

Date: 13 December 2024

CC: The Hon Eric Abetz

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The Hon Jeremy Rockliff
Premier
11/15 Murray Street
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The Hon Guy Barnett
Deputy Premier/Treasurer
9/15 Murray Street
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Dear Premier and Deputy Premier/Treasurer,

Government Business Governance Reform – Draft Plan

On behalf of the Board of Sustainable Timber Tasmania, I am pleased to provide feedback on the Government Business Governance Reform – Draft Plan ('Plan').

The Board supports a review of the governance framework for Government businesses and supports measures which improve the governance, accountability and performance of Government businesses, informed by best practice.

The Treasurer and Portfolio Minister have recently issued Sustainable Timber Tasmania (STT) with its new Ministerial Charter which the Board acknowledge and support. The Board is undertaking a process to assess and incorporate the appropriate measures to adopt the Ministerial Charter (and reflect through its next Corporate Plan and Statement of Corporate Intent) and there is benefit in undertaking this process in tandem with visibility over the direction of the Plan.

The Board supports aspects of the existing governance framework, specifically the use of Government businesses for commercial purposes. This is designed to separate politics from the running of commercial ventures. The board of STT is mindful of criticism from the private sector, in particular, non-industrial forest growers who believe that past actions by STT's former trading entity Forestry Tasmania around supply contracts and administered pricing have prevented them from reasonable market access and/or private forest growers receiving a fair market price. GBE's are challenged by maintaining the fine balance between the implementation of government policy and wishes and meeting the laws of competitive neutrality. Awareness of this challenge allows Government business boards to focus on their purpose with a long-term view for the benefit of all Tasmanians. Furthermore, Tasmanian Government businesses have a high degree of public interest and therefore transparency (beyond that of departments) which impacts not only how assets and operations are managed but how successfully the private sector engages and invests.

An independent, skills-based Board can balance the various and often competing stakeholder considerations and allows the Board to make decisions in the best interests of stakeholders, consistent with purpose. This mechanism separates this function from the Portfolio Minister and Shareholder Minister who is usually the Treasurer.

The existing governance framework has many positive aspects and the Board of STT implements these to achieve good governance. Practical examples which work well within STT include, inter alia, board effectiveness achieved through skills matrix, diversity and continuing professional development; decision-making principles; regular review and use of Board committees and working groups with clear charters aligned to purpose and strategy and formalised governance and operating agreements for STT's subsidiary, Newwood Holdings Pty Limited. The existing governance framework provides Boards with the appropriate scope and tools to create effective governance. Good governance is ultimately a product of the values and behaviours of those responsible for governance. The Board of STT undertakes Code of Conduct training which includes an ethical framework. The Government could consider introducing a code of conduct for directors of Government businesses. The Victorian Public Sector Commission has one for directors of Victorian entities.

The Board makes the following comments on specific aspects of the Plan.

Place the interests of Tasmania first

The Board is responsible to the Portfolio Minister and Treasurer for the performance of Sustainable Timber Tasmania. Under its Ministerial Charter, the Board must consider the multiple users of the Permanent Timber Production Zone land and its resource. The land and forest have an ecosystem of diverse stakeholders which is already embedded in policies, plans and decision making. This proposal seeks to extend the existing regime.

The Board endorses both long-term and system thinking as part of good governance and performance. Any extension to the role and responsibilities of Boards to consider a broader stakeholder base will need to be clearly defined together with implications for duty of care. Consideration and clarity should also be given to whether this extension has a temporal aspect and includes future Tasmanians. There is also a challenge in determining what defines a Tasmanian business and complying with the Australian constitution.

There is an overlap with sustainability principles. The OECD identifies in its Guidelines on Corporate Governance of State-Owned Entities ('Guidelines') the opportunity for leadership in this area. Implementation of sustainable practices requires a clear understanding of stakeholders including their interests and purpose. Sustainable Timber Tasmania is not required to implement sustainability reporting under the new international financial reporting standards until 2027. If the portfolio of Government businesses has the same defined stakeholder base, there is a potential opportunity for the Government to consider the role Government businesses take in this reporting and the potential for a co-ordinated, efficient approach across the Government businesses.

Revisiting principal objectives to ensure focus on long term interests of Tasmania, as well as its commercial interests

The Board supports reform which improves governance and accountability in relation to acting with a long-term perspective and for commercial interests.

The Board sees this recommendation as completely aligned with our approach to the sale of the plantation logs and the subsequent approach to the next suite of native forest contracts. The plantation log sale process has been robustly designed to deliver the best long-term, commercial outcome for all Tasmanian wood processors and growers.

The Government have broadened Sustainable Timber Tasmania's principal purpose in its latest Ministerial Charter. The principal purpose explicitly identifies social and financial outcomes from managing the land and resource for the benefit of multiple users. The Board welcomes this development. The Board is pleased to have a purpose that goes beyond the financial and commercial objectives of the Government Business Enterprises Act to provide a benefit to Tasmanian society. The Board sees this broader purpose as being consistent with sustainability principles. Whilst environmental outcomes are not explicitly identified in purpose, the Board interprets the new purpose to implicitly incorporate environmental outcomes, as these are important to stakeholders.

Sustainable Timber Tasmania is responsible for managing 812,000 hectares, over 11% of Tasmania. It is important for current and future Tasmanians that management certainty is provided for this land and forest to allow them to be well managed and balanced for social, environmental and financial outcomes. The Board and management carefully consider social, environmental and financial outcomes in managing the estate over the long term and we endeavour to enhance these values. We are also mindful that the private sector owns or manages a similar area of natural forest (831,000 hectares) in Tasmania that can also contribute to the social, environmental and economic development of the State. However, in financial terms its current annual harvest volume is only around 130 thousand tonnes compared to over 900 thousand tonnes from Sustainable Timber Tasmania's PTPZ estate. There is a considerable opportunity for the Government, Sustainable Timber Tasmania, and Private Forests Tasmania to collaborate to improve the opportunities for private growers to increase supply to Tasmanian wood processors which will increase the social and economic outcomes. In addition, the active management of the private forest estate should also improve environmental outcomes.

Ownership policy

The Board supports the development of a Government policy on ownership of Government businesses. The policy will be an important part of the governance framework. It will provide guidance on the review of the Government business portfolio which would reduce uncertainty for staff of all Government businesses through what is likely to be a significant implementation exercise.

Consideration could be given to the ownership mechanism utilised by Government for businesses to best align with the principles of the Plan. The OECD Guidelines (Section II, Part D) recommend 'the exercise of ownership rights should be centralised in a single ownership entity'. Converting the shareholder to a body of Government established for this purpose would help improve the separation between politics and the commercial activities of Government businesses. Such a step, if possible, could reasonably be expected to help implement an ownership policy, provide consistency of approach to ownership rights and reinforce a long-term portfolio approach.

Accountability and performance

The Board supports the need to be accountable for its performance and the performance of Sustainable Timber Tasmania. There are a range of mechanisms in the current governance framework which support accountability including the annual Parliamentary scrutiny, corporate plans

and reporting to Treasury and our Portfolio Minister. The boards of Government businesses provide an important component of accountability. It is the role of the Government business boards to hold management accountable for delivering on agreed performance metrics which are set out in annual Statements of Corporate Intent. An independent, skills-based board with diversity of viewpoint is well placed to effectively undertake this monitoring and oversight role. The Board of Sustainable Timber Tasmania takes this role very seriously. The current Board skills include forestry, financial, legal and senior public and private sector experience and in our experience this balance has been extremely valuable. In addition, the Sustainable Timber Tasmania Board has maintained at least 50% Tasmanian directors and been mostly 60% female since its inception. The GBE framework provides an appropriate degree of separation between the shareholders and the business.

The Government's performance monitoring options and tools are a matter for the Government. Performance measures that reduce or remove separation between shareholders and the business need to be thoughtfully and carefully considered before being employed, particularly to assess whether they could be misused in the future. The measures should be aligned and consistent with the principles adopted in the reform (e.g. long-term, best interests).

The annual Government business scrutiny session before the Parliament is an accountability mechanism. This mechanism is susceptible to the politics of the day. The Portfolio Minister, the Board and management spend significant effort, every year, in preparing for and undertaking this exercise. Consideration could be given to reviewing the efficiency and effectiveness of this process with a view to improving accountability.

Board composition and limits

The requirement to have a certain quota of Tasmanians is a prescription which is in contrast to the principles-based approach taken in the Plan. Capturing a diversity of views and industry experience from outside Tasmania on a GBE Board is a cost efficient approach to building the social, environmental and economic performance of Government businesses. The Board supports an approach which requires an independent, skills-based board with a diversity of viewpoint. However, it is important that Government business boards have an appropriate understanding of the Tasmanian context. There are benefits from having directors with experience and skills from outside of Tasmania. Such individuals extend diversity and contribute valuable skills and experience which provides education and ultimately benefits Tasmanians and Tasmania which, in turn, contributes to growth in the state's economy. The Board of STT therefore does not support a prescriptive approach to Board composition.

The Board supports the premise that individual directors are limited to two terms. The Board considers the Chair should be permitted to have a maximum of three terms to support continuity.

The Board see benefits from directors having more than one director role. The reform points to directors being limited to one Government business directorship. If this reform is intended to manage interests and conflicts, then consideration could be given to alternative conflict and interest management tools to preserve the benefits that accrue from individual directors having more than one directorship. The issue does relate to one of time. Individual directors have different commitments and directors and the Chair need to assess the capacity of directors to fulfill their duties. The Board does not support a prescriptive approach to limiting directors to one Government business directorship but does support the strong disclosure and management of interests and an assessment of capacity as part of director evaluations.

Yours sincerely,

A handwritten signature in blue ink, reading "Rob de Fégely". The signature is written in a cursive style with a large, looping initial "R".

Rob de Fégely

Chair