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Leaders in governance

March 2009

Public sector told to sharpen its focus on good governance

Governments will have to implement more rigorous governance arrangements if they want to achieve better returns for their taxpayers' dollars and restore the public's trust in public institutions, a leading governance expert told a conference in Sydney this week.

Chartered Secretaries Australia (CSA) chief executive Tim Sheehy told the conference, "We are witnessing the most fundamental shift in the role of government in more than a generation as governments around the world attempt to resuscitate their flagging economies".

But Mr. Sheehy warned that if government is to play a bigger part in the real economy, good governance practice will have a major role to play.

"Its role will be to ensure that the outcome from the greater involvement meets the community's expectations," he said.

Mr. Sheehy said that the ambiguity of governance arrangements in corporatised public sector bodies means that they fall short of meeting the governance criteria that are often commonplace in the private sector.

In recent years, governments have sought to revamp public sector entities and government agencies by incorporating private sector elements in their governance models and ensuring that the reporting of their performance and achievements is similar to the standards expected within the private sector.

Those standards revolve around four key governance principles: transparency, integrity, accountability and stewardship.

But public sector entities operate within a highly political environment, creating significant ambiguities within core governance relationships, that can result in conflicting roles and responsibilities. There is no clear distinction between the role of owners and managers where outcomes can be more easily measured, as operates in the private sector.

"For example, NSW has all sorts of hybrids and, consequently, lots of ad hoc arrangements detailing how ministers interact with boards and chief executives," Mr. Sheehy said.

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“Unlike a private organisation’s board that is responsible for its strategy and governance policy, boards of state owned corporations have limited capacity in this area because they can be over-ridden by the agenda of their political masters in areas such as the appointment of chief executive officers.

“If boards of corporatised public sector entities are to be as effective as private boards, they must have a clearer role that defines whether their purpose is advisory or governing.

“And it must be backed up with the appropriate authority for them to successfully undertake this role,” said Mr Sheehy, who added that it is also important to decide if directors are publicly accountable for their performance.

“While the desire in the public sector to emulate private sector governance continues, issues regarding stewardship and accountability in particular need greater attention,” he noted.

Despite a number of high profile public-private partnership failures, the federal government’s announcement of its intentions to fund a huge national infrastructure program has put the spotlight once again on governance, not only for the private sector which is the recipient of taxpayer assets, but also for the public sector agencies that are responsible for how those millions of dollars are spent.

The financial collapse of the Sydney Airport rail link; the bankruptcy of the Cross City Tunnel; the cost blow-out in the NSW State Government’s toll rebate scheme; and the news that by the time the Sydney Harbour Tunnel reverts to state ownership in 2022, NSW tax payers will have paid about \$1.8 billion for an asset that cost \$550 million to build raise the question about the quality of public sector governance.

“While some may argue that these failures reflected bad business judgment or practice rather than governance failure, I would suggest they reflected both.

“The governance failures stem from ambiguous governance relationships, a lack of robust procurement strategies, poor transparency, poor stakeholder management and poor stewardship by the government for large, high-impact, high-risk projects.

“Building the public’s trust in public institutions is key to governance. Trust in public institutions is not a given — the attribute of trust is closely related to the behaviour of public servants and politicians, and how they manage their accountability and stewardship, with transparent communication, based on integrity of conduct,” Mr. Sheehy said.

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About Chartered Secretaries Australia

Chartered Secretaries Australia (CSA) is the independent leader in governance, risk and compliance. As the peak professional body delivering accredited education and the most practical and authoritative training and information in the field, we are focused on improving organisational performance and transparency.

MR/2009/2