LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Annual and financial reports 2007-08)

Members:

MS C LE COUTEUR (The Chair)
MR B SMYTH (The Deputy Chair)
MS J BURCH

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 4 MARCH 2009

Secretary to the committee:
Ms A Cullen (Ph: 6205 0142)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Committee Office of the Legislative Assembly (Ph: 6205 0127).

APPEARANCES

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Amended 21January 2009

The committee met at 2.37 pm.

Appearances:

Gallagher, Ms Katy, Treasurer, Minister for Health, Minister for Community Services and Minister for Women

Department of Treasury
Smithies, Ms Megan, Under Treasurer
Bulless, Mr Neil, Executive Director, Finance and Budget Division
McDonald, Mr Tom, Director, Legal and Insurance
McAuliffe, Mr Patrick, Director, Investment Branch
Ahmed, Mr Khalid, Executive Director, Policy Coordination and Development
Dowell, Mr Graeme, Commissioner for Revenue

Department of Territory and Municipal Services
Vanderheide, Mr Michael, Head of Shared Services
Chisnall, Mr Mick, General Manager, InTACT, Shared Services

THE CHAIR: Good afternoon everybody. We will commence this hearing. I now formally declare this public hearing of the Standing Committee on Public Accounts inquiry into the 2007-08 annual reports open. Today the committee is examining the 2007-08 annual report of the Department of Treasury. I assume that, as you were all here before, you have all seen the privileges statement. Before we proceed to questions, Treasurer—

Ms Gallagher: No, no opening statement.

THE CHAIR: No worries. This leads to my first remark. You talked on page 6, but it is also repeated further on, about the pensioner duty concession schemes implemented to assist older members of the Canberra community move to appropriate housing. How many people have taken advantage of it?

Ms Gallagher: I did see a figure recently. It is 37.

Ms Smithies: It is 37, and I think a revenue loss to us of $400,000.

MR SMYTH: Treasurer, on page 5, in the overview on highlights, it talks about the department undertaking the negotiations on the sale of Rhodium, which we now know did not proceed and basically Rhodium has now been put back into the department. I noticed that at the Brumbies pre-dinner last weekend Rhodium Asset Solutions still maintains a table. They are listed on the seating plan as Rhodium Asset Solutions. Is it appropriate for Rhodium, which is winding back its business, to be maintaining a table at the Brumbies pre-game functions?

Ms Gallagher: Their arrangements with the Brumbies are locked in, I think, until the end of this year. They will not be renewing those arrangements. Those arrangements are in place.

MR SMYTH: So it is moneys we have already paid?

Ms Gallagher: I think they get a banner as well on the ground and the vehicles to the Brumbies as part of that arrangement.

MR SMYTH: And that will be winding up at the end of this financial year?

Mr Bulless: I think, for the vehicles, it is certainly the end of this calendar year. I think the existing marketing and promotion arrangements pretty much go through the calendar year. They might expire very early next calendar year, some aspects of them, but I think the vehicles effectively expire at the end of each year. The box arrangement and on-the-ground sponsorship at the Canberra Stadium, I think, also expire this year. My understanding was that Rhodium had actually looked to on-sell its corporate box to other people. We did not actually wish to take that up as a continuing marketing opportunity, because of its current status.

MR SMYTH: Sorry, it will continue to market?

Mr Bulless: No.

Ms Gallagher: No, it did not want to.

MR SMYTH: Who gets access to the box now if we are not using it for marketing activities?

Ms Smithies: I can answer that. At the moment it is suppliers. I think the last attendance was by a lot of the industry suppliers of vehicles who were invited to the box but certainly no public servants et cetera.

THE CHAIR: On page 11 you talk about the new community insurance scheme. I recently went to a meeting of the North Canberra Community Council and I saw their accounts. In that, they had to pay for insurance basically on the same value as the grant they got from the government and they said that paying for insurance really was part of the conditions of their government grant.

Can you tell me more about this insurance system? Is there a way of getting more non-profits involved in it? It seems a little strange that basically the government is just paying for insurance elsewhere.

Ms Smithies: We will get Tom McDonald, Director of Legal and Insurance, to go through the details.

Mr McDonald: Thank you, Under Treasurer. As a result of the insurance crisis, a series of community insurance initiatives were implemented across the ACT in order to restore public liability insurance to community organisations. We were very successful in that process and, in fact, we were the first jurisdiction to recover community public liability insurance in the whole of Australia.

The initiatives that allowed us to do that, which involved intensive risk-training or risk-awareness seminars, assistance with dialogue with insurance providers, were done for a period of 18 months to two years on a relatively intense, one-on-one basis.

After that, we designed for the community a series of what we call group public liability schemes.

One of them was a scheme that involved any number of community organisations that wished to join this particular scheme and that presented identical risk. That was a scheme that was used for the ethnic community groups who occupied the North Building, and they were able to obtain public liability insurance at a premium of $100 each.

More recently, we have designed a different product, in collaboration with Volunteering ACT and AEON, the insurance brokers, which enables community organisations to join that scheme and, even if they have got differential risk—that is to say even if the insurance risks they present are different in terms of public liability risk—they could look forward to something like a 20 per cent discount and be brought into that particular scheme. Volunteering ACT has been trying to promote that scheme.

In fact, last week I met with the new head of Volunteering ACT to talk about this. It needs 20 organisations to hit critical mass and for it to be cost-effective for AEON to roll it out as a full product, and, as at the end of last year, they had about 14 organisations that were interested in it. The discussions that I had last week were an attempt to revive interest in that scheme and to promote the enhancement of uptake which would then bring it into a mainstream product available across the board.

Ironically, Volunteering Western Australia have picked this up and they want to be a part of this process as well. They came to see me and discussed it but, for whatever reason, the community sector, some of which are affiliated with Volunteering ACT, have not seen fit to avail themselves of that opportunity.

THE CHAIR: I would guess it might be because they do not know about it. I have already had a few representations in my short period of time in the Assembly from community groups that they just cannot afford the cost of insurance. I did not know about the scheme and I do not think any of them did.

Mr McDonald: For a start, it is unique in Australia; it is a concoction that has been cooked up in our office in collaboration with the volunteer peaks in order to save insurance costs. May I say—and I get all of the ministerials that relate to this type of thing—in the last 18 months we have received no ministerial representations in writing that have complained about the cost of public liability insurance. In fact, most community organisations now can obtain public liability insurance for less than $600. And for those that are paying a fortune for public liability insurance, I would ask if you will off-line give me a list of who they are and we will contact them individually and discuss it with them individually.

THE CHAIR: Thanks. I certainly will. This group I was mentioning was paying about $4,000 a year and I do not think it had any major events.

Mr McDonald: Whatever their risks are—

THE CHAIR: It seemed outrageous to me.

Mr McDonald: Irrespective of what their risks are—and of course there is no guarantee; their risks may be nine out of 10; they may be doing risky things that we do not know about—if they are just a normal community organisation, all they have got to do is talk to us and we will point them in the right direction.

THE CHAIR: Email to you?

Mr McDonald: My phone number is 62070284.

Ms Gallagher: Through my office would be fine. We will forward them on to a direct line.

THE CHAIR: We will forward them on through Katy's office, the new insurance broker here.

MR SMYTH: Before you go, Mr McDonald—you are not going to get off that lightly—there are a number of mentions of the new compulsory third-party insurance arrangements. You were very kind, minister, and I thank you for the excellent briefing I got in December. The Assembly has passed some legislation and I recall that IAG would have run the scheme until 31 December. What arrangements are now in place and when will the new third-party arrangements actually take effect in the ACT?

Mr McDonald: Actually, the legislation that passed in December was in relation to the Nominal Defendant.

MR SMYTH: I understand that.

Mr McDonald: It was not in relation to the scheme as a whole. The scheme as a whole came into effect, as you know, on 1 October last year. Effective 1 January, the Nominal Defendant operational activity is being carried out by the ACT Insurance Authority, which is the Nominal Defendant. They became the Nominal Defendant on 1 October, of course, but they made an arrangement with NRMA to carry on the administration of the scheme while they did the transition and evaluation of assets, the examination of files and the necessary actuarial analysis that goes into valuing claims.

The nominal defendant scheme, under the aegis of the Insurance Authority, is in full swing now. Given, though, that there are only somewhere between 10 and 30 nominal defendant claims per year, it is not a significant imposition on their portfolio responsibilities. Nonetheless, there were 85 claims that were inherited that were still active—some of them were quite old claims—and they are still being administered.

MR SMYTH: But in regard to the new CTP scheme, what is the state of play? Has the necessary software and computer interoperability been achieved and when will the new CTP scheme start in the ACT?

Mr McDonald: You are talking really about competition?

MR SMYTH: Yes.

Mr McDonald: There are, I guess, three parts to that question that need to be answered in a segmented way. The first is in relation to the IT project. As far as I know, as of Friday of last week, the project was on schedule to be completed by 30 June; that is to say, from the ACT government's perspective. That is the latest information that I have got. Things seem to be going quite well. Some of the innovations that our friends in InTACT and TAMS have come up with are really quite fascinating and will be very helpful to the community once the scheme is underway as a competitive scheme. The next step, of course, is to obtain the interest of insurers to enter the scheme and compete within that scheme.

The legislation the Assembly saw fit to pass has been sufficiently well received that the product is a committee called a product committee which, same name, was set up in New South Wales, same name as it was set up in Queensland, when each of those schemes went from being a single, government-run scheme to a competitive scheme. The product committee members presently constitute every insurer that offers CTP in New South Wales; so every single member of that cohort is a member of our product committee.

We are actively discussing options and other mechanisms on scheme entry. We have started technical discussions with insurers with respect to IT integration and we have had discussions with individual insurers that have made representations to the government for contact. The Treasurer and her predecessor have been kind enough to allow us to talk to them and to deal with their concerns or the questions they may have.

Effective today, one additional insurer has presented its financial credentials to the territory but as yet has not sought a licence to operate here. Perhaps given that the IT integration is not yet complete, it would be silly for it to seek such a licence. That is very encouraging. Other insurers are expressing strong interest in this market. That is as far as I can say right now.

MR SMYTH: When will people have a choice of suppliers for this product?

Mr McDonald: Assuming that our end of the bargain, that is to say, structuring the rego.ACT system to be able to accommodate more than one insurer, which is really the basic project that is underway now, assuming that capability goes live at the end of June, the projections are—and these are not concrete dates and these are not representations of the minister or the department—that we would have additional players in here by potentially the last quarter of 2009. That would be an exceptional result if we were able to get there but it really depends upon how quick they are able to react to this particular thing.

What the scheme changes are doing, what the IT changes are doing, is making BPAY facilities available to all insurers who currently offer insurance in New South Wales. We are in discussions with Australia Post as well as BPAY. We are in discussions with Canberra Connect. The whole registration-CTP renewal form has been redesigned to accommodate any number of insurers. All of that infrastructure is developing at a satisfactory pace.

MR SMYTH: Minister, are you happy with the progress that is being made and the time frames that have been outlined?

Ms Gallagher: Yes. Through my briefings with Mr McDonald, I am very confident that they are working very hard with industry to get this scheme in place and competition in place as soon as it is possible.

MS BURCH: Sorry for being a bit late on this. I want to go back to page 5, the highlights. It is a statement about the government signing the United Nations Principles of Responsible Investment and becoming the first government to do so. Can you make mention of what that is and the benefits to us?

Ms Smithies: Sure. I will get Patrick McAuliffe to do that.

Mr McAuliffe: I will get the specific thing you were after.

MS BURCH: It is on page 5 but then it is mentioned as key outcomes, the implementing and signing up to it. Could I have a little snapshot about what it is and what benefit it brings to us.

Mr McAuliffe: Essentially, the government undertook a review of our investment processes; so I guess it was triggered from looking at our investment operations from an ethical investment perspective. When the review was undertaken, I guess it addressed looking at investment management from the ethical as well as risk-based approach.

The government's decision at the end of the day was to undertake a risk-based approach to investing. That means that we do not try to take a values view on what stocks to invest in or not invest in, the view being that probably a better way to try to address some of the environmental, social governance issues that you can see are associated with companies is through engagements and exercising voting rights and all those sorts of things in the investment process as opposed to just divesting yourself of something. If you just divest yourself of a particular share, somebody else will pick it up and buy it. You have not actually undertaken any sort of rigorous process to try to address that.

One of the elements of adopting that risk-based approach was that the government agreed to sign up to the principles of responsible investment. They are an aspirational set of principles. They are not a hard and fast legal set of guidelines that you have to follow. They are things like: we will incorporate the consideration of these three issues in our investment decision-making process. What does that mean?

We do not make the actual investment decisions in Treasury. We have specialist fund managers that make our investment decisions; so what we have done is we have gone and discussed their investment processes with them. We have amended all of our contracts with our investment managers. We want them to consider those issues as part of all the other issues that they would consider in making an investment decision. That is one of the principles.

We will be an active owner and incorporate these three issues in our ownership policies and practices. To the extent we own shares, we will look at voting issues and we will make sure there is an arrangement in place where votes are taken on what we think is in the best interests of us as a shareholder.

We will seek appropriate disclosure on these three issues. We want our companies to be disclosing things about the ESG-type matters. It might be through their annual report processes and things like that. We are trying to put things in place where it is going to help, I guess, to better promote those types of issues in a positive way.

As I said, we do not do the actual investing ourselves; we just cannot do that. We have gone and put in some external service-provider arrangements to help us through that. We are employing a firm called Regnan. They undertake a direct engagement role with companies. They will go and identify a whole list of issues, look at companies and, if they happen to be a company that we are a part owner of, they will go and engage directly with the management of that company to discuss these issues and try to obviously change them. So there are a number of practices like that that we have put in place.

THE CHAIR: I would like to ask some more on that subject. Before I do, I should disclose that I may be regarded as having a conflict of interest. I used to work for Australian Ethical Investment and I am still a shareholder. My questions are on ethical investment in general, not obviously about that company in particular. I understand, from what you have said, you have not divested any companies as a result of this.

Mr McAuliffe: No. And that was made clear from the outset when the government made its decision that this would not result in a divestment of companies on purely values-based grounds.

THE CHAIR: And you have taken an engagement approach. Have you raised any motions at AGMs or can you let us know what motions the government has put in its role as an active shareholder?

Mr McAuliffe: I guess, to raise a motion, there are a couple of issues there from a shareholder's perspective. You have got to have a certain percentage of ownership of a company anyway to raise a motion in the first place. We do not have anywhere near the ownership of a particular company so that we could do that in any case. What we have in place is that we look at the voting policies that our funds managers have got established and, essentially, our funds managers exercise the voting rights on our behalf. We have considered our funds managers voting policies to make sure that they are broadly consistent with the way we are thinking the way their votes should go. That is the process that we have got in place for that.

THE CHAIR: Are there any motions that the funds managers have raised which are relevant to the ESG issues? I am wondering what sorts of outcomes you have had as a result of this.

Mr McAuliffe: We are still going through collecting a whole lot of information, I guess, trying to get a good database, if you like, of voting-type issues that have gone on. But at the end of the day most of them are all on governance. There are not very often too many motions that get raised in an AGM that are to do with social or environmental-type issues. Most of them are governance-type issues on boards, remunerations and those types of things.

THE CHAIR: What actual changes have happened in your investment practices as a result of signing up to the UN principles? What is the bottom line? We have not changed what we invest in, from what you have said, and we have not actually raised any motions and we are voting the same way as the fund managers do. I am unclear. What has actually changed?

Mr McAuliffe: It is one of these things. It is about a collective approach to try to encourage behavioural change. We are a very, very small part of that. The total listed equities exposure we have got is in the order of whatever it was today or yesterday. But 50 per cent of our portfolio is in listed equities. We cannot individually go and have a major influence on what is going. We have tried to join a collective approach. The engagement provider that we are with is Regnan. They represent a number of significant funds managers. Collectively, there is a large shareholding.

THE CHAIR: Collectively, that group could actually raise motions at AGMs. There would be companies that you have got five per cent in.

Mr McAuliffe: I guess we are just part of that engagement that goes on. Regnan will report back to us on the issues that have been raised with government, with the entities, and we do have to put some reports together. It will show how companies have changed their practices in certain things. Can we put a dollar figure on something? That is never going to be the outcome, I guess.

Ms Smithies: I think it is also fair to say that it is early days for the work that Patrick and his team are doing in relation to the engagement of the advice and the information that they are gathering et cetera. It is a bit of a journey to meet to that.

THE CHAIR: At this point there do not seem to be any outcomes. I am not talking specifically about dollar outcomes necessarily but about more information on anything, which is what you were talking about. I am just trying to see a tangible outcome and am not sure what that is. But I guess that is probably where we are at. Unless you have anything more to add, we will move on to a different subject.

MR SMYTH: On page 6, there is reference made to the Land Rent Bill. Is it possible for the Treasurer to update the committee on who the financial institution is that will offer finances to people who are going to enter into this scheme?

Ms Gallagher: I do not think I am. I am not in a position to do that. I think the institution itself has asked that that not be made public. I think they have got some of their own processes to go through. But as soon as we can, we will.

MR SMYTH: When is that likely to be?

Ms Gallagher: The information I had was that it has, from my recollection, gone to APRA. No, it has not gone there yet. Khalid might be able to answer the timetable.

Mr Ahmed: I think the institution have indicated that they have had initial discussion with APRA and they are in the process of putting together and providing a paper and a risk assessment that they are required to do under the APRA guidelines. And they are in the process of doing that. They had indicated that they would be looking—and this is all indicative—towards getting some resolution or some indication from APRA towards the end of March. But that is just indicative.

MR SMYTH: And if they get that indicative indication, when would they actually be in a position to loan under the land rent scheme?

Mr Ahmed: It is up to them. I have got no indication from them.

MR SMYTH: They get indicative approval or they get definite approval. When would they get approval to enter into this arrangement?

Mr Ahmed: Perhaps I should take a step back and explain what they are doing with APRA or what that institution is working on. I need to be mindful about three things here. The first is that there is an Assembly motion that we have to respond to. So I just want to be mindful that I do not trip up there. The second is that we are in discussions with this institution and that they have asked us specifically not to divulge a whole lot of information. The third is that we have met with the people as well. So I will tread carefully.

Generally, the work that this institution or any institution would be doing in looking at it would be doing a risk assessment, which would be an assessment of two things. The first is loss, given default under various circumstances. The second is probability of default. And that is part of their internal risk assessment framework.

Ms Smithies: It is part of any borrowing institution—

Mr Ahmed: Any lending institution will do that. APRA sets up the guidelines. The institutions are required to have their internal risk-based framework. That framework determines, consistent with the APRA guidelines, the capital adequacy requirements, the amount of capital that an institution needs to hold on the basis of that risk assessment. These assessments are quite complex and they certainly are intensive. The data is not there; the information is not there. It is a new thing. That is the work they are doing.

Once they have done that, they would say, "This is our risk assessment and, based on that risk, this is the amount of capital we need to hold on our balance sheet." Then APRA would simply say, "Yes, you have complied with our guidelines," or not. "You need to put in more or less capital," and then they will simply price it.

MR SMYTH: Minister, has APRA been in contact with the government to discuss the land rent scheme?

Ms Gallagher: They certainly have not been in touch with me.

Mr Ahmed: No, they have not been in touch with us.

MR SMYTH: So APRA itself has not sought information from you about how the scheme operates?

Mr Ahmed: No, they have not.

MR SMYTH: At this stage, if the application by the unknown financial institution is successful, sometime after the end of March we may see loans going ahead?

Mr Ahmed: The loans are going ahead at the moment.

MR SMYTH: How many loans have gone ahead at the moment?

Mr Ahmed: As I understand it, there are people who have arranged finance or they are in the process of arranging finance. I am not in a position, in one particular instance, to divulge the name again, because the individual asked specifically not to name this institution because he said that he was asked by this institution not to, because he is going through a process. So I guess it is fair to say that financial institutions, some of them, are looking at it. They are working through the process. It is a new product, if you like.

MR SMYTH: Yes, a new product.

Mr Ahmed: So they are working through it.

MR SMYTH: But you said loans were going ahead at the moment. If a financial institution has not got approval from APRA, how are loans going ahead at the moment?

Mr Ahmed: Sorry, I did not say "are going ahead". I said, "They are going through a process". Financial institutions, as I said, do not need approval from APRA. This is my understanding. They can offer a loan. All they have to prove, as part of the regulatory requirement, is that they have assessed the risk, as they assess for any mortgage product, and, in accordance with that risk, they are holding adequate capital.

MR SMYTH: Not to labour the point, I think we were told in the Assembly that 39 had put a hold on a block, four had exchanged and one had settled. Has that been updated?

Ms Gallagher: I think it is four.

Mr Ahmed: It has increased actually after—

Ms Gallagher: All the publicity.

Mr Ahmed: That is right. There are more people. I understand there are two more who think that—

Ms Gallagher: Yes, I think it is 42 parties in the process of acquiring and settling on a lease, and one person has settled.

MR SMYTH: How many are in the process and how many have settled?

Ms Gallagher: Forty-two are in the process of acquiring and settling on a land rent lease, and one person has settled.

Mr Ahmed: One has settled, four have exchanged and, as I said, there are some people who are going through a process of arranging finance.

Ms Gallagher: I think that is due to the publicity surrounding this in the sitting week. My understanding is that there have been concerns raised from the people who are interested that the government might be walking away from this scheme; so we are still working very hard—certainly we will not be walking away from it—and very closely with people to make sure we give them the home, the dream, that other people in the ACT enjoy.

Mr Ahmed: Just to follow on from that, this was one comment made to us in our meeting with those people. One of the people specifically asked whether the government would be discontinuing the scheme after hearing all that. This person had arranged finance, had not settled, but was worried that the scheme might discontinue.

MS BURCH: Moving on to Shared Services, this was the first year for Shared Services?

Ms Gallagher: This is one of those funny things that I have this year. Shared Services appears with me but I have no responsibility for them.

MS BURCH: But the head of Shared Services is here.

Ms Gallagher: The head of Shared Services is here.

MS BURCH: Shared Services looks at a number of things. Given that it is its first year, can you let us know how it has been implemented?

Mr Vanderheide: You probably would be better placed to ask our customers but, from my perspective, I think we are going all right. It was a very significant change for government, a real shift in terms of how things were organised and how corporate services, largely HR, finance, IT and procurement were delivered. It was a massive change for the staff involved, a significant change in terms of process and a big change for the people who were using services, which is basically government public servants. I am really proud of the way my people have responded to the challenge, and we are largely now seen as business as usual. We are actually two years old as of last month.

MS BURCH: On page 24, there is talk of upgrading government schools. Being two years old, you would have a business plan of some of these rollouts of functions and activities?

Mr Vanderheide: That is the broadband rollout to government schools, yes. In fact, that project is going to be complete next month, he says, looking at the general manager of InTACT.

MS BURCH: And that is done well? There are no hiccups in it? Good.

Mr Vanderheide: No, it has gone really well. We have rolled out a whole government broadband network which we owned five or six years ago, which has saved us a small fortune in leasing lines from, I think it was, Telstra at the time but in leasing lines generally. We are pretty good at doing that kind of thing.

MS BURCH: There is a comment on page 25 that a nightly automatic shutdown of 1,000 computers results in a reduction of 864 tonnes of CO_2 emissions. That is standard practice now across the—

Mr Vanderheide: It is within the CIT. There are a range of power-saving options that are basically standard on any machine that we deliver. CIT has a whole lot of classroom-based computers which certainly are never used after hours and often are not used during the day; they just shut down automatically.

MS BURCH: And would you be thinking of putting that through the education system?

Mr Vanderheide: The rest of the IT fleet has similar power-saving options already set up on them; so if you walk away from your machine for a period of time, the monitor goes down; after a long period of time, the hard drive shuts down. We do not actually log them off because there are some cases where that is just not sensible from a business perspective. We really leave it up to the public servants to decide for themselves if they want to change those settings.

THE CHAIR: Continuing on that particular one, I think you are being a little optimistic, based on my observations of the Legislative Assembly where you can come in in the morning and find the screen is on. I know that our Assembly people said that recently we have had a new energy-saving system rolled out and that we were in advance of the rest of the ACT government.

Can you talk some more about what you are doing in terms of energy efficiency with PCs? People do not always turn them off. If they go into sleep mode, maybe it is that people walk past and they are sending out vibrations but, as a matter of observation, it is not really happening.

Mr Vanderheide: I cannot say much more that what I have said, but I will ask Mick Chisnall, who is general manger of InTACT and who knows all things IT, to respond.

Mr Chisnall: Specifically in relation to PCs, I think the question was asked. The initiative that is referred to in the report was an initiative that first came out of CIT and it came out in relation to, particularly, their learning laboratories and so on where relatively large numbers of PCs were still on, in a manner. This was an initiative that came forward. We subsequently have put what we call an InFACT or a process in place which is not quite the same thing as CIT have done but which relates to a three-stage process of turning off the monitor, turning off the hard disk and throwing it into a standby situation, all of which are various degrees of energy saving.

The needs of PCs and standby issues like that do vary enormously across the ACT government. As you would appreciate, the needs of a language laboratory, as distinct from, say, a PC in the emergency department or a PC in the ICU in TCH, are very,

very different. So it is not really wise for us to simply initiate whole-of-government blanket policy in that way. What we do is provide a process and essentially engage with agencies to take that on, always with an exception process that they can manage to say, "It is appropriate here but not appropriate there."

The CIT process is very much in place. The wider reducing of power consumption of ACT government computers initiative is in place; it is in place in Shared Services, our own organisation, and, I believe, in the Legislative Assembly. We are encouraging other agencies through IMICT committees to take this on board but we understand that, again, it is not necessarily a straightforward policy implementation. Agencies are complicated and their needs are complicated but it is something that we are actively pursuing with agencies to implement as far as we can across the board.

Mr Vanderhilde: We would be really happy to have a look at the situation in the Assembly if that is a particular issue here.

Mr Chisnall: Yes, because that should be working.

THE CHAIR: No, the Assembly has improved from when I first came here. The computers were on always, 100 per cent of the time, I would have said. It appears to have improved considerably with the change in policies. Given that everyone else, certainly in the office-based environments, would be in the same situation the Assembly was in prior to the upgrade and given that we were apparently one of the first, if not the first, to have that, why cannot the other offices in the ACT government go as far as the Assembly? It is not very far.

Mr Chisnall: It is an initiative that we are actively pursuing with the agencies but it is a dialogue, with agencies taking into account the subtleties I have mentioned within the agencies. But it is certainly something in scope and something that we are actively pursuing. On the question about education, that would include education. I think there was a reference to education. We service all aspects of the ACT, including health and education; so they are in the scope.

THE CHAIR: While we are talking about environment and IT, to what extent do you take into account whole-of-life costs and whole-of-life environmental as well as financial costs in your purchasing decisions? Again, recently we had someone come around and say, "We have got to replace your printer because it is out of warranty." The printer works fine; there is absolutely no problem with the printer; and as we print almost nothing, there is no need to do it. To what extent are you looking at the embodied energy and costs in that asset compared to I am not quite sure what else?

Mr Chisnall: I think that in recent years—and I mean by that over the last two or three years—the awareness of these issues has really come to the fore. We are currently in the process or have let some of the major equipment tenders for the ACT government in terms of PCs and monitors, printers and so on and so forth. Within the requests for tender for that equipment there has been a real focus on minimisation of carbon gases and so on and so forth; so there has been a real awareness of that that was not there when we went to tender five years ago. That is not to say that the companies that have serviced this have not been responsible but we very actively measure that in terms of our evaluation of suppliers that are supplying these items to us. We are very concerned about how we dispose; we are very concerned with quite a lot of the policies of the ACT government in regards to that.

Mr Vanderheide: There are a couple of things we are doing as well. It is probably fair to say that the previous arrangement we had in terms of purchasing or acquiring IT equipment was that we leased the equipment; so disposal was not something we were concerned about. We brought them back and the organisation that we leased from took them.

THE CHAIR: I did not quite hear. Both of you gentlemen are very quiet, I am afraid. It is really quite hard.

Mr Vanderheide: I am terribly sorry. The previous arrangement by which we acquired most of our IT equipment was via lease; so we did not have the responsibility ourselves for the disposal process. That was handled by the lease provider.

I am surprised and disappointed that you have had a printer replaced simply because it was out of warranty, if it was still working. And that, I guess, can still happen. But one of the ways that we have sought both to seek savings and, to a lesser extent but still importantly, to take into account environmental factors is to make sure that our equipment runs for longer than we previously had let it run for. For example, most of our PC fleet is now running for four years instead of three, and in some cases beyond that. That should also be the case with our peripheral equipment. I will go back and just make sure that we are applying the same approach to printers as we are to the rest of the IT fleet.

THE CHAIR: Good. And have you looked at changing your infrastructure? Virtualisation comes to mind. I suppose that is not the sort of question I should ask at this hearing. I am showing my background in IT here. I will ask this as a question on notice because probably everyone else in the room would not know what I was talking about.

Mr Vanderheide: We think it is very exciting.

THE CHAIR: I stand to be corrected if anyone else is into computer virtualisation. I might move to one of my fellow committee members before I get too carried away.

MR SMYTH: On page 24 of the document, it says that the annual budget for Shared Services is about $150 million. On page 77, Ross Human Directions has a contract for $15 million, 10 per cent of the budget. What do we get for $15 million from Ross Human Directions?

Mr Vanderheide: We use one firm to provide all of our contract staff for ICT across government. Ross Human Directions is the ICT contractor firm.

MR SMYTH: And how many staff is that?

Mr Vanderheide: Sorry, I do not remember from last year. It will be around 110 or 120. That is the range of the number of contractors we usually have on board for ICT.

MR SMYTH: And that is all for ICT?

Mr Vanderheide: Pretty much so, yes.

MR SMYTH: I noticed that there are a number of tenders that were done as single select. If I am reading the charts right, the reason seems to be that only a single firm can supply those goods. Where it is a proprietary product like Microsoft, I can understand that. But there are a number that seem interesting as they have gone to one group. How rigorous is the application of the single select process?

Mr Vanderheide: It is quite rigorous. In fact, delegation for single select sits with the chief executive, and I can tell you that at the time the chief executive was extremely rigorous in terms of approval for those single selects.

MR SMYTH: For instance, the UPS supply went to Emerson Network. It is a single select contract. Are they the only firm in the country that supply UPS?

Mr Vanderheide: It is Emerson equipment that is being maintained, so it makes sense to use Emerson for the support.

MR SMYTH: In cases where you have gone single select, it is because they are maintaining equipment previously supplied?

Mr Vanderheide: I could not make a blanket statement that that was the case but, certainly if there is a supplier of a piece of equipment, then it generally makes sense to use that supplier as the organisation to do the maintenance.

THE CHAIR: But that certainly is not going to be the case with all of them.

Mr Vanderheide: No.

THE CHAIR: I am looking at a couple of the IT ones where I know there are multiple providers and you have got single select for them or you do not appear to have gone to the master distributor for Australia or, if you have, they have got a different name.

Mr Vanderheide: Which one are you looking at?

THE CHAIR: White Gold Solutions, provision of barracuda fans and filters. Maybe they are the master distributor and they are not calling themselves Barracuda but it would appear that you are going to a supplier but you have got it as single select.

Mr Vanderheide: I do not know the circumstances of the barracuda product itself, whether they are the only Australian supplier or whether there are others, but—

Mr Chisnall: The principle is that we follow the rules and we get best value for money. The circumstance, as Michael has said, where you have the maintenance component, is one that dictates that, particularly if they are the only people providing maintenance. There is also the sort of homogenous/heterogeneous argument that, in moving towards a particular supplier of a particular type of equipment, you are always balancing off the cost difference against—

THE CHAIR: I know.

Mr Chisnall: And I think it is a value judgement to say, "We have been on this path for this period of time now and it is ready to go back to the market again on that basis." All of our contracts have a finite and defined period before that is necessary to happen, though.

MR SMYTH: Recall Total Information Management, provision of secure office paper recycling services, is one. Are Recall the only firm in the ACT with secure office paper recycling services? You have gone the single select route there. SRC Solutions, provision of staff rehabilitation services, went to single select. Perhaps further explanations need to be given because it seems there are an enormous number of contracts there, minister, where the department has gone single select. It extends beyond Shared Services. Walter Turnbull has picked up a couple of contracts to provide business plans and it has been done on a single select contract. I cannot believe that Walter Turnbull is the only firm in the ACT that can offer—

Ms Gallagher: Perhaps if we assist by giving you the criteria for single select decisions as part of our response, which would not come down to just the only provider.

Ms Smithies: No. It would also relate to urgency and urgency around the job.

Mr Vanderheide: Absolutely. Sometimes it is a time thing. One of the pleasing things is that in fact just in the last few weeks we have advertised a tender for a panel arrangement for small ICT providers, not so much equipment providers but consulting and development organisations, and we had 67 responses as of yesterday, so that is great. That will get around. It will make it a lot easier to engage small providers for small bits of work.

MS BURCH: I want to move from hardware and look at the human resource area within the treasury department.

Ms Gallagher: Have we finished with Shared Services or do you want to go back to Shared Services?

THE CHAIR: I am finished with Shared Services. Brendan, do you have any more on Shared Services?

Ms Gallagher: Just in terms of letting some officials go.

THE CHAIR: In terms of the people, yes.

MR SMYTH: On page 172 of volume 2, it talks about Shared Services seeking standbys and streamlined processes and that SSC is also seeking to work with agencies to identify appropriate services and agree on mechanisms for delivery that are efficient and cost effective. How is that going and what has it achieved?

Mr Vanderheide: I guess the key measure is that we are living within budget. It varies, depending on the service that Shared Services is offering. HR services is probably a really good example, in the sense that we work very closely with a whole range of different customer groups, representing agency customers at a functional level. There is a group that looks at workplace health and safety, there is a group that looks at recruitment, there is a group that looks at payroll at the lower level, to identify opportunities for us to do things in a different way and in a more efficient way or to change the service levels if things are either not going as well as we want them to or are going better than they need to in some cases.

We work really closely with customer groups to ensure that the services that we are delivering are as efficient as they possibly can be. It is a sort of a cascading-up process. We have the functional groups operating at the lower level, working up to an executive level group that makes determinations in terms of what should change, and, if it is something really significant, it goes to our governing committee, which is the chief executive group. I would never say that we are as efficient as we ever will be because we are continually striving to do things better.

An example of that is the rollout of HR21, the leave online process where—I think TAMS is the last agency to go but we have got everybody else now—office-based workers, in any case, are able to request and have their leave approved online without the use of paper forms. There are 70,000 paper forms that hit Shared Services for leave purposes alone every year. A significant percentage of those now do not come to us. In fact, they do not exist because it is electronic.

MR SMYTH: At the bottom of page 172, there is a paragraph that starts:

> The budget for the new organisation was set to facilitate delivery of $20million in savings …

Can you explain what savings were achieved?

Mr Vanderheide: The savings were split roughly $10 million for InTACT, $6 million for Procurement Solutions and about $2 million each for finance and HR.

MR SMYTH: The savings were achieved and they will be ongoing savings?

Mr Vanderheide: Absolutely, yes. As long as we live within budget, which we do, those savings are built into our bottom line. We do not have a savings program as such; we just have a live-within-your means program, basically.

THE CHAIR: Thank you very much, Shared Services.

Mr Vanderheide: It was a pleasure. Thank you for your questions.

MS BURCH: This is a question on page 60 through to page 65. It talks of staff profile and then some graduate training programs and specialist training. There seems to be a consistent workforce question through the other departments. You are able to recruit the specialist skills that you need within Treasury; it is not a problem, sitting in

Canberra, to sometimes lose staff to the federal public service?

Ms Smithies: It is a problem all right. Bear in mind that this annual report has been written covering both, I guess, the finance and economic stream and the IT professional stream because it contains the Shared Services staffing. Our biggest competitor is the commonwealth government; we compete for what has been until probably very recently a very scarce pool of the same resources.

We have done a number of things to actually try to nudge into the market. One of the biggest things that we have been doing, certainly on the Treasury side of things, is our graduate program. We have been consistently taking, over the last four or five years, around 10 or 12 graduates into the core of Treasury, which is an organisation of around 200 people. We have been taking 10 or so every year. To put it in context, it is a really large commitment to our graduates and basically to our lifeblood of what will be our senior managers in the next two or three years. The graduate recruitment and the advertising are handled largely by our executive team; so it is a huge time commitment, very time intensive, but it is really important to us as an organisation that we are picking up the best of the graduates that we can in a hugely competitive market.

We spend a lot of time going through with our graduates, basically, the uniqueness of working in the territory, and there are some really good things about working in the territory. We like to use the catchphrase "see your results", which is about an economist or someone who is doing accounting or finance being able to work on a new policy, being able to work on so many very different things and being able to go and walk out and see them being implemented on the street the next day, be it waste management or solar-farm power, all sorts of things. We spend a long time with those graduates actually drumming into them the benefits of working with Treasury.

We have a pretty good record of actually keeping our graduates. Then we spend a lot of time up through the levels actually trying to get training that is specific to our people. There is a similar, mirrored scheme for the IT professionals as well and through the cadet schemes for the IT professionals.

Yes, it is a tough gig, I think, trying to compete with the commonwealth for these particular skills. It is tough to get them; it is tough to keep them. We try as hard as we can. And I think that we have had relative success in doing it.

By the same token, we have got a highly professional team of people across the whole of the Treasury and the broader Shared Services environment who get a tremendous skill base and who are really highly mobile as well. They can get two, three years worth of some really solid work in a Treasury environment in a local state government and they have got fantastic skills to walk into DOFA, commonwealth Treasury or a number of other service delivery agencies across the commonwealth. Not only do we have to work hard on attraction, we also have to work really hard on retention.

At the end of the day also, we like to pinch skills back. People will move eventually. At the end of the day, we would like to actually get them back too; so we will often say, "If it is not working out where you are going, give us a call." We have also had a lot of success with people coming back from the commonwealth. Who would like to work in the commonwealth anyway when you can work in the ACT?

MS BURCH: My view exactly.

Ms Smithies: It is true. A lot of people do come back and they actually give the examples of working in silos where they do not see what they are working on and they are one very small part of a very large cog. They do not get to deal with senior managers; they do not get to work across a breadth of issues; and I think certainly it is one of the things that we have going for us here in the ACT.

MS BURCH: And is there a role within Treasury to educate other departments in the functions and roles of Treasury?

Ms Smithies: Yes.

Ms Gallagher: Other agencies do not necessarily see the need.

Ms Smithies: It is a passive and reactive role. Particularly our accounting and our finance areas will do a couple of workshops every year across our CFOs and our finance areas. We have run in the past some information sessions on regulatory statements and on some of the economic analysis side of things; so yes, we do that.

THE CHAIR: Continuing in this vein, you say there is a 15 per cent annual separation rate for staff, which seems to me to be high.

Ms Smithies: Sorry?

THE CHAIR: Page 59, workforce forecasting, you say that the annual separation rate for permanents is approximately 15.5 per cent, which seems to me to be high. Why are they leaving you? And what can you do about it?

Ms Smithies: The work that is being done across the ACT government as a whole puts the separation rate at around 20 per cent.

THE CHAIR: That is very high.

Ms Smithies: Also to put this in context, we bring these people in; we train them; we give them great skills, give them great opportunities; they are highly marketable when they leave. I could put someone through a budget team and after they have had two years experience you know they are not going to be the world's leading expert in health and urban services and transport but they are going to be pretty much on their way to certainly understanding a lot of the concepts; they have had good interaction with our economics team; they have had really good interaction with our accounting people. They are highly marketable people. They will come and they will spend a few years with us and they will probably leave to go to the commonwealth and then come back. On that IT side, do you want to talk about that?

Mr Vanderheide: I was just going to say that I think Shared Services needs to take probably the lion's share of the responsibility for the turnover in Treasury.

Ms Smithies: Yes, I was going to say that.

THE CHAIR: You maybe should expand on that.

Mr Vanderheide: The year of this annual report is our first full year of operation; so a lot of people had transitioned into Shared Services from agencies in the six or seven months, or sometimes just a month, before the beginning of the financial year, and there was a lot of settling that happened. Some people did not like what they ended up doing. Some people were already looking for other opportunities, particularly HR and finance, less so IT and procurement. HR and finance were the really new bits of Shared Services. When we went live, there was a fair amount of churn. That has really settled and we are down to 10.4 per cent, I think, at the moment. I suspect Treasury is probably, now that we are not there, down too, but it is a settled organisation. We are pretty much fully resourced now.

THE CHAIR: And you do not see a need to do anything about the separation rate? I appreciate it is great for the staff that they get skilled up and I am saying nothing negative about that, but I am not sure whether it is great for the ACT government.

Ms Smithies: We are doing things. We were doing things in relation to training and development. There is a lot in the annual report which goes to our training and development plans and the investment that we make in terms of professional development for our officers. So we are doing an awful lot in terms of how we develop our staff and how we encourage them to stay part of the organisation. Yes, we are doing a lot.

MR SMYTH: On page 306 of volume 2, you talk about the targets and the returns in the territory banking account. I note the return on the cash enhanced fund was 6.15 per cent, compared with the benchmark of 7.34 per cent. Can you explain why that is significantly lower?

Mr McAuliffe: “Cash enhanced” is probably a poor name for the type of fund that it is; it is largely a cash fund but it is enhanced by an exposure to credit securities. The AAA mortgage-backed securities are a large component of that portfolio. Essentially what has happened over the last little while is that the spreads between what a AAA security is normally valued and, say, the risk-free securities have blown out. And basically the return on that portfolio is a market-to-market return. It does not mean that we have lost a heap of money but it is a market-to-market valuation that reflects the credit-related valuations of the underlying securities.

What it gets compared to is the bank bill index, which is the benchmark. It is not a credit-based benchmark. I think that is the thing that shows the reason why we have got that distortion. The bank bill index is a replication of standard bank bills, which would be an average over three-month duration. That benchmark does not have the same volatility as what has happened in the actual underlying portfolio.

MR SMYTH: And the fixed interest fund, the difference there?

Mr McAuliffe: Again, the fixed interest portfolio is a lower return than the cash return. The fixed interest portfolio comprises a range of basically government bonds and some very high rated bonds. If you recall, back in 2007-08 we had a rising interest rate environment. Basically what happens when you do a valuation of a bond in times of rising interest rates is that your valuation of the bonds actually decreases. What has happened there is that portfolio has actually gone backwards because of the rise; whereas, if you look at what has happened this financial year, our equivalent portfolio there, with the interest rates, is returning about 13 per cent because of the falling interest rate environment.

MR SMYTH: The territory bank account, as you said, is basically cash enhanced. What impact does that have? The government is going to fund capital works over the four-year period, that billion dollar capital works fund. Does the declining return affect that and our ability to fund those capital works?

Mr McAuliffe: We do factor into the budget an expectation of a return on those investments and, to the extent that we do not get that return, that does reduce, I guess, the amount of cash available.

MR SMYTH: Treasurer, given that this will affect the amount of cash that is available, can we still fund the billion dollar capital works program?

Ms Gallagher: My advice from Treasury is yes, we can.

MR SMYTH: And given that we expected four years of surpluses but we have got certainly some years of deficits, what is the shortfall in cash for the capital works?

Ms Gallagher: In the capital works that have been announced to date—and Megan will correct me if I am wrong—there is not a shortfall. Is that right?

Ms Smithies: Yes.

Ms Gallagher: But in terms of future capital works, there may be some need to borrow in the future, based on the current situation or the current position.

MR SMYTH: Are you aware of how much would probably need to be borrowed?

Ms Gallagher: I guess that is dependent on the capital works program the government agrees to.

MR SMYTH: But you have outlined a billion dollar program over the next four years. You intend to deliver that program?

Ms Gallagher: Yes, we do intend to deliver it. As I understand it—and Megan will have the exact figure—it was largely funded from previous cash surpluses and that has not changed.

Ms Smithies: That is right. There was around $700 million of it funded from past surpluses. Moving across the forward estimates, there need to be cash surpluses to maintain the rest of those figures. Our analysis at the time of the midyear review was certainly that the money that the government have put into the program on forward estimates could be continued without the need of borrowing.

MR SMYTH: For the four years?

Ms Smithies: Yes.

MR SMYTH: But was that predicated on ongoing surpluses, given that we have now probably got three years at least of deficit?

Ms Smithies: The midyear review published three years worth of deficits; it published around $100 million per annum worth of deficits; and the capital works program could still be supported without the need to borrow, based on those figures.

MR SMYTH: The billion dollars is there?

Ms Smithies: Yes, that is right.

THE CHAIR: I will move on to a totally different subject. At page 17, you have got compliance revenue per inspector—I am very pleased to see we do have some inspection on this—and you have got that the 2007-08 target was easily exceeded because there were several large payroll tax assessments and land tax assessments. What would the median amount per assessor be? I guess the import of my question is: are we getting value for money out of our compliance activities or did we just get a good average because we got, as you said, a couple of really big ones? Is it a worthwhile activity?

Mr Dowell: We have exceeded the target rate of revenue per inspector for the last four to five years and we have increased that target over the period. We do a mix of targeted investigations as well as just generic-style investigations or routine-style investigations. We find that it will go up and down a little bit each year. We have fairly small revenue bases, and that can cause some of the fluctuation. We have increased our data matching, and that has increased our returns. Our data matching is done with a number of sources, both within the ACT and outside, under the various MOUs and understandings and tax-gathering powers under the legislation. With respect to the $780,000 per inspector that we got last year, I would not necessarily expect to replicate that this year, but we will definitely reach the targets this year, which I think are $340,000 and $360,000; I would need to confirm that. So, yes, it is worth while.

Ms Smithies: It is worth while on just an average program. The other point to make around a compliance program is that at the moment if you do not have a compliance program, you really start to feel a loss of revenue based on the fact that the chances of people not being found out get greater and greater. So you need to have a base level of compliance program.

Mr Dowell: That explains why we do quite a lot of compliance on small revenue lines, to ensure that there is continuing compliance.

MR SMYTH: On page 16, the seventh dot point on the key achievements is "implemented a deferral of the duty payment for purchasers eligible for a first homeowners grant". How many people actually took the opportunity to defer their duty?

Mr Dowell: I believe there were about five. I will come back if that is the wrong number, but I understand there were five.

MR SMYTH: Have there been any complaints or indications of difficulty by people accessing the system or being able to defer?

Mr Dowell: Not as far as I am aware. In relation to that, we are in the process of upgrading our website, and our current website already has everything that is available for home affordability in terms of homebuyer concessions, stamp duty deferral and pensioner discounts, all in one spot. So I think people have found that relatively easy to access.

MR SMYTH: On page 18, the first paragraph talks about the Revenue Office having processed 2,500 applications under the first homeowners scheme, but it also had compliance and debt recovery activity and voluntary repayments, resulting in approximately 130 grants being repaid. Is there a reason for that? Is it fraud? Is it that they never proceeded with the purchase?

Mr Dowell: There are two or three reasons usually as to why you get them back. Sometimes people will apply for the grant and give you a settlement date. If the settlement date falls over, they are to repay the grant within 28 days. If people know that they are not going to meet the residency requirements for the grant once they have actually accepted the grant, and the residency requirements are six months continuous residency within the first 12 months of purchase, the grant is also repayable.

Our compliance activity catches a large number of people that have failed to meet the residency requirements. Many of these people may have purchased it as an investment property and never intended to move in; others have failed to contact us when circumstances have altered, which has meant they have not been able to meet the requirements. There are discretions for the commissioner where people, through good cause, can no longer meet the requirements. Examples of that would be illness and things like that.

MR SMYTH: How many actual grants were made under the first homeowners scheme this year? If you had 2,500 applications, how many grants were there?

Mr Dowell: 130 paid back would include compliance, so you have around 2,000—we usually do about 2,400 but I can get the exact number.

MR SMYTH: It is 2,379. Of that 130 repaid, were most voluntary or was it on behalf of the Treasury?

Mr Dowell: The majority of them would be through compliance.

MR SMYTH: With respect to the home loan portfolio, on page 116 of volume 2, there is an external review being done on outstanding loans. Can you tell the committee what was actually found in the review?

Mr Dowell: The external review looks at things such as debt provisions for the home loan portfolio. As the home loan portfolio winds down, the quality of the loans will also decrease because there are no new loans coming in. The other thing that will occur as it winds down is that the number of people who are accessing deferred assistance, which means that the loans are pegged at 27 per cent of their income, will also increase. As the loans age, that can become an issue. The actual value of the mortgages held currently is very high in terms of supporting it, but that external review is having a look at the provisions for doubtful debts and, going forward, the sufficiency of funds in the home loan portfolio to repay the loans as they fall due that we have a copy of.

MR SMYTH: How serious is the risk of not having a sufficiency of working capital?

Mr Dowell: At this stage I believe there is no risk.

Ms Smithies: Correct me if I am wrong, though, Graeme: this is a review that we get done every two years.

Mr Dowell: It is done every two years; that is correct.

Ms Smithies: We keep a close eye on the adequacy.

THE CHAIR: Okay, thank you all very much. We will take any further questions on notice, because we have basically run out of time. Thank you for your attendance. I now declare this hearing closed.

The committee adjourned at 3.59 pm.