

Comfin News



Newsletter of the Commercialisation and Financing Branch of
the Department of Treasury and Finance

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Introduction

In this edition we have outlined some significant achievements that have been made since our last edition of Comfin News. The two 'big ticket' achievements are the upgrade in the State's credit rating by Moody's and the substantial progress that has been achieved on the Divestment Project. We have also made good progress on the review of the Dividend Policy Guidelines.

Whilst divestment continues to be a major focus for many of us in the Branch, our core business continues to provide many challenges and scope for interaction with our key stakeholders. The past quarter has seen us in the thick of the corporate and business planning season. Capital structure and solvency issues are also reoccurring themes with several of the Government businesses.

Unfortunately, we have a few staff departures from Comfin to announce. They are the temporary transfer of Angelo Pavlides to the Energy Markets Branch of Treasury, and the resignation of Kim Stark, who is moving to Melbourne. Whilst Kim only stayed with our Branch for a short time, her contribution has been appreciated and we wish her well. We welcome Anthony Chisholm to the Branch as part of Treasury's Cadet Program. Anthony joins our other Cadet, Joel Bevin, with both assisting in progressing Comfin's work program over the next twelve months.

We also welcome the arrival of Spring!

Adrian Christian (ACe)
Director

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Credit Rating Upgrade from Moody's

The Government's demonstrated record and commitment to strong financial management has received further endorsement from leading rating agency Moody's Investor Services (Moody's).

On 23 July 2003, Moody's announced the upgrade of the State's long term, local and foreign currency credit ratings to 'Aa1' from 'Aa2', following its review of the 2003-04 Budget. The credit upgrade is the first by Moody's since ratings were assigned in 1991 and follows the assignment of a positive outlook last year. Tasmania is now rated more highly by Moody's than South Australia and the Northern Territory, and is one rating below the highest rating of 'Aaa'.

The Moody's upgrade follows the 2001 Standard & Poor's upgrade to 'AA' from 'AA-'.

The credit upgrade is the culmination of many years' work and has been received with great enthusiasm by the Government and Treasury, particularly Comfin, which is responsible for managing the interface with the ratings agencies.

The credit rating assigned to Tasmania influences the State's interest costs but, more importantly, sends important messages to business regarding the attractiveness of Tasmania as a place to invest.

In its assessment, Moody's noted the Government's track record of achieving past fiscal improvements through the use of prudent budgetary practices. A key element of this success has been the development and adherence to medium term financial targets described in the Government's Fiscal Strategy. In Moody's own words "these targets are attainable and should lead to further reductions in debt over the forecast period."

Comfin, as coordinator of the ratings process, would like to recognise the contribution, over a number of years, of Tascorp, Hydro Tasmania, Aurora Energy Pty Ltd and Transend Networks Pty Ltd and their efforts in preparing material for the rating agency visits.

More broadly, the Government business portfolio continues to play an important role in the achievement of the Fiscal Strategy targets, particularly with respect to Budget returns and net debt. Total returns from Government businesses of \$156.4 million represented 18.6 per cent of Tasmania's own source revenue in 2002-03. Sustained profitability in the medium and long term will assist the Government in achieving the General Government financial targets contained in the Fiscal Strategy. The future net debt profile of Government businesses will be an important issue in delivering the Fiscal Strategy target of \$1 billion in Total State Sector net debt by June 2008.

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Standard & Poor's Visit 2003

Each year, the credit rating agency Standard & Poor's (S&P) visits Tasmania to undertake an independent assessment of Tasmania's credit worthiness.

S&P visited Tasmania on 18 July 2003 and will provide its report on Tasmania's credit rating in the near term.

Tasmania's rating of AA was last confirmed by S&P in October 2002. At that time, S&P recognised Tasmania's continued improvement with a change in outlook to 'positive'.

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Divestment of Government Business Enterprises

The divestment process for the three Government Businesses Enterprises: the Civil Construction Services Corporation (CCC); the Tasmanian Grain Elevators Board (TGEB); and the Stanley Cool Stores Board (SCSB), has progressed significantly since the Government announced its intentions to sell the three businesses on 21 March 2003.

Steering Committees were established to guide the sale process for each of the GBEs to be divested and these Committees have largely completed the work required to prepare for sale, solving some interesting problems along the way.

A significant milestone for the Divestment Project was achieved in July 2003 with the passage (through both Houses of Parliament) of the legislative framework for the sale of the three GBEs. The *Government Business Enterprises Sale Act 2003* provides the Treasurer with the authority to sell the CCC, the TGEB and the SCSB and establishes guidelines and mechanisms for the sale process.

Special thanks must go to David Lovett from Crown Law and Jeanette McDonald from the Office of the Parliamentary Counsel for their hard work in the development of the legislation, which was crucial in enabling the tight timelines to be met.

Considerable progress has been achieved in the sale process for CCC. The Government is in the final stages of negotiations with Downer EDI, and assuming these are successfully concluded, the sale could be completed in September 2003. Treasury has also worked closely with the relevant unions in fleshing out the mechanisms by which the Government will secure entitlements for CCC employees that transfer to Downer EDI.

Both the TGEB and SCSB are being sold through competitive processes. Expressions of interest have been sought and short-listing of proponents to progress to the detailed due diligence phases has been completed for both businesses. The data rooms have been prepared and the sale processes are about to move into full swing.

The Government expects both sales to be finalised by the end of 2003.

Investigations into the feasibility of non-core asset sales by the Hobart Ports Corporation has also been a demanding task and is well progressed. A final report will be provided to the Government in September 2003. Work also continues on the possible sale of the Silverdome, as does exploratory work on the potential sale of assets by Forestry Tasmania.

All proceeds from the divestment of the businesses and assets will be channeled into the Economic and Social Infrastructure Fund that was established in the 2003-04 Budget.

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Review of the Dividend Policy Guidelines – Update

In March 2003, Government businesses were provided with a discussion paper that incorporated a principle-based review of current dividend arrangements and posed a series of discussion questions for businesses to consider. Responses to the discussion questions have been received and have proved valuable in assessing which components of the current dividend policy should be retained, enhanced or removed.

Many businesses provided positive feedback on the fixed dividend payout ratio arrangement, noting that it provides a stable platform for forecasting and made the dividend calculation easy. On the other hand, some businesses would prefer to have a nominal dividend target or would prefer to negotiate a more suitable payout target with the shareholders. Businesses indicated that there was no need for a secondary dividend benchmark.

Most businesses believe there is room for greater consideration of their capital needs when determining a dividend, particularly in times when large capital expenditures are required.

Analysis has also been undertaken of the dividend policies of other Australian jurisdictions, including payout ratio arrangements and factors considered by businesses and Governments in determining dividends. There is a large degree of variation between jurisdictions. For example, in New South Wales, dividend arrangements are determined for each business on a case-by-case basis against a comprehensive dividend and capital structure policy. By comparison, Queensland has no formal dividend policy but rather relies on legislative provisions only (and, incidentally, very high payout ratios!). The analysis of other jurisdictions has proved informative, but should not heavily influence a decision on the appropriate arrangements for Tasmania.

The proposed new dividend policy is in the process of being drafted. The draft policy statement will be provided to the Treasurer for consideration in September 2003, incorporating the feedback provided by businesses. Subject to approval by the Treasurer, businesses will be consulted on the implementation arrangements for the new policy.

As an aside, as a result of this work, Ben Daley has been involved in an interesting email exchange with a counterpart in Ireland, who is completing a similar exercise and picked up details of the review on the Treasury web site!

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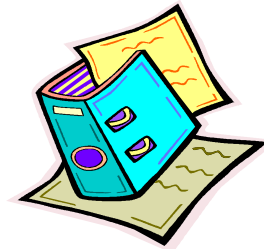
Ministerial Charters Revised

As you will recall, amendments to the GBE Act were made in November 2002 and new Treasurer's Instructions have since been issued. Cabinet also approved the implementation of a number of non-legislative changes, which are currently being incorporated into revised Ministerial Charters for the GBEs.

We will be consulting with individual GBEs as well as Portfolio Departments regarding the proposed revisions to the Ministerial Charters. Your contact officers will be touch in this regard. Following this consultation process, the revised

Ministerial Charters will be provided to Ministers for approval, and are expected to be tabled in the Spring Parliamentary session.

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Corporate Governance Update

Corporate governance is currently a "hot topic" within the business community. Both the private and public sectors are considering what constitutes best practice corporate governance and how this can be implemented.

With increasing public focus on corporate governance practices in both the public and private sectors, numerous regulating authorities, professional bodies, businesses and other organisations have either reviewed, or are currently reviewing, their corporate governance structures. To date, there appears to be a consensus that there is no single model of good corporate governance that can be adopted by all.

As you may be aware, the ASX Corporate Governance Council recently released corporate governance guidelines (see: www.asx.com.au). The publication, *Principles of Good Corporate Governance and Best Practice Recommendations, March 2003*, has been broadly endorsed by several key stakeholders. For example, The Australian Institute of Company Directors (AICD) has provided its support for the ten 'essential corporate governance principles' contained within the document, and accepts the spirit and intent of the Council's 'best practice recommendations'.

You may also be aware that the Prime Minister recently announced the completion of a report relating to a review of corporate governance arrangements of Commonwealth statutory authorities and office holders. The objective of this governance review is to improve the performance of statutory authorities and office holders and their accountability frameworks. The review has examined the structures for good governance, as well as the relationship between statutory authorities and office holders and portfolio ministers, the Parliament and the public.

In his announcement, the Prime Minister advised that a response to this review will be released in the next few months. It will include a timetable for the implementation of the second stage of the review, whereby the Australian Government will assess statutory authorities and office holders against the principles outlined in the report.

Corporate governance remains a key theme for Comfin and we look forward to examining, among other things, the corporate governance reviews recently undertaken so that we may include the most relevant information, advice and guidelines in our update of the *Treasury Corporate Governance Handbook for GBEs*.

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International Standards Update

The Australian Accounting Standards Board (AASB) plans to ensure that for-profit entities that apply AASB standards for reporting periods beginning on or after 1 January 2005, will also be complying with International Accounting Standards Board (IASB) standards.

The AASB's plan to adopt IASB standards by 1 January 2005 is provided in a paper issued by the AASB and is available on its web site - www.aasb.com.au. The Tasmanian Audit Office has advised that it is currently reviewing the IASB standards and will provide advice to Government businesses on the interpretation of the standards.

As you will be aware, Treasury has recently consulted the Government businesses on the

impacts of the move to the IASB standards. We would like to thank businesses for their input, as understanding the impact of the convergence to IASB standards on business profitability, returns to Government and net debt is a key issue for the Treasurer in delivering the Fiscal Strategy. Our initial review highlighted that there is much to be done on this matter. We will be seeking further advice from businesses once there has been an opportunity to more closely examine the implementation of the new standards.

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Tabling of Annual Reports

The *Financial Management and Audit Amendment Act 2003* received Royal Assent on 4 July 2003. One of the changes introduced in this legislation is to bring forward the date for the tabling of annual reports for agencies, Government Business Enterprises (GBEs) and certain State authorities from 30 November to 31 October, commencing with the 2003-04 annual report.

The Treasurer has strongly supported the earlier release of agency and GBE annual reports because it significantly improves the Government's accountability framework. The change has also been supported by the Parliamentary Public Accounts Committee, as Parliament normally rises before the mandatory 30 November tabling date.

The earlier tabling of GBE annual reports will also require the earlier production of audited financial statements. For the 2003-04 reporting year, GBEs will be required to submit draft financial statements to the Auditor-General by 15 August 2004.

While GBEs may be able to meet a 31 October deadline for the tabling of financial statements, the GBE annual report serves a much broader function, containing important information relating to the performance of the GBE.

Accordingly, GBEs will need to consider any wider impacts of the proposed change.

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Public Sector Governance

In the interests of stronger corporate governance, the following article was provided, with thanks, by:

Richard Barnard

Chief Executive

Port of Devonport Corporation Pty Ltd

and

Tasmania Branch Chairman

Chartered Secretaries Australia

In a speech given in September last year, the Commonwealth Auditor-General Mr Pat Barrett AM said ‘...the key to better practice corporate governance in the public sector lies in the effective integration of the main elements of corporate governance within a holistic framework, which are communicated effectively throughout the entire organisation and underpinned by a corporate culture of accountability, transparency, commitment and integrity.’ The problem is, how to see that framework in the round when most of us of necessity focus on specific areas of expertise, such as audit, financial management or various legal functions.

One way to gain a holistic perspective is through participation in a professional body focussed on

best practice corporate governance per se. ICSA, the (international) Institute of Chartered Secretaries, is one such body. Its Australian division, Chartered Secretaries Australia (CSA), is not only active in the public, private and not-for-profit sectors, but its scope ranges broadly across all the key corporate governance accountability areas.

CSA offers short-course training and a five-unit Graduate Diploma as well as playing an active advocacy role in the community. The Graduate Diploma covers:

- Applied Corporations Law
- Corporate Governance
- Company Secretarial Practice & Meetings
- Accounting for Managerial Decisions
- Financial Management

This program builds on the professional preparation received within a business or law degree, and - depending on academic background - some exemptions are available. All subjects are available by distance mode through the CSA Online Learning Centre. To sample it, go to www.CSAust.com, and then click on Learning Centre. And while you’re at the CSA site, why not check out what other aspects of that ‘holistic framework’ CSA is currently working on.



**CHARTERED SECRETARIES
AUSTRALIA**

Keeping good companies

For the less serious

A shepherd was herding his flock in a remote pasture when suddenly a brand-new BMW advanced out of the dust cloud towards him. The driver, a young man in a Bruin suit, Gucci shoes, Ray Ban sunglasses and YSL tie, leaned out the window and said to the shepherd...

"If I tell you exactly how many sheep you have in your flock, will you give me one?"

The shepherd looked at the man, obviously a yuppie, then looked at his peacefully-grazing flock and calmly answered, "Sure."

The yuppie parked his car, whipped out his ThinkPad and connected it to a cell phone, then he surfed to a NASA page on the internet where he called up a GPS satellite navigation system, scanned the area, and then opened up a database and an Excel spreadsheet with complex formulas. He sent an email on his laptop and Mobile and, after a few minutes, received a response. Finally, he prints out a 130-page report on his miniaturized printer then turns to the shepherd and says.....

"You have exactly 1586 sheep."

"That is correct; take one of the sheep." said the shepherd.

He watches the young man select one of the animals and bundle it into his car.

Then the shepherd says: "If I can tell you exactly what your business is, will you give me back my animal?"

"OK, why not." answered the young man.

"Clearly, you are a consultant." said the shepherd.

"That's correct." says the yuppie, "but how did you guess that?"

"No guessing required." answers the shepherd. "You turned up here although nobody called you. You want to get paid for an answer I already knew, to a question I never asked, and you don't know a thing about my business.... Now give me back my dog."

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If you would like to have a say or express a view in future editions of *COMFIN NEWS*, we would be only too happy to hear from you. Please contact Maree Shaft or Sue Musgrave on 03 6233 2470.

Also, if you have any suggestions or ideas on issues you would like us to address, please give us a call, or email us.

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