



RACT Response

Government Business Governance Reform

Draft Plan

December 2024

The Royal Automobile Club of Tasmania

RACT is Tasmania's largest mutual organisation with a legacy spanning over 100 years and a member base of more than 218,600. It is the most trusted brand in Tasmania. As mutual structured organisation RACT acts with the freedom and flexibility of a public company, but without an overriding profit motive, acting in the best interest of members and their communities.

What this means in practice is that RACT is a for purpose entity. RACT exists to deliver for members, and we achieve this through operating efficient commercial businesses that provide great workplaces, ethical local focused services and strong fiscal performance, which can be reinvested in generational benefits for Tasmanians. By balancing the purpose and commercial elements of our business, RACT is able to best deliver for Tasmania.

Economically, RACT is a large Tasmania business that contributes to the wider Tasmanian economy through directly employing over 400 Tasmanians and contracting many more to deliver wider services. In FY24 generating \$197.1M in total income, with over \$319m total assets, and paying out more than \$87m in insurance claims across the year.

This model allows RACT to operate efficiently, offering competitive services while maintaining a deep commitment to local employment, community engagement, and the sustainable development of Tasmania's economy. In this way, RACT shares some of the objectives of government-owned businesses, balancing profitability with the delivery of public good and social outcomes that benefit the state. It is in this context we make a submission to the Government Business Reform Review.

Introduction

Tasmania's Government Business are a significant contributor to Tasmania's economy, social outcomes and are integral element of the business ecosystem. Tasmania's small economy does not easily support large private corporate organisations. Larger Government Businesses, to an extent fill that void. They are of a scale able to support innovation and technology in the Tasmanian economy and workforce. They provide workforce mobility and career options for Tasmanians in Tasmania and are an employment anchor in many local economies across the state. Their outputs, and investments play a fundamental role in the state economy. In addition, they are important sponsors of the community, cultural, and sporting activities.

The independence of a business to focus on and deliver to its core purpose is key to long term success. The ability to support government policy positions when aligned to core business functions can and does deliver direct benefits for Tasmanians. It is important that government businesses remain aligned with their core business functions, a misalignment can impact on efficiency, outputs, and profitability.

A fulsome discussion around the role, benefits and future of Tasmania's government business ecosystem would benefit from the principles outlined on page fifteen in the review document being further clarified as part of the reform process. Various Australian states over time have altered the status of Government businesses with a number being sold and, in some cases, reacquired. The opportunity to gain learned experience from is essential.

RACT would like to thank the Government for the opportunity to contribute to this important discussion, and we address the sections of the draft plan below.

Accountability for Placing Tasmania First.

As Tasmania's largest member-owned mutual, placing our members and Tasmanians at the core our decisions drives strategy and is key to RACT's purpose. This focus benefits not only business performance but also how that performance delivers a balance of immediate and long-term benefits to members, their communities and Tasmania.

The government business structure delivers a combination of operational commercial outcomes with a long-term focus governed by an independent skill's-based board. The outcomes delivered through their operations to Tasmanians occur via direct employment, revenue contribution, long term asset investment, the provision of public services and broader community support.

Current mechanisms such as a Statement of Ministerial Intent that set the expectations of the shareholder minister to the business. Ensuring Ministerial expectations are clear, aligned with the organisations core purpose and skills, support operational consistency with regulatory requirements will be important in a government business being best able to deliver efficient and meaningful outputs.

Improving Governance

The appointment of directors with diverse skills—such as financial management, culture, risk governance, regulatory knowledge, and community engagement are essential for all companies, including government businesses. While local representation is valuable, the focus should be on attracting individuals that bring the necessary expertise to deliver on the duties of a board as well as to balance both the social and

commercial objectives of these businesses. Options such as a community representative may a worthwhile consideration.

The regular renewal of directors ensures fresh perspectives and objectivity and is widely recognised by peak Governance organisations as best practice, a key objective within the draft plan. Processes that support the recruitment and appointment of directors are equally important and should be independent, transparent, clear and at arm's length from daily politics to ensure ongoing credibility and capability of government business boards.

A consideration not fully addressed within the draft plan is the capacity and capability for relevant Government Agencies, or appropriate external advisors, to provide the required support for shareholder ministers on their government business portfolios.

Government agencies support several functions for government businesses including; regulatory functions, expertise and advice, negotiation of contracts, and are the administrative gateway for government processes. Consideration on how government agencies are resourced with the capacity and appropriate expertise to support current functions and any future changes (if any) in the overall Governance structure should be considered.

The incorporation of a consistent onboarding process for directors and ministers across government businesses, tailored for the unique governance responsibilities that comes with public ownership, would be beneficial and is an approach used in other governments.

As the Corporations Act and governance standards continue evolve and shape business practices, it would be beneficial to incorporate mechanisms within the reform process that allow for ongoing adaptation across various government business types, ensuring they evolve effectively and maintain consistency in meeting long-term objectives.

Expanding performance monitoring

While performance monitoring across the government businesses should have consistent objectives, reporting requirements should be proportional to the size, complexity, and materiality of the government business involved.

Reporting burden is a real impact on businesses, particularly smaller organisations. Consideration should also be given to external reporting changes impacts occurring particularly for corporations. Businesses should not be burdened with excessive reporting obligations, but focus on clear, meaningful and actionable metrics that align with the achievement of strategic objectives.

Auditing is a key governance process that provides valuable insights for directors, shareholders, and the broader public. To achieve the best outcomes from the auditing process, auditors need to be appropriately skilled and experienced in the specific business area they are reviewing. This ensures that audits are both effective and cost-efficient, providing recommendations that are relevant to the business's scale and specialisation.

Levers to manage and/or rectify performance

While the proposed mechanisms for ministerial intervention in cases of poor performance are intended to deliver accountability, they may risk the potential erosion of the governance and independence of government businesses. The introduction of powers such as appointing a ministerial representative to the board, mandating performance improvement plans, and even dissolving the board could undermine the autonomy of a government business, which is essential for effective governance and operational flexibility.

In considering potential mechanisms it is essential to support the ongoing independence of a board. Careful consideration would need to be taken for measures that sit outside current requirements of the Corporations Act and any impacts on director liability. Impacts of potential changes on current practices that exist through the parliament through legislative frameworks including scrutiny processes should also be considered.

While ministerial intervention may be necessary in cases of critical underperformance, this needs to be achieved in balance of safeguarding the governance independence. It is crucial to ensure that the governance structures such as effective and transparent reporting, and mechanisms to deliver improvement do so in a way that delivers board accountability in a way that maintains operational independence.

Reviewing the Government Business Portfolio

Communities often have concerns about suggestions of the divestment or significant changes to government business. While the review is worthwhile, it should be conducted with a clear, principles-based framework that prioritises transparency, long-term public value, and the broader social impact of government businesses.

Transparency on the divestment of public assets including a holistic understanding and managing the impact of social benefits they provided is essential. Government businesses often deliver community outcomes as part of normal business that may not be fully accounted for in formal reporting. Understanding what these are, and their value is an essential part of any review.

To support a clearer understanding of Tasmania's government businesses, developing a framework that categorises businesses based on their type and purpose may assist. A framework would help define the principles-based approach for government ownership of businesses and ensure transparency regarding any potential changes. For example:

- **Natural monopolies:** The privatisation of a natural monopoly may not result in public gains, especially in smaller markets. Private incentives may not fully align with public outcomes. Continued government ownership may be necessary to ensure long-term public service. Consideration also should be given to requirements and costs of any ongoing regulatory oversight and government funding needed to manage the business's public welfare obligations effectively.
- **Public good:** Government businesses often operate in sectors where the market is not able to profitably deliver services. These businesses contribute to the broader social outcomes and may not be wholly financially profitable but are crucial for community wellbeing. Globally examples include public transport, museums, and other social services that benefit from government subsidies to ensure access for all.

- **Competitive market forces:** For government businesses operating in competitive markets, it is reasonable to assess whether public ownership continues to serve the public interest. Understanding their broader social and economic contributions will help determine if divestment or restructuring would be beneficial.
- **Strategic need for Government ownership:** There are instances where retaining government ownership of certain businesses may be strategically important, particularly where access to services and broader economic impacts are concerned. Government control may be necessary to ensure these services remain equitable, affordable, and accessible.

Additional consideration of operational models could investigate how alternative business structures might deliver similar, or better, public outcomes. These models could include:

- Full Divestment or Partial Sale: Assess whether full divestment or partial sale would better achieve the government's goals, ensuring that public interest is maintained while enabling market-driven efficiency.
- Long-Term Partnerships with Public Funding: Consider models where government businesses could enter into long-term partnerships with private entities, with continued public funding to maintain service levels and ensure the public good is met. Noting the capability and capacity required within government to provide ongoing partnership management.
- Private Partnerships for Specific Functions: Evaluate the possibility of maintaining public ownership for social or security-related functions, while exploring private partnerships for more functional or market-driven parts of the business that may benefit from private investment.
- The Commonwealth House of Representatives Standing Committee on Transport and Regional Services *Inquiry into the Privatisation of Regional Infrastructure and Government Business Enterprises in Regional and Rural Australia* identified assessment criteria to understand the holistic impact of government businesses on regional economies – the criteria is provided below for information. Such criteria may assist understanding the impact and potential of various operational models,
 - Employment generation, training opportunities, labour force diversification;
 - Social stability and community cohesion;
 - Service quality and choice;
 - Cost reduction and other productivity effects;
 - Pricing policies and cross subsidisation;
 - Competition implications;
 - Environmental spin-offs;
 - New investment and disinvestment;
 - Innovation; and
 - Flow-ons to local businesses.

RACT would once again like to thank the Government for the opportunity to contribute to this important discussion.