Australian Government
Department of Finance

Commonwealth Investments

Resource Management Guide

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Contact us

Please direct questions or comments about the guide to:

Commercial Investments Division
Commercial and Government Services
Department of Finance
1 Canberra Avenue
Forrest ACT 2603

Email: investmentframework@finance.gov.au

Internet: www.finance.gov.au

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Introduction

Australian Government investment that utilises the Commonwealth balance sheet is integral to the achievement of policy objectives that stimulate productivity, drive economic growth, deliver critical infrastructure and provide important services for Australian citizens, businesses and communities.

The Commonwealth Investment Framework (the Framework) has been developed to support the Australian Government in ensuring realisation of the benefit of these investments for Australian citizens, businesses and communities.

There are many examples of this type of investment across the Commonwealth including: the National Broadband Network, Inland Rail, the Northern Australia Infrastructure Facility, Regional Investment Corporation, National Housing Finance and Investment Corporation, Underwriting New Generation Investments program, the Future Fund, Clean Energy Finance Corporation and Snowy 2.0 and the Australian Infrastructure Financing Facility for the Pacific.

Policy Objectives

The Government is committed to utilising the Commonwealth balance sheet to:

- support quality investments to make the most effective use of public funding, including unlocking private sector investment that delivers benefits for Australians;
- boost national productivity performance and economic growth;
- maintain Australia's AAA credit rating to help keep borrowing costs as low as possible; and
- pay down debt to build buffers against future economic shocks.

Scope of the Resource Management Guide

This RMG applies to all policies and programs delivered using alternative financing approaches, including proposals using:

- equity investments;
- loans (including standalone loans and loan programs on either commercial or concessional terms);
- guarantees (including underwriting and letters of comfort);
- hybrid instruments (blend of the above e.g. convertible note);
- investment funds (including any funding set aside for the purpose of earning interest or returns); and
- specialist financing entities.

Investments in international financial institutions are exempt from the requirements set out in this document. Further, investments by Commonwealth Entities under section 58 and section 59 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) are outside the scope of this guidance. Refer to Resource Management Guide 301 – Investment by Commonwealth Entities for further detail.

The Commonwealth Investment Framework

The Framework

The Framework exists alongside other key applicable frameworks and requirements for Commonwealth Entities, including the PGPA Act, which is the primary financial governance framework for the Commonwealth. The Framework:

- supports the Government to undertake investments for program and project delivery where it is the most appropriate mechanism to achieve the desired policy objectives;
- provides decision-makers with the best evidence to support consideration of investment proposals;
- ensures Commonwealth Entities have the necessary tools and access to the relevant expertise to support Commonwealth investment, and
- creates the foundation for successful long term implementation and management of investment decisions from a whole-of-life investment perspective.

The Framework includes this Resource Management Guide (RMG) and a Toolkit of practical guidance materials and supporting resources. It brings together policy and best practice guidance related to the development of proposals for major Commonwealth investments and the management of these investments over their lifecycle.

Figure 1: Commonwealth Investment Framework

Legislative Environment	
The Constitution	Charter of Budget Honesty Act 1998
Public Governance, Performance and Accountability Act 2013	Public Governance, Performance and Accountability Rule 2014
Decision-Making Policy and Guidelines	
Cabinet Handbook	Cabinet Circulars
Estimates Memoranda	Budget Process Operational Rules
New Policy Proposal Template	
Commonwealth Investment Framework	
Commonwealth Investments Resource Management Guide (RMG)	Toolkit and Additional Resources

Where the RMG provides guidance on *what to do*, the Toolkit provides guidance on *how to do it*, to ensure Commonwealth Entities have access to relevant advice for all stages of the investment lifecycle.

This RMG should be read in conjunction with other policy and guidance materials including the Cabinet Handbook and Budget Process Operational Rules (BPORs) and relevant Estimates Memoranda (EMs).

Audience

The audience for this RMG is Officials of Commonwealth Entities responsible for any stage of the Commonwealth investment lifecycle, including:

- developing an investment proposal Business Case and Cabinet Submission;
- implementing investment decisions;
- managing investments, including exit; and
- reporting on investments.

As this RMG is intended to be a best practice guide, the requirements are not mandatory; however, the Department of Finance and The Treasury will work to support Commonwealth Entities to follow the requirements where possible to deliver the best possible approach to Commonwealth investment.

Officials of Commonwealth entities are encouraged to liaise with their Chief Financial Officer or relevant finance team to ensure that they are aware of and comply with the Cabinet Handbook, current Department of Finance EMs, the BPORs and other relevant policies.

The Infrastructure and Project Financing Agency is also available to provide advice on major infrastructure investment projects to Commonwealth entities.

How to read this RMG

This RMG brings together the underpinning policy and best practice guidance for Commonwealth Entities to consider in the development, implementation and management of investment proposals.

The RMG is structured to support whole-of-life consideration of the investment proposal, from development, through to supporting decision-makers and implementing and managing the investment decisions of the Government.

RMG Components

Overarching Principles incorporate the primary considerations for Commonwealth Entities and officials to consider in developing, implementing and managing the responsible use of the Commonwealth's balance sheet to achieve policy objectives.

The Roadmap is a representation of the decision-making, consultation and engagement process.

Best Practice Guidance – structured in four parts – sets out the information to be included in investment proposal business cases and submissions to decision-makers, as well as the expectations in implementation, management and reporting.

Part 1 – Investment Proposal and Business Case Development

This part of the RMG covers business case development, including identifying the policy problem, market analysis, development of options, and analysis of costs, benefits and risks to support project selection.

Part 2 – Investment Governance, Funding and Financing

This part of the RMG emphasises the need to consider all viable investment instrument and delivery vehicle options with a strong focus on the consideration of the associated risks.

Part 3 – Investment Implementation

This part of the RMG supports robust implementation planning including governance arrangements, resource allocation and capability, regular monitoring of time, scope and budget, and risk management.

Part 4 – Investment Management

This part of the RMG supports an active model of continuous evaluation and monitoring of investments on the Commonwealth balance sheet, including consideration of the full term of the investment, including an exit strategy.

Overarching Principles

1. All investment proposals should be supported by a business case, detailed cost benefit analysis, properly priced risk and a whole-of-life asset management.

2. All stages of the investment lifecycle, including implementation, and post implementation management are important. Consideration of the longer term implications is integral to ensure governance is appropriate, benefits are realised, costs are managed (including whole-of-life investment costs) and risks are managed.

3. The financial risks assumed by the Government in using the balance sheet should be identified and be commensurate with the financial returns (plus rights and benefits conferred) and/or the social and economic benefits.

4. Government borrowing should be undertaken by the most cost effective means possible. The Government should not displace market financing and should assess user funding.

5. Commonwealth Entities are responsible for developing the investment proposal and steering it throughout the necessary processes. This extends to the implementation, management and reporting requirements over the lifecycle of the investment.

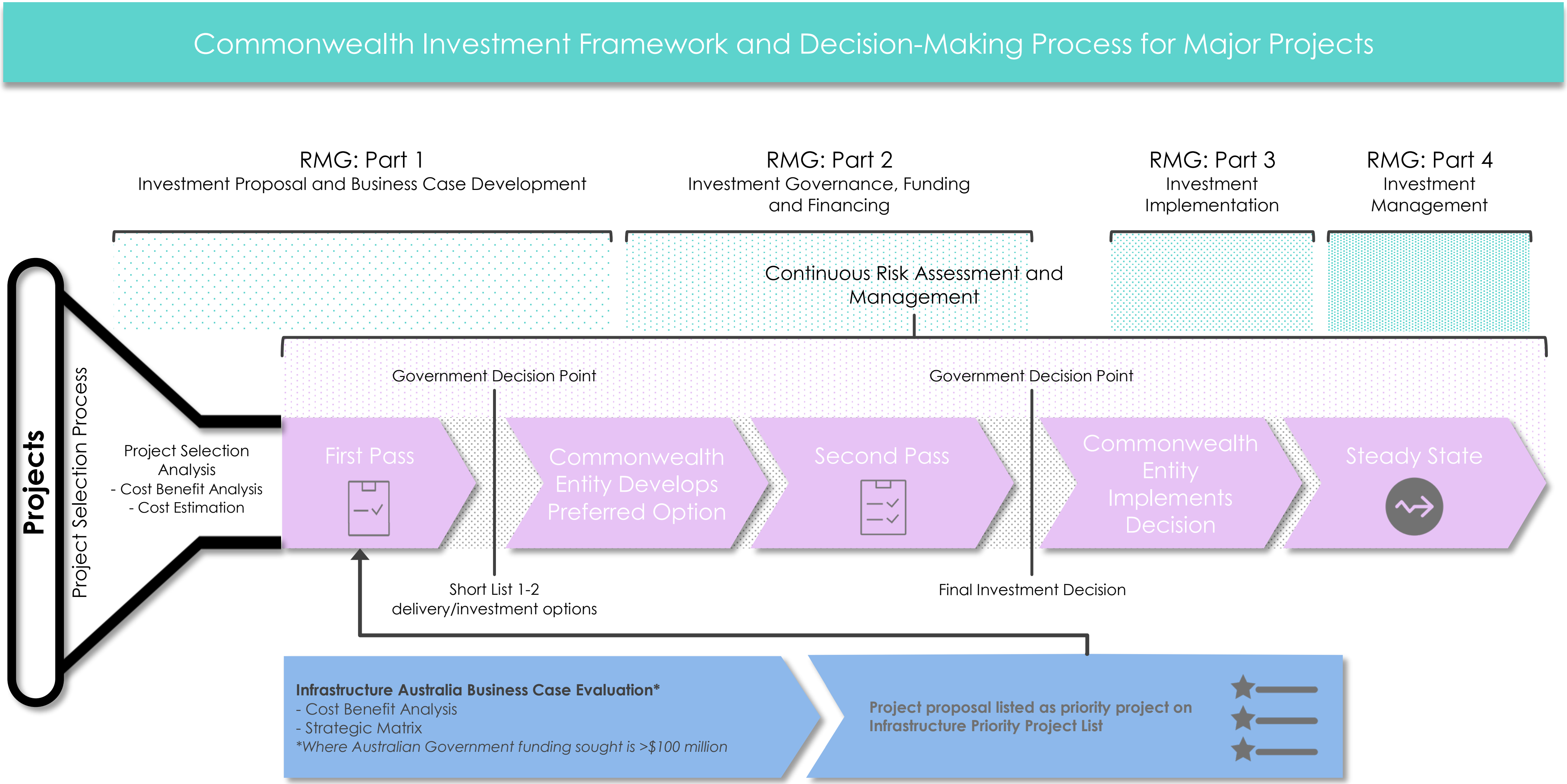
Roadmap

The decision-making process for major projects is set out in the diagram below.

Material investment proposals (including guarantees) are required to complete a first-pass and second-pass process. Commonwealth Entities should consult with Department of Finance about the relevant thresholds for materiality.

- First-pass consideration allows for consideration of a completed project selection process and an initial deliberation of different delivery vehicle and investment instrument options.
- Second-pass consideration is supported by a detailed business case including a detailed implementation plan, strategy for active whole-of-life management including governance and controls for mitigating risks, and an exit strategy (where appropriate). Commonwealth Entities should engage as early as possible with the Department of Finance to ensure development is supported by access to appropriate expertise and resources

Figure 2: Roadmap



PART 1 – Investment Proposal & Business Case Development

Commonwealth Entities should prepare a detailed business case to support all investment proposals.

A business case should:

1. Support the investment decision of the Government by providing analysis of options, costs, benefits and risks associated with addressing an identified problem. The business case is a document that is subject to an iterative process and should be continually updated throughout the development and decision-making process to include the best information available.
2. Align benefits to the strategic objectives of the Government with clear and measurable targets, timelines and owners.
3. Consider the appropriateness of alternative financing approaches (i.e. non-grant). However, this should not drive project selection.
4. Appropriately communicate risks to decision-makers in a robust, meaningful and concise manner. Risk analysis is equally integral to business case development, as it is to the ongoing management of the investment and should be embedded into all stages of the investment lifecycle.

A business case should include:

5. A clear statement describing the nature of the policy problem the investment is seeking to address that directly links to the goals and objectives of the Government in the market/sector in which the investment is proposed.
    a. This involves identifying the problem, analysing the market (if any), and considering alignment with the Government's priorities/objectives.
    b. Options analysis should also include solutions to the identified policy problem beyond direct investment (for example regulatory response or demand management).
6. Thorough estimation of the costs of the investment proposal, including an assessment of the confidence of the cost and revenue estimates to inform both delivery options (first-pass) and final investment (second-pass) consideration by the Government.
    a. For major infrastructure projects, Commonwealth Entities should undertake a probabilistic cost estimation process.
    b. This should include assessment of upside and downside risks, including the likelihood and impact of such risks.
7. Cost benefit analysis[1], including a quantification (including assumptions) of direct and wider social and economic benefits associated with the investment proposal.
    a. The cost benefit analysis should also be used as a comparator to assess competing options to address the identified problem.

[1] It is important to note the distinction between cost benefit analysis and financial analysis. Cost benefit analysis assesses the range of implications including social, environmental and economic factors. It will include external costs and benefits that may not be able to be charged to users. In comparison, financial analysis focusses on revenue and expenses to ensure the financial viability of an investor.

8. Estimate for the commercial rate of return should the investment be undertaken in the private market.
    a. This does not necessarily need to be a single rate of return and can be presented as a range, particularly where there is not an apparent or transparent market to derive the commercial rate.
9. Key risks factors such as the Government's risk appetite for the project, specific project risks and proposed mitigations.
10. To ensure the Commonwealth is able to effectively manage investments, advice to Government for investment proposals should include analysis of the full lifecycle of the investment. Where possible, the business case should include information regarding the proposed term of the investment, and where necessary should include an exit strategy.
11. Where the Commonwealth contribution is greater than $100 million, a note as to whether the project has complied with the requirements for an infrastructure project assessed by Infrastructure Australia (IA), or an indication of the likely timing of an IA assessment.

PART 2 – Investment Governance, Funding and Financing

Choosing an investment instrument and delivery vehicle

1. When developing investment proposals, Commonwealth Entities are encouraged to explore all viable investment instrument and delivery vehicle options.
    a. **Investment Instrument** refers to the particular investment used to finance (or support) the upfront costs of the investment (e.g. a loan, equity investment, or a guarantee).
    b. **Delivery Vehicle** refers to particular management and governance structures the Government can put in place to deliver its investments. Some examples of a delivery vehicle include:
        i. Government Business Enterprises (e.g. NBN);
        ii. Specialist Financing Entities (e.g. the Clean Energy Finance Corporation);
        iii. Investment fund (e.g. the Future Fund); and
        iv. Joint venture with the Private Sector (e.g. the Public Private Partnership that was setup to build Defence's Joint Headquarters).
2. The assessment of options should be supported by an explanation of the costs, benefits and risks (including legal risks) for the Government's consideration, taking into account:
    a. achieving the proposed policy objective of the Government;
    b. the level and type of control the Government may wish to exercise during delivery;
    c. the characteristics of different investment instruments including any rights and benefits they may confer; and
    d. optimising net benefits for Australians and value-for-money.

Assessing the market

3. Investment proposals should include a clear rationale for intervening in markets using financial instruments, and should ensure any intervention does not crowd-out private investment.
4. Investment proposals should include assurance that the investment does not displace market financing. Proposals should also include the assessment of user funding. Assessments of investment proposals includes consideration of:
    a. whether any proportion of the proposal can be funded by the direct beneficiaries.
    b. the capacity for the proposal to be financed privately, with a proportionate risk allocation subject to the relevant proposal details.

Assessing risk

5. All investment proposals involve a degree of risk. For the investment to achieve its intended objective, it is the responsibility of the Commonwealth Entity to ensure an appropriate culture of engaging with risk and risk management throughout the investment lifecycle.

6. A financial risk signal (high, medium, low) to decision-makers provides a point of comparison for various investment instrument options. Commonwealth Entities are responsible for assessing financial risk and selecting the associated signalling in accordance with the relevant Estimates Memorandum.
    a. The application of the financial risk rating is to be agreed by the Department of Finance *(consult with your Chief Financial Officer team for the latest Estimates Memorandum on Financial Risk)*.
    b. A high financial risk rating will not necessarily mean a project should not be implemented. Where risks are rated to be high, further mitigation including additional governance, reporting and management arrangements may be required to safeguard the Commonwealth's investment.
    c. The Commonwealth Risk Management Policy requires accountable authorities and officials to establish and maintain appropriate systems and internal controls for oversight and management of risk.
7. The reporting of risk allows for an informed decision on the efficacy of the investment proposal. Sensitivity analysis for key risks should be included where applicable.
8. A Risk Potential Assessment Tool (RPAT) is to be completed by Commonwealth Entities to determine and communicate the potential risk of an investment proposal to Ministers before seeking Cabinet's agreement. Commonwealth Entities are to complete a RPAT for each New Policy Proposal (NPP) with an estimated financial implication of $30 million or above.
9. Provision of a project or program with a delivery partner (including the private sector) should involve an appropriate allocation of risks with consideration to the alignment of incentives.

Costing and constitutional risk requirements

10. Costs to be agreed with the Department of Finance through the costing process for NPPs in line with the BPORs. This includes the projected impacts for Budget metrics including underlying cash and fiscal balance, net debt, gross debt, and Public Debt Interest (PDI) over the life of the investment proposal.
11. The Attorney-General's Department is to be consulted on the constitutional basis and legislative risk of the investment proposal to provide a constitutional risk assessment and ensure there is the necessary authority.

PART 3 – Investment Implementation

1. A detailed implementation plan should be included as part of the information provided to support the final investment decision, including identification of capability gaps.
2. Implementation plans should explain the proposed governance arrangements, including clear lines of accountability and oversight.
    a. This may include oversight by bodies including Steering Committees and inter-departmental committees.
3. Commonwealth Entities are responsible for ensuring appropriate mechanisms are in place to facilitate the successful implementation of the investment.
4. Implementation plans should be updated as the proposal is implemented to make sure it is up to date. Significant departures from the endorsed implementation plan, implementation challenges and emerging risks should be brought to the attention of the appropriate decision-makers.
5. Commonwealth Entities should regularly monitor the progress of implementation, including tracking time, scope and budget.
    b. The continual identification and management of risks associated with the project and financing instrument should be integral in any reporting process.

PART 4 – Investment Management

1. Commonwealth Entities should undertake a process of active monitoring and evaluation throughout the lifecycle of the investment (compliant with the requirements of the Commonwealth Resource Management Framework and PGPA Act).
2. Commonwealth Entities are responsible for developing the investment proposal and steering it throughout the necessary processes. This extends to the implementation, management and reporting requirements related with the investment decision over the lifecycle of the investment.
    a. Development of the investment proposal should consider independent assurance on how best to ensure that programs/projects are successful including developing a whole-of-life investment management plan.
    b. The Department of Finance will engage Commonwealth Entities to ensure comprehensive reporting mechanisms facilitate the active oversight of Commonwealth investments.
3. All stages of the investment lifecycle are equally important. Longer-term implications should be considered to ensure governance is appropriate, benefits are realised, costs are managed (including whole-of-life investment costs) and risks are managed.
4. To ensure effective management of a proposal where financial instruments are used to facilitate delivery of a project, Commonwealth Entities are encouraged to establish appropriate governance arrangements for oversight and monitoring of the compliance with the arrangements under the relevant financial instrument.
5. Commonwealth investments are encouraged to be time limited to the delivery of outcomes, where the exit represents a net benefit to Australians, or where there exists a policy reason for the Government to exit the investment.

Glossary – Definitions

Business Case – informs an investment decision of the Government by providing analysis of options, costs, benefits and risks associated with addressing an identified problem. The business case is a document that is subject to an iterative process and should be continually updated throughout the development and decision-making process to include the best information available.

Commercial loan – the Commonwealth advances a loan on terms comparable with private markets.

Commonwealth Entity – the Commonwealth entity or department of state bringing forward the investment proposal for consideration by the Government.

Concessional loan – the Commonwealth advances a loan on favourable terms, more competitive to private markets.

Cost Benefit Analysis – compares different options by valuing each option in terms of its net benefit to society. It is an important tool when making resource allocation decisions where choices should be made between alternative uses of finite funds.

Cost Estimation – the process for determining the costs associated with undertaking an investment proposal.

Delivery Vehicle – refers to how a project is to be delivered and acts as a contractual framework for the project or program.

Equity – the Commonwealth takes an ownership interest by purchasing shares in anticipation of future dividends or sale.

Exit – when the Commonwealth ceases its interest in an investment. This may involve divestment, wind-up, or expiry of the investment term. It should be considered as part of the investment lifecycle.

Financial risk – refers to the potential loss of the financial instrument.

Financing – the private or public capital used to pay for the upfront investment costs of a project or programme.

First-pass – seeks in-principle agreement from Cabinet on different delivery vehicle and investment instrument options.

Funding – revenue sources to pay for the costs of a project or program over its life. Possible funding sources include direct user charges (e.g. road tolls) and general taxation.

Grant – the Commonwealth provides payments to other entities including State Governments to facilitate the financing for delivery of a project or policy initiative.

Guarantee – the Commonwealth assumes responsibility for the debt, or performance obligations of another party on default of its obligation.

Hybrid Instrument – A single financial instrument that combines two or more different financial instruments. For example, a convertible note which is a loan type instrument, that converts to equity at the achievement of pre-determined events.

Infrastructure Priority List – a prioritised list of nationally significant infrastructure investments, including projects and initiatives, compiled by Infrastructure Australia annually.

Investment Fund – involves the purchase and management of financial assets to fund a particular policy objective by subsequently drawing on earnings and/or capital from the investment in financial assets.

Investment Instrument – how the Government finances the upfront costs of the investment.

Investment lifecycle – the phases of investment from acquisition or creation, through management to exit by the Commonwealth.

Non-financial risk or Project risk – risks specific to the investment proposal and may include planning risk, delivery risk, stakeholder risk, environmental risk.

Problem Identification – problems prevent the goals/objectives of the market, or the existence of a market, from being realised. Problem identification involves the development of an evidence base of the scale, costs, causes and effects of the problem.

Project or Non-financial risk – risks specific to the investment proposal and may include planning risk, delivery risk, stakeholder risk, environmental risk.

Risk – defined in *ISO31000:2018 Risk Management* as ‘the effect of uncertainty on objectives’. An effect is a deviation from the expected outcome — positive or negative. Risk is often expressed as a combination of the consequences of an event and the associated likelihood of occurrence.

Second-pass – seeks Cabinet’s agreement to proceed with the proposal. It is supported by a detailed business case including a detailed implementation plan, strategy for active whole-of-life management including governance and controls for mitigating risks, and an exit strategy.

Specialist Financing Entity – occasionally referred to as a “policy fund”. A form of delivery vehicle which uses a particular, or range of, investment instruments directed towards a particular market sector or industry to achieve a particular policy objective.

Toolkit – supports this RMG in delivering practical, user-focussed support to Commonwealth Entities who may have no prior experience in developing investment proposals.

User funding – users of the project or program provide a source of funding.