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Corporate planning and performance reporting requirements

Government Business Enterprises

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1. Overview

1.1 Government Business Enterprises

Government Business Enterprises (GBEs) are established and owned by government to deliver specific objectives and priorities. There is an 'arms-length' relationship with government and GBEs activities are generally commercial in nature.

GBEs are primarily accountable to their portfolio Minister and the Parliament for their performance. They are also accountable to the Treasurer where the Treasurer has a legislated role to receive corporate planning or other financial documents. This is generally known as the 'Shareholder' role. GBEs must operate efficiently and effectively and have appropriate processes in place to identify and manage risk. GBEs must operate within the Government's broader policy framework and where required deliver on specified community service obligations.

1.2 Purpose of the requirements

The purpose of the Corporate Planning and Performance Reporting Requirements (the requirements) is to outline the corporate planning, reporting and distribution obligations of GBEs. GBEs must meet these obligations so the Department of Treasury and Finance (DTF) can effectively evaluate GBE performance and provide advice to the Treasurer as shareholder in a timely manner. These requirements are not a general-purpose corporate governance guide and they do not provide advice to directors or officers on their statutory or fiduciary duties.

The requirements should be read in conjunction with the Victorian Public Sector Commission's guidance material which provides further information on the Government's expectations regarding corporate governance (see vpsc.vic.gov.au/governance).

1.3 Applicability of the requirements

The requirements apply to all GBEs where the Treasurer has a 'Shareholder' role. This is where the Treasurer has a legislated role to receive corporate planning or other financial documents.

1.4 Planning, reporting and distribution obligations

The requirements provide direction and advice about the content, process, endorsement and key dates associated with GBE planning, reporting and distribution obligations to DTF. Areas covered in the requirements include:

- corporate planning
- capital expenditure proposals
- quarterly reporting
- annual reporting
- whole of government reporting
- dividend/distribution payments.

The obligations outlined in the requirements have been determined with due regard to the following legislation:

- *Public Administration Act 2004*
- *Financial Management Act 1994*
- *State Owned Enterprises Act 1992*
- *Water Act 1989*
- *Transport Integration Act 2010*
- *Corporations Act 2001 (Cth)*
- *Audit Act 1994*
- *Borrowing and Investment Powers Act 1987.*

GBEs are expected to fulfil the obligations outlined in the requirements together with any other legislative requirements pertaining to that GBE.

1.5 Planning, reporting and distribution cycle

Key dates associated with DTF's planning, reporting and distribution requirements are summarised in the calendar below. Further details are provided in the following chapters.

	July	August	September	October	November	December	January	February	March	April	May	June	
Key dates				15 October Annual Financial Report		Mid-December Budget Update			Early March Mid-Year Financial Report		Early May Budget		
Planning and Reporting	Reporting to Ministers, financial statements and annual report		15 September Draft Annual Report of GBE 15 September Report of compliance with the Standing Directions to portfolio Department	15 October Final Annual Report of GBE (or 31 October if Treasurer or Assistant Treasurer is not the Minister responsible. 31 October Portfolio compliance summary to DTF		15 December Whole of government compliance report to Assistant Treasurer							
	Corporate Plan and Statement of Corporate Intent		31 August Final Corporate Plan					Corporate Plan preliminary discussions between GBE and DTF			31 May Draft Corporate Plan		
	Performance monitoring	31 July June quarterly report			31 October September quarterly report			31 January December quarterly report			30 April March quarterly report		
	DTF information request		Early to mid-August Audited annual financial data to SRIMS ^(a)	Late September Budget Update distribution tables	Mid-October Budget Update financial data to SRIMS ^(a)		Mid-January Mid-year financial data to SRIMS ^(a) Late January Budget distribution tables	Mid-February Budget financial data to SRIMS ^(a)		Early to mid-April Budget Paper No. 1 data to SRIMS ^(a)			
	Dividend				31 October Final dividend payable						30 April Interim dividend payable		
Financial returns	Income Tax Equivalent	21 July ITE payable			21 October ITE payable		1 December ITE payable	21 January ITE payable			21 April ITE payable		
	Borrowings/Financial Accommodation Levy		31 August FAL payable			30 November FAL payable			28 or 29 February FAL payable		31 May FAL payable	Late June Borrowing limits approved by Treasurer	

Note:

(a) SRIMS refers to State Resource Information Management System.

2. Corporate planning

Corporate planning documents form an agreement between the Board of a GBE and the Government and outline the GBE's strategic direction and performance targets over the corporate planning period.

GBEs must submit the following corporate planning documents to DTF annually:

- Statement of Corporate Intent
- Corporate Plan
- Business Plan.

GBEs generally present these documents as a single integrated corporate planning document. The Statement of Corporate Intent is a public document (often disclosed in the GBE's annual report) while the Corporate Plan and the Business Plan are provided to DTF on a commercial in confidence basis.

2.1 Statement of Corporate Intent

The Statement of Corporate Intent should provide an overview of the GBE and an outline of the GBE's:

- vision and mission statements
- objectives
- core business
- strategic direction
- KPIs.

2.2 Corporate Plan

The Corporate Plan is a comprehensive, rolling, four-year business plan. The financial statements and performance indicators should cover a four-year period matching the coverage of the State budget.

The Corporate Plan should include the following, where appropriate to the GBE:

Section	Detail
Operating environment	<ul style="list-style-type: none"> • External factors impacting performance (e.g. regulatory constraints, competitive environment, economic and market conditions, opportunities and threats) • Commentary on Community Service Obligations or other policy obligations that are proposed to be performed on behalf of government • Internal factors impacting performance (e.g. competitive strengths and weaknesses, organisational structure, asset condition) • Key drivers of performance (e.g. determinants of demand, key input costs, asset utilisation) • Identification of internal and external risks (e.g. business risks, exposure to interest rate and currency movements, technological change, environmental impacts).
Key strategies	<ul style="list-style-type: none"> • Risk and asset management strategies • Strategies to minimise operating costs and achieve operating efficiencies • Other strategies (e.g. pricing, marketing and customer service, workforce).
Capital expenditure	<ul style="list-style-type: none"> • Outline of the capital expenditure program, including: <ul style="list-style-type: none"> – a breakdown of payments for each year of the planning period (consistent with the Statement of Cash Flows) – financing requirements. • For each capital expenditure proposal with a Total Estimated Investment (TEI) above the project approval threshold (see Chapter 3): <ul style="list-style-type: none"> – the proposal's TEI – aggregate capital expenditure in prior years – projected capital expenditure in the first year of the planning period – forecast capital expenditure for each year of the planning period – financing requirements.
Financial information	<ul style="list-style-type: none"> • Financial statements in nominal dollars • Dividend/distribution payments (see Chapter 7) • Financing requirements including borrowing limits and whether borrowings are new or refinanced • Target capital structure (see Chapter 7) • Sensitivity analysis including high and low scenarios for key planning assumptions.

Section	Detail
KPIs	<ul style="list-style-type: none"> • Financial and non-financial targets (see Appendix 1) • Clear linkages between KPIs and key strategies.
Planning assumptions ^(a)	<ul style="list-style-type: none"> • Pricing • Interest rates • Labour and other input costs • Economic outlook • Climatic conditions • Product and service demand • Supply forecasts.

Note:

(a) DTF economic forecast data is outlined in Budget Paper No. 2 (Chapter 2 *Economic Conditions and Outlook*) and in the Budget Update. GBEs are encouraged to use this data to assist in the corporate planning process.

2.3 Business Plan

The Business Plan is a detailed action plan for the first financial year of the Corporate Plan.

The Business Plan must include:

- the actions and strategies to achieve the GBE's objectives
- quarterly phasings (for each quarter and year to date) for the financial statements and KPIs.

2.4 Endorsement

Final corporate planning documents must be approved by the GBE's board and submitted to the Treasurer and the relevant portfolio Minister.

During the review process DTF may contact the GBE with questions of clarification that will assist in providing advice to DTF's Ministers.

Following a thorough analysis and review the Treasurer may accept the plans in full or otherwise request variations. The Treasurer may wish to write to GBEs early in the annual planning cycle to communicate shareholder expectations for the Corporate Plan.

2.5 Key dates

Requirement	Due date
Treasurer may write to GBEs communicating shareholder expectations	January
Preliminary discussions between GBE and DTF regarding corporate planning documents	February-April
Proposed corporate planning documents submitted (Note: this enables DTF to provide formal feedback)	Last business day in May ^(a)
Final corporate planning documents submitted	Last business day in August

Note:

(a) Water Corporations are required to submit Corporate Planning documents on the last business day of April, as per the *Water Act 1989*.

3. Capital expenditure proposals

GBEs may be required to seek the Treasurer's approval for capital investment proposals through the submission of a business case to DTF and the portfolio department.

3.1 Business case submission

GBEs may be required to submit a business case for the Treasurer's approval depending on the size and risk profile of the GBE and the TEI of the proposal. Information regarding submission requirements for each GBE is outlined in Appendix 2. As noted in Chapter 2, GBEs should outline all capital expenditure proposals in their corporate planning documents.

Where a proposal is identified and developed outside the corporate planning process, the GBE should notify DTF as soon as practicable.

Submission of a business case may also be requested under the following circumstances:

- if in accepting a GBE's Corporate Plan, the Treasurer requests that a business case be submitted for a proposal
- if a proposal is not identified in the GBE's Corporate Plan
- if a proposal is assessed as high-risk based on the Gateway Project Profile Model.

3.2 Business case consideration

Where the Treasurer's approval is required, DTF will review each business case and provide recommendations to the Treasurer. In particular, DTF will review:

- the proposal's consistency with the GBE's and government's priorities
- the costs and benefits of the proposal
- the ability to achieve a commercial return
- options analysis (including non-asset solutions) to meet the defined service need
- the financial impact of the proposal (including the extent of any new borrowings) on the GBE and the State
- any risks and proposed mitigation strategies
- the proposed procurement strategy and supporting analysis
- the proposal's consistency with Victorian Government policies, including the Investment Lifecycle Guidelines and Asset Management Accountability Framework
- the proposed governance arrangements.

During the review process, DTF may contact GBEs with questions of clarification. DTF will endeavour to complete its review no later than four weeks after receiving a final business case, however, this will depend on the complexity of the proposal. GBEs are encouraged to provide draft business cases and consult with DTF early in the project development cycle.

Appendix 2 contains the business case submission requirements. These requirements apply to both PFCs and PNFCs and include projects that a GBE proposes to fund through own-sourced revenue.

3.3 Project assurance

DTF's project assurance processes and guidelines seek to provide practical assistance to agencies developing investment projects in Victoria. They help shape proposals, inform investment decisions, monitor project delivery and track the benefits of investments. They also seek to better align the policies, programs and projects of departments and agencies with government priorities.

The Gateway Review Process and High Value/High Risk Framework described in the sections below are primarily targeted at major capital projects funded through the State budget. However, DTF strongly recommends that these processes be applied or observed for high value, high risk or complex projects, including those that a GBE proposes to fund through own-sourced revenue.

3.3.1 Gateway Review Process

The Gateway Review Process examines projects and programs at key decision points. It aims to provide timely advice to the Senior Responsible Owner (SRO) as the person responsible for a project or program. A review provides the SRO with an independent view on the current progress of the project or program and assurance that it can proceed successfully to the next stage. The review team can also provide an indication regarding its confidence as to the likelihood for successful delivery of the project or program to time, cost and quality parameters.

A gateway review delivers a peer review, in which independent, external practitioners use their experience and expertise to examine the progress and likelihood of success of the program or project. It provides a valuable perspective on the issues facing the internal team and an external challenge to the strength of the plans and processes. Gateway reviews should be considered complementary to internal assurance processes, and not a substitute or replacement. The review is not an audit and should not be regarded as an alternative to appropriate project or program management.

Gateway reviews are mandatory for all High Value or High Risk (HVHR) projects.

3.3.2 High Value/High Risk Framework

The HVHR process was updated in 2019 and comprises a series of project assurance checks and processes that provide greater scrutiny of major infrastructure and ICT investments.

The HVHR Framework seeks to:

- increase the likelihood that projects will achieve their stated benefits and be delivered successfully, on time and on budget
- verify that robust project planning and procurement processes have been followed to support quality project planning and procurement processes and documentation
- provide impartial and informed advice to Government on deliverability risks.

A project will be classified HVHR if it is a State budget-funded project that is:

- considered high risk using DTF's risk assessment tool, the Project Profile Model (PPM) (available on the DTF website)
- considered medium risk using the PPM and has a TEI of between \$100 million and \$250 million
- considered low risk using the PPM, but has a TEI over \$250 million
- identified by Government as warranting the rigour applied to HVHR investments.

All HVHR investments must:

- prepare a full business case
- complete gateway reviews and Project Assurance Reviews (where required)
- complete Recommendation Action Plans for any red flag recommendations arising out of gateway and Project Assurance Reviews
- provide quarterly updates as part of the Quarterly Asset Investment Report and Major Projects Performance Report.

3.4 Guidance material

Capital expenditure proposals, including those that are not required to be submitted for endorsement and approval, should be prepared in accordance with relevant Government policy to achieve a consistent approach to infrastructure investment and to facilitate value for money. Relevant policies are listed below and are available on the DTF website at www.dtf.vic.gov.au/infrastructure-investment.

- Investment Lifecycle Guidance
- Investment Management Standards
- Asset Management Accountability Framework
- High Value/High Risk framework
- Gateway Review Process.

3.4.1 Discount rates

A Discount Rate is used to convert projected cash flows into a present value to enable comparison of competing options for which the cash flows reflect differences in both timing and amounts. The Discount Rate reflects the Rate of Return expected by an investor to compensate the investor for placing capital at risk in a project. The following table summarises DTF's guidance on appropriate discount rates for use in capital investment analysis. The discount rate for PFCs is not included in this guidance, please contact DTF for further information.

Category	Types of investment	Basis	Rate (real)
Category 1	<p>Provision of goods and services in traditional core service delivery areas of government, such as public health, justice and education. The benefits of these projects can be articulated but are not easily translated to monetary terms, e.g. schools, hospitals, police stations and civic open spaces.</p> <p>Other projects in this category include projects evaluating potentially catastrophic scenarios for which considerable uncertainty surrounds estimates of costs and benefits.</p>	<p>Projects falling within this category should use a real risk-free rate plus a very small risk premium. Based on long-term average government bond rates, an appropriate real discount rate for these projects is 4 per cent.</p>	4%
Category 2	<p>Provision of goods and services in traditional core service delivery areas of government (i.e. non-commercial investments), but those for which the benefits attributed to the project are more easily translated to monetary terms. e.g. public transport, roads and public housing.</p>	<p>These projects should be discounted using a risk-free rate plus a modest risk premium depending on the project's sensitivity to the economy. Based on long term average government bond rates, an appropriate real discount rate for these projects is 7 per cent.</p>	7%
Category 3	<p>Commercial investments with similar risks as the private sector. While there should ideally be limited government involvement in this area, government should require a rate of return on commercial investments comparable to what the private sector requires given the degree of risk associated with the area of activity.</p>	<p>These projects should use a market rate of return as the default discount rate, commensurate with the risk profile associated with the industry and specific characteristics of the project.</p> <p>Given that there is the potential for such investments to be significantly riskier than an average market return, project proponents should liaise with DTF regarding the appropriate rate.</p>	Consult with DTF

3.5 Endorsement

Final business cases must be endorsed by the GBE's board and portfolio Minister prior to being submitted to the Treasurer for approval.

4. Quarterly reporting

Quarterly reports provide a summary of a GBE's performance against targets established in the corporate planning documents.

4.1 Quarterly performance reports

Each quarter, GBEs must provide a report to DTF containing the following information:

- financial statements in nominal dollars for the quarter and year to date (actual against plan). The level of detail provided in the financial statements should be comparable with that provided in the agreed corporate planning documents
- KPI results for the quarter and year to date (actual against plan)
- commentary on the GBE's performance for the quarter and year to date. Commentary should be provided for all material variations (greater than +/- 10 per cent and/or \$10 million) from plan for each line item in the financial statements and any material variations for KPIs. The commentary provided should reflect the underlying factor(s) driving the variance and corrective actions being taken to address underperformance or non-achievement of financial targets and KPIs
- capital expenditure program update
- any expected material changes to full-year financial results.

In addition to providing quarterly performance reports, each GBE is required to submit a final copy of its annual report to DTF. GBEs where the Treasurer or Assistant Treasurer are portfolio Ministers can find additional information on DTF's annual reporting requirements in Chapter 5.

Quarterly performance reports include commentary on progress in delivering Community Service Obligations or other policy obligations being performed on behalf of government (see section 7.3.3).

4.2 Continuous disclosure requirements

GBEs should adhere to continuous disclosure and are expected to inform DTF and their portfolio department as soon as they become aware of:

- significant variations to strategies compared to plan
- significant variations to the TEI or timing of capital investments compared to plan
- a material variation (greater than +/- 10 per cent and/or \$10 million) in forecast full year profit or cash flow from operating activities compared to plan
- significant variations in KPIs compared to plan
- any financial or non-financial (including reputational) developments which may materially impact the GBE or the Government.

Further, GBEs are required to inform the Treasurer as soon as they become aware of a material variation (greater than +/- 10 per cent or \$10 million) to the estimated TEI of a project approved by the Treasurer.

4.3 Endorsement

Quarterly performance reports and annual reports must be endorsed by the GBE's board.

4.4 Key dates

Requirement	Due date
Quarter 1 report submitted	Last business day in October
Quarter 2 report submitted	Last business day in January ^(a)
Quarter 3 report submitted	Last business day in April
Quarter 4 report submitted	Last business day in July ^(b)

Notes:

(a) The Quarter 2 report may be submitted on the last business day of February where a board meeting does not take place in January.

(b) The Quarter 4 report can be submitted prior to the audit of the annual financial statements.

5. Annual reports

Annual reports detail the performance of a GBE over the previous financial year. The Treasurer or the Assistant Treasurer is responsible for tabling a GBE's annual report in Parliament if they are the GBE's portfolio Minister. Where the Treasurer or Assistant Treasurer is the portfolio Minister, the GBE should adhere to the requirements outlined below. All other GBEs should contact their relevant portfolio department regarding annual reporting requirements.

5.1 Content of annual reports

GBEs must provide an annual report that has been prepared in accordance with:

- the annual reporting requirements outlined in Part 4 of the Standing Directions of the Minister for Finance
- any other applicable legislation.

5.2 Tabling requirements

Where the Treasurer or Assistant Treasurer is the portfolio Minister of a GBE it must provide copies of its annual report to DTF for tabling in Parliament (GBEs should confirm with DTF the number of copies required each year). Delivery of the annual reports should occur no later than two weeks prior to the tabling date.

Copies of the annual report should be delivered to:

Cabinet and Parliamentary Services
Department of Treasury and Finance
Level 5, 1 Treasury Place
Melbourne VIC 3002

Annual reports must not be made publicly available until after they have been tabled in Parliament.

5.3 Endorsement

Final annual reports must be approved by the GBE's board.

Key dates

Requirement	Due date (or as otherwise advised by DTF)
Draft annual reports submitted (Note: this enables DTF to provide formal feedback)	Mid-September
Final annual reports submitted	15 October
Final annual report submitted – where Treasurer or Minister for Finance is not the responsible Minister	Last business day in October

6. Whole of government reporting

6.1 Criticality of whole of government reporting

GBEs are required to upload financial data into SRIMS up to five times per year. The data provided by GBEs assists in completing whole of government reports (i.e. the Budget, Budget Update, Mid-Year Report, Financial Report and Pre-Election Budget Update).

6.2 Data uploads

A DTF Information Request for PNFC and PFC entities will be circulated to GBEs prior to commencement of the relevant financial year, outlining key dates together with any specific data requests. This will be followed up by guidance specific to each publication, which will be circulated prior to the collection of information for that publication and include any revisions to timetables and/or data required.

For each data upload GBEs should ensure that:

- data is submitted in accordance with the timelines outlined in the DTF Information Request and/or Guidance document
- all data is accurate, timely and complete
- commentary is provided by CFOs explaining the reason for material variances (as defined in the Guidance documents) across all financial statements (Operating Statement, Balance Sheet and Cash Flow Statement) between budgeted and actual data and between budgeted years (where applicable)
- all related party transactions are agreed with the other party to the transactions (e.g. where contributions towards capital expenditure projects are expected from a portfolio department), so that the amounts reported, and the accounting treatment agrees with the transaction reported by the relevant related party.

6.3 DTF data review

DTF reviews each data upload and will contact GBEs for clarification or correction where inconsistencies are identified. GBEs are expected to respond to DTF requests in a timely manner. The need for clarification will be minimised if GBEs adhere to the requirements outlined above and in the Information Requests and Guidance documents.

6.4 Endorsement

Each entity's CFO is ultimately responsible for the quality, timeliness, completeness and accuracy of their entity's data for each publication. CFO sign-off is required for annual data upload and in providing this sign-off, the CFO certifies that all requirements of the DTF Information Request have been met for the annual financial report.

6.5 Key dates

Requirement	Due date – PNFC	Due date – PFC
Mid-year financial data uploaded	Mid-January	Mid-January
Budget financial data uploaded	Mid-February	Mid-February
Budget Paper No.4 (State Capital Program) data uploaded	Early April	n/a
Annual financial data uploaded	Early-to-mid August	Early-to-mid August
Budget Update data uploaded	Mid-October	Mid-October

7. Capital structure and dividends/distributions to government

7.1 Target capital structure

Capital structure refers to the combination of debt and equity used by a GBE to finance its operations and growth. Debt comes in the form of loans while equity may come in the form of owners' contributions and retained earnings. Capital structures vary significantly by industry and GBEs with stable cash flows and providing certainty regarding their ability to repay debt can hold higher amounts of debt on their balance sheet. In the absence of a targeted Weighted Average Cost of Capital (WACC) for GBEs and the practical difficulties in achieving the lowest WACC, it is recommended that a target credit rating be set for each entity and the capital structure that corresponds to that rating be established as the target to be maintained. This will ensure that the Government's risk tolerance is balanced with its expectations for commercial returns on its investment.

The target credit rating for GBEs is determined to be investment grade if it is rated BBB by Standard and Poor's and Fitch or Baa2 by Moody's. DTF may determine an alternative target credit rating, after consulting with the GBE. DTF currently arranges a stand-alone credit rating assessment for applicable GBEs as part of the Financial Accommodation Levy process each year. Where this credit rating assessment higher than the target credit rating then there is capacity for the GBE to take on more debt and it may be required to distribute excess capital in the form of dividends as determined under the current distribution policy. If the credit assessment is lower than the target credit rating, DTF and the business will agree to a course of action and time frame to move the GBE to the target rating and that may result in reduced dividends and/or a capital contribution if approved by the Treasurer in consultation with the GBE.

7.2 Dividends

Dividends/distributions to government are intended to reinforce the commercial focus of GBEs and ensure that GBEs operate with an optimal and efficient capital structure.

7.2.1 Dividend policy

In determining the appropriate dividend payout ratio for a GBE, DTF will consider a GBE's:

- profit
- retained earnings
- gearing and interest cover
- liquidity and working capital requirements
- operating and forecast cash flow requirements (including planned capital expenditure)
- target capital structure
- individual circumstances.

The Victorian Government budget position will also be considered in determining a GBE's dividend payment.

The estimated dividend payout ratio should be included in the Corporate Plan and negotiated with DTF.

The following two benchmarks can be used as a starting point for these discussions:

- 50 per cent of net profit after tax
- 65 per cent of pre-tax profit (used for GBEs not under the income tax equivalent regime or where income tax payable is significantly different from income tax expense)
- 65 per cent of pre-tax profit less income tax equivalents (used by GBEs under the income tax equivalent regime).

7.2.2 Dividend determination

Forecast dividend payments are reflected in a GBE's Corporate Plan.

Actual dividends are determined by the Treasurer, taking into account how the GBE has performed. Therefore, actual dividend payments may vary from forecast dividends. The Treasurer will consult with the board and the portfolio Minister on the proposed dividends and issue a formal dividend determination (or formal resolution for State owned companies) to the GBE.

Actual dividend payments are generally paid twice a year as follows:

- interim dividend – paid in April based on the half-year financial results
- final dividend – paid in October based on the annual financial results.

While forecast dividend payments will be reflected in a GBE's corporate plan, the Treasurer will take into account how the GBE has performed when determining the actual dividend to be paid. As such, actual dividend payments may vary from those projected in the corporate planning documents.

The Treasurer will consult the Board and the portfolio Minister on the proposed actual dividend to be paid. Once consultation has taken place, the Treasurer will issue a formal dividend determination (or formal resolution under written direction of the State in the case of State-owned companies) to the GBE.

7.3 Other distributions

7.3.1 Capital repayments

In line with specific legislative provisions, the Treasurer, after consultation with the Board and, where applicable, the relevant portfolio Minister, can direct a GBE to repay capital to the State.

7.3.2 Competitive neutrality payments

GBEs may be required to make payments to ensure they operate on a competitively neutral basis with the private sector, consistent with National Competition Policy. These payments include:

- **Income tax equivalents:** Many GBEs are subject to the National Tax Equivalent Regime and are required to pay income tax equivalent instalments to the Government. Income tax equivalents are paid up to five times per year.
- **Financial Accommodation Levy (FAL):** Where a GBE has borrowings greater than \$5 million it may be liable for the FAL. The FAL is paid four times per year.
- **Local Government Rate Equivalent (LGRE):** Some GBEs are subject to a LGRE system. The LGRE is paid annually.

7.3.3 Community service obligations

Community service obligations (CSOs) are non-commercial activities undertaken by GBEs at the direction of government to achieve social policy objectives. A community service obligation arises when a government specifically requires a GBE to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not generally require other businesses in the public or private sectors to undertake, or which it would only do commercially at higher prices.

CSOs should be funded directly through budget appropriation however, often government requires its GBEs to internally fund CSOs and chooses to accept a lower rate of return on the GBE's assets or charge higher prices for its commercial services. Internally funding CSOs will conflict with GBEs operating on a fully commercial basis.

Financial losses caused by underfunded (or unfunded) CSOs lower a GBE's return on assets and can also lead to decreased cost recovery if operating expenses are increased without a corresponding increase in operating revenue (through higher than necessary customer charges).

There are many inconsistencies in the identification and funding of CSOs. Some GBEs provide CSOs but do not identify them as such. For example, GBEs providing pensioner concessions and other rebates without labelling them as CSOs. Similar activities performed by GBEs that may be regarded as CSOs are not consistently reported or funded as such.

The identification of CSOs assists GBEs in assessing their financial performance and capital management. CSO reporting should form part of the planning and annual budgeting of GBEs to enable DTF to monitor and quantify CSOs and to determine the return on commercial operations.

7.3.4 Victorian Government Landholding Policy and Guidelines

As required by the *Victorian Government Landholding Policy and Guidelines*, all government agencies are required to actively manage their assets and maintain an accurate dataset of landholdings. Government entities should ensure their land information is accurate and up to date and identify senior managers and/or executives who can provide authoritative information to Land Use Victoria (LUV) on land-related issues across their portfolios.

Government entities are also encouraged to proactively consider how they can improve their land utilisation, including:

- opportunities to reduce their footprint, identifying unused land that could be made available for another purpose
- considering co-locating with other government agencies
- investigating opportunities to develop land to unlock further value
- providing temporary use of their land for other purposes.

In October 2019, the Government approved new policy requirements to improve the utilisation of government land. Changes include:

- the establishment of a 'Land Utilisation Working Group' under the Expenditure Review Committee (LUWG) to centrally make decisions to improve the use of government land, informed by a departmental 'Land Utilisation Steering Committee' (LUSC)

- the requirement for LUV – part of the Department of Environment, Land Water and Planning (DELWP) – to impartially assess the utilisation of all government land and make recommendations to the LUSC and LUWG
- the requirement for all government agencies to actively cooperate with LUV and action any decisions made by Government
- the requirement for the net land sales proceeds from all land sales to be returned to the Consolidated Fund unless certain circumstances apply
- to improve efficiencies, a simplified valuation process will be used for land transactions between two State government entities.

7.4 Key dates

Requirement	Due date
Interim Dividend payment	Last business day in April
Final Dividend payment	Last business day in October
Income Tax Equivalent payment	21 October, 21 January, 21 April, 21 July and ('wash up' payment) 1 December
Financial Accommodation Levy payment	Last business day in November, February, May and August
Local Government Rate Equivalent payment	15 February (in line with local council rate notices)

Appendix 1: Financial and non-financial KPIs

The KPIs listed below are intended to act as a guide only for PNFCs. However, for PFCs and Insurance GBEs, the nominated KPIs are considered default requirements unless otherwise advised by DTF. Each GBE should consider which KPIs are relevant to their business. KPIs should be consistently reported across the corporate planning documents, quarterly reports and annual reports. Each KPI should be clearly defined, targets clearly specified (i.e. forecast, budget, prudential, industry targets, etc.) and at least five years of historical performance provided.

The financial KPIs below reflect DTF's core financial metric requirements from a shareholder perspective. GBEs can agree additional operational KPIs with their portfolio departments outside of DTF's framework and are encouraged to identify and report KPIs that are relevant to their specific business.

Name		Definition	PNFC	PFC	Insurance
Financial KPIs					
Capital structure	%	Total liabilities: Total assets	✓	✓	✓
Current ratio	%	Current assets: Current liabilities	✓	✓	
Distribution payout ratio	%	(Dividend payment tax equivalent payment): (Profit before tax)	✓	✓	✓
Dividend payout ratio	%	Dividend Payment: Net profit after tax	✓	✓	✓
Gearing ratio	%	Total debt: Total assets	✓		
Interest cover, cash	times	Cash flow from operations before net interest and tax payments/Net interest payments	✓		
Interest cover, EBIT	times	EBIT/Net interest expense	✓		
Return on assets	%	EBNIT/Average assets	✓	✓	✓
Return on equity	%	Net profit after tax/Average equity	✓	✓	✓
Sales margin	\$	EBIT/Sales revenue	✓		
Cash flow from operations before net interest and tax	\$	Net cash flow from operating activities less interest received less interest and other costs of finance paid	✓	✓	✓
EBIT	\$	Total revenue less Total expenses before finance and tax expenses	✓		
EBNIT	\$	EBIT less Interest income	✓		

Name		Definition	PNFC	PFC	Insurance
Financial KPIs					
Debtors age (days)	days	(debtors/revenue) x 365	✓		
Average assets	\$	(Total assets at the start of the period + total assets at the end of the period)/2	✓		
Average equity	\$	(Total equity at the start of the period + total equity at the end of the period)/2	✓		
Asset replacement ratio	%	Capital expenditure/ depreciation expense	✓		
Capital adequacy	%	Equity/risk weighted assets		✓	
Capital ratio	%	Capital ratio (as determined)		✓	
Performance from insurance operations	\$	As determined by the GBE			✓
Funding ratio	%	As determined by the GBE			✓
Salaries as a percentage of profit	%	Total salaries/Net profit	✓	✓	✓
Wages expense ratio	%	Cost of wages and salaries/operating revenue	✓		
Return on investment portfolios	%	Investment return provided by VFMC			✓
Claims cost	\$	Claims cost			✓

The following list of non-financial KPIs is not exhaustive. When incorporating such KPIs into the Corporate Plan, a GBE will need to take account of its operating environment and the requirements of its Portfolio Department and Minister.

Name		Definition	PNFC	PFC	Insurance
Non-financial KPIs					
Client satisfaction	%	Result from surveys	✓	✓	✓
Staff morale/ absenteeism	%	Results from surveys	✓	✓	✓
Complaints per customer interaction	number	Number of complaints	✓	✓	✓
Staff turnover ^(a)	%	Staff FTEs departed/ Total staff FTE	✓	✓	✓

Note:

(a) FTE numbers should be calculated on the same basis as those disclosed in the Annual Report.

Appendix 2: Business case submission requirements

GBEs are required to submit business cases for the Treasurer’s approval as outlined below.

Submission of a business case may also be requested under the following circumstances:

- If in accepting a GBE’s Corporate Plan, the Treasurer requests that a business case be submitted for a proposal
- If a proposal is not identified in the GBE’s Corporate Plan
- If a proposal is assessed as high-risk based on the Gateway Project Profile Model.

DTF proposes that the HV/HR framework be applied or observed for high value, high risk or complex projects, including those that a GBE proposes to fund through own-sourced revenue. See Chapter 3.

Any capital expenditure proposal greater than \$125 million	<ul style="list-style-type: none"> • Melbourne Water Corporation
Any capital expenditure proposal greater than \$100 million	<ul style="list-style-type: none"> • Barwon Region Water Corporation • Greater Western Water Corporation • Goulburn-Murray Rural Water Corporation • South East Water Corporation • Yarra Valley Water Corporation
Any capital expenditure proposal greater than \$40 million	<ul style="list-style-type: none"> • Central Highlands Region Water Corporation • Coliban Region Water Corporation • Central Gippsland Region Water Corporation • Melbourne Arts Precinct Corporation • Goulburn Valley Region Water Corporation • Grampians Wimmera Mallee Water Corporation • Lower Murray Urban and Rural Water Corporation • Wannon Region Water Corporation
Any capital expenditure proposal greater than \$20 million	<ul style="list-style-type: none"> • All other entities, including PFCs and Insurers
Any capital expenditure proposal greater than \$6 million	<ul style="list-style-type: none"> • Development Victoria (in line with the land value threshold in Development Victoria’s establishing legislation)

Appendix 3: Abbreviations and definitions

Abbreviation	Definition
CFO	Chief Finance Officer
DTF	Department of Treasury and Finance
EBIT	Earnings before interest and tax
EBNIT	Earnings before net interest and tax
FAL	Financial Accommodation Levy
FTE	Full time employee
GBE	Government Business Enterprise – includes PFC and PNFC
HV/HR	High Value/High Risk framework
ITE	Income tax equivalent
KPI	Key Performance Indicator – includes financial and non-financial
PFC	Public financial corporation
PNFC	Public non-financial corporation
TEI	Total estimated investment

