LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into Appropriation Bill 2012-2013 (No 2))

Members:

MR Z SESELJA (Chair)
MS M PORTER (Deputy Chair)
MR B SMYTH
DR C BOURKE

TRANSCRIPT OF EVIDENCE

CANBERRA

TUESDAY, 5 MARCH 2013

Secretary to the committee:
Dr A Cullen (Ph: 620 50142)

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.

WITNESSES

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Amended 9 August 2011

The committee met at 1.15 pm.

BARR, MR ANDREW, Deputy Chief Minister, Treasurer, Minister for Economic Development, Minister for Sport and Recreation, Minister for Tourism and Events and Minister for Community Services
BULLESS, MR NEIL, Executive Director, Finance and Budget Division, Chief Minister and Treasury Directorate
STEWART, MR DANIEL, Acting Under Treasurer, Chief Minister and Treasury Directorate
WALSH, MR DERMOT, Chief Finance Officer, Strategic Finance, Land Development, Strategy and Finance Division, Economic Development Directorate
SMITHIES, MS MEGAN, Director-General, Commerce and Works Directorate

THE CHAIR: Good afternoon everyone. I welcome the minister and officials and now formally declare open the public hearing of the Standing Committee on Public Accounts inquiry into the Appropriation Bill 2012-2013 (No 2). The Legislative Assembly referred the appropriation bill No 2 to the committee for inquiry and report on 14 February 2013.

On behalf of the committee I would like to thank you, minister, for appearing today in your capacities as Treasurer and Minister for Economic Development, and your accompanying directorate officials, for attending today. The proceedings this afternoon will commence with an examination of those aspects of the bill that are relevant to the Treasury and Economic Development portfolios. The committee will suspend at 2.15 and resume at 3.30 to examine those aspects of the bill that are relevant to the Health portfolio.

Can I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw your attention to the blue-coloured privilege statement before you on the table. Could you all confirm for the record that you understand the privilege statement? Thank you. I also remind witnesses that the proceedings are being recorded by Hansard for transcription purposes and are being webstreamed and broadcast live.

Before we proceed to questions, minister, would you like to make an opening statement?

Mr Barr: No, thank you.

THE CHAIR: We might go straight to a couple of questions around the detail of the bill and what each of these line items is for. I might get you to explain a couple of those. The restructure fund of $2.098 million: are we able to have some more details around that?

Mr Barr: Yes. That fund has been transferred with Treasury into CMTD. That fund was part of a previous appropriation. I understand that just over $10 million is available in the 2012-13 fund. There is a rollover of $4.5 million from 2011-12 to 2012-13. This relates to a provision to accommodate any voluntary redundancies that are necessary as part of the reprioritisation of resources that were part of the 2011-12 and 2012-13 budgets.

THE CHAIR: How many voluntary redundancies are you anticipating?

Mr Barr: It is not a huge number. Around three-quarters of all staff reductions across all of those budgets have been achieved through natural attrition. It will depend on what moment in time you are looking at, obviously. If you would like information by financial year, that is easily obtainable, but it would be a very small number.

THE CHAIR: By financial year would be useful, I think. In terms of this restructure fund, is it all for the purpose of voluntary redundancies or is it for other things as well, and what portion is for each?

Mr Barr: It relates to both restructure and economic efficiency outcomes. There is a list, which I think we discussed at estimates last year, that includes a component that is around the wind-down of Totalcare, the IR single spine classification review, the Rhodium wind-down costs, some costs associated with the implementation of the Hawke review, the restructure around the establishment of the Economic Development Directorate, and a voluntary redundancy payment component. Again, if the committee would like information on the detail of those elements, that can be provided. I think similar information was requested during estimates, both in 2011-12 and in 2012-13.

THE CHAIR: Sure. An update on that would certainly be useful.

Mr Barr: Sure.

THE CHAIR: Do you have the numbers in front of you on the costs of the Hawke review implementation?

Mr Barr: $352,000.

THE CHAIR: What did that particularly relate to? This may have been covered earlier.

Mr Barr: I do not have that detail in front of me, as to the breakdown of that expenditure, but we can—

MS PORTER: Minister, in your tabling speech you mentioned that the appropriation regarding land rent demonstrates that there has been a high level of interest in the take-up by the Canberra community of the affordable housing initiative. Could you tell us why you think that is so? I also have a supplementary: did the 2012 review of the initiative show that it has been meeting the objectives that we set out to achieve?

Mr Barr: In the first instance both the two per cent discount rate and the four per cent standard rate have achieved fairly strong interest from those eligible for the discounted rate as well as the broader marketplace on the standard rate. From experience of recent LDA land releases, up to 80 to 85 per cent of blocks have been purchased utilising the land rent scheme. That shows a strong take-up of the scheme. It has been particularly interesting to observe the trends between the discounted two per cent rate and the standard four per cent rate. So we did make some changes that came into effect last month in relation to security deposits, particularly around the four per cent scheme. That is a reflection of some issues that have been raised both in the evaluation of the scheme and by various industry groups. The MBA in particular made representations in relation to that.

Overall the community response and industry and stakeholder response to the scheme have been positive, while recognising that, as it evolves and as market circumstances change, there is a need for some tweaking. We have undertaken some of that work. We have made some announcements and obviously we will have more to say on the scheme in coming budgets.

MS PORTER: Minister, you mentioned the "tweaking", as it were. Has that been effective so far? Do you think it has achieved what people were saying we needed to achieve? Could you give us some indication of what people were saying about it?

Mr Barr: I think there were concerns that some sections of industry were effectively utilising land rent to minimise holding costs, so later translating blocks into standard residential lease blocks. We are yet to see the impact of these changes as there has not been another LDA release, but there will be very soon, I understand. So we will see how the market responds to those new circumstances. I have a feeling it may have even been advertised this weekend. I think Coombs may have been advertised just this weekend past.

MS PORTER: So then you will get some idea as it rolls out?

Mr Barr: We will, yes.

THE CHAIR: On the review of the land rent scheme, there have been a couple of committee reports, I think the estimates report and PAC looking at the Auditor-General's report last year, recommending that the government make that report available, and the government agreed to that. Has that been made available and tabled in the Assembly? I am not aware that that has happened.

Mr Barr: It is on the Treasury website. It has been published and online—

THE CHAIR: When did that occur?

Mr Barr: I will need to check that because there was obviously a rebranding of the Treasury website. As I think we identified in a hearing the other day—

MR SMYTH: Things went missing.

Mr Barr: Not quite so much went missing as being transitioned from old to new, and not every page was updated. I can check that but it has been available for a period of time, as I understand it.

THE CHAIR: All right, if you could get back to us on that.

MR SMYTH: On land rent, how many blocks will that purchase?

Mr Barr: How many blocks will this appropriation purchase?

Mr Bulless: I do not think we have got that number. There were a couple of things happening here last year. I think we mentioned this in the annual report hearings a couple of weeks ago. In 2011-12 there was originally an amount appropriated of about $85 million to fund land rent block purchases and there was about $70 million for this year. What ended up happening was that the actual number of blocks settled under land rent in 2011-12 was significantly larger than anticipated. It came in at 617 blocks. That was actually up from 136 blocks from the year before that. So there was almost a fourfold increase.

That $72 million that was sitting in the appropriation for 2012-13 was used effectively to apply to those purchases. So we will be able to manage those across the two financial years. In terms of the actual number of blocks we anticipate to sell, I am afraid I do not have that in front of me. We can take that on notice. But it would be in the order of about 500-odd, unless we have a representative of EDD—

MR SMYTH: It is just that it is such a remarkably accurate figure—$112,156,000.

DR BOURKE: No cents.

MR SMYTH: No cents.

Mr Walsh: Unfortunately, I do not have the number of blocks in front of me. We do have the detail in terms of the numbers but we are happy to take that on notice.

DR BOURKE: Treasurer, could you explain the impact of capital works re-profiling in this bill, please?

Mr Barr: Certainly. We have sought to prioritise a number of projects to see that they are completed. Some have come in under budget. A number of the education projects have in fact been completed. There are savings there in the order of $18 million across Bonner and Franklin schools. There have been some decisions to delay particular projects that are associated with land release where that land release has either been delayed or has been repositioned in the four-year land release profile.

So there are a couple of projects, for example in the proposed suburb of Kenny, which is near Exhibition Park. That is based between the Federal Highway and Mitchell. There was a road project associated with land release there to connect from Mitchell through to the Federal Highway. As the land release in Kenny will not be going ahead on the previous timetable, that project has been cancelled for now and funding re-prioritised to other projects within the overall Economic Development Directorate.

It is about $250 million worth of re-profiling that has occurred in the budget update. Some projects have been pushed back. Others have an expectation of physical completion within the existing time frames. But there has been an experience—it has been commonplace—where, while works are completed physically within a particular financial year, the government does not always receive invoices for such work within that time frame. This is particularly common with work that finished in June and we receive invoices in July.

So there has been some work around ensuring that the accounts show the payment of that work in the correct financial year. That has largely been the basis of a number of changes to particular projects, the details of which, of course, were listed in the budget update.

DR BOURKE: Apart from Bonner and Franklin, which other major projects have come in under budget?

Mr Barr: There have been some roadworks in the Molonglo Valley—the John Gorton Drive project. It has a saving attached to it. There are a number of other projects that have savings in the millions. There are a number of other projects where there have been savings in the hundreds of thousands that cumulatively certainly add up to a significant saving for government that has either allowed re-prioritisation or some savings back to the budget.

MR SMYTH: The item “project advice” for $11,000, what is it and why are we appropriating $11,000? Can that not be found within the budget of the department?

Mr Bulless: That relates to an ongoing appropriation available to the Chief Minister and Treasury Directorate for the provision of advice around PPPs and service concession arrangements. That equates to a figure of about $311,000 per year; $300,000 of that was rolled as part of the budget process and the residual was rolled through the supplementary appropriation.

I guess it is a moot point about whether or not it could have been found as a saving. But I guess, to preserve the integrity of the funds available to the directorate to go and engage consultants or seek expert advice, it was decided to roll that amount through the appropriation.

If Treasury had been in existence post 9 November, had it not been incorporated within the Chief Minister and Treasury Directorate, that amount would have been rolled through a section 16B instrument under the FMA. I guess that in relation to that issue, it is just about preserving the funding available for the directorate, which accounts also for all the other small amendments made as part of that appropriation, recognising that Treasury was effectively abolished on 9 November.

MR SMYTH: So what is the savings target for the Chief Minister and Treasury Directorate this year?

Mr Bulless: I cannot answer that question, I am sorry; I am not the CFO.

MR SMYTH: But if you have got savings, would it not be wiser to not necessarily appropriate this money and find it from internal rather than transferring money across?

Mr Bulless: I think it is fair to say that the savings for the directorate will be identified as part of the 2012-13 budget process already. The fact that Treasury was abolished and rolled into two other directorates—its functions—those savings are effectively allocated through the original budget process. So we do not have additional savings to find as a result of the changed AA arrangements.

MR SMYTH: Which of these items is just a result of the Treasury Directorate being—

Mr Bulless: All of the items that were listed under the Chief Minister and Treasury Directorate. Those are the amounts that add up to $4.755 million and the amount of $1 million that was for the Commerce and Works Directorate. They are all amounts that would have been rolled by Treasury had it existed.

MR SMYTH: So this is just a consequence of the abolition of Treasury and it is—

Mr Bulless: Correct. Effectively, it is a technical adjustment we had to make, recognising that Treasury no longer exists.

THE CHAIR: The accelerated land development, $963,000, why is there a need for that additional money at the moment?

Mr Bulless: That relates to decisions made by government previously around the provision of consultancies and other services that were funded by the Economic Development Directorate and ACTPLA/ESDD. The arrangements for that fund were that the directorates would incur the costs and undertake studies, consultations et cetera. The fund was created to effectively provide that funding to them at the completion of that task. Similar to what I just advised the committee around the abolition of Treasury, there are amounts that have been committed to by both EDD and ESDD in terms of work done, and this is to preserve the funding so that they can be recompensed for those costs that have been incurred to date.

THE CHAIR: This has already been spent by directorates?

Mr Bulless: Yes. The works were undertaken by the directorates and include a range of studies, consultations et cetera. They were done on the basis that they would incur the costs and that the land development fund would provide that funding to them at the completion of that process.

THE CHAIR: How many different directorates were involved in that process?

Mr Bulless: Only two. There were only the two directorates related directly with land development; that is, EDD and ESDD.

THE CHAIR: What is the break-down of that $963,000? Was it all on consultants? Were there a number of different consultancies? Was some for internal spending?

Mr Bulless: I do not have that in front of me. I do not have the exact detail of every consultancy undertaken. We could take that on notice. Of all the costs that were attributed, about $320,000 went to ESDD and $600,000 to EDD.

THE CHAIR: Did they achieve their ends? Did we see accelerated land development as a result of those spends?

Mr Bulless: I think the answer to that question is yes, because the amount of land released over the last three years is significantly higher than in prior years. Just in terms of the amount of land released by LDA, it is in the order of—correct me if I am wrong—7,000 or 8,000 blocks that have been released in LDA estates. That also facilitated studies around englobo and commercial-industrial, obviously to a lower degree. I think it is fair to say, and I think it is reflected by the fact that we are doing this land rent appropriation, that the amount of take-up of LDA sites is considerably higher than it was some years ago.

THE CHAIR: When was this money expended? Was it in the back end of the last calendar year? When was it actually spent?

Mr Bulless: It was in the 2011-12 financial year, largely.

MS PORTER: On the same page, which is page 12, it talks about a whole-of-government gateway. Could you explain that to the committee?

Ms Smithies: The work that is being done between Commerce and Works and the Chief Minister and Treasury Directorate is around gateways in terms of the capital works funding process and delivery process. We cannot call it "gateways" officially, largely because it is a proprietary name from Victoria. So the project really aims to examine the up-front planning part of capital works and capital works delivery and the robustness of a business case and a business case that is fit for purpose for the size and the risk of a capital works program, using particular tiers.

It also aims, in particular, at looking at procurement methodology and delivery methodology around the possibility of PPPs and putting in place a framework for consideration when these things go through a cabinet or a funding process. So, in a sense, the project looks to put a framework around: is the investment worth while doing in the context of what the government is trying to achieve? Is the investment actually cost effective? If the answer is yes, then the second part of the process is really putting a framework around how you deliver the particular project in the most cost-effective way. It is aimed at that up-front part of the project.

The gateway, I guess, really is a throwback, again, from the Victorian model. Is your financial analysis robust? Do you have the ingredients in relation to service delivery and asset delivery? Have you gone through a first-pass business case? Have you gone through a second-pass business case? Have you assessed the procurement options? Those are the sorts of gates. Depending on the size of the project, the project will actually have a number of review points, hence the gate. That is the project that is due to be delivered by the end of this financial year.

THE CHAIR: How is that a change from how things have been done previously? They seem like pretty standard steps to take before you go ahead with a major project.

Ms Smithies: Sure. Again, in the context of the territory, those processes have been in place before but they have been compacted into particular budget cycles. So what I think it would be fair to say, and I think the government has acknowledged the issues around the early planning processes, is that it provides a framework to actually put more time in those processes to allow a lot more rigor, both within the public service and within the government. I would say what it does is really strengthen the process and bring it in line with what some of the other jurisdictions have done in the last, probably, two years in terms of improving their processes and getting their procurement processes to really integrate well with the funding models.

THE CHAIR: What do you hope that will look like, then, at the end of it? Once this project is finished some time this financial year, will each agency or each directorate then have a framework that they need to follow for projects of a certain size?

Ms Smithies: That is the proposal. We are dealing with a three-tier proposal. The proposal at the moment is for three tiers—under $10 million, under $50 million and over $50 million. The $50 million is the Infrastructure Australia benchmark for looking at PPP. The under $10 million will have a particular business case that is fit for purpose for what is probably a more routine project or a less risky project. It may be an investment decision and a funding approval that are all given in one year.

An under $50 million project may well be something that may go over two financial years in terms of developing the investment, the investment logic in the first year and then the delivery in the second, before a funding decision is actually made. Obviously, with an over $50 million project—it may go two years, it may go three years—the government can identify what is the service delivery, what are the service requirements of a particular project, how best to approach the market and a number of questions like that.

THE CHAIR: In developing that whole-of-government gateway, has there been external expertise brought in to create this project?

Ms Smithies: Yes, sure. At the moment, what we have done is taken some expertise that we have had in house—and we have been very lucky to have it in house—and put it off line to dedicate to the project. We have also gone a—

THE CHAIR: Would you explain what that means?

Ms Smithies: We have been able to put in an SES who has had some experience in terms of some of the really big financing and procurement options around some large projects in other jurisdictions. So we have been able to identify him as a resource across government and dedicate his time to the project. We have also gone through a tender process and bought, I believe it is, EY on board. They are bringing expertise into the project as well. The team spent some time having a look at other jurisdictions, how we compare with other jurisdictions and how we really develop a framework that is—“best of breed” probably would not be the way to describe it, because we are a small of jurisdiction and the big transactions will be the outrider transactions, but one that is appropriate to our circumstances.

THE CHAIR: Will there be something published for either public consumption or more broadly across the public service once this project is finished?

Ms Smithies: Yes. The output of the project really is a set of guidance documents, practice notes, business case templates and cost-benefit analysis templates, along with a timetable, a framework, a communication strategy and a set of websites that agencies will be able to use and pick up to streamline their input into a budget process or an improved capital works process.

THE CHAIR: I guess the thing with these projects is that you can save money at the back end if you do it well but sometimes there is an up-front cost. Is the government prepared for the fact that you may face greater up-front costs in order to try to save money down the track?

Mr Barr: Yes.

MS PORTER: That is what it is there for, I presume.

THE CHAIR: I presume that those costs will not just be there for the $240,000. I presume that by putting in place a more rigorous process you may have more up-front costs.

Mr Barr: And opportunity cost, time being one of those tensions that we experience in this jurisdiction. People want things fixed quickly; often there is a degree of impatience around delivery of infrastructure. Those pressures compete with an extremely rigorous process around the development of infrastructure projects. There is never an absolutely perfect answer to those tensions, but this project certainly seeks to ensure that the government processes, particularly in agencies that perhaps would not regularly deliver large capital works programs—that they have more guidance. I think it is an observation of this jurisdiction, as compared with others, that we generally do very well at projects that we usually deliver, but we have some challenges at times with projects that are not part of our routine business. And that is, I think, where the great value of this project will come in in the future.

THE CHAIR: Ms Smithies, you may have covered this earlier, but will this mean significant changes to procurement processes as a result of this project or only minor changes?

Ms Smithies: To the processes of procurement themselves? At the end of the day what it hopefully will do is provide a greater suite of delivery options to government, so that, instead of just going design plus construct, we actually wrap design and construct in or we look more seriously at design, construct, maintenance and look at the whole of life of a particular asset—so really rigorously test some of those options. Really what it does is, given that over the years the size of the capital works program for government has been increasing and has been dealing with some significantly larger projects, probably puts in place a framework considering the risk to benefit, a framework of adopting some slightly different procurement mechanisms, yes.

In a sense, the suite is there, but with it comes developing some contracts that sit around these and making them easier to use and easier for people to really think about what the options are in terms of delivery. Part of that may well be not delivering a fixed asset at all in some cases.

THE CHAIR: In terms of engagement with industry on this, and the business community, who are often going through these processes, has that been part of this project?

Ms Smithies: Industry over time has raised questions around the procurement process and concerns around the procurement process and some of the delivery mechanisms that we use. We have taken part of those comments to try and deal with this up-front—part of the capital works process. I am pretty confident that this is in line with some of the suggestions that they have made to us, but we will be certainly putting in place a small part at the end of the project to take some industry feedback as well.

DR BOURKE: Regarding the accident information management system, could you explain its role and the financial impact of its replacement? It is on page 13.

Mr Bulless: That relates to a re-profile and an existing information management system in the Chief Minister's directorate as part of the budget review. This was published as part of the budget review; it was an instrument done during the financial year to re-profile the funding of that project. I do not think we can provide much more detail about the aims of that. I think that at the last estimates committee hearings Mr Cappie-Wood provided a reasonably detailed explanation of that project. This is really just to roll over funding from the last financial year into this financial year.

As part of the supplementary budget papers, we are required to publish not only the supplementary appropriation but all instruments signed by the Treasurer under the FMA up to the point at which we publish this document. There are only a very small number of them; this was one of them. It is published because it provides the most current update of the budget papers at a point in time.

MR SMYTH: On page 12, the items that add up to $5.7 million are all funds that weren't transferred when Treasury was moved into CMD?

Mr Bulless: Correct.

MR SMYTH: So why weren't they transferred?

Mr Bulless: The usual practice for the rollover of funds is what we call a section 16B instrument. Agencies will review their funding left over from a prior financial year. They will then write to the Treasurer and seek agreement to roll those funds over. That usually is done in the first half of the next financial year, but it is not uncommon for it to happen in the second half of the financial year.

Given that we went into caretaker mode in September, I think it was just one of those things that did not happen because of the timing available to do a large range of things by Treasury at that point in time. You might recall that we were doing an audit process in a compressed time frame. We had to do the pre-election budget update, which effectively is a minibudget process. We then did the election costings process through September and October. I guess it is also fair to say that if we had known this was going to happen we might have done it sooner, but we did not. So it was just one of those things that happened. The process to preserve the funding was done through the supplementary appropriation.

THE CHAIR: Just going back briefly to the whole-of-government gateway, is there a reason why—Ms Smithies mentioned in one of her answers that in terms of the terminology there is a trademark et cetera—or did the government actually consider adopting formally the gateway process, which is trademarked, or why you chose to create your own?

Ms Smithies: I guess there is a sense of politeness here. Gateway was paid for and invested in by the Victorian government. Significant funding has gone into it. We have approached them and sought to test out a lot of, I guess, their guidance material and that sort of collateral that they have built up over time. In a sense we will be picking from what they do, but we technically cannot use it and it is around the fact that it is trademarked.

THE CHAIR: So it is not something that is available for purchase or anything like that?

Ms Smithies: We may well purchase part of the elements of it if, as we move through our framework and our process, what they have done works for us. We may well purchase it. As I said, we have written to them asking to basically test out or pilot some of their elements of it, recognising that there would be a fee should we actually translate it into active use. In a sense all jurisdictions have similar style processes, be they gates, hurdles or stop-go's. It is a matter of terminology.

DR BOURKE: How much did the Victorians spend on this?

Ms Smithies: I do not have that figure off the top of my head, but it is substantial. It is a big jurisdiction as well, and there is big capital investment.

DR BOURKE: Five, 10, 50?

Ms Smithies: Over, I think.

DR BOURKE: More than 50 million?

Ms Smithies: Yes, but they wrap it in. Again, there is such an issue of scale here. They are in a world where they are dealing with significant PPPs and I think one or two alliances as well. They are wrapping it in with a number of expert consultancies as well. So the work that they do in terms of the initial investment, like mapping and then the output specifications and the business cases, is often developed with private sector consulting companies who come on board as well.

So there is the development of the framework and the ongoing operation of the framework, which is a significant cost to them. But they would not be doing it if they did not feel that it actually provided much better outcomes in terms of service specifications, value for money for the community and better ways of handling and managing the delivery of major infrastructure.

THE CHAIR: Thank you. I understand Ms Porter does not have any more questions. Dr Bourke, did you have more questions?

DR BOURKE: I do, thank you, Chair. Could you expand on output 1.4 for coordinated communications for community engagements at page 14? What does that cover and why is there an increase?

Mr Barr: It would relate to the original CMD.

Mr Bulless: Yes, centenary communications.

Mr Barr: Yes, so it is centenary related, with the original CMD. So what you have got here are the financial statements of part of the old Treasury being combined with the existing CMD. I can take it on notice and get some information from the existing CMD, but I do not off the top of my head have information on every element of someone else's department's expenditure.

THE CHAIR: But none of that represents a blow-out? That is just a technical change in the appropriation, or is that actually a blow-out in the costs of that?

Mr Bulless: Mr Seselja, I imagine this actually relates to the rollover under 16B of funding from one year to the next. In terms of looking at that page, just to help the committee, there are a series of instruments which are presented on the previous page, page 13. About one-third of the way down the page, centenary of Canberra celebratory program, there is a rollover there.

Just going back to Mr Seselja's query, output classes 2.1 and 2.2 on page 14 represent the transfer of functions of Treasury into CMTD.

THE CHAIR: Dr Bourke, is that all you had on that?

DR BOURKE: Indeed; that is it for me.

THE CHAIR: Mr Smyth?

MR SMYTH: Yes, I am done.

THE CHAIR: Just a little bit on land rent, I know a question was taken on notice as to how many blocks. But in relation to those blocks, land rent will be available basically on any sales, or will it be limited only to certain blocks?

Mr Barr: Under the current arrangements, it is LDA blocks only, so that is not every block that is available for sale.

THE CHAIR: But most.

Mr Barr: Well, no. When the Denman Prospect englobo goes out later this financial year that will change things somewhat in terms of what is supplied. Yes, technically every block is potentially a land rent block if that is what the purchaser seeks, subject to the eligibility criteria for the scheme. So the interesting thing will be whether there is a reduction in the percentage of blocks purchased through the land rent scheme as a result of the security deposit changes that have just come into effect.

THE CHAIR: And what is your modelling telling you on that? Do you anticipate a reduction in demand?

Mr Barr: At the four per cent rate, yes. That is the expectation, and from industry themselves. A particular view has been put by the MBA that that would be necessary to ensure that there was not speculation that they perceived was occurring.

THE CHAIR: How much would you anticipate that requirement would reduce demand?

Mr Barr: It would be difficult to isolate that element from broader market conditions and the availability of other product.

THE CHAIR: So what are you expecting then in terms of demand in the next 12 months?

Mr Barr: In the coming period one would anticipate sales to remain above long-run average but not as high as has been experienced in the last few financial years. There is a sense that the supply side has certainly been catching up with demand in recent times. You have seen that with fairly flat land and house prices over a fairly extended period. There has been the odd movement month to month, but if you go on a year-to-year basis, in some instances there have been falls in some parts of the market, so you are getting closer to equilibrium.

The interesting question is to what extent any future interest rate reductions might be factored into people's thinking. Also the federal election undoubtedly will impact on decisions. It would be fairly rational position for some people who felt that their ongoing employment might be under some threat if there is a change of government to hold off making a large decision like purchasing a first home, for example, until their employment status was clearer.

THE CHAIR: One of the questions we asked last time—I think it was taken on notice—was in relation to the proportion that have been transferred from land rent to others. I am not sure if that answer has been provided to the committee, but are you in a position to provide it now?

Mr Stewart: From memory, it was about 10 per cent, so roughly 200 out of 2,000 had been converted to standard leases of all land rent contracts. If that is not correct, I will provide an update, but I am reasonably certain that was the number that has been sent back to the committee.

THE CHAIR: Thank you. That is all from me. Other members do not have more questions, so we will declare the meeting closed in a minute.

Just a reminder, where you have undertaken to provide further information or taken questions on notice, the committee has not set a deadline for receipt of responses. Answers to those questions would obviously be appreciated as soon as possible to allow us to deliberate. Written supplementary questions from members covering aspects of the bill related to the Treasury and Economic Development Directorate should be provided to the secretariat within two working days of the proof transcript becoming available. If the committee has any supplementary questions these will be forwarded by correspondence. Again, there is no deadline for the provision of answers to supplementary questions, but obviously as soon as possible would be appreciated.

On behalf of the committee I thank Mr Barr and officials.

Meeting suspended from 2.00 to 3.31 pm.

GALLAGHER, MS KATY, Chief Minister, Minister for Regional Development, Minister for Health and Minister for Higher Education
BROWN, DR PEGGY, Director-General, Health Directorate
FOSTER, MR RON, Chief Finance Officer, Financial Management, Health Directorate
GHIRARDELLO, MR PHIL, Executive Director, Performance and Innovation, Strategy and Corporate, Health Directorate

THE CHAIR: Good afternoon and welcome. We will now formally resume the public hearing of the Standing Committee on Public Accounts inquiry into Appropriation Bill 2012-2013 (No 2). The Legislative Assembly referred appropriation bill No 2 to the committee for inquiry and report on 14 February 2013.

On behalf of the committee I would like to thank you, minister, and the accompanying directorate officials, for attending here today. The committee will now move to an examination of aspects of the bill that are relevant to the Health portfolio. Today's hearing is scheduled to conclude at 4 pm, although the last hearing concluded early, so who knows.

I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw your attention to the blue-coloured privilege statement before you on the table. Could you confirm for the record that you understand the privilege implications of the statement?

Ms Gallagher: Yes, thanks, chair.

THE CHAIR: Could I also remind witnesses that the proceedings are being recorded by Hansard for transcription purposes and are being webstreamed and broadcast live. Before we proceed to questions, minister, would you like to make an opening statement?

Ms Gallagher: No thanks, chair. I am happy to go to questions.

THE CHAIR: We will move to questions then. On page 26 there is a variation in revenue from a commonwealth grant to a payment for outputs of $113 million. Is there a service agreement for these outputs? What are the conditions surrounding this particular amount of money?

Dr Brown: The local hospital network comprises the Canberra Hospital, Calvary Hospital, Clare Holland House and QEII. We do indeed have a service agreement with the entities within the local hospital network. We do not have it with the network per se because of the make-up of the network and the different operators.

THE CHAIR: In relation to the Local Hospital Network Council, what is the total cost for the financial year for running the council, including payments to council members?

Dr Brown: I will have to take that on notice and provide that back to the committee. Members of council are paid at the rate set by the Remuneration Tribunal. It covers the fees for council meetings and subcommittee meetings. They have a couple of subcommittees. I can certainly get that information and provide it to you.

THE CHAIR: While you are doing that could you also get for the committee the total FTE staff currently employed to administer the council?

Dr Brown: I can tell you that now. We have one officer employed who covers both the council and the ACT Clinical Senate. So it is a part-time position that supports the work of the council. There is of course a small amount of time from other officers in units such as the policy and government relations unit, and the deputy directors-general. In essence the main work supporting the council is done by that single officer in part of their role.

THE CHAIR: How often does that council meet?

Ms Gallagher: It is required to meet four times a year, I think.

Dr Brown: It is currently meeting six times a year.

Ms Gallagher: Six times a year. It is in the legislation.

MS PORTER: Minister, in the tabling speech you talked about the appropriation funding the local hospital network facilitating the on-passing of national healthcare commonwealth grants funding. How is that done?

Ms Gallagher: This was in the legislation that passed establishing essentially the state-based funding pool. This agreement came from COAG. The commonwealth decided that, instead of providing money to the state health systems, they wanted essentially an in-between, to make sure that their money went straight to hospitals. That is essentially what we have created now, so that the funds that come from the commonwealth, and indeed from the ACT government, now go into this funding pool, and that is to service the local hospital network, which is essentially all inpatient activity that happens in the territory.

MS PORTER: On page 29 of the papers I note the increase in commonwealth grants each year in the estimated period from 2015-16. Could you please explain how this additional funding will impact on the local network?

Ms Gallagher: There is additional money coming through the commonwealth that really kicks in in 2015-16. That is when the growth funding kicks in.

Mr Foster: The figures presented here are the commonwealth SPP that they advised in their budget papers for 2012-13, carried on through the years. The agreement with the commonwealth through the national health reform agreement will be that from 2014-15—which is not yet reflected in these figures as there are still two years of transition; we were working through the national efficient price and issues around exactly what services will be accepted with the commonwealth as being public hospital services—when that growth formula is in place, the commonwealth will be contributing 45 per cent of the cost of the growth in public hospital services. From 2017-18 that will increase to 50 per cent. So at the moment we are working through 2012-13 and 2013-14, going through the transition years, working out all the base starting points, what services will be recognised, and then the figures will change.

Once the commonwealth have that information from us, as to what the baseline year is, they will start forecasting growth based on information that we provide to the national administrator as well. So at the moment these figures reflect what the commonwealth reported in their budget papers for 2012-13 through the SPP, which will stay as a base amount, and then we will be dealing with growth in addition from the commonwealth.

The question about how those funds will be used will be a decision of government in each of those years, about whether it is additional funding available to the health system. The requirement from the commonwealth is for them to pass that money on. It does not mean that the ACT cannot use those funds for other areas of the territory.

THE CHAIR: If we look at those increases that Ms Porter refers to, 2013-14 is when it starts to ramp up. But it is shifting money you directly had there as a payment for outputs through to a grants process from the commonwealth?

Mr Foster: Yes, that is right. As the commonwealth figures are confirmed after we have moved through the transition and agree on the baseline and start extrapolating what sort of growth we see happening, commonwealth grant lines will increase and then the government in its budget-setting process annually can decide how much GPO it provides as well.

MS PORTER: At the end of what you said when you were answering my question you said something about the way the money was to be spent. Could you clarify for me whether the money will be spent for the benefit of the ACT health system?

Mr Foster: As the Chief Minister mentioned, the agreement and the legislation that we passed recently facilitates that commonwealth money coming through the Reserve Bank account that has been created. That is the essence of the national reforms—to have that money coming directly to the health departments rather than to state treasuries. That is where the SPP always used to go. So now we have the commonwealth SPP coming to the Health Directorate and, in this case, into the local hospital network that we have established for this purpose.

My mention of the budgetary decisions that government will take each year refers to where the government payment for outputs figure can be varied depending on decisions of government, but not the commonwealth grants side. That will only vary if we have a greater percentage going into public health services, for example, because we will then direct that to the directorate.

MS PORTER: As we know, we have a lot of challenges going forward with the ageing of the population, so that is obviously valuable and welcomed.

Ms Gallagher: It was not an issue in the ACT, so we had to structure an arrangement that worked for the ACT. In New South Wales, where they have a number of local hospital networks, that money goes straight to those local hospital networks rather than through the New South Wales government. Here, because we only have one network, it made sense to establish the arrangements the way we have, but it is different in, say, New South Wales.

It still has the same outcome—that is, the money does not go to Treasury; it comes through the Reserve Bank account from the commonwealth and really cannot be used for any other purpose other than local hospital services, which is the area the commonwealth was trying to get more control over. Again, that was probably not an issue here, but it was an issue in other jurisdictions where the commonwealth felt, rightly or wrongly, that they provided grants under the health SPP, they went to treasuries and then state governments made decisions about whether or not that money flowed through to the health system.

THE CHAIR: The revised operating statement on page 28 talks about user charges non-ACT government. That is only a marginal increase in coming years. What is the status of negotiations between New South Wales and the ACT government in relation to charges to the New South Wales government?

Mr Foster: The status of the cross-border payments is the gross amount that New South Wales advise they would pay us for 2012-13 and into the outyears. There is modest indexation there. We are in the process of working with New South Wales to formulate a new cross-border agreement as we ideally move from what is the old cost-weight methodology and with some capped pricing. That is looking to negotiate an agreement that is better for the ACT, naturally. It will probably be based on the national weighted activity units—NWAUs—that we will be working with going forward and the efficient price set by the independent pricing administrator. More meetings are scheduled with some hope that the new agreement might be resolved this financial year. That is aspirational from our point of view; that is what we would like to see in place.

THE CHAIR: When does the current agreement expire?

Mr Foster: It keeps rolling on until we come up with a new agreement. There is a standard process within agreements that they have a default position. Certainly each jurisdiction is able to have their own agreement with individual jurisdictions.

DR BOURKE: So it is only the cross-border agreement with New South Wales that is covered in that line item of user charges?

Mr Foster: That is right. That is the only material cross-border arrangement. In the transition years the national reform arrangement was that they would give each jurisdiction the opportunity to decide if they wanted to estimate activity between jurisdictions for this presentation. New South Wales, naturally, and we did so. There was no other need. There was no materiality with the dealings we have with the other jurisdictions, so nobody was keen to do it in such a late phase that it was offered to us in this process. It is quite possible that in the 2013-14 budget we might have a discussion with Victoria, for example, about putting some figures through here. We have not lost that; we still go through an acquittal process and they pay us money or, alternatively, we pay them if our people outnumber the number of Victorians using our system. So there is no loss of income.

Ms Gallagher: It will not be anywhere near $120 million.

Mr Foster: No, it is $1 million or $2 million; that sort of number. This was done very late in the budget process that the national reform decided we should run those figures through here if you could get the two jurisdictions to agree. So New South Wales proposed a number which we did not mind, and that is why that is in there.

DR BOURKE: Is service delivery in Jervis Bay an area of Health's responsibility?

Mr Foster: No.

Ms Gallagher: We do education.

Dr Brown: Health services in Jervis Bay are provided by New South Wales health.

THE CHAIR: On that figure—correct me if I am wrong, minister—in the past you have not expressed a strong view as to whether it is enough or whether it is about right because there are some intangibles. Do you still share that view or do you think we are being short-changed with what we are providing to New South Wales?

Ms Gallagher: I have always held the view that the New South Wales government benefit from the arrangement they have with the ACT government. Putting a dollar figure on that is difficult at times because we also benefit from the arrangement in the sense that we can offer a higher level of service here than we could had we not had that population around us. Every year we end up in some sort of dispute resolution to finalise it. There is an agreement about the lowest amount that should be paid. New South Wales are pretty keen to pay as little as they can. The less they pay the better for their own health system. So we usually end up arguing at the edges, it is fair to say.

Under the national health reform the Independent Hospital Pricing Authority will have a role in dispute resolution of cross-border arrangements. There are some risks. Obviously the national efficient price is a risk to us. Because of our historical employment arrangements with some of our medical specialists we tend to have higher costs than New South Wales. Whatever we pay over and above what New South Wales delivers is a hit to us. There are some risks there, but overall I am pretty happy with the work that Minister Skinner has been able to do with us. There has been a big change in the last two years in relation to health agreements between the jurisdictions.

THE CHAIR: So at this stage there is no need to go down that dispute resolution path?

Ms Gallagher: No.

Mr Foster: The current agreement was through an arbitrated outcome, so we agreed to accept, naturally, the arbitrator's outcome.

Ms Gallagher: The dispute led to the arbitrator.

Mr Foster: The disputes that occur subsequent to that are just about some coding issues around data which is sometimes the reason for the hold-up in acquittals.

THE CHAIR: Dr Bourke, did you have a question?

DR BOURKE: No, that was my question.

THE CHAIR: Mr Smyth.

MR SMYTH: Just to summarise, this year it is GPO. In the outyears it will probably be a grant from the commonwealth.

Mr Foster: There will always be a GPO amount because of the ACT component. The commonwealth will start contributing 45 per cent and 50 per cent of the growth in public hospital costs. It will not be 50 per cent of hospital costs for a long, long, long time.

Ms Gallagher: Unfortunately.

Dr Brown: That is the agreed definition of what constitutes public hospital services.

MR SMYTH: Mention was made earlier about the network. I understand that there is a cost per service loading that was being negotiated. Has that been finalised?

Dr Brown: A cost per service loading—sorry, are you talking about—

MR SMYTH: Given that we are a small region; therefore, our costs are higher—

Dr Brown: Are you talking about the national efficient price?

MR SMYTH: Yes.

Dr Brown: The price determination came out last week. There are some loadings within that. Mr Ghiradello might have the details closer in his mind. There are some loadings for us. Some are related to length of stay. These are not ACT specific, necessarily. Some are related to age, I believe.

Mr Ghiradello: At present, the loadings are around whether you are an Aboriginal or Torres Islander. There is a loading provided for each hospital stay for that. For people who stay more than three times the average length of stay, there is a per diem payment that is also worked out, again, as a proportion of the national efficient price per day staying beyond that three times average length of stay.

However, that rate is at a rate that would not encourage hospitals to keep people for extended lengths of time just to make money. So there are those sorts of factors around the efficient price. There are also different payments for people who stay much shorter than the average length of stay. There are also some special weights around same-day patients who come in and go out for the same day episode. There are quite a number of different prices for different categories of patients.

Dr Brown: We are looking at implementation of an interim mental health costing model as well. It has been proposed. It is not yet agreed, but there are some age weightings proposed to be incorporated in the interim mental health model as well for both children and older persons.

DR BOURKE: Could you explain the rationale for that?

Dr Brown: When you look at mental health diagnosis it is not particularly predictable of the average cost of an episode or an admission to hospital. So they needed to look at what might help to improve the accuracy of the costing model. They looked at children under the age of 18 and they looked at older persons.

The cost per admission for those age groups is greater than the cost for an adult admission. They broke the children down into two to five years, five to 12 and 12 to 18, I think was the break-up. They looked at the costings there. It is greater for the fives to 12s and 12s to 18s. For the twos to fives, it is not really a particular issue. Then there are the over 65s.

So they are looking at putting a weighting to those groups. That improves then the diagnostic—the DRG predictability of the average costs. So it is about trying to get a classification system that works with the costing model, effectively.

MR SMYTH: Are they published somewhere—all these costings?

Dr Brown: IFA's determination was released last week and that is a public document. I do not know that the mental health document is public yet because it is still a work in progress. It is going to ARMAC this week, I think. I do not know whether it goes to health ministers after that or not. I am not sure.

DR BOURKE: I am curious about this differentiation between adults and over-65s. What is the clinical basis for that?

Ms Gallagher: It costs more the older you get, essentially. I think the problem with the national efficient price is that there is no right or wrong. It is not a pure model. People who work in health are rightly worried that there are probably some disincentives that could occur based on the national efficient price, as opposed to providing the appropriate clinical care at a reasonable price. That has been some of the work that has been done, not just in mental health but I think everywhere.

Dr Brown: I think it is fair to say that when you look at, say, an appendix operation, a knee operation or a hip operation, there is some variation in terms of the usual course and the length of stay but they can be accounted for to some extent by the coding or because there is a complication or what have you.

But if you look at the diagnosis of, say, schizophrenia or depression, there is a huge variation, from a very short length of stay to a very long length of stay. So the diagnostic group do not predict the average cost. They have looked then at what other factors do they need to take into account.

For older people and for very young people there are often a lot of co-morbidities or a need to engage—for example, for young people it is with schools, community agencies and that sort of thing. So they are trying to improve the predictability of the DRG group with the costing model, if that makes sense. It is a very complex art.

THE CHAIR: It does not sound like there are any more questions from members. Thank you, minister. Just before we close, there are a couple of administrative matters. Where there was a commitment to provide further information or questions taken on notice, whilst the committee has not set a deadline for the receipt of responses, answers to these questions would obviously be appreciated as soon as possible.

Written supplementary questions from members covering aspects of the bill relating to the Health Portfolio should be provided to the committee secretariat within two working days of the proof transcript becoming available. If the committee has any supplementary questions, these will be forwarded by correspondence.

In relation to time frames for the provision of answers to supplementary questions, again while the committee has not set a deadline for the receipt of responses, we would appreciate them as soon as possible.

On behalf of the committee, I would like to thank you, minister and officials, for being here today. When available, a proof transcript will be forwarded to witnesses to provide an opportunity to check and to suggest any corrections.

The committee adjourned at 3.56 pm.