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Dear Members of Government Businesses Governance Reform Committee,

**RE: TMEC submission on Government Business Governance Reform**

The Tasmanian Minerals, Manufacturing and Energy Council (TMEC) welcomes the invitation to provide comments to Treasury regarding the Government Business Governance Reform - Draft Plan November 2024. This submission contains thirteen recommendations.

**About TMEC**

TMEC's membership base represents an important wealth creating sector within the Tasmanian economy. The combined minerals and manufacturing sector employs 18,484 people and contributed \$2.795B in exports in the 22/23 FY. Most of our members are based in regional areas of Tasmania and therefore provide critical employment opportunities away from public funded employers.

For this submission, TMEC's comments will be restricted to the entities which have the biggest influence on the performance of the sector, which is predominantly the energy and freight businesses, therefore the following entities are of the most importance when it comes to performance and reforms.

- Hydro-Electric Corporation
- Aurora Energy Pty Ltd
- Tasmanian Networks Pty Ltd
- Tasmanian Ports Corporation Pty Ltd
- Tasmanian Railway Pty Ltd
- TT-Line Company Pty Ltd

**Background**

Tasmania's economic, social, and physical ecosystems are distinct, presenting both opportunities and challenges. While it is important to focus on what is best for Tasmania, it must be acknowledged that Tasmania is fundamentally a trading state. Its economic prosperity depends on fostering a competitive environment that attracts on-island investment and supports the export of goods to national and international markets. Long-term economic sustainability requires Tasmania to reduce reliance on

diminishing Commonwealth funding, such as GST receipts, and instead generate wealth by creating a more competitive investment environment. This approach would grant the state greater control over its economic future.

Nationally, there has been a trend toward the privatisation of previously public-owned utilities and enterprises. Tasmania, however, has resisted this trend and retained ownership of its Government Business Enterprises (GBEs) and State-Owned Companies (SOCs). While this strategy positions Tasmania to utilise these entities for the state's overall benefit, their potential has not been fully realised due to suboptimal performance across key stakeholders.

Tasmania's relatively small market size and dispersed population further limit the capacity of private operators to deliver superior outcomes for customers. As such, the Tasmanian Minerals, Manufacturing, and Energy Council (TMEC) supports the continued government ownership of GBEs and SOCs. However, TMEC strongly advocates for reform in the governance and performance frameworks that link these entities to the government.

TMEC welcomes the current governance review and reiterates its long-standing call for enhanced performance accountability between the government and its GBEs and SOCs. Additionally, TMEC emphasises the need to strategically leverage these entities to deliver tangible advantages for Tasmanians.

Given that sixty five percent of Tasmania's export wealth is derived from the minerals, manufacturing, and energy-intensive sectors, the performance of entities responsible for managing electricity and freight logistics is critical. Tasmania has historically benefited from the hydro-industrialisation era, and all indications suggest that the next wave of global economic growth will continue to prioritise minerals and manufacturing. Ensuring that Tasmania is well-positioned to capitalise on these opportunities is essential for the state's economic future.

### **Proposal to merge entities**

The Draft Plan does not explicitly seek feedback on the proposed merger; however, it acknowledges the need to assess whether merging the three freight entities—TasPorts, TT-Line, and TasRail—would offer tangible benefits.

From the perspective of this sector, TasRail is recognised as a responsive, customer-focused organisation that reliably delivers on its commitments. Any merger that jeopardises TasRail's current performance would likely be viewed unfavourably by the industry.

Improvements in port freight services remain a priority for TMEC, as the current providers have yet to meet industry expectations. TMEC acknowledges there may be value in exploring potential enhancements through a merger and is open to assessing proposals that deliver demonstrable benefits.

If it can be clearly shown that merging two or all three entities would result in broad improvements—such as enhanced service levels, stronger customer relations, competitive fees and charges, and well-defined risk mitigation strategies—TMEC would welcome further discussion.

***The ability to clearly articulate both the potential benefits and risks of a merger will be critical to securing the support of service users.***

TMEC understands that the Government is undertaking a process to evaluate the merits of a merger. The organisation looks forward to engaging more comprehensively once the initial findings are made available.

### **Stated Reform Principles (Page 15 and Page 20)**

The Draft Plan outlines the following principles under the proposed reforms.

*“Ensuring that all Government businesses place the interests of Tasmania first and are accountable for doing so.*

*Improving governance for Government businesses to ensure it is effective, contemporary, fit for purpose, transparent and provides for appropriate oversight.*

*Expanding the range of performance monitoring options available to Shareholding Ministers.*

*Incorporating appropriate levers in the governance framework to manage or rectify poor performance of Government businesses, if required, including in relation to major capital projects.”*

*Reviewing the Government businesses portfolio.*

## **1. Ensuring that all Government businesses place the interests of Tasmania first and are accountable for doing so.**

The Government must ensure all Government Business Enterprises (GBEs), and State-Owned Companies (SOCs) operate with Tasmania’s broader interests as a priority and remain accountable for doing so. However, the current framework relies heavily on good faith or Ministerial directives, which inherently incentivise GBEs and SOCs to act primarily in their own interest.

Return on investment targets are established, strategies are developed, and resources are deployed to achieve outcomes that prioritise the entities’ goals. It would be revealing if either the Government or these entities could provide evidence of decisions that deliberately optimised outcomes for Tasmania over their own results, absent explicit instructions to do so.

### **Acknowledging Structural Challenges**

This review should not seek to assign blame but instead recognise that the existing rules governing GBEs and SOCs do not reflect the objectives the Government and the broader business community now expect.

***Current policies effectively inhibit decisions that prioritize Tasmania’s benefit over the entities’ own performance metrics.***

If GBEs and SOCs are to align their operations with both their corporate objectives and the best interests of Tasmania, a collaborative framework is essential. When decisions that favour Tasmania’s broader interests’ conflict with the entities’ targets, there must be a mechanism to evaluate and trade off benefits transparently and effectively.

### **Introducing a Collaborative Modelling Mechanism**

One solution is to develop a business modelling framework that quantifies the net benefit to the state versus the individual entity. Such a model would allow decision-makers to test scenarios and balance outcomes. While the model would involve complex assumptions, it could provide directional guidance and allow for independent auditing to ensure it has been appropriately applied.

For example, the modelling tool currently being developed for the whole of state business case for evaluating Project Marinus could serve as a foundation for this mechanism. The framework should accommodate not only economic metrics but also factors such as community sentiment, environmental and social considerations, public health, and reputation.

## Accountability and Transparency in Decision-Making

Effective decision-making requires accountability. Decision-makers must be empowered to act but held to a standard where they can clearly substantiate their decisions.

***Accountability should extend to explaining why decisions were made, including those that diverge from purely financial objectives, and ensuring that transparency exists for subsequent audits.***

To foster consistency, decision-making tools should be designed to produce repeatable outcomes under similar circumstances while allowing decision-makers to provide clear and justifiable reasoning for their choices.

## Enhancing Tasmania's Competitive Advantage

The "Team Tasmania" approach is critical for attracting economic development projects. Confidential early-stage engagement often involves proponents working with multiple GBEs and SOCs to assess land access, energy availability, water, gas availability, and pricing.

The Team Tasmania approach plays a critical role in negotiations to secure new economic developments. This approach is particularly important during the initial stages when proponents are exploring options to establish projects in Tasmania. Many of these inquiries remain confidential until sufficient information is available to publicly declare an interest in the project. Most of these projects are initiated through the Office of the Coordinator-General (OCG).

A prime example of such opportunities is the suite of potential renewable energy and related projects. Proponents typically engage with multiple GBEs and SOCs to gather preliminary information on land access, energy, water, gas availability, and pricing. This information is essential for shaping their business models and evaluating Tasmania's offerings against those of other jurisdictions, both interstate and overseas.

Tasmania has a unique competitive advantage in these negotiations, as most of the enabling entities are government owned. This centralised ownership structure facilitates streamlined engagement compared to dealing with multiple private entities in other locations. However, this advantage is only fully realised when GBEs and SOCs approach negotiations with a dual focus: prioritising what is best for Tasmania while considering the needs of the individual entity.

Regrettably, feedback from proponents gathered by TMEC highlights significant variability in the responsiveness of GBEs and SOCs. While some entities are reported to be highly cooperative, others have been described as obstructionist, demonstrating minimal interest unless they see immediate benefits for themselves, often with little effort invested. These challenges have, in TMEC's view, contributed to proponents abandoning projects in Tasmania, with no accountability imposed on the leadership of the GBEs and SOCs involved.

GBEs and SOCs are often heavily committed to delivering their internal plans, leaving limited capacity to address new business development inquiries, particularly from non-existing customers. This can result in delayed responses and a perceived unwillingness to invest resources in progressing legitimate inquiries. While some inquiries may lack merit, TMEC understands that the OCG conducts preliminary due diligence to ensure only viable proposals are presented to GBEs and SOCs.

Once a proposal is vetted and deemed credible, GBEs and SOCs should respond promptly and engage proactively with proponents to resolve issues and maximize benefits for Tasmania. There is a pressing need for improved accountability and transparency in how these entities handle such inquiries, with regular reporting to the Minister on progress and outcomes.

By adopting these measures, Tasmania can better leverage its structural advantages, foster a more business-friendly environment, and secure sustainable economic growth.

No.	Recommendation
1	Establish a best off overall Modelling Framework Develop a standardised model enabling GBEs and SOCs to evaluate scenarios based on the expected outcomes for both the state and the entity. Define clear rules governing the use of the model. Require CEOs to justify decisions based on the model when called upon. Implement independent audits to review historical applications of the model.
2	Enhance Accountability and Transparency Mandate GBEs and SOCs to prioritise the state’s interests in negotiations while considering the entity’s impact. Regularly report to the Minister on how negotiations are progressing and how decisions align with the state’s strategic objectives.

## 2. Improving governance for Government businesses to ensure it is effective, contemporary, fit for purpose, transparent and provides for appropriate oversight.

### Governance Challenges and Strategic Imperatives

The existing governance framework for GBEs and SOCs is increasingly misaligned with the contemporary demands of managing entities in a dynamic and complex operating environment. Key factors such as population growth, heightened competition, global connectivity, and disruptive technological advancements underscore the need for a governance model that is effective, transparent, fit for purpose, and capable of providing robust oversight.

Effective governance ensures that an entity manages its purpose, people, assets, finances, and risks optimally while demonstrating adaptability to changing circumstances. This requires transparency that aligns management’s actions, outcomes, and stakeholder perceptions.

### Aligning Shareholder Minister Priorities

One critical challenge to efficient governance lies in the tension between long-term strategic planning and the short-term political cycles driving Ministerial priorities. Boards typically operate with strategic horizons spanning 3–10 years, and for some asset classes, a 20-year planning horizon is prudent. To balance strategic direction with operational focus, it is essential to evaluate which performance indicators should be legislatively mandated versus those which are subject to political discretion.

### Strengthening Board Composition and Local Context

TMEC supports appointing two Shareholder Ministers per entity and emphasises the importance of their deep understanding of the respective GBE or SOC. A robust onboarding process for Ministers, incorporating insights from government departments, the entity itself, customers, and independent experts, is crucial for holding Boards accountable.

Regarding Board composition, it is vital to balance skill-based appointments with an understanding of Tasmanian-specific issues. Mandating a minimum of 50% Tasmanian representation may not always serve the state’s best interests. Instead, the skills matrix should include a criterion for Tasmanian residency of at least ten years to ensure local knowledge without compromising expertise.

## Elevating Stakeholder Perspectives

For transparency and accountability, stakeholder voices—whether employees, customers, or suppliers—must be captured and evaluated independently of management. A framework that integrates unfiltered stakeholder insights, such as an independently led stakeholder perception process, will enhance performance evaluation. Additionally, adopting a stakeholder-informed performance scorecard with key metrics would provide a comprehensive assessment tool.

## Reforming Parliamentary Scrutiny

The current process for Parliamentary scrutiny of GBEs and SOCs, particularly through the Public Accounts Committee (PAC), is insufficient to inspire public confidence. Knowledge imbalances between experienced Chairs and CEOs and less specialised politicians often hinder effective accountability.

TMEC has the utmost respect for the integrity of the individuals in the PAC, but the recent issue exposed with Devonport Port and the berth for the new Spirits also missed being revealed in this forum. Yet it would be reasonable to assume anyone based in and around the Devonport Port should have recognised the physical works program was well off track. The reform process needs to address the knowledge chasm which occurred on the most recent occasion.

To address this, Parliamentarians must be better equipped with access to technical expertise before and during hearings. Additionally, reforms should ensure that “bad news” is not suppressed and that significant issues are identified in time to allow corrective actions.

## Establishing a Government Business Board or Panel

TMEC recommends revisiting the 2016–2018 work of the Joint Tasmanian Economic Committee (JTEC), which explored an alternative governance model where GBEs and SOCs reported to a single Government Business Board or Panel. This structure, comprising experts in finance, risk, and community engagement, could provide independent oversight and strategic alignment while co-opting sector-specific expertise as needed.

Such a model would strengthen the Ministerial decision-making process and enhance comparative performance analysis across GBEs and SOCs. Furthermore, it could assist PAC by directing its scrutiny toward areas warranting greater attention.

## Conclusion

To enhance the governance of GBEs and SOCs, Tasmania must adopt a modern, transparent, and robust oversight framework that balances long-term strategic objectives with immediate operational needs. These reforms will foster greater accountability, stakeholder trust, and alignment with the evolving economic and social landscape.

No.	Recommendation
3	Introduce legislative mechanisms enabling GBEs and SOCs to sustain long-term strategic outcomes that align with government and consumer interests, independent of electoral cycles.
4	Enhance the Ministerial onboarding process to include comprehensive briefings that incorporate independent perspectives on technical, risk, financial, ethical, economic, social, environmental, and demographic factors.
5	Mandate that all Boards include expertise on Tasmanian-specific issues within their skills matrix. Consider requiring the Chair to have a deep understanding of Tasmania’s broader context.

6	Develop an independently managed stakeholder perception process as a key input for Ministerial and Parliamentary performance evaluations.
7	Incorporate stakeholder-informed scorecards into the performance management framework, with metrics co-developed by all key stakeholders.
8	Equip Parliamentary Committees with access to independent subject matter experts to enhance the effectiveness of scrutiny <b>during</b> hearings.
9	Reform PAC processes to ensure transparency, timely identification of critical issues, and public accountability
10	Reevaluate the JTEC governance model to determine its applicability to current challenges, potentially adopting it in part or in full.

### 3. Expanding the range of performance monitoring options available to Shareholding Ministers.

The Draft Plan highlights several opportunities for expanding performance monitoring. However, while enhanced monitoring is important, this alone is unlikely to drive meaningful performance improvements in Government Business Enterprises (GBEs) and State-Owned Companies (SOCs) in Tasmania. Without addressing fundamental issues, Tasmania risks ending up with well-governed but underperforming entities.

#### Challenges in Evaluating Performance

A significant challenge with government-owned monopolies lies in assessing their performance against potential alternatives. Currently, these entities set their own performance targets, which are then used to evaluate their success. This self-referential approach does not foster high-performance outcomes.

There is also a perception within the industry that Treasury and the Government equate efficiency improvements with reduced dividends. This need not be the case. Dividends represent the government's return on investment. Efficient operations that mirror the performance of private sector counterparts benefit the state by ensuring consumers pay competitive prices while profits are reinvested as dividends to the government, rather than accruing to private operators.

#### Establishing Performance Benchmarks

GBEs and SOCs must demonstrate their performance against agreed benchmarks reflecting comparable entities in similar jurisdictions. While absolute performance provides valuable insight, the trend over time is a critical indicator of management and board effectiveness.

***Comparative benchmarking, endorsed by both the Government and industry, will enhance the value these entities provide to the state and signal to investors that Tasmania is a competitive place to do business.***

#### Achieving High-Performing Entities

The goal is to establish entities that deliver functional outputs, including community obligations and financial returns, through efficient operations. As opposed to an inefficient entity, delivering poor performance but charges its captive consumers a price high enough to provide a margin. This is the situation to varying degrees in Tasmania today.

Establishing appropriate benchmarks can be difficult and needs to be done so through a rigorous process, with independent advice, but it can be done and therefore should be done.

Benchmarks may include:

- Health and Safety
- Financial Performance and Sustainability
- Efficiency and Productivity
- Customer Satisfaction
- Innovation and Growth
- Social and Public Value Creation
- Etc

Where there may be some commercial sensitivity (unit cost of production), indexing can be used to show relative performance and trends over time. It may be necessary for Treasury or the Office of the Economic Regulator to be accountable for this, but the entity itself should not be directly involved in the reporting and publishing of the results.

In addition to Benchmarks, periodic market reviews should be legislated to verify the historical performance has been in line with comparable entities. Where it is evident this has not been the case, then the matter is escalated to determine what the response should be. This may include a new strategic plan, management and or board changes and these options should be exhausted before any consideration is given to privatisation.

No.	Recommendation
11	Establish performance benchmarks through a negotiated process involving the key stakeholders for each entity and report periodically (six or twelve monthly frequency).
12	Legislate the ability for the Minister to enact a 10 Yearly Review where the GBE / SOC in either its entirety or a potential commercially subset is tested against the private market in terms of the services and financials.

#### **4. Incorporating appropriate levers in the governance framework to manage or rectify poor performance of Government businesses, if required, including in relation to major capital projects.**

While this is an important consideration, the requirement for such interventions arises only under specific circumstances: when information has been withheld from Ministers or they fail to act, when established benchmarks are not met, or when the Public Accounts Committee (PAC) does not effectively scrutinize performance. At this stage, the response becomes a reactive measure—a last resort akin to deploying an “ambulance at the bottom of the cliff.”

***Addressing poor performance should only be necessary when all other measures have failed and therefore the overall goal is to ensure this clause is never enacted.***

Recognising that, despite best efforts, results may still fall short, it is critical to have clear protocols for intervention.

#### **Proposed Approach:**

##### **1. Initial Assessment:**

As a first step, an independent subject matter expert should be engaged to assess the situation. This expert or organisation would evaluate the current status and provide actionable recommendations to the Minister and Chair to guide performance back on track.



**2. Escalation if Required:**

If performance does not improve following this initial intervention, the next step would involve appointing an external authority, such as an “Administrator.” This entity could either oversee the entire Government Business Enterprise (GBE) or State-Owned Corporation (SOC) or lead the specific area of concern (e.g., as a Project Manager). However, this approach has significant implications: the Government becomes directly accountable for the outcomes, relinquishing its arm’s-length position. This responsibility persists until new leadership—such as a Chair, CEO, or Project Manager—is appointed by the GBE or SOC.

<b>No.</b>	<b>Recommendation</b>
13	Establish a structured model for escalating interventions, clearly defining the steps involved and the criteria for triggering such actions. This framework should ensure timely and effective responses while maintaining transparency and accountability.

TMEC welcomes the opportunity to provide our views on this pivotal opportunity to reset Tasmania’s trajectory for decades to come.

Please do not hesitate to contact me should you require further clarification.

Yours sincerely,



**Ray Mostogl**  
**Chief Executive Officer**