

Question on Notice

No. 1820

Asked on 25 November 2008

MR LINGARD ASKED THE TREASURER (MR FRASER)—

With reference to the Office of Government Owned Corporations and its section in the Queensland Treasury Annual Report 2007-08 and to the understood policy for GOCs to achieve a 'commercial' rate of return and for GOC boards to act in the best long term interests of their corporation—

On what basis does he form the view that a corporation which has a rate of return on assets of less than the risk free rate should be providing 80 per cent of its net profit after tax as dividends instead of reinvesting those monies?

ANSWER:

As part of the preparation of Statements of Corporate Intent for 2007-08, government owned corporations (GOCs) included a section outlining their anticipated 2007-08 dividend (percentage and amount) and their estimated profit (if this estimate varies from previous forecasts, an explanation is provided).

Shareholding Ministers responded to the dividend level nominated by the GOC.

GOCs' dividend recommendations were on the basis of its shareholders agreeing to provide the necessary funding for projects which have received Board and shareholding Ministers' approval and for the maintenance of GOCs' approved capital structure and for ensuring the operational viability of GOCs. A variety of financing options are considered in these situations, including equity injections, debt financing and dividend reinvestment, to maintain an optimal capital structure.

Where appropriate to the circumstances of individual GOCs, shareholding Ministers have previously approved nil or reduced dividends. For example, in 2006-07, shareholding Ministers approved the full reinvestment of Tarong Energy Corporation Limited's intended dividends.

Dividend payment ratios recommended by the Boards do not impact on the capacity and requirements of GOCs to carry out necessary maintenance, repairs and asset replacement. Dividends are paid after providing for such costs.

In recent years, GOCs together with the Government have pursued a range of reforms designed to improve the GOCs financial performance, service delivery and governance arrangements. This has resulted in a steadily improving performance by the GOCs in terms of returns on assets and returns on equity for which the Government as owner is appreciative. The Government is working with the GOCs to further improve the returns to levels akin to those expected by investors in private sector firms.

The payment of dividends by GOCs provides an important commercial discipline on the activities of the GOCs and contributes significantly to enabling the State Government to meet service delivery priorities.