The corporatisation of government agencies:

Does it work for public housing?

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THE CORPORATISATION OF GOVERNMENT AGENCIES: DOES IT WORK FOR PUBLIC HOUSING?

1. Key points

- There has been persistent speculation that the Government is considering either converting Housing Tasmania into a corporate entity such as a government business enterprise (GBE) or state-owned company or corporation (SOC) or creating a new housing company to develop and manage public housing. Most corporatisation of government business enterprises and statutory authorities took place in the mid-1990s. This means that the current debate about corporatisation is limited. Discussion has been confined to questioning the size of the return the Government receives from its existing GBEs and SOCs. It has not focussed on the central question of whether the model is appropriate for achieving social outcomes.

- Corporatisation is the process of establishing a government business as a separate entity that operates as a private sector business while retaining government ownership. The Tasmanian Government has established two models: the government business enterprise (GBE) model, and the state-owned company or corporation (SOC) model.
  - GBEs are statutory authorities subject to the provisions of their enabling legislation and to the provisions of the *Government Business Enterprises Act 1995*. The formal objectives of a GBE are to operate efficiently as a successful business in accordance with sound commercial practice, to achieve a sustainable commercial rate of return, to perform any community service obligations efficiently and effectively, and to perform any other objectives specified in its establishing legislation.
  - SOCs are government businesses and authorities that may be subject to the provisions of their enabling legislation and are also subject to the provisions of the Commonwealth *Corporations Act 2001*. The government is the sole shareholder in each SOC on behalf of the Tasmanian community, and the SOC's governance framework is set out in the applicable legislation and its constitution. SOCs serve a public purpose and are autonomous in day-to-day decision-making but receive Ministerial direction through their strategic planning process.
  - Community Service Obligations (CSOs) arise when the Government requires a GBE to carry out a non-commercial activity on behalf of the government. An example is Metro Tasmania's concession fares for low income earners and students. The Government will usually provide the GBE with funding to undertake the CSO but there is no legislative requirement that this funding fully cover the cost of delivering the CSO. Only GBEs have CSOs, but the Government can enter into a contract with a SOC for the delivery of a CSO-like activity, as it has with Aurora Energy around the delivery of electricity concessions.

- There are three major concerns in using a GBE or SOC model to deliver social services and in particular, public housing. These are:
  - a housing provider catering for high-needs clients on income-related rents is unable to operate commercially without government meeting the full cost of its community service obligation.
  - the structure and obligations of a corporate entity create a risk that commercial objectives will be prioritised over social and community objectives. There is no guarantee or requirement that a CSO or CSO-like activity will be fully funded by the government, yet failure to adequately fund or prioritise such activities, accompanied by a focus on commercial returns, can have devastating effects on disadvantaged people.
  - use of a commercial model for a non-commercial service such as public housing can endanger the long-term sustainability and viability of the business, including its capacity to fund asset upgrades.

- Housing Tasmania is facing severe financial challenges and is chronically under-funded. The Tasmanian community sector's collective policy position on public housing is that the State Government must provide Housing Tasmania with sufficient funding to operate viably and sustainably. This would mean providing Housing Tasmania with funding to cover its operating deficit, most of which is due to the gap between rental revenue and operating costs, and removing the burden of debt repayment from Housing Tasmania to free up an additional $17 million in funding per annum. Housing Tasmania does not need to be a GBE or a SOC for the State Government to do this. In fact, there are no benefits to corporatisation that could not be achieved under the current system and significant risks in adopting a commercial model to deliver a non-commercial service. Anglicare therefore recommends the retention of Housing Tasmania as a Budget-funded government agency and a core government service with recurrent operational funding.

2. Introduction

This paper has been produced in response to persistent speculation that the Government is considering converting Housing Tasmania into a corporate entity such as a government business enterprise (GBE) or a state-owned company or corporation (SOC) or creating a new housing corporation in order to allow the use of debt finance to construct new public housing without affecting the Government's balance sheet.

This speculation emerged most recently in the lead up to the 2007 Budget (see Neales 2007). The Minister for Health and Human Services stated at the time that she could "completely rule out any change in Housing Tasmania's status, or the creation of a 'new public housing corporation'" (Giddings 2007), and also rejected the idea that Housing Tasmania would be converted into a GBE (Mercury 2007). However, the Treasurer indicated to representatives at the 2007 Budget Roundtable that a number of options were under consideration, and refused to deny that corporatisation of Housing Tasmania was one of those options, and the rumours emerged again in April 2008, this time in relation to the creation of a new state-owned company to take over the development and management of public housing (Duncan 2008).

Most corporatisation of government business enterprises and statutory authorities took place in the mid 1990s in the wake of National Competition Policy reform, which required that government businesses be placed on a competitively neutral footing with the private sector, and in the context of more widespread reforms to the public sector designed to improve efficiency and effectiveness in the delivery of public services. For this reason, current debate about corporatisation is limited and often confined to the size of the return the Government receives from its existing GBEs and SOCs rather than looking at broader concerns about the appropriateness of the model for achieving social outcomes.

This paper provides some background to the corporatisation debate as it occurred in the late 1990s, considers some case studies of GBEs, SOCs and other corporatised entities in Tasmania, Australia and New Zealand, and then outlines Anglicare's position on whether a corporate model is appropriate for the delivery of public housing.

3. The context: public service reform and National Competition Policy

3.1. Reform of the public service

The reforms that led to the creation of government business enterprises, state-owned corporations and other models of corporatisation began with the restructuring of the public service that occurred from the mid-

1970s. These changes arose out of a shift in prevailing beliefs about the appropriate role of government, from the view that governments should be active and interventionist, controlling large sections of the economy in the name of national development, to the view that governments should focus mainly on promoting productivity and competition and protecting consumers (Nethercote 2003). The changes were also driven by concerns about fraud, duplication and waste in the public sector, and a perception that government employees were under-worked and lazy (Quiggin 1996). The Coombs Royal Commission into government administration in 1974-6 found that the public service was too centralised, hierarchical and rigid and recommended change (Minns et al 2003).

A series of reforms throughout the 1980s and 1990s culminated at a Commonwealth level in the *Public Service Act 1999*, which devolved responsibilities and powers to departmental heads and sought to maintain standards through a legislative values statement. Comparable legislative change was introduced by the states and territories: in Tasmania, the *State Service Act 2000* also introduced a less prescriptive and more flexible framework which incorporated a values statement and a code of conduct but delegated important powers to agency heads. Across Australia, there was a shift in focus away from 'managing for compliance' towards 'managing for results', through the introduction of business practices like user-charges, outcomes and outputs frameworks and accrual-based accounting. Activities considered either commercial or peripheral to core government business were outsourced on the basis that while it may be appropriate for governments to fund – or 'purchase' – services, direct public provision was only necessary if it added value to the service. Otherwise, it was considered better for governments to regulate rather than own particular services (Minns et al 2003).

The introduction of commercial practices into the public sector was intended to increase productivity and efficiency (Mellors 1995), and reduce costs by imposing a system of incentives and disciplines comparable to those used in the private sector (FMRB 1992). But in many cases it resulted in fundamental changes to the way in which agencies operated. The then Deputy Secretary of the Department of Administrative Services, Michael Clarke, described the commercialisation of the Department in the following terms: "Since 1987, DAS has been transformed from a Budget-funded, regulatory department that took decisions on behalf of others to a non-regulatory, service provision agency which assists others in their decision making" (Clarke 1995).

3.2. National Competition Policy

According to the National Competition Council, competition provides businesses with incentives to improve performance, efficiency and productivity, reduce their costs and prices, and produce new and innovative products (NCC 2007). Yet in the late 1980s, there was concern that Australia lacked this kind of competition, and that overlap, duplication and inconsistency between the different economies of the nation, states and territories was partly to blame (Clarke 1995). In 1992, Fred Hilmer was commissioned to head a committee of inquiry into how best to further a national approach to competition policy.

The Hilmer report identified six elements to a national framework: limiting anti-competitive conduct, reforming legislation that unjustifiably restricted competition, reforming the structure of public monopolies to facilitate competition, providing third-party access to facilities essential for competition, restraining monopoly pricing and fostering competitive neutrality between the government and private sectors. It recommended that the *Trade Practices Act 1974* be extended to apply to all business activity in Australia, with exemptions only where a clear public benefit had been independently confirmed, the restructure and reform of public monopolies, and the reform of government businesses to compensate for the competitive advantages they held over the private sector (NCPR 1993).

The recommendations were implemented in a trio of intergovernmental agreements signed in April 1995: the Competition Principles Agreement, which laid out the principles of the reforms to be undertaken by the national and state and territory governments, the Conduct Code Agreement and the Agreement to Implement the National Competition Policy and Related Reforms. In relation to the reform of government businesses, the Competition Principles Agreement committed all Australian governments to the adoption of a corporatisation model, including the imposition of an independent process for prices oversight, full taxation or taxation equivalents, debt guarantee fees and any regulations applying to the private sector (NCC 1998). The implementation of competition policy in Tasmania was a significant undertaking, with 213 pieces of legislation requiring review, and some reviews requiring possible consultation and joint action with other governments (SCFIPA 1997).

Competition policy did include what was commonly known as a 'public interest' or 'public benefit test', which was designed to assess whether the overall impact of introducing competition was in the interests of community welfare (SCFIPA 1997). It was not explicitly laid out in those terms in the Competition Principles Agreement, but the signatories were required, when deciding on particular courses of action, to take into account any matters related to ecological sustainability, social welfare and equity, occupational health and safety, industrial relations and access and equity, economic and regional development, consumer interests, competitiveness of business and efficiency in resource allocation (NCC 1998). There was some controversy over the matters listed, with business and industry groups wanting greater emphasis to be placed on competition, efficiency and growth and for long-term benefits to be better balanced against short-term costs, while unions and local government were more concerned about the elements relating to social equity. But in reality, many public benefit assessments were political in nature (SCFIPA 1997), and the test was often ignored in practice (Quiggin 2001).

3.3. The costs of reform

The National Competition Council is careful to state on its website that national competition policy "does not require privatisation, blanket deregulation, free markets, welfare cutbacks, contracting out, reduced social services or a focus on markets, money and materialism" (NCC 2007). But there has always been concern that these things will be the result of an increased focus on commercial objectives. Concern about the loss of government responsibility and accountability over statutory authorities and GBEs, particularly in relation to their social responsibilities, triggered a federal parliamentary inquiry in 1992 which conceded that profitable performance could be pursued at the expense of social responsibilities in commercially-oriented agencies (JCPA 1992). Some international commentators are now criticising the market-oriented approach for failing to recognise that there is a fundamental difference between public and private interests and that concepts like efficiency, transparency and responsibility cannot be applied in the same way to each sector (Drechsler 2005).

Competition policy reform was expected to result in price reductions, lower inflation, more growth, more jobs and uniform protection of consumer and business rights, as well as a 5.5% or $23 billion long run annual gain in real GDP[1], but there was no significant analysis at the time of the broader costs of the reforms, such as the impact on employment, working conditions, social welfare, equity and the environment. There was concern that the national benefits of the reforms may not outweigh the costs to some communities, particularly those losing jobs (SCFIPA 1997). There is evidence to suggest that many of the cost savings in the public sector were attributable to a reduction in the number of workers and increased workloads for those who remained (Quiggin 1996). A review of competition policy implementation in Victorian hospitals found that although the reforms did achieve significant cost savings, the impact on workers was one of increased workloads, labour shortages, reduced commitment and morale, and increased levels of stress and ill-health. Long-term consequences included the loss of career pathways and internal training and development as

[1] These benefits were not uncontested. In relation to this figure, research by Quiggin argued that estimated benefits were likely to be considerably lower. The figure of 5.5% was from modelling by the Industry Commission; Quiggin calculated a percentage gain of just 0.48% per annum (Quiggin 1996 in SCFIPA 1997: Appendix 4).

implementation of the reforms took place in the context of severe budget cuts under the Kennett Government (Stanton et al 2003). A limited attempt to model the impact of GBE price reforms in the electricity and water, sewerage and drainage sectors on household expenditure found that the income decile with the highest dependence on Centrelink payments was the worst off under the changes (Industry Commission 1996). In New Zealand, similar reforms to those pursued in Australia generated positive results on a range of economic indicators, with declining unemployment, surplus budgets and significant efficiencies in previously state-owned industries. But these gains have been disputed, and there is also evidence to suggest that income inequality and relative poverty levels increased, and that many of the new jobs generated were poorly paid, part-time or casual positions only (Mulgan 1997).

There were other costs as well. Quiggin (2001) concludes that Telecom (now fully privatised as Telstra) did achieve significant productivity growth following its conversion to a statutory authority in 1975, but that its later corporatisation did not lead to any further improvements. And while corporatisation and outsourcing allows governments to save costs and focus more on core business, it does require the implementation of a more rigorous monitoring regime so as to ensure that public money is being spent appropriately (Minns et al 2003). During the 1990s the wider community also became increasingly disillusioned with some aspects of the public sector reforms and competition policy, particularly following the recession of 1989-92, high profile examples of unethical corporate activity and corporate failure, a focus on economic efficiency over other aspects of the public benefit test and the loss of the economic certainty of earlier years. People began to turn against privatisation as a policy and there was renewed concern about the place of human, social and natural capital in contributing to both social and economic wellbeing (Quiggin 2001).

4. Corporatisation in Tasmania

4.1. Background

Corporatisation is the process of establishing a government business as a separate entity that operates as a private sector business, while retaining government ownership (see FMRB 1992, Department of Treasury and Finance 2006, Minns et al 2003). Proponents argue that corporatisation allows a business to become more efficient, particularly in relation to meeting the changing needs of customers (FMRB 1992). A corporatised business will have its own Board of Directors responsible for decision-making, but government will retain control over its broad policy direction and performance targets (Minns et al 2003).

A corporatised business has a commercial focus and applies commercial business thinking. It has the freedom to set its own policies on wages and conditions for workers, and develop a financial reporting system based on the needs of the business. However, implementing a corporatised model does incur upfront costs in relation to incorporation, legal and taxation advice, corporate branding and information systems, and ongoing costs in relation to Directors' fees, compliance fees and performance monitoring (Department of Treasury and Finance 2006).

The only reference to 'corporatisation' in Tasmanian legislation is contained in the *Local Government Act 1993*, which states that a single or joint authority established by a council must have rules that are "consistent with the requirements of the corporatisation model for government business enterprises referred to in the Competition Principles Agreement made between the Commonwealth, the States and the Territories" (s.38.2.a). The Department of Treasury and Finance (2006) has identified five key principles of corporatisation: clear and non-conflicting commercial objectives (with any non-commercial objectives subjected to explicit contracts and funding arrangements); management responsibility, autonomy and accountability; effective financial and non-financial performance monitoring; rewards and sanctions relating to performance; and competitive neutrality.

Some of the tensions involved in corporatising government services were evident in the recent hearing conducted by the Legislative Council Government Businesses Scrutiny Committee on the Public Trustee. Committee members argued that many people had an expectation or perception that because it was a government business, the Public Trustee provided a free service to members of the public, when in fact it charges fees (Hansard 2007a).

In corporatising its businesses, the Tasmanian Government has established two models: the government business enterprise (GBE) model, and the state-owned company or corporation (SOC) model. The GBEs are Forestry Tasmania, the Hydro-Electric Corporation (Hydro Tasmania), the Motor Accidents Insurance Board, the Port Arthur Historic Site Management Authority, the Rivers and Water Supply Commission, the Tasmanian International Velodrome Management Authority (also known as the Silverdome), the Tasmanian Public Finance Corporation (Tascorp) and the Public Trustee. The SOCs are Aurora Energy, Metro Tasmania, Tote Tasmania, Transend Networks, the TT-Line Company, the Tasmanian Ports Corporation (TasPorts), and the King Island Ports Corporation. The latter two are both wholly owned subsidiaries of TasPorts. Each business is established under specific legislation defining its purpose and general functions (Auditor-General 2007).[2]

4.2. Government Business Enterprises

Government business enterprises (GBEs) are statutory authorities subject to the provisions of their enabling legislation and to the provisions of the *Government Business Enterprises Act 1995*. The Act was introduced as part of the national competition policy reforms (Auditor-General 2007). It states that the formal objectives of a GBE are to operate efficiently as a successful business in accordance with sound commercial practice, to achieve a sustainable commercial rate of return, to perform any community service obligations efficiently and effectively, and to perform any other objectives specified in its establishing legislation (s.7). GBEs are generally required to pay income tax equivalents, guarantee fees (to compensate for the lower borrowing rates available to government), and, on the recommendation of the Board, a dividend into the Consolidated Fund (ss.66-89).

The policy expectations of the responsible Minister – called the Portfolio Minister – and the Treasurer are to be laid out in a GBE's Ministerial Charter, and the Board of the GBE is obliged to ensure that the GBE conducts its business and affairs in a manner consistent with the Charter (ss.36-8). The Treasurer also has the power to issue binding written instructions to the GBE on any matter required or authorised under the Act (s.114).

As well as setting out expectations in relation to the GBE's objectives, strategic directions, scope, performance targets, financial considerations, pricing policies and human resources, the Ministerial Charter includes expectations in relation to any non-commercial activities that might be performed by the GBE. For example, the original Hydro-Electric Corporation Charter specifies that the Corporation's non-commercial activities are to include the provision of concessional arrangements to certain customers, including Pension Concession Card holders and customers on King and Flinders Islands (Gray 1995).

4.3. State Owned Corporations

State-owned corporations or companies (SOCs) are government businesses and authorities that may be subject to the provisions of their enabling legislation and are also subject to the provisions of the Commonwealth *Corporations Act 2001*. The government is the sole shareholder in each SOC on behalf of the Tasmanian community, and the SOC's governance framework is set out in the applicable legislation and

[2] The Hobart International Airport was a SOC but has since been sold.

its constitution. SOCs serve a public purpose, are autonomous in day-to-day decision-making but receive Ministerial direction through their strategic planning process, and are required to pay guarantee fees, taxation equivalents and dividends to the Government (Auditor-General 2007).

Various commentators have raised concerns about the tensions inherent in the government-owned corporation model. For example, there can be tensions between accountability to customers and accountability to Parliament. In the 1990s the Department of Administrative Services prioritised a customer's interests and confidentiality over its obligations to Parliament, and withheld information from a Senate committee. The incident ultimately led to a censure motion against the responsible Minister and his Senate representative (Clarke 1995). There can be tensions between commercial goals and the public interest: the managers of a corporate entity have a fiduciary obligation to maximise profits by whatever means appropriate (unless overridden by their shareholders). They do not have comparable obligations in relation to social welfare objectives (Quiggin 2001). The Department of Treasury and Finance (2006) acknowledges that it is critical that the corporative governance structure minimise the risk of conflict between commercial and non-commercial objectives.

A Board's independence and capacity to carry out its legal obligations can be compromised when government, through the Minister, has the capacity to intervene in or control strategic direction, the appointment of Directors and managers or the content of corporate documents (McDonough 1998). And Bottomley (1994 in McDonough 1998) has argued that the provisions for accountability and governance in corporations created under general legislation are governed by non-specific legislation and non-legislative documents, rather than through the explicit and specific engagement of parliamentary control, limiting the input and scrutiny of Parliament over the operations of such corporations.

4.4. Community service obligations

The term 'community service obligation' or 'CSO' appears unique to Australia and the Australian form of government. Yet a survey of 65 employees of GBEs and 22 academics with an interest in public sector accounting found that there was no clear consensus on the definition of a CSO, although there was some congruence on what sorts of services constituted a CSO (Baird 2001). Interpretations can range from a belief that CSOs represent the minimum standards for service delivery through to a belief that CSOs incorporate the entire public sector itself (SCFIPA 1997).

Australian governments have now generally accepted a definition of CSOs developed through the Industry Commission (now the Productivity Commission), which states that a CSO "arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices" (Industry Commission 1997: 7), although some jurisdictions have introduced variations – Tasmania requires a CSO to be a net cost to the GBE and specifically excludes certain activities, such as the costs of meeting regulation or corporate social responsibility activities while New South Wales requires the CSO to have a specific social objective.

Generally, CSOs fit into three broad categories – uniform provision of a particular service irrespective of the cost of provision, such as service provision in rural areas at the same price that applies in urban areas; concessionary provision of a service to special groups of consumers; or a requirement that a provider purchase from a particular source or under particular supply conditions that do not apply in the private sector (SCNPMGTE 1994). Some CSOs do seem to lie outside these categories – at a Commonwealth level, examples include the provision of national mapping and surveying services and quarantine protection (Mellors 1995). A federal parliamentary committee stated that "[m]ost CSOs provide essential services… and operate in ways which impact directly on social welfare. CSOs are critically important in ensuring those services are provided to lower income and/or socially disadvantaged groups and to those in rural and regional areas..." (SCFIPA 1997: p.43).

Under the Tasmanian *Government Business Enterprises Act*, a community service obligation (CSO) must either be formally declared by the Treasurer or come about as the direct result of a formal direction given jointly by the Treasurer and Portfolio Minister (ss.61, 65.1). In declaring an activity a CSO, the Treasurer must be satisfied that the activity is or will be performed as the direct result of a direction given to the GBE or a requirement made of the GBE by legislation, and that the activity would not be performed if the GBE were a business in the private sector operating according to sound commercial practice.

The Treasurer has also issued written Instructions under s.114 of the Act which lay out the Government's policy position in relation to CSOs. The policy states that focus of GBEs should be commercial. Since CSOs are potentially distracting or compromising, they need to be identified, justified and separately accounted for. The Government's preferred approach is that CSOs be costed on the basis of 'avoidable cost'[3], that they be funded out of the Consolidated Fund through the normal Budget process, and that they be controlled through a contractual arrangement between the Government and the GBE (Tasmanian Treasurer 1996). The instructions also note that in order to maximise efficiency, costs will be calculated according to national and international best practice, not the actual costs borne by the organisation at the time the CSO is declared, and that some CSOs may be subject to competitive tender in the future.

According to the Industry Commission (1997), having a methodology for identifying and funding CSOs also allows the government to identify the social policy objectives that lie behind CSOs, and therefore enable governments to decide the most appropriate way to achieve that policy objective. That may not necessarily be by funding the GBE in question to deliver the CSO – it could be by contracting out the provision of the CSO to another agency,[4] or through a different method entirely.

A particular concern of governments in relation to CSOs is transparency. The then Secretary of the Department of Administrative Services, John Mellors, argued in 1995 that the critical issues in funding CSOs were assuring commercial competitors that CSOs were not being used to cross-subsidise commercial services and assuring stakeholders that they were getting value for money from CSO funding (Mellors 1995).[5] Humphry (1997 in Baird 2001) argues that subjecting CSOs to the budget scrutiny process is the best way to ensure that they are appropriate, cost-effective and open to competition for funding with other government policy objectives, and the Tasmanian Treasurer's Instructions on CSOs state that funding CSOs through the Consolidated Fund will make the policy objectives of each CSO more explicit and ensure greater equity, government control, accountability and transparency (Tasmanian Treasurer 1996).

The process of defining CSOs is not however straightforward, as the example of Australia Post shows. Under the *Australian Postal Corporation Act 1989*, Australia Post, which is a Commonwealth GBE, has an

[3] Avoidable cost means all the costs that the GBE would avoid paying if it did not have to provide the CSO (Tasmanian Treasurer 1996).

[4] The Industry Commission (1997) notes that if the CSO were funded by an agency that was not a GBE, it would of course no longer be a CSO by definition, but a voluntary, commercial contractual arrangement between the government and the provider. This would mean the CSO became a budget-funded social program designed to achieve the government's social objectives, in the same way as social objectives are achieved by other outsourced welfare or social programs delivered on a contract basis by non-government, not-for-profit or private sector organisations, and a stringent monitoring regime would be required (SCFIPA 1997).

[5] Concerns in relation to cross-subsidisation of CSOs are usually the other way around – that commercial services will be used to subsidise delivery of the CSO. This concern emerged recently in Tasmania with regard to the Public Trustee (Hansard 2007a). The objections to cross-subsidisation of CSOs are that the cost of providing the CSO pushes up the prices paid by other customers, which is both unfair on the customers paying inflated prices and potentially opens the provider to being undercut by competitors, that there is a lack of transparency because governments can make decisions in relation to the CSO without parliamentary approval or clarity around costs and benefits, and that, by blurring the divide between commercial and non-commercial services, the CSO inhibits effective performance monitoring of the enterprise or corporation (SCNPMGTE 1994).

obligation to provide mail delivery at a single, uniform rate (then 45 cents for a standard letter) within Australia, and make the service "reasonably accessible" to all people on an equitable basis (s.27). In 1997, the Industry Commission pointed out that the Act did not specify the frequency of deliveries required to meet the obligation and it did not define the term "reasonably accessible" (Industry Commission 1997). The *Australian Postal Corporation Amendment Act 1994* had inserted a section into the Act on performance standards and audits (ss.28B-E), but it was not until 1998 that regulations imposed under that section set out the performance targets which Australia Post was required to meet, including the minimum number of street posting boxes, maximum timeframes for delivery, distances to nearest mail lodgement outlets for metropolitan and non-metropolitan areas and frequency of deliveries (*Australian Postal Corporation [Performance Standards] Regulations 1998*, gazetted 27 May 1998 and *Australian Postal Corporation [Performance Standards] Regulations 1998 [Amendment]*, gazetted 30 June 1998).

However, when objectives are spelled out as exhaustively as this, the broader objective of serving the public interest is at risk of being overlooked – CSOs work well in relation to price-setting and other quantifiable matters, but less well when the requirement is around qualitative matters, such as the nature of services to be provided, because this is harder to specify contractually. So, for example, while Australia Post is required under its regulations to maintain at least 4,000 retail outlets Australia-wide, with not less than 2,500 in rural or remote areas, it is not explicitly required to maintain this network of country outlets so as to support regional vitality – this aspect of the role that Australia Post once played in regional communities is lost (Quiggin 2001).

5. Case studies

5.1. The Public Trustee

The Public Trustee was originally established under the *Public Trustee Act 1930*. It is also a GBE subject to the *Government Business Enterprises Act*. The Public Trustee's role is to provide trustee services to the Tasmanian community, including services like preparing wills and enduring powers of attorney, acting as the trustee for various types of trusts or as the executor or administrator of estates, assisting other trustees and executors in their duties, and managing funds under the control of the Public Trustee in order to provide a commercial rate of return to contributors. The Public Trustee also has a declared CSO to administer the estates, trusts and the financial affairs of represented persons (those people whom the Guardianship and Administration Board considers incapable of managing their own financial affairs), notwithstanding that the financial value of these matters prohibits full cost recovery (Public Trustee 2006). Eligibility for the CSO is means-tested, with eligible matters including the administration of estates with assets of less than $60,000, continuing trusts and life tenancies valued at less than $100,000, the finances of represented persons with assets of less than $100,000 and minor trusts with assets of less than $20,000 (Hansard 2007a).

The Public Trustee's CSO services are purchased from the Public Trustee by the Treasurer. Previously, the CSO funding received by the Public Trustee was not sufficient to cover the full cost of providing the CSO, even following an announcement by the then Attorney-General Judy Jackson in 2005 that the State Government had increased its CSO contribution so that the Public Trustee could abolish some of its fees and charges for represented persons (ABC 2005). To make up the shortfall, the Public Trustee had to cross-subsidise the concession. In 2007-08 the Government will for the first time be providing the Public Trustee with sufficient funding that it will no longer need to cross-subsidise, although it will still charge fees. This funding is being provided on a net avoidable cost basis for one year. During the year, the Public Trustee is expected to review its funding methodology, including eligibility tests (Hansard 2007a).

In its 2004-05 annual report, the Guardianship and Administration Board noted that the abolition of upfront fees and charges made professional administration more realistic for more people (GAB 2005). However, the Public Trustee still charges represented persons $24.50 per week for their administration service. For a single person aged over 21 on the Disability Support Pension (DSP), this represents 9% of their weekly income.[6] The CEO of the Public Trustee stated at the December 2007 Legislative Council Government Businesses Scrutiny Committee hearings that this cost was "not too much of a burden really", given the value of the service and the complexity and number of the cases involved (Hansard 2007a), but research has identified the significant financial burdens faced by people on the DSP and the high levels of hardship many of them face on a day-to-day basis (Cameron and Flanagan 2004, Hinton 2006). In recognition of this, community sector advocates have for some years argued that all fees and charges associated with the financial administration service for represented persons with assets of less than $100,000 be abolished (see for example Anglicare Tasmania 2005). This would cost the government just $155,000 in additional annual CSO funding (Hansard 2007a). In addition, a Legislative Council committee has previously concluded that the Government should review the $100,000 asset limit for represented persons given the increase in property values and the likely impacts on people who are 'asset rich but income poor' (GBSC B 2006).

This case study raises the following concern:
There is no guarantee that a CSO or CSO-like activity will be fully funded by the Government. If it is not, the GBE or SOC must make up the shortfall, either through cross-subsidisation from its commercial activities or, if there is not the capacity to do this or the GBE or SOC chooses not to do this, through the imposition of user-charges on its clients, who can be extremely disadvantaged as a result.

Under the *Government Business Enterprises Act*, the basis of funding a CSO "in whole or in part" is determined by the Treasurer in consultation with the Portfolio Minister and the GBE (s.63). There is no obligation under the Act for the CSO to be funded at the same level as its costs. That there are incentives for the Government to limit funding for the CSO can be demonstrated by this statement from the Northern Territory Treasury (note: the Northern Territory calls its corporatised agencies and authorities Government Business Divisions, or GBDs):

> As owner of the GBD, the Government is entitled to pursue its broader policy objectives by exercising its rights of ownership and requiring the GBD to provide certain non-commercial services. As a customer of the GBD, the Government has a right to negotiate the best price it can for the performance of those services. By negotiating a price for the provision of CSOs the Government can also ensure that the cost of providing these services is minimised and that the GBD has an incentive to perform these services in an efficient manner (NTT 1996: 96).

5.2. Aurora Energy

Aurora Energy is an electricity distribution and retail company owned by the Tasmanian Government, distributing electricity through its network of poles, lines and substations, and then selling the electricity distributed to business and residential customers. It was formed under the *Electricity Companies Act 1997* and is incorporated under Corporations Law (Aurora Energy 2007).

Aurora plans a $588 million capital program to upgrade and extend its electricity distribution system over the next five years. It is this program that has led to the recent announcement that electricity prices will rise in 2008 (Hansard 2007b). At the same time as prices increase, the State Government is anticipating additional returns from Aurora in its 2008-09 and 2009-10 Budgets. Aurora's position on this is that it is reasonable for shareholders who have increased their investment in a business to expect their returns to also increase (Hansard 2007b). The returns Aurora already provides are healthy, with a return on investment of 12.3% in

[6] For a single person aged over 21, the maximum DSP entitlement excluding Commonwealth Rent Assistance is $537.70 a fortnight, or $268.85 a week. Centrelink payment data taken from <www.centrelink.gov.au> on 14 December 2007.

2006-07 and a dividend to the Consolidated Fund of $10.7 million (Aurora Energy 2007). Aurora also provides a discount on electricity to holders of Commonwealth Pension Concession and Health Care Cards. This discount is funded by the Tasmanian Government and delivered via a contract between the Government and Aurora and is comparable to a community service obligation (Auditor-General 2007). In 2007, Aurora received $11.8 million under this agreement (Aurora Energy 2007).

However, decisions relating to the level of concession provided are made by the State Government, not by Aurora (see Aird 2007), and as Aurora is a SOC, not a GBE, neither the Minister nor Treasurer has the power to compel it to administer the concession. Under Aurora's establishing legislation, the *Electricity Companies Act 1997*, its principal objectives are to operate in accordance with sound commercial practice and maximise its returns to shareholders (s.6). While under various provisions of the Act, Aurora is to be treated as a GBE for the purposes of certain provisions in the GBE Act, these provisions relate to tax equivalents, guarantee fees and dividends, not community service obligations, and although the Minister can enter into an agreement with the company in relation to the performance or cessation of activities, this agreement requires the approval of both the Treasurer and of the Board of the company (s.19.1).

This case study raises the following concern:
The SOC model prioritises commercial objectives over social and community objectives. This leaves open the potential for social and community objectives to be compromised, particularly if the company makes a commercial decision – as Aurora did, in applying for a price increase to fund its capital investment program (Hansard 2007b) – that disadvantages community members, and the State Government fails to make any policy adjustment to compensate for this, as could have occurred recently if the Treasurer had chosen not to increase electricity concessions.

It is Anglicare's experience that Aurora's commitment to and engagement with the wider community is genuine. One of the company's core values, as listed in its annual report, is social and environmental responsibility (Aurora Energy 2007) and Aurora demonstrates this through a comprehensive corporate social responsibility program that includes support for the No Interest Loans Scheme (NILS) and the provision of $100,000 in annual funding to welfare organisations for disbursement to clients experiencing hardship due to electricity costs (Hansard 2007b). This hardship program funding is to increase by 15% to $117,000 in order to absorb the impact of the 2008 electricity price increases (ABC 2007).

However, there is no guarantee that this approach would continue were the company to experience a change in management or further reform through privatisation. During the recent Government Business Scrutiny hearings, the Chair of Aurora stated that, "philosophically it worries me that we are being scrutinised this morning and our competitors are not" (Hansard 2007b: 5). This statement, and others made throughout the hearing, demonstrates the tensions that exist between the commercial goals of the company, which are achieved through remaining competitive and protecting that competitive advantage through keeping some information commercial-in-confidence, and the company's accountability to Parliament and parliamentary processes, which have the broader goal of achieving the public good.

5.3. Metro Tasmania

Metro Tasmania's establishing legislation, the *Metro Tasmania Act 1997*, sets out its core purpose as the provision of road passenger transport services to Tasmanians in accordance with sound commercial practice (Metro Tasmania 2007). As a state-owned corporation, Metro Tasmania is not subject to the *Government Business Enterprises Act* and its community service obligation provisions, but Metro does have a contract with the Department of Infrastructure, Energy and Resources to provide concession travel and non-commercial services (services that run on non-profitable routes). Payments under the contract are determined on the basis that Metro achieve a break-even result (Auditor-General 2007). The contract is critical to Metro's survival: about three quarters of Metro's passengers travel on some sort of concession ticket, and many of its regional routes are non-commercial, even at full price fares (Hansard 2007c).

A Legislative Council committee in March 2007 found that the break-even funding arrangement prevents Metro from generating a surplus, placing Metro's bus replacement program, which aims to upgrade the fleet and ensure a quarter of its buses are accessible by 2007, under threat and recommended that the Government increase its funding to Metro to ensure that the program was not compromised (GBSC A 2007). Metro also faces pressure due to a long-term decline in patronage and the need to 'green' the fleet in response to climate change and the rising cost of petrol (Hansard 2007c).

The Industry Commission has previously criticised the use of CSOs and similar arrangements in urban transport, arguing that they do not deliver value for money, can be inequitable (such as when concessions are provided on the basis of age rather than income) or 'leak' to wealthier groups, and ignore the reality that many disadvantaged people are dependent on private rather than public transport, or are excluded from public transport due to disability (Industry Commission 1994). There is also a strong relationship between concessions of the type provided to Metro passengers and the social security system, because eligibility for a travel concession often depends on eligibility for a Commonwealth concession card. These relationships can become critical for people on very low incomes and adjustments to one must consider the impact on the other. A parliamentary committee recommended national coordination through COAG (SCFIPA 1997).

This case study raises the following concern:
It is difficult for a government business which provides the bulk of its services to disadvantaged people to operate on a commercial basis, because the majority of its services will be non-commercial in nature and under a corporatised model, require direct government funding. If the business then lacks sufficient alternative commercial revenue to generate adequate returns outside its funding contract with the government, its ongoing sustainability and viability as a commercial operation is endangered.

Metro's principal objective under its establishing legislation is the provision of transport services in accordance with sound commercial practice (s.5) – there is no explicit reference to generating a profit, and unlike other SOCs, Metro is not subject to the provisions of the *Government Business Enterprises Act* relating to the payment of dividends. Metro's financial statements are prepared on the basis that it is a not-for-profit entity (Auditor-General 2007). But these financial constraints have placed in danger a program which is not subject to a community service agreement but which does have a significant community impact – the provision of safe and accessible transport to people who rely on public transport, especially those with disabilities or other mobility issues. It is clear that Metro is struggling to be a successful commercial entity, but its current structure means it is also struggling to achieve the broader social and community goals that would or should be the aim of government.

5.4. The Housing New Zealand Corporation

The Housing New Zealand Corporation is a statutory corporation which provides public rental housing and home ownership assistance to low income earners. It has a Board which is responsible for setting strategic direction, appointing the CEO, monitoring performance and ensuring legislative compliance. The Corporation has accountability requirements similar to those of Tasmania's GBEs and SOCs – it tables a statement of intent for the year and an annual report in Parliament, and reports on performance every quarter to the Minister for Housing (HNZC 2007a). In 2006-07, the Corporation achieved an net operating surplus of $NZ13.0 million, despite 91% of tenants being eligible for income-related rents (HNZC 2007b). But since the early 1990s, the Corporation has undergone a significant period of reform and restructure which has had far-reaching consequences for its clients.

The changes to the Corporation were part of a broader reform agenda introduced by the Labour Government and expanded by the National Government that was designed to improve public sector efficiency (Pawson et al 1996). New Zealand was seen in the 1990s as a trailblazer in public sector reform and held up for other countries to emulate. The Government implemented similar reforms to the ones adopted in Australia in relation to deregulation and corporatisation, but New Zealand was much more aggressive, particularly in relation to public service restructuring, extending the reforms beyond transport and communications into defence, justice, science, conservation, education and health services (Mulgan 1997).

Since 1974, the Housing Corporation New Zealand had provided public housing and home purchase assistance, overseen residential tenancy legislation, and administered the papakainga housing scheme, which gave loans to Maori people to build on collectively-owned rural land. By 1991, the Housing Corporation controlled almost 70,000 public housing dwellings across the country, $710 million in revenue and $8.6 billion in assets. However, the Budget that year introduced radical reforms, including the creation of a new enterprise, established as a Crown entity with defined social responsibilities, called Housing New Zealand to manage public housing stock, and – in 1992 – the creation of the Ministry of Housing to provide policy advice on housing. In 1992 and 1994, $1.2 billion of Housing Corporation mortgages taken out by low income earners under the home purchase assistance scheme were sold on the open market. Housing New Zealand's commercial focus also led to the sale of public housing in areas where there was a high demand for owner-occupation, and the purchase of any replacement stock in cheaper, lower-amenity areas with poor socio-economic indicators (Pawson et al 1996). By August 2000, Housing New Zealand had sold 10,000 properties, or 15% of New Zealand's public housing stock, and had plans to sell a further 20,000 (Hall and Berry 2004).

As a trading entity, Housing New Zealand was extremely successful. It achieved significant profits, paid off its debt, and generated large returns to Treasury (Hall and Berry 2004). As a community service provider, it was not so successful. The Government replaced the provision of in-kind housing support (subsidised public housing) with cash support through income supplementation by introducing market rents for all public housing properties and paying a new Accommodation Supplement through the social security system to all eligible tenants, whether they were in public or private rental housing. The Government said that the new system improved equity between public and private tenants, who would now be paying comparable rents and receiving the same level of public subsidy (Pawson et al 1996).

But evidence from tenants and housing support workers was that the market rent regime led to massive increases in public tenants' rent, with tenants relying on support from food-banks to survive, unhealthy levels of overcrowding as people moved in with friends and relatives to pool costs, and high vacancy rates in public housing because tenants could no longer afford to live there (NZMCH 2007). Accommodation supplement was meant to allow tenants greater choice – market rents varied according to location and amenity, and tenants were to assess these and make appropriate trade-offs. In reality, they congregated in cheap and poorly-constructed housing in areas far from jobs and services, in a market where there were few safeguards to protect their rights (Pawson et al 1996). Among tenants remaining in public housing, a significant number were paying more than half their income in rent. Housing New Zealand's focus on asset sales was also at the expense of attention to maintenance, and a massive backlog accumulated (Hall and Berry 2004).

In August 2000, the incoming Labour Government introduced the *Housing Restructuring (Income Related Rents) Amendment Act*, which abolished Accommodation Supplement and reinstated income-related rents, setting them at a maximum of 25% of after-tax income. A new Housing New Zealand Corporation was established, with a funding agreement that provided it with funding to cover the gap between the income-related rents paid by tenants and the market rents on the properties (Hall and Berry 2004).

This case study raises the following concern:
Putting a public housing provider on a corporate footing without sufficient attention to the cost of its community service obligations has the potential to hurt the interests of clients, both tenants and potential

tenants. Housing New Zealand was able to achieve excellent commercial results, but only through significant rent increases, asset sales, lack of attention to maintenance and reliance on cheap, disadvantaged housing estates. New Zealand's public housing system had originally been developed in response to concerns about the poor quality of 'affordable' housing in the 1930s (Rudd 1997). The corporatisation of Housing New Zealand recreated many of these problems in the 1990s.

The Housing New Zealand Corporation is still established on a corporate model, and still operates successfully. The critical difference is that the New Zealand Government has chosen to ensure the viability and sustainability of the Corporation by meeting the full cost of Housing New Zealand's community service obligations. The Corporation would not be able to achieve the results it has under existing policy settings without the provision of this funding (Hall and Berry 2004).

5.5. Territory Housing

The Northern Territory reformed its government business enterprises in 1995, establishing them as Government Business Divisions (GBDs) under the *Financial Management Act* (NTT 1999). The Act defines a GBD as "an agency, or part of an agency that – (a) recovers a significant proportion of its operating costs through charges on users; and (b) is determined by the Treasurer to be a Government Business Division" (s.3). The Act places no specific obligation on GBDs to commercialise, although under s.36.2, the Treasurer may require the GBD to pay a dividend to Treasury if satisfied that the GBD has the resources to do so, and under s.10.2, GBDs must prepare annual financial statements using commercial accounting principles. The Northern Territory's housing department, Territory Housing, is classified as a GBD, with identified community service obligations that include public housing rent subsidies, stamp duty concessions for first home buyers, low interest home loans and home loan deposit assistance (NTT 1999).

The classification of agencies as GBDs was intended to allow the Northern Territory Government to develop an operational policy framework that increased the agencies' commercial focus by introducing a range of commercial practices including full cost attribution, cost-based pricing, identification and budget-funding of any CSOs and financial and non-financial performance monitoring systems (NTT 1996). Additional reforms to further improve efficiency and productivity were announced in 1998, including reforms to CSO policy, dividend policy and capital structures, performance monitoring and budget treatment and financial management (NTT 1999).

Despite operating as a corporatised agency, however, Territory Housing is, like other public housing providers, struggling to deliver enough housing and services to meet demand (NTCOSS 2006). Public housing is increasingly targeted, with the proportion of tenants on subsidised rents increasing from 43% to 80% between 1990-91 and 2000-01, and then to 84% by 2005-06, and Territory Housing is carrying a significant debt burden and maintenance backlog. Since 2000-01, almost 10% of public housing stock has been lost (Hall and Berry 2007). The financial situation is expected to worsen now that Territory Housing has taken over responsibility for management of indigenous housing from remote communities, where the appalling condition of the housing and the lack of supporting infrastructure will make it very difficult to set fair rents at levels that can achieve the hoped for efficiency and revenue gains (Vine Bromley 2007).

Territory Housing is expected to make a pre-tax loss of $12.2 million in 2007-08, which includes a loss from public housing and a significant loss from remote and community housing. The operating performance of public housing is expected to improve on the previous year, but only due to a $1.5 million profit on asset sales, which means a decline in public housing stock. Although budgeted expenditure for public housing is $62.2 million in 2007-08, Territory Housing will only receive CSO payments of $15.5 million (NTT 2007). The difference is currently made up by supplementing CSO funding with funding from the Commonwealth State Housing Agreement (Territory Housing 2007). A review by Hall and Berry (2007) found that between 1990-91 and 2005-06, Territory Housing's real operating deficit per dwelling has grown by 297%. If interest and depreciation are included in the calculations, the deficit is tripled. Hall and Berry concluded that for the operating result to return to surplus, CSO funding that recognised the full cost of discounted rents would need to be introduced, and Territory Housing would need to be freed from its debt-servicing liabilities.

This case study raises the following concern:
The corporate model does not deliver for public housing unless sufficient government funding is provided to meet the full cost of the agency's community service obligations – as is done in New Zealand. This is particularly the case when performance requirements in relation to targeting to clients in greatest need are imposed, because this has a significant impact on rental revenue.

Territory Housing's situation is not unique: the review by Hall and Berry (2007) found that all Australian housing authorities were in operating deficit. But Territory Housing is presumably open to all of the advantages that can accrue from a corporatised structure and yet it is still struggling to achieve results for its clients and for the Government. In fact, it is the worst performing public housing authority in the country, second only to Tasmania and well behind the other states (Hall and Berry 2007).

5.6. Defence Housing Australia

Defence Housing Australia (DHA), formerly the Defence Housing Authority, provides housing, tenancy, maintenance and relocation services for defence force members and administers a subsidised home loan scheme for serving and former members. It became a GBE in 1992, with shareholder Ministers including the Minister for Defence and the Minister for Finance and Administration. DHA manages a portfolio of 17,000 properties worth $7 billion, and plans a $1.6 billion capital program of acquisition, development and construction. Operationally, it is highly successful, generating an operational surplus of $100 million in 2006-07, and meeting or exceeding the financial targets set by its shareholder ministers (Defence Housing Australia 2007). In 2005, DHA's responsible Ministers announced that DHA would expand into the provision of housing and related services to other Commonwealth agencies, and that its Board would be restructured into a smaller, more commercially-focussed body (Hill and Minchin 2005). The Chair of DHA, Peter V. Jones, believes that the changes will allow DHA to better compete in the market (Defence Housing Australia 2007).

DHA's capital program is to be funded primarily through its Sale and Lease Program, which sells DHA-owned properties to private investors under an arrangement to lease them back into DHA management. The lease commits DHA to the provision of property management and maintenance services and guarantees to the investor that there will be no loss of rent if the property is vacant, there will be no re-tenanting costs and rent paid will not fall below its starting point. Almost two thirds of DHA's 17,000 properties are head-leased from investors in this way. In April 2006, DHA sold $98.2 million worth of residential properties to Westpac Funds Management Limited under a similar lease-back arrangement, and a further $121.9 million worth in December 2006. DHA's annual report describes this transaction as "landmark" and "innovative", and says it will open up "new business opportunities and … access to a new segment of the investor market" (Defence Housing Australia 2007: 6).

When stock no longer meets defence force operational requirements, is unsuitably located, does not meet minimum standards or is at the end of its economic life, DHA sells it to generate additional funding which it invests into its capital program. This surplus sales program earned $68.4 million in revenue in 2006-07, but the number of properties that are surplus is diminishing. DHA does have loan arrangements with the Department of Finance and Administration, although it lacks a commercial overdraft or re-drawable loan facility, and had $340 million in outstanding borrowings on 30 June 2007 (Defence Housing Australia 2007).

According to figures published in DHA's 2006-07 annual report for seven regions where DHA has housing stock, the number of properties sold and leased back, or sold as surplus stock, exceeds by 12 the number of properties that DHA has acquired or constructed during the financial year. In those areas, DHA owns just 3,410 properties, while it leases over 10,300 from investors. The rationale for DHA's extensive capital program is to replace the 6,600 head-leases over the next three years that will not be renewed. Under the various head-leasing arrangements used by DHA, leases range from 3-12 years in length with an additional 3 years of options (Defence Housing Australia 2007).

DHA derives its operating funding through charging the Department of Defence for the provision of housing and relocation services and the Australian Customs Service for property services (Department of Defence 2007a). It is the Department of Defence that provides defence force members with their various housing assistance entitlements – barracks accommodation, service residences, temporary accommodation allowances or rent allowance (Department of Defence 2007b); DHA manages these services on behalf of the Department and they are not treated as a CSO.

This case study raises the following concern:
While it is possible for a housing provider to deliver commercial success, it can only do this in certain circumstances. DHA was chosen as a case study for this paper because on the surface it is a provider of subsidised housing that faces similar challenges, such as ageing stock, to those faced by Housing Tasmania, but operates successfully on both a commercial level and as a service provider. However, there are significant differences between the situation of DHA and that of Housing Tasmania.

Firstly, DHA is not responsible for meeting the costs of rent subsidies and other entitlements. These are provided in full to defence force members by the Department of Defence and do not negatively affect DHA's budget. Secondly, the contribution DHA's tenants are able to make to their rent is much higher than that of Housing Tasmania's tenants because DHA's tenants are salaried members of the defence forces, many on above-average wages. Thirdly, DHA tenants do not have the significant and complex needs of many of Housing Tasmania's tenants, and do not require the same level of intensive and expensive support. Were DHA required to meet the gap between rents paid by its tenants and the market rents on properties itself, were its tenants dependent on welfare payments as their main source of income, and were it required to provide ongoing support services to sustain its tenancies, then its financial position would be very different.

It is also worth noting that DHA is able to commit to its impressive capital program due to its reliance on head-leasing. The Sale and Lease-back program has, in addition to capital income, provided DHA with a degree of flexibility in meeting defence force requirements, but this policy has led to a considerable erosion in stock levels over time – stock that must be replaced as leases expire. Head-leasing has also been found to be more costly than housing provision through public ownership (Industry Commission 1993).

6. Conclusion: Should Housing Tasmania be corporatised?

The case studies above raise a number of concerns about the corporatisation of government services, and in particular, the corporatisation of public housing. In summary,

- the structure and obligations of a corporate entity create a risk that commercial objectives will be prioritised over social and community objectives. There is no guarantee or requirement that a CSO (for a GBE) or CSO-like activity (for a SOC) will be fully funded by the government, yet failure to adequately fund or prioritise such activities, accompanied by a focus on commercial returns, can have devastating effects on disadvantaged people.
- use of a commercial model for a non-commercial service (which public housing in its current form very definitely is) can endanger the long-term sustainability and viability of the business, including its capacity to fund asset upgrades.
- a housing provider catering for high-needs clients on income-related rents is unable to operate commercially without government meeting the full cost of its community service obligation.

It is true that one reason the corporate model is attractive to Government is that a corporatised agency can borrow funds without the loan appearing on the Government's balance sheet. Debt is a significant source of finance for government businesses (Productivity Commission 2007). Aurora, for example, is anticipating its borrowings will increase significantly over the next three years from their present level of $50 million in order to fund its planned capital program (Hansard 2007b). But it is a fallacy to suggest that borrowing funds in order to build housing supply is an option that would only be open to Housing Tasmania if it was converted into a GBE or SOC. This option is open to it as a Government agency. Most economists argue that debt-funding essential and long-term infrastructure is a sensible approach that does not endanger a government's economic standing (Felmingham et al 2007). There have been recent and encouraging signs that the Tasmanian Government is prepared to concede that debt-funding of infrastructure development may have its place (Lennon and Aird 2008).

One of the original rationales for public sector and competition policy reform was to improve the efficiency and effectiveness of Government agencies. Yet within the constraints of inadequate funding and long-term financial neglect by Government, the services provided by Housing Tasmania are already efficient and effective. Its vacancy rate is less than 2%, a very high proportion of allocations are to clients deemed as in greatest need or with special needs, its average turnaround time for vacant stock has been decreasing over time, and it has achieved above-average satisfaction scores in national tenant surveys (SCRGSP 2007). Its most significant challenges – ageing stock, a maintenance backlog and its debt to the Commonwealth – could be solved with additional investment.

According to the former Queensland Treasurer Keith de Lacy, an agency becoming a government-owned corporation must meet the following criteria: it must operate in a competitive environment, perform well commercially, have a commercially-experienced Board and management, have few community service obligations and derive little benefit from Government ownership (McDonough 1998). Very few of these elements are true for Housing Tasmania – its commercial performance is poor, it has considerable 'community service obligations', with over 84% of tenant households eligible for reduced rents (SCRGSP 2007) and a high proportion of tenants with complex needs, and the Government's willingness to accept its delivery of ongoing operational losses as 'revenue foregone' is critical to its survival. As a provider of rental housing, it is potentially operating in a highly competitive market, but the competition in this market is not about providing housing to tenants, especially not to disadvantaged tenants – it is about providing returns, including capital gains, to investors, and depends on increases in rent and house prices.

The Tasmanian community sector's collective policy position on public housing is that the State Government must provide Housing Tasmania with sufficient funding to operate viably and sustainably (Flanagan 2007). This would mean providing Housing Tasmania with sufficient funding to cover its operating deficit, most of which is due to the gap between rental revenue and operating costs, and removing the burden of debt repayment from Housing Tasmania to free up an additional $17 million in funding per annum (see also Hall and Berry 2007).

It is possible that the State Government could provide this funding under a contractual arrangement with a newly corporatised Housing Tasmania or a new company set up in place of or parallel to Housing Tasmania, in the same way as it provides concessions to electricity customers through a contract with Aurora Energy. But the case studies included in the previous section demonstrate that there are no gains that could not be achieved under the current system and significant risks in adopting a commercial model to deliver a non-commercial service, particularly a service which works with people with highly complex needs and significant disadvantages and provides those people with something as essential and non-negotiable as housing.

7. Recommendation

Anglicare Tasmania calls for:

- a clear commitment from the Tasmanian Government to retaining Housing Tasmania as a Budget-funded government agency and a core government service;
- a clear statement from the Tasmanian Government that it will not further undermine Housing Tasmania's position by creating a new corporatised entity to deliver public housing;
- the retirement of Housing Tasmania's debt to the Commonwealth; and
- the provision of sufficient recurrent funding to Housing Tasmania to enable Housing Tasmania to operate viably and sustainably, appropriately care for and manage its assets, support its tenants, respond to changing needs and increase supply if required.

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