COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Corporate governance and accountability arrangements for Commonwealth government business enterprises

WEDNESDAY, 8 SEPTEMBER 1999

MELBOURNE

BY AUTHORITY OF THE PARLIAMENT

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **http://www.aph.gov.au/hansard**

To search the parliamentary database, go to: **http://search.aph.gov.au**

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Wednesday, 8 September 1999

Members: Mr Charles *(Chairman)*, Senators Coonan, Faulkner, Gibson, Hogg, Murray and Watson and Mr Kevin Andrews, Mr Brough, Mr Cox, Mr Georgiou, Ms Gillard, Mr Griffin, Ms Plibersek, Mr St Clair and Mr Somlyay

Senators and members in attendance: Senator Gibson and Mr Charles, Mr Cox and Mr St Clair

Terms of reference for the inquiry:

The corporate governance and accountability arrangements for Commonwealth Government Business Enterprises (GBEs). The JCPAA will explore the following matters:

. whether additional parts of current GBE governance arrangements should be the subject of legislation;

. whether more GBEs should be companies;

. whether governance arrangements are being reasonably applied to GBEs undergoing sale or restructuring;

. the form and content of GBE statements of corporate intent and the process of Parliamentary scrutiny including scrutiny of the financial affairs of GBEs;

. whether governance arrangements relating to GBEs' management of risk need to be strengthened;

. the adequacy of proposed annual reporting requirements for GBEs; and

. whether administrative law should apply to GBEs.

WITNESSES

Committee met at 9.42 a.m.

CHAIRMAN—This is going to be an informal formal hearing. We do not have a quorum and until we get one we will not be swearing witnesses. However, we have decided we had better get on with it rather than let people just sit here all day.

The Joint Committee of Public Accounts and Audit will now take evidence as provided for the Public Accounts and Audit Committee Act 1951 for its inquiry into corporate governance and accountability arrangements for Commonwealth government business enterprises. I declare open this inquiry of the Joint Committee of Public Accounts and Audit into corporate governance and accountability arrangements for Commonwealth GBEs.

The importance of good corporate governance has been highlighted in the private sector by the corporate excesses of the second half of the 1980s in Australia and overseas, and the need to meet the challenges of global competition, technological progress and increasingly integrated markets. In the public sector, recent reforms to improve efficiency and effectiveness such as commercialisation, corporatisation and privatisation of government organisations, and the role of the board in governing significant assets, have focused attention on the need for various new models of corporate governance.

This inquiry will focus on the governance and accountability arrangements for Commonwealth government business enterprises which have been in place for the two years since 1 July 1997. These arrangements were adopted as part of the government's acceptance of most of the key recommendations of the Humphry *Review of GBE Governance Arrangements* of March 1997.

The purpose of the inquiry is to assess the adequacy of the existing governance arrangements and identify areas where improvements can be made. In making this assessment, the committee will consider a range of comments from GBEs, departments of shareholder ministers, and other interested groups. The committee will consider the extent to which the governance arrangements should apply to organisations competing with private sector companies and the application of competitive neutrality provisions in such situations. In addition, the inquiry will address the appropriateness of the governance arrangements when the Commonwealth shareholding is less than 100 per cent. This issue is particularly relevant in the case of Telstra.

Also of interest to the committee is the representation of the Commonwealth's interest by two shareholder ministers, namely, the portfolio minister and the Minister for Finance and Administration. This arrangement was implemented for the first time from 1 July 1997 and the committee will assess how it has worked in practice.

In addition to these matters, the JCPAA will investigate particular areas of the governance arrangements including the adequacy of the GBE corporate governance framework; parliamentary scrutiny of GBEs and the adequacy of reporting arrangements; GBEs' management of risk; and the extent to which administrative law should apply to GBEs.

Today, the JCPAA will take evidence from the Department of Finance and Administration, Telstra, Mr Richard Humphry, Australia Post, the Australian Society of Certified Practising Accountants, the Institute of Chartered Accountants in Australia and the Productivity Commission.

Before swearing in the witnesses, which I am not going to do at the moment, I will refer members of the media who may be present at this hearing to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to fairly and accurately report the proceedings of the committee. Copies of the statement are available from secretariat staff present at this hearing.

[9.45 a.m.]

BARTOS, Mr Stephen, General Manager, Budget Group, Department of Finance and Administration

COOMBS, Ms Megan, Branch Manager, Commonwealth Shareholder Advisory Unit, Department of Finance and Administration

DANIEL, Ms Thea, Senior Adviser, Commonwealth Shareholder Advisory Unit, Department of Finance and Administration

CHAIRMAN—I welcome representatives from the Department of Finance and Administration to today's hearing. I will not have you stand and be sworn because we do not have a quorum. Thank you for you written submission. I understand you have a brief opening statement you would like to make.

Mr Bartos—We do, Mr Chairman.

CHAIRMAN—And then we will ask you our penetrating questions.

Mr Bartos—In the interests of time, I will not make any introductory remarks myself and simply ask Ms Coombs to give you a very brief opening statement.

Ms Coombs—The Department of Finance and Administration welcomes the committee's inquiry into the corporate governance and accountability arrangements for Commonwealth government business enterprises, and we appreciate the opportunity to appear before the committee today to address relevant governance issues. The Commonwealth's GBEs accounted for approximately 17½ per cent of the Commonwealth's total assets in 1997-98. They provide important services to the Australian public, such as communications, transport, employment and health services. Their performance is critical, both from a public policy point of view and to the goal of achieving sustainable government finances.

Given the importance of the GBE sector, the Department of Finance and Administration takes its role in supporting our minister's shareholder role very seriously. We have found the governance arrangements to be a clear and effective mechanism to enable active oversight and enhanced accountability of GBEs.

Two years after introduction, the arrangements are operating well with a high level of GBE compliance, allowing high quality performance advice to be provided to shareholder ministers. The key features of the government's corporate governance framework are: a reliance on the existing framework Corporations Law as much as possible; regular reporting of performance to shareholder ministers; and the fact that boards are accountable to shareholder ministers for performance and ministers are then accountable to parliament and the public.

The governance arrangements provide that in general the Commonwealth's ownership interests in GBEs is represented by two shareholder ministers who exercise strategic control of GBEs and review performance. The shareholder ministers are generally the relevant

portfolio minister and the Minister for Finance and Administration. The governance arrangements have been drafted to enable the government to manage its shareholder relationship with GBEs in a manner consistent with the governance principles applied by the private sector. This is appropriate given the nature of GBEs and was supported in the Humphry report.

While generally consistent with private sector governance principles, our governance arrangements do contain several requirements above those specified in Corporations Law. We consider that that is appropriate given the nature of government owned companies and the Commonwealth's desire to minimise commercial risk. Examples of those additional requirements are preparing a statement of corporate intent and keeping shareholders informed of risk management strategies.

Like any regulatory or oversight framework, the success of the governance arrangements, no matter how comprehensive and prescriptive, depends upon the extent of compliance with them. To date, active oversight has ensured a high level of GBE compliance with the governance arrangements and their underlying objectives. In particular, the introduction of statements of corporate intent, consistent requirements for progress reporting and closer relationships between shareholder ministers and GBE boards have served to strengthen the effectiveness of GBE oversight.

CHAIRMAN—I thank you for that, and for your submission. One of the things that the committee is interested in is this dual shareholder minister arrangement. I note that while the number of GBEs is reduced as successive governments have sold off, or privatised or whatever, various agencies of the Commonwealth, nonetheless there are still 13 and I believe there are a couple more to come on board. Does that not put a huge load on your minister in having to be a board member of those 13, plus whatever we add?

Mr Bartos—In fact, the minister exercises the role of shareholder rather than board member. In that sense it is actually far less of a workload because the real day-to-day management responsibilities rest with the management of the GBEs and the oversight of that management rests with the board of the GBE. So, to that extent, the minister's role is the same as would be exercised by, for example, a large institutional shareholder, or even a very large—and it would have to be extraordinarily large—private shareholder. It is a role that does not involve direct dealings day to day with the GBEs, it is more the exercise of that broad shareholder oversight that is important under the model which makes the workload manageable.

If it were the case that the expectation was that the Minister for Finance and Administration would be in some way involved in hands-on management of any of those GBEs, I would agree with the proposition that it is an unmanageable workload. But what we are trying to do with the governance arrangements is put in place something that, as far as possible, does represent the exercise of that shareholder interest rather than taking the place of the board members who are appointed by the shareholder ministers to exercise that role on their behalf.

CHAIRMAN—Where your minister is a single shareholder minister, the lines of communication and responsibility are pretty clear cut. How about in the case of Telstra

where there is also a portfolio minister with equal shareholder responsibility? To what extent do the lines of responsibility—that is, making sure that the Commonwealth's interests are taken care of—get blurred between the two departments?

Ms Coombs—In a practical sense they are not blurred at all. Certainly, at an official level, we are very careful to divide up who is going to look at what. In many ways it tends to be split up so that the Department of Finance and Administration will look mainly at financial and shareholder value issues, and portfolio departments tend to focus more on industry policy aspects. We certainly make sure that ministers agree a position before we go back to the GBE. So, in effect, the government does speak with one voice on shareholder matters to the GBE.

Senator GIBSON—Wouldn't it be clearer if all GBEs only had one shareholder minister, the Minister for Finance and Administration, to avoid any apparent conflict of interest since the other minister is normally involved in regulation of that industry? That would mean there is no apparent conflict of interest, real or otherwise. The government has already done that with several of the GBEs. We have not got a large number, we have only got 12 or 14 at present, and a couple more waiting in the wings.

But just for good governance and for the perception by the community as to what is going on, wouldn't it be neater and clearer if the Minister for Finance and Administration, or maybe even Treasury, did the job of shareholder ministers as they are not involved in the portfolio area where the GBE is located so that there is no conflict? After all, just about all of them have been set up as companies under the Corporations Law, which is a further reason why they should be held at arms length and, if need be, regulated by regulation or by changes to the statute.

Mr Bartos—There is a lot of merit in that argument. The single shareholder model does mean that the portfolio minister is able to focus primarily on the regulatory and industry policy issues, leaving the Minister for Finance and Administration to pursue the objective of maximising shareholder value.

On the other hand, under the joint shareholder model, the portfolio minister is able to fulfil what, in many cases, are quite strong community and, indeed, parliamentary expectations that that portfolio minister has a role in the governance and oversight of the GBE that is primarily involved in delivering services in that portfolio minister's area of responsibility. The issue here is not entirely clear cut and, as you have pointed out, the government has decided, in some cases, to move to a single shareholder model in order to get the benefits of that separation between the regulatory and the shareholding role, and that has been done for those very good reasons.

I think it is an evolutionary situation where, rather than a single model that would be applied regardless of the circumstances, the government has chosen—and rightly so—to approach each of these on a case-by-case basis and determine how best to strike that balance between the expectations that are held of a portfolio minister and the need, as you have identified, for separation, for some other good governance reasons.

Senator GIBSON—Of course, we do not expect you to comment on government policy. We do not want to put you in an impossible situation. However, it does seem to me that one of the problems that arises—and the Telstra example is a good one—is that there is an expectation built up in parliament that because the portfolio minister is involved he should be able to home in on how the show is managed. You cannot have it both ways. Because of this apparent conflict in expectation, it seemed to me it would be much easier, and easier for the government and for everybody, if there was a clear-cut definition of responsibility. In that way the portfolio minister's responsibility would be quite clear and basically not there to interfere in the running of the company, but rather to set the statutory and regulatory regime under which that company and other companies operate, rather than getting involved in the nitty-gritty of company X.

Mr Bartos—We agree that there is a lot of merit in that argument, and what has seemed to have happened is that the system is evolving in that direction anyway.

CHAIRMAN—Your submission, however, really says that everything is wonderful in this land of all perfect things and that our regulation and the acts, as they stand now, are operating quite properly and there is no reason to change anything. If we had read your submission before we called the inquiry we probably would not have held an inquiry.

Mr Bartos—The governance arrangements, as they currently stand, are working very well. They have only been in place for two years.

CHAIRMAN—That does not mean they cannot improve.

Mr Bartos—That is right, it does not, but the experience of those two years has been that they have proven to be very flexible. They have been suited to the circumstances of each GBE. My answer to Senator Gibson's question was very much along the lines that we need, rather than assume that there is one model that will automatically suit all GBEs, to actually have one that is capable of being applied to the circumstances of each GBE. The variety among GBEs, as this committee will be well aware from its experience, is extraordinary, ranging from very large corporations to very small niche players.

Therefore, it seems to us that one of the big advantages of the current governance arrangements is the fact that they set out very clearly some principles and, being principle based, there is an expectation that those principles will apply to all GBEs but that the actual mechanics of the governance are adapted to each one. As Ms Coombs indicated in relation to, for example, the biggest of them, Telstra, in a practical sense that joint shareholder model has been working in terms of the relationships between the two departments and the two shareholder ministers, and the practicalities have been very effective, they have worked.

CHAIRMAN—There are some who would disagree with you. The committee has had put to it that in the case of the minister for communications and the arts having responsibility for Telstra there is a potential conflict of interest where he is making a regulation that applies to the industry on the one hand, the private sector players, and yet at the same time owns more than 50 per cent of the biggest player of the lot. When they point out a conflict of interest, it seems to me fairly clear that there could be. Is that unfair?

Mr Bartos—I know that has been argued to the committee.

CHAIRMAN—You see the point very well. But I have to say to you that there are submissions and there are people who disagree with you who think it is not working well, that at least there is this potential for conflict and therefore we ought to change it.

Mr Bartos—Really, in relation to Telstra ownership, the government policy is that there is a joint shareholding for Telstra. Our job, I suppose departmentally, is to make sure that we have that policy work as effectively as it possibly can and in the discharge of that responsibility we are actually, in terms of the practical relationship, making it work as well as it can.

Senator GIBSON—On page 3 of your submission, paragraph 8, this is the point about why there is a requirement beyond the Corporations Law. You say there the examples are the requirements to prepare a statement of corporate intent and keep shareholders informed of risk management strategies as, if you like, acting beyond the Corporations Law. Can I put a hypothetical to you? If in fact, for those GBEs that have two shareholder ministers, that were to shrink down to one—the finance minister, for example—and the portfolio minister was kept at arms-length setting the industry standards by regulation and/or statute, that requirement for additional information would tend to dissolve, wouldn't it?

Ms Coombs—I would not have thought so, regardless of whether there is one shareholder or two. The shareholder would like to be kept informed of risk management strategies, in addition to which the statement of corporate intent is really a statement to parliament about what the GBE intends to do. I would imagine that that would continue regardless of how the government decided to manage that shareholding. They would still want to keep parliament informed.

CHAIRMAN—Telstra do not believe that they should have to appear in front of Senate estimates committees. They make the point that they operate in the private sector marketplace, that in fact they receive no government budget funds whatsoever, so why should they be involved in the Senate estimates process other than that senators like to have their bit. Have you got any comment?

Ms Coombs—In a commercial sense, Senate estimates committees can call any of the government owned entities to appear. Senate estimates committees clearly have the power to call any government owned entities to appear—or any entities, and that includes GBEs. Naturally it would be inappropriate for Telstra to disclose commercial-in-confidence information as part of that forum given that they are operating in a competitive environment. I should note that they actually do contribute quite significantly to the budget, particularly now we are operating on an accrual basis, certainly in terms of dividends and sale proceeds. From our perspective, we do not consider it a particularly onerous requirement. It is a requirement that is on all government owned entities. In fact, I think even if Telstra was not government owned, they could still be called. The Senate could still call them to a Senate estimates hearing even if they were not government owned.

Mr Bartos—Possibly not an estimates hearing per se but certainly committees of the parliament have powers to call bodies before, say, a references committee hearing.

CHAIRMAN—I understand that, and Senate estimates is a specific process at a period of the year. You would have to make a discrete determination if you did not have the Senate estimates process to ask Telstra to come around and tell you what they are doing. You would be hard pressed to get them, in a public hearing, to give you any commercially sensitive information whatsoever. You would have to take it all in camera, so you might as well not bother anyway, I would have thought.

Mr Bartos—I suppose at the end of the day it is also open to a Senate estimates hearing to exempt a body from the hearing. It does happen, as Senator Gibson would know, that a Senate legislation committee will, from time to time, excuse bodies from appearing. It is probably more appropriate for a GBE that feels it should not appear to press its case with its relevant Senate legislation committee.

CHAIRMAN—One of the things the ANAO recommended in GBE Monitoring Practices (No. 2 of 1997-98) was that portfolio departments should periodically commission independent assessment of corporate plans of GBEs in their portfolio to provide objective assurance to ministers. Do you support that proposal?

Ms Coombs—Looking beyond corporate plans, we have actually commissioned independent assessments on specific aspects of GBE operations. In particular, we have done it in relation to capital structure reviews in assessing whether they have the appropriate debt equity structures. But we do it on a case-by-case basis. Examples of where we have done it, certainly in the last two years, are that we have actually had consultancy advice on an analysis of Australia Post business drivers and we have done a capital structure review of Health Services Australia. So we are getting independent assessment, but not specifically on corporate plans.

Senator GIBSON—You mentioned Australia Post. Did that issue come up because the board of that entity was looking at its capital structure and was asking questions and was making recommendations to the major shareholder about what was going on?

Ms Coombs—I think in relation to the capital structures we have done, it has really been driven on the shareholder's side of things where the shareholder is forming a view of how much capital is appropriate to invest in a business. The Commonwealth certainly has a position of not investing excess capital in business. There are opportunity costs associated with that.

Senator GIBSON—Sounds like a pretty good argument to me for selling off the rest of Telstra.

CHAIRMAN—You cannot expect the department to comment on that. What steps does DOFA take to ensure that your staff and/or the staff of a portfolio shareholder minister have the necessary skills to effectively review the GBE performance and ensure other accountability requirements are being met?

Ms Coombs—Following the Humphry report, we certainly took Mr Humphry's recommendation of creating a centralised unit very seriously, and we established the Commonwealth shareholder advisory unit in the department. Staff that were selected for the

unit were, and continue to be, selected for a particular skill set, and that is focusing on financial and analytical skills to basically make sure we provide the best possible advice to our minister. Our analysts have a wide variety of vocational experience, including in banking and finance, small business, IT and the public sector. At least half of the people that I employ have experience outside the public sector. Of the 12 analysts we currently have employed, all have undergraduate degrees in relevant fields such as commerce and accounting, economics or the law; five are certified practising accountants; three have graduate diplomas in applied finance from the Securities Institute of Australia, and we have one master of law in corporate finance. We have five staff members who are currently completing postgraduate studies, and that is encouraged. All staff members are encouraged to take ongoing professional development training.

We have also employed the mechanism of using short-term placements. For example, we had someone spend a week with an institutional investor—in this case, NRMA. We have also had short-term placements with investment banks such as CS First Boston. We have currently got one staff member at Sydney airport working on a six-month project. We also do a fair amount of networking with other jurisdictions—GBE monitoring units. For example, most recently, we provided advice to the Tasmanian Treasury and the UK Treasury, and we regularly do presentations to international delegations and try to share techniques that way.

Senator GIBSON—How many staff were taken out in the unit?

Ms Coombs—Currently, 12. Hopefully, by the end of the month, it will be up around 16.

Senator GIBSON—Does that include administrative staff as well?

Ms Coombs—Yes. That includes myself, my personal assistant and 10 analysts.

CHAIRMAN—Mr Humphry recommended in his report that GBEs not be subject to administrative law, and yet Telstra informs us that we have a whole range of legislation which still applies. Can you tell us why that is? They say, amongst other things, for instance, that they have two ombudsmen. They have the government Ombudsman and they have the Communications Ombudsman, which seems prima facie to put them under a bit more pressure and expense than their competitors for no apparent public good.

Ms Coombs—My understanding in relation to Telstra is that with the sale legislation that was before parliament, if the parliament had decided to sell the government's shareholding below 50 per cent, most of those administrative law requirements would have fallen away. Given the bill was not passed as it was drafted, I understand that the Department of Communications, Information Technology and the Arts will actually be going back to the government and asking them what they want to do now that we will still be maintaining a 50.1 per cent shareholding in Telstra.

CHAIRMAN—On page 7, you stated:

The government as a shareholder is sensitive to commercial risk.

Are you satisfied that all GBEs have appropriate and effective risk management strategies?

Ms Coombs—I think, overall, yes, we are. Risk management is largely a responsibility of the board, and then they report to shareholder ministers on what the key risks are and what the management strategies are that have been put in place to deal with those. We certainly assess the risk management strategy if it is a GBE and we are generally happy they are effective. Where we have concerns, we actually go back and raise them with the GBEs. So it is an ongoing process. In our experience, most of the concerns that we have had in the past actually relate to strategies of new GBEs.

CHAIRMAN—Thank you very much for coming and for your input. I realise that quite a lot of the issues that we want to address are really matters of government policy rather than administrative practice. We will continue to address those with other players that are here today.

Proceedings suspended from 10.15 a.m. to 10.30 a.m.

STANHOPE, Mr John, Director, Finance, Telstra

WARD, Mr Graeme, Group Managing Director, Public Affairs and Corporate Marketing, Telstra

CHAIRMAN—I welcome representatives from Telstra to today's hearing. As the fourth member of the committee is on the telephone, we have got a formal quorum as constituted. I thank the witnesses for coming and for the submission. Do you have a brief opening statement that you would like to make, because we have lots of questions?

Mr Ward—We do and Mr Stanhope will read it quickly.

Mr Stanhope—Thank you for the opportunity to appear today at this hearing to contribute to the committee's deliberations on corporate governance and accountability arrangements for Commonwealth GBEs. The key message in our submission, and one which we would like to reiterate strongly here today, is that we believe the time is now appropriate for the governance and accountability arrangements applying to Telstra to be aligned with those applying to other publicly listed companies.

Additional requirements should only be applied to Telstra where there is a demonstrated need and a clear benefit to the public for doing so. Consistent with this theme, we also argue that, firstly, Commonwealth shareholder rights should be satisfied by publicly listed company reporting requirements without the need for further direct reporting by Telstra to parliament; secondly, existing government decisions to exempt Telstra from Commonwealth administrative law should be implemented; and, finally, other inappropriate laws that apply, or might apply, to Telstra should also be amended as was the case in relation to the privatisation of Qantas and, to some extent, the Commonwealth Bank.

Currently Telstra is subject to the fall range of regulations under Corporations Law and the Australian Stock Exchange Listing Rules which are applicable to all major companies, in respect of its governance and accountability relationship with its shareholders. Telstra accepts and supports the application of this governance and accountability regime and strenuously seeks to comply fully with it.

However, at present Telstra is subject to two additional regimes that impose further layers of governance and accountability responsibilities which other publicly listed companies do not face. These are the Telstra Corporation Act 1991 and the Commonwealth Authorities and Companies Act 1997. It is the requirements in these two acts which we argue need to be closely scrutinised to determine whether their continued application is both necessary and results in a net public benefit. Our submission outlines in some detail particular requirements within these two acts which fall into this category.

In arguing this line, Telstra is motivated by concerns that the current arrangements expose a number of real or potential difficulties which are contrary to both Telstra's best interests and to the interests of the wider community in ensuring maximum effectiveness from a highly competitive marketplace. While these concerns are outlined in some detail in our submission, the key areas of concern are: the potential for conflict between Telstra's

obligations to the Commonwealth and to its shareholders as a whole; the potential for distortion of the Commonwealth's roles as shareholder and regulator; the potential for unnecessary conflict between majority and minority shareholders; and the risk of prejudicing competitive neutrality between Telstra and its private sector competitors to Telstra's disadvantage.

Whilst we have argued strongly in our submission for changes to the current governance and accountability arrangements, we do want nevertheless to emphasise that Telstra does not consider the Commonwealth has acted with anything other than propriety in the conduct of its shareholder role to date. Nor do we seek to derogate from our fundamental responsibilities to both our Commonwealth and private shareholders, or in any way seek to avoid any of the regulatory restraints to which we should properly be subject. We are simply arguing that, since the current governance and accountability arrangements were put in place, the environment both internal and external to Telstra has changed dramatically and is driving a need for commensurate changes in the governance arrangements.

In particular, the company is currently one-third privately owned. It is soon to be 49.9 per cent privately owned. We are now operating in a very competitive marketplace, and our major competitors are well-resourced and experienced international companies who are well placed to take commercial advantage of any differences in cost structures and reporting requirements which might exist between us and them.

Accordingly, in this environment it is now appropriate, we believe, that the governance and accountability requirements applying to Telstra be amended to ensure that they are consistent with contemporary ownership and market structures. This would then allow Telstra to operate on a competitively neutral basis with its competitors, while still ensuring that rigorous governance and accountability practices are met and maintained via the Corporations Law and the Australian Stock Exchange Listing Rules.

CHAIRMAN—Thank you for that and, in particular, I thank you for your formal submission. I should declare to my colleagues a beneficial interest in that I am a shareholder in Telstra.

Senator GIBSON—I should also declare that my superannuation fund is a shareholder in Telstra, too.

CHAIRMAN—Both my superannuation fund and me personally. You argue that governance and accountability arrangements should not disadvantage you in relation to your competitors: have you made any attempt to quantify the dollar value of disadvantage to which you believe you are subjected?

Mr Ward—Perhaps John could come in on the dollar value. In more real terms than just the dollars involved, the potential for us at forums like Senate estimates to be quizzed on matters that are commercial in nature is a concern. At times, we have gone pretty close to the mark on issues of commercial negotiation and who we are talking to in terms of potential alliances or potential ventures. The competitive cost of that is hard to measure in dollars but it is something that the company feels uncomfortable about. Perhaps, John, you might comment on the dollars involved.

Mr Stanhope—The direct impact of the company's various additional requirements—that is, additional to the Corporations Law and Listing Rules such as additional financial information being provided to the Commonwealth and the Senate estimates, a compliance with freedom of information and so on—are in the several millions of dollars. We have not got an exact quantifier because it flows through the company, but it is several millions of dollars. The indirect impact of having to prematurely go to the Stock Exchange with disclosures and what competitive advantage that might give to our competitors is very difficult to estimate, but there would be some indirect cost in that regard.

CHAIRMAN—The Department of Finance and Administration earlier this morning was asked a question about Senate estimates. Whether it was Senate estimates or some other committee requiring Telstra to appear and answer questions in a public forum, you said that you were no different from any other public company in Australia. Any committee, given the right terms of reference, or as in our case where there is no need for any terms of reference, could ask you to come along once a month, once a year, or whatever, and answer questions. I am sure you cite confidentiality when that is necessary during Senate estimates, just as you would at any other hearing.

Mr Ward—I have not seen any of our competitors in the Senate estimates forum or their trucks parked outside Parliament House too often. It just has not been my experience that any of our competitors have been subject to the Senate estimates forums. With particular inquiries that are appropriate for corporate Australia, of course they are involved. That is appropriate and we would take the same stance. But for Senate estimates and, indeed, for forums like this, our competitors are not subject to that, or have not been made subject to it, given the point you are making that these committees have the powers to get people along. Just from my experience, I have never seen them involved.

CHAIRMAN—Fair enough. You have two shareholder ministers: the Minister for Finance and Administration and the Minister for Communications, Information Technology and the Arts. You argue strongly in your submission that the Humphry report recommended you should not be subject to administrative law. The Humphry report said that you should not, and you argue that you should not, and yet you still are. Have you had discussions with either of your two ministers as to why you are still subject to that compliance and, for instance, have two ombudsmen instead of one?

Mr Ward—We certainly have with ministers, with ministers' staff and with the relevant department people. I believe there has been a policy decision made to support those relevant aspects of the Humphry report that need to be followed through with legislative action. We are a little frustrated that has not occurred. We understand there is a policy position to support that and we welcome it as soon as the legislative program can reflect it. We have certainly had the dialogue.

Senator GIBSON—Whilst we are on that very point about ministerial ownership of half, or more at the present moment, of the company, I want to go to this matter—which I know Mr Humphry raised in his report—of potential conflict of interest between the shareholder minister and the portfolio minister. You have not actually said directly in the report, but it would seen to me that you would be agreeing with other submissions that a single

shareholder minister—namely the finance minister—would be more appropriate for your company.

Mr Ward—I will make a few points about that. Firstly, at the principal level, we believe the conflict lies within government rather than between ministers. All of the decisions that potentially involve that conflict tend to be taken at the cabinet level. At the principal level, I do not think that solves the issue that we see, which is an issue for government.

At an operational level, I think the one shareholder minister would bring some streamlining and some operational efficiencies for us and may work more effectively in that sense. However, given the arrangement and that the conflict exists, having two shareholder ministers is not a material matter for us. Again, given the current arrangements of being majority owned by government, we would support the government maintaining the current two shareholder ministers or a single shareholder minister. We think it would bring operational efficiencies for us. But, at the highest level, I do not believe it attacks the issue that is of concern to us: that the government has a conflict between the two issues—the industry regulation portfolio and the share owner portfolio.

Senator GIBSON—But there is a perception problem though, isn't there, about apparent conflict of interest? If the portfolio minister is also a shareholder—and, after all, he is setting the statute and regulatory regime for the total industry as well as being perceived as being a shareholder in the major player in the industry—it would be better that those two roles were separated in the public arena for a better understanding for the general public and members of parliament.

Mr Ward—For those perceptions that are driven by the individual minister's portfolios concerns, obviously that is correct. I think the wider perception issue is that of government having the two hats on. That is my view of the wider perception. For those perceptions that are driven by the fact that Senator Alston has the two responsibilities, yes, it would certainly help in that respect.

Mr COX—Would you pick Finance or the minister for communications as the single shareholder?

Mr Ward—If it is being driven by the points that Senator Gibson has raised, then you would pick Finance.

Senator GIBSON—Can I pursue another potential conflict point which you have made on page 9 of your submission with regard to disclosure to the ASX under the Listing Rules. It states:

> Telstra has had to seek modifications to the *Listing Rules* from the ASX to allow it to disclose information to the government as required under the Telstra Corporation Act, without disclosing information to the ASX.

It is a pretty critical point. You are basically saying that one group of shareholder gets more information than the other group of shareholder which is nearly half and half or will be in a few months time. Again, it is not a good governance arrangement, is it?

Mr Stanhope—We believe that is really at the basis of our submission. We are doing things that are extraordinary for one shareholder group as distinct from another and under Corporations Law the directors really should be acting and should endeavour to act in the best interests of all shareholders. To actually have to seek that exemption has stemmed from the requirement to give additional information and information earlier to one shareholder group. We are really saying that the governance and accountability arrangements that apply under the Corporations Law and the Stock Exchange Listing Rules ought to be sufficient.

CHAIRMAN—Can you meet your obligations to your major shareholder and your obligations to the Australian Stock Exchange by simply reporting in your annual report all the information that you give to government separately?

Mr COX—Or as you do it?

Mr Stanhope—It is a timing issue. It is too late to do it in the annual report if you have released information. The share market is dynamic and we are required to continuously disclose to the Australian Stock Exchange and the other stock exchanges where we are registered immediately there is price sensitive information in our possession. We believe that the Commonwealth by being able to access the same information as we continuously disclose to the Stock Exchange is sufficient information.

Mr Ward—I do think there is an additional point to be made that is not just a timing issue. It is the scope of information that is required as well. It is not commercial practice for companies to put out three-year detailed business plans to the market. We do that to the majority share owner and that information is not available to other shareholders. It goes to both the scope and the timing of issues.

CHAIRMAN—That is not available under FOI?

Mr Ward—I understand not.

Mr Stanhope—We would categorise that as being commercial-in-confidence under FOI.

Mr Ward—And the government would support us on that.

Senator GIBSON—That is a good example.

Mr Ward—I think it is a very good example.

Senator GIBSON—It is a very good example of the conflict between the private half, if you like, and the publicly owned half.

Mr COX—When the prospectus went out for the first Telstra float, what did it say about the powers of direction and requirements for disclosure?

Mr Ward—It detailed all of the things that are in the Telstra Act and the CAC Act that we have to disclose to the majority share owners.

Mr COX—So the shareholders knew when they bought the shares?

Mr Ward—Absolutely. I accept that. What I am saying is that it is a very uncomfortable position for the company to be in. Despite the fact that it is known to the minority shareholders that this additional information, quite different in scope from what they see, exists it does not remove the very uncomfortable position that the company is put in as a result.

Mr COX—What is the market capitalisation of Telstra at the moment?

Mr Stanhope—It closed at $8.25 last night, so it would be nearly $130 billion, I suppose.

Mr COX—So the Commonwealth owns 70 per cent of that at the moment and will still own 50.1 per cent of that, even after the present sale process is completed?

Mr Ward—Indeed.

Mr COX—That has a fair bearing on the amount of dividends that the Commonwealth gets, and the risk of Commonwealth assets that the Commonwealth is exposed to?

Mr Ward—I accept those points. In a nearly fifty-fifty situation, though, the difference between the information provided when you have virtually a fifty-fifty situation, I think, bears a revisit of these arrangements to see if they are necessary and cost beneficial.

Mr St CLAIR—Just getting back to your minor shareholders, have they raised this issue at all?

Mr Stanhope—I frequently go on roadshows to discuss the results with our other shareholder groups. They always raise the issue of the relationship with the Commonwealth and particularly the conflict between being an industry regulator and shareholder. They often ask if there is anything happening between the company and the Commonwealth which is having an impact on shareholder value. It is a question that is often raised.

Mr COX—Could you take that on notice and give us an answer as to all of the times that you have been forced in estimates committees to release information that you believe was to the corporation's disadvantage and a list of all of the directions that you have received that have been contrary to the minority shareholders' interests?

Mr Ward—We will happily take that on notice. I should just make the point here—and I think we have made it in our submission—that we accept that these arrangements are a matter for the government and the parliament. We accept that. We take all of the additional requirements very seriously indeed and we believe we professionally and fully comply with them. That is not the issue. What we are raising is whether they are appropriate as the company is government owned at roughly the 50 per cent level. We are not querying the arrangements, not talking about not complying with them and not taking them flippantly. We take them very seriously indeed.

Mr COX—Sixty-five million dollars worth of Commonwealth assets and a revenue stream of dividends coming into the budget is something that, it seems to me, it is reasonable for the parliament to want to have a look at from time to time, and not unreasonable that the estimates processes are probably the best place to do that.

Mr Ward—What we would say there is that the 49 per cent private shareholders see the matters in virtually exactly the same dimensions.

CHAIRMAN—How much more accountability do the Commonwealth governance arrangements require compared to the reporting requirements of Corporations Law and ASX Listing Rules?

Mr Stanhope—The principal additional provisions or requirements to the Corporations Law and the Listing Rules is that section 8AD of the Telstra Corporation Act requires that the minister may direct Telstra to provide specified financial statements at any particular time and for any period specified. It is an additional requirement that Telstra and its subsidiaries are required under 8AE to give the minister immediate notice of certain significant events. It is additional in section 8AF where the Telstra board must keep the minister informed of the operations of Telstra and the subsidiaries and must give the minister and the Minister for Finance such reports and documentation and information about those operations.

Under 8AG there is yet another requirement to submit the three-year corporate plan once a year covering both Telstra and its subsidiaries. Section 9 says that the minister may give such mandatory directions in relation to the exercise of Telstra's powers. Section 36 requires that we must appoint the Auditor-General as Telstra's auditor.

They are all part of the Telstra Corporation Act which are additional governance and accountability arrangements than otherwise would apply under Corporations Law and the Listing Rules. There are also provisions in the Commonwealth Authorities and Companies Act which are equivalent to 8AD, 8AE, 8AF and 8AG that we are also subject to which are additional to the Corporations Law as well.

CHAIRMAN—In one of those items you have just listed you are required to appoint the Auditor-General as your auditor. To what extent does that disadvantage you?

Mr Stanhope—I guess we would like to have a direct relationship with an audit firm. What actually happens in practice is that the Auditor-General at ANAO is appointed and they have subcontracted to one of the big five firms, PricewaterhouseCoopers, until recently, when it was changed to Ernst and Young for the next three years. There is an extra relationship in that audit function that is just an extra step in the process, including the tender process to select and so on. It is just an additional requirement that is really unnecessary. In fact, the relationship is really with the subcontractor, but we go through a process of the Auditor-General being there as well. It is just unnecessary now.

Mr COX—The Auditor-General has a few advantages that a private auditor might not have—for example, parliamentary privilege in relation to his reports to parliament. In an area of significant need for Commonwealth accountability it is not an unreasonable thing for the

taxpayer to want to make sure that that privilege is available so that anything that should be drawn to the public's attention is drawn to the public's attention.

Mr Stanhope—I understand that point. From a company perspective, it is an unnecessary additional requirement. It is really the only point I am making.

CHAIRMAN—ANAO has recommended that portfolio departments should periodically commission an independent assessment of the corporate plans of GBEs in their portfolio to provide objective assurance to ministers. Would you accept that proposal?

Mr Ward—We would be deeply disturbed by that. Having made the point that a three-year corporate plan is not commercial practice, to have it seen by somebody else in addition to the two ministers is a bit of an anathema to us, I would have to say. We would not welcome such a development, and really it is in the reverse direction from our submission.

CHAIRMAN—You have not had a performance audit from ANAO in any respect, have you?

Mr Stanhope—No.

CHAIRMAN—You understand, of course, that the auditor has no independent authority to undertake a performance audit of GBEs but that, given a request from this committee or from the minister for finance, he then has the authority. Would that bother you if we decided to hold an inquiry and asked him to do a performance audit of Telstra?

Mr Stanhope—It would not bother me from the perspective that we would have nothing to hide. The performance of the company, now that we are a publicly listed company, is pretty well under a lot of scrutiny. It is under the scrutiny of analysts and it is under the scrutiny of many shareholders.

Mr Ward—And it is assessed by the market data.

Mr Stanhope—Yes, so the performance of the company is well scrutinised, but we think that that is adequate scrutiny of our performance.

CHAIRMAN—The Auditor-General talks a lot about risk management strategies, and it is an issue that this committee addresses rather frequently. As a listed corporation, are you satisfied that your risk management strategies are adequate to protect shareholder value?

Mr Stanhope—We take risk management very seriously. We have a number of risks, I guess. We have got a Treasury risk—obviously the extent of the cash that flows through Telstra is very large. In relation to those Treasury risks, we have a large number of policies that the board regularly reviews and approves. We have, obviously, credit risk because we are also a large borrower, and we are regularly put under the test by credit rating agencies such as Standard and Poor's and Moody's, so they assess also our risk management strategies. We have investment risk. We are constantly making investments, and we have a business case process which involves the board when the investments are over a certain dollar limit. So they assess the risk. The business cases are required to have a risk

assessment and risk mitigation strategies in them, and we review how well we are performing against those risk mitigation strategies.

But, probably even more importantly and most recently, the internal audit function of the company has been turned into a risk management function, and it assesses the risks inherent in all the various lines of business within Telstra and assists those business units in developing risk mitigation strategies. So I think it is an area where we are very strong and, in fact, probably leading the way in terms of the conversion of our internal audit function to a risk management assessment function.

CHAIRMAN—I find it interesting that you believe that you have substantially strengthened your internal audit function.

Mr Stanhope—Yes, we do.

CHAIRMAN—And that is proving of benefit to both management and the board.

Mr Stanhope—Absolutely. With that risk management function—as we should—we have an audit and compliance committee of the board, and that risk management function of the company reports regularly at every meeting of that audit and compliance committee to explain the assessments they have just done, where risks have been not addressed properly and the actions that are going to be taken to mitigate those risks. Yes, we think it is a very strong risk management function.

CHAIRMAN—Could you do us a favour and encourage the Commonwealth departments to follow your lead?

Mr Ward—We are from Telstra and we are here to help you. Certainly we would happily do that. I think the transformation of the audit function within Telstra, in my years there, to what it is now, has been quite leading edge—quite dramatic peer developments—and I think it is a very good story.

CHAIRMAN—Can I say to you that we tabled a report in parliament in June on Commonwealth procurement, and Telstra featured widely in that report. We certainly appreciated the advice that Telstra gave us. The directions that you have taken appeared to be quite progressive, and we used those directions to help us make recommendations with respect to Commonwealth government departments. We were quite pleased with the direction you have taken and very pleased with the openness with which your people gave us information.

Mr Ward—We would be happy to share the developments Mr Stanhope talked about with the departments.

Mr Stanhope—Certainly, Mr Chairman, if you are interested in the basic outline of our approach, we would be happy to provide it to the committee.

Mr COX—In terms of your reticence to provide the government with corporate plans, would you be able to give us a list of major investment projects, say, of $1 billion or more

that you have done over the last 10 years and the outcomes you have got from them? The two that stand out in my mind as being of interest would be the Jindalee over-the-horizon radar project, which, of course, the Commonwealth was aware of but ultimately wore the financial consequences for; and probably pay television, the outcomes of which are a little less certain, I suppose.

Mr Ward—We will certainly take that on board. I am not quite sure of how we can go back over 10 years—I am well aware of the two you cite, and I think you described them both quite accurately—but we invest over $4 billion each year and the financial performance of the company and the transformation of the balance sheet over the last 10 years has been very sound indeed. We will take on the request. I do not know whether John would have any comments on what sort of information we could bring to hand from over the past 10 years.

CHAIRMAN—Let me ask a very hypothetical question, since Mr Cox raised JORN. This is really hypothetical, Mr Ward: if you had been Mel Ward—

Mr Ward—This is getting tricky.

CHAIRMAN—Very trickly. If you had been Mel Ward at the time that Telecom—not Telstra—signed a fixed price contract to supply the Commonwealth with an over the horizon radar, would you have signed that contract?

Mr Ward—I find that a very hypothetical question, Chairman.

CHAIRMAN—I can tell you quite honestly that I never would have; there is no way known.

Mr Ward—Since going into that contract, there are some issues that obviously in hindsight we would not have taken on in terms of what our core business and our core capabilities are. Given the development of our risk management capabilities in the company, I suspect that, in a hypothetical sense, we would not have done it.

CHAIRMAN—And you would probably doubt that you would undertake it today?

Mr Ward—Certainly, that would probably be the case—with the hindsight we have developed from that case.

CHAIRMAN—And you have just told us that you have further developed your risk management strategy.

Mr Ward—Absolutely.

CHAIRMAN—You have further developed internal audit, you have further developed your professionalism and your forward business plans have become more commercial, so one would assume you would evaluate such a contract in commercial terms.

Mr Ward—The need for us to develop the risk management capability and the risk mitigation strategies has increased, though, from that time. The industry today is very

dynamic. With convergence and developments happening on a daily basis our industry needs that sort of capability, given the environment we are now in.

Mr COX—On the subject of the separation of regulation from management or from ownership of the asset, have there been significant problems in that area over the last few years? Have you felt that the government has been seeking to use its ownership of Telstra as a means of regulating the industry, or at least that part of the industry that Telstra maintains?

Mr Ward—We think there are a number of examples where this brings some particular potential conflicts for the government. Of course, from time to time we get involved in the outcomes of the resolution of those conflicts, and we have particular views. I think probably the most outstanding example in my mind of recent times is the USO funding issue, where we have a view about the costs of the USO that we provide for all Australians. We have a view that, given that this is an industry funding issue, our competitors should bear their fair share of that cost, and that is what the legislation provides for. As you probably know, there has been significant debate about the cost of the USO and its funding. I think, in seeking to solve that, the government's competition policy—a paramount issue for them—and their ownership of Telstra bring considerable difficulties for the Commonwealth and outcomes for us that can be positive or negative. I think that is probably a textbook example of the potential conflict.

Mr COX—What proportion of the Australian telecommunications market do you have?

Mr Ward—In terms of our 1997-98 USO claim and in terms of eligible revenue for that purpose, we would have in the order of 85 per cent.

Mr COX—So you are pretty well dominant in the industry?

Mr Ward—In terms of being the leading player in the industry, yes.

Mr Stanhope—But that is not really the issue about USO. We would pay 85 per cent and the others would pay 15 per cent. The issue is of what, of how much. The issue was around an adverse impact on the competitors of paying a percentage of a larger sum. That is the issue, as distinct from how much share we have.

Mr Ward—And its implications for competition policy. I think that puts the Commonwealth in a very difficult position indeed.

Mr COX—If the Commonwealth remains concerned about competition policy, that difficulty is not going to go away simply because you are privatised and therefore the Commonwealth does not have an influence on the way you do business.

Mr Ward—But the issue at heart and the perceptions associated with that are removed by the Commonwealth only being concerned by competition policy—having competition and addressing Commonwealth policy responsibilities for the industry. That would be the issue that would be around the table, not the impact on Telstra as its major shareholder.

Mr COX—How much feedback do you get from the Commonwealth suggesting that they are concerned about the government's financial interest in the cost of USOs on dividends they would otherwise receive?

Mr Ward—We have material discussions with both ministries about the impact on Telstra of those decisions.

Mr COX—You put in claims for how USOs should be costed that contain a bit of ambit—from my recollections of those sorts of discussions—and those sorts of arguments are going to continue no matter what.

Mr Ward—That is true, but its impact on Telstra shareholder value does not become a matter for the Commonwealth if that conflict is removed. The issue boils down to what is the impact on the industry and what is the impact on competition policy. It is a far narrower and focused issue for the Commonwealth to have to deal with rather than an impact back on their investment in Telstra.

Mr COX—The conclusion I have drawn from what you have been saying is that if there were a higher cost of USOs inflicted on your competitors, that would have a greater effect upon them and their position in the market than it would on Telstra.

Mr Ward—I believe that was a prime consideration for the government.

CHAIRMAN—I thought what Mr Ward was saying was that they would prefer the government to divest itself of Telstra shares.

Mr Ward—And I understand the government has a similar position.

Mr COX—It is worth noting that the views of the government and the views of the parliament at the moment are at least different.

Mr Ward—Indeed.

CHAIRMAN—Thank you very much for coming, for your very open and honest responses to our questions and for helping us along with this inquiry. As the very largest of the GBEs and in the unfortunate situation of being sort of half and half, or shortly to be half and half, it is important that we talk to you. We appreciate your help.

Mr Ward—Thank you, Chairman and members.

[11.20 a.m.]

HUMPHRY, Mr Richard George, Managing Director, Australian Stock Exchange

CHAIRMAN—Thank you very much for coming today. Do you have a brief opening statement or shall we just ask you our penetrating questions?

Mr Humphry—I am happy to take the penetrating questions, Mr Chairman. You are aware, of course, that I completed the review of GBE governance arrangements and submitted them to the government in March 1997. If you wish to explore, I have also brought with me a copy of the disclosure requirements that the Stock Exchange requires for corporate governance arrangements which may have some bearing on your considerations.

CHAIRMAN—We certainly are aware of your report. We have a copy, and you might recall that I believe it was either late November or early December 1997 when you came and gave a private briefing to this committee. Actually it was not this committee: it was the Joint Committee of Public Accounts—not audit. It was January 1998 that we became also the audit committee of parliament. I might say that it was in fact since that private briefing that we had in mind that this is an issue that the committee should turn its mind to. It was really you that prompted us eventually to undertake the inquiry, but allowing the changes in 1997 to take place and have a bit of time to mature before we started asking people how they were working.

Mr Humphry—I am pleased, Chairman.

Mr COX—Should we take a copy of the Stock Exchange's corporate governance rules as evidence?

CHAIRMAN—We have got it as evidence. On page 4 of your report you recommended that, on balance, a shareholder role in GBEs be undertaken jointly by the portfolio minister and the minister for finance. Do you still support that model or would you support a shift to a single shareholder?

Mr Humphry—In my report I actually alluded to the possibility of having a third minister as a shareholder minister. The reason I did that was because my preferred position was, and always has been, that the two portfolio ministers, if there were to be two, should be from the finance sector of government. But I recognised in my report that practicality of the allocation under the administrative arrangements orders for the portfolios to have already been allocated to functional ministers. In a model which I would see as being preferable, if you take government business enterprises as primarily existing as businesses as opposed to having statutory functions, then I would have put them under the appropriate portfolio where the dividend that was being paid to government was a major consideration. I would have recommended the Treasurer and the minister for finance make the appropriate—

CHAIRMAN—So you would relieve them of some of their responsibility.

Mr Humphry—Yes. While I might consider that to be the case, to do that would have been very difficult to achieve and very difficult for that matter for any government to accept.

CHAIRMAN—We have had fairly consistent evidence so far that, while that single shareholder minister has a perceptual advantage, in fact the arrangements that are in place now seem to have worked properly and without any great difficulty. I do not think we have had any evidence so far that it is causing a major problem.

Mr Humphry—I would not suggest there has been, either. It is just that I think if you look at the principles involved, I would have preferred them to be related to the finance portfolios.

CHAIRMAN—One of the things that you recommended and we thought the government accepted was that businesses that play in the private marketplace should not be subject to administrative law.

Mr Humphry—I still agree with that.

CHAIRMAN—Somehow you are sitting here with, 'Talk to Telstra,' and they still have a whole raft of legislation that applies to them. Do you understand why that has not been fixed up?

Mr Humphry—I am disappointed to hear that it is still the case. There is no physical reason why action could not have been taken to remove that requirement from those organisations. It is one of those things that I recommended, and I still hold the same view—that these organisations should be operating, as they have been intended to, as competitive entities within the marketplace and not subject to those processes.

Senator GIBSON—In regard to the single shareholder model versus the multiple—in your words, the finance area is the shareholder and the portfolio minister is looking after the industry—the previous witnesses from Telstra pointed out the potential conflicts. I would be concerned about the perceptions of having a shareholder from the regulator portfolio. I think that has led to the community and members of parliament wanting to pursue management issues with GBEs in Senate estimates. If the two were separated and the portfolio minister, in particular—in the example we have been dealing with this morning—were separated, then the push to have that GBE along before Senate estimates would tend to go away, if there had been clearer lines of responsibility.

Mr Humphry—I hold the view that you should have an arm's length arrangement between the regulatory processes and the operational matters. I have taken steps even within my own organisation when we have perceived positions of conflict. I would prefer to have that situation. That is why I would have preferred to have the finance ministers as being the shareholders, simply as representatives of the government, which carries the mandate with the parliament.

In terms of the estimates committee, I made a comment in here that I did not believe that Telstra—or, for that matter, Australia Post or any of the other 13—should be appearing before estimates committees. That was primarily based on the fact that they do not draw on

the budget funds. If they are performing either USOs or CSOs, then it is quite appropriate for that area to be examined by estimates committees, but that should be taken in the context of the department that is funding. You will find in here a recommendation that all of those sorts of activities should be funded through the budget and subject to proper public scrutiny through the Senate estimates hearings. But it is not a function of the organisation that is spending the money to come and explain what is a government decision.

Mr COX—They are taking risks with Commonwealth assets and often significant risks. The states have owned banks that have had catastrophic results because they have taken undue risks. If those state banks had been subject to more scrutiny, then some of those risks might not have been taken. State treasuries might not have supplied the amount of capital that they supplied to those banks to, essentially, fund those disasters.

Mr Humphry—But these organisations are listed entities operating within the Corporations Law. They are subject to disclosure requirements through the Australian Stock Exchange, they are audited, their accounts are publicly available. All of that information that applies to any other listed company applies to Telstra. You have access to all of that information. If you do have queries that arise form that, then the proper course, I believe, is to then take that query through the minister because, as the shareholder minister, that minister is accountable to the parliament. My concern is that the organisation itself, which is not drawing on budget funds, is appearing before the committees to answer questions on areas, whereas you are not subjecting another service provider to government to the same position.

Mr COX—But they have a Commonwealth guarantee for their borrowings, either explicitly or de facto.

Mr Humphry—I do not believe that a government business enterprise should draw any benefit from the fact that it relates to government. My problem is that the guarantees in those cases are not appropriate. I am not aware that Telstra operates under any guarantee. You may be better informed than I.

Mr COX—It is not only Telstra that we are inquiring into. If an organisation that was fully owned by the government or substantially owned by the government fell over, leaving enormous debts, then it seems pretty likely to me that the Commonwealth would ultimately be responsible for those debts.

Mr Humphry—That is a hypothetical question. The government has been quite careful to point out that it does not carry financial obligations with many of the areas where it deals with private organisations, for example the banks and others, with which it has associated responsibilities. I still hold the view that if organisations such as GBEs are set up as government business enterprises and intend to operate for profits, particularly if they are listed on the Australian Stock Exchange, they are subject to the requirements that all publicly listed organisations are required to meet to answer to their shareholders. That is the appropriate course through which they should discharge their accountability. There is plenty of opportunity for the parliament to raise queries if they wish of the person they have deemed to represent them as the shareholder for their part of ownership of that organisation.

Mr COX—Do you think those people are in a position to have a grasp of what is going on in those entities?

Mr Humphry—You mean the ministers concerned?

Mr COX—Yes.

Mr Humphry—They are in a position to take briefing on any topic that they wish as shareholders, just as any shareholder can write to any listed company and obtain full briefings.

Mr COX—Where are they going to get that information from?

Mr Humphry—From both the organisation and the department that supports them.

Mr COX—Is it your feeling that those departments are competent to give that advice?

Mr Humphry—The departments, if they are not, would seek the advice from the organisation concerned. The principle that we are talking about here is whether the organisation which is essentially intended to operate as a commercial entity is discharging its responsibilities under the Corporations Law. What I think we are discussing here is another set of obligations which refer only to those because of their ownership by government.

Mr COX—Because it is public money?

Mr Humphry—It is public money that has been invested specifically in an organisation that is intended to act in a commercial way. When you start to impose additional obligations on those, you do potentially disadvantage them competitively. That can cause a loss of profit. That not only applies to the government shareholders but also to the private shareholders.

Mr COX—In your role running the Stock Exchange you would have seen the sorts of disclosures that government business enterprises have been forced to make as a result of them also having to disclose things to Senate committees, for example. In your view, have those disclosures been highly disadvantageous to those government business enterprises?

Mr Humphry—I think there is significant potential for it. If the estimates committee queries become fishing expeditions looking for detail on matters which are commercially sensitive and the organisation is required to disclose that information, then that information becomes a matter for public record and their competitors can pick the information up. But under the Corporations Law and the Listing Rules which the Stock Exchange maintains, they are required to maintain a fully informed market. But there are certain rules which govern the confidentiality of commercial information. They would be then in the same position, a level playing field, as their competitors. At the moment they are subject to a different forum which is also subject to public disclosure and which may—I am not saying it does—put them in a very difficult position commercially.

Mr COX—I know in some of those forums political considerations can sometimes outweigh commonsense.

Mr Humphry—I have experienced that.

Mr COX—At least as far as the functioning of this committee goes, as I have experienced it, when we have got into those sorts of areas we have quickly convened a private meeting and had a discussion about how we should handle things so that we did not disadvantage the Commonwealth's interest through those organisations. I imagine that there would also be scope for the parliament to set its own guidelines about how it handled the problems with commercial-in-confidence information. That might well be a role for this committee.

Mr Humphry—That is a useful thought. If the arrangements were limiting in the sense that they did not place them in that position it does make it a little easier. But I would encourage the parliament to look also at talking to companies which are not owned because in many instances some of these questions relate more to broader questions.

It seems to me that when Telstra, for example, comes before the Senate estimates committee, as far as I can see it is not there for any reason relating to the appropriation bills because it is not drawing on public funds. You have made the point that it may have an investment which is of relevance and importance to the parliament; I would not dispute that. But I do not think the questions are necessarily confined to aspects relating to the investment. The difficulty these organisations face is that they are simply placed under an additional obligation to their competitors. It is not a complicated issue; it is just that that is their difficulty. My concern running the Stock Exchange is that Telstra informs the other shareholders equally to that which it informs the parliament. That is the basic thrust and underlying philosophy of the Corporations Law.

Senator GIBSON—Telstra have said to us in their submission that the ASX modified their Listing Rules so that they could be listed because of this differential of information that is passed to the government, the shareholder, and to the public shareholding. Did the ASX have difficulty reaching their decision?

Mr Humphry—We do not have the power to modify the Corporations Law. It is quite clear that there is a continuous reporting requirement to all shareholders. So we have not actually given a blessing to the parliament to act—nor are we are in a position of authority to do so—to provide for Telstra to have an exemption. What we would recognise, though, is the fact that they do appear before the committee and we acknowledge the fact that when they do appear before the committee they are there to answer questions. We would extend the same to any other listed organisation which may be placed in that position. But if that inquiry, or that hearing, were to give rise to information that we think is quite sensitive, then we would require them to disclose that to the full market.

Senator GIBSON—The example that was put before us this morning was the requirement for the three year corporate plan by Telstra which goes to the government shareholder and does not go to the public arena, to the other shareholders.

Mr Humphry—It depends on the level of detail that is contained. When I wrote this report I tried to address it on the basis that if they were dealing with a strategic direction then a lot of that information is not as price sensitive, perhaps. The issue arises specifically in relation to product development and other types of areas where there is a definite commercial competitive position. That is the area that we would be focused principally on. Under our continuous disclosure rules every listed company, including Telstra, must immediately inform the community through the company's announcement platform of any event which might impact upon decision making relating to either the acquisition or disposal of shares. By the way, that information goes to the Australian Securities and Investment Commission as well.

Senator GIBSON—So you would agree with Telstra's recommendation to us this morning and with their submission that regarding any information requested by the government shareholder of them which may be confidential, if you like, but does not go to the public arena we should remove that potential conflict of interest.

Mr Humphry—I would think so, yes. I do not recall at any stage ever sighting a document which gave them an exemption from it and I would hold them to it, certainly.

CHAIRMAN—Medibank Private appeared before us when we had the first lot of hearings in Canberra. They said they had no problem with appearing before a Senate estimates committee and likened it to the ability of shareholders at an annual general meeting to quiz the directors on any aspect of the company's operations that they wanted to. How would you respond to their response?

Mr Humphry—I basically take a different position. If they wish to disclose and discuss the matters, that is a matter for them to decide. Where I am coming from is that I do not think people should be put in a position where they are required to do that. If they volunteer, that is well and good.

CHAIRMAN—But Medibank Private does not have an annual general meeting, do they?

Mr Humphry—It is not listed and it is not part of that process in the same way that you are talking. We are really dealing with an organisation that is wholly owned by government.

CHAIRMAN—Does Telstra have an AGM?

Mr Humphry—It has to have an annual general meeting, whether it is Australia Post or any of the others. At the moment, even if they are wholly owned, the minister should be convening an annual general meeting. One of the frustrations I had when I went through and did the review of this was to find that many of the organisations in government had specific and unique pieces of legislation affecting their governance which I think is nonsense, and I said so in here. They should all come under the one set of rules which the parliament has approved, and that applies to all listed companies. I think that was adopted as being sensible to do.

CHAIRMAN—They were historic, weren't they?

Mr Humphry—Of course.

CHAIRMAN—The world has moved on, Mr Humphry.

Mr Humphry—I think some parts of the administration hold the view that government is somehow different and unique from the private sector and requires specific legislation. My view on that is that it always ought to be by the exception than by the rule.

CHAIRMAN—We are talking about advice to GBE ministers. I do not know how far removed you are from that now, but are you reasonably satisfied that DOFA exhibits sufficient leadership in providing shareholder ministers with expert financial advice?

Mr Humphry—I am satisfied. There was an initial stage where they had to set it up and I was concerned about there being adequate expertise to do that within the department. That was no reflection on the individuals but simply that to that point the department had never been called on to do that sort of work. I believe they have made every effort to do so and to set it up properly. The intention behind that recommendation was that the emphasis needed to go on the issue of dividends that were being paid so that the public would benefit from having such a government business enterprise set up to operate as a commercial entity properly delivering dividends to the government and not having those dividends diverted through cross-subsidisation or other means. That was the purpose—to focus on what was the bottom line.

CHAIRMAN—ANAO recommended that portfolio departments should periodically commission an independent assessment of the corporate plans of GBEs in their portfolio to provide objective assurance to ministers. Do you support that proposal?

Mr Humphry—I do not have any difficulty with the auditors periodically examining not only the books of account but also the strategies and offering an independent opinion to the board. I think there is benefit in those things, but that would be the way I would see any other corporation operating as well.

CHAIRMAN—But independent assessment of their corporate plans?

Mr Humphry—I think there is a limit as to far how an auditor can go, to be perfectly honest. Their degree of expertise would be limited. If ministers wish to test that that corporate plan is competitive, and apply perhaps the most modern techniques, then I do not see anything inappropriate in seeking some form of independent assessment of whether or not the organisation is responding properly.

Mr COX—When Telstra had its first tranche privatised, there was disclosure in the prospectus that there would be a power of ministerial direction and that there would be certain unusual reporting requirements. Are there any other examples where entities have been floated on the Stock Exchange and those sorts of things have been included in prospectuses in private companies?

Mr Humphry—The only ones I would be aware of where there has been a difference in standard governance arrangements would be with some mutuals, particularly in the primary

industry area, where we have accommodated the transition they are making from one person, to one vote per share. That is to assist those organisations in transition and there is a time limit on it. In relation to the question you are raising, it is really to ensure that the public, through its prospectus, is fully informed as to what the government has decided to do. I am not aware of any other arrangements, other than where ministers are involved. In this case, I think it is almost unique to Telstra.

Mr COX—There are odd bits of legislation around the place that impact on particular entities. Some of them have always been private sector. The one that springs immediately to my mind is the Santos Regulation of Shareholdings Act. Does the Stock Exchange keep a database of all those acts that may impact on a private sector company in an unusual manner, contrary to the general rules and general operation of the market?

Mr Humphry—I think we have a fairly complete library. You would also look to the Australian Securities Investment Commission; they would also have a similar basis. But our general council would attempt to be across that issue. We do a test to see that our Listing Rules are not inconsistent with the law in any sense.

Mr COX—Would it be accessible in a relatively ready manner? Could you send us an outline of those irregularities?

Mr Humphry—They are not necessarily irregularities. I am happy to identify where there is legislation. I would be happy to supply that if it is of help.

CHAIRMAN—Do think there is adequate assessment of the operation and capability of GBE boards?

Mr Humphry—As to their performance? I think it is an area that is always subject to continuous improvement.

Senator GIBSON—Well said.

Mr Humphry—What are the criteria? Basically it is about continuing to improve the shareholders' position. Therefore you would expect them to be delivering the goods. When the finance team and myself did our review we found that the return on capital, except in the case of two outstanding examples, Telstra and Australia Post, in many other instances was well below what you would have expected. That concerned us greatly. It demonstrated—certainly it assisted my own prejudices to the effect—that there was simply a diversion of resources going into areas which were really not what that organisation had originally been set up for. I think there is a need to set a performance standard on a return on capital. There are plenty of benchmarks around that you can measure it against. If they fall short of that then there needs to be an explanation as to why.

CHAIRMAN—Are you saying that that is somehow a failure or non-performance by specific board members or specific boards of GBE?

Mr Humphry—No; I think it is the mechanism.

CHAIRMAN—Are you saying they are generally less competent or less market sensitive than their private sector colleagues, or is there something inherent in the inherited public service mentality of these organisations that contributes to that less than outstanding performance?

Mr Humphry—General statements are generally wrong. I am making a general statement. But, general statements and using a general principle, I have found that there is a confusion about what the role of director is in the public sector. Many of them see themselves as representatives of various interests, rather than being there as directors to discharge a responsibility to the shareholders. The Corporations Law is quite clear about that. Directors have a responsibility, a duty, for which they can be held personally liable and under criminal sanction if necessary to discharge their responsibility to the shareholders. In some organisations it was apparent that their directors saw themselves as there to represent a particular sector or interest group and it was their job to make sure that that organisation was appropriately serviced through this organisation.

That is not a reflection on any individual. I think it is just a product of an environment which was not subject to the disciplines of financial stringency. That is what drove me towards putting them into the finance portfolio—so that the performance measurement was put back to the bottom line, rather than the delivery.

In history—we are talking a little bit about history now, not necessarily contemporary—CSOs, community service obligations, were often provided as a means of subsidised alternatives to paying a dividend. The worry I have with that is there was never any public scrutiny. So over time the Senate could look at the budget, but the CSOs were basically hidden cross subsidies going on right across the board—often of substantial sums of money, and never measured against other competing demands for the public outlay. That is why I felt it was necessary to separate the two. That is why I wanted the government to adopt, which I am afraid has not been adopted, that the CSOs be separately funded and appropriated through the parliament, so they are subject to the full scrutiny, and that the organisation concerned was contracted to carry out that service.

Mr COX—It was a big battle originally to get them actually spelt out and defined in any meaningful way and to set some dividend targets for Commonwealth business enterprises.

Mr Humphry—In a contemporary sense, some of these prominent organisations—Telstra is a good example of it; Australia Post is another one—have quite professional boards that have been operating in a proper sense with an eye to what their responsibilities are. It has been very pleasing to see the way it has developed over the last couple of years.

CHAIRMAN—I have observed that, the longer I am here, the further removed from the private sector I get. I still remember what the private sector was all about. It amazed me recently in hearings that we had on an A-G's report to find how little most bureaucracies understand about cost accounting—absolutely no concept whatsoever in cost centre development or how you cost a service or a product accurately. I guess it all went back to the public service mentality: that there was a pot of money and there were jam tins you could put it in and then you took it out and that is what you worried about—that the jam tins did not get empty and you managed the jam tins properly.

Mr Humphry—There has been a debate going on for 20 years about whether to adopt accrual accounting in government and, fortunately, it is now in place. Until that happened—and it is only a few years ago—the entire debate in the parliament was about cash flow, not about whether assets were being handled properly or not. I think that really did a great disservice to the community. Fortunately, we are now moving to the adoption of recognition of assets and liabilities. In past years, a budget could be brought down with an obligation for future expenditures which were not being appropriated at that time.

CHAIRMAN—I am lead to believe that this committee, which was the public accounts committee before we took on the audit responsibility, was directly responsible for the Commonwealth finally instituting accrual accounting.

Mr Humphry—I am very pleased with that, Chairman. I think it is a positive thing.

CHAIRMAN—Our current colleagues who were part of that and colleagues from past days—

Mr COX—What year was that?

Senator GIBSON—It was 1995, I think.

Mr COX—But the process of doing it. In the Commonwealth it was announced as Commonwealth policy and the process of moving towards it started in 1992.

CHAIRMAN—But it was as a result of work of this then committee. At least that is my understanding. Let's go back to this issue about the GBE boards. Given what you have told us, what would you recommend that we recommend to try to change their culture to improve their performance? What could we recommend?

Mr Humphry—I still stand by the recommendations in this report, which were really directed at trying to achieve that objective. The only thing I would have suggested in addition to that would be a focus on the finance portfolios, as the shareholder would assist the process, because then the emphasis becomes financial performance—assuming they are GBEs. I made a presumption at the front that there is an intention that these be set up as government business enterprises to operate as businesses, not just as accounting commercial aspects of their work. If they are in that position, then I believe they should be attached to a finance portfolio and that would be my recommendation. That would be a strong recommendation I would make, but I recognise it is a difficult one for governments to take.

I would also believe that there be some steps taken to cease the practice of the organisations being subjected to the Senate inquiry examinations in the way they are at the moment. I readily acknowledge Mr Cox's point that, if there are significant aspects tied up, there must be an accounting to the parliament, but I think there are better ways of achieving that objective.

In terms of the appointments of the directors of boards—as I have recommended in here—they should be selected on the basis of their professional competence and what they can contribute as a business entity. I have to say that I think the decisions that have already

been taken are already moving in that direction. I believe what I am suggesting would accelerate it a little.

Mr St CLAIR—Could I take up a point with you for my own clarification? The issue of the board developing policy on a GBE as against the government directing a policy, do you see a conflict in that?

Mr Humphry—If they are a government business enterprise, then the board has—to my way of thinking—a fiduciary responsibility to its shareholder to maximise its profit. It is not there to make government policy or to develop or to implement it other than to the extent there may be statutory requirements or government policy direction in setting it up, and it is there to perform that charter, of course, but it is there as a business enterprise to maximise its bottom line. That is its job.

Mr St CLAIR—But you do not see it to implement the policy of the government?

Mr Humphry—I do not think they are there to implement ongoing policies which relate to the administration of government, no. That is a matter for the departments of state. But they may have a purpose that has been set up by government to service a particular function in society. That, I think, is their legitimate role. But if they are set up as a business enterprise, their job is to do that in a profitable way, and that means having regard to the public's investment.

CHAIRMAN—Thank you very much for coming and talking to us once again.

Mr Humphry—It has been my pleasure, Chairman. Can I thank the committee for taking an interest in this issue because I think it is a very significant one. I congratulate the committee on its former work. I just hope that the outcome of this may also lead to—

CHAIRMAN—We will see whether we can move the process along incrementally. There is nothing highly dramatic that needs to be done. We appreciate the fact that you briefed us almost two years ago, and we finally took up your challenge to have a look and see how the system is operating after the government implemented most of your recommendations.

Mr Humphry—Thank you very much.

CHAIRMAN—We will break for lunch.

Proceedings suspended from 11.57 a.m. to 1.01 p.m.

[1.03 p.m.]

McCLOSKEY, Mr Michael, Manager, Board and Liaison, Australia Post

RYAN, Mr Gerry, Corporate Secretary, Australia Post

CHAIRMAN—Welcome, gentlemen. Would you by any chance have a brief opening statement?

Mr Ryan—No, Chairman. We would simply like to thank you for inviting us. We have put a brief and I think quite succinct submission, and we would be very happy to assist the committee in any way.

CHAIRMAN—Mr Ryan, we thank you for your submission and we thank you for coming along to talk to our committee. On page 5 of your submission, in respect of annual reporting, you said:

. . . provide for a comprehensive accounting of the Corporation's operational and financial performance, as well as of the discharge of its community service obligations.

What exactly do you mean?

Mr Ryan—Perhaps, unlike some other government business enterprises, we have performance regulations that are prescribed for us through our own act. Those standards are set by the portfolio minister, and we are obliged in our annual report to report on how we have performed against those obligations. Those obligations extend to things like access to postal services and, as a measure of that, we have to have a minimum number of post offices located around the country, and of that a proportion that has to be in rural and remote areas. We have to have a certain level of delivery performance, that 94 per cent of all standard letters delivered have to be delivered within the time frames that we have set, and there are a range of other performance measures that have been prescribed for us. In addition to other obligations in our annual reporting requirements, we have to report on that as well. In addition to that, we have the Audit Office who independently assess our performance against those performance regulations and also report to the minister and the parliament.

CHAIRMAN—My understanding is you are not funded for your CSOs.

Mr Ryan—That is correct. We have a reserve service, so letters at this stage that weigh less than 250 grams—that is, addressed letters for which a price of $1.80 or less is charged—are reserved to us. That will be reduced significantly by June of next year when the weight protection will come down to 50 grams and the price protection will be one times the price. In other words, if anybody wishes to carry a letter from June next year weighing 50 grams or less, then our competitors will have to charge at least 45 cents, whereas we will be able to offer those letters at a discount. That means that we will retain about 12 per cent of our revenue as a reserve service and that reserve service is used to cross-subsidise the cost of CSOs.

CHAIRMAN—Will that be transparent?

Mr Ryan—Yes, I was just coming to that. We are required to report the cost of CSOs in our annual report, and the Australian National Audit Office from time to time has the option of reviewing the means by which we calculate those CSOs.

Mr COX—Has that reduction been legislated yet or is it being done by regulation or is it just a policy decision?

Mr Ryan—It is a policy decision announced by the government. The legislation has been framed and I believe it will be introduced into the parliament before the end of this calendar year. I know the intention is that those reductions in the reserve service will apply from 1 July next year.

Mr COX—What is it going to do to your capacity to fund your community service obligations?

Mr Ryan—As we said at the time, it will stretch the business, but we do believe that the amount of the reserve service that remains will be sufficient to meet the current costs of meeting our community service obligations.

Mr COX—Presently the 250 grams at $1.80 is effectively a guaranteed community service obligation. I take it that people will be less able to rely on Australia Post for larger articles.

Mr Ryan—No, we will still offer our services in the larger article area. It is just that we will offer them in competition and there will be price pressures that will emerge as a result of that, and that may have some impact on revenue. But we believe that the reserve service that remains after this adjustment will be sufficient to meet the cost of our CSOs, which are around $70 million a year.

Mr COX—You do not believe that it will result in any reductions in the quality of the service that you offer?

Mr Ryan—We do not believe it will. We had a careful look at that and government consulted with us on that in the course of reaching its decisions.

CHAIRMAN—Is your cost accounting of CSOs sufficiently accurate and good enough that it allows you to differentiate one sector of your business from another so that where you are competitive—that is, where you are delivering parcels or other items which are in a full competition in the marketplace—do you segregate your CSOs so that that cost does not drag you down in being competitive, or lack thereof?

Mr Ryan—Yes, I should explain. Whilst we have a reserve service up to 250 grams, that has to fit within the dimensions of a standard letter, so it really does mean that most parcels, for example, that would not fit within the dimensions of a standard letter are already deregulated and were already exposed to the competitive pressures that exist because of that.

We do have a very thorough costing system where we allocate costs to each product—real, direct and indirect costs—and we do price on the basis of cost and margin. Each product in the business is separately costed and each pricing regime is based around the costs for that product. In relation to CSO costs, the evaluation that is undertaken there is that a CSO is identified. It is the costs on a particular mail path for the delivery of letters, as distinct from parcels, where those costs exceed revenue, and that is identified as a CSO. To the extent that we have a CSO, it costs us around $70 million a year based on avoidable costs. It is avoidable cost methodology.

CHAIRMAN—My understanding of your costing system, however, is that once or twice a year you do a survey of what your employees happen to be doing and use that as a basis of averaging employee costs across various aspects of your business rather than a full-blown cost accounting system where you collect time data. My memory tells me that.

Mr Ryan—No. It is true that regular tests are done on an allocation of time across a range of activities right through the business. As my recollection is, it is at least twice a year. It is a very thorough analysis of how time is allocated across product. There is inevitably some averaging because, for example, there are millions of mail paths that we operate under.

CHAIRMAN—It certainly is not as rigorous as a time clock system, is it?

Mr Ryan—I am probably getting into areas that are a little outside my expertise, but there is particular attention paid to the amount of resources allocated to a product line, and that does involve some assessment of time allocation.

CHAIRMAN—On page 6, in talking about administrative law you said:

. . . for a GBE to be subject to administrative law is inconsistent with the principles of competitive neutrality, in that it imposes a compliance burden on the organisation which its competitors are not required to bear.

Would you like to discuss that in a bit more detail? What particular bits of administrative law affect you and what sort of cost does that impose?

Mr Ryan—By way of example, the Freedom of Information Act applies to us; it does not apply to our competitors; the Ombudsman's Act applies to us, not our competitors; the Administrative Decisions Judicial Review Act and the Archives Act. They are four examples. I would not for a moment say that they are a huge cost burden. Telstra this morning indicated that their costs were in the range of several million dollars. I do not have a figure, and I can have an estimate drawn for you, but I expect it would be less than a million dollars in our case.

The point we are making is that, if we are talking about governance, the application of administrative law is a factor but probably not a central feature in governance. If we are talking about that and the government has a position of competitive neutrality wherever it is feasible to introduce it, then I think it raises a legitimate issue about whether those forms of administrative law need apply to Commonwealth government business enterprises. We have got, obviously, experts in the area such as Richard Humphry who feels that probably they

should not. We have made that point in the submission, but I do not give it any more weight than it deserves.

Senator GIBSON—Mr Ryan, you heard the evidence this morning in questioning about one government minister versus the shareholder versus two, and the real possibility of conflict of interest with regard to the portfolio minister being a shareholder. Does you organisation have firm views about that?

Mr Ryan—To be frank, we do not have strong views. Our experience is that the current system has worked quite effectively. I accept without equivocation that there can be an appearance of a conflict of interest where a minister has regulatory responsibilities and also has shareholder responsibilities.

In our case, though, we feel that actually the balance of the two shareholder ministers has been useful in the sense that a finance minister necessarily has a primary interest in shareholder value and what the board of a business is doing to grow shareholder value, and that is a perfectly legitimate priority for a minister for finance. On the other hand, the portfolio minister who sets certain performance standards for community service obligations has other interests. Those performance obligations, community service obligations, impose a cost which inherently impact on the value of the business. There is a line of argument that could say that a portfolio minister that can inject a view into the shareholder considerations that relate to a GBE—

Senator GIBSON—You are illustrating a good conflict of interest. If a portfolio minister has got a shareholder hat on and at the same time is recommending, say, either an increase or a decrease in CSO, how does he reconcile the conflict?

Mr Ryan—There are conflicts. Ultimately the conflicts have to be resolved at cabinet level, as Telstra indicated this morning. That is obviously where they are ultimately determined. In our corporate plan, on the one hand we may have financial targets, on the other hand we have certain social obligations and certain standards to meet. Those issues need to be resolved at a shareholder-minister level, not necessarily at a cabinet level. We have found that the portfolio minister and his department have interests in that area. It has enabled a balanced outcome from the shareholder relationship. We have not seen any evidence of the perception of a conflict actually resulting in a real conflict, but nor would we expect to at our level.

Senator GIBSON—The trouble is that the community and others—some of your competitors and members of parliament—might for clear governance. Would it not be better to have it more clearly cut?

Mr Ryan—We do not have a strong view, as I said at the outset. If there was to be a single minister arrangement, then clearly we could work very effectively within that. It is just that in our experience, in the two years to date, we do not see any direct evidence of that conflict leading to any detrimental outcome.

Senator GIBSON—Just flowing on from that, one of Mr Humphry's recommendations in his report was that the CSOs ought to be budget funded. Does your organisation have any view about that?

Mr Ryan—Obviously it is a policy matter for government. In the discussions that went on last year about this particular issue when the government was deciding its responses to the National Competition Council review of our reserve service, government ultimately came down on the side of saying there was greater certainty in preserving the standard of the CSOs through a cross-subsidy rather than opening up the budget funding of a CSO to the vagaries of budget needs. That was a factor.

In so far as our business is concerned, the requirement to internally cross-subsidise and yet continue to produce a commercial outcome does force us to be quite smart about how we meet our CSOs. It imposes an efficiency obligation upon us internally whereas a budget allocation may not. The second point is that, in the time that I have been in Post, one of the underlying value drivers or changes in the governance arrangements has been the fact that we became a GBE and we moved away from the notion of any form of budget funding. We are on our own and we are responsible for delivering financial outcomes and for meeting our community service obligations from within our revenue streams. That has been a good thing.

Going back on budget funding may, to a limited degree, create an inward looking business, where we are arguing with government and others, particularly bureaucrats, about how much we get out of the budget for CSOs. So there is a range of considerations that, no doubt, the government brought to bear in coming to the view that it did.

Mr COX—You said that the reduction of reserve service would stretch the business. In what ways will you be making economies?

Mr Ryan—We had already initiated a program called Future Post, which is introducing the very latest technology into our mail centres and introducing new sorting technology into our delivery centres. That will lead to substantial efficiencies in our processing and delivery activities.

Mr COX—Reductions in staff?

Mr Ryan—Yes. Something of the order of 2,000 positions over the next two to three years. That activity I should emphasise was already under way before any decisions on the NCC proposal. These technologies are available. We have a commercial obligation. We have certain financial targets to meet. Frankly, the board and management would not be doing their job if they did not go down the path of increasing efficiency, so that we can hold price and still give a decent return to the shareholder.

Mr COX—What about the number of full post offices? Will it put pressure on them?

Mr Ryan—We had indicated at the time that the government's decisions on the NCC were taken their decisions would not result in closures of post offices or licensed post offices directly as a result of their decision. There will always be occasions, and there already have been, where a licensed post office for example cannot make a living and decides to leave

and we have difficulty in replacing that licensed post office. So there will always be some changes in the network and some reductions in the network. What the government has done is set a minimum number of outlets in the retail area that we are required to maintain, against which we are audited by the National Audit Office.

Mr COX—Is the minimum number a minimum of both licensed and full post office services that does not distinguish between the two?

Mr Ryan—That is correct.

Mr COX—So there could be a shift if the cost pressures get too great to downgrade some of the full postal services to licensed postal services.

Mr Ryan—We would not regard it as a downgrading. For the last 10 years there has been a move from corporate outlets, or fully staffed outlets, to licensed post offices, such that around three-quarters of our network is now a licensed post office operation, but we do not regard that as a downgrade. Indeed, in some cases where a licensed post office moves into a mixed business the hours of availability can be enhanced.

Mr St CLAIR—When you sell your buildings off and your assets off when you have a franchisee or something, what happens to that money? Does that go back to the government or go back to Post?

Mr McCloskey—It comes back to Post. They are our assets, we sell them and they come back into Post. They are re-invested in the business.

Mr COX—What has been happening with your dividends Australia wide? Has it been going up or down, or has the government required you to make any special dividend payments? I noted in this budget that dividends from GBEs generally went up by plus 43 per cent, and they are not broken down so we do not get adequate scrutiny of that. What has been the track record with Australia Post?

Mr Ryan—The requirement under the governance arrangements is that we are required to contribute a dividend of 60 per cent of profits after abnormals and tax. Our profits have been rising, although they were starting to plateau in the last year or two, so in real terms the amount of the normal dividend has risen but only as a product of a rising profit level. I am talking there of normal dividends. In the previous two financial years, however, the government has sought a special dividend of $80 million in each year. That was not sought in this year. In previous years, under other governments, we have had capital repayments that we have had to make in addition to normal dividends or special dividends.

CHAIRMAN—Does the community see Australia Post as a government service or as a business?

Mr Ryan—I think, increasingly, they look to us for services at a reasonable price. Many in the community understand that we are now a government business and that we need to make a return to our owner. However, particularly in rural and remote areas, the demand for

access is very strong and we are required to put quite a deal of effort into making sure that those demands are met. It is a mixed conception.

CHAIRMAN—Is it a bit schizophrenic in that on the one hand we expect you to operate as a corporation and to maximise shareholder return on assets and on the other hand we ask you to be a service provider for government. On the one hand you compete in the marketplace and on the other hand we make you a monopoly.

Mr Ryan—Yes, it is inherently schizophrenic. Part of the challenge for government and then the challenge for a board and management is to how best to balance those competing—because they are competing—obligations. That is done largely under the governance arrangements through the corporate plan where we put forward our proposed financial targets and the strategies to achieve them. We similarly put forward our strategies to meet our social obligations. Under the governance obligations or arrangements, ministers, since 1999, have had two very important powers that enable them to contribute to striking this balance, and that is that ministers can direct us to modify our financial target, should they choose, or ministers can direct us to vary our strategies that we propose to apply to meet our social obligations. So there is a mechanism within the governance arrangements to try and overcome the sort of schizophrenia that you referred to.

CHAIRMAN—We ask you on the one hand to do all this reporting to government through your annual report and all the rest of it, and in those instruments you are required to disclose more information than your competitors in the competitive side of your marketplace. To what extent does that disadvantage you?

Mr Ryan—We are certainly required to include things like a statement of corporate intent in our annual report—or we are required to table it. We are careful in the framing of that to try and avoid the release of commercially sensitive information. Indeed, the government, in setting down the ground rules for those, indicated that they did not expect that we would include commercially sensitive information. So we handle that part of it in that way.

Insofar as other additional obligations are concerned, many of them relate to our reserve service and to our social obligations. I think it is not unreasonable for the parliament and the government to expect more fulsome reporting on areas that are either reserved to us or are a social obligation. By and large, I think we are sensitive on the one hand to the need to meet our reporting obligations but to be careful about the extent to which we release information that could be commercially sensitive, say, in the parcels area. You will find, if you look through our annual report, that we are fairly careful about areas such as that.

CHAIRMAN—Can you tell us a bit about your board of directors?

Mr Ryan—Yes, I think Michael McCloskey can do that.

CHAIRMAN—How many? How do you select them?

Mr McCloskey—Currently, the act provides for there to be up to nine directors on the board. Eight of them are non-executive directors appointed by the Governor-General on the

recommendation of the minister. The minister is required to consult with the chairman about any proposed appointment, and the chairman has the opportunity to put forward nominees for possible appointment in consideration. The managing director is the only executive on the board. He or she is appointed by the board. The managing director is appointed by the board. Under the 1997 governance arrangements, there is a provision that the shareholder ministers be advised of the preferred candidate of the board prior to the appointment being made.

CHAIRMAN—How do you assess board member performance?

Mr McCloskey—The board itself annually conducts a process of self-assessment, in a sense. It is driven by the chairman. She has developed a comprehensive questionnaire that goes to all sorts of areas—governance, individual contributions, balance on the board and so on and so forth—which is filled out individually by each of the directors. It is then subject to a one-on-one exchange between the directors and the chairman and also to a collective discussion about the total outcomes at full board level.

Mr Ryan—I might add to that. Out of that discussion, the board identifies its strengths and identifies its weaknesses and then there is an agreed course of action to deal with any perceived weaknesses. It is a rolling process. The audit office, incidentally—and I am sure you are well aware of it—recently issued some guidance on governance arrangements for GBE boards and had a whole checklist of actions that might be undertaken by best performing boards, and we will be using that in our review in the course of this year's performance.

CHAIRMAN—One of the things that Telstra told us this morning—which I assume the committee will be pleased with; certainly I am—is that they have rather dramatically upgraded the importance of their internal audit. That is an issue that does concern this committee, and also we are aware that it does concern the Auditor-General, recommending from time to time that government departments pay more attention to internal audit as being their mechanism for better performance, as well as just generally preventing fraud and that sort of thing, but really it is to up the performance of the operation and make sure that goals are being met as private companies must meet goals which are profit based to return value to the shareholders. What importance does Australia Post place on internal audit and what, if anything, have you done to increase its profile in terms of your operations over the last few years?

Mr Ryan—Internal audit reports, as you would expect, directly to the managing director, and it has unfettered access to the chairman of the audit committee. In recent years we have recruited a new chief internal auditor. They have had what we regard as a particularly strong financial and risk management background. With that in mind, we brought him in. The audit area does not have at this point—and I think this is an issue you are probably alluding to—direct responsibility for risk management. It has quite a strong responsibility for auditing the carrying out of risk management within the business, but it is not itself responsible for risk management. We have a separate area handling risk management.

I think the comments by Telstra this morning were interesting and it would be something that we would look at to see if it suited our particular environment, although I must say that it seems to me, having audit assessed the effectiveness of the risk management group, it is

certainly a sensible way of doing it. I have some inherent doubt about whether internal audit itself should be responsible for risk management. Then the question arises as to who assesses how effectively they are handling risk management.

CHAIRMAN—I can understand that.

Mr COX—Would you be able to give us some data on how you are actually proposing to meet your community service obligations with the reduction in the reserve service? It is a question I would probably rather you took on notice and gave us some substantial financial information on that would give us some assurance that you will be able to do that comfortably.

Mr Ryan—Yes. We would be happy to take that on notice and to respond in due course. I would expect also that in the course of the legislation's passage it is quite likely that parliament will be pursuing issues such as that in some detail.

Mr COX—We may not get answers there but we might get them here.

CHAIRMAN—In your submission you said that Australia Post periodically commissions external risk review. Do you think that is appropriate for all GBEs?

Mr McCloskey—Certainly our board has found that it gives it a great deal of assurance about the integrity and the thoroughness of the whole risk management area within the corporation. It is fair to say that from our board's perspective they would be very happy with what they have gained through external risk reviews. The first one was a very thorough one and was conducted in 1992. It was undertaken by Coopers and Lybrand which led a consortium made up of themselves, Sedgwick, who are insurance brokers with a degree of expertise in the risk management area and a group called Controlled Risks Pacific. They did a thorough review of the whole corporation of all the risks, itemised them all, contextualised them, gave them a ranking as to how they were managed and then reported directly to the board. Out of that process came a follow-up that each year the board reviews how the whole risk management project is going. It does that annually. It goes back over the major risks and also looks at new and emerging risks.

In 1996 there was a follow-up risk management review also undertaken by Coopers and it was partly by way of a post audit of how risk management had gone since the first review. It was also asked to identify and assess any emerging risks and particularly asked, at the request of our audit committee, to look at any issues arising out of the structural integrity of the corporation's buildings. That review concluded that the level of risk awareness had been increased greatly in the corporation in the intervening period and that our exposure to risk had been substantially reduced. It found that the risk management program that we had in place compared favourably with the appropriate standard which had been brought in in 1995, Risk Management Standard 4360 of 1995. It also found that there were no major risk problems associated with our property portfolio in terms of its structural integrity.

It made a number of recommendations to finetune the identification and assessment of new and emerging risks. It found that the processes in place were not fully systematic in ensuring that all emerging risks were immediately identified and made part of this overall

program that was then reported to the board each year. So that is as far as the external review goes. It is periodic and there will be another one—I think it is planned for next year—about every four years.

Mr Ryan—We have got great value out of the external audit and we would commend it to others.

CHAIRMAN—However, even though that is externally sourced, that is not information that you make available to your competitors. ANAO has recommended that the government's arrangements be amended to require GBEs to specify in their corporate plans information about material risks and strategies for managing risk. Do you have a view on that?

Mr Ryan—We are complying with that already. We do incorporate in our corporate plan an area dealing with identified risk and the strategies that are in place to deal with them.

CHAIRMAN—Do your competitors do that?

Mr Ryan—Probably not.

CHAIRMAN—Does that place you at a disadvantage?

Mr Ryan—Not in the sense that this is a corporate plan that is going on a commercial-in-confidence basis to our owner. It is not a public document. The corporate plan is treated as a commercial-in-confidence document between the board and ministers and their departments.

CHAIRMAN—You, of course, are required by the CAC Act to have the Auditor-General as your auditor.

Mr Ryan—Yes.

CHAIRMAN—He subcontracts that?

Mr Ryan—Yes, he does.

CHAIRMAN—Do you have any problems with that?

Mr Ryan—No, we do not. It probably does introduce a step that, in a theoretical sense, perhaps we could do without and we might prefer to appoint our own auditor and be personally directly involved in the selection process. The quality of audit that we have had, as a result of that process, has been very high. The proof is in the pudding.

CHAIRMAN—How do you judge that the quality has been very high? Did they find out it has been very bad?

Mr Ryan—No. It has been searching—

CHAIRMAN—Did they say you were naughty?

Mr Ryan—It has been searching and professional. Many of us who have been involved in trying to run a company and, I think, doing it quite successfully, know when auditors are focusing on key risk issues, which is what they should be doing if they are going to add value to us. That is what we are looking for auditors to do.

CHAIRMAN—For instance, when they are nitpicking.

Mr Ryan—As distinct from when other forums might be nitpicking, yes.

Mr COX—The only thing I would not mind you coming back on is a list of your dividends since 1996-97.

Mr Ryan—Certainly, Mr Cox.

CHAIRMAN—Did we discuss Senate estimates with you?

Mr Ryan—No, we did not.

CHAIRMAN—We cannot let you get away without you telling us what you think about the Senate estimates process.

Mr Ryan—We did before we went on the record. We do not want to revisit that. We have quite a bit of sympathy with the Telstra view. We are not a budget-funded business. We have taken note of what Mr Humphry has said and we have taken note of what one of the Senate committees has said where, as I understand, it said that agencies that are not budget funded or do not bear directly upon the budget should not need to appear in front of Senate estimates committees. From a philosophical point of view, we think it is an unnecessary overlay. We recognise that there are genuine and significant requirements of the parliament that have to be met, but we think they can be met by other methods such as the annual report, the statement of corporate intent, the National Audit Office fulfilling its task and, from time to time, appearance in front of committees—

CHAIRMAN—The JCPAA.

Mr Ryan—that are focusing on particular issues rather than just a grab bag of issues that we are rarely told about before we arrive. It is a highly inefficient system as distinct from the committee system that we are now appearing in front of.

CHAIRMAN—You understand the bureaucratic process. If we wanted to recommend that somehow you no longer have to appear at Senate estimates committee, how would we do that?

Mr Ryan—I would have thought a report from a committee of this standing—and it has considerable standing—would have borne quite significantly upon the government and the government, of course, would presumably have discussions with the Senate on such a matter.

CHAIRMAN—I cannot imagine those discussions being horribly fruitful because no government controls the Senate—none has for a while and none is likely to in the foreseeable future. How do you go about changing that process?

Mr Ryan—I guess there is a difference between discussion about what might be best in theory and what might actually happen in practice. I am a realist and I accept that it could be extremely difficult to have us not appear in front of Senate estimates, but that does not diminish the strength of view that we have that it is quite unnecessary for us to appear there.

Mr COX—If you believe it is quite unnecessary, just for the record, what is the annual turnover of Australia Post?

Mr Ryan—The annual turnover is about $3.8 billion.

Mr COX—What are the assets of Australia Post?

Mr Ryan—About $3.3 billion.

Mr COX—You do not think that it is necessary to have routine scrutiny of what Australia Post is doing?

Mr Ryan—As I said, there is routine scrutiny through a range of mechanisms: the annual report, the statement of corporate intent, parliamentary committees from time to time, the National Audit Office's examination of our accounts and performance and the National Audit Office's examination of our satisfaction of our community service obligations. There are already a range of very thorough proper processes in place for reporting to the parliament.

Mr COX—So questioning of Australia Post and debate of important issues would then only be done on an exception basis rather than on a routine basis.

Mr Ryan—The way I would put it is that they would be done on a targeted basis where there is a specific piece of legislation, for example, coming before the parliament that bears directly upon us or when a committee such as this is examining a specific issue.

CHAIRMAN—Thank you very much, gentlemen. We appreciate your input and, as is our normal practice, you know that we will eventually report and will tell you what we thought after we think it.

[1.50 p.m.]

PAICE, Mr Ron, Public Sector Accounting Consultant, Australian Society of Certified Practising Accountants

PARKER, Mr Colin William, Director, Accounting and Audit, Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia

SADHU, Mr Michael Anthony, Project Manager, Australian Accounting Research Foundation

CHAIRMAN—Welcome. We have received a submission. Have you a brief opening statement you would like to make or will we proceed to our searching questions?

Mr Parker—We have just a brief opening statement. Firstly, we would like to congratulate the government for the substantial improvement it has made in recent times in both corporate governance and financial reporting issues. Secondly, we think it is a good idea that from time to time these enhancements are reviewed to see if they are achieving the governance objectives. Thirdly, the secretariat has liaised with us over a number of questions in relation to our submission and we will be responding formally to any issues that are not covered there today. Fourthly, we would like to acknowledge the submission of the Australian Accounting Standards Board, submission No. 19 or 20, which basically says something along the lines that there are a myriad of financial reporting rules in government legislation, both state and federal and that the new AASB under the CLERP proposals should be the conduit for all financial reporting issues.

It makes a lot of sense for financial reporting issues to be raised directly through them rather than alerting, perhaps, the department of finance and other jurisdictions to impose financial reporting rules that may be inconsistent with what is in accounting standards. We urge the committee to be cognisant of the new standard setting arrangements. For the first time we will have a single standard set addressing both public and private sector financial reporting issues. Thank you.

CHAIRMAN—In your submission you said:

> Where a portfolio minister also regulates the industry in which the GBE operates, there could potentially be a conflict of interest as the portfolio minister could significantly influence regulation that materially affects the GBE's operation . . . in the private sector, majority shareholders of public companies do not have a comparable capacity to influence regulation.

Do you have any incidents of where there has been a proven conflict of interest or is this simply a perception?

Mr Parker—It is a perception. No, we do not have any concrete evidence in that regard. We have listened to the arguments here this morning of the problems with perception as identified by Senator Gibson and others. We believe that it is preferable that the roles be

clearly identified between those in a regulatory role and those in a shareholder role. To have them all rolled into one is mutually inconsistent.

CHAIRMAN—So you would prefer it if there were only one shareholder minister?

Mr Parker—Yes, that is right.

CHAIRMAN—Then there is the case of Mr Humphry who had two shareholder ministers, both being in finance portfolios.

Mr Parker—That is another option.

Mr Paice—While you are on that, Chairman, there is a point which is sometimes overlooked. In a number of areas you may have the shareholder minister as the regulator of industry policy, which covers both the private and the public sector, and you will also have the minister that receives various government services from that organisation, which he runs at the output level of delivering goods and services, and you can also have the conflict of the incorrect pricing of those goods and services for government. So there are almost three levels it can actually go to. You have got the shareholder responsibility; you have got the regulator of government or industry policy; and then you have got the receiving of goods and services at a price, and community service obligations would come into that where they are not priced properly.

CHAIRMAN—You would be aware, wouldn't you, that there are only, I think, 13 GBEs left in the Commonwealth sphere—and we are not talking about states now? I am not aware of any that compete for goods and services where the CSOs are not costed, are you? Vastly hypothetical—

Mr Paice—I thought I heard Australia Post indicate that their CSOs were not priced—as a rigorous approach between government. They put an estimate on it, but I believe CSOs should be priced.

CHAIRMAN—They report the actual CSO cost versus the revenue in that area.

Mr Paice—But the actual products and services, which bring a different discipline on government officials, that are in those community service obligations are not priced.

CHAIRMAN—You said that there is room for the further development of financial analysis of GBEs performance, particularly with recent adoption of accrual accounting whereby comparable and more comprehensive information will be available, and that, combined with the information age, this may result in an increasing demand for superior information. Why, how and by whom?

Mr Sadhu—Chairman, I think what we are really trying to get at here is that, on a comparable basis, if you take public companies, scrutiny of their performance and financial position is very visible. There are obviously some very clear reasons for that because their shares are traded, the company is subject to takeover and so forth. So you have lots of brokers analysing and scrutinising these companies.

I suppose all the comments we have made here mean that we would probably see that there might be some advantage if there were similar scrutiny—and I daresay it does happen, but it is not as visible as it is for public companies. I think all we are trying to draw out here is that with the adoption of accrual accounting, which is more widespread now—and also entities are perhaps competing in some respects with private sector entities—that scrutiny of their performance becomes more visible in the future.

CHAIRMAN—You have lost me. I do not understand who it is that needs superior information. If the GBEs have to report on the same basis as the private company reports to the Australian Stock Exchange and to their shareholders, where is the requirement for superior information in terms of a GBE? That is competing.

Mr Sadhu—We are not actually saying that the GBE has to produce the same analysis. We are really saying that some independent body or those who have a particular interest in that area or someone else—at the moment, brokers analyse public companies and then make recommendations about whether to buy, hold or sell the shares—would actually analyse their financial statements in a lot more detail. Over time, that will perhaps become a little bit more visible than it is at present. Through that means, the scrutiny of GBEs becomes a bit more clear because we have more information on them.

We see this perhaps more as something that will evolve over time as we move through this information era that we are in. Some of the GBEs are relatively new, so it is something that will perhaps evolve. It is not seen as imposing additional requirements on them; it is looking at something independent of them.

Senator GIBSON—You mentioned evolution. As most of the 13 or so GBEs are now companies under the Corporations Law and it appears that the government is in fact moving towards more and more with a single shareholder minister, if we evolve towards separating regulation from the performance of the business for most of these GBEs, the question is, is the Corporations Law all that is required to run their businesses? What do your bodies think about the requirements of additional legislation? You have heard this morning from Telstra complaining about the additional requirements and suggesting they are unfair because one set of shareholders gets more information than another set of shareholders. Do your bodies have any views on that matter?

Mr Parker—The level of the bar is continually rising in the financial reporting area with new and revised accounting standards with best practice codes. For example, the Group of 100 recently issued a publication called *Review of operations in financial performance*. This is essentially a best practice guide to how a company could report how it handled the risks and financial performance for the reporting period. Such codes can also be picked up by government business enterprises.

Just as an aside, it is also known as management discussion and analysis. As you are aware, the accounting bodies have advocated that such information should be required by the directors' report. Unfortunately, the government of the day—and it is still the government of the day—decided not to pursue that requirement for all companies, just liaising with the ASX to require it as a listing rule for listed companies. We still see management discussion and analysis as a powerful tool for users of financial reports. Therefore, while listed

companies' shareholders will benefit, there is no reason why GBEs could not voluntarily adopt that type of reporting.

Senator GIBSON—So you are really suggesting that, if that management reporting—as you have previously recommended—be incorporated into the Corporations Law for government GBEs, there would be no additional requirement needed.

Mr Parker—No. We see the Corporations Law as a very robust piece of legislation which the government has seen a reason from time to time to enhance. We cannot see any reason for overlaying that with other forms of regulations. We believe it is the prime piece of financial reporting here in Australia. It is the one that deals with financial reporting by listed companies. Really, that is, to my mind, the cutting edge of the market.

Mr COX—There is one bit in your submission which I was wondering whether you could elaborate on. You say:

Indeed, your inquiry may wish to consider whether the process of increasing financial scrutiny of GBEs, as well as other government entities, would be enhanced if, in addition to providing the financial reports of GBEs, any other analysis or evaluation that might be undertaken by the portfolio department responsible for implementing monitoring arrangements for a GBE was also made publicly available.

Have you given any consideration to how that might be done?

Mr Sadhu—I think if there is scrutiny of their publicly available information—and I understand the portfolio minister obviously cannot release price sensitive or confidential information—to the extent that that information that is publicly available is analysed it could perhaps enhance the understanding of their performance and financial position. It would be similar to what brokers do to listed companies. They analyse in detail all information that is publicly available for a public company to come up with their conclusions about what they see as future cash flows of that company. I think if a similar analysis is done and available about GBEs, that might give us all a better idea of how they are performing and their financial position. It is really analysis of only the available public information of those entities, not information that is in their corporate plans or forward estimates and all those sorts of things.

Mr COX—There is a requirement for some GBEs to report on different accounting periods than they are required to for the ASX. Say they are required to put in quarterly reports or half-yearly reports that they are not required to provide to the ASX as a normal requirement of a listed company, are you suggesting that those sorts of things be made public or not?

Mr Sadhu—No, not really. I mean only the information that is currently made publicly available. In turn, to be comparable with what is made available by public companies, we are not really looking at overlaying them with any additional requirements at all and certainly not by the preparer.

Mr St CLAIR—Do you have a view that GBEs that have shareholdings in the public sector, such as Telstra, should have a different way of reporting to government than those that are wholly owned?

Mr Parker—That is an interesting question. To be perfectly honest, our committee has not formally addressed that particular issue. We are more interested in the issues of corporate governance, financial reporting and the like. That is a tad political, I think.

Mr St CLAIR—There appears to be a difference maybe in attitude between those that are wholly owned GBEs and those that are indeed shareholding among the public as to what constitutes that information to go back to the government or not.

Mr Parker—The listed end of the market is the leading edge of financial reporting. To my mind, there can be no greater amount of accountability and transparency than what is in the listed market in terms of the application of the Corporations Law, the ASX listing rules and the requirements to disclose price sensitive information to the public, so if you are drawing a contrast there with GBEs and to which level they should aspire to, then to my mind it is the level of the listed companies.

Mr St CLAIR—Would you agree that the scrutiny therefore is far greater because the scrutiny has been done by professionals who are in the business of making a dollar or looking at what that GBE in fact is returning, whereas sometimes those that are looking at GBEs that are highly owned by the government do not necessarily hold that same aim?

Mr Parker—Yes, I agree with the general proposition that the listed end of the market is subject to far more scrutiny than the GBEs. This is probably getting back to Michael's point, but the process is very open. With GBEs, the scrutiny is perhaps limited to the Productivity Commission that publishes detailed reports and also probably to Treasury and the Department of Finance and Administration, but really not to the same degree. Perhaps if there was more information available about the GBEs, then their performance could be better assessed at the end of the day. Again, I think that is the point that Michael was making earlier.

But it is very hard with the GBEs because there is no market as there is with listed companies where the market judges you harshly if you transgress—your share price goes down. What market actually assesses the performance of a GBE other than some form of benchmarking against other entities?

Mr St CLAIR—And whether that benchmark is against other GBE type entities or whether indeed it goes into the private sector.

Mr Parker—Precisely.

Mr Sadhu—It is just a process of perhaps making this more visible. I suspect that portfolio ministers do this in great detail already. I think if the process were more visible, then their performance could be more readily assessed and just basically more visible.

Mr St CLAIR—That may well be, but they are not analysts.

Mr Sadhu—Although this morning the evidence from DOFA was that perhaps they do do this already to some extent and they do have quite skilled people doing it. But to the

extent that their relationship is perhaps different to what a broker is—a broker is independent—they would have that same independence, I suppose.

CHAIRMAN—Are you contending that Telstra is not a GBE?

Mr Parker—You ask a hard question, Mr Chairman. It is a unique animal at this stage. It is going through a transition phase between whole of government ownership and substantial private ownership. It all depends on what you choose as a definition of a GBE.

CHAIRMAN—It is certainly listed in my list of GBEs. We asked them to appear before this committee, and they certainly have continuous disclosure to the share market, as is required by Corporations Law and ASX Listing Rules. So, to blanketly say that GBEs' disclosures are limited to shareholder ministers is patently wrong.

Mr Parker—We were not specifically focusing on Telstra.

CHAIRMAN—What were you specifically focusing on? You made a blanket statement which is just wrong.

Mr Paice—Most other GBEs would not have continuous disclosure.

CHAIRMAN—Most others. Very good.

Mr Paice—In fact, all other GBEs would not have—

CHAIRMAN—For people who are supposed to be very accurate, your report was quite inaccurate and quite misleading in some respects.

Mr Paice—Except for Telstra, all other GBEs would not have continuous disclosure of meaningful information to the public.

CHAIRMAN—Is that right? Let us see. Where is the list? Defence Housing Authority?

Mr Paice—Little is known of them.

CHAIRMAN—That is a statutory authority. How about Health Services Australia Ltd?

Mr Paice—They would not have continuous disclosure to the public.

CHAIRMAN—They are listed on the exchange. Medibank Private are listed on the exchange. Australian Technology Group Ltd?

Mr Paice—Is Medibank on the Stock Exchange?

Senator GIBSON—It is not listed on the exchange.

Mr Paice—It is unincorporated.

CHAIRMAN—Sorry, it is not listed. It is a company incorporated under Corporations Law.

Mr Sadhu—But that does not necessarily say that they are under continuous disclosure.

Mr Paice—One is a listing requirement.

Mr Sadhu—One is a listing requirement.

Mr Paice—Continuous disclosure is a listing requirement on the Stock Exchange. Corporations Law only requires the financial statement once a year whereas the others require quarterly returns.

CHAIRMAN—Fair enough.

Mr Paice—So I think all of them, except Telstra, would not disclose information except once a year in the annual report to the general public or to the general shareholders since most taxpayers would regard themselves as shareholders.

CHAIRMAN—Fair enough.

Mr Paice—And I think, in some of those areas, some of them would make strategic decisions which would affect their financials. The holding minister would be more aware of them than parliament, in fact. Parliament may not get advice, except at the end of the financial year, of major policy changes which could affect their financial viability.

CHAIRMAN—You commented that there is no need for a specialist government standard setter for the public sector provided there is adequate representation from the public sector on the new financial reporting council and the AASB, the Australian Accounting Standards Board. Why is that proposal preferable to continuing the Public Sector Accounting Standards Board?

Mr Paice—I have been a member of the Public Sector Accounting Standards Board on two occasions, in the late 1980s and during the last four years. Because most governments in Australia have changed their accounting approach to accrual accounting and special types of standards have been put in place such as whole-of-government reporting, local government reporting and the reporting by departments, once we got through that dramatic change to a new format in reporting standards, most of the other things that come into play now—such as the reporting of assets, liabilities, financial obligations—are common across all business activity. I think the faster we move to one accounting standards board where we do not see a difference—and we have heard today where departments of finance like to find differences so they have different reporting of things—the more we get to a commonality of financial accounting and reporting structures in Australia, the more likely we are to have better disclosure across government entities as well as the private sector.

Mr COX—Has the Commonwealth department of finance in your view been running down its capacity for setting accounting standards?

Mr Paice—The latest documents that came out utilised the accounting standards to a greater degree than they have in the past. I do not think that means that they have been running down their capacity. What has happened is that they are utilising other people. I do not see why we need an accounting standards group in the department of finance when we already have quite rigorous accounting standard setting where there is continuous disclosure with exposure drafts. Consultation with the broad industry to get standards that are common across the whole of the Australian financial community is much better than finding special standards of disclosure. If finance finds they have got a special requirement in a standard, they should go and argue that before the standards board and show that they have a difference.

Mr COX—You have been watching the department of finance's performance since the late 1980s and you have seen the flow of personnel through there. In the last few years has the department of finance had fewer personnel, less experienced personnel in that area?

Mr Paice—They have had a change of personnel through a number of retirements but I do not think it has changed the professional approach. The latest documents come out to all government departments. It has utilised more standards that are already in existence. No, I think it is probably the same. The type of output we are getting is probably of the same order.

CHAIRMAN—Thank you very much, gentlemen, for your submission and for coming to talk to us today. When we get around to it, we will send you a copy of the report.

[2.29 p.m.]

BANKS, Mr Gary, Chairman, Productivity Commission

KERR, Mr Robert, Head of Office, Productivity Commission

SAYERS, Mr Christopher, Assistant Commissioner, Economic Infrastructure Branch, Productivity Commission

WOODS, Mr Michael Collin, Commissioner, Productivity Commission

CHAIRMAN—I now welcome representatives of the Productivity Commission to today's hearing. Thank you very much for coming today, gentlemen. You did not send us a submission. Would you, by any chance, have a brief opening statement before we ask you our penetrating questions?

Mr Banks—Thank you for inviting us to contribute to your inquiry through these hearings. As you would know from the bibliography that we sent to you, the Productivity Commission and its predecessors have conducted through the 1990s, but particularly in the first half of the decade, a series of inquiries, research projects and performance monitoring reports concerning public policy affecting GBEs. It was in that context that we contributed to an earlier inquiry by the JCPA and the Humphry review.

Since then the main thrust of the commission's work, through its inquiries in particular, has been elsewhere. For example, we have been increasingly involved in policy issues where the interactions between the economic and social dimensions are strong, such as private health insurance, nursing home funding, and our current inquiry into Australia's gambling industries that you have probably been reading a bit about in the newspapers.

We have also been more directly involved in reviewing the operation of labour markets including studies on work arrangements on the waterfront and, most recently, large construction sites. We have revisited some traditional border protection issues and gone into some new industry assistance areas like safeguard action under the WTO and state assistance arrangements, and we have also looked at a range of broader competition policy issues, including the international air service bilateral arrangements, part 10 exemption from the Trade Practices Act for shipping conferences and the impact of competition policy on rural and regional Australia, and the final reports on those latter two inquiries are imminent.

That is by way of explaining, I suppose, why nearly all of our work in the area of most interest to this committee's inquiry predated the current Commonwealth GBE governance arrangements which stem from the Humphry review, and as a result the commission does not have an up-to-date research base to draw on which limits our ability to make informed comment on many of the issues being reviewed. That said, we are happy to assist where we can and in particular could update you on our GBE performance monitoring work and the operations of the Commonwealth Competitive Neutrality Complaints Office.

There have clearly been substantial changes in the 1990s affecting GBEs. Changes in the structure of competition, in some cases involving privatisation, have affected all GBEs, and overall there is evidence of a substantial improvement in performance. Of the 74 GBEs whose performance has been monitored by the COAG steering committee, for which the commission provided the secretariat, only eight are Commonwealth GBEs, and it is thus not surprising that much of the early action in relation to GBE governance occurred at the state level. Nevertheless all levels of government are now pursuing GBE reforms within the consistent principles of the agreed national competition policy.

Indicators of improved performance of GBEs in the 1990s are to be found in consumer outcomes, where real prices have fallen, and better returns for the community as shareholders. There is also evidence of improvements in transparency with CSOs generally being more explicitly identified and funded. It seems likely that further gains in performance are possible, as illustrated by the commission's benchmarking study for electricity, which was done in 1996, and more recently telecommunications and rail. It is a matter of conjecture whether the momentum of reforms already implemented will be sufficient to secure those gains. With the exception of its recently completed inquiry into rail reform where the draft report found that further reforms to bring private sector involvement should be considered, the commission has not conducted inquiries to answer this question.

As well as the overall benefits, GBE reforms can involve adjustment costs, and the commission currently has a stream of research on structural adjustment issues. A particular responsibility of the commission is to perform the role of the Commonwealth's Competitive Neutrality Complaints Office, and to perform this role the commission has prepared a guide for the application of competitive neutrality to Commonwealth government businesses, organised consultation with equivalent state government bodies to promote consistent application of competitive neutrality principles, and published research material to assist understanding of the issues.

While the commission receives a number of informal inquiries about possible competitive neutrality complaints, to date six complaints have been lodged, only two of which required investigation and one of which is current. Relevant published materials are being made available to you on that.

To sum up these very brief introductory remarks, GBE reforms have helped performance, but more improvement seems possible. These activities remain very important in the overall performance of the Australian economy. The Commonwealth government is, therefore, right to take an active interest in the performance of its GBEs and to be reviewing the incentive environment that they face. Those are my introductory remarks. We would be happy to take questions.

CHAIRMAN—Telstra, Australia Post, the Snowy Mountains Hydro-electric Authority and Medibank Private have all complained about still being subject to various bits and pieces of administrative law which they claim help make them less competitive than otherwise they would be with their competitors because all of them compete in the open market on price for services or goods. Do you have a view on that?

Mr Banks—I am not sure that we have an informed view. I could give you a reaction that, to the extent these bodies are not involved in administration of government programs or policy, the application of administrative law seems a bit questionable.

CHAIRMAN—For instance, Telstra has to respond to the government Ombudsman as well as the telecommunications Ombudsman, which its competitors do not.

Mr Banks—We have not looked at this in any detail. Clearly the government, to the extent that it is a major shareholder, has an interest in accountability that would satisfy it, apart from accountability to the general shareholders on the private side. Unless one of my colleagues has a view coming out of work they have conducted, we might pass at that point.

Mr Woods—If I can make one comment: this is one of a number of areas where the government, by wishing to retain ownership of a particular function, recognises that public ownership brings with it a range of responsibilities to the broader shareholder base of the taxpayers. It would then be necessary to question whether the costs in the instance that you referred to are significant in the overall performance of the organisation. That is an issue to weigh up. I do not know whether the organisations have given you any hard material on that point. We certainly do not have figures.

Mr COX—Not much.

CHAIRMAN—We do.

Mr Woods—Yes. The materiality of it is the point in question. You could perhaps produce a list of areas where public ownership brings with it specific responsibilities. In each case you would want to question whether the materiality is significant and outweighs the government's policy objectives underlying its desire to retain public ownership.

CHAIRMAN—The accountants who just talked to us suggested that GBEs that are not publicly listed companies are companies not listed on the Stock Exchange and should be required to come under the same provisions of constant disclosure as a publicly listed company, as long as they are a government business enterprise. In terms of competitive neutrality, which is something that you are interested in, does that make any sense to you?

Mr Banks—Mike might have a view, as our competitive neutrality complaints commissioner, on that one.

Mr Woods—On the issue of disclosure, the listing rules for public listed entities require disclosure of any material event that will affect the market appreciation of the particular company. In the case of a non-listed government owned entity, the governance policies do require that the boards keep the minister of the shareholders informed of material events.

The statement of corporate intent provides a statement that, if there is any significant deviation, they are required to respond and keep the shareholder ministers informed. They have requirements to disclose events and then ministers make decisions as to how they then further disclose that ultimately through parliament or to the broader community. They are disclosure requirements of a different form, but not necessarily of a significantly different

substance. The question arises as to whether they are, therefore, more onerous and place them in a more difficult position in the competitive marketplace.

Senator GIBSON—Just picking up the disclosure point, in evidence given to us by Telstra, in their submission and before us this morning, they see there is a conflict in the requirements they face in, first of all, having continuous disclosure as a public company set by the listing rules of the ASX and, secondly, in the requirements by government to give them additional information. They cited a three-yearly corporate plan which is not out in the public arena. They said, 'We are in conflict with the disclosure rules for the ASX, and yet the government has asked us to give additional information which in a few months time the other half of the shareholder does not have.' Mr Humphry from the ASX today basically said that he was not aware of any written permission given by the ASX to them to get around that problem and just highlighted it as a serious problem for a GBE in Telstra's case. Do you have any views?

Mr Woods—Would Telstra be suggesting in their evidence that major competitive corporations would not be preparing corporate plans for their boards and providing reports to their boards and the committees of their boards on a regular basis that would be much more detailed than required by the continuous information requirements of the ASX?

Senator GIBSON—The board is one thing, but the shareholders is a separate issue.

Mr Woods—In one sense. You have boards in both instances, but I think it would be worthy of exploration as to whether the shareholder representatives, being the board in the case of a private company, are kept informed, not in a way that would represent insider trading or any of those issues, but of the strategies of the company in similar form to what occurs under public ownership. I notice that, in the submission from the department of finance, they recognise that with public ownership there is a working relationship, as they describe it in some form, between shareholder ministers and boards, and chairmen of boards. That has been recognised in the Finance submission.

Senator GIBSON—I think it is quite a serious point which has been brought to our attention. In a parallel perception in the public arena, there is this matter of a single shareholder minister versus two—or particularly one from the Finance/Treasury area—looking for financial performance on behalf of the taxpayer/shareholders, and the other portfolio minister and a perceived potential conflict of interest between the portfolio minister who is there to regulate an industry. Telstra is a good example because there are a lot of competitors out there now. We may be seeing an evolution from what has been, because in recent times the government has adopted a single portfolio minister as the responsible shareholder minister for a couple of the airports and Employment National. Do you have any views?

Mr Banks—A previous commission, the Industry Commission, reflected on this point and did not have a clear preference but highlighted some of the potential conflicts that you are talking about. You could have conflicts with the portfolio minister, but there is also the potential for conflicts with the minister for finance, who has responsibility in a budgetary sense. You could imagine issues to do with pricing policy versus dividends and so on which could arise there. So I suppose there are a number of areas where you just have to watch

these changes, almost call them policy experiments and see how they pan out. Unfortunately, we have not been in a position to follow through on that in any detail to see how effectively that is working, certainly at the Commonwealth level.

Senator GIBSON—On a completely different point, has anyone ever raised with you whether, with regard to GBEs that are not listed, the shareholder ministers should hold an annual general meeting that is open to the public—and to interested members of the parliament, of course? Do you think that would be a sensible move?

Mr Banks—It has not been raised with us. We have not looked at it directly. Expressed that way, it seems like a reasonable proposition. My colleagues might respond.

Mr Kerr—It has not been raised with us as far as I am aware. You could see a suite of possible reporting mechanisms which try to provide proxies for what occurs with a private sector company, and that might be a useful part of that suite of reporting processes.

It is not clear to us—and this would be a possible course of inquiry for you—to what extent the statements of corporate intent in the stripped down version of the more detailed corporate plan which is submitted to the shareholder ministers, the statements of corporate intent which are made public, mirror the degree of information that would be available in the normal course for a private sector company and whether other supplementary means would be necessary.

I think shareholder inquiry and debate, including through agents such as research mechanisms, stockbrokers and the like, are all a healthy part of the corporate environment, and that sort of process could be considered as a useful addition to a suite of reporting mechanisms. The Senate estimates process and other parliamentary debate might be considered to be a version of that available interchange, but those circumstances are usually not as easily structured to focus for a period of time on a particular corporation.

Senator GIBSON—We have had some recommendations put before us that GBEs that are not funded out of the appropriations should not have to appear before Senate estimates; that they are there basically for the government to establish that the GBEs have made a financial contribution, that they should be judged on that and that their management should not be dragged through the Senate estimates process.

Mr Woods—They have not gone so far as to suggest that GBE annual financial statements should not be subject to your scrutiny?

Senator GIBSON—No.

CHAIRMAN—Not yet.

Mr COX—They have not actually suggested how they are subject to scrutiny.

Mr Woods—Clearly, that represents a valuable opportunity, although, as you say, it is after the event—that is, the opportunity to examine their intentions rather than their actions.

Mr Kerr—Speaking as a participant in Senate estimates processes, I would have to say that there has been a good deal of development over the last 10 to 15 years in the way parliamentary committees work—that is, a good deal of innovation and a much wider scope with their activities. Presumably, there are some options there that could be considered if it was thought worth while.

Mr St CLAIR—Do you have a view on whether the government should have GBEs?

Mr Banks—No, that is a bigger question. Clearly, we are going through a process of deciding when the government should and should not be involved. In general terms, if I try to pull out some general principles, where the market works quite effectively and competition is effective the need for government to be an owner of a business which otherwise would be adequately filled by the market does not seem to be so pressing. As a general proposition, I suppose that is about as far as I would go.

Mr St CLAIR—Just testing!

CHAIRMAN—We were looking at a list.

Mr Kerr—There is a path dependency issue here. If you are starting with a clean slate, you might come out with a different set of propositions as to whether to create GBEs than dealing with the ones that currently exist. The approach the commission and its predecessors has tended to use is always to look first towards a structure of competition before it thinks about ownership type issues. Ownership has tended to be a secondary consideration.

Mr St CLAIR—I raise it because there have been suggestions of more regulation, more legislation, changes and different types of acts to cope with the things that are happening with GBEs. It seems to me that you get different views put forward depending on whether you have public owner shareholders or whether you are just purely owned by the government and you want a bit of comfort.

Mr Banks—Clearly, tensions arise when you get into a situation of part ownership, and I guess I would just go back to that general principle that Robert has repeated: that it really depends on an assessment of the market and the market's capability to meet the community's interest. That is the general principle which I think we had better stick by.

When we look, and have looked in the past, at these bodies, I guess the period I talked about earlier on was a period in which the main lack was the competitive pressure. We saw that as the most important initial step. If we came back in the future to look at a series of them, we may well see how they have responded to that first step of bringing greater competitive pressure, arm's length operation from government, and whether that is doing all that is required or whether you need to go further.

Mr COX—Is the government paying sufficient attention to competition policy with respect to Telstra before it moves down its chosen path of selling it all?

Mr Banks—It is not something on which I want to comment at this stage. Again, maybe a relevant bit of work that I could ask Chris to talk on is our telecommunications

benchmarking work which suggests that there is scope for some improvement in Australia. When we have looked at the more successful telecommunications services overseas, they have coincided with regulatory arrangements which have provided plenty of scope for competition. But it has not been such in those studies that we have been able to draw really specific conclusions about which particular measures work best. Chris, would you like to comment?

Mr Sayers—That is the case. Overseas governments that have moved generally from a regime of supervising prices to one of encouraging access and competition seem to have arrived at a situation where their telecommunications industry is performing better than it does in those countries that have not taken that path. It is very difficult to attribute causation, but there is that association there, as the chairman said.

Mr COX—We are dealing with Telstra, which we heard this morning has about 85 per cent of the market. That is a fair amount of dominance in the marketplace, so I would have thought that that was a reasonably significant issue before one let them loose.

CHAIRMAN—It is a good reason to sell it quickly before it loses value.

Mr COX—As said by a shareholder of Telstra, as you confessed earlier, Mr Chairman.

Mr Kerr—Is there a particular aspect of competition policy that we are getting at, in terms of access or pricing regulation?

Mr COX—I am seeking your views because I assume that you have done a fair amount of work in that area.

Mr Kerr—We have not been asked to do any particular inquiry on that. As Chris has mentioned, we have done some benchmarking work which does not really go to the heart of policy analysis. We have described the scenery, and we have measured some outcomes of services and pricing currently being undertaken, but I do not think it really throws any definitive light on the sorts of things you are getting at.

Mr COX—One of the failures of privatisation in the UK—and this was also the case in the telecommunications area—was that there was insufficient attention paid to competition policy aspects before organisations were privatised. They therefore let loose in the marketplace a private sector player that was quite dominant.

Mr Sayers—The evidence there is not quite clear. In the UK, the government set about to encourage facilities based competition and kept the prices of local services down to encourage that. That appears not to have been a successful policy, judging by outcomes. They embarked on that strategy five or six years ago and that probably is not seen as the appropriate strategy these days when people are thinking more in terms of access regimes.

CHAIRMAN—One of the things that is of interest to the committee—and I would have thought it would be of interest to you because of your report on the performance of government trading enterprises 1991-92 and 1996-97—is exactly that: the GBEs, excluding Telstra, which is open to immense scrutiny by everybody. How do you reckon we would get

better performance out of the GBEs by putting more pressure on their boards to perform better in a financial sense—that is, to get a better return for increased shareholder value? Do you have any views about the inquiry you did leading up to the Humphry report? At the same time, do you have any views on how we might suggest that either administrative procedure or policy be changed to improve the outcomes of GBEs?

Mr Banks—Again, I preface my comments by saying that we have not come back and looked in detail in a policy context. These reports are fat reports, but they are mainly about numbers, outputs and outcomes, rather than cause and effect. What seems clear—and I could get Chris to elaborate on some of the detail, if you like—is that the reforms that have taken place throughout the 1990s have paid a dividend in better outcomes in terms of price and returns to shareholder governments. Our benchmarking suggests that there is some way to go. It has not been all that instructive to us in terms of exactly what the critical determinants are.

Our review of rail reform—again predominantly looking at state GBEs—suggests that the governance arrangements may not be providing sufficient market discipline on some of these entities to operate efficiently and, indeed, may well be constraining their access to capital and the sorts of investments they need to make. That final report is still with government, and I cannot talk too much more about it. Certainly those issues were raised in the draft report, and it looked at ways in which a private involvement could usefully complement what is going on. Anyone who is aware of what is happening in Tasmania, for example, would see that private involvement there has turned it around.

That is an obvious area. In that rail draft report, we talked about ways of getting private involvement through BOOT schemes, franchising and so on, through, ultimately, to privatisation itself. We drew the broad conclusion that the privatisation option was most relevant where the competitive conditions were such that rents would not be appropriated, but rather benefits would be passed on to the community.

CHAIRMAN—I think you would have to agree that there are not many common old GBEs left.

Mr Banks—That is true.

CHAIRMAN—In your opening statement, you were talking about there being 77. Where did you get those figures, because there are only 13 now with a couple more to come on stream? I was looking at it before. Telstra is in the process of being sold—not completely but it is just a matter of time, I guess. We could sell Australia Post and the Defence Housing Authority—who cares? ADI Ltd is in the process of being sold. Health Services Australia Ltd could be sold, Medibank Private certainly could be sold, Australian Technology Group Ltd is partially sold and we could get rid of the Snowy Mountains Hydro-electric Authority. As for the Sydney Airports Corporation, the Essendon Airport Corporation and the Australian Rail Track Corporation Ltd, we could sell all those. That leaves Employment National, and you could have a debate about that. Within 10 years, the existing Commonwealth GBEs, except maybe for Australia Post, which everybody will argue about, could all be gone.

Mr COX—Thank you for that statement on government policy, Mr Chairman.

CHAIRMAN—It was just an observation.

Mr Banks—The good thing about the Japanese language is that they have a lot of ways of saying 'yes', one of which is, 'I hear you.'

CHAIRMAN—I am wondering whether our inquiry is all that relevant after all.

Mr COX—Can I go to your submission. We have had a bit of a discussion with people from some GBEs today who have been most concerned about having to hand over their corporate plans to government. They say that is cruel and unnatural punishment. You say:

> The role of the corporate plan as a tool of governance embodies a tension which does not seem to have been resolved. That is, commercial objectives may constrain publicising corporate plans. On the other hand, the broader requirements for public accountability may be usefully met by access to corporate plans. Lack of transparency in this area seems to have allowed tolerance for revenue purposes of rates of return in excess of normal returns by some GBEs with monopoly powers.

Can you give us a list of those GBEs?

Mr Kerr—Are you quoting from the Humphry submission—the submission we made in 1997?

Mr COX—Yes.

Mr Kerr—The particular case with which we had some direct experience was Australia Post, although it predated that by a couple of years. You will remember that the Industry Commission did an inquiry into Australia Post in 1992. Subsequently we did some further research and made a submission to what was a House of Representatives committee, I think, on rural post issues. The thing that attracted our attention—and I think our comments raised a question rather than going too much further than that—was a look at Australia Post's rate of return and the juxtaposition between that and prices to consumers. The thing we were reaching for there, and were seeking to alert the JCPA to, was this tension that exists between government's natural inclination to see a healthy rate of return from businesses they own, but, at the same time, wishing to see improved performance by GBEs also visited upon consumers in the form of lower prices. I think you will find that, at the general level in this analysis of performance monitoring, we have tried to bring out that both those things seem to have occurred—in other words, looking at GBEs across the board. Incidentally, the large number of GBEs really derives from the states, rather than the Commonwealth.

CHAIRMAN—We know.

Mr Kerr—Looking at GBEs across the board, both goals seem to have been met in general, that is, lower real prices for consumers, plus increased returns to government. But that is not to say that, in particular cases, there may not be a tension between government as represented by the Department of Finance and Administration and its interest in revenue returns and other ways of distributing improved performance such as through lower prices. The particular example that we had given some evidence on at the time was Australia Post,

where reported rates of return—excluding any supplement from CSOs—were of the order of 17 or 18 per cent for a business at that time which was not facing any particular competition.

Mr COX—So the most recent performance monitoring you have done is that report which goes from 1991-92 to 1996-97?

Mr Kerr—Yes. That one was published in the middle of last year.

Mr Sayers—That is right.

Mr COX—Those achievements in terms of lower prices for consumers and better rates of return for government were substantially achieved by the previous government?

Mr Kerr—They were reported over that period. We have not measured them since, but looking at the overall rate of inflation, one presumes that similar outcomes are being achieved.

Mr COX—That was when the policy shift was achieved.

CHAIRMAN—Gentlemen, thank you very much for coming and for your input. We appreciate your help.

Resolved (on motion by **Mr Cox**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.07 p.m.