# Commercialisation of Government Service Functions in Queensland

## Policy Framework

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*Government Service Functions in Queensland*
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# Introduction

## Commercialisation in Context

Commercialisation of Government Service activities is one of the financial reform initiatives recently announced in the Government's Financial Management Strategy. The strategy aims to ensure that the Queensland Government's financial management policies, standards and practices represent world best practice in public sector financial management.

Commercialisation is a dynamic process which is evolving as microeconomic reform and competition policy are further advanced. The policy framework will continue to be refined to reflect the impact of reforms in these areas and to accommodate Government policy.

This paper focuses at a strategic level on the general principles underlying full commercialisation. Within the overall framework set out in the policy guidelines, Government agencies will be able to adopt the commercialisation principles to suit their individual agency requirements in an effort to maximise the performance of their program activities and ensure the Government is obtaining value for money.

Commercialisation can help in changing organisational culture by setting in place an active search for better ways of delivering goods and services. To this end the policy framework provides a basis for agencies to apply commercialisation principles in stages without necessarily pursuing full commercialisation.

## Purpose of Paper

The purpose of this paper is to define the broad commercialisation framework as it is to apply in the Queensland Budget sector. The policy presented here is not intended to be descriptive at the detailed level for uniform application across all agencies. Rather, the paper outlines the underlying principles which agencies need to implement on a case by case basis to the extent and in the manner appropriate to their specific circumstances.

# Overview: Key Elements of Commercialisation Reform

## General

- Subject to benefits (in terms of service quality and cost) outweighing costs of implementation, Budget sector agencies which provide services to government (inter and intra departmental activities) and/or to external clients (where appropriate) will be commercialised.
- The primary objective is efficient utilisation of resources by both service users and service deliverers.
- The policy is built around four key principles: competition with alternative providers on equal terms; clear specification of objectives; an appropriate level of management responsibility and autonomy; strict accountability for performance.

## Untying of Clients

- When service agencies have been placed on an appropriate commercial footing they will be required to compete for public sector business.
- Clients will determine the mix, level and, once "untied", the source of services which best suits their needs and provides the best value for money.
- Funds required to purchase services will be devolved to clients and they will be held accountable for the efficient use of those funds.

## Commercial Operating Framework

- Major stand-alone activities will be established as business units and operated through separate Trust Funds.
- Arrangements will achieve at least a Budget neutral outcome.
- Policy and regulatory roles will be separated from commercial activities within the Portfolio Department.
- Accrual accounting will be adopted and management information systems will be enhanced to facilitate performance monitoring.
- Commercial disciplines will be applied (e.g., Government Service Obligations (GSOs); dividend policy; commercial pricing arrangements; performance monitoring; taxation; capital structure).
- Business units will utilise the enterprise bargaining framework to work towards best practice in industrial relations and human resource management. This may involve separate award or industrial agreement coverage.

## Implementation Issues

- An inter-departmental steering committee will be established to oversee the development and implementation of commercialisation policy.
- Structural reform will be driven by the Portfolio Department in close consultation with Queensland Treasury. Queensland Treasury will have the lead role in developing the detailed financial arrangements and ensuring their effective implementation.
- Implementation will be case by case to ensure that detailed arrangements suit the particular circumstances and do not impose an overall cost on the Budget.

## Management Autonomy and Accountability for Performance

- The Portfolio Minister will set strategic policy directions for the business unit, but will not be involved in day to day operations.
- The Treasurer would have a key policy role in relation to financial and economic performance and, with the Portfolio Minister, would monitor performance.
- An annual Performance Contract will specify the objectives, nature and scope of the unit's main activities, target performance indicators, agreed GSO activities, target dividends and Budget and other financial requirements.
- Business unit management will be responsible for commercial operations subject to Government policy.
- Continued management autonomy would depend on sound performance. Otherwise, tighter external controls would be imposed and, ultimately, more efficient private sector alternatives considered.

## Human Resource Management

- The enterprise bargaining process will be adopted by business units as the basis for negotiating with unions to achieve conditions of employment and work practices so as to mirror as close as possible best practice within the relevant industry or market setting.
- Major business units would be established as separate bargaining units within the public sector subject to approved monitoring and review by relevant central agencies for example to ensure that the principles in the Public Sector Management Standards are observed.

## Performance Monitoring

- The Portfolio Department will monitor economic performance, provide regular reports to Queensland Treasury, and implement measures to improve poor performance.
- Monitoring would encompass broad based economic, financial and non-financial indicators, balance sheets, profit and loss statements and cash flow forecasts.
- Existing Budget monitoring and program management processes would continue.
- The framework for performance monitoring and reporting would parallel that in Appendices 1 and 2 to the Government's White Paper "*Corporatisation in Queensland*".

## Pricing Policies

- Prices will be governed by competitive market forces.
- Invoicing and recovery of unpaid accounts will be on commercial terms.

## Capital Structure

- The mix of commercial debt (through the Queensland Treasury Corporation) and equity will be determined with reference to comparable private sector benchmarks and stability of cash flows.
- Debt/equity swaps and, in some cases, transfer of assets from/to the Budget may be required to adjust current capitalisation.
- The funding mix for major new capital investment will depend on the availability of Budget funding and the ability of cash flows at that time to service debt etc.

## Dividend Policy

- Dividends will be negotiated annually. The starting point will be the target return on assets, less interest and tax equivalents. Other factors taken into account will include the level of profits generated, the need to retain earnings for re-investment in the business and the level of dividends paid in comparable private sector entities.

## Assets

- Assets required by the business will generally be vested in the business unit on commercialisation at current value.
- Surplus assets will be disposed of, with no automatic right of compensation.
- Assets will be valued in accordance with the Treasury policy document *"Recording and Valuation of Non-Current Physical Assets in the Queensland Public Sector"*. Comprehensive revaluations are to be undertaken every five years, with annual indexation in intervening periods.
- Detailed asset registers must be maintained.

## Taxation

- Under Commonwealth-States agreement, all State business enterprises are to make payments to the State in lieu of Commonwealth income tax and sales tax.
- As a general principle, the taxation arrangement to apply to fully commercial business units would mirror those applying to GOE's under corporatisation.

## Government Service Obligations (GSOs)

- GSOs are non-commercial activities which the Government has directed the business unit to undertake.
- A GSO must result from a specific, material and binding Government directive, satisfy a clearly defined policy objective, and *not* be a normal cost of carrying on a business.
- GSOs would specifically *exclude*
  - conditions applicable across the broad public service
  - compliance with regulations
  - activities which, although non-viable on a stand-alone basis, enhance business
  - activities which, if undertaken more efficiently, would be commercially viable.
- Funding of a GSO will be considered within the context of the Budget process, generally on the basis of the same principles as applying for GSO funding under corporatisation.

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# 1. What is Commercialisation?

## Aims of Commercialisation

**1.1**

Commercialisation aims to achieve value for money in the consumption and delivery of government services through the application of commercial principles thereby contributing to a more efficient allocation and use of resources across the budget sector. It provides a framework for ensuring that resources are used in the most productive manner in delivering Government services.

**1.2**

It follows that commercialisation will only be implemented where it is considered that the potential efficiency gains would outweigh the incremental costs of those reforms to service delivery agencies and their clients. In this regard, efficiency gains would be measured in terms of both the quality of goods and services being delivered and the cost to Government of delivering and consuming those goods and services.

**1.3**

Commercialisation is a means of improving the quality and performance of public sector management for some of the activities of government. For a range of activities, it can create strong incentives for managing costs and improving the quality of the goods and services provided to customers. Commercialisation is one way of ensuring there is better value for money in the delivery and consumption of goods and services. With commercialised activities customers inside and outside government have a more direct say in how much of a product is to be consumed and at what price and quality. Without commercialisation these decisions can be dominated by the service provider.

**1.4**

Under commercialisation there is considerable scope to reduce the overall cost, or increase productivity in the delivery of Government services, thereby freeing up funding for other purposes — for example, to provide improved social programs, to invest in economic projects, to reduce and/or limit increases in taxes, reduce debt and so on.

## Commercialisation Defined

**1.5**

There is no precise and universally accepted definition of commercialisation in the public sector. The term is widely used to describe the process whereby government agencies charge for the goods and services they produce and adopt, to varying degrees, other features of the commercial environment. This covers a broad range of activities from minor cost recovery and simple user charging through to full competition on equal terms with private sector firms. However the essential element is the establishment of commercial behaviour between the buyers and suppliers of services. This process is enhanced by encouraging a more competitive environment.

**1.6**

For the purposes of this policy paper, commercialisation is defined as a reform process under which the consumption and delivery of government services (or certain functions thereof) while continuing to operate within the broad departmental framework, are progressively placed as far as is practicable on a commercial footing in a competitive market environment.

**1.7**

This paper focuses on "full commercialisation". Under full commercialisation, business units trade with clients in a full competitive environment. Full commercialisation generally implies considerably more change to traditional public sector ways of providing goods and services than is involved in simple user charging or cost recovery.

**1.8**

Full commercialisation represents the systematic emulation of market conditions in the provision of goods and services produced by government. Full commercialisation involves:

- *untying clients;*
- *pricing at efficient market rates;*
- *setting performance targets in terms of acceptable rates of return;*
- *the payment of dividends and tax equivalent payments.*
- *recognising GSOs; and*
- *giving management more autonomy and at the same time making them more accountable for performance.*

**1.9**

Current Government policy is that under normal circumstances business units providing services to and within Government should remain within their core business, and should not compete for private sector work.

As business units are exposed to the full commercial framework including open competition, they may seek new business opportunities in areas outside of their current sphere of operations provided that this is consistent with core business and the strategic policy direction approved by the Portfolio Minister.

## Commercialisation Principles

**1.10**

Commercialisation is a process which allows clients and suppliers to establish that goods and services represent value for money by engaging in business with each other. Clients have the ability to vary the scope and level of demand and to pay fair prices while service providers must prove the quality of products/services by trading with clients. This is the foundation for commercial behaviour.

**1.11**

The process of improving value for money in the delivery and consumption of services through commercialisation reform is underpinned by the adoption of four key principles:

- *competitive neutrality;*
- *clear and non-conflicting objectives;*
- *appropriate level of management responsibility, authority and autonomy; and*
- *accountability for performance.*

**1.12**

A further important overarching requirement in the case of commercialisation is that arrangements put in place, when viewed in totality, must at least achieve a Budget neutral outcome in the medium term (i.e., they must achieve a positive net present value). Indeed, over time, commercialisation must have as its primary goal, the efficient utilisation of resources across the Budget sector.

## Competitive Neutrality

**1.13**

Where services are supplied in a competitive market environment, then the agency shall be required to compete for business on a fair and equitable basis with alternate service providers.

**1.14**

This means that any competitive advantages or disadvantages that the agency may have by virtue of its government ownership would need to be *removed* so far as is possible.

**1.15**

If the service agency or in-house service provider was not made subject to the same commercial imposts, it would have the capacity to underprice its services and potentially exclude its competitors from that market. Underpricing could lead to distortion in the demand for and production of the agency's goods and services and the unwarranted diversion of resources from other more economically attractive investments elsewhere (e.g., by way of over-investment in internal centralised services). Alternately, the agency could continue to charge a fair market price without having to bring operating costs down to efficient levels.

**1.16**

Satisfying the principle of competitive neutrality helps to ensure that all entities operating in the market place compete on equal terms for the limited resources available — that is, it promotes an efficient allocation of resources.

**1.17**

However, it needs to be recognised that complete competitive neutrality could prove difficult to achieve and, in certain circumstances, may not even be warranted. For example, the comprehensive measures necessary to achieve competitive neutrality for fully commercialised business units could prove unnecessarily burdensome if applied to small-scale commercialised activities. Instead, a broad surrogate for the full package of commercial costs and charges would be imputed.

**1.18**

Also, arrangements need to be made as administratively simple as is practicable in order that costs of compliance are minimised and productive effort is not unnecessarily diverted from the actual performance of the service function. Close approximations to the private sector constraints may often be sufficient to replicate market conditions and capture the majority of benefits achievable from reform of these agencies.

**Clear and Non-conflicting Objectives**

**1.19**

The clear specification of commercial and non-commercial objectives, including the separation out of policy/regulatory functions, will:

- *focus attention on commercial and non-commercial activities which the government specifies as core functions;*
- *help to clarify responsibilities so that management knows exactly what is expected of it;*
- *assist in measurement of commercial performance and identification of factors contributing towards poor performance; and*
- *assist in monitoring of social programs ("Government service obligations") to ensure effective, cost efficient delivery of these services.*

**1.20**

Poor specification of objectives, particularly a lack of clear distinction between commercial and non-commercial objectives, provides the opportunity for management to excuse poor performance and increases the risk that some activities will not be given proper attention.

**1.21**

Wherever possible, there should be appropriate separation of roles to minimise conflicting objectives. In particular, responsibility for policy, regulating and social objectives should be functionally separated from the delivery of commercial services.

**1.22**

Separation of roles between that of supplier and that of customer (buyer) is also essential to provide transparency in decision making for "arms length" trading arrangements.

**1.23**

Potential conflicts of interest may arise where a unit is responsible for setting of policy or standards or for a regulatory function and is also involved in the provision of services that may be impacted by its policy, standard setting or legislative responsibilities.

**Management Autonomy**

**1.24**

The Government, through the Portfolio Minister, will be responsible for setting the strategic policy directions for the commercialised agency, but will *not* be involved in day to day management or in setting the detailed operational policy.

**1.25**

Organisational arrangements must be structured to provide clear roles and authority, and to allow adequate autonomy in the management of operations.

**1.26**

Business unit management will have the flexibility to exercise judgement on operational matters, within the parameters laid down by the Portfolio Department and Queensland Treasury.

**1.27**

Management autonomy in day to day operations will, subject to overarching control mechanisms outlined in later sections, extend to such issues as:

- *efficient market pricing;*
- *quantity and quality of service output;*
- *staff resources and delegations; and*
- *asset management.*

**Accountability for Performance**

**1.28**

Clients are required to be economical in their demand and to exercise rational choice in the price and quality of products and services required and to obtain best value for money. Suppliers must deliver products and services in an efficient and competitive manner and be able to demonstrate to their clients that their products and services offer value for money.

**1.29**

Operations need to be structured to allow clear assignment of accountability for results. This will require grouping of activities and resources according to outputs and clients. Business Units will be required to earn revenue from clients to meet the full costs of business.

**1.30**

Performance will be assessed against negotiated targets which will be set down in the business plan or performance agreement. Comparative performance assessment with the private sector must take account of advantages and disadvantages of public sector operations.

**1.31**

Business units are generally subject to the basic management framework of the Queensland Public Sector and will comply with the requirements of the *Financial Administration and Audit Act* and the *Public Finance Standards*. Additional financial and operational performance reporting requirements will be set down in the business unit's annual performance agreement.

**1.32**

Agency management will be responsible to the Portfolio Minister and Treasurer as representatives of the Queensland public, the ultimate owners of the capital invested in the business.

**1.33**

Given the greater degree of operational flexibility that will be enjoyed by commercialised agencies, strict accountability measures must be established to protect the public interest.

# 2. Implementing Commercialisation

## Scope of Commercialisation

**2.1**

Commercialisation is a means for measuring the effective provision of goods and services where:

- *consumers of the goods and services can be identified;*
- *charging for the goods and services is technically feasible;*
- *users are in a position to influence their consumption; and*
- *there are no public interest or equity reasons why charges should not be attached to the goods or services that are being produced.*

**2.2**

Unless there are compelling reasons to the contrary, commercialisation reform initiatives will be applied to a Budget funded agency or particular functions within a Budget funded agency where:

- *goods or services are being provided by that entity to clearly identifiable clients or to itself;*
- *such reform will promote rational economic choice in the allocation and use of resources and efficiency in the provision of services;*
- *the user has discretion to accept or not accept the goods/services or has considerable discretion as to the quantum which may be accepted;*
- *the goods or services are applied for the benefit of a specified user or user group having the capacity to pay; and*
- *the scale of operations is such that the expected financial and economic benefits from implementing the reform measures outweigh the expected costs. In other instances, simple user charging arrangements might be implemented as a means of increasing the efficiency of that service.*

**2.3**

Commercialisation is appropriate for:

- ***Inter-Departmental Activity** — Typically the ASD Business Units are good examples of this type of activity. Additionally, Lands (Land Titles Searches and valuations) also illustrate the types of activities that could fit this category;*

- ***Intra-Departmental Activity*** *— This would occur where Business Units within a Government Department are providing services for which there is a market (e.g., printing, legal, architecture, drafting/design, information technology, financial, human resource and other corporate services). Most of these services can be readily benchmarked against similar services to enable a choice to be made about the price and level of consumption of that service by the users; and*
- ***External*** *— Examples would include TAFE courses to the public, DPI (Milk Testing); Lands (Search and Valuations and database searches), Statistician's Office (similar to ABS).*

## Examples of Commercialisation Reform

**2.4**

Commercialisation aims to achieve value for money in the delivery and consumption of services by public sector agencies. Such services include:

- *cleaning and other "hotel" services;*
- *vehicle fleet management;*
- *construction, construction management and construction-related professional services;*
- *security;*
- *warehousing and distribution;*
- *printing services, publishing, communications and media services;*
- *office accommodation leasing, furniture and equipment supply and warehousing;*
- *financial services;*
- *legal services;*
- *information systems;*
- *transport infrastructure construction; and*
- *human resource management.*

**2.5**

Commercialisation policy will not directly apply to the provision of a public good. That is, for goods and services for which there is no market or access is restricted and the Government has determined there is a basis for providing such goods and services in the public interest or for equitable reasons. However, the principles can be used by program managers to ensure that delivery of public goods or services is made in the most efficient way.

**2.6**

The appropriateness of providing services to Government under a commercial structure will be assessed on a case by case basis by the Portfolio Department in consultation with Treasury, and other interested parties.

**2.7**

Structural reforms will be implemented progressively over an appropriate period to ensure a successful transition of systems, procedures and cultures within both service and consumer agencies and to enable the Government to adjust where necessary the specific arrangements in the light of experience.

**Commercialisation versus Corporatisation**

**2.8**

The objectives and underlying principles of commercialisation and corporatisation are wholly consistent.

**2.9**

Agencies which are in the process of being corporatised, or are intended to be corporatised, may adopt commercialisation principles during the transitional phase in the lead up to corporatisation.

**2.10**

Commercialisation draws on those elements of corporatisation which are sufficient to capture the majority of the efficiency gains achievable from the reform of agencies which are to be retained within the Budget sector. In particular, the process of emulating private sector conditions under commercialisation reform does **not** extend to the establishment of a full corporate structure, with an independent commercial board of directors and chief executive and shareholding Ministers.

## Stages of Commercialisation

**2.11**

It is recognised that commercialisation is a significant change process and application must be tailored to the needs of agencies.

**2.12**

Agencies can use commercialisation as a tool to strengthen accountability for use and provision of services in the chain of relationships for delivery of programs. The adoption of business-like management approaches supports the outcome focused resource management practices of program management.

**2.13**

The application of commercialisation clearly places the management of program funds at the program manager level within departments/agencies while those involved with supplying products/services, either internally or externally, are required to contract with program managers (or other buyers as the case may be) for the provision of those products and services. Program Managers and other clients seek to obtain best value for money in the use of funds to meet specified program or business outcomes and service providers seek to satisfy the needs of program managers and other clients by supplying products and services which represent best value for money.

**2.14**

Accordingly, commercialisation requires differentiation of two main types of units within departments/agencies:

- *program/policy areas that receive Budget appropriations;*
- *service units which operate on "nil" net budgets with all budget funding transferred to the buyers.*

**2.15**

Departments can seek to implement a more commercial approach through use of a series of stages.

**2.16**

The first stage involves establishing a general business environment between clients/program managers and services providers. The necessary steps involved in establishing a business unit are to:

- *identify products/services;*
- *identify clients/program outcomes;*
- *match products/services to client needs/program outcomes;*
- *establish indicative costs and prices of products/services;*
- *establish standards for performance;*
- *consult with client groups;*
- *regroup activities to form organisational units which are client oriented and have clear accountability for performance, including separation of policy and delivery functions; and*
- *assess the general competitiveness of the unit.*

At this stage units would continue to be budget funded. Activities remaining at this level would typically be of a policy/regulatory nature and would continue to receive funding under the normal program appropriation process.

**2.17**

The next stage involves establishing formal trading relationships between clients and service providers on a tied basis. This requires a more commercial approach to the planning and management of the various business units of the agency and involves the following steps:

- *conflicting roles must be separated to promote clear focus on business objectives and to reduce potential conflict of interest and lack of objectivity;*
- *service contracts to be negotiated between clients and service providers, which specify requirements and standards;*
- *transfer budgets to clients and demand efficient and effective use of products and services;*
- *clients "pay" service providers which provides recognition that products/services have value and must be brought to account;*
- *prices are established on a negotiated basis. This may be a fair market equivalent or full standard costs;*
- *service units move off budget and are separately identified within the accounts of the organisation;*
- *service providers are accountable for use of resources and must identify and meet the full costs of the business;*
- *use of accrual basis for recording and reporting;*
- *work practices and skill requirements are reviewed;*
- *internal suppliers are compared with benchmarks where alternative suppliers are not available;*
- *business units are accountable for performance. Performance is assessed against negotiated targets with appropriate use of rewards and sanctions; and*
- *accountability must be matched with appropriate authority and autonomy to make decisions relating to the business.*

**2.18**

Partial commercialisation is particularly appropriate where the market is developing and the Government is providing the good or service to meet approved market shortcomings, intra-departmental activities (e.g., Corporate services) or to satisfy particular Government policy objectives. The reference to a market and market prices may not be as readily identifiable for the consumer and choices may be restricted. The agency would typically invoke user pays principles ranging from partial to full cost recovery (the major mechanisms for pursuing partial commercialisation would be the use of the **user pays** principles in accordance with Public Finance Standard 320 and **revenue retention** as detailed in the Queensland Treasury Budget Manual).

**2.19**

The final stage, full commercialisation, involves the move to a competitive environment where clients have greater freedom to choose the source of supply. Movement to this level needs to be assessed on a case by case basis, with consideration given to the following:

- *clients must establish that a competitive market exists, while service providers must establish their readiness for competition;*
- *policy/service roles to be separated to the maximum practical extent. Major trading units to be separately identified and operate using Trust Fund arrangements;*
- *government service providers to compete on a fair and equitable basis (competitive neutrality);*
- *costs of the business unit to include tax equivalents;*
- *where clients are free to choose, efficient market prices should be adopted;*
- *supply to external customers should be consistent with the core business of the unit and only within management approvals;*
- *review working arrangements and skills to operate in a more competitive environment;*
- *delegations must be arranged to give business unit managers appropriate autonomy and control over commercial decisions for which they are accountable;*
- *assets to be managed by business units within broader departmental or government policies;*
- *commercial performance targets to be established;*
- *business units are required to earn a surplus (i.e., rate of return) and make dividend payments to the "owner"; and*
- *business unit performance assessment must take account of advantages/ disadvantages of public sector operations.*

**2.20**

Full commercialisation is appropriate where maturity exists in a market as characterised by a discernible level of competition for the goods or services.

**2.21**

Where units are largely engaged in intra-departmental trading then dividend and tax equivalent payments will be reinvested in the Portfolio programs. Performance agreements and monitoring arrangements will be managed within departments in accordance with general guidelines.

| Business Type | Supplier Responsibility | Client Responsibility |
|---|---|---|
| Policy/Regulatory Functions | Focus on program outcomes<br>Identify products/clients<br>Costing of products/services to programs<br>Appropriation funded. Charges often of a tax regulatory nature<br>Maybe some element of user charging and revenue retention arrangements | Program Managers agree services/ functions to be performed, establishes client service standards and provides funding under resource agreements. |
| Partial Commercialisation | Focus on services to programs or other clients.<br>Define the business (e.g., products, clients, etc.).<br>Tied clients — negotiate service requirements.<br>Transfer budget to clients to enable them to pay for services.<br>“Nil” net budget as costs met from client payments. (Revenue retention arrangements may apply for external revenue).<br>Identifies full costs of business.<br>Applies accrual concepts.<br>Operates within accounts of department (possible use of operating accounts where necessary).<br>Performance targets. | Ensure economical use of services.<br>Define and negotiate requirements with service provider.<br>Agree fair prices or standard cost charges.<br>Monitor service performance.<br>Pay for products/services. |
| Fully Commercial | Separate business unit. Policy separate from service delivery to maximum practical extent.<br>Clients untied, therefore compete for business<br>Full identification of business unit operations via Trust fund<br>Competitive neutrality (pay tax equivalents)<br>Earn surplus and pay dividends<br>Ensure delegations match accountabilities<br>Responsible for all relevant asset and liabilities of the business<br>Performance targets. | Ensure economical use of services.<br>Ensure existence of competitive market.<br>Treat all suppliers fairly and equitably.<br>Pay market prices<br>Monitor service performance. |

**2.22**

Issues associated with full commercialisation are further discussed in the following sections of this paper.

## Outline of Full Commercialisation

**Introduction of Competition**

**2.23**

Vigorous competition is an essential prerequisite for successful commercialisation. Competition provides enhanced impetus for the service agency to maximise productivity, reduce costs to efficient levels or enhance the quality and timeliness of service delivery.

**2.24**

Accordingly, restrictions on the entry of private sector firms to markets which are currently the sole domain of government supply agencies will be relaxed wherever possible. “Untying” clients from the government service agencies gives them the freedom to choose among available suppliers to obtain the mix and level of services which best suits their needs and which represents the best value for money.

**2.25**

In addition to fully empowering the user and placing appropriate pressure on the service provider to be efficient, it is also consistent with the principle that commercialised services should not have any net competitive advantage in the market resulting from their position within the Government.

## Untying of Clients

**2.26**

Clients will need to exercise rational choice in the selection of a supplier of a good or service. This means that:

- *decisions will need to be based on the comparative value for money from available alternatives, taking into account such matters as timeliness and reliability of supply, quality of the service, cost of the service, willingness of suppliers to provide follow-up service and so on;*
- *a government service agency should be provided* equal *opportunity to tender for a department's business and assessments of those tenders should take fully into account any efficiency improvements that have been brought about through the commercialisation process. That is, the commercialised government service agency should not be "dismissed out of hand", notwithstanding that its service performance prior to commercialisation may not have been to the satisfaction of the clients;*
- *similarly, a government service agency should not be afforded any priority in the selection process by virtue of its previous association with the clients; and*
- *if non-commercialised in-house services are to be used, these* must *be tested against the market (which includes commercialised business units). To this end, they must incorporate the* full costs *associated with the delivery of that service (which requires accrual accounting and full accounting for capital charges) to ensure that equitable comparisons can be made with external suppliers. This would need to be closely monitored through independent internal processes (e.g., internal audit).*

**2.27**

There may be some instances where circumstances dictate that tied arrangements need to be maintained, but these would be the exception rather than the rule. Further, they are likely to be restricted to particular activities of a unit, rather than its overall business (for example: the printing of Government documents to be presented to parliament; legal advice on issues which are potentially prejudicial to the State's interest). These would be considered on a case by case basis by Queensland Treasury in consultation with the relevant Portfolio Department. The final decision as to whether particular tied arrangements would prevail would rest with Cabinet.

**2.28**

The untying of clients will occur only after an appropriate transition period. During this transition period:

- *Consolidated Fund appropriation to the service delivery agency will cease and sufficient funds will be devolved to clients to enable the purchase of goods and services at market prices from the service agency. The level of supplementation will be decided on a case by case basis within the context of at least a Budget neutral outcome;*
- *Clients will have incentive to encourage their efficient use of goods and services (e.g., flexibility to vary demand); and*
- *Clients will (if not currently available in-house) develop the skills necessary to efficiently allocate their available resources, manage the procurement of services required for the operation of the department and monitor the effectiveness of delivery of those services.*

**Business Arrangements**

**2.29**

Implementation of full commercialisation will require appropriate business arrangements.

- *Major stand-alone activities within the service agency which are capable of being delivered on a commercial basis will be established as separately identifiable business units.*
- *The service agency will be required to meet all costs, including taxes, and provide a return on investment from fees revenue generated.*
- *The industrial environment will need to be reviewed to ensure that it is appropriate for competition with the private sector. To this end, business units will need to negotiate, through an enterprise bargaining framework, with the workforce to restructure working arrangements. This may involve the obtaining of separate award or industrial agreement coverage.*
- *To promote fair competition, policy and regulatory roles will be transferred to a separate unit within the Portfolio Department. This unit will remain Budget funded and will not be responsible for any commercial functions.*
- *The financial affairs of the business unit will be conducted through an operating account or Trust Fund. Separate Trust Funds will be established, where necessary, for major trading activities. This will need to be undertaken in a manner which is consistent with financial policies and strategies applicable to the Budget sector generally.*

- *Adoption of accrual accounting and accounting standards will be required as specified in the* Public Finance Standards *for commercialised bodies. Accounting and other information systems will need to be enhanced to meet the needs of managers and to facilitate performance monitoring.*
- *Appropriate management and staff skills will be required. For example, management may need to acquire marketing expertise not conventionally available in traditional public sector agencies. Development of appropriate skills in-house, recruitment of suitable staff and/or external professional advice needs to be an early priority.*
- *Business units will be progressively made subject to the package of commercial disciplines required to satisfy the principle of competitive neutrality (dividend policy, commercial pricing arrangements, performance monitoring and taxation regimes implemented; capital structure determined and so on).*

**Incentives for Commercialisation**

**2.30**

The incentives for achieving a fully commercialised state would include:

- *improved flexibility for agencies that embrace the Government's commercialisation principles and promote increased efficiency in resource use and quality of service;*
- *increased transparency and accountability for activities operating in a commercial environment, separate from non-commercialised activities;*
- *access to revenue sharing arrangements in early phases of commercialisation for additional revenue generated. For example, where activities are not operating on a commercial basis they may arrange for additional revenue to be retained for expenditure on approved Government program activity. The program activity could be increased where demand justified such expenditure; and*
- *retention of dividends/tax equivalent payments (notionally applied by the Department) for intra-departmental activities operated on a commercial basis.*

## Implementation Process

**Financial Management Strategy Steering Committee**

**2.31**

Commercialisation is one of the initiatives included within the Government's Financial Management Strategy 1994-98. As such, implementation of commercialisation will be overseen by the Financial Management Strategy Steering Committee (FMS), comprising a number of Chief Executive Officers and chaired by the Under Treasurer. The FMS will report to Cabinet periodically on progress with implementation of commercialisation.

**2.32**

The FMS Steering Committee will review all proposals for full commercialisation prior to departments seeking Cabinet approval. Generally, only activities that are seeking to proceed to full commercialisation will be required to seek Cabinet approval.

**Detailed Implementation**

**2.33**

Portfolio Departments will have primary responsibility for detailed implementation of commercialisation in close consultation with Queensland Treasury.

**2.34**

Departmental responsibilities would include structural reform of service agencies. This would require the development of implementation plans and strategies and promulgation of these plans within the organisation.

**2.35**

Queensland Treasury will have the lead role in:

- *developing the detailed financial arrangements consistent with the overall commercialisation policy and with the mandate of Budget neutrality;*
- *ensuring that the policy framework is properly implemented and that the detailed arrangements for the business unit operate effectively; and*
- *ensuring any necessary legislative amendments are effected (e.g., PFS).*

**2.36**

Implementation of commercialisation in public sector service delivery agencies will be undertaken on a case-by-case basis to ensure that detailed arrangements:

- *suit the particular circumstances of the agency;*
- *do not impose an overall cost on the Budget; and*
- *are consistent with other policy objectives of Government (e.g., whole-of-Government approach to access and integration of information held by agencies).*

These arrangements will be developed within the broad policy framework presented in this paper.

## Consultation

**2.37**

It is envisaged that consultation with union, industry and other relevant groups would occur at a broad policy/implementation level through regular briefings/discussions provided by Treasury and departments, prior to any major policy adjustments on the commercialisation policy framework.

**2.38**

Further detailed consultation would occur in terms of :

- *development of proposals for full commercialisation of major Government activities. This would be expected to involve union and private sector representation on implementation working groups; and*
- *negotiation with unions on appropriate industrial arrangements including in particular, enterprise agreements.*

**2.39**

The level and scope of consultation would need to be considered by agencies in developing commercialisation proposals.

# 3. Management Issues in Adopting Commercial Practices

## Management Autonomy & Accountability

**Portfolio Minister**

**3.1**

The Portfolio Minister will establish the strategic policy directions for business units within his/her area of responsibility. The objectives, nature and scope of the main activities of the business unit, including commercial and non-commercial activities, will be specified in an annual Performance Contract.

**3.2**

The Portfolio Minister will have ongoing responsibility for policy functions pertaining to the broad Government Portfolio role but will not become involved in the day to day management or detailed operational policy of the business unit. Otherwise, it might prove difficult to hold management fully accountable for performance.

**3.3**

Any operational directives made by the Portfolio Minister that may impact on the commercial performance of the business unit would need to be clearly specified as GSOs before the provision of Budget funding could be considered.

**The Treasurer**

**3.4**

The Treasurer would have a key policy role in matters affecting the financial and economic performance of business units.

**3.5**

The Treasurer and the Portfolio Minister would be jointly responsible to Cabinet and the Parliament for the commercial performance of business units. This means that they would have ultimate responsibility for monitoring performance and ensuring that appropriate incentives and disciplines are in place to encourage management to perform. They will jointly set rate of return targets and other performance indicators and determine dividend payments.

3.6

The Treasurer would also oversee the activities and performance of business units as a group, particularly in relation to the budgetary impact of their operations.

**The Chief Executive**

3.7

The Chief Executive Officer (CEO) is the accountable officer under the Financial Administration and Audit Act and ultimately is responsible for the effective operation of his/her department *as a whole*. Nevertheless by virtue of his/her position, the CEO may at times face a situation where there are competing interests between the social and commercial areas within the department — for example, where commercial outcomes would be materially influenced by a particular decision in the policy or regulatory area, the CEO might be persuaded to moderate that decision to the commercial advantage of the business unit.

3.8

Delegation of authority for commercial operations to business unit management would lessen the impact of such situations. Any non-commercial directives which are given to the business unit would need to be clearly documented and GSO funding agreed in advance with Treasury.

**Business Unit Management**

3.9

A high level of management authority and autonomy will provide appropriate incentives for management to maximise efficiency of their operations and enhance economic returns.

3.10

The level of autonomy afforded business unit management will generally be at the discretion of the CEO, but it needs to be recognised that there will still be a need to operate within the public sector environment. For example, business unit management will need to work within the public sector employment framework — but will be expected to fully utilise enterprise bargaining to achieve best possible practice.

**3.11**

Nevertheless, appropriate operating flexibility will be afforded to business units once they are fully commercialised. For example, management will (subject to consultation with employee unions, PSMC and DEVETIR where relevant):

- *be free to determine the most appropriate resource mix for the delivery of their services. This would involve decisions on necessary skill and staffing levels, discipline profiles and sources of labour, including opportunities for the contracting out of specific tasks;*
- *have responsibility for determining financial and personnel delegations within their business. In this regard, each position within the organisation will need to have clearly defined roles and formal delegation of authority sufficient to effectively perform those roles;*
- *with appropriate regard to the competitive market environment in which the unit operates, set the price for their services and control the quality and level of output;*
- *take responsibility for financial management of the business; and*
- *subject to requirements of this commercialisation policy (including compliance with the government's Project Evaluation Guidelines), purchase and dispose of assets.*

**Corporate Service Functions**

**3.12**

It is essential that least cost avenues for delivery of corporate service and group finance functions be adopted. Duplication of corporate functions should be minimised and unnecessary layers of middle management avoided. To this end, the business unit could enter into an arrangement to procure such services from (or provide to) the Portfolio Department. Any such arrangement would need to provide for an appropriate level of services on fully commercial terms. The nature and scope of services to be provided would need to be *agreed with* the business unit rather than imposed upon it by the portfolio Department.

**Monopolies**

**3.13**

The high degree of management autonomy proposed would be contingent on the business unit being subject to the checks and balances of a competitive market environment. In the event that a commercialised business unit retains any monopoly powers, management autonomy would be restricted and its activities would be more closely scrutinised by Queensland Treasury and the Portfolio Department than would otherwise be the case.

### Accountability

**3.14**

Operational flexibility accorded by the devolution of responsibility to business unit management will involve a correspondingly higher level of accountability for economic performance. It is important therefore to ensure that effective mechanisms are in place to ensure that agencies are accountable for their performance, without detracting from accepted levels of probity.

**3.15**

In general, there is a chain of accountability from the business unit management to the CEO, from the CEO to the Portfolio Minister and the Treasurer and through them to Parliament.

**3.16**

Performance targets will be specified in a Performance Contract at the commencement of each year. A detailed performance monitoring regime will be developed to assess actual performance against these targets on an on-going basis and to enable problems to be quickly identified and resolved.

**3.17**

At year end, information detailing the business unit's performance relative to the specified targets will be separately reported within the Portfolio Department's Annual Report to be tabled in Parliament. However, the business unit will not be required to publicly report any commercially sensitive information.

**3.18**

Assessment of the business unit's performance will form the basis for any rewards or sanctions deemed appropriate by the Portfolio Minister and Treasurer.

### Performance Contract

**3.19**

Prior to the commencement of each financial year, the expectations and requirements of the government will be clearly defined in a formal Performance Contract.

**3.20**

The details of the Contract will be agreed between all parties with a stake in the business — that is, the business unit management, the CEO of the Portfolio Department, the Portfolio Minister and the Treasurer — and they will be a party to the agreement. The Contract will be reviewed and renegotiated annually.

**3.21**

The Performance Contract would include such matters as:

- *the objectives, nature and scope of the main activities of the business unit, including commercial and non-commercial activities;*
- *short and medium term target rates of return and the nature of other financial and non-financial measures which will be used by government to assess performance;*
- *the dividend target;*
- *forecast taxation obligations;*
- *full details of any agreed GSO activities, including description, arrangements for measuring the effectiveness of their delivery, agreed funding levels, costing and payment arrangements;*
- *broad financial requirements, such as*
  - *general Budget sector financial policies and strategies*
  - *maximum debt-to-equity ratios, and*
  - *borrowing, investment requirements;*
- *details of any planned major investments, including expected returns, proposed financing arrangements (this would link to investment plan); and*
- *detailed reporting requirements, including frequency, form and content of reports.*

**Rewards and Sanctions**

**3.22**

For commercialisation to succeed, the process must be driven from within the business unit. The implementation of an appropriate system of rewards and sanctions will help ensure that this impetus persists within management.

**3.23**

Market competition in itself provides an automatic system of incentives and disciplines and these are reflected in the commercialisation framework presented here. For example:

- *operational flexibility and autonomy accorded through devolution of authority allows management the opportunity to influence outcomes which will be seen externally as being the product of management expertise;*
- *the corollary is that tighter external controls can be imposed in the event that management is making decisions which, for example, are*
  - *inconsistent with financial policies and strategies applicable to the Budget sector generally and/or with any other requirements specified in the Performance Contract and which are material, and*
  - *adversely impacting on economic performance;*
- *the prospect of retaining a share of profits for reinvestment in the business and in the skills of its workforce is a form of corporate incentive to maximise returns; and*
- *enterprise bargaining should provide management with the opportunity to better match remuneration with employee contributions.*

**3.24**

The bottom line is that if a business unit does not perform and there is a more efficient private sector alternative, then it is inevitable that Government will need to consider private sector options.

## Human Resource Management in a Commercialised Environment

**3.25**

As a general principle, human resource management in a commercialised environment involves the adoption of best practice consistent with that appropriate for a competitive environment. This needs to occur within the context of the Government commitment to ensuring that best practice standards of equity, merit and impartiality are adhered to in all Queensland Government employment areas.

**3.26**

Best employment and industrial relations practices for the Queensland public sector may be drawn from both the public and private sectors. New legislative requirements such as the Commonwealth's *Industrial Relation's Act 1994* (IR Act) and the *Anti-Discrimination Act 1991* have seen a convergence in practices between these two sectors. For example, their Act requires both public and private sector employers to adopt processes similar to those outlined in the performance related Public Sector Management Standards. Additionally, the *Equal Opportunity in Public Employment Act 1992* places similar requirements on the Queensland public sector to those on private industry under the *Affirmative Action (Equal Employment Opportunity for Women) Act 1986*. The impact of these developments is that management is now required to be more transparent in decision making and more accountable for those decisions.

**3.27**

The enterprise bargaining process will be adopted by business units as the basis for negotiating with unions to achieve conditions of employment and work practices so as to mirror as close as possible best practice within the relevant industry or market setting. For this purpose, major business units would be established as separate bargaining units within the public sector subject to approved monitoring and review by relevant central agencies, for example, to ensure that the principles in the Public Sector Management Standards are observed.

**3.28**

The transition from a traditional public service environment to a fully commercialised business unit structure will place new demands and requirements on both management and staff. Accordingly, careful workplace planning must be instituted from the time the intention to commercialise is identified. This may require a process of job redesign to ensure an appropriate alignment between work responsibilities and remuneration levels. Also, the mix of skills and employment levels may need to be adjusted to reflect the requirements of a competitive environment. Any staffing adjustments required in these circumstances would need to occur within the framework of the Public Sector Management Standards and Government policy although it would be open to a fully commercial business unit to argue that greater operating flexibility is appropriate in certain areas. These arguments would need to be considered by PSMC and referred to Cabinet for determination if required.

**3.29**

Commercialised business units will be required to comply with any Public Sector Ethics Legislation. This may require units to adopt the relevant department's code of conduct or to develop its own code of conduct in terms relevant to its industry.

## Performance Monitoring

**Performance Monitoring in Business Units**

**3.30**

Performance monitoring of business units is intended to be a supplement to, not a replacement for, existing Budget monitoring and program management processes. It will augment the public reporting regime established under the Public Finance Standards (1993) and the audit reports of the Auditor General.

**3.31**

Objective monitoring by an authority external to the business unit of economic, financial and non-financial performance will be a key factor in improving the efficiency and effectiveness of service delivery.

**Focus on Outputs and Outcomes and Strategic Direction**

**3.32**

The focus will be on monitoring the economic results and financial health of the business unit to ensure that the government is achieving the best value for its invested dollar and that the investment will be viable in the long term.

**3.33**

Performance monitoring is concerned with the business unit's progress towards achieving specified targets consistent with the objectives set for the enterprise.

**3.34**

The targets will be broad based to the extent that they would form a complete profile of the business unit in important respects. In particular, targets will cover economic, financial and non-financial criteria.

**3.35**

Some specific indicators may need to be established for each business unit, although many common indicators will also apply. Performance indicators will be accompanied by a balance sheet, profit and loss statement and cash flow statement projections for the following three to five years.

**3.36**

In contrast with Budget monitoring where the focus is on the role of the business unit as a member of the Budget sector, performance monitoring is intended to add another dimension by also examining the strategic direction of the business unit in the context of the industry in which it operates. Monitoring will therefore need to be concerned with evaluating the costs, benefits and risks of alternative business strategies.

**3.37**

Primary responsibility for monitoring the performance and ongoing viability of business units will rest with the Portfolio Department. It is envisaged that monitoring would normally be undertaken on a monthly basis.

**3.38**

Treasury will maintain the regular Budget monthly review process and will have an oversighting role in the performance evaluation process. Treasury will be concerned with ensuring that performance targets are being met and that the overall monitoring process is being undertaken in an effective manner.

**3.39**

Further details on performance monitoring are contained in Attachment A.2.

# 4. Financial Framework for Commercial Practices

## Pricing Policies

**4.1**

Efficient market pricing of goods and services is essential to promote rational economic choice in the allocation and use of resources expended on consumption and efficiency in the production of those goods and services.

**4.2**

Optimising the pricing regime is therefore critical to the success of commercialisation reform. As inefficiencies are at their lowest level in an open, competitive market situation, what such a market is charging would most closely reflect the "efficient price" for that good or service.

**4.3**

Accordingly, business units will be expected to charge market prices for goods and services they produce. Normal commercial principles should apply to the invoicing and recovery of charges for services rendered, including the imposition of penalties (interest etc.) on overdue accounts and/or discounts for early payments. In this regard, Queensland Treasury will provide cash management incentives similar to those available in the private sector.

**4.4**

During the transitional period leading up to effective commercialisation, Queensland Treasury and the Portfolio Department will closely monitor the prices of goods and services produced by business units to ensure that prices are being maintained generally at market levels.

**4.5**

However, the government would usually not have a continuing involvement in detailed pricing policies. This would be the responsibility of the unit's management. Nevertheless, there may be some cases where longer term external monitoring is warranted to ensure that prices are being set so as to provide an appropriate return on capital and to cover the full *efficient* cost of producing the good or service (this may need to be imputed or benchmarked in some instances). For example, there might not be a readily available market price for the unit's product (e.g., if there was no established market or if the unit's products are materially different from those of its competitors) or the Portfolio Department may be the major purchaser of the business unit's services and might see some advantage in procuring those services at some undervalued price.

**4.6**

Generally though, once fair competition is introduced there would be strong incentive for the unit to not overcharge relative to the market and the implementation by that time of appropriate arrangements in relation to taxes, dividends, debt service charges, full cost allocations (including corporate overheads) and so on will help to ensure that the unit has limited opportunity to unfairly undercut its competitors.

## Capital Structure

**General Principles**

**4.7**

Commercialised business units will be required to service commercial debt facilities provided by either Queensland Treasury or Queensland Treasury Corporation and make dividend and tax equivalent payments through Queensland Treasury to Consolidated Fund.

**Implementation of Appropriate Capital Structure**

**4.8**

The assets of the business have been funded over time by a mixture of borrowings and Consolidated Fund injections. The relative contributions from these sources in the past would tend to reflect the non-commercial environment in which the agencies have operated. Consequently, current debt/equity levels would be unlikely to be in line with those determined appropriate for a business unit acting with a commercial charter.

**4.9**

Hence, the existing capitalisation will need to be adjusted during the transition period leading up to the introduction of competition to more closely reflect the appropriate structure. The desired levels of debt and equity will be determined by applying the agreed debt-to-equity ratio to the current value of the asset base. A comprehensive asset valuation exercise and detailed review of the asset base will first need to be undertaken — indeed, in some cases the level of assets may not be appropriate for a commercial environment and assets may need to be transferred back to the Budget.

**4.10**

Adjustment of the existing capital amounts will be achieved through appropriate debt/equity conversions on commercial terms.

**4.11**

Operating under full commercial constraints will require substantial adjustments to be made by the business unit and it might be necessary in some cases to take this into account when implementing the desired capital structure. In particular, in some situations debt capital could be phased-in until such time as cash flows have stabilised sufficiently to ensure that appropriate, long-term debt levels can be serviced. Conversely, surplus assets may be retained until such time as it is clear that they are not required for operational purposes.

**Capital Investment**

**4.12**

It is not necessary for major new capital investment opportunities which may arise from time to time to be funded from debt and equity in the same proportions as the business' capital structure. There may be compelling reasons at the time to utilise debt finance only or to seek to have the investment fully funded through government equity contribution (which may be a direct contribution or retained earnings). However, any significant adjustments made to overall capital structure as a result of short term funding constraints would need to be wound back in the longer term.

**4.13**

The funding mix used for any given new capital investment will depend on a number of factors, including:

- *the capacity of cash flows to service additional debt (depends on the level of debt outstanding at that time, variability in cash flows);*
- *the government's capacity in the light of overall Budget priorities at that time to provide capital injections; and*
- *whether or not there is any need to adjust the debt-to-equity ratio to bring it into line with market norms at that time.*

**4.14**

High debt-to-equity ratios *could* be employed to limit the potential for generation of excess profits which provide incentive to management to over-invest (resulting in uneconomic investments which would otherwise not have been considered). However, more effective means of deterring uneconomic capital expenditure would include:

- *competition from the private sector;*
- *a requirement to undertake a comprehensive financial assessment to externally justify projects requiring significant capital expenditure (e.g., more than 10% of net assets). The government's draft* Project Evaluation Guidelines *should be used as a guide for the assessment process; and*

- *Capital expenditure of $500,000 or more would usually require prior Treasury approval which would be considered on the basis of the financial assessment undertaken by the business unit.*

**Borrowings**

**4.15**

Short term overdraft or long term borrowing facilities will be made available to business units at commercial rates through Queensland Treasury Corporation. Business units will not be able to seek debt finance from sources other than QTC.

**4.16**

Loan funding will be subject to such terms and conditions as may be applicable to QTC finance at that time. Such terms and conditions would generally accord with market practice. QTC would make case by case assessments as to the capacity of the business unit to service the debt being sought and would *not* rely on any explicit or implicit government guarantees to support the financial accommodation or take these into account in determining the price of the finance.

## Dividend Policy

**4.17**

Ownership of the net worth of public enterprises vests in the government on behalf of the general public. The net worth is measured as the difference between the current aggregate value of the assets and liabilities and reflects the State's equity in the business.

**4.18**

The payment of a dividend from the Trust Fund to Consolidated Fund recognises that the State's equity has an opportunity cost — the financial return that the State would have earned on its funds if they were invested in an alternative use of equivalent risk.

**4.19**

The adoption of an explicit dividend policy would help to dispel any misconception that the cost of equity finance was zero and would facilitate comparison with private and public sector benchmarks.

**4.20**

Once the capital structure and required rate of return on assets have been set, dividends would effectively be determined as a residual since the return on debt is fixed and debt has priority over equity in the distribution of revenues.

**4.21**

Dividend payments will need to be negotiated on a case by case basis, taking into account the fact that:

- *dividends must be paid out of profits actually generated. They must be based on actual results, not on target returns. However, setting target returns provides an essential reference point for management to work towards;*
- *unrealised capital gains (which form part of the required return on assets) are not available for distribution as dividends;*
- *the business may need to retain equity to finance growth;*
- *the detailed project assessment procedures outlined in paragraph 4.14 would to a large extent ensure that profits retained in the business are not channelled into uneconomic investments;*
- *the quantum of dividends sought on an on-going basis must not be such that payment would prejudice the financial health of the business;*
- *the need to allow management to retain earnings as an incentive to maximise profits; and*
- *the principle of competitive neutrality suggests that dividend payments should be broadly consistent with those of the private sector competitors.*

## Determination of Dividends

Conceptually, the annual dividend payable would be calculated as:

the written down current cost of assets (adjusted for assets under construction) *multiplied by* the required nominal before-tax economic rate of return on assets *less*:

- *interest expense (the return on debt by which the assets have been part financed);*
- *income tax equivalents.*

As a broad 'rule of thumb', the required dividend would normally not exceed 50 per cent of net profit after tax for the year.

The quantum of the annual dividend payment will in the first instance be discussed between Queensland Treasury and the business unit management. A recommendation will then be made by Queensland Treasury to the Portfolio Minister and the Treasurer for their joint consideration.

## Ownership & Valuation of Assets

**Ownership**

**4.22**

The asset base being employed by each business unit (including plant and equipment, land and buildings) will be reviewed and assets that are clearly surplus to requirements will be disposed of in a manner appropriate to the particular circumstance. Any compensation would be determined by Queensland Treasury in consultation with the Portfolio Department having regard to the specific circumstances, including the manner in which the asset was originally acquired. In this regard, compensation would not be provided in cases where the asset was funded from Consolidated Fund or through revenues generated from within the public sector.

**4.23**

The remaining assets which are required by the business unit in the conduct of its normal business activities (including GSOs) will *generally* be vested in the business unit on behalf of the Queensland public. Assets will be deemed to be transferred to the business unit as at the agency's effective date of commercialisation at their market value at that time. This is considered to be the date from which the agency's market is formally opened to competition from private sector firms (whether or not in practice true competition commences from that date).

**4.24**

Ownership by business units may not always be appropriate and control of certain assets might need to be transferred to non-commercial sections within the Portfolio Department. For example, it would not be appropriate for Q-Build Property Management to own the government office buildings that it manages. Instead, ownership will vest in the Government Services Division and QPM will be engaged as manager for specific buildings on a competitive basis. The ownership issue would need to be considered on a case by case basis.

## Valuation of Assets

**Current Assets**

Current assets are subject to an active market and could readily be valued at market price. Work in progress and raw materials would generally be valued at the lower of net realisable value or replacement cost.

**Non-Current Assets**

The methodology to be adopted for the recording and valuation of assets held by business units is detailed in the Queensland Treasury policy document *"Recording and Valuation of Non-Current Physical Assets in the Queensland Public Sector"*.

## Taxation Arrangements

**Rationale for taxing service agencies**

**4.25**

The raising of additional revenue from the taxation of government service agencies is not in itself an aim of commercialisation. Rather, taxation is just one component of a package of commercial charges and disciplines which must be imposed on the agency to ensure that a competitively neutral operating environment is strictly maintained.

**4.26**

As government service agencies operate in a restricted market (generally only public sector clients), the government cannot rely solely on that market to ensure optimal allocation of resources. If this is to be done efficiently and effectively, the government must have accurate information about the agency's performance relative to other alternative resource usage.

**4.27**

In the absence of an appropriate taxation regime for the agency, its performance is overstated relative to private sector benchmarks. This serves to mask any inefficiencies. Also, tax exemptions would tend to distort decision making (e.g., if sales tax exemption is provided on the purchase of a particular good, the agency is likely to purchase more of that good than would otherwise be economically justified).

**4.28**

Since the government will receive dividends from the agency as beneficial owner of the business and will also be the taxing authority, it could be argued that taxation obligations could notionally be accounted for by way of increased dividends (as an absence of a direct taxation payment would justify a higher rate of rate of return on assets).

**4.29**

However, levying tax obligations by way of a higher required return on assets reduces transparency in the agency's performance and makes it difficult to ensure that amounts paid represent a fair level of taxation for income earned.

**4.30**

Leaving aside the economic justifications outlined above, the levying of tax equivalents on state business enterprises is now *mandatory* for all States following the agreement reached with the Commonwealth at the March 1994 Premiers' Conference. Under this agreement, a tax equivalent regime is to be implemented by each State within the next three years.

**Payments of tax equivalents**

**4.31**

Agencies will be required to make payments to Queensland Treasury in lieu of Commonwealth income tax and sales tax. Such payments will equate as closely as possible to amounts that, ignoring exemptions for *public authorities*, would have been payable to the Commonwealth pursuant to the *Income Tax Assessment Act* and the *Sales Tax (Exemptions and Classifications) Act*.

**4.32**

Commercialised agencies will also be required to make payments to the State in lieu of stamp duties, land tax and Local Authority rates (See Attachment A.3).

## Government Service Obligations

**Definition**

**4.33**

A Government Service Obligation (GSO) is broadly defined as:

"any specific Government directive to a business unit which induces a material departure from otherwise commercial decisions regarding the conditions of supply of services".

**4.34**

A GSO activity is intended to satisfy a specific objective of the Government and, as such, would generally *not* be undertaken (at least not in the manner directed) as an element of normal commercial business.

**4.35**

The term covers activities that provide a direct benefit to specific sections of the community (e.g., prices held below market levels). These types of activities are often termed Community Service Obligations. Given that business units do not (as a general rule) *directly* service the public, activities falling into this category are not likely to be commonly encountered.

**4.36**

It also captures a range of activities which do not provide tangible benefits to a defined group but which the government still considers to be desirable from a broad community perspective (e.g., external lighting of government offices, occupation of high cost heritage listed buildings).

**Guidelines for Identification of GSOs**

**4.37**

While GSOs need to be assessed on a case by case basis, there are a number of important conditions which will need to be satisfied before an activity would be considered for GSO funding. These are outlined below.

**Material and binding Government directive**

**4.38**

There must be an explicit government directive for the performance of a clearly specified activity. Further, the scope of the activity must be such that it would justify the effort involved in separately measuring and funding it as a GSO.

**4.39**

While the existence of an explicit government directive is a necessary condition for an activity to be recognised as a GSO, this in itself may not be sufficient. A distinction needs to be drawn between GSOs and directions or mandates of a regulatory nature. The latter responsibilities relate to compliance with a range of legal and regulatory requirements which are not specific to the business unit (e.g., environmental controls). That is, they are generally applicable to any entity undertaking similar activities. Compliance with this type of direction would *not* be funded.

**Non-commerciality**

**4.40**

The activity must be one that would not ordinarily be undertaken by an entity operating to a commercial objective. That is, it should not be capable of being performed in a manner which would provide an acceptable rate of return.

**4.41**

An activity which would be commercially viable in the absence of inefficient practices would not be eligible for GSO funding *unless* such inefficiencies are being imposed upon the business unit by way of an explicit Government directive.

**4.42**

Also, GSOs need to be differentiated from non-commercial activities which are typically a cost of being in business or activities that a commercial firm might ordinarily undertake to promote “good business”. These types of activities would need to be funded from operating revenues.

**Clear policy objective**

**4.43**

The activity must be being performed to satisfy a clearly defined policy objective. This ensures that only activities which the Government sees as a priority would continue to be undertaken.

**4.44**

Ideally, the policy objective would be defined in a manner which allows for flexibility in the method by which the service is delivered so that the most effective outcome is achieved at the most efficient cost.

**Broad Public Sector Costs**

**4.45**

It is recognised that the financial performance of business units will be influenced by a number of operating conditions that are unique to the public sector (e.g., public service employment and industrial relations conditions — although enterprise bargaining provides a framework for introducing more commercial employment arrangements). However, these are broad conditions applying across Government as a whole. They do not represent specific non-commercial directives imposed on business units and, hence, do *not* fall within the GSO category. Nevertheless, it is recognised that such costs *may* warrant special attention outside of any GSO arrangements.

**4.46**

In this regard, viewed in isolation, these factors might be seen as constraints on performance. However, at the same time, the Government ownership of business units bestows on them certain advantages which would prove in practice difficult to fully remove (e.g., the shield of the Crown, implicit guarantees on Queensland Treasury Corporation or Queensland Treasury debt facilities, reduced debt charges due to access to QTC finance which is not available to competitors, implicit underwriting of solvency, transitional periods of monopoly, familiarity with Government procedures providing a competitive edge and so on).

**4.47**

Accordingly, any public sector "constraints" would need to be considered in the context of any inherent advantages enjoyed by the business unit. The obvious difficulty involved with accurately measuring these effects (either in isolation or on a net basis) would suggest that they would best be accounted for through agreed adjustments to target rates of return. It is however anticipated that such adjustments would be the exception rather than the rule and any resulting concessional arrangements would be phased out over time.

# Attachments

## Background Material

### A.1 Government Service Obligations

**The Need for Clear Policy Guidelines**

In the past, GSOs have been undertaken without clear direction or specification of objectives. The true costs and effectiveness in terms of social outcomes have not been made transparent. Poorly specified objectives have contributed to inefficiencies in the delivery by business units of government programs and to their reduced performance generally.

Some of the activities being delivered under the GSO banner may simply be being performed as a matter of tradition, perhaps having never been seriously questioned by the Government. In other cases, while the activity itself may have some time in the past received Government sanction, the level of that service now being delivered may not be appropriate for current circumstances.

A consistent approach is required to ensure that the services being delivered are fulfilling a worthwhile purpose and that they are being delivered in the most effective and efficient manner.

**Responsibility for Identification of GSOs**

Business units would assist the policy/regulatory division of the Portfolio Department in the identification and costing of activities for possible inclusion in the Department's GSO program.

GSO program proposals specifying the range, level and quality of services proposed to be purchased on behalf of the Government would ultimately be formulated by the Portfolio Minister for consideration by Cabinet.

**Funding the GSO service**

The identification of an activity which fits within the definition of a GSO does *not* in itself guarantee that the activity will be funded. Funding of the activity would need to be considered by the Government in the light of its overall expenditure priorities and Budget constraints at that time. Accordingly, the Portfolio Minister would need to submit an appropriately detailed funding request for consideration in the context of the normal Budget process.

Ideally, the level of funding for a given GSO would be set at the beginning of each financial year on the basis of the *efficient* cost of providing that service. Once client Departments have been untied, the competitive market situation would help ensure that Government is charged no more than the efficient price for the service. However, it is recognised that in the meantime it may prove difficult to estimate the efficient price and the level of funding would need to be a negotiated amount. This price will need to be low enough to place sufficient discipline on the policy unit to ensure that the service is provided as efficiently as possible. Wherever possible, appropriate reference will be made to private sector alternatives in setting price.

The mechanism for reimbursement of GSO costs and the timing of such payments will be considered on a case by case basis having regard to the specific circumstances. Options include explicit Consolidated Fund payments and retention of costs by way of reduced dividend payments.

In either case, funding for the GSO activity will be provided to a policy/ regulatory unit within the relevant Portfolio Department, not to the business unit, and the policy unit will be required to achieve the specified level and quality of service within that funding limit.

**Costing the GSO Service**

While funding will be provided to the responsible policy unit on the basis of efficient (*ex ant*e) cost, the service provider will be compensated for the *actual* cost that was incurred in providing that service. It is recognised that until such time as effective competition can be introduced for the provision of GSOs, actual costs might exceed efficient costs. However, to enable proper scrutiny, the true cost to the Government of providing these services must be reported.

The policy unit will compensate the service provider for the (long run) *avoidable costs* associated with delivery of the service. The avoidable costs are all of the costs, including capital costs (financial “opportunity cost” plus economic depreciation) that would be avoided by the service provider if the specific GSO service was not undertaken. In the absence of effective competition, the avoidable cost will need to be established between the policy unit and the business unit prior to delivery of the service. In a competitive environment, the price sought by service providers bidding for the GSO business would be expected to reflect efficient avoidable cost levels.

**Service delivery and monitoring**

The Portfolio policy unit, and ultimately the Portfolio Minister, will be accountable for ensuring the most effective and efficient delivery of the GSO service. To that end:

- *once the relevant business unit is untied, the policy unit will have the freedom to determine the source of those services and will be able to benefit from competitive pricing at that time;*

  *to ensure that the government is receiving value for money from delivery of these services, GSO services must be contestable. To this end, the Portfolio Department responsible for the GSO service should be required to periodically test the market (e.g., every three years) to ensure that the current delivery arrangements represent good value when compared with available alternative providers/options;*

- *the range, level and quality of GSO service that has been specified by the Portfolio Minister and agreed to by government would be explicitly defined in an appropriate service contract. Performance of the service provider will be carefully monitored by the policy unit in accordance with the terms of that service contract; and*

- *the effectiveness and cost efficiency of the GSO delivery will be carefully scrutinised by Treasury in the normal Budget reporting and Program Management review processes.*

Separation of policy and commercial responsibilities will help ensure that business units treat GSOs as part of their core business function, rather than as marginal activities, and will facilitate evaluation of the effectiveness of GSO activities and the monitoring of commercial performance.

## A.2 Performance Monitoring

**Budget Processes**

Monitoring of service delivery agencies has long been in place through the Budget processes. While periodic monitoring has for some time predominantly focussed on inputs (such as recurrent expenditure requirements, staff resources, capital programs), the introduction of program management has brought attention to outputs and program outcomes.

As part of this reform, the Budget processes have progressively adopted a stronger focus on performance issues. For example, the Public Finance Standards now require that regular in-house performance evaluations be undertaken by all agencies. Performance information has become part of the basic input to the Budget process. Performance monitoring of business units will build on this.

**Performance Monitoring in Business Units**

As commercialised business units would have greater commercial independence than currently exists, but would not be subject to the same extensive performance evaluations as their private sector counterparts, additional monitoring mechanisms would be required.

Monitoring would not in the ordinary course of events involve direct control or evaluation of the day to day running of the business unit. This is the responsibility of management. However, detailed review of operations may be necessary in some "one-off" circumstances to identify factors contributing to poor performance.

**Early Warning Signals**

Declines in performance must be quickly recognised so that remedial action can be taken. To assist in this process, the specific monitoring arrangements for individual business units will need to include indicators of minimum critical performance levels — that is, levels of activity below which the business unit would experience short term liquidity problems or long-term solvency problems (e.g., break-even throughput).

**Responsibility for Performance Monitoring**

Queensland Treasury will *generally* not become involved in the detailed review of comprehensive performance reports provided to the Portfolio Department but will rely on regular briefing reports from the Department, supplemented by additional more detailed information as policy issues are identified. The details of the Queensland Treasury reporting arrangements will be determined on a case- by-case basis in consultation with the relevant Portfolio Department.

It will be the responsibility of the Portfolio Department in the first instance to identify shortfalls in performance and other areas of concern and to address these with the business unit. Queensland Treasury would be kept fully informed of any such situations, but would generally only intervene in cases where the Portfolio Department was unable to resolve the problem.

The Portfolio Minister and the Treasurer will be jointly responsible for keeping the Government informed as to whether the business unit is achieving its specified objectives and the specific targets underpinning those objectives.

**Framework for Performance Monitoring**

The framework for performance monitoring and reporting in public sector service agencies would parallel that outlined in Appendices 1 and 2 to the Government's White Paper "*Corporatisation in Queensland*". Adjustments to that framework would be implemented on a case by case basis as the circumstances demand. As already noted, one major difference in the approach presented in the commercialisation policy guidelines is that the *primary* responsibility for monitoring will rest with the Portfolio Department rather than Queensland Treasury.

**Target Rate of Return**

The economic rate of return (ERR) on capital employed will be a critical performance indicator. Broadly, economic income is calculated by adjusting net operating profit before accounting depreciation, interest and tax, by the change in the market value of assets. ERR is then economic income expressed as a percentage of the market value of the business. A full discussion of ERR is provided in Appendix 1 to the policy document "Corporatisation in Queensland".

The target rate should be based on returns observed in similar organisations in the private sector and this will be the practice wherever possible. However, potential competitors may not always publish annual financial results and, even if they do, accounting and valuation methodologies used may not always enable ready comparisons to be made. In these circumstances, the target rate of return will be established by the Portfolio Minister and the Treasurer. As for corporatised agencies, a pre-tax target rate of return in the range of the long term Government bond rate plus a risk margin of 2 per cent to 5 per cent would be used as a guide.

**Other Financial Indicators**

Other financial performance indicators such as liquidity ratios, debt serviceability measures and so on (as described in Appendix 1 to the policy document "Corporatisation in Queensland") should be employed by the business unit to internally monitor its financial position. The Portfolio Department will monitor the position with respect to these types of indicators to get early indication of any financial difficulties.

**Non-financial Indicators**

A range of non-financial indicators will need to be developed for each business unit to assess whether the required quality and quantity of goods are being provided, particularly in the period leading up to untying. Such measures would be determined by the Portfolio Department in consultation with Queensland Treasury.

In this regard, it should be noted that consumer choice in a competitive market should obviate the need for frequent detailed scrutiny by the Portfolio Department.

**Strategic and Operational Plans**

Strategic plans and, from these, detailed operational plans would be prepared by the business unit on an annual basis. Draft plans would be provided to the Portfolio Department for review. The proposed final plans would also be reviewed by Queensland Treasury.

The plans would need to include the targets for the financial and non-financial indicators which have been established by the Portfolio Department and Queensland Treasury and clear strategies as to how those targets are going to be met.

**On-going Monitoring**

Key financial and operating data will be supplied to the policy area of the Portfolio Department on a quarterly basis. This would indicate forecast results for coming periods and comparisons of actual results as against budget for the preceding periods, together with explanations for any variances. A schedule of the types of reports that would generally be required is provided in Attachment 2.3 to the policy document "Corporatisation in Queensland".

The Portfolio Department will provide Queensland Treasury with summaries of the key aspects of these reports.

**Performance Reporting**

The business unit will include a separate section in the Portfolio Department's annual report, to detail such matters as:

- *the business unit's performance compared against the financial and non-financial performance standards set out in the Performance Contract;*
- *the objectives, nature and scope of the main activities of the business unit, including commercial and non-commercial activities;*
- *any Ministerial or CEO directions to management which have not been funded as a GSO and hence have impacted adversely on performance; and*
- *any GSO activities undertaken.*

The annual report will be tabled in Parliament by the Portfolio Minister.

## A.3 Taxation Arrangements

**Income tax - Rationale for a Substantive ITAA Model**

An income tax regime based on accounting profit as a surrogate for taxable income has considerable appeal in that it would be simple to administer and so would minimise the cost of compliance.

There would be no need to augment in-house resources or engage consultants to administer comprehensive tax assessments as would be the case with the alternative approach of applying as closely as practical the provisions of the Income Tax Assessment Act (ITAA).

Nevertheless, there are a number of factors which support a (substantive) ITAA tax-equivalent model in preference to the accounting profit model:

- *the relationship between accounting profit and taxable income is unlikely to be constant over time, such that the tax rate applied to accounting profit in one year to yield an amount of tax which would be consistent with an ITAA assessment may not be appropriate in future years. The need for regular audits to ensure continuing suitability of the accounting profit arrangements for each business unit substantially increases administrative costs;*
- *under the accounting profit model, applied tax rates would vary considerably across business units and could differ substantially from the 33% company tax rate. These disparities are likely to draw criticism (justifiable or not) from business units and private sector firms;*
- *private sector firms must meet the cost of compliance with the ITAA. For government business units to avoid such costs would represent a departure from the principle of competitive neutrality;*
- *administrative costs associated with a substantive ITAA regime can be minimised in the larger agencies (where the most significant costs would lie) by providing for a central function to administer tax assessment across a number of business units;*
- *the substantive ITAA model is simpler than the full ITAA model and will allow flexibility in application to take into account the specific circumstances of each business unit; and*
- *an ITAA-based regime is consistent with the approach being adopted in all State jurisdictions for corporatised Government enterprises.*

Nevertheless, it might still be appropriate to apply the accounting profit model in situations where the cost of compliance with the substantive ITAA model could not be justified in terms of the level of tax equivalents to be paid. Such departures from the ITAA model would need to be assessed on a case by case basis having regard to such issues as administrative costs, tax payments, prospects for future growth in profitability, the scope for criticisms from private sector competitors and so on.

**Depreciation**

Assets will be deemed to be transferred to the business unit at their current value. As this would generally exceed written down historical cost, this approach will yield higher depreciation deductions for taxation purposes than would otherwise have been available if assets were deemed to have always been owned by the business unit. This would parallel the situation in the private sector where a new entity is created.

**Sales Tax**

The *Sales Tax (Exemptions and Classifications) Act* (STA), which generally levies sales tax at the wholesaler level, provides exemptions from tax on goods sold or leased to Government agencies. Accordingly, Government agencies are able to purchase or lease goods at lower prices than are available to their private sector counterparts.

To remove this input cost advantage, a sales tax equivalent will be levied on purchases made and leases entered into by business units where the supplier would have incurred sales tax under the STA had a specific exemption not been in place.

The guiding principle is competitive neutrality. If the cost of inputs purchased by a business unit's competitors (or potential competitors) include a margin for sales tax, then a sales tax equivalent will be applied on the business unit's purchases. If competitors would normally receive an exemption, then the business unit's purchases will *not* be subject to sales tax. For example, Q-Fleet would not be required to pay a sales tax equivalent on vehicles purchased for Government use but may on commercial vehicles (e.g., short term hire). This is consistent with the Commonwealth's treatment of vehicles purchased by a private fleet hire firm specifically for use by tax-exempt (government) bodies.

Tax rates to apply will be determined for each unit on a case by case basis following a statistical sampling of the unit's taxable purchase and lease transactions. The average sales tax rate determined for the unit will then apply to all transactions unless the tax assessor considers that a particular transaction warrants special consideration. As average tax rates would be expected to vary over time, the applicable rate will be reviewed every three years.

The average rate model is simple to administer and hence minimises compliance costs (which are not borne by the unit's private sector counterparts).

**Assessment and Payment of Income and Sales Tax Equivalents**

As with Government Owned Corporations, the business unit's income and sales tax obligations would be assessed in-house with the assistance of specialist taxation advisers as necessary.

An independent tax assessor will be appointed to review taxation returns submitted by Government Owned Corporations and business units and to undertake tax audits as may be required from time to time.

Lodgement of returns and payment of tax liabilities would generally be consistent with ITAA provisions. For income tax, an interim payment of 85 per cent of the forecast tax liability would be payable on July 28 of the year following the year of income. Completed returns would be required to be lodged by the following March 15, together with the balance of the finally determined tax liability. Periodic payments of sales tax will be required, with frequency to be determined on a case by case basis having regard to the expected number and magnitude of individual transactions.

**Other Taxes, Duties and Charges**

**Stamp Duty and Land Tax**

Government Departments are exempt from land tax. They are also exempt from stamp duty where the doctrine of the immunity of the Crown from taxation or specific exemptions apply.

In order to retain some flexibility with respect to application of these taxes to commercialised units, it is not proposed to remove these exemptions (although this could be considered in the future). Instead, stamp duty (where not already applicable) and land tax equivalents would be payable in accordance with this commercialisation policy framework.

Where exemption from stamp duty applies, the agency will pay to the Consolidated Fund an amount equal to the stamp duty that would be payable if it was a non-exempt private sector body. The agency would make the necessary arrangements with the Office of State Revenue to ensure the correct calculation of the stamp duty equivalent and its payment, as if the *Stamp Act* applied.

All land holdings vested in the business unit as at the effective date of commercialisation will as soon as possible be recorded on the Government Owned Land Register, managed by the Department of Lands. Commercialised units will annually provide details of land (and its usage) held as at June 30 to the Office of State Revenue based on the land register data and any other information known. The Office will then advise the agency of the amount of land tax that would have been otherwise payable, but for Government ownership, under the *Land Tax Act* and a date for payment, as if that Act applied.

Agencies would also need to appreciate matters associated with tax equivalent obligations, e.g.:

- *that lessors are prohibited from passing on land tax to tenants;*
- *where stamp duty would, as a matter of commercial practice usually be passed on to customers, that it would be recognised in contractual arrangements that the equivalent payment is not a legal obligation of the agency; and*
- *that an agency may also be liable to stamp duty in default of the other party to a document.*

**Local Government Rates**

Pursuant to the *Local Government Act*, non-private land occupied by a government entity will not incur local authority general rates. Accordingly, to ensure that business units are not advantaged relative to their private sector counterparts, they will be required to make payments to Consolidated Fund in lieu of rate charges. (Note that with Government-owned office accommodation, local authority rate charges are implicitly incorporated in the market-based lease rentals paid by business units.)

Periodic payments to Consolidated Fund of general rate-equivalents will be made on the basis of self assessments undertaken by the business unit. The actual frequency of these payments will depend on the particular billing arrangements in place in each local authority.

It is intended that the Department of Housing, Local Government and Planning assist units in making these assessments by maintaining for their reference an up to date schedule of rate charges for all relevant Queensland local authorities.