



Australian Government

Australian Government response to the Independent Review of the Regional Investment Corporation



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Government response

The Regional Investment Corporation (RIC) is a Corporate Commonwealth Entity that was established under the *Regional Investment Corporation Act 2018* (the RIC Act) on 8 March 2018 and opened for business on 1 July 2018.

The RIC delivers Commonwealth concessional loans directly to farm and forestry businesses and small businesses that provide primary production related goods and services to farm businesses. The concessional loans demonstrate the Australian Government's commitment to providing practical support to help rural and regional communities achieve economic growth and agricultural productivity.

The RIC's role has evolved since its inception. The RIC administered two loan products when it commenced; and at the end of 2021 the RIC is delivering five loan products. The Independent Review of the RIC, completed by Mr David Tune AO PSM, provided a timely check of the RIC's progress since establishment. The Government will continue to consider the role and performance of the RIC through an independent audit of the RIC's financial risk management practices (scheduled for completion in 2022), and a statutory review of the operations of the RIC Act (to be completed before 1 July 2024).

Over the past 18 months, the RIC has continued to make improvements to its business: increasing its staffing levels, enhancing its systems and processes, and significantly reducing its application handling and assessment timeframes to better meet customer needs. The RIC has developed an enterprise-wide Transformation Strategy to improve loan processing; implemented a trial of in-house processing of loan applications through to settlement, and engaged with commercial banking partners to speed up loan settlement.

The RIC, with the support of the Australian Government, will continue to build on the improvements already made, ensuring it can assist farmers, foresters and small businesses in need in a timely, practical and responsible way.

No.	Review recommendation	Government response
1	The government expand the skill-set of the RIC Board to include senior Commonwealth public service experience.	<p>Noted</p> <p>The Government will regularly review the skill-set of the RIC Board to ensure it continues to meet the needs of the agency. This will include considering the need for further lending and loans management experience and skills in governance and risk management, as well as public service skills.</p> <p>To this end, the Government appointed Mr Mike Carroll and Ms Sally Freeman to the RIC Board in July 2021.</p>

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2	The RIC work with other relevant entities to establish and/or participate in a community of practice, to share learnings and facilitate best practice amongst financing entities within the Australian Government.	<p>Agree-in-principle</p> <p>The RIC, as an independent entity, will continue to improve its operations through participation in communities of practice with other similar Australian Government entities as appropriate.</p>
3	The government assess the RIC's performance in relation to service delivery, monitoring of the loan portfolio, and advice and reporting to government over the next six months, with a report from the Board on these matters after 30 June 2021. Should the RIC's performance be found wanting, the government and/or the Board should take further action.	<p>Agree</p> <p>The Government requested the RIC Board report on the RIC's performance as at 30 June 2021, with a report provided in July 2021. Responsible Ministers have considered the report and taken appropriate action, including advising an expectation that the RIC continue to improve service delivery and monitoring of the loan portfolio</p> <p>The Government has continued to monitor the RIC's performance and communicated expectations to the RIC Board.</p>
4	The department draw upon the RIC's operational experience as early as possible in the policy development process for new products and/or significant amendments to existing products, to better inform government decision-making.	<p>Agree</p> <p>The department is drawing on this experience as early as possible and enhancing working relationships between the RIC and the department.</p>
5	The RIC improve its reporting to government, particularly its ability to more accurately forecast demand.	<p>Agree</p> <p>The RIC's reporting of loan application and approvals has significantly improved over the last 7 months. The RIC's data analytics and forecasting capabilities also continue to improve.</p>
6	The RIC implement its Transformation Strategy and, subject to the final outcome of its end-to-end trial, process a greater percentage of loan applications in house.	<p>Agree</p> <p>The RIC will fully implement its Transformation Strategy by January 2022 and firmly embed continuous improvement in service delivery in its business practices.</p>

No.	Review recommendation	Government response
7	The government, as soon as possible within 2021-22, determine its ongoing plans for the RIC over the (minimum) forward estimates to provide certainty to the RIC to enable investment decisions to be made, particularly relating to future service delivery.	<p>Agree</p> <p>The Government has considered the ongoing operations of the RIC and determined the RIC will continue to deliver concessional loans to 30 June 2026.</p> <p>The Government will continue to monitor the RIC and consideration of ongoing plans will be part of the future budget considerations.</p> <p>Considerations of the RIC's operations beyond 30 June 2026 will be informed by the statutory review of the operation of the RIC Act, to be finalised by July 2024.</p>
8	The government amend the Future Drought Fund (FDF) Act and the RIC Act to remove the RIC Board's advisory role in relation to proposed grants, arrangements and agreements under the FDF Act.	<p>Not Agree</p> <p>The advisory role of the Board remains relevant and ensures public confidence in Future Drought Fund funding decisions.</p>
9	If needed, the government adjust the AgriStarter Loan product to ensure the product meets its intended objectives.	<p>Agree</p> <p>The Government has agreed to extend eligibility of the AgriStarter loan product to include leaseholders and share farmers, and will continue to monitor the RIC's loan products to ensure they are fit-for-purpose. Any further amendments will be part of future budget considerations.</p>
10	The government not direct the RIC to deliver Plantation Loans at this time.	<p>Noted</p> <p>Plantation Loans were a 2019 Election Commitment and will be implemented as soon as appropriate. Given operational improvements made by the RIC, Plantation Loans became available on 6 December 2021.</p>

No.	Review recommendation	Government response
11	To provide stability to the RIC, and ensure it can successfully deliver its current suite of loan products, the RIC not be tasked with delivering any new products within the next 12 months.	<p>Noted</p> <p>The Government notes the operational improvements made by the RIC and the resulting positive impacts on service delivery, including since the review's recommendations were made. The Government will continue to monitor the RIC to ensure the RIC is able to roll out new products successfully.</p>
12	As part of the government's consideration of the RIC's future and decisions to provide loan funding beyond 2022–23, the government re-profile unspent RIC loan funds into future years to better align with industry expectations and address continuing farm business need.	<p>Agree</p> <p>The Government has determined the RIC will continue to deliver concessional loans to 30 June 2026 and re-profiled unspent loan funds to allow this. The Government will continue to monitor the RIC and any further amendments will be part of future budget considerations.</p>
13	The RIC and the department continue to monitor loan uptake, as well as feedback from industry and applicants, to ensure the assessment of the financial need criterion continues to align with the government's target cohort.	<p>Agree</p> <p>The department will work with the RIC to ensure this policy objective is met.</p>
14	The RIC strengthen its assessment processes where an applicant has previously benefited from a concessional loan (Commonwealth or state), to consider the term over which they benefited, when assessing an applicant's financial need and viability over the long term.	<p>Agree-in-principle</p> <p>Government concessional loans assist the agricultural sector to respond to shocks, such as drought, and provide practical help to support farmers and small businesses that are in need to improve their long-term strength, resilience and profitability.</p>
15	As part of the government's consideration of the RIC's future, the government remove operating expenses as a loan purpose from existing loan products and instead implement a shorter-term RIC loan product for operating expenses to assist farm businesses with managing through drought and the drought recovery process.	<p>Noted</p> <p>Given the current positive outlook for the agriculture sector, and as RIC customers are already able to use loan funds for operating expenses, the Government has determined there is not a present need for a shorter-term loan product. The Government will continue to monitor prevailing conditions and stakeholder feedback on the RIC's loan products to ensure they remain fit-for-purpose. Any amendments will be part of future budget considerations.</p>

No.	Review recommendation	Government response
16	The department and the RIC work together, including consultation with industry and other relevant agencies, to enhance the RIC's loan application process to support farm business planning and the use of risk management tools to further support achieving the Commonwealth's drought policy objectives.	Agree The department will work with the RIC to enhance the application process in line with broader developments in drought policy. This will lead to increased drought preparedness and resilience by encouraging farm business planning and the uptake of financial risk management tools.
17	The RIC work with the department on monitoring and evaluation to ensure the impact of RIC loans against government policy objectives can be measured and fed into future policy development, drawing on the RIC's identification of current and future industry needs.	Agree The department is working with the RIC on monitoring and evaluation of the impact of loan products. This will inform any proposals about the delivery of existing loan products or improving loan products, including to meet policy objectives.
18	The government consider all assistance currently available through commercial and public (Commonwealth and state/territory) sectors when determining whether there is an ongoing need for the RIC to provide assistance to farm businesses.	Agree The Government will continue to monitor the RIC and all assistance provided to farm businesses. Any amendments to the assistance the RIC provides will be considered as part of future budget processes, including as informed by the outcomes of the statutory review of the operations of the RIC Act.
19	The government remove the loan product funding envelope requirement once the RIC has demonstrated sufficiently robust monitoring and reporting of loan applications and approvals.	Noted The Government will continue to monitor the RIC's performance and implementation of the review's recommendations. As the RIC continues to improve its monitoring and reporting of loan applications and approvals, the Government will consider removing or refining the loan product funding envelope requirement. This will be considered as part of future budget processes.
20	The current interest rate methodology is fit for purpose and the government confirm its continued use by the RIC in setting interest rates for RIC loans.	Agree The Government confirms that it is not currently considering a change in the interest rate methodology used by the RIC to set interest rates for loans.

No.	Review recommendation	Government response
21	The department undertake a review of the administrative cost margin to reflect all changes to loan and operational funding since the RIC's establishment. The margin should be reviewed annually, with updated ongoing costs for the RIC's program to be determined through an agreed costing process between the department and Finance.	<p>Agree</p> <p>The department, in consultation with the Department of Finance, has undertaken a review of the administrative cost margin and developed an agreed costing process. The administrative cost margin will continue to be reviewed when any Government decision is made that involves agreed costings, as well as on an annual basis.</p> <p>This will ensure that the RIC is charging the appropriate level of interest to cover the cost of borrowing and the cost to administer the loans only in terms of legislative requirements.</p>
22	The department, in consultation with Finance and the RIC, develop a resource allocation framework to support and streamline any future costings processes.	<p>Agree</p> <p>The department is working with the Department of Finance and the RIC to develop the framework for application by early 2022. This will improve administrative efficiency.</p>
23	The RIC, in parallel with its transformation agenda to improve service delivery, implement the actions outlined in Appendix H [of the Independent Review of the RIC] to improve its loan assessment process. This financial risk management work program should be implemented in full by December 2021.	<p>Agree</p> <p>The actions will be implemented in December 2021. This will improve the RIC's operations including loan portfolio management.</p>
24	The department commission an independent follow-up audit of the RIC's financial risk management practices in December 2021, to provide assurance that the RIC has successfully implemented the recommended actions.	<p>Agree</p> <p>An independent follow-up audit will be commissioned by the end of 2021 and an audit completed by 30 June 2022. This will provide assurance that the RIC has implemented the recommendations arising from Recommendation 23.</p>
25	The RIC ensures that it only approves loans where sufficient security exists in accordance with the Operating Mandate and only considers an overlent position at loan origination for lower risk applicants where strong mitigants exist, and the loan is appropriately monitored.	<p>Agree</p> <p>The Regional Investment Corporation Operating Mandate Direction 2018 sets the directions for the Corporation about offering farm business loans.</p>

No.	Review recommendation	Government response
26	The RIC ensures it has a clear risk appetite statement for its loan portfolio reflecting the RIC's current interpretation of the Operating Mandate and the Board's recent decision of targeted lending. The statement should be periodically reviewed and its implications firmly embedded within credit policies to ensure sound and consistent credit decisions are being made.	Agree The RIC will periodically review, update and implement its risk appetite statement to ensure that there is consistent and appropriate decision making in line with its risk appetite.
27	The department work with the RIC to gain greater assurance around the completeness of repayments.	Agree The department has worked with the RIC to ensure amounts charged by the loan service provider and returned to Consolidated Revenue Fund from the RIC are accurate.
28	The department, in consultation with Finance, provide a report to responsible Ministers on the overall risk profile of the RIC's loan portfolio on an annual basis.	Agree The department, in consultation with Finance, will provide an annual overall risk profile report to responsible Ministers following the release of the RIC's annual report.