

Tasmanian Government Businesses

Director Information Session

Welcome Address

Hon Michael Aird, MLC
Treasurer

Friday 10 September 2010

Welcome to the inaugural Director Information Session for Tasmanian Government Businesses.

It is great to have such a large turnout and such a respected group of Tasmanian public sector company directors in the one room.

Collectively the businesses represented in this room are responsible for:

- the employment of over 4 000 Tasmanians, and
- net assets valued in the order of \$4 billion.

These businesses are expected to return nearly \$150 million this financial year to the Tasmanian community to support the provision of essential services such as health, education and public safety.

You represent the future of government businesses – businesses that provide essential services and infrastructure to the Tasmanian community.

It is important that any business operate in a commercial manner – the fact that the business is a government business does not change that.

The financial performance of government businesses directly impacts on the Tasmanian economy and the financial wealth of Tasmanians.

I firmly believe that providing an appropriate return to the Government, and therefore, the taxpayer should be a strong focus for directors of government businesses. But this focus should not come at the expense of the provision of high quality services.

As a shareholder and representative of the Tasmanian community, I expect to see a fair return on the substantial investment of taxpayer funds.

We must not ignore the fact that your businesses are government-owned, meaning that there are some additional - and in some cases, different - responsibilities, accountabilities and shareholder expectations placed on you in contrast to those of publicly listed companies.

Complexities will also arise because there is a greater range of stakeholders involved (Portfolio Ministers, Shareholder Ministers, Parliament and central agencies).

In some cases there are also competing – and potentially conflicting – objectives (financial, social, environmental etc) to keep in mind.

In this environment, it is important that you, as members of the various Boards, understand what the Government expects of you.

Some of these expectations reflect the Government's regulatory role in areas such as safety, pricing and ensuring customers receive essential services.

Some expectations reflect the Government's role as business owner.

Shareholders of government businesses therefore have greater involvement in the oversight of the business than the shareholders of private companies.

For instance, Shareholding Ministers formally detail their expectations of the Board and approve business or corporate plans on an annual basis.

Government businesses are expected to operate within agreed performance criteria, strategies and community services obligations.

Shareholding Ministers have the power to issue formal directives to Government businesses. In the case of GBEs, this could be in relation to the financial performance objectives of the business. For State-owned Companies, the directive power enables the Members to direct specific actions in response to what the Government deems to be in the public interest.

However, these directive powers were never intended to be used extensively and have remained a lever of last resort.

There is also an inherent juxtaposition associated with being a government owned business. Your owners – the Tasmanian community – are also in most cases your only customers.

They want to make sure that their companies return a fair dividend, but at the same time, they obviously do not want to see inherent price increases.

Getting this balance right can be challenging for all involved.

Governments, as stewards of the community, are also, by their very nature risk-averse investors, and, as directors of government businesses, you need to take this into account when considering investment decisions.

The Government is also a long term investor. In fact, Government ownership of business of this type is often due to the inherent long term nature of the investments required.

It is expected therefore that Boards do not lose sight of the long term goals and objectives when making decisions.

To ensure that these goals and objectives are aligned with Government priorities, Shareholding Ministers should be consulted on and asked to approve major investment proposals, expansions, and the establishment of subsidiaries and joint ventures.

In order to assess such proposals, sufficient information needs to be made available to allow the Shareholders to make an informed assessment. At a minimum this should include:

- a business case for the proposal, including expected financial returns and risks and a sensitivity analysis for various alternative scenarios;
- an explanation as to how the proposal fits with core business of the company; and
- a discussion on the ability to fund the proposal from the business's balance sheet.

In general terms, I have a strong preference that each Government business should focus on its core business within Tasmania and act in the best interests of the Tasmanian community.

As Treasurer, I expect our Government businesses to be model corporate citizens. As such, I expect all Directors to have completed – or be in the process of completing – the Australian Institute of Company Directors' course or to have qualified for admission to the Institute as a Fellow.

I expect everyone present in this room to ensure your respective businesses fully comply with all relevant legislative, regulatory and environmental requirements – Government entities must lead the way in compliance, and be an exemplar to the wider corporate world.

As you know, the Government's specific expectations of their businesses (as detailed in the Tasmanian Government Businesses Corporate Governance Guide) are that they should be:

- results oriented;
- ethical in their operations and act with the highest level of probity;
- adaptable to change; and
- keep the Shareholders informed.

Government businesses should make the best use of the resources at their disposal by operating efficiently and effectively. The Board should set the broad direction of the business, approve the budgets and performance goals and proactively monitor them throughout the year, continually looking for areas where performance can be improved.

You, as Board members, should focus on how you are running the business, where the potential for improved productivity is, and how you compare with your private sector counterparts.

The Government has a strong commitment to transparency and accountability and expects its Boards to lead by example in this regard.

As a public sector entity, you must be prepared for intensive public scrutiny.

There have been a number of recent developments to demonstrate the Government's commitment to accountability that directly impact on government businesses.

One of the most critical components of good governance is a balanced, diverse and experienced Board that understands its responsibilities. Accordingly, the Government recently introduced a best practice framework to assist Boards develop their own corporate governance thinking.

The director selection process incorporated in that framework increases the transparency around the appointment of directors to government boards.

Under this best practice framework, Directors will receive automatic appointment for just 2 terms and will be required to “re-apply” for a third term. Generally, no Director will be appointed for longer than three terms.

I believe these changes will be effective in ensuring that the Boards of Government businesses are regularly refreshed and reinvigorated with new ideas and different perspectives and that the skills and qualifications of Board members are current and relevant to the future direction of the business.

The review of the Freedom of Information Act was another key plank in the Government’s reform agenda, and has led to the development of the Right to Information Act 2009 which mandates the proactive release of information through the ‘push model’.

The RTI Act applies equally to all Government businesses and requires that, where possible, information be made generally

available, avoiding the need for interested parties to make application.

The most recent Government initiative was, of course, the establishment of the Integrity Commission, the scope of which extends to all members of Parliament, Ministers, government departments, the Police Service, local authorities, the Governor and Government businesses and their Boards.

Directors of Government business have a responsibility to keep abreast of such changes in the legislative environment that impact on them.

In fact, in a fast changing world, it is essential that Boards are adaptable to change – in their market, the economy, in technology and in regulation.

The Government and the Tasmanian community expect Boards to expertly steer the enterprise through these changes – maximising any advantages and minimising the negative impact of change.

To do so, you need to think strategically, anticipate and adapt to changing environments, manage associated risks appropriately, operate efficiently and effectively, and be accountable to your shareholders in order to continue to generate returns on investments.

Finally, you must keep the shareholders informed of all aspects of the operations of your business, the achievement of performance

targets, operational or policy issues and major customer or environmental issues.

This is a requirement of the Board of any company – government owned or not - the requirement to consider what, when, how often and in what format to provide information.

As you are aware, there is a strong interest from the public and the media about the performance and operation of government businesses, and it is vital that I and the Portfolio Ministers are sufficiently well informed to address any questions as they arise.

Shareholding Ministers expect Boards to be sensitive to their interests and always be mindful that Ministers are accountable to the broader community.

When issues arise, it is the Shareholder Ministers who have to defend the actions of the company on the floor of Parliament – not the Board or the CEO.

For this to be effective, there needs to be regular, meaningful and appropriate communication between the Shareholder Ministers and the Board – to allow Government expectations to be conveyed and for the Board to keep the shareholders informed about current issues.

Regular face-to-face meetings are, of course, invaluable but areas of major concern need to be documented in a timely manner so that

the issues are clearly understood and there is no room for misunderstanding.

More specifically, as Treasurer, I do not just want to know what the problem is – I want to know what strategies the Board has put in place to deal with it.

I am committed to ensuring that the Boards of Government businesses perform at the highest level and providing them with the framework to do so.

In closing, it is worth reiterating a number of key messages.

- Firstly, Government businesses need to operate commercially and with sound corporate governance structures in place, like any other business;
- Secondly, Government businesses should strive to provide reasonable returns to the Government as shareholder reflecting the equity in the business, assets under management and its risk profile;
- Thirdly, as a Director of a government business, you need to always be mindful that you operate the businesses on behalf of the entire Tasmanian community and you should act ethically and be open to scrutiny; and
- Finally, as a shareholder and representative of the Tasmanian community, I (and my fellow shareholder) need to be kept

informed about the state of the business and any significant issues that may impact on its performance.

Unfortunately, I can not stay for the rest of the morning, but I can see there are some very interesting presentations in store, including an overview by Don Challen of some of his views on corporate governance and the project currently underway reviewing the legislative framework for government businesses.