



**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL  
TERRITORY**

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

(Reference: [Annual and financial reports 2018-2019](#))

**Members:**

**MRS V DUNNE (Chair)  
MS T CHEYNE (Deputy Chair)  
MS B CODY  
MS N LAWDER**

**TRANSCRIPT OF EVIDENCE**

**CANBERRA**

**MONDAY, 4 NOVEMBER 2019**

**Secretary to the committee:  
Dr B Lloyd (Ph: 620 50137)**

**By authority of the Legislative Assembly for the Australian Capital Territory**

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

## **APPEARANCES**

<b>Chief Minister, Treasury and Economic Development Directorate .....</b>	<b>1</b>
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## **Privilege statement**

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*Amended 20 May 2013*

## **The committee met at 2.00 pm.**

### Appearances:

Barr, Mr Andrew, Chief Minister, Treasurer, Minister for Social Inclusion and Equality, Minister for Tertiary Education, Minister for Tourism and Special Events and Minister for Trade, Industry and Investment

Chief Minister, Treasury and Economic Development Directorate

Leigh, Ms Kathy, Head of Service

Nicol, Mr David, Under Treasurer

Miners, Mr Stephen, Deputy Under Treasurer, Economic, Budget and Industrial Relations

Salisbury, Mr Kim, Executive Group Manager, Revenue Management, Economic, Budget and Industrial Relations

Holmes, Ms Lisa, Executive Branch Manager, Economic and Financial, Economic, Budget and Industrial Relations

McAuliffe, Mr Patrick, Executive Branch Manager, Economic and Financial, Economic, Budget and Industrial Relations

Whitten, Ms Meredith, Deputy Director-General, Workforce Capability and Governance

Noud, Mr Russell, Executive Group Manager, Public Sector Workplace Relations, Workforce Capability and Governance

**THE CHAIR:** Good afternoon and welcome to the first day of hearings of the inquiry by the Standing Committee on Public Accounts into annual reports 2018-19. This afternoon we will hear from the Chief Minister and Treasurer, Mr Barr, regarding revenue management, financial management and economic management, the superannuation provision account, the territory banking account, the Compulsory Third Party Insurance Regulator, the Office of the Nominal Defendant, issues relating to workforce capability and governance, and the *State of the service report*.

I will start by asking officials, when they speak, to acknowledge the pink privilege statement. I know, Chief Minister, that you were here earlier today but for the benefit of this committee I have to ask you to do it again. I welcome the Chief Minister, Mr Barr, and his officers to the table to answer questions about revenue management and about financial management and economic management. Chief Minister, do you have anything brief to say by way of introduction, with the emphasis being on “brief”?

**Mr Barr:** No, thank you. I have determined that the annual report is my tabling statement; so I will not read it out to all of you.

**THE CHAIR:** I am going to diverge a little from the annual report and ask about the consolidated annual financial statements, which came into my inbox late on Friday afternoon. On page 1 reference is made to the total comprehensive income or deficit. There was a deficit of \$1.3 billion, as opposed to a budgeted surplus of \$372 million. Is my reading correct that we have what appears to be \$1.6 billion turnaround in our fortunes? Apart from what appears to be no accounting in the budget—no

provisioning or no figuring—for superannuation, can someone explain to me what the basis of this apparent turnaround is?

**Mr Miners:** I am going to prefer to use the headline net operating balance, which is the consolidated outcome, the headline outcome for the government. There was a shift from the budgeted outcome from \$118 million to—

**THE CHAIR:** Which line are we looking at here, Mr Miners?

**Mr Miners:** I am using the headline net operating balance numbers.

**THE CHAIR:** Which is where?

**Mr Miners:** They are not published in the final audited statements.

**THE CHAIR:** Sorry, I have asked a question about page 1 of the consolidated annual financial statements. Could you perhaps address your answer to those figures there rather than—

**Mr Barr:** We might—we will just obviously—

**THE CHAIR:** It is very difficult. I have asked a question on something. There may be an answer which refers to something else, but it would be helpful if the committee had that.

**Mr Barr:** I will let officials get that document in front of them, because that is obviously not the subject of annual report hearings but something that is—

**THE CHAIR:** The financial statements are part of the annual report hearings.

**Mr Barr:** Sure, yes, but we will let them get the document open. Perhaps we could move on to another question whilst they are getting that information and then they can answer the detailed question that you have asked.

**THE CHAIR:** I am happy to put a pin in my question and hand over to Ms Cheyne.

**MS CHEYNE:** Arising from our last annual report hearings, we made 12 very important recommendations. A considerable number of those related to rates notices and the provision of information to people about rates deferrals, increasing staff understanding of the rates referral process to manage requests for the service, as well as improving the website to result in easier to understand guidelines on deferrals, including the specific criteria for hardship consideration. I am very keen to know how you have gone about implementing these recommendations and what any of the feedback has been.

**Mr Salisbury:** In terms of rates deferral, which I think was at least one of the issues that you raised, we have had a comprehensive revamp of our website. My recollection is that for rates deferrals, particularly in the hardship space, there are a series of examples on the website now that give a clearer indication of the particular circumstances in which rates deferral would be provided under the hardship

arrangement.

I think the type of example we give there is someone who is experiencing paying their rates as a challenge because they have gone on a holiday, as opposed to somebody else who has become unemployed. I think they are the types of examples that we provide. Obviously, we cannot provide examples for every particular situation, but that is certainly on the website. We have guidance around that now.

**MS CHEYNE:** Is there guidance for staff if someone rings the revenue office and starts to talk about their rates notice—for example, someone who says, “This is a lot for me”? Is the better guidance for staff to be able to pick apart what a person’s problem might be and to determine whether they actually are suffering some hardship and therefore might qualify?

**Mr Salisbury:** Yes, there certainly is. We have done some training with CARE and also with Lifeline. The training with CARE was particularly around identifying people in financial hardship and then providing opportunities to assist them in terms of referring them to counselling services, and also asking questions around their particular financial challenges and tailoring a repayment plan that suited their financial circumstances.

We have also done some training recently with Lifeline. That is to identify people who are particularly upset by the circumstances they are in. That is in particular to de-escalate issues and also identify if we think that person needs to be referred to a professional service. Also, it was to deal with threats of suicide, where someone would ring and threaten suicide—again, how to de-escalate that situation and how to assist in that.

**MS CHEYNE:** Is that a common occurrence or is it mostly quite rare but very distressing when it happens? Is it a case of having people trained up for when it does?

**Mr Salisbury:** It is rare, but it is very distressing for everybody involved. We have a series of protocols in the revenue office when someone poses that situation to us.

**THE CHAIR:** Can I clarify this? Are these calls that the revenue office is receiving where somebody might threaten suicide because of their financial circumstance?

**Mr Salisbury:** Yes, we do get those calls from time to time.

**THE CHAIR:** Not people ringing Lifeline?

**Mr Salisbury:** No, ringing the revenue office.

**THE CHAIR:** But you have got training from Lifeline?

**Mr Salisbury:** Yes; that is correct.

**MS CHEYNE:** Have you found that there has been a greater take-up in terms of people deferring their rates since there has been this renewed look at how we are communicating with people who do contact the revenue office who are expressing,

either directly or indirectly, that they are suffering hardship?

**Mr Salisbury:** Yes, I believe so. We have actually increased the number of rates deferrals. I have that data. Typically, rates deferral was not very well utilised as an option in the past, but we noticed that the take-up rate now is much greater than it was.

**MS CHEYNE:** How much has it increased on last year? What is the percentage?

**Mr Salisbury:** In terms of hardship deferments, at 30 June 2018 we had 40. Currently, in October, we have 55. In terms of the age deferments, at 30 June 2018 we had eight. Now we have 45. In terms of the pensioner deferments, that has gone from 149 at 30 June 2018 to 315.

**MS CHEYNE:** If people are suffering from other hardships, you have mentioned that there is a payment plan available. At what level is it decided that someone qualifies for a payment plan?

**Mr Salisbury:** In terms of a payment plan, what we are really looking for is that some contribution is made to reduce the overall level of rates before the next rates bill is received. That is what we try to aim for, that some progress is made in pulling that down over a period of 12 months to two years.

**MS CHEYNE:** Is there a set formula that you would apply or is it really done on a case-by-case basis and a person's personal circumstances?

**Mr Salisbury:** Yes, it is a case-by-case basis looking at the history of the taxpayer and the likelihood of the overall rates bill being reduced by the time the next rates bill comes around.

**MS CHEYNE:** Speaking of rates bills, we had quite a few discussions in annual reports hearings and then in our specific committee dealing with commercial rates about rates notices and the "pay now" that appeared on last year's rates notices. How are we tracking with the design of the new rates notices? Have there been any complaints? Have you got feedback that it is much easier to understand what people are or are not required to do?

**Mr Salisbury:** The rates bills this year are again changed significantly from the year before. We have received very few complaints. I do not want to say that we have not received any complaints because I normally receive complaints about rates.

**MS CHEYNE:** I think that in your job you just naturally get complaints.

**Mr Salisbury:** But in terms of the number of people being concerned with the rates notice itself, that has not been identified as an issue in this rates cycle for us.

**MS CHEYNE:** The confusion that was of concern to us with the last cycle before this one was around people feeling like they had to stump up thousands of dollars straight up. Has that been diminished with the reframing of the rates notice?

**Mr Salisbury:** Yes. Clearly the new rates notice says up-front, "Total amount." That

is the total rates bill for the year. Just under that, it says, “Or if paid by instalments.” It gives the instalment figure. Then it tells you the due date for the instalment.

**MS CHEYNE:** So people are not demonised if they want to pay by instalments.

**Mr Salisbury:** Yes, I think it is much clearer that that is an option.

**MS CHEYNE:** Yes, it is much clearer that it is an option.

**MS LAWDER:** You mention the number of people who applied for the rates deferment. Was it 45 age deferred? Is that what you said? What was the total number and the number of age deferrals?

**Mr Salisbury:** The age deferments—that is over 65 where you are sort of a self-funded retiree—had gone from eight to 45.

**MS LAWDER:** How many deferrals were there overall? Are there any others?

**Mr Salisbury:** There were three categories of deferrals: the pensioner deferrals, the hardship deferrals, and the age deferrals.

**MS LAWDER:** How many were there overall?

**Mr Salisbury:** That would be 315 plus 55 plus 45, which is 415, I believe.

**MS LAWDER:** In terms of the demographics of the ACT, do the rates rises disproportionately impact older Canberrans, based on those figures, do you believe?

**Mr Salisbury:** I would not have an opinion on that.

**MS LAWDER:** What modelling work did you do beforehand about the expectation for the take-up of the age deferral?

**Mr Salisbury:** These were programs that had been around for a number of years but did not have a high take-up. What we did was try to target the information on our website and through our communications to encourage the take-up of those options.

**Mr Barr:** It was a request out of the previous hearing. Ms Le Couteur is nodding. She was part of that.

**MS CHEYNE:** And in question time, I believe.

**MS LE COUTEUR:** There was also private members’ business talking about this, but yes.

**Mr Barr:** The Assembly passed a resolution asking for the revenue office to undertake this further promotion of those options, which they did.

**MS LAWDER:** What is the rate of interest that is charged on the deferred rates?

**Mr Salisbury:** It is 1.54 per cent.

**MS LAWDER:** Across each category?

**Mr Salisbury:** Each of the categories, yes.

**MS LAWDER:** How much extra last year did the government make through deferrals and interest?

**Mr Salisbury:** The interest accumulates on that. I have a total interest figure for each of the schemes. In terms of the pensioner deferrals, there is \$2.2 million of rates deferral, and the accumulated interest on that is \$221,000.

**Mr Barr:** Of course, the offset to that is that if the money were paid, the government would be earning interest through the territory bank account.

**Mr Salisbury:** You would not have to borrow.

**Mr Barr:** Yes. It is a subsidy, effectively.

**MS LAWDER:** What is the difference between this and a death tax for aged people?

**Mr Barr:** Deferment does not require death; deferment allows for people to effectively access a public subsidy. Obviously the cost of borrowing to meet those particular requirements would be considerably higher from the market than from government. If there were no deferral schemes at all, there would be no option other than to pay up-front. The prevailing commercial cost of borrowing for a household would be the cost, and that is higher than the subsidised government rate.

**MS LAWDER:** With the age deferral scheme specifically, how long, on average, does it take for someone to pay it back, or is it usually paid upon death?

**Mr Barr:** It is the sale of the property; that does not necessarily mean death. Obviously we all die, and there will be a point at which that will be the case for everyone, but your last place of residence may not necessarily be your current place of residence. In light of the findings of the royal commission into aged care, I can see why people would wish to stay in their own homes for longer, and this allows them to do so in a way that is subsidised by the public.

**THE CHAIR:** Is there anything else on rates before we go back to my question?

**Mr Barr:** We can come back to your question.

**MS CHEYNE:** I do, but I appreciate that that would take—

**THE CHAIR:** Can we go back to the opening question now?

**Mr Barr:** Yes.

**THE CHAIR:** If I could just recap, the consolidated annual financial statements that

came out on Friday, in the early afternoon, have at page 1 the total comprehensive income or deficit. It was budgeted, according to these statements, at \$372 million surplus but came in as a \$1.31 billion deficit. Could someone explain the \$1.6 billion turnaround? Does it relate to superannuation or does it relate to something else?

**Mr Barr:** Yes, it does. If you look a few lines above, you will see the superannuation actuarial gain—or loss, in this instance. That is \$1.75 billion, so that is the totality of the shift.

**THE CHAIR:** Why was there no figure in the budget for that?

**Mr Barr:** Because the territory government uses the same methodology as the commonwealth in relation to the accounting for this long-term liability against the long-term discount rate. Each year in the annual financial reports a snapshot is taken—on 30 June, I believe—that compares the current 10-year bond rate with the discount rate that is set.

**Mr Nicol:** We use the longest dated bond rate.

**Mr Barr:** The longest dated commonwealth bond. The commonwealth recently moved that from six to five. We followed, because a lot of our superannuation liability is linked to former commonwealth schemes.

This will be an issue for the territory in terms of an accounting treatment every year the long-term bond rate is below that long-term discount rate. There is an interesting policy question that the commonwealth—and, indeed, other states and territories—are considering around whether setting it at even five per cent is too high. It has come down from six. Lots of people will have a view as to whether the current prevailing interest rates are here for the long term, as in more than a decade, but we are talking about the actuarial valuation of a long-term liability.

This has no material impact upon the territory's day-to-day operations that it is required to report against but merely reflects where the current interest rate sits against a decade-long benchmark. Were the situation reversed and the longest dated commonwealth bond higher than the discount rate, you would see the reverse situation apply and the territory's total comprehensive income would look to be significantly stronger. We cannot claim the upside; nor would we seek to punish the community in some way in relation to the downside on what is a long-term liability. I will ask my treasury colleagues to give further technical information or add to my answer.

**THE CHAIR:** Could I ask, as part of that technical information, for a description of what that \$1.758 billion actually is? It is not a liability at any particular time?

**Mr Barr:** No.

**THE CHAIR:** It is the long-term accrued liability, including the tail?

**Mr Nicol:** Yes. It is essentially the valuation of the future cash flows for our defined benefit schemes going out to 2070-odd. We employ an actuary who calculates what they think those payments will be. To convert a stream of payments over 50 years to a

single number, we have to discount that back using interest rates. So we convert it from future year prices into current year prices using a discount rate.

The accounting standards require us to use a discount rate of an instrument that closely matches the duration of the liability, so that requires us to use the longest term commonwealth dated bond we can. The last time I checked, I think the 10-year commonwealth bond rate—I think we use a longer bond rate than that—was at 1.1 per cent. The lower the interest rate the less you discount the furthest out cash flows in a valuation sense, so the bigger the number becomes.

**THE CHAIR:** What explains the difference between the 2017-18 actual of \$895 million and last financial year's actual of 1.7, which is really close to a doubling?

**Mr Nicol:** That is because interest rates have come down over the last 12 months. So the lower the interest rate the higher the valuation will be of that liability. I can take it on notice. Mr McAuliffe might remember what those discount rates were at 30 June, but my recollection is that it was in the two point something range and now it is in the one point something range. That lower interest rate increases the values of the cash flows.

**Mr Barr:** To put a historic context on this, going back to 2014, when we were borrowing for the Mr Fluffy scheme, the prevailing interest rates had a three in front of them or were high twos. We are now at a point where certain short-term—as in around five years—government bonds are as low as 1.1, and even long-range government bonds are at around 1.85. In some countries there is no prevailing interest rate; the banks will actually pay you to take money when you are in negative interest rate territory.

**Mr Nicol:** Perhaps I can illustrate it by way of a simple example.

**THE CHAIR:** Yes, but I will ask another question which might help inform that: what was our superannuation liability—that is, the actual outgoings—last year and how will they grow?

**Mr Barr:** That is there in superannuation expenses.

**Mr Nicol:** It was 200 and something. We need to be careful here, because there are a hundred ways to measure this.

**THE CHAIR:** Yes, I understand that.

**Mr Nicol:** We have a payment to the commonwealth each year. The commonwealth meet our pension liabilities of ACT former employees and we reimburse the commonwealth for that cost. We pay quarterly. Mr McAuliffe will pull out that figure, but it is in the order of \$300 million of cash every year.

**THE CHAIR:** So they are former ACT employees who are currently retired under a CSS/PSS/PSS2-type pension?

**Mr Nicol:** Yes. They are getting a pension and we pay the commonwealth the cash and ComSuper pays them the cash. Then there are a group of employees and former employees who are not yet drawing a pension who are in the defined benefit schemes and accruing a liability. If you are an employee you are contributing.

**Mr Barr:** We are examples of that, Mrs Dunne.

**THE CHAIR:** Yes.

**Mr Nicol:** It might be better if I can give you this on notice because it gets very confusing. We measure that expense and that expense adds to our liability each year. At the same time, when we pay out a pension—it is probably more technical than this—our liability drops because with life expectancy et cetera we all get one year closer to that end date. So that is an expense.

**THE CHAIR:** Your outgoings change but your liability dips?

**Mr Nicol:** The liability will tend to come down for that because we have fewer past and current members each year, which is reported in our annual report. I read it every year and the numbers do drop slightly. Of course, then there are a whole range of other factors, such as changes in life expectancy, changes in salaries, changes in decisions of pensioners to take the pension or a lump sum, changes in interest rates. They all go into assessing what is, in accounting terms, our liability valuation.

**Mr McAuliffe:** I will knock over a couple of questions. The discount rate that was used to value the liability at 30 June this year was 1.92 per cent. By way of comparison, it was 3.11 last year at 30 June. The same bond rate that we used at 30 June, looking at today's rates, is about 1.6. So that is how dramatic the changes are in interest rates at the moment.

In terms of the numbers, this is where it gets a bit confusing when looking at the operating statement versus the cash flow statement. If you look at budget paper No 3, in the chapter on superannuation, table 8.3.3 has the budget and the forward years estimated cash flows for the benefit payments that are going out, based on the actuarial advice. They are a straight cash flow number.

As Mr Nicol said, each year we have to do the expenses, which have two components: there is a service cost and an interest cost. Your service cost is if you take somebody's employment from one year and it has gone up by a years' worth of expense because of the accrual factor. There is also an interest component of that. A different number goes to the operating statement to the cash flow number.

The liability will go up as service increases. We still have contributing members in the PSS and CSS. Whilst the liability will come down for people that suddenly start becoming beneficiaries, at the moment that is still increasing at a greater rate than that because we have still have accruing liability for ongoing contributing members. That is why the liability numbers are increasing. And when we have to value them at these low interest rates that is masking what is going on. If you have a look back at the updates and you use a consistent discount rate—which is why we try to do it for budget—you can see the real change because of membership numbers falling and all

the different demographics that go through.

**THE CHAIR:** I take the point of the Treasurer, who said this is an accounting treatment. But it is not difficult to put a figure on it when you budget. This is not very technical, but even if you repeated the figure for 30 June in the budget for 1 July that would recognise some sort of liability?

**Mr Barr:** We do put a figure in. It is just that because it is a long-term asset we put in the discount rate at five per cent. But we have moved to do exactly what the commonwealth does in order to ensure consistency. We would, rightly, be asked a bunch of questions if we were to adopt a different position from the commonwealth.

**THE CHAIR:** Yes, but as it stands it looks like you have not made provision in the budget for superannuation. You get to the end and you go, "Oops!"

**Mr Barr:** To the extent that this conversation happens every year, yes, I accept that point. But the problem is that if you did it like a yo-yo and changed it every time then you would not be properly valuing the long-term liability.

**Mr Nicol:** We have had long discussions with the commonwealth about this issue of trying to maintain consistency in approach between two governments. I think there is a case for adopting a lower rate in our assumptions. However, as the Treasurer has implied, if we have an approach that changes that every year, the biggest change in the budget will be the evaluation of our super liabilities each time, and that will tend to dominate everything.

As Mr McAuliffe said, just about all of these factors are outside the government's control. The schemes are closed, we do not influence interest rates at all, we do not influence pension decisions and we do not directly influence life longevity. Essentially, this is what it is. That said, the key variable for us is not necessarily the change in the discount rate but assumptions about how long people are living, what pension choices they are making. They are the things that drive the real costs. The cash flows will be what they will be; it is irrelevant how we measure or value them right now.

**Mr Barr:** Obviously we have a regular actuarial assessment in order to update all of those.

**MS CHEYNE:** Yearly?

**Mr McAuliffe:** Every three years there is a triennial review which looks at all the financial assumptions as well as all the demographic assumptions. And each year between the triennial we do an update of financial data and the membership update.

**MS LAWDER:** The ACT government collected \$214 million more in taxes compared to the previous financial year, including \$70 million more in rates and land tax than in the 2017-18 year. You have said, Chief Minister, on a number of occasions, that the heavy lifting is over, yet there was still such a big increase in the dollar amount of taxes. How do you justify saying that the heavy lifting is over?

**Mr Barr:** A lot of the increase is driven by economic activity and an increase in the number of rate-paying households or businesses. The number of tax changes in terms of the tax mix switch is now essentially down to stamp duty and rates, whereas previously the government was simultaneously abolishing taxes on insurance, reducing payroll taxes and reducing stamp duty, and seeking to offset that through the rates and land tax system.

Insurance taxes have now been abolished, significant progress has been made in terms of stamp duty reductions, and the payroll tax threshold has been lifted to the committed amount of \$2 million, which is the highest payroll tax free threshold in the nation and exempts about 90 per cent of the businesses operating in the territory from paying any payroll tax. The majority of payroll tax that is paid in the ACT now is paid by multinational companies and large national firms: the banks, large supermarkets and all of those really big employers who operate internationally and nationally. So the regime certainly favours, by way of tax exemption, small and medium sized enterprises.

Each year we publish a tax expenditure statement which outlines the benefits that are provided by that regime. That gives an indication in monetary terms of the revenue forgone by the ACT in not adopting, for example, the New South Wales taxation regime. We could just exactly match New South Wales in terms of all of our tax lines and we would collect more revenue than we currently do. We would collect it from different sources, as in we would be reaping hundreds of millions of dollars more in payroll tax. The revenue forgone overall is \$265 million, of which \$196 million is payroll tax. That would be the alternative set of arrangements if we did not have our payroll tax threshold where it is.

As I have discussed, possibly in answer to exactly the same question that you, I think, asked me last year—or if not you then one of your colleagues—there are three factors of production: land, labour and capital. Capital is highly internationally mobile and so is taxed lightly in the ACT. Labour is also highly mobile and so it is taxed lightly in the ACT. But if we are taxing those two factors of production lightly, then we still do need, as a community, to raise revenue. So we go to the most efficient form of taxation available to us, and that is land-based taxation. It has the least impact in relation to economic activity, it is the most efficient form of taxation available and, for the purposes of revenue collection and integrity, it is the hardest to avoid.

It is very hard for those who wish to avoid taxation to avoid land-based taxation. There are a number of multinational companies who exercise quite an extensive range of tax minimisation schemes to avoid paying company tax to the Australian government and avoid paying a range of other taxes in this country. But the one tax that they cannot avoid is their rates.

I think that typifies a best practice approach to revenue collection: to look at all of the tax lines that are available and find the one that has the least impact on economic activity, the least impact on investment and the least impact on employment. That is why, of the taxes available to us, we have chosen to do more in relation to land tax and to tax the other areas of economic activity more lightly.

**MS LAWDER:** Would you say the increase in revenue from taxes is because more

properties are being subject to land tax?

**Mr Barr:** That is a contributing factor. There is—

**MS LAWDER:** How many more are there?

**Mr Barr:** Around a quarter of all properties in the ACT, the residential ones, are rented. So, as the number of properties in the territory increases, obviously that is a contributing factor. According to the ABS, at the 2016 census 27 per cent of all properties in the territory were owned outright, 38.4 per cent were owned with a mortgage and 31.8 per cent were rented. In actual numbers, that is about 45,000 properties that are rented. Obviously those ones provide land tax revenue. As the number of dwellings in the city increases, there will be a commensurate increase in revenue associated with the number of dwellings that are rented.

Of course, these taxes are expenses for the property owner in terms of generating a rental income, so they can then be offset for income tax purposes. Depending on the marginal tax rate of the property owner, they are then able to claim those costs as an offset. So part of the revenue that is generated to the territory through that is offset in terms of a reduction in taxation paid to the commonwealth in relation to property investors, for example.

**MS LAWDER:** You said that part of the mix of the increased revenue is more properties. But there would also be increases in land values. What proportion is that, and what else is in the mix, other than those two?

**Mr Barr:** The three factors that drive the revenue increase are, yes, the proportion, the number of properties, and some policy changes that have been put in place recently around the principal place of residence exemption. Properties that were not being rented but were not the principal place of residence were added into the land tax net as an incentive to generate some income and not have vacant properties. That is another factor, together with, as you have identified, increases in land values.

**MS LAWDER:** We mentioned at the start \$214 million in revenue. Has the territory's debt decreased by \$214 million?

**Mr Barr:** If you take that against where it was previously, no, because obviously we have acquired new assets and borrowed in some instances for those. We have, both historically and currently, funded territory infrastructure through a combination of asset sales, cash, commonwealth grants and borrowings. As we have added to the territory's asset base, we have financed that through those four sources or combinations thereof. So the increased revenue certainly assists in providing for increased infrastructure. But then, as we mentioned, one of the drivers of the increased revenue is increased population. You see that on the revenue side but you also see it on the expense side of the territory budget, in that those new residents are of course consuming services. So they will have a variety of impacts on the expenditure side, just as they do on the revenue side.

**MS CODY:** Chief Minister, you were talking about the answers to Ms Lawder's questions about New South Wales. How do our rates and stamp duty compare to New

South Wales?

**Mr Barr:** It varies, depending on the local government area and the combination of state and local government taxation. On a per capita basis, for both state and local, the ACT is lower than New South Wales. They have recently shifted their payroll tax threshold up a little, but it is still considerably lower than the ACT's. I believe that in our annual budget papers we report on the differences between ACT and New South Wales taxation. The principal area of difference in terms of scale of revenue is the payroll tax. If we adopted the New South Wales payroll tax, rates and thresholds, the territory would extract nearly \$200 million of additional revenue. I suspect that would have an employment impact within the economy.

If you were to do that, you could obviously shift a range of other taxes as well, but you would be taxing labour more heavily. I do not think that is the best tax mix. And to align with New South Wales, where you would be extracting the money, that extra couple of hundred million dollars would be from small and medium sized enterprises in the ACT. They would pass that on to consumers as much as they could, I would imagine. I do not see anyone out there advocating that the tax burden needs to be shifted away from multinational and national companies to small and medium enterprises in the ACT.

That is why we will retain the differential that we have in relation to payroll tax. I think that not only serves our economy better but values employment and taxes labour more reliably.

**MS CODY:** In response to some of Ms Lawder's questions, you were also talking about stamp duty. I know we have a reduction or removal of stamp duty for eligible first home buyers.

**Mr Barr:** Yes. The scheme that came into place on 1 July has abolished stamp duty on all properties for eligible first home buyers. Across the nation, that is the benchmark: stamp duty abolition for first home buyers. It represents a significant milestone in the tax reform journey. It is not the end of the journey, but it is a significant milestone within it and undoubtedly represents savings for households. The savings are \$20,000 to \$30,000, compared to what people would be paying without any change. If they were buying an equivalent value property in another jurisdiction and not receiving any reduction, it would possibly be even higher.

**MS CODY:** You said that new houses make up some of the additional revenue.

**Mr Barr:** Yes.

**MS CODY:** So we must be having a few new first home buyers as well. Have you been tracking those trends?

**Mr Barr:** Yes. There is data provided on home finance. We have seen the market respond to those changes in stamp duty. The proportion of first home buyers as a percentage of overall homebuying activity has lifted since that initiative came into place.

**MS CODY:** I have a son who is about to take full advantage of it, Chief Minister. He is very excited.

**THE CHAIR:** On the tax changes, in response to an answer to a question on notice out of estimates, Chief Minister, you were asked about the increase in the value of properties and what they contributed to the increase in revenues. You spoke about that today as one of the factors. In the answer to the question on notice, you said that the government does not forecast change in property value as part of its overall revenue and that changes in average unimproved values do not increase the total revenue take.

**Mr Barr:** I think you are talking about an answer related to rates, as opposed to land tax.

**THE CHAIR:** You are right. Yes, that relates to rates. Land tax is treated differently?

**Mr Barr:** Yes; that is correct.

**THE CHAIR:** How is it treated differently from rates?

**Mr Barr:** We determine a global revenue target for rates, and then the individual land—

**THE CHAIR:** And then you divide it by the number of—

**Mr Barr:** Properties. The proportion that each property pays is then impacted by unimproved land values, currently on a three-year rolling average. The land tax is applied against the prevailing property values, against a set of value thresholds and marginal tax rates. It is progressive taxation in that regard. Again, there is a difference in the ACT model. Some jurisdictions give a tax-free amount or threshold.

**THE CHAIR:** Sometimes it is quite substantial, whereas we pay it on the first dollar.

**Mr Barr:** That is correct, yes. But then we have lower rates, I think, as a result, in terms of the overall—

**THE CHAIR:** When you say “rates”, is that capital “R” rates?

**Mr Barr:** Sorry, as in a lower rate of taxation on land tax for that initial—

**THE CHAIR:** Sorry, I just wanted to clarify.

**MS CODY:** Chief Minister, in volume 1 of your annual report you talk about continuing to provide guidance to agencies on major new accounting standards. Can you expand on what the new accounting standards are and how you are going to provide guidance to the agencies?

**Mr Barr:** Here we go. We all love our accounting standards; they provide no end of opportunity for commentary and understanding, or otherwise.

**Mr Nicol:** Before Ms Holmes takes the microphone, by way of introduction can I give

some background. Under the Financial Management Act, we are obliged to comply with Australian accounting standards. That is the rationale as to why Australian accounting standards are used. They are a very important tool in ensuring transparent and accurate reporting of ratepayers' money. Lisa, do you want to talk briefly about the changes we have had?

**Ms Holmes:** In particular, in the new standards that are coming up, there are three standards which are generating some work in relation to implementation. One standard is in relation to leasing and there are two standards in relation to revenue.

The leasing standard was reflected in the budget papers for 2019-20. The old leasing standard basically meant that you classified leases: whether they were a finance lease which was on a balance sheet or whether they were an operating lease which was off a balance sheet, they would just go through as an expense. The new standard does not have that distinction anymore, which means that you see more leases coming through on your balance sheet unless they are small value leases. The standard provides numerous things in terms of the transition to the new standard, as to how you transition. That is some of the information that we have been providing agencies.

Going to the revenue standards, one applies to all agencies and means that you have to allocate revenue in accordance with the satisfaction of the performance obligations of the contract. The other revenue standard is in relation to not-for-profit entities; it applies to transactions where the consideration to acquire an asset is significantly less than the fair value of the asset. With that particular one also you are looking at the timing as to when you recognise the revenue.

In terms of the guidance that we have been providing to agencies, every year the branch puts out information to agencies about accounting standards which have been issued but are not yet effective. It allows agencies to assess the impact of the upcoming standards and disclose it in their financial statements.

We have also been issuing advice in relation to the implementation of those standards to agencies so that they can do their initial assessment of the requirements associated with implementing. We have also issued policies in relation to how to transition for the leasing—which of the transition options we want agencies to be using. We have also been providing training as part of the audit seminar which occurred in March of this year. We have also done training where we brought in an external consultant to take all agencies through all the details of the implementation of those three standards.

**Mr Nicol:** On the leasing standard, which will probably have the biggest effect for our balance sheet, essentially the biggest issue that is affected is our property leases. Where we lease from the private sector, the new standard requires us to essentially have our future rental streams cashed back to a liability. Instead of just expensing it every year, if we have a 20-year lease we have to actually add up the rental stream, discount it and put that in as a liability. We also have an asset for the use of the property for 20 years, which balances it on the asset side, but our reported liabilities will go up because of that standard.

**THE CHAIR:** I see no-one has any follow-up questions on accounting standards.

**MS CODY:** I find them very interesting.

**Mr Barr:** They often result in the biggest material changes to—

**MS LE COUTEUR:** Madam Chair, I have a question that goes to the next topic, about government investments. Should I ask that and put my others on notice, given that we are about to start there?

**THE CHAIR:** Hold off on that until we finish the subject we are on, which is revenue, financial and economic management.

**MS LE COUTEUR:** I have some, but I could put them on notice.

**THE CHAIR:** Are you happy to put them on notice?

**MS LE COUTEUR:** I can put them on notice.

**THE CHAIR:** Thank you. I am mindful of the time.

**MR COE:** With regard to commercial rates, how many properties are not tenanted at the moment? How many commercial properties are vacant?

**Mr Nicol:** I am not sure I know or would necessarily have data that would be able to tell you, because it does not matter if a commercial property is tenanted or not: rates and land tax apply in both situations. Well, rates apply. Land tax does not apply.

**MR COE:** That is the thrust of the issue. In times gone by, you would only pay land tax when it was tenanted. That was pre-2012. So I am wondering whether you have any calculations about the additional revenue that you are getting now with the combined rates and land tax, compared to before, when you would only pay land tax when a property was tenanted.

**Mr Nicol:** I will check that. I do not know that we would have that, as we do not know whether the property is tenanted. We do not keep that record. We will not necessarily have that information.

**Mr Salisbury:** We would have to do some work to establish that. We do not have that readily available.

**MR COE:** Can you recall what the situation was back in 2012, the last year of separate rates and land tax?

**Mr Nicol:** That was before my time.

**Mr Salisbury:** It was before my time as well.

**Mr Nicol:** We might take that on notice and give you details about exactly how the system worked, because I do not have that to hand.

**MR COE:** Yes, if you could. If you are able to provide perhaps the number of

properties and the value of the rates and land tax in that final year of their being separate, and then the total number now, that will help.

**Mr Nicol:** We can provide you with that information.

**MR COE:** Finally, with regard to commercial valuations, where are things at? Where is the revenue office with regard to its valuation investigations?

**Mr Salisbury:** Each year, for 1 January, we go into an annual appraisal process. We are commencing that process at the moment.

**MR COE:** You previously advised in answers to questions on notice that there were particular precincts that you were looking at. Are all those precincts complete in terms of your research? If so, what were the findings? If not, what is still to come?

**Mr Salisbury:** Perhaps I should start by speaking about 1 January this year.

**THE CHAIR:** This calendar year, 2019?

**Mr Salisbury:** Yes, 1 January 2019, which relates to the assessments that went out for the 2019-20 financial year, which are out there at the moment. The areas that were focused on were Mitchell, where average increases were 2.5 per cent; Barton, with an average increase of five per cent; and Deakin, where there was an average increase of three per cent. There were also 41 properties in local centres that were reviewed, with an average increase in value of 5.2 per cent. For 1 January 2019, at this stage the program looks to be focusing on group centres. But we need to do all the work there.

**MR COE:** What was the increase you had in Phillip? That would have been a year or two ago.

**Mr Salisbury:** That would relate to the 1 January 2017 and 1 January 2018 years.

**MR COE:** Yes. Can you recall what those increases there were?

**Mr Salisbury:** It is definitely in the submission that we put to the inquiry into commercial rates.

**MR COE:** Okay. I can look that up. Finally, where are things at with the LDA—or now, I guess, the SLA or perhaps the ACT government—dispute with the tax office regarding GST?

**Mr Nicol:** I will have to take that on notice, because I do not have any updated information on that and I would not like to speak out of turn.

**MR COE:** Treasury is not providing advice?

**Mr Nicol:** I have not had that discussion with the SLA in recent times. I will have to take it on notice.

**MR COE:** It has been a pending issue for four years.

**Mr Nicol:** Yes, it has been, and it has been a long journey, but I have not had a recent update.

**MR COE:** Is treasury actually a party to or providing advice on this, or is it—

**Mr Nicol:** No. By and large it is the SLA and their commercial arrangements that they are undertaking. They come to us when they have new information to provide generally. The fact that they have not suggests that the issue has not progressed. But I will have to check with them.

**MR COE:** Would EPSDD be providing advice to them as their host agency, or—

**Mr Nicol:** I doubt it. I do not think they are. They have not been involved in the discussions previously.

**MR COE:** It is quite possible that you have an agency of the government that has a stoush, a dispute, with the tax office that does not intimately involve advice on a regular or frequent basis from treasury?

**Mr Nicol:** This is part of their commercial contractual arrangement and their liabilities for an agency. They approach us when they need our advice, but they have not done so. My understanding is that it is being handled adequately at the present time. But we do not get involved with every transaction and every agency.

**MR COE:** You are not aware of any update as to whether it has been resolved or—

**Mr Nicol:** No, I am not.

**THE CHAIR:** It being just after 3 o'clock, we are scheduled to move to the superannuation provision account, the territory banking account, the ACT Compulsory Third Party Insurance Regulator and the Office of the Nominal Defendant. That is four items in an hour. Members, are you happy to work through those sequentially, a quarter of an hour at a time, or do you want to be more wide ranging or free ranging than that? I am entirely in your hands.

**MS LE COUTEUR:** Given my questions relate to the first two, I am happy to go through sequentially.

**THE CHAIR:** How about, because you passed before, Ms Le Couteur, we start with the superannuation provision account?

**MS LE COUTEUR:** It is about territory investments, which is not actually the superannuation provision account.

**THE CHAIR:** If we could start with Ms Le Couteur, because she has already passed, and come back.

**MS LE COUTEUR:** I have been looking again at our responsible investment policy, and it says that we have a total exclusion of two things, being tobacco-related

products and the manufacture of cluster munitions and landmines. Of course I totally agree with that. I am wondering: given that the Assembly earlier this year voted to say that we were in a climate emergency, are you considering putting fossil fuels in that same category? The Assembly did make a fairly clear statement on that subject.

**Mr Barr:** Stranded assets are under review. I am not foreshadowing the result one way or the other in relation to that, but we certainly are aware of risks associated with stranded assets, and I think you will find that the territory's investments in this area have been tailing down anyway as part of our balance for the final approach. If it is a complete exclusion then, of course, the issue will become companies that operate in that field but that also may have, for example, renewable energy investments. I would not wish to—

**MS LE COUTEUR:** Appreciably.

**Mr Barr:** Appreciably, okay.

**MS LE COUTEUR:** It would need something probably that had “primarily dealt with fossil fuels” or “fossil fuels more than a certain proportion of their revenue”.

**Mr Barr:** Sure, yes.

**MS LE COUTEUR:** It would need to be a little more nuanced than just the word “fossil”, as I am sure it is as far as tobacco-related products are concerned. I imagine there are some related products to tobacco that are not excluded.

**Mr Barr:** Yes. I have seen this in a form that has been provided. Is there particular information? I recall that, when we last examined this issue, the advice to me was that the exposure on companies that would operate predominantly in fossil fuel industries was reducing.

**Mr McAuliffe:** When we talk about fossil fuels or we talk about fossil fuel emissions, intensity and reserves, our framework is trying to exclude those companies that have got very, very high emissions or high intensity. In terms of reserves, we hold very, very few companies that have got a lot of fossil fuel reserves now.

What we do as part of our portfolio is get a measurement done on it, which is effectively a carbon footprint measurement of our entire equity portfolios. Effectively, that is a measurement of the carbon emissions over the portfolio per million dollars invested. The number that are formed out of that are just a number. If you take our international equities portfolio, which is the best part of 1,500 stocks, its calculated carbon footprint is a score of 63. If you go to the MSCI standard market index, the measure for that is 119.

**MS LE COUTEUR:** Has that gone down significantly? I know there was some responsible investment policy a few years ago. How has it changed since then?

**Mr McAuliffe:** It has changed through—

**MS LE COUTEUR:** We were average.

**Mr McAuliffe:** We were the average. Because of our approach to why we have done it, we have now got it down. If you look at the MSCI, for example, they have also got a standard index you can go to, which is an ESG-focused index which has got all the same things. It is actually at about 63 or 64 as well, in terms of that score. It is a bit hard, I think, to clean that up too much further. It has really dealt with stranded assets and the like, in that current structure. But we are always, as the Treasurer said, looking at these things and we will continue to do some more analysis around them and provide the treasury with further advice on this.

**MR COE:** Would the government consider it unethical to invest in BHP or Rio or Santos or AGL?

**Mr Barr:** I think most of those companies have, obviously, a diverse portfolio of activity and to the extent that I do not think any of them—

**MS LE COUTEUR:** Santos I do not think is invested in, but I think they are all fossil fuels.

**Mr McAuliffe:** We do not have any exposure to BHP at the moment.

**MR COE:** What about RIO or AGL or Santos?

**Mr Barr:** AGL obviously we are in a joint venture with.

**MR COE:** That is right.

**Mr Barr:** And we are undertaking a range of renewable energy project partnerships with them. I am not going to play company bingo: yes or no. There is a process under which—

**MR COE:** Are defence companies all right?

**Mr Barr:** Again, as long as they are not negatively screened under the policy, then yes. We obviously canvassed this this morning. Any activity that is in breach of our policy would not be invested in. But there would be some companies who would operate in a defence field as well as the space industry, as well as technology—a range of different technology streams. These are things are genuinely not as straightforward as some might like to portray them. But we have a policy framework.

**MS LE COUTEUR:** I note we actually are invested in Santos. I did not think we were. But I have got September 2019's direct investments and, yes, much to my surprise, Santos and also Sandfire Resources are one of the more out there investments.

**THE CHAIR:** On a related topic, with the passage of the modern slavery legislation in Australia, are there obligations imposed by the commonwealth's obligations under that act and the territory's obligations or just a general policy to ensure that the investments that we make are as slavery-proof as can be accredited? Do we have a non-slavery compliance policy?

**Mr McAuliffe:** I am not aware of any explicit obligations. What we have got under our framework is another assessment process that goes over our portfolio's compliance with the United Nations global norms principles. Those principles cover a range of things. It might be slavery and all those sorts of things. So companies that fail that analysis are held—

**THE CHAIR:** Who does that analysis?

**Mr McAuliffe:** That is done by our benchmark constructor, which is MSCI.

**THE CHAIR:** That is the off-the-shelf—

**Mr McAuliffe:** MSCI are one of the largest global index constructors and they have a full research part of their business that puts all the data of all the different companies through their system. It can do all the analyses about what sort of an industry the company might be involved in. It can go through and talk about some of these companies that have got multiple businesses. It will try to break up the company's business by its revenue contributors and then work out how it might meet, or not meet, certain tests that you want to impose on them.

**THE CHAIR:** For instance, a lot of companies which are involved in renewables rely on the mining of lithium and cobalt and things like that which often are mined under less than desirable circumstances, often by children. How do we assess that in the great scheme of our ethical investment?

**Mr McAuliffe:** That is part of that deep-dive analysis. It looks at everything. It looks at things from actual business activity. It looks at whether they are breaching—

**THE CHAIR:** Where they source their lithium from et cetera?

**Mr McAuliffe:** Whether they are breaching certain principles, whether they have got other, broader, environment risks around them. It is a multifaceted assessment.

**THE CHAIR:** Where would I find out more about that?

**Mr Barr:** There is some information on the website, is there not?

**Mr McAuliffe:** There is some.

**THE CHAIR:** Do you want to, on notice, perhaps point the committee to where we could do some research on that? Also on notice, could you, minister, or Mr McAuliffe, whoever is appropriate, have a look at those indices to see whether they work in the modern slavery, child labour area and whether there are any extra obligations imposed upon us because of the passage of the Modern Slavery Act?

**Mr Barr:** That we can do.

**THE CHAIR:** If we have finished on superannuation, we can move on to territory banking.

**MS CODY:** How does Brexit have an impact on our territory banking?

**Mr Nicol:** That is a very difficult question to answer. It is an international risk.

**MR COE:** Particularly insurance, I guess.

**MS CODY:** Absolutely.

**Mr Nicol:** Potentially, yes. We have not seen a particular impact on insurance yet, but it is potentially there. It is one amongst a number of international risks. It is probably one of the contributing factors to the low level of interest rates around the world. I would not oversell it, but it is creating uncertainty, which central banks are responding to by reducing interest rates and easing monetary policy.

The key intersection is our insurance and reinsurance arrangements, but I do not think the risk is high there. I would sum it up as a general factor that is contributing to low interest rates around the world. We have talked about the valuation of our superannuation liability going up because of that. It means we can borrow at slightly lower rates—significantly lower rates, actually—which has a benefit for the territory budget from that perspective.

It probably has mixed impacts on the economy. Generally, with lower interest rates, the theory says they support growth, but there has also been talk of the underlying confidence being at such low levels. Of course, the economy is very important for both the budget and achieving a whole range of economic and social outcomes for the government.

**Mr Barr:** The example on interest rates is most pertinent, as the territory has refinanced the Mr Fluffy loans. We have repaid the commonwealth now and refinanced that loan. The territory took the loans from the commonwealth at interest rates of 3.015 per cent and 2.605, which was the prevailing cost of borrowing from the commonwealth at the time we borrowed the money—a weighted rate of 2.71 per cent.

We have undertaken two bond issuances in recent times. One is a shorter term maturity, 2025, and the other is to 2031. Those two borrowings were at 1.16 for the shorter term and 1.85 for the longer—an average of 1.5. The costs there on the Mr Fluffy loan have come down considerably. ACT residents have now saved close to \$30 million out to 2024 on the refinancing of that Mr Fluffy loan. We have now cleared our debt to the commonwealth in relation to Mr Fluffy. Obviously, we have refinanced on the commercial market but at a rate considerably lower than we borrowed from the commonwealth.

**THE CHAIR:** What is the current Mr Fluffy debt?

**Mr Barr:** The current Mr Fluffy debt is in the order of \$900 million, which is the amount we have repaid the commonwealth. I think that was what was left on that loan.

**Mr Nicol:** That was the amount that we had left on the loan.

**Mr Barr:** Yes; we owe the commonwealth zero now.

**THE CHAIR:** I understand, but we—

**Mr Barr:** The net cost of Mr Fluffy remains around \$300 million.

**THE CHAIR:** But the Mr Fluffy debt, which has been refinanced, rolled over, because we got a better deal from another bank, which is what we encourage people to do, is down from a billion to \$900 million?

**Mr Barr:** We had already paid the commonwealth back, under the schedule of agreement, \$100 million of the billion. We have now paid back the other \$900 million and refinanced the debt.

**THE CHAIR:** But you say that the net cost of Mr Fluffy is \$300 million, and that is what has always been the expected number. How is that drawn up out of—if we owe \$900 million to the bank and—

**Mr Nicol:** I will give a bit of background, just to separate the financing and the funding and the cost. The initial financing cost of Mr Fluffy was high because we had to buy people's properties, so we did not have the benefit, in the initial stages, of the resale of vacant properties. I think our initial estimates were in the order of \$700 million or \$800 million gross cost, up-front.

We entered into an arrangement with the commonwealth to borrow a nice round billion dollars, just to account for any downsides or upsides. That financing billion dollars has, as the Treasurer said, reduced to \$900 million under our repayment schedule. That is a loan. It was described as the Mr Fluffy loan, but it was essentially a loan. The cost of the scheme, which is tracked in the budget papers, which is the \$300 million, takes account of the initial outlays of buying people's properties, the subsequent sale of those properties, the costs of demolition, the costs of assistance et cetera.

**THE CHAIR:** You are saying that the net cost is going to be in the order of \$300 million but at the moment you are paying down the debt. You are not using the proceeds of the sale of land to reduce that debt at a faster rate? What is the term of the debt?

**Mr Nicol:** The loan is essentially financing that comes into the budget, and the costs go out from the budget.

**THE CHAIR:** What is the term of the loan?

**Mr Nicol:** The term of the commonwealth loan?

**THE CHAIR:** No. We do not have a commonwealth loan.

**Mr Nicol:** That is right.

**THE CHAIR:** What is the term of the new loan?

**Mr Barr:** There are two. There is a short-term government bond, 2025 maturity, and a longer term one, 2031 maturity. We have not done a discrete Mr Fluffy bond issuance. We have gone out more broadly around both refinancing and extending our yield curve, but the cost of borrowing for the territory has now come down so much. If we had just kept the commonwealth loan on our 2.71 per cent interest and paid it back on maturity to the commonwealth in 2024, we would be paying about \$30 million more in interest than this refinancing.

**THE CHAIR:** I understand that. I do not have a problem with that action. I am just trying to work out what the subsequent action is. What is the payment schedule?

**Mr Barr:** The territory's bonds are staggered every couple of years. We are developing a yield curve for the territory bonds, so there is a degree of liquidity in there. One of the major factors in our having a slightly higher premium on our bonds is that we did not have enough liquidity because we had not been in the bond market. The objective is twofold: to build our yield curve and to reduce the cost of borrowing.

**Mr Nicol:** Essentially a bond is a promise to the market. People provide you with cash. We will pay them a coupon rate once a year or once a quarter, depending on the bond.

**Mr McAuliffe:** Semi-annually.

**Mr Nicol:** Semi-annual—once every six months. At maturity we will then buy those bonds back at face value. At that point the government of the day will have to decide whether they refinance or look at the state and the need of the budget for financing. So we do not finance for particular activities per se; we finance for the aggregate needs of the budget.

**THE CHAIR:** So it is not, strictly speaking, a Mr Fluffy loan?

**Mr Nicol:** It is not strictly speaking a Mr Fluffy loan. The commonwealth loan was provided for that specific purpose.

**THE CHAIR:** That was a Mr Fluffy loan. This refinancing is a broader—

**Mr Nicol:** That is right. The two tranches provided us with enough. That is why we took an average of the two. We could have picked the lower one, but it is used not only to repay that loan but for the general purposes of the government.

**Mr McAuliffe:** Going back to when we got the loan from the commonwealth, if the commonwealth had not wanted to come up and offer a loan, we would have just gone to the market and borrowed the money ourselves. That money would have just gone into the budget. Whether it was that commonwealth-badged loan or whatever, they are all fungible. It is not as if the money came in, the billion dollars, and then all of a sudden we went and hived it off somewhere just for the asbestos scheme. It just went into the fund until the budget went to draw down money for the scheme itself.

**Mr Barr:** But the upshot of all of this is that lower interest rates, refinancing done both on the short and the long term with effectively six-year maturity and 12-year maturity, have saved the territory a lot of money. That is what I want to highlight. Obviously there has probably not been a time in the history of self-government when it has been this cost-effective to borrow. I do not think interest rates have been this low at any point during the territory's self-governing history.

**Mr McAuliffe:** No, never. Going back to Ms Cody's original question, I guess that is the challenge we have at the moment. Whilst rates are low, it is actually difficult to go and borrow money in the lower environment, because you are looking for investors on the other side. The money goes into investment portfolios. Everyone is looking for a return. Then we have all our government peers out for their governments, borrowing for their budgets, so capacity issues get in the way.

Taking into consideration things like Brexit, the US-China issues and the outlook for growth generally, we have got to sit here and try to pick those windows of opportunity to access the markets. That is probably why we have been a lot more active in the last month or so than we would otherwise have been. We have been able to achieve a couple of really good things at the same time, with the refinancing of the commonwealth loan, as well as securing some core funding for the budget at a very good cost of funds.

**Mr Barr:** Of course as an AAA rated jurisdiction with a very sound credit history and a very sound governance process, we are a desirable place for investors, as evidenced through the success of both of these market offers.

**THE CHAIR:** Ms Cheyne, you said that you had some questions about CTP.

**MS CHEYNE:** Yes, related to autonomous vehicles and CTP, particularly the trial that was done at the Kangara Waters retirement village just down the road from where I live. I am very keen to know what your involvement was with that. I know that the trial was very well received, but how much involvement did you have in the negotiations for getting this up and running, and will there be more trials?

**Ms Holmes:** I speak for the CTP regulator. Three agencies were involved in the trial: Transport Canberra, Justice and Community Safety and us. Our involvement was specifically in relation to the insurance arrangements which were put in place for the trial. The National Transport Commission has a set of guidelines in relation to what insurance arrangements should be put in place for AV trials in Australia. We were making sure that the arrangements which were being put in place were consistent with those guidelines and were going to provide average coverage if anyone was injured in the trial.

**THE CHAIR:** In 25 words or fewer, what do those guidelines cover?

**Ms Holmes:** One of the key principles of the guidelines is that anyone injured by an AV should be treated in the same manner as if they were injured by a human-operated vehicle. It is wanting to make sure that people are not worse off just because the injury involved an AV.

**THE CHAIR:** Does that mean that you end up with essentially a nominal defendant?

**Ms Holmes:** There were conversations as to the best way of doing it. In the end, the CTP act was disapplied in relation to the trial. That meant that it was not a nominal defendant claim if there was a claim made. We made sure that the operator would indemnify the territory for any costs associated with injury or death and also that the operator had the requisite public and product liability insurance in place. We were looking at all the various insurance policies which were in place.

**THE CHAIR:** So the operator would be responsible for any injury or death caused during the trial?

**Ms Holmes:** Yes.

**THE CHAIR:** And part of your responsibility was to make sure that they had the necessary wherewithal to take on that liability?

**Ms Holmes:** That the insurance they took out would adequately cover the situation and that the dollar amount of those insurance products was high enough.

**THE CHAIR:** What is the ongoing thinking about autonomous vehicles? You said that in this trial the CTP act was disapplied so that the nominal defendant was not going to end up with any liability. What is the ongoing thinking about this? As autonomous vehicles become more common, if there is a rollout of autonomous vehicles, what is the thinking about indemnifying people?

**Ms Holmes:** There is a lot of work happening at the moment around Australia in relation to autonomous vehicles. There is a lot of work being done through the National Transport Commission. There are multiple strands in relation to AVs; insurance is but one of those elements. The conversation to date is in relation to whether AVs come under personal injury schemes within Australia, such as CTP or motor accident injury schemes. The conversation is still ongoing interjurisdictionally as to what that might look like.

If the decision was that they did come within those schemes, the question then would become: what are the recovery rights that those schemes might have on the manufacturers or the other parties to the automated driving systems if there is a malfunction? If those companies have contributed to it due to a malfunction that they might have had liability for, how do they contribute to the cost of those injuries? There are a lot of issues which are still being talked about as to what is the best way forward.

**THE CHAIR:** Is there a time frame for coming up with a solution to those issues?

**Mr Nicol:** I am not sure there is a time frame. There is also an intersection with road vehicle laws in terms of vehicle roadworthiness, because cars now are being fitted with semi-autonomous capability. Cruise control is a semi-autonomous capability that has been with us for a long time. Essentially, the CTP schemes will cover those devices when they are considered to be roadworthy. Then governments of Australia have to make a decision on both fronts as to when, and if, fully autonomous

vehicles—so-called level 5 vehicles—are permitted on public thoroughfares and, if so, how? That is for the future.

**MS CHEYNE:** Is it a bit chicken and egg in terms of policies and governments working together, making sure they are level with where the developments in the sector actually are? I assume we are going to get more and more requests for these sorts of trials, but until everyone is in agreement about how this should work, does that pull us back in terms of how quickly we can be getting ahead in this area?

**Mr Nicol:** I would answer that—Lisa might have some more comments—by saying that we are but a small jurisdiction in a big world, and many countries are testing this technology. I do not think it would be up to Australia that the regulation that we put in place would retard the development of this technology. Apart from a couple of small areas, such as the sea machines tests, we are not leading this technology.

There are various debates about how close it is. Some people are saying it is going to be in the immediate future; others are saying it is a fair way off. If it does come about, we are going to have to change; we are going to have to beef up our laws very quickly to be able to either take advantage of it or regulate it properly. How far that is away is uncertain. As Ms Holmes said, the National Transport Commission and transport bodies around the country are working pretty heavily on this at the moment.

**MS CHEYNE:** If this does happen quite quickly, are we in a position to update our laws to make sure they match what is being put into practice?

**Mr Nicol:** It is a bit speculative, but I would say yes.

**Ms Holmes:** The nature of these types of reforms means that it will take time (a) to work through the policy issues and (b) for all jurisdictions—not just the ACT but all jurisdictions—to make the development changes to their legislation.

**Mr Nicol:** The changes are not so much the problem; it is a matter of what it means for how road rules work and how liability works between manufacturers and the operators of vehicles. At the moment, the law is fairly clear that the driver of a vehicle is responsible for the operation of that vehicle as it is being driven. With something fully autonomous, where you do not have a steering wheel, that changes. There are some pretty fundamental questions. Those questions would have to be answered first.

**MS LAWDER:** With the new CTP scheme a few months way, could you give us an update of where it is up to and what remains to be done to implement it?

**Ms Holmes:** The scheme passed in May. Since then, Chief Minister, Treasury and Economic Development has been doing the implementation and working through all the various elements which need to be done. As to what has been achieved, the MAI commissioner has been appointed, and that is me. That happened just in the last few months.

We have set the MAI levy. The Treasurer has signed off on that. That is the levy which will actually fund the operations of the new regulator which is going to be put in place. The levy will be \$16 to fund the regulator. It is higher than what you

currently see for the CTP regulator because of the additional functions which are required to be put in place for the new regulator.

There is increased monitoring which will be required. There is a new ICT system which we are currently in the process of building so that we will have more data and a better ability to analyse the data so that we can look at the trends from a financial perspective as well as from a compliance perspective.

We have been working through all the required forms, guidelines and regulations which need to be put in place. So far we have issued seven forms, six guidelines and one regulation. That is the bulk of the critical ones which need to be put in place for 1 February, which is when the scheme is due to start. We are also working with the insurers at the moment in relation to their premiums that they will be setting for the new scheme. That is some of the key work that we have been doing.

**MS LAWDER:** Have the forms, guidelines and regulations that you said you have released been released for consultation or are they—

**Ms Holmes:** Yes, they have. We have been releasing them to a targeted consultation with both the insurers and the legal profession; that is, the Law Society and the Bar Association. The key guidelines and regulations were actually released publicly prior to the debate on the bill. That happened in late March, early April.

**MS LAWDER:** What liaison meetings have you had with ACAT? Will they need additional resources or have they requested them? What is the status of that work?

**Ms Holmes:** ACAT was actually provided appropriation funding during the 2019-20 budget in order to be able to fund staff for the new function that they have in relation to the dispute mechanism. We are having a lot of conversations with ACAT in relation to the procedures that they will be looking to put in place internally for that particular dispute resolution.

**MS LAWDER:** Do you expect that insurance companies will send lawyers to ACAT hearings?

**Ms Holmes:** Ultimately, that will be a matter for the insurance companies as to how they run their business. However, certainly we are giving strong messages about the reason why ACAT was selected as that mechanism, and that is in relation to the way it works, that more informal mechanism and more reliance on reconciliation, conciliation, to get an outcome that way.

**MS LAWDER:** With your forms, guidelines and regulations out for consultation, when does that consultation close?

**Ms Holmes:** As I said, we have now issued six forms and seven guidelines.

**MS LAWDER:** For consultation or just issued?

**Ms Holmes:** No, as in we have done the consultation and they now have been signed off and approved and issued. There are some others, particularly in the guideline

space, which are out for consultation at the moment.

**MS LAWDER:** What type of feedback have you received in that consultation and what, if any, changes did you make?

**Ms Holmes:** We have had very robust conversations with the insurers around those guidelines—particularly, from their perspective, being able to understand what the guidelines are, being able to translate that in practice in terms of how they build their systems, understanding what it means for them to actually be able to implement that. They have certainly provided some comments around practice and ways that they think it could be refined slightly. In relation to the legal profession, we have only actually had one piece of comment back from them.

**MS LAWDER:** And what was the vein of that comment?

**Ms Holmes:** It was in relation to independent medical assessments and it was actually in relation to the whole-person impairment assessment, which is a slightly different subject to the concern that they were raising.

**MS CODY:** I just have one follow-on and then a couple of substantive questions. In response to Ms Lawder you talked about the new IT system. Did I hear right that you are still in the building phase of that?

**Ms Holmes:** Yes.

**MS CODY:** When do you expect that that will be implemented?

**Ms Holmes:** It will be up and running for the beginning of the scheme from 1 February. We are actually in the testing phase at the moment. That testing phase at the moment is that it has been built and the insurers are firing test packets at it just to make sure that all the validations and things that we have in place are working properly and that the dummy data that they are sending is going through to that ICT system correctly.

**MS CODY:** Will the current CTP staff transition into the new regulator role/whatever?

**Ms Holmes:** Technically the staff are CMTEDD staff which the regulator then pays for. Yes, the staff that we have and the vast majority of the project team will continue to be staff providing services to the MAI regulator.

**Mr Nicol:** We are taking the opportunity to split Lisa's functions. She currently, as you heard earlier, does accounting and MAI. I think we have made a decision that is a bit too much going forward under the new scheme. Lisa and her team will be focused on the MAI scheme and we will have a new function to deal with accounting and budget reporting.

**MR COE:** Have all the insurers set their premiums?

**Ms Holmes:** That is in the process of happening at the moment. We are expecting

filings from the insurers in the next week or so.

**MR COE:** In terms of the information they have requested or any feedback they have given you, do you expect that will be within the range that was last expected?

**Ms Holmes:** We will see when we get those filings.

**MR COE:** Are the resources at ACAT fully prepped?

**Ms Holmes:** ACAT received funding during the 2019-20 budget process in order to fund the new dispute mechanism.

**MR COE:** But have you heard anything with regard to how the insurance companies will be treating ACAT?

**Ms Holmes:** In what sense?

**MR COE:** In terms of their approach. Are they going to have a permanent or consolidated presence or will they be individually tasked?

**Ms Holmes:** We have not had that conversation with the insurers. But, as I said, we have made clear the ACAT process and the reasons why ACAT was chosen.

**MR COE:** I think you mentioned that the insurance companies are pinging different scenarios into the system. Have there been any unexpected results?

**Ms Holmes:** They are sending through dummy data to test the validations and things. It is in the test stage, and that has only just started to happen.

**MR COE:** But, based on the testing, will the proposed start date be pushed back?

**Ms Holmes:** Not that we know of, no.

**MR COE:** Have you received any feedback based on the dummy data on how the system is running?

**Ms Holmes:** We have been working very closely with the insurers in relation to the ICT system for quite a number of months now. It has been an iterative process with them. We have been working through any issues or concerns which have been raised. We are not aware of any issues or concerns at the moment that would cause issues for 1 February.

**MR COE:** But, based on that process, are you on track or have some complexities been identified that are likely to push it back slightly?

**Ms Holmes:** We understand the ICT systems will be in place for what needs to happen for 1 February.

**MR COE:** Is there any progress with regard to what financial reporting the insurance companies will be making?

**Ms Holmes:** We have issued business plan guidelines and premium guidelines. Both of those specify the information which needs to be provided to the MAI commissioner in order to be able to assess how they are going in a financial sense.

**MR COE:** But in terms of reporting on profits and yield, how will you ensure that motorists in Canberra are getting the best possible deal?

**Ms Holmes:** As was said during the time of the debate, the legislation allows the ability to put in place regulation in relation to profits. That will be put in place if it is felt there is some indication that profits are higher than we would like them to be; hence we would then go forward and put that mechanism in place.

**MR COE:** But how will you know?

**Ms Holmes:** The commissioner will continue to work with our actuaries every year to have a look at the anticipated expected profit coming through. Because of the long-tail nature of the scheme and the fact that the premiums are set for the total costs associated with the injuries that happen in that year and that those payments can occur over quite a number of years, you do not know what the actual profit will be for quite for some time. All we can do in the earlier years is to work with the actuary and then model the information and data coming through to assess whether the potential profit we are seeing might be higher than what we would like.

**MR COE:** Does the regulation allow for retrospective requirements or is it only prospective?

**Ms Holmes:** Prospective only.

**MR COE:** If, for instance, you do not have a regulation in place on day one and there is a long tail and therefore you will not be alerted to any excessive profits for maybe five or six or seven years, how will you know whether the territory has been overcharged in the previous years?

**Ms Holmes:** We look at what is in the filing every year, the same as what currently happens in terms of the expected profit levels and whether we think that is in line with industry levels for the type of scheme it is. That type of situation is already happening in terms of what is expected and what factors into your premiums.

You will have variability year on year in terms of the actual profits, depending on the number of claims coming through and the severity of those claims. Both vary year on year. You also have the added issue in the early years that you will generally have a honeymoon period, when people are still understanding their ability to claim against the scheme and what they can do with the scheme. There are a lot of factors, particularly in the very early years, which mean it will take some time to get a more bedded down sense of where the scene is.

**MR COE:** Whilst I gather the government will not issue a regulation on day one, you must have an idea as to what you think is an acceptable level of profit?

**Ms Holmes:** That is why I said that as part of the filings and the assessment we do of the premium filings we undertake two things: (a) we look as to whether we think the premium filing is excessive and (b) we also check to make sure we think it would fully cover the liabilities that will come through for that accident year. As part of that process we are looking to see the level of profit they are putting into that filing and whether we think that is reasonable for the industry and for this type of insurance.

**MR COE:** Have you informally or formally conveyed to them what you think would be an acceptable level of profit?

**Ms Holmes:** We take that advice from the actuary every year. In fact, we publish in the annual report every year the range in terms of the profits in the insurer filings. We have been doing that for a number of years.

**MR COE:** What will the range be for the new scheme when it commences?

**Ms Holmes:** We need to get the filings from the insurers and see what level of profit they are asking for before we do that analysis.

**THE CHAIR:** Why are you dependent upon the filings from the insurance company, rather than doing an independent analysis?

**Ms Holmes:** Firstly, to see what they are asking for and, secondly, we get holistic advice from the actuary which covers all elements of that fund.

**MR COE:** What is going to stop them from high-balling you first up?

**Mr Nicol:** The other thing is competition in the market. I have seen over the last two to three years that at each filing update all the providers are looking at where they can reduce their prices.

**MR COE:** They are all very close.

**Mr Nicol:** In a market such as this, where everyone gets a form with a price on it, it is as close to a competitive market as you can get. We would expect the premiums to be similar, but they have driven down premium prices.

**MR COE:** How many insurers will there be on day one?

**Mr Nicol:** Four.

**Ms Holmes:** The same insurers we have now. The legislation automatically licenses them for the new scheme. Following on from Mr Nicol's comments, the latest NRMA filing, which will take effect from 18 November, is dropping down again to \$482.30. That particular filing was a significant decrease in premiums.

**MR COE:** That is under the current scheme, not the new scheme?

**Ms Holmes:** It is for the current scheme, but given that this filing happened after the MAI legislation was passed you would expect that they would be setting those types

of premiums with some level of anticipation about what they think of the new scheme.

**MR COE:** There will be a new filing though, will there not?

**Ms Holmes:** There will be a new filing.

**Mr Barr:** Yes, it is already having the intended effect. At the starting point, when the citizens jury process was established, the average CTP premium for passenger vehicles was \$555. The NRMA filing drops that to \$482 before the new scheme comes into effect, but obviously there is a part fiscal year impact in the filings.

**MR COE:** There will be a new filing, though?

**Mr Barr:** Sure.

**MR COE:** That is only current until the new scheme starts?

**Mr Barr:** Yes, at which point it would be anticipated to go even lower.

**THE CHAIR:** At various stages, Chief Minister, it has been indicated that motorists could save somewhere between \$90 and \$150 to \$170. Is that actually going to come about or are you going to say, “It has already come down so much”?

**Mr Barr:** From when we started the process to the NRMA filing, that is about \$70 down.

**THE CHAIR:** So you are actually going to count that, as opposed to when you go to the next step.

**Mr Barr:** When we identified that we needed reform, because our premiums were the highest, that is when they were up at \$555 to \$560 per annum—

**THE CHAIR:** But you cannot attribute a decrease in premiums in the old scheme to the new scheme?

**Mr Barr:** No, that was when we announced the process. Before that, they were even higher. So bringing in competition started to bring the premiums down. As we get closer to the commencement date for the new scheme, we see premiums continue to fall. But what matters to motorists, Mrs Dunne, is how much it is going to cost them when they tick the box on the form. All of the reform efforts over the last decade have contributed, but obviously this one—the change to the new system—will contribute very significantly. This is one of the largest costs that every motorist incurs every year and will be making a massive difference for—

**THE CHAIR:** Are you able to quantify that? At various stages there have been figures bandied around, but are you able to quantify the massive difference?

**Mr Barr:** Yes. We will look at what the premiums were before reforms started and the trajectory they were on. That was up, up, up, up, up, as the lawyers drove the cost up, up, up, up, up, and then the process of reform, in terms of both competition and

the further changes, down, down, down, down, down in premium cost.

**THE CHAIR:** So the reputed savings of about \$150 are over that long period that—

**Mr Barr:** Yes. Motorists in Canberra will experience the difference in premiums that were heading towards \$600 a year and rising, to premiums that are dropping below \$500 a year and falling.

**THE CHAIR:** But I am—

**Mr Barr:** It is a cumulative result of all of the reform efforts that I have championed for a decade.

**THE CHAIR:** So what you are saying is that the new scheme will not bring about the savings of \$90 to \$150 that have been—

**Mr Barr:** Yes, the new scheme, together with competition and all of the other reforms in this area that I have championed for this entire decade that were blocked previously in the Assembly by your party and by the Greens. In this instance, obviously without re-litigating the Assembly debate, we were able to secure—

**THE CHAIR:** I am actually asking a question about over what time period are these savings supposed to be quantifiable—

**Mr Barr:** Well, I will—

**THE CHAIR:** because it has been read by me as, “When we change the scheme in February, we will see a reduction in premiums.” But now, when I press this issue, you are saying that, no, it is a reduction over the time that you have championed this, over 10 years, which is quite a different figure.

**Mr Barr:** There have been a number of factors that have contributed to the reduction in premiums over this decade, some of which related to reforms from 2011, some of which related to reforms in the intervening period that brought competition into the marketplace, and a further wave of reforms that relate to this scheme. All of them have contributed to, firstly, a reduction in the rate of increase in costs. What we can look at is what the cost path would have been, what the trajectory would have been, if no reform had been undertaken, and what the trajectory is now. The difference is that it goes from up, up, up, up, up, under your preferred scheme, to down, down, down, down, down under ours. That is what the motorists of Canberra will see when they get their CTP renewal slips.

**THE CHAIR:** Except when they are injured. Ms Cody, you had another question on CTP?

**MS CODY:** Hopefully a very quick one. I am looking at the time. With the transition of the old scheme ceasing and the new scheme beginning, there will be a bit of crossover, I imagine. How is that going to be managed?

**Ms Holmes:** The legislation is clear. If you are injured in a motor vehicle accident

before the new scheme starts on 1 February next year, you are in the CTP scheme. If you have not put in a claim but the accident was pre, you would put in a claim against the CTP scheme. If you have a current claim on foot for CTP, you remain in the CTP scheme. The motor accident injury scheme, the new scheme, will only apply to people who have been injured from 1 February 2020 forward.

**THE CHAIR:** It is 4 o'clock. We are scheduled to pause for a quarter of an hour. Is there anything on these items, before we send the officials off, that is absolutely pressing? If not, we will suspend until 4.15. Thank you, Chief Minister, and thank you, officials.

### **Hearing suspended from 4.01 to 4.15 pm.**

**THE CHAIR:** We will move on to consider workforce capability and governance and the *State of the service report*. Could I start, Chief Minister, by asking this: in relation to classifications across the ACTPS, have any been identified as having issues in relation to staff retention? Are there any particular hotspots where you lose people?

**Ms Whitten:** In terms of the *State of the service report*, you will see, in the tables towards the back, particularly on pages 160 and 161, the recruitment rates by classification groups, as well as separation rates by classification groups. One of the interesting areas is that, if we look at dentists, for example, the recruitment rate has been 36 per cent, but the separation rate is 29 per cent. There is that interesting dynamic between a number of recruitment actions that occurred during the financial year, and there have also been some people who have left during the year.

**THE CHAIR:** But you are still replacing at a—

**Ms Whitten:** It would appear so.

**THE CHAIR:** How many dentists do we employ?

**Ms Whitten:** That is a very good question.

**THE CHAIR:** Not all that many.

**Mr Barr:** No, I saw that a moment ago.

**Ms Whitten:** Nineteen.

**THE CHAIR:** I am surprised it is that many.

**Ms Whitten:** That is good.

**THE CHAIR:** Is it more likely to be people with specialist professional qualifications or people at a particular level where you lose people and you might consider retention bonuses or something like that?

**Ms Whitten:** Looking at the separation rate on page 161, we can see that the separation rate does vary quite considerably, and that is by classification group. We

have already mentioned dentists, who would be a particular group. We also have prosecutors, who are a particular technical group; then trainees and apprentices.

**THE CHAIR:** Why is there such a big number for trainees and apprentices? Can that be broken down by trainees who, in a sense, come for a finite period of time, and apprentices, who might, in the normal course of events, move on to a skilled occupation after they have done their apprenticeship?

**Ms Whitten:** In terms of that level of detail, I do not have that with me.

**THE CHAIR:** Could you take that on notice?

**Ms Whitten:** I can take that on notice.

**THE CHAIR:** Are there any particular policies in place to retain particular classifications? Health professionals is one; it is around the 10 per cent mark, as I recall, and that is often an area of high turnover.

**Ms Whitten:** I will ask Mr Noud to talk about the attraction and retention incentive, ARIns, which we report on in the *State of the service report* as well. He can give a little bit more detail about the types of groups that tend to attract an attraction and retention—

**THE CHAIR:** To do that, we also need to have an understanding of why people might separate.

**Ms Whitten:** Yes, and partly it would be to do with demand in the profession. Some professions have greater demand than others, and the market in which they operate.

**Mr Noud:** The government has a number of different pathways by which to attract and retain people. On a group or individual level, we use what are known as ARIns, attraction and retention incentives. They are a facility contained in the enterprise agreements which allow us to make a payment to individual workers or groups of individual workers that are in the same position or role.

We use those, for want of a better description, as a stopgap, if you like, in between agreement rounds, whereby market movements during the term of an agreement mean that we have an attraction or a retention issue that presents itself. That is not an infrequent occurrence. Enterprise agreements occur every three to four years, and markets move at different paces, in different frequencies and different cycles.

One of our bigger ARIn users is Canberra Health Services, for medical practitioners. There is a very highly competitive market across Australia for specialist skills, and those skills are keenly sought after by all health systems, as you can imagine. Junior doctors are hotly contested for, as are specialists, and especially specialists with particular skill sets.

With respect to other areas in the non-medical groups, allied health is another area that you mentioned. From time to time different allied health areas will pop up as areas in need, and we will then look at ARIns for those groups.

**THE CHAIR:** That is pretty much taken as read, Mr Noud, but where are you currently seeing the need to provide ARIns? Are they successful? How do you measure the success of ARIns? If you offer one and someone stays, is that because of the success of the ARIn? What other measures do you have in place? If someone leaves in spite of one, is that a failure of the system? How do you measure that?

**Mr Noud:** When we offer an ARIn, of course the key success measure is whether the person stays once they receive the ARIn—whether the ARIn is enough to keep them in employment. When we look at where people leave, people leave for many reasons. Sometimes we cannot match rates offered elsewhere around Australia; at other times we can. We will look at each individual circumstance as to what we need to do to maintain the workforce that is needed.

We are also looking at a more holistic level, Mrs Dunne. Across the service we are about to commence a classification review. That is starting to look at different professions and different groupings of employees across the service, and at how our wage rates compare to other sectors, be it private or public sector. That work is just starting. That will identify a whole range of classifications, I would expect, that may or may not need attention, and we will do that once the next bargaining round starts.

**THE CHAIR:** What is the expected time frame on that work?

**Mr Noud:** Around 12 months, and it is only just starting now. We would expect some preliminary results by the end of next year. As a matter of course, in the lead-up to each enterprise bargaining round, we will look at where, across the service, over the course of the agreement term, we have started paying ARIns. We will look at the incidence of ARIns, we will look at how many, what type of value, the reason under which they are paid, and we will make an assessment as to whether we need to bring those ARIns into the rates contained in the agreements.

They are different issues. Once they are in the agreements in rates, they cannot be removed. Again, if they are a perpetual payment, the market has moved and our assessment is that it is unlikely to go backwards, they should be in rates, not in an additional incentive payment.

**THE CHAIR:** Could you, on notice, for the last year—I do not mind if it is calendar year or financial year; financial year is probably more appropriate—tell us how many ARIns you have provided, at what levels and in what areas? It would have been by these classification groups that are in these tables on pages 160 and 161. I would like some assessment of whether or not they have been successful. I take your point that somebody might negotiate an ARIn; then their family circumstances change and they leave anyhow. But there may be occasions when they leave because we are still not being competitive enough.

The other question, which you can probably answer now, is: how does it work? Do you approach people and offer them to them, or do people say, “I’m thinking of going because the grass looks greener on the other side”?

**Mr Noud:** It can happen in either of those ways. It might be that we recognise a

circumstance where we have run ads for shortages in positions, and we do not attract good fields, or we attract minimal fields. We will then see the need to put ARIns into that market. But it can also happen the other way.

**THE CHAIR:** You would actually put it in as, “We’re advertising for this sort of classification,” and even though the salary range for that is X to Y, you might have—

**Mr Noud:** We can do X plus a bit, yes.

**THE CHAIR:** 110 per cent, 115 per cent or at par—

**Mr Noud:** That is correct. It is not expressed in that way, but the gist of what you are saying is correct. The reason we would do that is because the ARIn framework allows for that. If we are advertising for a higher amount, potentially it will attract a better field. Rather than advertise what experience has shown us to be a less attractive rate, we will advertise higher, and hopefully get a better field.

The alternative still exists under the policy, though, that we can advertise at the agreement rate, but if a particular individual has a skill set that we want to attract, retain and bring into the service, we can offer an ARIn in that context as well. We can either bring the ARIn into the discussion at the beginning, or after, once we have attracted someone.

**MS CHEYNE:** Are you able to take on notice how many psychiatrists and psychologists employed by the government are on ARIns?

**Mr Noud:** Yes.

**MS CHEYNE:** Who approves ARIns?

**Mr Noud:** It is done by the director-general of the respective directorate, but there is a process in place which goes through an assessment conducted by CMTEDD as to the market conditions and the veracity of the claim.

**MS CHEYNE:** Are reports given on a semi-regular basis as to how many ARIns are being issued?

**Mr Noud:** Yes.

**MS CHEYNE:** D-Gs do not just go—

**Mr Noud:** No, it is very closely monitored. It is an expenditure of taxpayers’ funds, and we take it very seriously. They are closely monitored, closely watched, through CMTEDD and the Head of Service; they are not something that is easily entered into across the service.

**MS CHEYNE:** Are reports provided up to cabinet level?

**Mr Noud:** No, not to cabinet level. To strategic board level.

**MS CODY:** I note your age profile workforce; you have a good number of employees at both the very lower end and the very higher end of the scale. Do we use ARIns to attract and retain staff at those ends—not necessarily ARIns; it could be different ranges of things?

**Ms Leigh:** Ms Cody, if you have a look at the *State of the service report*, on page 44, there is a good summary of some of the strategies that are used to attract and retain mature-aged employees. That indicates, as you said, other alternatives that might be appropriate: things like flexible work arrangements, ensuring that our processes are age inclusive, mentoring of younger employees to recognise the value that mature employees might bring, and a number of other options. ARIns are just one way that we ensure that we attract and keep the best possible workforce.

**MS CODY:** But there are other things you do to ensure that both ends of the workforce spectrum are respected and valued?

**Ms Leigh:** Absolutely.

**Mr Noud:** Absolutely, yes.

**Ms Whitten:** One of our other programs in the early years of service is the graduate program that we have. There is some detail in the report about the numbers of graduates that we have had this year and in the past. That is a whole-of-government full-time program that runs for 10 months and includes work rotations across directorates as well as formal training. Once people graduate from the program, they have jobs in the public service. That is one example. We have other vocational employment programs for people with disability and Aboriginal and Torres Strait Islander people, as entry-level programs for the public service.

**THE CHAIR:** To follow up on Ms Cheyne’s question and something that you said, Ms Whitten, directors-general sign off on the ARIns but there is an approval mechanism in CMTEDD as well, so strictly speaking, the directors-general do not sign off, because if CMTEDD says, “No, you cannot do this,” the director-general is not going to do it.

**Ms Whitten:** The important thing about these kinds of programs is that the Head of Service has a view on them being offered or not. We provide a quality assurance process to support directors-general as well as the Head of Service in relation to ARIns.

**THE CHAIR:** But strictly speaking it is not directors-general who sign off. They are the people who sign the paper, but they are not going to sign the paper unless they have got approval from further up the line.

**Ms Leigh:** If I might just add to that, Mrs Dunne, I think we all recognise the importance of having consistency across the service. Without consistency, you are going to limit mobility, and that is going to impede the learning and development of the service. One of the reasons why CMTEDD has a role is to provide that consistency and advice to directors-general so that they understand that they are acting consistently with their colleagues.

**THE CHAIR:** In relation to trainees and apprentices, after their year, are trainees guaranteed employment like graduates and apprentices? Are they guaranteed employment in the public service in the same way that graduates are?

**Ms Leigh:** I think that is the case, but I will—

**Mr Noud:** The enterprise agreement provides the facility to construct different programs, so some programs will appoint at the end of their term and others will not. The agreement is meant to provide that flexibility.

**THE CHAIR:** For instance, people who are part of a statutory apprenticeship program would normally expect to be employed by their sponsor at the end?

**Mr Noud:** Yes.

**Ms Whitten:** We do employ them, subject to the satisfactory completion of their program.

**MS CHEYNE:** I am asking about activity-based work fitouts. At the last annual report hearings it had been rolled out to about 800 staff but at this annual report hearings it is still around 800 staff. Am I right to assume that there has not been a dramatic further rollout? I appreciate that there are offices being built, but can I just confirm we are still around the same amount?

**Ms Leigh:** That is correct and it is precisely for the reason you have just mentioned, that the rollout so far has been mainly on a pilot basis, knowing that we have the opportunity with the new buildings to establish it as an ongoing approach. The rollout so far has been to trial different ways of implementing activity-based work and to give employees the opportunity to see how it will work and to build up our understanding of how to make it work as well as possible.

**MS CHEYNE:** On how to make it work, I note that last time we discussed the survey about 30 per cent of staff said that they did not want to work in an activity-based work environment. Have there been any more recent surveys of staff satisfaction regarding this, particularly those who are working in it? I am conscious that page 56 of this report says that there have been ongoing lessons learned from rollouts. I am keen to know whether staff attitudes are changing or not.

**Ms Whitten:** Particularly in relation to those people who are already working in ABW, but we are probably focusing more on those people who will be moving into ABW. With the workforce transformation program that we have and with the Dickson office block being the first block to come online, what we are doing is working, through our directorates, with those staff and preparing them to move into the new building. That is where our effort has been for the moment. It is about getting people prepared and listening to and having conversations about what does activity based look like.

We are also offering the opportunity for people who are not currently working in ABW environments to spend a week or so in one, by moving some staff out into a

different location and allowing people to have that experience. We have also—

**MS CHEYNE:** Has there been a decent take-up of that?

**Ms Whitten:** There have been a few requests. The level of take-up I do not have at hand. I think in one of the buildings on Northbourne Avenue—I will get the wrong number, so I will not say it—we have actually set up one of the workstations in that building so that people can just have a look at what it looks like in terms of what the sit-to-stand desk looks like, how you connect your laptop in that setting. Not everybody is currently on laptops necessarily. It is just about having that experience and seeing how it could work. But, really, having the opportunity to spend some time in a workplace is probably the best way for people to understand it.

**MS CHEYNE:** And what remain staff's main concerns?

**Ms Whitten:** It depends on what their current work environment is like. Sometimes it can be anything such as it may be a bit noisier than where you have got your current set-up. The good thing about moving into our new government office blocks is that not only will there be the open space arrangements without work stations but we will also have specific areas on each floor of the buildings for quiet work where we do not take calls and there is not much conversation at all. If people are concerned about noise levels then they can go into the quiet space for a period of time, for a day.

The other area of focus for people is just in terms of what that means if I have some specific needs. That is where the reasonable adjustment policy to cater for individual needs comes in, such as somebody who has a medical need to have a quiet space. What we would look to do is accommodate their needs in the workplace as well. They might have a fixed place to sit at each day, rather than moving around, which is our current policy.

**MS CHEYNE:** How do you balance that if someone has a need that they might not necessarily want their colleagues to know about and suddenly they are not moving and everyone else around them is playing musical chairs? How do you balance that anxiety for people?

**Ms Whitten:** I think through a conversation with the individual concerned and working with them on what they would like to share with other people or not, and then we would need to work that through on an individual basis.

**MS CHEYNE:** There is a task force that is working on this? They have been engaging with other departments and the commonwealth, like the Department of Finance, on their lessons learned from the rollout of similar environments?

**Ms Whitten:** I think, particularly in terms of the set-ups that we have got in Nara, across the road, a lot of that development and the design for those fitouts on level 4 and level 5 did involve understanding what was happening in other departments, whether it was the Department of Finance or not. I know we have met separately with the Department of Finance about other things but I do not recall detail in terms of ABW. But those workplaces on level 4 and level 5 of Nara have been in place for over two years now and obviously the design for those workplaces would have

commenced well and truly before then.

**MR COE:** With regard to bullying and harassment and people on leave, how many people at any point in time would be on personal leave due to bullying?

**Ms Whitten:** Thank you for your question. I actually do not have that level of detail with me but I could take it on notice.

**MR COE:** Do you collate that sort of information?

**Ms Whitten:** Personal leave we do. Whether we go down to that level of detail, I will need to seek advice from Shared Services.

**MR COE:** If you could. I am looking for the number of people at any point in time that are impacted over the course of the year and the total cost of that leave. And if it is not collated, there is potentially a quite interesting body of work, even if it is just a sample, I think.

**Ms Whitten:** Thank you.

**MS CODY:** I note that you have been doing a bit of work to move away from casual employees and also some other work around employment. In your comparisons, from 1994 to 2019 is an interesting comparison but—

**Ms Whitten:** It is.

**MS CODY:** times have definitely changed.

**Ms Whitten:** Definitely.

**MS CODY:** There has been a percentage of part-time staff that has nearly doubled in that period. Is that because people want to work more part-time hours? Are our part-timers working those hours because that is something that they really prefer to do because it works for their lifestyle?

**Ms Whitten:** Thank you for the question. In terms of part-time employment, that is usually a request from the individual employee, and our responsibility as supervisors or managers of those staff is to accommodate that, subject to the needs of the workplace in terms of the operational requirements. The only other factor that might influence it is depending on the available budget in a particular area. But usually it is something that is—

**MS CODY:** It is an employee choice rather than an employer enforced—

**Ms Whitten:** Yes, but there may be occasions where it is not. I do not want to be absolute.

**MS CODY:** But as a general rule—

**Ms Whitten:** Yes. It could be, for example, that women returning from maternity

leave might choose to work part time in the first instance or their partner may choose to do the same thing as well, or together.

**THE CHAIR:** We are just about out of time. Can I ask about the resolving workplace issues resource page. This issue was raised during question time on, I think, the last sitting day, but my advice is that as of earlier today the resources were not available online. I am just wondering, if that is the case, why it is the case.

**Ms Whitten:** Actually, there is a new guide that is available on the employment portal—sorry, I thought I had it on my screen but I do not—and that is in relation to misconduct procedures. That is available online. Those guidelines have been developed by the Public Sector Standards Commissioner. That information is there. Some of the other documents are still being looked at, I think.

**THE CHAIR:** Could you, on notice, perhaps indicate to the committee when those are likely to come live on the webpage?

**Ms Whitten:** Yes, we can.

**THE CHAIR:** Thank you. It being a quarter to 5, this is the designated time for pulling up stumps today. I thank the Chief Minister and Treasurer, Mr Barr, for appearing today, along with his officials. A proof transcript will be sent for comment. If you have taken any questions on notice, we will seek answers to questions on notice five days after receipt of the transcript. Hearings will resume tomorrow at 9.15—same time, same crew and same crew on this side. Thank you very much.

**The committee adjourned at 4.45 pm.**