



# **Reshaping the Transport and Communications Government Business Enterprises**



**Statement by the  
Minister for Transport and Communications**

**25 May 1988**

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Transport and Communications  
Government Business Enterprises**



**Senator the Hon Gareth Evans QC  
Minister for Transport and Communications  
25 May 1988**

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Minister for Transport and Communications  
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## Introduction

In describing the Government's third-term agenda, the Prime Minister has given greatest emphasis to micro-economic policy: the structural adjustment of key industries, and the relationships between them, with a view to establishing and sustaining longer term growth. The Government's goal is to ensure that the manufacturing and service sectors in particular become more efficient and so improve our trade competitiveness, reduce our reliance on imports and ensure the Australian economy has the versatility, adaptability and resilience necessary to take advantage of the rapid changes this nation faces in the years ahead.

Global events have strengthened the conviction of the Government that the Australian economy requires fundamental restructuring if we are to ensure the maintenance, let alone the enhancement, of the high living standards Australians have traditionally enjoyed.

In the present difficult international environment public sector efficiency is especially important because so many public business enterprises — particularly those in the Transport and Communications portfolio — produce not only final goods and services for the consumer, but intermediate inputs for the rest of the economy, and thus influence the nation's overall cost structures.

With this in mind, the Government has undertaken a fundamental review of the eight major Transport and Communications government business enterprises:

### **Qantas**

### **Australian Airlines**

### **Australian National Line (ANL)**

### **Australian National Railways (AN)**

### **Telecom**

### **Overseas Telecommunications**

### **Commission (OTC)**

### **AUSSAT, and**

### **Australia Post**

and has decided on a package of reforms which are aimed at reshaping these enterprises and improving their efficiency.

This statement explains in detail the consideration given by the Government to these enterprises and the decisions taken to bring about reform.



# Background

## The Government's micro-economic agenda

When the Government first came to office in 1983, the task we faced was in the first instance one of **recovery** — confronting massive unemployment and inflation, negligible growth, and a huge deficit blow-out.

We tackled these unwelcome bequests from our predecessors with determined management strategies, of which wage restraint through the Accord with the trade union movement, in a new climate of reconciliation, was the centrepiece. Our success was reflected in the outcomes. In the Government's first three years of office, Australia was one of the fastest growing OECD economies: there was a dramatic increase in new jobs, and significant cuts in unemployment and inflation.

But in the approach we outlined in the 1983 election and subsequently maintained, recovery was never more than a prelude to reconstruction — the long overdue reshaping of the Australian economy to reduce our massive dependence on minerals and rural commodities, and become a genuinely mature and adaptable economy, capable of responding to external influences and absorbing shocks from wherever they might come. A whole series of far-reaching changes, until now predominantly macro-economic in focus, have been introduced to this end, including:

- floating the dollar;
- deregulating the financial system;
- liberalising foreign investment;
- reforming the tax system;
- systematically reducing levels of protection; and
- developing new general incentives for research and development.

These changes ensure that Australia is more closely integrated with the world economy: our capital markets have been freed up and internationalised, financing arrangements are more competitive and flexible, there are new tax incentives for productive investment, and we have a cost structure that has become more internationally competitive.

In addition, the Government is committed to a continuing rigorous approach to public spending and borrowing, in line with that which has given us a budget surplus in 1987-88, in order to bring our debt within more acceptable bounds and to

promote the confidence and the capacity of the private sector to make the investments necessary to establish new productive and competitive enterprises.

During the Government's first two terms there was some emphasis given to micro-economic policy, particularly in the reshaping of key sectors of the manufacturing economy and developing a long-needed 'export culture' in the business community. But the economic strategy pursued to 1987 was essentially macro-oriented, aimed at getting the basic policy settings right to ensure a reduction in import needs combined with job growth. However, the macro-economic approach can go only so far in providing long-term solutions — hence the Government's third term commitment to a complementary agenda of micro-economic reforms both in the private and public sectors.

The Government has already announced decisions on a number of these reforms, for example the fundamental reshaping of the machinery of government which occurred after the 1987 elections, and the 7 October 1987 Ministerial Statement on deregulation of domestic aviation.

A further package of measures is announced by the Treasurer in today's 1988 May Statement. In a separate ministerial policy statement, associated with the May statement, entitled *Australian Telecommunications Services: a New Framework*, I am announcing the Government's decisions on regulatory reform of the telecommunications industry.

The efficiency of government business enterprises (GBEs) is at the heart of the Government's micro-economic agenda for the public sector. The present statement represents the outcome of the Government's consideration of how best to improve the efficiency of the eight major Transport and Communications government business enterprises.

## The need to reshape the Transport and Communications GBEs

Qantas, Australian Airlines, ANL, AN, Telecom, OTC, AUSSAT and Australia Post make an important direct contribution to the Australian economy as well as providing services to other industries and businesses.

Between them, they are responsible for 37.9% of Commonwealth employment and 9.5% of total public sector employment.

In all, they account for 2.9% of the Australian workforce.

They account for 17.5% of Commonwealth revenue and 15.7% of Commonwealth expenditure. Total assets at book values are almost \$21 000 million.

Australians have an important investment in the enterprises. As at June 1987 the Commonwealth's investment, through equity and loan, in these eight businesses, was estimated at \$9 400 million or \$1 900 for every Australian household.

Transport and communications infrastructure forms the very fabric of our economy — without it industry could not function, our exports could not reach their markets and we would be limited in our participation in global financial markets and the growing service industries such as tourism.

It is clear, accordingly, that every improvement we can make in the way we deliver transport and communications services is vital as this flows through to improvements throughout our economy and assists in improving our international competitiveness.

The quantum change that has occurred in our economic environment, since the times when these enterprises were established and their operating norms developed, has emphasised the need for reshaping these enterprises now. The era of effortless post-war growth in a protected environment is over. World-wide trends are now towards:

- greater competition;
- a more hostile international trading environment;
- global corporations;
- more open, less regulated economies;
- a more integrated and sophisticated financial world; and
- massive technological development and innovation.

The Transport and Communications enterprises need, more than ever before, flexibility and the ability to respond rapidly to changes in the market and to take up opportunities as they present themselves.

## The 1987 Policy Guidelines

The reforms of the Transport and Communications enterprises spelt out in this statement continue the overhaul of public sector administration foreshadowed in the 1983 pre-election statement on Labor and Quality of Government.

They involve the further refinement and implementation of the Guidelines on Commonwealth Statutory Authorities and Government Business Enterprises tabled in November 1987 by my colleague, the Minister for Finance, Senator the Hon Peter Walsh.

These Guidelines were developed after the release of a discussion paper in June 1986, the study of seventy submissions from interested parties and a round of consultations with the enterprises and with non-government organisations.

The principles of devolution of responsibility and ensuring proper accountability for results, embodied in those Guidelines, are now translated into a package of reforms for each of the eight enterprises which aims to replace detailed controls with accountability.

This represents a significant change in emphasis. Until now governments have been overwhelmingly preoccupied with controlling enterprises by a wide range of controls over the inputs to decision making, rather than concentrating on the results the enterprises are expected to achieve.



## The new emphasis: focussing on results

Under the new arrangements spelt out in this statement, the emphasis will shift to planning and accountability for results. Enterprises will be expected to plan in advance their major financial and operational goals and the measures required to achieve them, including the achievement of community service obligations (CSOs); to work towards pre-set financial targets; and to report on success in meeting those targets and other previously identified performance indicators.

Integral to the new arrangements is the clear delineation of responsibilities between the government as owner/shareholder, the enterprise board, and enterprise management.

The reforms contained in the eight packages have been developed, in line with the Government's 1987 Policy Guidelines, in consultation with the enterprises' boards and managements. The packages have been framed to suit each individual enterprise and there are variations depending on the industry, regulatory arrangements, community service obligations, current financial position and so on, of each business.

Each enterprise has been subject to a thorough review which has looked at:

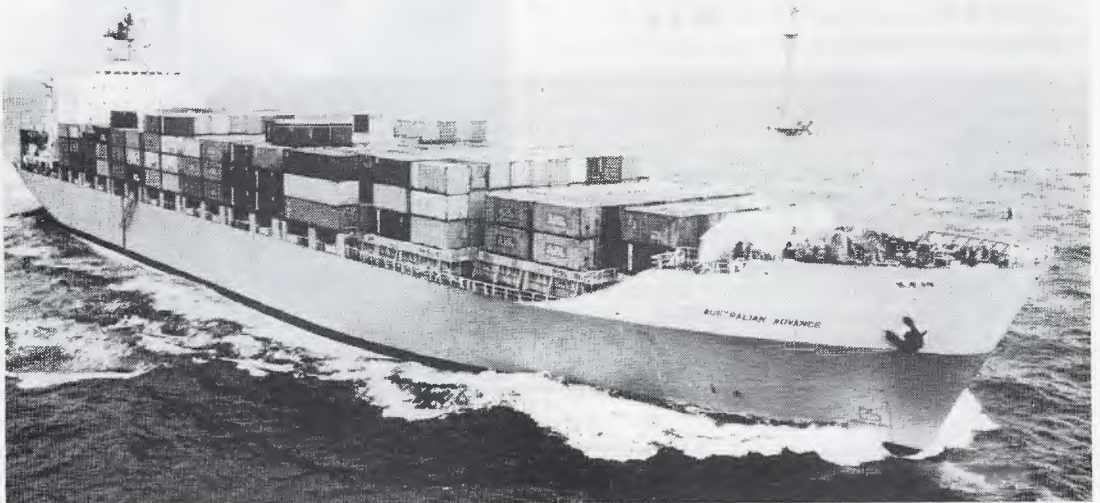
- the regulatory arrangements for the industry in which the enterprise operates;
- corporate and financial structure appropriate to the enterprise;
- removal of controls; and
- appropriate accountability mechanisms.

Typical of the controls exercised previously by government are:

- an enterprise may have needed to gain ministerial approval for the location of its head office;
- office holders may have needed the minister's approval before they went on leave or travelled overseas;
- there were controls over individual contracts, borrowings, bank accounts and investments requiring the scrutiny and approval of ministers; and
- organisations may have been required to use the services of government departments in areas such as property dealings.

All this attention to detail is time-consuming for the enterprise and also takes up time and resources of ministers and their departments.

There is no evidence to suggest that such detailed scrutiny over how the enterprises carry on their businesses has assisted them to be more successful — in fact the evidence is to the contrary. These detailed controls, while each was seen to safeguard a particular government interest, amounted to 'second-guessing' many managerial decisions and together diverted enterprise resources from more productive activities, interposed considerations unrelated to the purposes of the enterprise into decision-making, reduced responsiveness to external conditions and client needs, and undermined the responsibility of enterprise managers for the results of their activities.







Accordingly, the Government has decided that the future emphasis will be on the highest possible level of operational efficiency in achieving specific objectives (including where appropriate social goals), the minimisation of government controls and allowing GBE managers to respond to opportunities.

The new processes will ensure that, for each enterprise:

- goals and targets are set and agreed to by the Government;
- the board and management of the enterprise are left largely free of government day-to-day controls to achieve those goals;
- the board and management are held accountable for results.

Thus the emphasis will be first on clarifying goals. Once this has been done the government's approach will no longer rest on scrutiny and approvals of the **processes** of running an organisation, but on the extent to which it is successful in meeting its goals.

The development of corporate plans and financial targets, and accounting for performance against the goals and targets, provide an environment within which boards and managers can deal with more detailed issues in a cohesive manner.

Another essential ingredient of the new arrangements is the separate identification and costing of community service obligations (CSOs) and other non-commercial objectives which may have a bearing on the financial performance of an enterprise. Clearly, the government expects some enterprises, e.g. Telecom and Australia Post, to continue undertaking important CSOs. The progressive separate identification and detailed costing of CSOs is a necessary process so that government can make it clear what CSOs it

expects of these enterprises, and allows a clearer understanding of the extent to which social and other non-commercial objectives are being met. It also enables the costs of such obligations to be taken into account in determining financial targets.

At the same time it has to be recognised that the government will continue to have wider policy interests in its ownership of these enterprises, other than their individual commercial performance. Each enterprise forms part of an overall 'portfolio' of government business enterprises, and the government will have the usual 'parent company' interest in the performance of this overall portfolio. Each enterprise — and certainly the total portfolio of enterprises — could be significant in the overall economy, and the government may validly wish to affect aspects of its wider management of the economy through its ownership relationship with the enterprises. The government will also properly expect its enterprises — without necessarily being community pacesetters — to observe proper community standards in their overall business conduct, and will wish to ensure that this is being done.

In the new environment, what is important is that these wider interests be as clear as possible, be made as explicit as possible, and be fully reflected in the accountability framework and in the performance targets that are set.

The reform packages that have been developed for the Transport and Communications GBEs have, then, been built in each case around four themes:

- revised corporate and financial structures;
- new planning and accountability mechanisms;
- modification of major strategic controls; and
- removal of day-to-day controls.

The next section of this statement explains what is involved in each of these subject areas, and the remaining sections then summarise the particular packages that have been developed for each GBE in turn.

In a number of instances the decision at this stage involves only one or two steps down what is clearly a longer path, or the initiation of some further process of review. But that is no more than could reasonably be expected in so complex and difficult an area. The reshaping and reforming of government business enterprises is necessarily an ongoing process.

# The reform packages: basic elements

## Revised corporate and financial structures

The Government has reviewed the corporate structure of each enterprise and has decided that:

- an incorporated company structure is appropriate for those enterprises in direct competition with private sector competitors;
- for enterprises which serve no explicit social objectives and have a well-developed commercial culture, an incorporated company structure is also appropriate;
- for enterprises which have clear community service obligations, direct statutory corporation status is preferred.

Accordingly the Government has decided that:

- Qantas and AUSSAT will remain as incorporated companies;
- ANL and OTC will be converted from statutory corporations to incorporated companies. Australian Airlines, which was a statutory corporation, became an incorporated company on 30 April 1988;
- AN will remain a Commission under its current (recently updated) legislation;
- both Telecom and Australia Post will remain as statutory corporations, but will be re-established under updated legislation along the lines of the Federal Airports Corporation and their social objectives will be specified in this legislation. The Australian Telecommunications Commission and the Australian Postal Commission will be renamed the Australian Telecommunications Corporation and the Australian Postal Corporation respectively.

The decision to move Telecom and Australia Post to up-dated corporate structures will be accompanied by a change of financial structures.

Neither Telecom nor Australia Post was established with an equity base. In 1975, the balance sheets of the authorities were made up by allocating assets and liabilities of the old Postmaster-General's Department between the two new enterprises and the difference between the historical cost of assets and liabilities was advanced as Commonwealth loans.

This funding arrangement is no longer appropriate to commercial enterprises, particularly those which are now among Australia's largest business enterprises. Each of the new Corporations will now be established with a commercially-oriented financial structure and with the usual commercial obligations to pay appropriate dividends on shareholders' funds while providing for future investment needs.

The new financial structure for Telecom will involve the conversion of 25% of Commonwealth loans (which totalled \$4 352.2 million at 30 June 1987) to equity; revaluation of assets according to prevailing commercial practice; and the retirement of remaining Commonwealth loans progressively over the next 10 years and their replacement as appropriate with private sector borrowing.

Following revaluation of assets, the Government will determine an appropriate debt to equity ratio and overall financial structure on a basis comparable to leading telecommunications companies in other parts of the world.

For Australia Post the new structure will follow a similar pattern: converting \$10 million of Commonwealth loans (which totalled \$37.4 million at 30 June 1987) to equity; revaluation of assets; and the retirement of remaining Commonwealth loans progressively over the next five years and their replacement as appropriate with private sector borrowings. Following revaluation of assets, the Government will determine an appropriate debt to equity ratio and overall financial structure for Australia Post.



## New planning and accountability mechanisms

The 1987 Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises set out the framework of the future accountability provisions for GBEs. Planning and enhanced accountability arrangements are vital to public sector micro-economic reforms as they provide the means whereby the government can concentrate on the enterprises' results and therefore allow the boards and management to exercise their appropriate responsibilities without unnecessary detailed day-to-day controls.

The emphasis on planning is central to the new arrangements: it epitomises the forward-looking, goal-setting approach that is expected of sound business enterprises, both private and public in today's tough commercial environment.

Each enterprise is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions.

Enterprises will work towards financial targets agreed with the portfolio Minister in advance. The structure of the target will depend on the nature of the enterprise, but is likely to be a rate of return on assets, funds employed or capital. Where appropriate a target could also be expressed as a rate of return on turnovers.

In fixing a financial target, relevant issues to be taken into account include the nature of the industry and the relative position the enterprise occupies in the market. In addition, the costs of any community service obligations and any residual central controls which adversely affect profitability will also be taken into account.

The financial target will be used to supplement any other performance indicators which are relevant to the enterprise in question. Details of achievement against previously established goals, including financial and operational targets will be included in annual reports. The costs of community service obligations and other residual controls will be identified separately.



While the government is relinquishing the majority of its detailed controls on the operations of the carriers in favour of accountability for results, it will still retain a reserve power of intervention as an ultimate safeguard. For statutory bodies, the retention of the direct power of ministerial direction serves this purpose. For enterprises established as companies, the government will be able to use its role as shareholder in a general company meeting to achieve this purpose. It is not expected that these powers will be used other than in the most exceptional circumstances.

The government expects that the package of measures contained in these reforms will lead to increased efficiency, which will be reflected in better results and improved service delivery. Under these conditions, the Government expects that these enterprises will generate an operating surplus and make an appropriate return to Commonwealth revenue by way of dividend payments.

The enterprise boards will be held squarely accountable for enterprise performance — with the grounds for removal of board members to be expanded, accordingly, to include ongoing under-performance.

To the extent that this is not already explicitly the case, chief executives will, in turn, be made squarely accountable to their boards for performance, and be subject to removal by their boards.

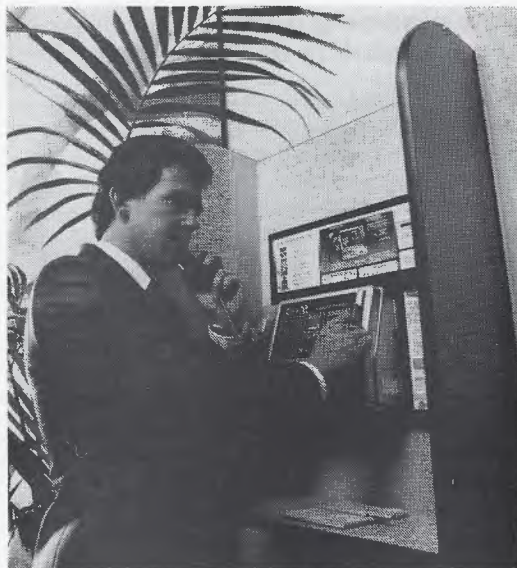
## Modification of major strategic controls

In addition to a number of day-to-day government controls, there are four major 'strategic' controls of a macro-economic management or broad policy nature which presently impact significantly upon government business enterprise management. While larger policy considerations have made it difficult at this stage to level the playing field, to the extent that would be ideally desirable in these areas, between the GBEs and their private sector competitors, a number of major steps have now been taken to give the GBEs greater managerial freedom, and others are foreshadowed.

**Borrowings through the Loan Council.** All Transport and Communications government business enterprises are required to co-ordinate their borrowings through Loan Council. The macro-economic policy objectives of Loan Council can conflict with the long-term funding needs of GBEs since the inevitable result of the Loan Council process is the rationing of funds which GBEs may borrow. This rationing process may not allow adequate consideration of the economic returns from particular investments by GBEs and their commercial situation. A further difficulty encountered by GBEs is the timing of Loan Council considerations, which are based on Commonwealth/State budgetary processes rather than prevailing commercial market conditions which vary from time to time.

Some authorities, such as Qantas, Australian Airlines, ANL and Telecom have found the Loan Council processes impose constraints on their ability to take up, or plan for, investment opportunities. This is particularly so where borrowings are to support fully competitive activities, undertaken on a fully commercial, tax-paying basis.

In the context of its continuing efforts to resolve the capital formation problems being experienced by government business enterprises, the Government will further review whether it is possible to exempt Qantas, Australian Airlines and ANL — as fully commercial enterprises operating in a wholly competitive environment — from Loan Council global borrowing limits without undermining the integrity of the Loan Council system or creating unacceptable pressure on the Public Sector Borrowing Requirement.



The Government has also decided that the Loan Council processes presently applying to Telecom should be developed to:

- take into consideration the on-going and longer term nature of capital expenditure proposals by adopting a three-year, rolling borrowing program (subject to annual review by the Government) which would allow Telecom and its subsidiaries and joint venture companies to proceed with major investments without the uncertainty inherent in annual borrowing allocations;
- ensure sufficient flexibility to enable additional borrowings to be considered in a year where new commercial opportunities for Telecom, its subsidiaries or joint ventures are identified; and
- allow Telecom to increase its market borrowings to convert part of Commonwealth loans to private sector loans, in the context of its capital restructuring.

The Government will also consider further the appropriate Loan Council treatment of private sector involvement in joint ventures and subsidiaries.

AN, OTC, AUSSAT and Australia Post will all remain within current Loan Council processes given that their investment programs can be accommodated within current levels of retained earnings or the existing Loan Council mechanisms.

Further details are provided at Appendix 1.

**Industrial Relations Co-ordination.** Under the current industrial relations co-ordination arrangements, the enterprises are required to consult with the Department of Industrial Relations on a wide spectrum of industrial relations issues from major wages and conditions matters to initiatives on occupational health and safety and industrial democracy. The Department can oppose initiatives and proposals which it believes do not accord with government policy. The consideration of these matters inevitably involves greater delays than if the enterprise could settle them without the requirements to consult.

The Government has decided that the present industrial relations co-ordination arrangements will be substantially altered by devolving to the enterprises greatly increased responsibility and autonomy to develop wages and employment conditions proposals.

It is proposed that standard guidelines on government wages and industrial relations policy will be established by the Minister for Industrial Relations in consultation with the enterprises and the Minister for Transport and Communications. Enterprises will be free to manage their industrial relations within the scope of these broad guidelines without being required to refer matters to the Department of Industrial Relations.

The fundamental difference between the current arrangements and the industrial relations monitoring arrangements proposed is that the enterprises will be required to submit proposals for clearance to the Department of Industrial Relations only in an extremely limited number of circumstances.

Further details are provided at Appendix 2.

**Executive Remuneration.** Under current arrangements, the Remuneration Tribunal determines the salaries and allowances of full-time and part-time statutory office holders in GBEs. (AUSSAT is not subject to this requirement.) This arrangement has led to a broad but inappropriate alignment of senior executive salaries within the enterprises to those within the Australian Public Service, rather than to those within the commercial sector.

The effect of unrealistic capping of the chief executives' salaries restrains and distorts the salaries of other executives to a non-competitive level, and affects the recruitment and retention of such staff. It also does not allow the enterprise boards to reward and motivate key executive management.

The emphasis in the reform packages on achieving bottom line results makes it imperative that the enterprises be able to attract and retain chief executive officers of an appropriate calibre and other highly skilled staff. The enterprises have been fortunate so far in attracting and retaining chief executives of a high calibre, but increasingly this will prove difficult under current arrangements. The future necessitates provisions for competitive remuneration.

The Government has decided that Boards will be given responsibility for determining the remuneration of the chief executive and senior executives subject to consultation with the Remuneration Tribunal prior to negotiation on remuneration and advising the Tribunal of the terms of the packages once they have been concluded.

Further detail is provided at Appendix 3.



**Superannuation.** The costs of superannuation schemes form an important component of an enterprise's labour input costs. It has become clear that a scheme designed principally for white-collar public servants does not necessarily provide attractive benefits for many employment categories within the GBEs. It inhibits job mobility within the particular industry in the interests of (what is now increasingly less relevant) job mobility within the public sector. It has required contribution rates that are high relative to those paid by the enterprises' competitors, without there being offsetting saving in other wage-related costs.

Some enterprises have found that CSS (Commonwealth Superannuation Scheme) membership for employees, as well as imposing additional financial costs, does not offer benefits that are commensurate with those offered by competitors. The staff employed by the enterprises in professional, technical and other specialist capacities such as sales and marketing, see themselves in relation to their skills and to the industry in which the enterprise operates, not as public servants. They argue that in comparison with their peers they are disadvantaged both in the details of the superannuation package provided and workforce mobility.

Accordingly, the Government has decided to relax the present superannuation controls, subject to various conditions, and in particular — so far as Telecom, OTC and Australia Post are concerned — subject to guidelines which are developed in the course of the review of the Commonwealth Superannuation Scheme (due for completion by March 1989).

Details are provided in Appendix 4.

## Removal of day-to-day controls

As a direct result of the move away from control at the input stages of decision making and a focus towards strategic planning and accounting for performance, almost all the remaining direct controls on the Transport and Communications government business enterprises will be abolished. In the case of Australian Airlines, the removal of many controls was announced in the 7 October Ministerial Statement, and came into effect on incorporation of the new company on 30 April this year.

The full details on the controls to be removed depend on the range of controls to which the enterprise was previously subject and on the enterprise's future obligations to fulfill CSOs. These details are set out for each enterprise in the concluding sections of this statement. The following lists the most common controls which are being removed and which apply to some or most of the enterprises.

**Contracts.** At present, most enterprises cannot enter into a contract above a fixed monetary amount (usually \$6 million or less) without approval from the portfolio Minister. It will no longer be necessary to seek Ministerial approval for individual contracts. The new arrangements provide for details of major expenditure to be replaced by strategic oversight by the Minister usually through monitoring financial targets and the corporate plan.

**Borrowings.** In addition to Loan Council oversight of authority borrowings, enterprises are also required to seek the approval of the Treasurer to the terms and conditions of each loan. While Loan Council scrutiny of new borrowings will continue (subject to review in the case of some enterprises), within this overall framework the approval of the Treasurer for specific loans is redundant and will be abolished.

**Bank accounts and investments.** At present, enterprises need the approval of the Treasurer for investments or, in some cases, to open bank accounts. Once again, there will no longer be any requirement to go to the Treasurer on day-to-day business arrangements of this kind.

**Subsidiaries and joint ventures.** To date, GBEs have not been free to establish subsidiaries, to purchase a major shareholding in another company, or to engage in joint ventures without first obtaining the portfolio minister's approval.

This process has often impeded an enterprise's ability to take up opportunities as they present themselves in the market. Often these opportunities may only exist for a short time before a competitor makes a response. The Government has decided that, in future, it will be the GBE's responsibility to make decisions on taking up opportunities to establish subsidiaries and joint ventures, or to purchase a major shareholding in another company, provided it first notifies the minister of its intentions.

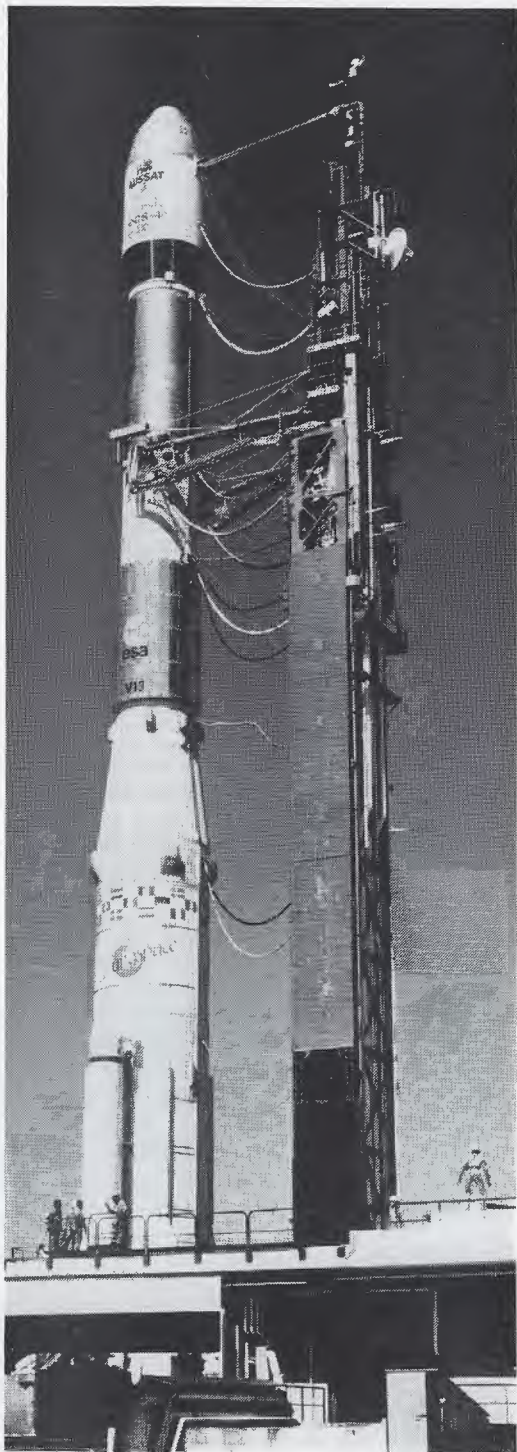
**Buying and selling land.** Under current arrangements, Telecom, OTC and Australia Post are not free to buy, lease or sell land, but must do so through the Department of Administrative Services. In future, these enterprises will be in the same position as other bodies, free to make their own commercial judgements about acquiring or disposing of land.

The move to a commercial approach to dealings in land will mean that compulsory acquisitions under the Lands Acquisition Act will not be available unless necessary in the public interest: in these cases the Department of Administrative Services will carry out the compulsory acquisition on the enterprise's behalf.

**Buildings and public works.** Telecom, OTC, AUSSAT and Australia Post are all currently subject to the Parliamentary Standing Committee on Public Works (PWC). This requirement can cause delays which are not warranted for enterprises which are required to operate on commercial principles. In future, Telecom, OTC, AUSSAT and Australia Post will join other commercial enterprises not subject to the PWC.

Telecom has also been required to use the Department of Administrative Services Construction Group for building and maintenance operations. In future, Telecom will be free to make its own arrangements.

**Residual controls.** The enterprises will not be subject to any other personnel, general or administrative policies not applying to the private sector, unless the government makes a specific decision that this should be so. In such a case any additional costs to the enterprise from complying with a policy which is designed to achieve other non-commercial objectives of the government will be taken into account in determining the financial targets.



# Qantas

Qantas, Australia's international airline, has a long history, having been originally established by private interests in 1920 as Queensland and Northern Territory Aerial Services Limited. In 1934, a new company, Qantas Empire Airways was formed by Qantas and Imperial Airways (later BOAC) who each held 50% of the shares.

In 1946 the Commonwealth Government purchased the BOAC holding from the British Government and the remaining 50% from the Australian private interests (261 500 shares for the sum of £455 000 (\$910 000)), and became the sole owner of QEA in July 1947. In the same year, Qantas' regular Australian services operated through to London for the first time.

On 1 August 1967 the name of the company was changed to Qantas Airways Limited.

Over the years the company has received several capital injections from the Commonwealth Government. In 1934, total paid-up capital amounted to £120 000 (\$240 000). Following government acquisition the capital level was increased to £2 million (\$4 million) in 1948 increasing via a number of injections to the current figure of \$149.4 million. Of the current figure \$85 million, or 57%, has been allocated since January 1982.

Qantas has expanded rapidly over the last 10 years, with an increase in the number of passengers from 1.6 million in 1977-78 to 3.0 million in 1986-87 and an increase in available seat kilometres from 19 900 million to 32 100 million over the same period.

For Qantas the reforms will provide the capacity to operate as a fully commercial airline free from interference on a day-to-day basis with decisions that are matters for management, and a more precisely defined allocation of responsibility between the Government, Board and management.

The Government's reform of Qantas will ensure that it is better placed to continue to provide the high standards of service for which it is respected, and that it can compete effectively in one of the most fiercely competitive industries world-wide.

## Corporate and financial structure

The operation of the company is the responsibility of a Board of Directors, appointed by the Government in its capacity of sole shareholder. The company operates in accordance with a set of Guidelines which the Government issues to Directors.



The company has a commercially based financial structure and is already subject to the disciplines imposed by the companies code to the financial reporting of all companies that come within the purview of that code. No change is proposed to these arrangements.

## New planning and accountability mechanisms

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For Qantas this approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder, to Qantas's bottom-line performance. By forward planning the government and the Qantas Board can come to an understanding of what objectives are to be met, within the context of the industry in which Qantas operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing sound commercial practice, will apply to Qantas:

- in accordance with the 1987 Policy Guidelines, Qantas is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. Qantas is to advise the Minister of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the company;



- Qantas will work towards an overall financial target agreed in advance by the Minister for Transport and Communications;
- the Board will ensure that revaluation of Qantas's assets, in accordance with prevailing commercial practice, is carried out at least once every five years, with an appropriate valuation of Qantas's assets being settled before finalising the next dividend;
- the Qantas Board, after consultation with the portfolio Minister on the dividend proposed, will recommend a dividend, and the company at a general meeting may accept the recommendation or declare a different amount, which does not exceed the amount recommended by Directors; and
- the annual reports of Qantas will provide accounts of performance against previously established goals, including financial and operating targets.

### **Modification of major strategic controls**

The Government has reviewed the impact upon Qantas management of the four major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons, and has made the following significant modifications:

**Borrowings.** In the context of its continuing efforts to resolve the capital formation problems being experienced by government business enterprises, the Government will further review

whether it is possible to exempt Qantas — as a fully commercial enterprise operating in a wholly competitive environment — from Loan Council global borrowing limits without undermining the integrity of the Loan Council system or creating unacceptable pressure on the Public Sector Borrowing Requirement (refer to Appendix 1).

**Industrial relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the Qantas Board greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Executive remuneration.** The Qantas Board will be given responsibility for determining the remuneration of the Chief Executive, subject to it consulting with the Remuneration Tribunal prior to negotiation on remuneration and advising the Tribunal of the terms of the package once they have been concluded (refer to Appendix 3).

**Superannuation.** Qantas's future superannuation arrangements will be consistent with guidelines to be agreed from time to time between the Ministers for Finance and Transport and Communications, with any proposed movement beyond the guidelines subject to approval by the Minister for Finance (refer to Appendix 4).

### **Removal of day-to-day controls**

Unlike most statutory bodies and GBEs, controls over the operations of Qantas are contained in the 'Guidelines' issued by the Government to the Qantas Directors; the Directors were issued, in 1984, with a revised, streamlined set of these.



Within the context of the current reform package, where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over Qantas embodied in those Guidelines, as follows:

- ministerial approval for establishing subsidiaries will no longer be required, provided that prior advice is given to the minister;
- ministerial approval for any investment in excess of \$5 million (in 1983 dollars) in another company, including wholly owned subsidiaries, will no longer be required, provided that the Board advises the minister prior to acquiring a major interest in another company;
- the Treasurer's approval for investment of surplus funds will no longer be required;
- Qantas will be able to purchase or lease aircraft without ministerial approval;
- the minister's approval will not be required for any purchases or leases of land and buildings in excess of \$5 million;
- Qantas will no longer require ministerial approval for borrowings in excess of \$5 million;
- Qantas will also not be required to report, in its annual report, borrowings which it undertook and for which ministerial approval was not necessary; and
- the Treasurer's approval for short-term borrowings from banks or other lenders will not be required.

In addition:

- Qantas will be empowered to recommend the appointment of an auditor of its choice, and not be confined to the Auditor-General as at present;
- Qantas will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target);

- the continued application of the remaining provisions of the National Preference Agreement (NPA) to which Qantas is subject will be examined in the context of the NPA review to be completed by 1 June 1989.

## Australian Airlines

The Australian National Airlines Commission (ANAC) — now trading as Australian Airlines — was first established in 1945 as a fully government-owned enterprise by the then Labor Government. The airline has developed, within the framework of the two airlines policy, which has operated since 1952, essentially as an interstate air service operation.

In 1986–87 Australian Airlines carried over 5 million passengers and had a turnover of \$878 million.

In 1983 the Government provided a capital injection of \$115 million (of which \$25 million had been approved by the previous Government) in order to improve the airline's performance and profitability.

As announced in the Ministerial statement, *Domestic Aviation: a New Direction for the 1990s*, in October 1987, the two airlines policy will come to an end in 1990 leaving the way open to free competition in interstate air services. That statement also announced that Australian Airlines would be incorporated as a company and that day-to-day controls would be removed.

Coupled with its creation as a company, the Australian Airlines reforms will better enable it to meet the new competitive challenges in domestic aviation.

### Corporate and Financial Structure

The *Australian Airlines (Conversion to Public Company) Act* 1988 is now in force, and from 30 April 1988 Australian Airlines has been a company incorporated under the ACT Companies Act.

Australian Airlines already has a commercial financial structure and no adjustments are required to the form of the airline's financial structure.

The Government's restructuring of Australian Airlines is an indication of its commitment to ensuring that the airline remains a strong force in the industry and fully able to compete in the deregulated domestic aviation environment post-1990.



### New planning and accountability mechanisms

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For Australian Airlines this approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder, to the airline's bottom-line performance. By forward planning the government and the Australian Airlines Board can come to an understanding of what objectives are to be met, within the context of the industry in which the airline operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing sound commercial practice, will apply to Australian Airlines:

- in accordance with the 1987 Policy Guidelines, the Board is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. Australian Airlines is to advise the Minister of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the company;
- the airline will work towards an overall financial target agreed in advance by the Minister for Transport and Communications;



- the Board will ensure that revaluation of the airline's assets, in accordance with prevailing commercial practice, is carried out at least once every five years, with an appropriate valuation of the airline's assets being settled before finalising the next dividend;
- Australian Airlines will be relieved of existing formal requirements to provide information to the minister since in practice the minister will obtain necessary information through monitoring financial targets and the corporate plan;
- the Australian Airlines Board, after consultation with the portfolio minister on the dividend proposed, will recommend a dividend, and the company at a general meeting may accept the recommendation or declare a different amount, which does not exceed the amount recommended by Directors; and
- the airline's annual report and financial accounts, prepared in accordance with the provisions of the Companies Act, will be the principal form of financial reporting by the airline.

### **Modification of major strategic controls**

The Government has reviewed the impact upon Australian Airlines management of the four major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons and has made the following significant modifications:

**Borrowings.** In the context of its continuing efforts to resolve the capital formation problems being experienced by government business enterprises, the Government will further review whether it is possible to exempt Australian Airlines — as a fully commercial enterprise operating in a wholly competitive environment — from Loan Council global borrowing limits without undermining the integrity of the Loan Council system or creating unacceptable pressure on the Public Sector Borrowing Requirement (refer to Appendix 1).

**Industrial relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the Australian Airlines Board greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Executive remuneration.** The Australian Airlines Board will be given responsibility for determining the remuneration of the Chief Executive, subject to it consulting with the Remuneration Tribunal prior to negotiation on remuneration and advising the Tribunal of the terms of the package once they have been concluded (refer to Appendix 3).

**Superannuation.** The airline's future superannuation arrangements will be consistent with guidelines to be agreed from time to time between the Ministers for Finance and Transport and Communications, with any proposed movement beyond the guidelines subject to approval by the Minister for Finance (refer to Appendix 4).

## Removal of day-to-day controls

Within the context of the current reform package, where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over Australian Airlines as follows:

- ministerial controls over contracts and major expenditures which could require additional equity will be removed;
- the minister's approval for the establishment of subsidiaries or the purchase of major shareholdings will no longer be required subject to the provision of prior advice to the portfolio minister on any proposals to create or acquire subsidiaries or to purchase a major shareholding in another company;
- the portfolio minister will no longer be able to direct the Company to operate developmental services;
- Australian Airlines will no longer need to obtain the approval of the Treasurer to the terms and conditions of individual borrowings; and
- Australian Airlines will be subject to national estate, environmental impact statement and Archives Act requirements only to the extent that these apply to private sector competitors.

In addition:

- Australian Airlines will be empowered to recommend the appointment of an auditor of its choice, and not be confined to the Auditor-General as at present;
- Australian Airlines will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target);

- continued application of the offsets policy to the airline will be reviewed in the light of general airline industry developments prior to the termination of the Airlines Agreement in 1990; and
- the continued application of the remaining provisions of the National Preference Agreement (NPA) to which Australian Airlines is subject will be examined in the context of the NPA review to be completed by 1 June 1989.

## Australian National Line

The Australian Shipping Commission, trading as the Australian National Line (ANL) was established in 1956 to take over the fleet acquired by the government during and immediately after World War II, when there was a shortage of shipping to service Australia's coastal and international trades. This followed unsuccessful attempts by the government to sell this fleet to private operators who were unable, or unwilling, to pay the price sought by the government and to provide the required shipping services.

ANL's original objectives were to provide efficient coastal services, operate profitably, dispose of old, inefficient vessels acquired during the war, and develop an Australian merchant fleet to meet ongoing national needs.

During the late 1960s and early 1970s ANL expanded beyond coastal trades by entering a number of the international liner trades to Asia, Europe, the US and NZ. It withdrew from the US trades in the mid 1980s but continues to service the other international liner trades. During the second half of the 1970s, ANL entered the international bulk trades by acquiring four large bulk carriers for the Australia/Japan iron ore trade. It also commenced stevedoring operations during the 1960s and in recent years has been developing ship agency and container management services.

The *Australian Shipping Commission Act 1956* was modernised in 1983 by amendments which emphasised a commercial approach to management and eliminated some bureaucratic controls.

### Corporate and financial structure

The Government has decided that ANL is now ready to take a further step in the process of commercialisation. The new package for ANL includes incorporation under companies legislation to allow for further change in the corporate culture appropriate for a fully commercial organisation.

ANL does not derive any competitive advantage from government regulation, and competes freely with international and coastal shipping operators. In seeking to match the services provided by its competitors, it is necessary for ANL to develop a door-to-door transport capability. The new reforms will enable ANL to operate integrated transportation services for Australian overseas and domestic trades to sustain its shipping services.

# ANL

## Australian National Line

ANL already has a commercially based financial structure. No change is proposed to these arrangements.

### New planning and accountability mechanisms

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For ANL this approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder, to ANL's bottom-line performance. By forward planning the government and the ANL Board can come to an understanding of what objectives are to be met, within the context of the industry in which ANL operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing, sound, commercial practice will apply to ANL:

- in accordance with the 1987 Policy Guidelines, the Board is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. ANL is to advise the Minister of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the company;
- ANL will work towards an overall financial target agreed in advance by the Minister for Transport and Communications;

- the Board will ensure that revaluation of ANL's assets, in accordance with prevailing commercial practice, is carried out at least once every five years, with an appropriate valuation of ANL's assets being settled before ANL is converted to a company;
- the ANL Board, after consultation with the portfolio Minister on the dividend proposed, will recommend a dividend, and the company at a general meeting may accept the recommendation or declare a different amount, which does not exceed the amount recommended by Directors; and
- the annual reports of ANL will provide an account of performance against previously established goals, including financial and operating targets, together with assessments of the cost of meeting community service obligations and observing residual non-commercial central controls which adversely affect ANL's profitability.

## Modification of major strategic controls

The Government has reviewed the impact upon ANL management of the four major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons and has made the following significant modifications:

**Borrowings.** In the context of its continuing efforts to resolve the capital formation problems being experienced by government business enterprises, the Government will further review whether it is possible to exempt ANL — as a fully commercial enterprise operating in a wholly competitive environment — from Loan Council global borrowing limits without undermining the integrity of the Loan Council system or creating unacceptable pressure on the Public Sector Borrowing Requirement (refer to Appendix 1).

**Industrial relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the ANL Board greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Executive remuneration.** The ANL Board will be given responsibility for determining the remuneration of the Chief Executive subject to it consulting with the Remuneration Tribunal prior

to negotiation on remuneration and advising the Tribunal of the terms of the package once they have been concluded (refer to Appendix 3).

**Superannuation.** ANL's future superannuation arrangements will be consistent with guidelines to be agreed from time to time between the Ministers for Finance and Transport and Communications, with any proposed movement beyond the guidelines subject to approval by the Minister for Finance (refer to Appendix 4).

## Removal of day-to-day controls

Within the context of the current reform package, where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over ANL as follows:

- subject to giving prior advice to the minister, ANL will be freed from ministerial control over the establishment of subsidiaries, joint ventures and major share purchases;
- the requirement for prior approval of contracts and individual borrowings will be removed;
- ANL will be exempted from the Treasurer's approval to open bank accounts and invest short-term surplus funds in specific instruments; and
- on incorporation, ANL's financial statements will be exempted from approval of the Minister for Finance.

In addition:

- ANL will be empowered to recommend the appointment of an auditor of its choice, and not be confined to the Auditor-General as at present;
- ANL will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target); and
- the continued application of the remaining provisions of the National Preference Agreement (NPA) to which ANL is subject will be examined in the context of the NPA review to be completed by 1 June 1989.

# Australian National

The Commonwealth has been involved in the operation of a rail system since 1917 when the Trans Australian Railway was completed and the Commonwealth Railways established to run the system.

The Australian National Railways Commission (AN) was formed in 1975 and took effective operational control of an amalgamated system comprising the former Commonwealth, Tasmanian and South Australian (non-metropolitan lines only) railway systems in 1978.

The *Australian National Railways Commission Act 1983* replaced the *Australian National Railways Act 1917* with modern legislation, more appropriate to AN's role as a business undertaking with commercial goals.

The changes to its legislation have done much to put AN on a more commercial footing. From \$106 million in 1982-83, AN's call on the Budget has fallen by more than 60% in real terms to \$54.9 million in 1987-88. It expects to break even on its commercial operations in 1988-89. The non-commercial operations, mainland passenger services and Tasrail, are clearly identified and separately funded. The Government considers that AN should have a further opportunity to consolidate its position and continue its move to profitability before more changes are made.

## Corporate and financial structure

The Government does not think it appropriate to make other changes to AN's structure at this stage.

However, under AN's legislation its range of business is limited to providing railway services for the carriage of passengers and goods, and some very limited ancillary and incidental functions. This is in contrast with AN's competitors who can offer broader services. Accordingly the Government will amend the legislation to enable AN to expand the scope of its business activities.

## New planning and accountability mechanisms

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For AN this approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder,



# Australian National

to AN's bottom-line performance. By forward planning the government and the Commission can come to an understanding of what objectives are to be met, within the context of the industry in which AN operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing sound commercial practice, will apply to AN:

- in accordance with the 1987 Policy Guidelines, AN is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. AN is to advise the Minister of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the company;
- AN will work towards an overall financial target agreed in advance by the Minister for Transport and Communications;
- the Commission will ensure that revaluation of AN's assets, in accordance with prevailing commercial practice, is carried out at least once every five years, with an appropriate valuation of AN's assets being settled before the implementation of the reform package; and
- there will be no change to the dividend provisions of the *Australian National Railways Commission Act 1983* whereby the Minister can approve or vary the dividend proposed.



## Modification of major strategic controls

The Government has reviewed the impact upon AN management of the four major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons and has made the following modifications:

**Borrowings.** AN will remain subject to borrowings control through the Loan Council processes (refer to Appendix 1).

**Industrial relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the Commission greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Executive remuneration.** The Commission will be given responsibility for determining the remuneration of the Chief Executive subject to it consulting with the Remuneration Tribunal prior to negotiation on remuneration and advising the Tribunal of the terms of the package once they have been concluded (refer to Appendix 3).

**Superannuation.** AN will be free to establish its own superannuation scheme, subject to the approval of the Ministers for Finance and Transport and Communications with any additional costs to AN of government superannuation schemes when compared with private sector superannuation schemes being taken into account in setting AN's financial targets (refer to Appendix 4).

## Removal of day-to-day controls

Within the context of the current reform package where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over AN as follows:

- AN will be exempted from the requirement to obtain the approval of the Minister for Finance to carry over into a new financial year contractual obligations in relation to its capital program;
- AN will not be required to obtain the approval of the portfolio minister to enter into contracts;
- the Treasurer's approval will not be required for the terms and conditions of individual borrowings, investments or banking arrangements; and
- AN will be exempt from the *Public Works Committee Act 1969*.

In addition:

- AN will be empowered to recommend the appointment of an auditor of its choice, and not be confined to the Auditor-General as at present; and
- AN will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target).



# Telecom

The Constitution gives the Commonwealth Government powers in respect of postal, telegraphic, telephonic and like services.

In 1901, the Departments of Posts, Telegraphs and Telephones in each State were transferred to the Commonwealth, and all telecommunications services within Australia were delivered by the Postmaster-General's Department until 1975.

Following the recommendations of the Commission of Inquiry into the Australian Post Office (Vernon Committee), the Australian Telecommunications Commission was established by the *Telecommunications Act 1975* on 1 July 1975, with the telecommunications functions of the former Postmaster-General's Department.

The legislation established Telecom as the national telecommunications service provider, operating off-budget and subject to the financial discipline of covering from earnings all expenditure properly chargeable to revenue and providing not less than one-half of capital expenditure. The statutory arrangements conferred on the Commission a responsibility for regulation and management of the network. Their effect was to provide Telecom with a monopoly in the provision of telecommunications transmission services in Australia, and the regulatory power to authorise privately supplied equipment to be attached to the telecommunications network.

In 1982 the Davidson Committee of Inquiry into Telecommunications Services in Australia recommended an increased role for the private sector in the provision of telecommunications in Australia. In October 1983 the Government rejected the major thrust of the Davidson Report and endorsed Telecom's monopoly position as the national telecommunications service provider.

I have also issued today a statement, *Australian Telecommunications Services: a New Framework*, which is the culmination of a review of telecommunications I announced in September 1987. That statement outlines the new regulatory arrangements for the telecommunications industry. While each of the three telecommunications carriers will remain as separate entities under public ownership, one important change is that Telecom will no longer carry out functions of a regulatory nature. These will devolve to a new, independent regulatory body called the Australian Telecommunications Authority, or AUSTEL.



# Telecom Australia

The changes in the regulatory environment will also lead to increased competition in which Telecom will participate, and it is important that Telecom should have an up-to-date structure to assist in meeting the new challenges. However, it also meets very important community service obligations and will retain a monopoly over the basic network in order, among other things, to ensure that these objectives can be met.

## Corporate and financial structure

The Government has decided to restructure Telecom along the more modern lines of the Federal Airports Corporation, with appropriate powers and a properly constituted Board. The Australian Telecommunications Commission will be renamed the Australian Telecommunications Corporation. The Chief Executive of Telecom will be ex-officio a member of the Board and the position of Chief General Manager will be abolished.

On establishment in 1975 Telecom was not provided with an equity base. Its balance sheet was made up by allocating assets and liabilities of the old Postmaster-General's Department between the two new enterprises (Telecom and Australia Post) and the difference between the historical cost of assets and liabilities was advanced as Commonwealth loans.

This funding arrangement is no longer appropriate to a commercial enterprise, particularly one which is now among Australia's largest business enterprises. The new Corporation will be established with a commercially-oriented financial structure and with the usual commercial obligations to pay appropriate dividends on shareholders funds while providing for future investment needs.

The new financial structure for Telecom will involve:

- the conversion of 25% of Commonwealth loans (which totalled \$4,352.2 million at 30 June 1987) to equity;
- revaluation of assets according to prevailing commercial practice and as agreed by the portfolio Minister, the Minister for Finance and the Treasurer; and

- retiring remaining Commonwealth loans progressively over the next ten years and their replacement as appropriate with private sector borrowing.

Following revaluation of assets, the Government will determine an appropriate debt to equity ratio and overall financial structure on a basis comparable to leading telecommunications companies in other parts of the world.

In conjunction with establishing the new financial structure for Telecom, the Government has also decided to progressively require Telecom to meet the tax liabilities that are faced both by its direct competitors and by other commercial enterprises that are also competing for capital, labour and material inputs within the economy. (Telecom has been liable to pay customs duties and sales taxes since 1987). The Government has therefore decided that:

- Telecom's subsidiaries and joint ventures will be subject to all taxes;
- Telecom will be liable to meet State payroll taxes from 1 July 1988;
- Telecom will become liable for other State and local government taxes and charges from 1 July 1989; and
- Telecom will become liable for income tax from the 1990-91 income year.



## New planning and accountability mechanisms

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For Telecom this approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder, to Telecom's bottom-line performance. By forward planning the government and the Telecom Board can come to an understanding of what objectives are to be met, within the context of the industry in which Telecom operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing sound commercial practice, will apply to Telecom:

- in accordance with the 1987 Policy Guidelines, Telecom is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. Telecom is to advise the Minister of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the corporation;
- Telecom will work towards an overall financial target agreed in advance by the Minister for Transport and Communications;
- the Board will ensure that revaluation of Telecom's assets, in accordance with prevailing commercial practice, is carried out at least once every five years;
- whereas currently the minister approves charges for basic services, in future ministerial control of specific charges will be exercised through determination of a pricing formula for monopoly prices in the context of the corporate planning process and subject to independent regulatory oversight and monitoring;

- the Telecom Board will recommend a dividend payment, after consultation with the Minister on the dividend proposed, and this may be accepted or varied by the Minister. Consistent with the objectives of the GBE reforms, Telecom should aim to achieve a level of profitability comparable with those of the leading telecommunications companies in other parts of the world; and
- Telecom's annual report will give an account of performance against previously established goals, including financial and operational targets and the performance of comparable telecommunications companies to the extent practicable, together with assessments of the cost of meeting community service obligations and observing residual non-commercial controls which adversely affect profitability.

## Modification of major strategic controls

The Government has reviewed the impact upon Telecom management of the four major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons and has made the following significant modifications:

**Borrowings.** The Government has decided that the Loan Council processes presently applying to Telecom should be developed to:

- take into consideration the ongoing and longer-term nature of capital expenditure proposals by adopting a three-year, rolling borrowing program (subject to annual review by the government) which would allow Telecom and its subsidiaries and joint venture companies to proceed with major investments without the uncertainty inherent in annual borrowing allocations;
- ensure sufficient flexibility to enable additional borrowings to be considered in a year where new commercial opportunities for Telecom, its subsidiaries or joint ventures are identified; and
- allow Telecom to increase its market borrowings to convert part of Commonwealth loans to private sector loans, in the context of its capital restructuring.

The Government will also consider further the appropriate Loan Council treatment of private sector involvement in joint ventures and subsidiaries (refer to Appendix 1).



**Industrial relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the Telecom Board greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Executive remuneration.** The Telecom Board will be given responsibility for determining the remuneration of the Chief Executive and senior executives subject to it consulting with the Remuneration Tribunal prior to negotiation on remuneration and advising the Tribunal of the terms of the packages once they have been concluded (refer to Appendix 3).

**Superannuation.** Subject to guidelines to be developed within the course of the review of the Commonwealth Superannuation Scheme (due by March 1989), Telecom will be permitted to establish its own superannuation schemes — additional costs attributable to CSS membership will be allowed for in fixing financial targets (refer to Appendix 4).

## Removal of day-to-day controls

The *Telecommunications Act 1975* contains a number of controls over Telecom's operations. Within the context of the current reform package where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over Telecom embodied in that legislation as follows:

- Telecom will no longer be required to obtain approval from the Treasurer to the terms and conditions of individual borrowings;
- Telecom will be free to enter into banking arrangements and to make investments without gaining approval from the Treasurer;

- ministerial control over establishment of subsidiaries, joint ventures and share purchases will be removed, subject to the provision of prior advice to the minister on any proposals and Telecom will be obliged to report in a special section of its annual report on the establishment of subsidiaries and joint ventures;
- the requirement that Telecom obtain ministerial approval to enter into contracts will be removed;
- Telecom will adopt normal commercial purchasing practices, the key elements of which would be set out in the corporate plan;
- the *Telecommunications Act 1975* will be amended to remove the current employment conditions provisions from the Telecommunications Act and the Telecom Board will determine the employment conditions in consultation with relevant unions and in accordance with normal commercial practices;
- Telecom will no longer be required to comply with the Lands Acquisition Act, except where land is compulsorily acquired in the public interest when the Department of Administrative Services will make acquisitions on Telecom's behalf;
- Telecom will be exempt from compliance with the *Public Works Committee Act*; and
- Telecom will no longer be required to use the Construction Group of the Department of Administrative Services for building construction and maintenance programs.

In addition:

- Telecom will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target);
- continued application of the offsets policy to Telecom's competitive activities will be reviewed prior to the end of 1990 (in conjunction with the review for the aviation industry);

- the continued application of the provisions of the National Preference Agreement (NPA) to Telecom's competitive activities will be examined in the context of the NPA review to be completed by 1 June 1989; and
- the costs of any additional auditing incurred as a consequence of Commonwealth ownership will be taken into account in setting financial targets.

# OTC

During the Second World War, communications between Australia and the rest of the world were controlled by a British company, Cable and Wireless, which operated the connecting cable and beam wireless systems. There was considerable dissatisfaction on defence and national autonomy grounds which led to demands for structural change. The solution, reached at a Commonwealth Telecommunications Conference in 1945, was for the external telecommunications systems to be taken under government control. Under the *Overseas Telecommunications Act 1946*, the Australian Government acquired the radio-communication assets of Cable and Wireless and Amalgamated Wireless (Australasia) and established the Overseas Telecommunications Commission (OTC) as a statutory corporation.

In 1975, following the Vernon Report, the then Government sought to merge OTC with Telecom Australia to create a single national and international telecommunications provider for Australia. This merger did not proceed. In my statement, issued today on *Australian Telecommunications Services: a New Framework*, I have announced the Government's decision that each of the telecommunications carriers will remain as a separate entity.

## Corporate and financial structure

OTC is a fully commercial organisation, with a commercial financial structure subject to all Commonwealth taxes and charges and paying substantial dividends. It is certainly not fully competitive, but the area of competition is growing and it is not expected to meet any community service obligations. No changes are proposed to OTC's financial structure.

Given the increasing competitiveness of international telecommunications, the growth in this sector and the fact that OTC serves no explicit social obligations, the Government has decided that OTC will be incorporated under companies legislation and renamed the Overseas Telecommunications Corporation.

## New planning and accountability mechanisms

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For OTC this

# OTC

approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder, to OTC's bottom-line performance. By forward planning the government and the OTC Board can come to an understanding of what objectives are to be met, within the context of the industry in which OTC operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing sound commercial practice, will apply to OTC:

- in accordance with the 1987 Policy Guidelines, OTC is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. OTC is to advise the Minister of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the company;
- OTC will work towards an overall financial target agreed in advance by the Minister for Transport and Communications;
- the Board will ensure that revaluation of OTC's assets, in accordance with prevailing commercial practice, is carried out at least once every five years;
- whereas the Minister currently approves basic tariffs, in future ministerial control of specific charges will be exercised through determination of a pricing formula for monopoly prices in the context of the corporate planning process and subject to independent regulatory oversight and monitoring;

- the OTC Board, after consultation with the portfolio minister on the dividend proposed, will recommend a dividend, and the company at a general meeting may accept the recommendation or declare a higher or lower amount; and
- OTC's annual report shall provide an account of performance against previously established goals, including financial and operating targets, together with assessments of the cost of observing residual non-commercial controls which adversely affect OTC's profitability.

### Modification of major strategic controls

The Government has reviewed the impact upon OTC management of the four major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons and has made the following modifications:

**Borrowings.** OTC will remain subject to borrowing controls through the Loan Council processes (refer to Appendix 1).

**Industrial relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the OTC Board greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Executive remuneration.** The OTC Board will be given responsibility for determining the remuneration of the Chief Executive and senior

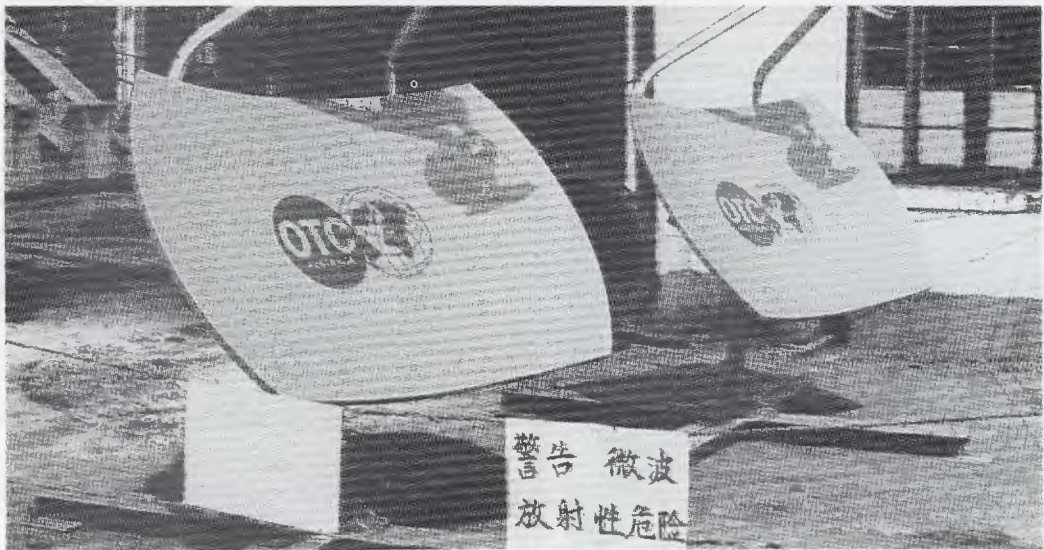
executives subject to it consulting with the Remuneration Tribunal prior to negotiation on remuneration and advising the Tribunal of the terms of the packages once they have been concluded (refer to Appendix 3).

**Superannuation.** Subject to guidelines to be developed within the course of the review of the Commonwealth Superannuation Scheme (due by March 1989), OTC will be permitted to establish its own superannuation schemes, with any subsequent movements beyond the guidelines subject to approval by the Minister for Finance. Additional costs attributable to CSS membership will be allowed for in fixing financial targets (refer to Appendix 4).

### Removal of day-to-day controls

The *Overseas Telecommunications Act 1946* contains a number of controls over OTC's operations. Within the context of the current reform package where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over OTC embodied in that legislation as follows:

- OTC will be exempted from the requirement to obtain the approval of the Treasurer for short-term borrowings;
- ministerial control over establishment of subsidiaries, joint venture and telecommunications activities in or for foreign countries will be



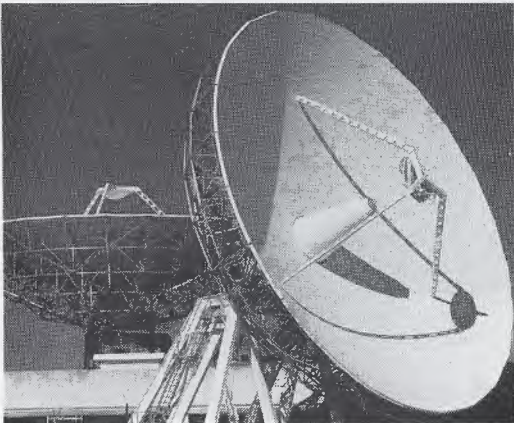
removed, subject to the provision of prior advice to the minister on any proposals to create or acquire subsidiaries or to purchase a major shareholding in another company;

- contract controls will be removed;
- the requirement for Treasurer's approval of specific borrowings will be removed;
- OTC will no longer be required to seek approval for its investment and banking arrangements;
- OTC will not be required to comply with the Lands Acquisition Act, except where land is compulsorily acquired in the public interest when the Department of Administrative Services will make arrangements on OTC's behalf;
- OTC will be exempt from compliance with the *Public Works Committee Act 1969*; and
- ministerial approval will no longer be required for cessation of existing services; introduction of new services; substantial additions, extensions or alterations to any part of the telecommunications system operated by OTC.

In addition:

- OTC will be empowered to recommend the appointment of an auditor of its choice, and not be confined to the Auditor-General as at present;
- OTC will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target);

- continued application of the offsets policy to OTC's competitive activities will be reviewed prior to the end of 1990 (in conjunction with the review of the aviation industry); and
- the continued application of the provisions of the National Preference Agreement (NPA) to OTC's competitive activities will be examined in the context of the NPA review to be completed by 1 June 1989.





# AUSSAT

Following recommendations from a Task Force that an Australian national communications satellite system be introduced, world-wide tenders were called by the Government in October 1980 for the supply of the satellites and earth stations. In November 1981, a private company, AUSSAT Pty Ltd, was incorporated in the Australian Capital Territory by the Commonwealth Government, for the purpose of establishing, owning and operating a national satellite system. Before AUSSAT was established there had been some private sector interest in operating a broadcasting satellite system, but no private proposals were sought by the Government.

In May 1982 the Government announced its decision to proceed with the implementation of a national satellite system and contracts were signed with Hughes Communications International for the supply of three satellites and associated ground control facilities.

The Memorandum and Articles of Association of the company initially required that 49% of the shares in the company be sold to the public whilst the Government retained 51%. However, subsequent legislation (the *Satellite Communications Act* 1984) and consequential amendments to the Memorandum of Association precluded shares being sold to the public. Since July 1984, the Commonwealth has held 75% and Telecom 25% of the shares.

From 1981 to 1985, AUSSAT's main activities were the design, construction and installation of the satellite system. Commercial operation commenced in 1985 with the launch of AUSSAT 1 on 27 August 1985 and AUSSAT 2 on 27 November 1985 (both launched by the NASA space shuttle). Problems with launch vehicles delayed the launch of the third satellite (by Ariane Space) until 16 September 1987. The life of the satellites is limited to seven to ten years by the on-board fuel required to power the positioning motors.

In September 1987 AUSSAT called for tenders for second generation satellites, which are scheduled for launch in 1991-92. AUSSAT has to date traded at a loss, but it estimates it will become profitable in 1989-90 when it will begin paying dividends to shareholders.

## Corporate and financial structure

In my statement, issued today on *Australian Telecommunications Services: a New Framework*, I

# AUSSAT

## Australia's National Satellite System

have announced the Government's decision that each of the telecommunications carriers will remain as a separate entity.

AUSSAT already has an appropriate corporate structure and commercial financial structure and it is not planned to make any changes to these.

## New planning and accountability mechanisms

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For AUSSAT this approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder, to AUSSAT's bottom-line performance. By forward planning the government and the AUSSAT Board can come to an understanding of what objectives are to be met, within the context of the industry in which AUSSAT operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing sound commercial practice, will apply to AUSSAT:

- in accordance with the 1987 Policy Guidelines, AUSSAT is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. AUSSAT is to advise the Minister of any matter which significantly

affects the outlook as established in the corporate plan as soon as possible after such matters become known to the company;

- AUSSAT will work towards an overall financial target agreed in advance by the Minister for Transport and Communication;
- the Board will ensure that revaluation of AUSSAT's assets, in accordance with prevailing commercial practice, is carried out regularly;
- the AUSSAT Board, after consultation with the portfolio minister on the dividend proposed, will recommend a dividend, and the company at a general meeting may accept the recommendation or declare a different amount, which does not exceed the amount recommended by Directors; and
- the annual report of AUSSAT will provide account of performance against previously established goals, including financial and operating targets, together with an assessment of the cost of observing any residual non-commercial central controls which adversely affect AUSSAT's profitability.

## Modification of major strategic controls

The Government has reviewed the impact upon AUSSAT's management of three of the major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons (AUSSAT is not subject to the current Remuneration Tribunal controls on executive salaries), and has made the following significant modifications:

**Borrowings.** AUSSAT will remain subject to the borrowings controls through the Loan Council processes (refer to Appendix 1).

**Industrial relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the AUSSAT Board greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Superannuation.** AUSSAT's future superannuation arrangements will be consistent with guidelines to be agreed from time to time between the Ministers for Finance and Transport and Communications, with any proposed movement beyond the guidelines subject to approval by the Minister for Finance (refer to Appendix 4).

## Removal of day-to-day controls

Within the context of the current reform package where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over AUSSAT as follows:

- AUSSAT will no longer be required to obtain approval from the Treasurer to the terms and conditions of individual borrowings;
- AUSSAT will be removed from the requirement to obtain Ministerial approval to enter into contracts over \$6 million; and
- AUSSAT will be exempt from compliance with the *Public Works Committee Act 1969*.

In addition:

- AUSSAT will be empowered to recommend the appointment of an auditor of its choice, and not be confined to the Auditor-General as at present;
- AUSSAT will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target);
- continued application of the offsets policy to AUSSAT's competitive activities will be reviewed prior to the end of 1990 (in conjunction with the review for the aviation industry); and
- the continued application of the provisions of the National Preference Agreement (NPA) to AUSSAT's competitive activities will be examined in the context of the NPA review to be completed by 1 June 1989.

## Australia Post

The Postmaster-General's Department (Australian Post Office) was created by the *Post and Telegraph Act* 1901 and operated until 1975.

Following the recommendations of the Commission of Inquiry into the Australian Post Office (Vernon Commission), the Australian Postal Commission was established by the Postal Services Act on 1 July 1975 to take over the postal and related service functions of the former Postmaster-General's Department.

The legislation established Australia Post as the national postal service provider, operating off-budget and subject to the financial discipline of covering from earnings all expenditure properly chargeable to revenue and providing not less than one-half of capital expenditure. The statutory arrangements confer on the Commission a responsibility for regulation and management of Australia's national postal services. Their effect is to provide Australia Post with a qualified monopoly on letter mail.

The Committee of Inquiry into the Monopoly Position of the Australian Postal Commission (Bradley Inquiry), reported in 1982. The report recommended the maintenance, subject to some relaxation, of the Commission's monopoly on the carriage of standard letters, which meet defined size and weight limits. In 1983 the Government effected some relaxation mainly by allowing private operators to carry letters at ten times the basic letter rate.

As part of the current set of reforms the Government has decided that the existing monopoly on

## Australia Post

standard letters should be retained and the community service obligation (CSO) which relates to the provision of a universal postal service at a uniform basic rate will also be retained. The scope and costs of providing CSOs will be identified in the corporate planning process and be subject to approval by the portfolio Minister. These will include the costs of complying with the Heritage Act. The approved costs of providing non-commercially viable services will be taken into account in setting financial targets.

### Corporate and financial structure

Australia Post is a profitable enterprise and since 1975 it has repaid all post-1975 Commonwealth loans and \$67.8 million of the \$105.2 million debt which was created at vesting in 1975. Australia Post estimates that 49% of its revenue is earned in competitive activities.

Given that Australia Post retains a monopoly over standard letters and is required to meet important CSOs, the Government has decided that Australia Post will remain as a statutory corporation, but be renamed the Australian Postal Corporation and have a new Act along the more modern lines of the Federal Airports Corporation. The new legislation will provide for a Board of Directors to be



established. The Act will clearly state the Government's social and commercial objectives. Australia Post will also be allowed to undertake commercial development of its properties.

On establishment in 1975 Australia Post was not provided with an equity base. Its balance sheet was made up by allocating assets and liabilities of the old Postmaster-General's Department between the two new enterprises (Australia Post and Telecom) and the difference between the historical cost of assets and liabilities was advanced as Commonwealth loans.

This funding arrangement is no longer appropriate to a commercial enterprise, particularly one which is now among Australia's largest business enterprises. The new Corporation will now be established with a commercially-oriented financial structure and with the usual commercial obligations to pay appropriate dividends on shareholders' funds while providing for future investment needs.

For Australia Post the new structure will involve converting \$10 million of Commonwealth loans (which totalled \$37.4 million at 30 June 1987) to equity; revaluation of assets; retiring remaining Commonwealth loans progressively over the next five years and their replacement as appropriate with private sector borrowings. Following revaluation of assets, the Government will determine an appropriate debt to equity ratio and overall financial structure for Australia Post.

In conjunction with establishing the new financial structure for Australia Post, the Government has also decided to progressively require Australia Post to meet the tax liabilities that are faced both by its direct competitors and by other commercial enterprises that are also competing for capital, labour and material inputs within the economy. (Australia Post has been liable to pay customs duties and sales taxes since 1987). The Government has therefore decided that:

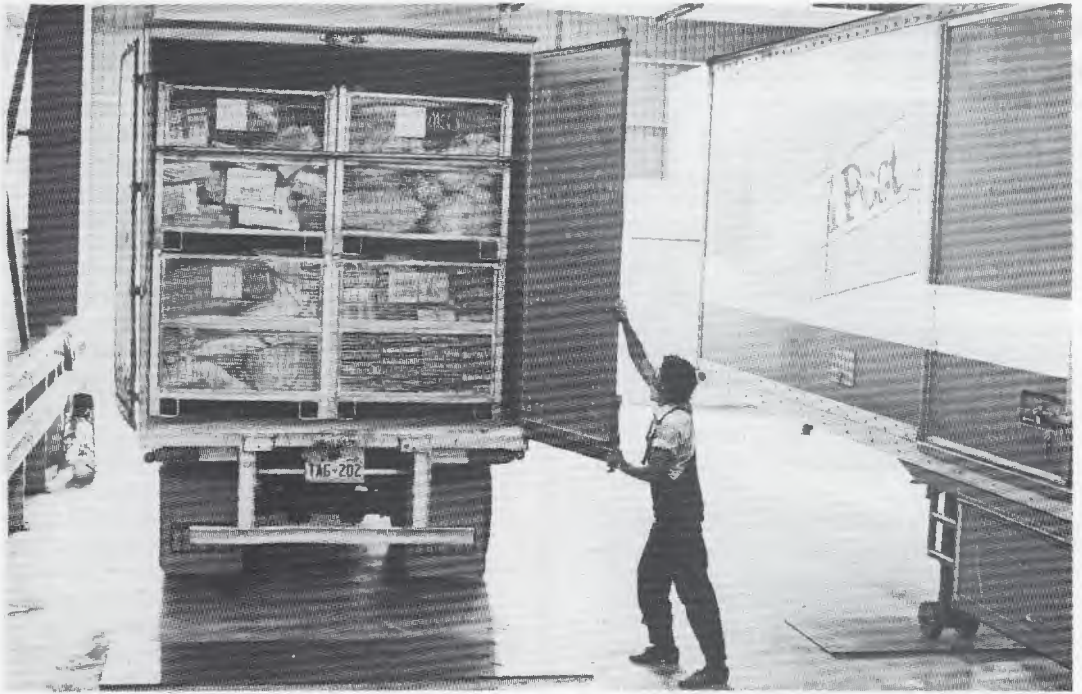
- Australia Post subsidiaries and joint ventures will be subject to all taxes;
- Australia Post will be liable to meet State payroll taxes from 1 July 1988;
- Australia Post will become liable for other State and local government taxes and charges from 1 July 1989; and
- Australia Post will become liable for income tax from the 1990-91 income year.

## **New planning and accountability mechanisms**

Today's tough commercial environment dictates that soundly managed enterprises in both the private and public sectors need to take a forward-looking, goal-setting approach. For Australia Post this approach is doubly important as it forms a central element of its reform by allowing the government to shift the emphasis of its interest, as shareholder, to Australia Post's bottom-line performance. By forward planning the government and the Australia Post Board can come to an understanding of what objectives are to be met, within the context of the industry in which Australia Post operates, and a set of accountability mechanisms can be put in place to measure achievement against pre-set targets.

Accordingly the Government has decided that the following planning and accountability mechanisms, which are based on prevailing sound commercial practice, will apply to Australia Post:

- in accordance with the 1987 Policy Guidelines, the Board is to provide the Minister for Transport and Communications with, at not less than three yearly intervals, a strategic corporate plan for his consideration and response. The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by Cabinet may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions. Australia Post is to advise the Minister of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the company;
- Australia Post will work towards an overall financial target (expressed in terms of return on turnover as well as a return on assets) agreed in advance by the Minister for Transport and Communications;
- the Board will ensure that revaluation of Australia Post's assets, in accordance with prevailing commercial practice, is carried out at least once every five years;
- postal charges for standard postal articles and Registered Publications will remain subject to Prices Surveillance Authority (PSA) review,



with the minister to have power to disallow a proposed charge within 30 days following a report by the PSA;

- Australia Post will be required to pay a dividend; the Board shall, after consultation with the minister, recommend a dividend and this may be accepted or varied by the minister; and
- Australia Post's annual report will give an account of performance against previously established goals, including financial and operational targets, together with assessments of the cost of meeting CSOs and observing residual non-commercial controls which adversely affect profitability.

### **Modification of major strategic controls**

The Government has reviewed the impact upon Australia Post management of the four major 'strategic' controls presently applied to GBEs for macro-economic management or other broad policy reasons and has made the following modifications:

**Borrowings.** Australia Post will continue to be subject to borrowing controls through the Loan Council processes (refer to Appendix 1).

**Industrial Relations.** The present industrial relations co-ordination arrangements will be substantially altered by devolving to the Australia Post Board greatly increased responsibility and autonomy to develop wages and employment conditions proposals (refer to Appendix 2).

**Executive remuneration.** The Australia Post Board will be given responsibility for determining the remuneration of the Chief Executive and senior executives subject to it consulting with the Remuneration Tribunal prior to negotiation on remuneration and advising the Tribunal of the terms of the packages once they have been concluded (refer to Appendix 3).

**Superannuation.** Subject to guidelines to be developed within the course of the review of the Commonwealth Superannuation Scheme (due by March 1989), Australia Post will be permitted to establish its own superannuation schemes — additional costs attributable to CSS membership will be allowed for in fixing financial targets (refer to Appendix 4).

## Removal of day-to-day controls

Within the context of the current reform package where the minister can maintain strategic oversight by monitoring corporate plans and financial targets, it is now possible to remove most of the remaining day-to-day controls over Australia Post as follows:

- Australia Post will no longer be required to obtain approval from the Treasurer to the terms and conditions of individual borrowings;
- ministerial control over establishment of subsidiaries, joint ventures and share purchases will be removed subject to the provision of prior advice to the minister and Australia Post reporting in a special section of its annual report on the establishment of subsidiaries and joint ventures;
- Australia Post's Act will be amended to remove the employment conditions provisions from the Act and the Board shall determine the employment conditions in consultation with relevant unions and in accordance with normal commercial practices;
- Australia Post will no longer be required to comply with the Lands Acquisition Act, except where land is acquired compulsorily, in the public interest, when the Department of Administrative Services will make arrangements on Australia Post's behalf;
- the requirement for prior ministerial approval of contracts will be removed; and
- Australia Post will be exempt from the requirement to comply with the Public Works Committee examination of works over \$6 million.

In addition:

- Australia Post will be exempted from general, personnel and administrative policies laid down by the government, except where specifically directed by Cabinet to comply (in which case any costs which flow from compliance with a policy which is designed to achieve non-commercial objectives of the government are to be taken into account in setting the financial target);
- continued application of the offsets policy to Australia Post's competitive activities will be reviewed prior to the end of 1990 (in conjunction with the review for the aviation industry);

- the continued application of the provisions of the National Preference Agreement (NPA) to Australia Post's competitive activities will be examined in the context of the NPA review to be completed by 1 June 1989; and
- the costs of any additional auditing incurred as a consequence of Commonwealth ownership will be taken into account in setting financial targets.

# Appendix

## 1. Borrowings through the Loan Council

All Transport and Communications government business enterprises are required to co-ordinate their borrowings through the Loan Council. The strengthening of Loan Council oversight of enterprise borrowings in 1984–85 was an important element in establishing a global limit on new money borrowings by Commonwealth and State authorities. This global approach has been an important factor in the control of public sector debt and the improvement of Australia's economic position.

The macro-economic policy objectives of Loan Council can conflict with the long-term funding needs of GBEs since the inevitable result of the Loan Council process is the rationing of funds which GBEs may borrow. This rationing process may not allow adequate consideration of the economic returns from particular investments by GBEs and their commercial situation. A further difficulty encountered by GBEs is the timing of Loan Council considerations, which are based on Commonwealth/State budgetary processes rather than prevailing commercial market conditions which vary from time to time.

Some authorities, such as Qantas, Australian Airlines, ANL and Telecom have found the Loan Council processes impose constraints on their ability to take up, or plan for, investment opportunities. This is particularly so where borrowings are to support fully competitive activities, undertaken on a fully commercial, tax-paying basis.

In the context of its continuing efforts to resolve the capital formation problems being experienced by government business enterprises, the Government will further review whether it is possible to exempt Qantas, Australian Airlines and ANL — as fully commercial enterprises operating in a wholly competitive environment — from Loan Council global borrowing limits without undermining the integrity of the Loan Council system or creating unacceptable pressure on the Public Sector Borrowing Requirement.

In the event that such exemption is agreed, the Commonwealth, in its capacity as ultimately financially responsible shareholder, would retain

oversight over the general investment strategy and total borrowings of these GBEs through the following approach:

- the corporate plan submitted by each GBE Board to the responsible Minister will include appropriate information on its investment strategy and associated borrowing intentions;
- each GBE Board will also submit annually to its Minister any additional appropriate information on its investment strategy and associated borrowing intentions;
- the responsible Minister will refer the investment strategy and associated borrowing information contained in the corporate plan, and any annual supplement to it, to the Treasurer and Minister for Finance for their consideration;
- in the event of there being a disagreement with the Board, an agreed Government position will be developed and the responsible Minister will suggest to the Board that aspects of its investment strategy or borrowing intentions be reconsidered; and
- in the event the Board and the responsible Minister, acting on behalf of the Government, are unable to reach agreement, the Minister may direct the Board to amend its strategic corporate plan in the relevant respect.

The Government has also decided that the Loan Council processes presently applying to Telecom be developed to:

- take into consideration the ongoing and longer term nature of capital expenditure proposals by adopting a three-year, rolling borrowing program (subject to annual review by the Government) which would allow Telecom and its subsidiaries and joint venture companies to proceed with major investments without the uncertainty inherent in annual borrowing allocations;
- ensure sufficient flexibility to enable additional borrowings to be considered in a year where new commercial opportunities for Telecom, its subsidiaries or joint ventures are identified; and
- allow Telecom to increase its market borrowings to convert part of Commonwealth loans to private sector loans, in the context of its capital restructuring.

The Government will also consider further the appropriate Loan Council treatment of private sector involvement in joint ventures and subsidiaries.

AN, OTC, AUSSAT and Australia Post will all remain within current Loan Council processes, given that their investment programs can be accommodated within current levels of retained earnings or the existing Loan Council mechanisms.



# Appendix

## 2. Industrial relations co-ordination

Industrial relations co-ordination arrangements have applied since 1948. The detail and form of the arrangements have undergone a number of changes, but a constant feature has been the requirement for all government authorities and enterprises to consult with the Department of Industrial Relations on pay and conditions matters. In 1975 the Co-ordination Committee was established — this Committee, chaired by the Department of Industrial Relations, is responsible for the operation of the co-ordination arrangements with agencies being invited to attend meetings and to participate according to the issues being considered by the Committee.

Under the current industrial relations co-ordination arrangements the enterprises are required to consult with the Department of Industrial Relations on a wide spectrum of industrial relations issues from major wages and conditions matters to initiatives on occupational health and safety and industrial democracy. The Department can oppose initiatives and proposals which it believes do not accord with government policy. The consideration of these matters inevitably involves greater delays than if the enterprise could settle them without the requirements to consult.

The current industrial relations co-ordination arrangements have been criticised as:

- imposing an additional level of approval and response time on GBEs which does not apply to private enterprise competitors;
- diminishing the negotiating status of GBE management, restricting its ability to respond directly to industrial issues as they arise; and
- acting as a disincentive for GBE managers to tackle labour issues concerning work practices, productivity and efficiency to ensure cost control.

The Government has decided that the present industrial relations co-ordination arrangements will be substantially altered by devolving to the enterprises greatly increased responsibility and autonomy to develop wages and employment conditions proposals.

It is proposed that standard guidelines on government wages and industrial relations policy will be established by the Minister for Industrial Relations in consultation with the enterprises and the Minister for Transport and Communications.

Enterprises will be free to manage their industrial relations within the scope of these broad guidelines without being required to refer matters to the Department of Industrial Relations.

The fundamental difference between the current arrangements and the industrial relations monitoring arrangements proposed is that the enterprises will be required to submit proposals for clearance to the Department of Industrial Relations only in an extremely limited number of circumstances as set out in (c) below.

The new arrangements will have the following features:

- (a) GBEs will continue to be expected to comply with government wages and industrial relations policies, and guidelines will specifically apply to:
  - (i) wages and conditions of employment matters covered by the National Wage Case Principles decided by the Conciliation and Arbitration Commission from time to time;
  - (ii) terms and conditions of employment with flow-on implications such as leave, allowances, hours of work and penalty payments;
  - (iii) redundancy and retrenchment conditions;
  - (iv) superannuation as an element of remuneration; and
  - (v) procedures for handling significant industrial disputes.
- (b) Except as provided in (c) below the GBEs will not be required to consult DIR where a proposal conforms with guidelines.
- (c) GBEs will be required to consult with DIR only where, in the opinion of either DIR or the GBE, there could be a breach of guidelines. Where significant issues arise outside of the scope of the existing guidelines there should be consultation to determine whether additional guidelines are needed.
- (d) Where a GBE consults with DIR in accordance with (c) each party shall act promptly, and if practicable within two days, in providing to the other appropriate information or advice.
- (e) Should a GBE refuse to accept advice given by DIR after consultation, the Minister for Industrial Relations will take up that issue with the portfolio Minister.

The new industrial relations monitoring arrangements will operate for each GBE from the implementation date of its reform package.

# Appendix

## 3. Executive remuneration

Under current arrangements, the Remuneration Tribunal determines the salaries and allowances of full-time and part-time statutory office holders in GBEs. (AUSSAT is not subject to this requirement.) This arrangement has led to a broad but inappropriate alignment of senior executive salaries within the enterprises to those within the Australian Public Service, rather than to those within the commercial sector. Business commentators and others have long pointed to the lack of flexibility this practice creates when senior executive positions need to be filled, especially at the important chief executive officer level.

The effect of unrealistic capping of the chief executives' salaries restrains and distorts the salaries of other executives to a non-competitive level, and affects the recruitment and retention of such staff. It also does not allow the enterprise boards to reward and motivate key executive management.

The emphasis in the reform packages on achieving bottom line results makes it imperative that the enterprises be able to attract and retain chief executive officers of an appropriate calibre and other highly skilled staff. The enterprises have been fortunate so far in attracting and retaining chief executives of a high calibre, but increasingly this will prove difficult under current arrangements. The future necessitates provisions for competitive remuneration.

The Remuneration Tribunal has been concerned for some time at the perceived inadequacies of the salaries of the senior public office holders. The members of the Tribunal outlined their concerns on this matter in an appendix to the Tribunal's 1984 Review. In its 1986 Review, the Tribunal reiterated its concern, but pointed out that remedial action was dependent upon relaxation of the Wage Principles or special legislation.

In view of the Tribunal's concerns and the perceived difficulties in the recruitment of individuals of the appropriate calibre to some offices at current salary rates, the individual members of the Tribunal were requested by the Minister for Employment and Industrial Relations in December 1985 to conduct an inquiry into remuneration for selected senior statutory office holders. In their March 1986 report, they concluded that there were significant disparities between the remuneration of the top executives of certain nominated Commonwealth agencies and

their private sector counterparts. They recommended a performance-based remuneration system involving significantly higher levels of remuneration and the foregoing of security of tenure.

The Government has now decided that for those positions in the Transport and Communications GBEs which are at present full-time statutory offices:

- the boards will be given the responsibility for determining remuneration;
- the boards will be required to consult with the Remuneration Tribunal prior to negotiation on remuneration packages and advise the Tribunal of the terms of the packages once they have been concluded;
- the Remuneration Tribunal will be required to advise the Government in circumstances where it considers a proposal inappropriate, having regard to the particular commercial environment in which the enterprise concerned is operating;
- the Remuneration Tribunal will be required to report annually to the Government on the general operation of the arrangements;
- the new arrangements will be introduced only where the present incumbent agrees to vacate the position or where the position otherwise becomes vacant;
- vacant positions will be widely advertised in Australia and internationally;
- future appointees will not have security of tenure; and
- chief executives will be members of the relevant board.

For those positions which are not statutory offices, boards will be able to determine remuneration of all senior executives consistent with the arrangements for fixing remuneration of statutory positions and having regard to existing award coverage, there being no security of tenure for those to whom the new arrangements apply.

The Government has also decided that the remuneration of members of boards will continue to be determined by the Remuneration Tribunal.

# Appendix

## 4. Superannuation

Since 1976, government policy on public sector superannuation has been that in the interests of equity, administrative efficiency and workforce mobility, all employees should have the same rights. Many employees of Transport and Communications GBEs are members of the Commonwealth Superannuation Scheme (CSS).

However, there are exceptions. Qantas and AUSSAT have private sector schemes subject to supervision by the Minister for Finance. Australian Airlines and ANL are in a similar position, but also have remaining CSS members. AN has employees in the CSS or in South Australian or Tasmanian State schemes. Telecom and Australia Post employees are all CSS members and most of OTC's staff are CSS members.

The costs of superannuation schemes form an important component of an enterprise's labour input costs. At the same time, it has become clear that a scheme designed principally for white-collar public servants does not necessarily provide attractive benefits for many employment categories within the GBEs. It inhibits job mobility within the particular industry in the interests of (what is now increasingly less relevant) job mobility within the public sector. It has required contribution rates that are high relative to those paid by the enterprises' competitors, without there being offsetting saving in other wage-related costs.

Some enterprises have found that CSS membership for employees, as well as imposing additional financial costs, does not offer benefits that are commensurate with those offered by competitors. The staff employed by the enterprises in professional, technical and other specialist capacities such as sales and marketing, see themselves in relation to their skills and to the industry in which the enterprise operates, not as public servants. They argue that in comparison with their peers they are disadvantaged, both in the details of the superannuation package provided and workforce mobility.

However, the history of these superannuation arrangements carries with it problems that cannot lightly be set aside. Telecom and Australia Post employees in particular represent a large proportion of the membership of the Commonwealth Superannuation Scheme. Their accrued entitlements and future contributions and benefit payouts are integral to the present overall scheme management and performance. Changes cannot

be introduced without regard for these considerations, as well as for overall Commonwealth policy on public sector superannuation and on superannuation in the community as a whole.

The Government has decided that:

- AN will be permitted to establish its own superannuation scheme, subject to the approval of the Ministers for Finance and Transport and Communications, given its unique position where it currently has employees who are CSS members as well as employees who transferred from the former South Australian and Tasmanian railways who were entitled to continue membership in the two State funds;
- Qantas, Australian Airlines, ANL and AUSSAT, have private schemes and their future superannuation arrangements will be consistent with guidelines to be agreed from time to time between the Ministers for Finance and Transport and Communications, with any proposed movement beyond the guidelines to be subject to approval by the Minister for Finance;
- Telecom, OTC and Australia Post, subject to guidelines to be developed within the course of the review of the CSS (due by March 1989), will be permitted to establish their own superannuation schemes, with any movement beyond the guidelines to be subject to approval by the Minister for Finance;
- the additional costs borne by the enterprises due to remaining CSS members will be taken into account in setting each enterprise's financial target.

**Reshaping the Transport and Communications  
Government Business Enterprises  
Ministerial Statement May 1988**

