Presentation Outline

• Corporatisation of Government Businesses in Queensland

• Overview of the GOC Model

• GOC Governance and Accountability Framework

• GOC Performance

• Sectoral/Industrial Development
Presentation Outline

• GOC Reform: case studies
• The Global Financial Crisis and GOC Reform
• Recent Reform of the GOC Sector
• The Future
Corporatisation of Government Businesses

• Enhance efficiency of government trading activities

• Hilmer review recommended a national competition policy which pushed structural reform

• Competitive neutrality became a focus and remains a focus
Corporatisation

- A private sector environment and governance regime
- Provides for continued public ownership
- Allows the State, as owner, to provide strategic direction
The Corporatisation Framework

Objectives
• Improve efficiency and effectiveness of GOCs
• Improve accountability of GOCs

Key principles
• Clarity of objectives
• Management autonomy and authority
• Strict accountability for performance
• Competitive neutrality with private sector
Overview of the GOC Model

• GOCs subject to Corporations Act 2011 (Cth) and Government Owned Corporations Act 1993 (Qld)

• Must comply with legislation, GOC specific policies e.g. Investment Guidelines and some broader public sector policies e.g. State Procurement Policy
Overview of the GOC Model

- Each GOC has:
  - an independent board of directors
  - two shareholding Ministers (the Minister for Finance and a portfolio Minister)

- Shareholding Ministers have powers of notification and direction

- Supported by the Office of Government Owned Corporations
Overview of the GOC Model

- Competitive Neutrality Fee applied to borrowings
- Capital structure reviewed annually
- Equity injections/repatriations occur to maintain investment grade credit ratings
- GOCs compensated by Government to perform Community Service Obligations
## Returns to Government

### Dividends and current Tax Equivalent Payments

<table>
<thead>
<tr>
<th>Sector</th>
<th>09-10 Actual $M</th>
<th>10-11 Actual $M</th>
<th>11-12 Budget $M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy sector</td>
<td>657</td>
<td>763</td>
<td>709</td>
</tr>
<tr>
<td>Transport sector</td>
<td>212</td>
<td>455</td>
<td>268</td>
</tr>
<tr>
<td>Other</td>
<td>44</td>
<td>77</td>
<td>53</td>
</tr>
</tbody>
</table>
Corporatisation Model

- Returns used for broader service provision e.g. education, health
- Government, as owner, can provide strategic direction
- Independent GOC boards are accountable for performance
- Strong governance framework
Corporatisation Model

• Can be difficult to balance GOC autonomy with Government expectations

• Shareholding Ministers approve significant investment decisions, similar to unlisted public companies where owners become more directly involved

• But, this ensures a prudent oversight of potential investments
GOC Governance and Accountability Framework

1. **Strategic Expectations Letter**  
   *Shareholding Ministers write to GOC boards outlining their expectations for the year*

2. **Corporate Plan**  
   *GOCs determine their plans and targets for the next five years*

3. **Statement of Corporate Intent (SCI)**  
   *GOCs agree their performance targets for the coming year with shareholding Ministers*

4. **Forecast report**  
   *GOCs publish on their websites the high level objectives and forecasts for the coming year*
GOC Governance and Accountability Framework

5. **Quarterly reports**
   GOCs report to shareholding Ministers quarterly on their progress in meeting targets set in their SCIs

6. **Interim report**
   GOCs publish a summary of their financial performance for the first half of the year

7. **Annual report**
   GOCs produce an annual report and these are tabled in Parliament (with their SCI) and published on GOC websites
GOC Performance

- Government has 12 GOCs:
  - CS Energy Limited;
  - Stanwell Corporation Limited;
  - ENERGEX Limited;
  - Ergon Energy Corporation Limited;
  - Powerlink Queensland
  - QIC Limited
  - SunWater Limited
  - Far North Queensland Ports Corporation Limited
  - Gladstone Ports Corporation Limited
  - North Queensland Bulk Ports Corporation Limited
  - Port of Townsville Limited
  - Queensland Rail Limited
# GOC performance

## Total GOC Sector
(excluding entities affected by asset sales)

<table>
<thead>
<tr>
<th></th>
<th>09-10 Actual</th>
<th>10-11 Actual</th>
<th>11-12 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets $M</td>
<td>34,513</td>
<td>35,643</td>
<td>38,260</td>
</tr>
<tr>
<td>Total Equity $M</td>
<td>11,717</td>
<td>12,259</td>
<td>12,453</td>
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<tr>
<td>EBIT $M</td>
<td>2,066</td>
<td>1,377</td>
<td>2,218</td>
</tr>
<tr>
<td>ROA %</td>
<td>6.27</td>
<td>3.94</td>
<td>5.99</td>
</tr>
<tr>
<td>ROE %</td>
<td>6.11</td>
<td>4.31</td>
<td>5.71</td>
</tr>
<tr>
<td>Gearing %</td>
<td>56.39</td>
<td>55.74</td>
<td>59.67</td>
</tr>
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</table>
Sectoral/Industrial Development

- 1970s and 1980s: Government oversaw establishment of four deep water ports and rail network
- Late 1980s: Construction of State Gas Pipeline
- Gas scheme: instrumental in encouraging gas-fired electricity generation
GOC Reform: case studies

Retail sales of ENERGEX and Ergon

- Retail aspect was mature
- With full retail contestability, retail better operated by private sector
- Removal of retail aspect meant entities could focus on distribution networks
- Two packages sold in 2006: Tranche 1 to Origin Energy for $1.202B and Tranche 2 to AGL for $1.203B
- Gas businesses also sold
GOC Reform: case studies

Airports sale

• Aviation markets were well developed
• No longer justified to own airports generating commercial returns
• Gross sale proceeds $1.028B
• Used to repay Cairns Ports’ debt, avoid future capital requirements, and remaining proceeds committed to hospital redevelopments
The GFC and GOC Reform

- Global downturn took $9.2B off forward estimates of State’s key revenue streams over 2008-09 to 2011-12
- Initiatives implemented in the 2009-10 budget including asset sales program
- This asset sales program generated net realisable value of $15.1B
- State borrowings at 30 June 2011 estimated to be $17.5B lower than projected
Forestry Plantations Queensland

- Commercial and mature timber business supporting a well established processing sector
- Sale announced 18 May 2010
- Total sales proceeds $613 million
- 99 year licence to use Government owned plantation forests was granted
QR National Limited

• QR National had infrastructure costs of nearly $10B in short term

• Sale objectives:
  – maximise sale proceeds
  – minimise ongoing risks
  – ensure a competitive market; and
  – ensure funding available for future infrastructure requirements

• IPO largest in Australia since Telstra

• 66 per cent interest sold, delivering $4.6B
Port of Brisbane

• **Sale objectives:**
  – improve State’s financial position
  – remove future capital expenditure commitments
  – unlock growth potential of the port

• **99 year lease delivered $2.1B in proceeds**

• **Avoided State incurring up to $1B in expected future infrastructure costs**
Queensland Motorways Limited

- Government decided QML would be transferred to defined benefit superannuation scheme of QIC Limited
- Commercial negotiations for transfer of the 40 year leases of the QML motorways recently finalised
- Price of $3.088B paid to the State
- QIC to operate road and bridge infrastructure and maintain and upgrade motorways
Abbot Point Coal Terminal

- Commercial asset generating a commercial return
- No market or policy failure requiring continued Government ownership
- Transaction structured as a 99 year lease and sale of shares in a special purpose company which holds the relevant assets and contracts
- Lease and share sale delivered $1.829B
Recent Reform of the GOC Sector

• Government announced review in December 2008 to:
  – consider the GOC Generators’ position as dominant provider of electricity
  – foreshadowed target of reduction to 50% of aggregate capacity owned or operated by the State

• The shareholder review examined ….
  – “the structure and preparedness of the GOC generators to meet the new challenges facing those businesses”
Recent Reform of the GOC Sector

• Implementation of the review recommendations announced late 2010:
  – redistribute the portfolio across a two generator structure to achieve maximum sustainability
  – change focus to cost/performance of existing asset base
  – aggressive target date of 1 July 2011 due to commercial considerations and to minimise change impact on employees

• Two generator structure commenced 1 July 2011
The Future

• **GOCs to focus on:**
  – core business and managing costs
  – broadening ways major new infrastructure is funded
  – enhancing efficiency/productivity to leverage good shareholder returns
  – high ethical standards and corporate governance
  – good workplace health and safety
  – appropriate employment conditions and industrial relations practices

• **GOCs involved in:**
  – development of projects in existing and new industries
  – commercial partnerships with private sector
The Future

• **Mining and Coal Seam Gas**
  – SunWater Limited: large commercial water projects and proposals
  – Support mining and coal seam gas projects in Bowen, Galilee and Surat Basins
  – Project will underpin rail and port developments

• **Facilitation of LNG Industry**
  – Gladstone Ports Corporation is project managing dredging to deepen and widen existing channels and create new channels
  – Project cost currently estimated at up to $1.474B
The Future

• **Wiggins Island Coal Export Terminal**
  – To be located at the Port of Gladstone
  – Private sector to own and finance new terminal
  – Gladstone Ports Corporation to be operator

• **Abbot Point**
  – Private sector funded development of coal terminals
  – Preferred proponents appointed
  – North Queensland Bulk Ports Corporation (NQBP) working with proponents to develop agreements
  – NQBP recently sought expressions of interest from potential proponents for additional terminals
The Future

• **Dudgeon Point**
  – Potential location for export of coal
  – Preferred proponents appointed
  – NQBP working with proponents to prepare Master Plan for coal terminal development

• **North West Queensland Energy Review**
  – Independent review recommended customer-led competitive process for an energy solution
  – Customers engaged with proponents on options including local generation or transmission line connection
  – Xstrata entered into contract with power station consortium, effectively concluding the process
Conclusion

• Continue ownership of GOCs
• Performance, governance and accountability will be subject to scrutiny
• State to broaden funding of major new infrastructure
• GOC projects may support other projects
• More commercial partnerships?
Questions?