risk of successful oppression action by minority shareholders under section 232 of the Corporations Act.

5.10 The above requirements relating to GBEs establishing subsidiaries do not apply to cases in which a GBE is undertaking equity investment and promotion of companies as part of its day-to-day business operations (for example, a GBE which provides financial services as its core function) provided the Shareholder Minister(s) have notified the GBE of the types of investments which are exempt.

5.11 Where a GBE, or one of its subsidiaries, becomes involved in a joint venture the GBE should ensure that the reporting and control arrangements relating to the joint venture enable the GBE to satisfactorily meet its obligations under these guidelines.

5.12 The Shareholder Minister(s) should ensure that there are no provisions in enabling legislation, company constitutions, guidelines to directors or shareholders’ agreements, 3

---

3 Also refer to PGPA Act, section 19 for authorities and section 91 for companies.
of a GBE which would prevent the GBE from complying with the requirements outlined above relating to subsidiaries and joint ventures.

**Arrangements for GBEs Being Established, Sold, Restructured or Wound Up**

5.13 These Guidelines apply in full to GBEs during an establishment, sale or restructuring, or winding-up process, until the Shareholder Minister(s) decide(s) on variations to facilitate the establishment, sale/restructuring or winding-up process and to streamline reporting. The board will be advised of variations.

5.14 Where a scoping study or strategic review is undertaken by Government the relevant portfolio Minister will advise of any particular requirements or expectations of the GBE in this context.

5.15 Where a decision has been taken to sell all or part of the Commonwealth’s interest in a GBE, or where the possibilities of sale are being explored, the board and management of the GBE should provide full co-operation and requested information to the government during the period leading up to the sale.