LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

# STANDING COMMITTEE ON PUBLIC ACCOUNTS

**(Reference: Annual and financial reports 2011-2012)**

**Members:**

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

**TRANSCRIPT OF EVIDENCE**

**CANBERRA**

**TUESDAY, 12 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.

# APPEARANCES

## Privilege statement

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*Amended 9 August 2011*

**The committee met at 2.01 pm.**

Appearances:

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

Commerce and Works Directorate
Smithies, Ms Megan, Director-General
Burton, Mr Ross, Chief Financial Officer
Divorty, Ms Jill, Executive Director, Shared Services
Doran, Mr Grant, Director of Infrastructure
Fletcher, Mr John, General Manager, ACT Insurance Authority
McLean, Mr Al, Acting Director, Strategic HR and Corporate
Salisbury, Mr Kim, Director, Revenue Management Division, and Commissioner for ACT Revenue
Sidhu, Ms Sarbjit, Executive Director, Shared Services ICT
Tomlins, Mr George, Acting Executive Director, Procurement
Wickman, Ms Dani, Director of Territory Records, Territory Records Office

**THE CHAIR**: I declare open this public hearing of the Standing Committee on Public Accounts inquiry into the 2011-12 annual reports. On behalf of the committee, thank you, Treasurer and relevant directorate and agency officials, for being here today.

The proceedings this afternoon will commence with an examination of the 2011-12 annual report of the Treasury Directorate and will cover Shared Services, the ACT Revenue Office, government property strategy, capital works and government business enterprises ownership policy. We will then move through discontinued agencies, specifically the special purpose financial report of Totalcare Industries, followed by the ACT Government Procurement Board and the Director of Territory Records, and we will conclude with the 2011-12 annual report of the ACT Insurance Authority. Today's hearing is scheduled to conclude at approximately 4 pm.

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 confirm for the record that you understand the privilege implications of the statement? Thank you. Can 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 from the committee, Treasurer, would you like to make an opening statement?

**Mr Barr**: No, thank you.

**THE CHAIR**: We might ask some questions on Shared Services. Page 297 of volume 2 talks about a few risks, and I want to look at what is being done to address those risks. It says at the bottom of page 297:

> The risk of Shared Services ICT, Procurement, Human Resources and Finance not being able to meet the Service Levels as agreed with ACT Government directorates and agencies due to a lack of resources, in particular adequate numbers of appropriately skilled staff. This risk is being addressed through a rigorous recruitment program and extensive training opportunities being made available to staff;

Are you able, Treasurer or officials, to talk us through what has been the progress of that recruitment program? Have there been improvements made since this annual report was published? Could you talk us through some of those improvements?

**Mr Barr**: Certainly. I might ask Jill Divorty to come to the table.

**Ms Divorty**: The ongoing risk of retention and attraction of staff is a real risk for a shared services organisation, mainly because we are tactical and transactional in our processing, and that is not necessarily an attractive career for all public servants.

We have been very successful, though, within Shared Services in having good retention of our staff. In our HR and finance areas we have staff turnover that is within target levels. Where it has been above target levels it has actually been due to deliberate attrition, if you like, related to EREC savings, expenditure review committee savings, that have been required.

It is more challenging in both our procurement business unit and our IT business unit in terms of retention and attraction of staff, and that is because we are talking about highly paid, highly specialised resources, and there is a very competitive market in Canberra for both the areas of capital works and ICT specialist areas.

We have been targeting that through a number of methods. In our capital works area we have been using industry partners on occasions. We have been using contracting resources and we have been increasing our graduate recruitment program so that we can train at the entry level for Shared Services Procurement and actually keep those people for a longer period of time.

In ICT a plethora of options are being used, some of which are, again, graduates. Shared Services has now I think the largest take-out of the graduate program for the ACT government.

**THE CHAIR**: How many graduates did you take in the last year?

**Ms Divorty**: For this year we have increased it again, so I will just get those numbers confirmed for the 2011-12 year. There were seven in the 2011-12 year, and I think it is about 18 in the current year.

**THE CHAIR**: That is across Shared Services or just in ICT?

**Ms Divorty**: It is across Shared Services, but they are mainly within ICT and they are also within the procurement area.

**THE CHAIR**: I am sorry, I cut you off there. You were talking about some other areas.

**Ms Divorty**: I was. Competing for ICT specialist resources has always been a challenge, and our biggest competitors are commonwealth agencies within Canberra. The slowing down of recruitment within the commonwealth is obviously helping us substantially at the moment, and we are able to attract a better field and retain a better field. We are perhaps not seeing quite the steady increases in salary that we have seen in prior years. At the moment, although there are always stresses and strains within the ICT area, we have adequate staff to manage our risks appropriately.

**THE CHAIR**: Those graduates you are talking about, and in trying to be competitive, at what level is someone coming in in the ICT stream? What level do you recruit them at, and what about the rest?

**Mr McLean**: The numbers reflect the fact that when a graduate comes in, they come in at an ASO4, and when they finish that graduation process that goes up to an ASO5 generally.

**THE CHAIR**: In terms of retention, in other parts of the report—and I do not have the exact references before me—you talk about employee and superannuation expenses coming down, and then presumably there is a use of contractors to cover for that at various times. How does the remuneration and the expense compare with your use of contractors versus full-time employees? Obviously, for many it is attractive to be a contractor, but you would have a benchmark, I assume, so that if you were to replace a particular level, is it roughly the same amount of money that the government is spending? Is it more? Is it less? Are you able to talk us through those relativities?

**Ms Divorty**: In general detail we can talk you through those. The main use of our contractors, as I said, is the capital works area and the ICT area. In the capital works area there is no significant premium that we are paying contractors versus permanent staff. So if we got a highly experienced contractor, it would not be any different, I think, from the salary that we pay to a highly experienced public servant. Again that remuneration stream might be supplemented by a special employment arrangement, but there would be no difference between public servant and contractor in the capital works area.

**THE CHAIR**: How many of those special employment arrangements exist within Shared Services?

**Ms Divorty**: I would have to take that on notice. I do not know the exact number at the moment, Mr Seselja.

**THE CHAIR**: Are they widespread? Are they fairly rare?

**Ms Divorty**: They are quite rare. I would say that it is probably less than 50 among the 1,000 staff that we have.

**THE CHAIR**: So it is only where there is a high level of expertise needed that those sorts of contracts or those sorts of arrangements would be entered into?

**Ms Divorty**: Yes. Shared Services has a view that a special employment arrangement is actually a good idea for our organisation, because it does actually bring on board an ongoing public servant who is paid appropriately. But that level of remuneration might actually be more than a standard public servant salary. It is more cost effective and we think it gives a better ownership and length of tenure than contract arrangements do.

In the ICT space there is a significant difference sometimes between the amount we pay a contractor versus what we might pay a public servant. But that is generally because we cannot attract anyone in the public servant remuneration levels for the particular expertise area that we are talking about. We do have some very highly paid contractors in our ICT area but, again, when you benchmark that against what the commonwealth might be paying or what our private sector partners might be paying, we believe we are competitive for those salaries.

**THE CHAIR**: So what is that? What are we talking about here? You are talking about significantly more and you are talking about some very, very highly paid contractors at an hourly rate. Is it expressed as an hourly rate or is it expressed as an annual contract?

**Ms Divorty**: With a contractor it is generally an hourly rate.

**THE CHAIR**: So what are we talking about in terms of significantly paid contractors?

**Ms Divorty**: There would be a small number of contractors who are paid around about $1,000 a day. Probably the average—again, I could take it on notice if you would like more detail—is around about $800 a day.

**THE CHAIR**: If you could take that on notice, that would be great.

**MS PORTER**: I have a supplementary on that. Could you give us an idea of the kind of work that those particular people are doing that makes it necessary to do that, to have that arrangement?

**Ms Divorty**: Sure. I might call on Sarbjit Sidhu, our executive director for ICT.

**Ms Sidhu**: These special employment arrangements will be more for the kind of skills that are hard to find and hard to retain. An example would be, say, data centre work. That type of work is not done regularly. Data centre transitions happen once every 10 years, 15 years, 20 years. So rather than retaining our own skills, which are hard to get, we will have an SEA for the period of time to complete that project or to complete that work.

Other examples would be very highly sought program managers for very complex projects—project managers. Again, the market value for those is very high and they are hard to retain. Wherever there is more sexy work, they can jump to that work. So we will be then looking at an SEA so that we have them on board and we can keep for the duration of that project. There are other similar examples for the SES as well.

**Ms Divorty**: For contract arrangements specifically, Mr Seselja was asking what sort of skills we would use those for. So they are our—

**Ms Sidhu**: Sorry, contracts are, for example, for Citrix skills. Citrix is a way to access application systems, business systems, office systems using thin-client kind of technologies or for mobility purposes. Those skills are very hard to find and market value is quite high as well. So we have great requirements for those sorts of skills in health as well as in education. Those are the contractors that will be in that $1,000 per day range.

**THE CHAIR**: How does an SEA compare to other contractual arrangements? Is it different from the old AWAs, or is it similar?

**Ms Divorty**: It is similar. I think it fixes a few of the problems that we, as an employer, had with AWAs. In our organisation at least, an SEA is an arrangement that is agreed by the director-general and is reviewed on an annual basis. There is quite a significant justification both for the role and the person that needs to be evidenced in order to justify the level of SEA that is being sought.

**THE CHAIR**: So it is an individual contract but it is just a higher level of tick-off than it would have been for, say, an Australian workplace agreement?

**Ms Divorty**: I am sorry, I was not in the ACT government when AWAs were in place, but the processes that are involved in special employment arrangements I think are very thorough.

**DR BOURKE**: Apart from these financial arrangements involving these means of employing people—contracting them—what other advantages or disadvantages are offered by each mode?

**Ms Divorty**: The different employment arrangements?

**DR BOURKE**: Yes.

**Ms Divorty**: There are significant advantages offered by contractors, of course, and Sarbjit has alluded to those a little bit by saying that if we only want someone for a particular project, then of course a contract arrangement is a very good way of securing that lengthy tenure without having, if you like, redundancy at the end or any other sort of termination arrangement, because you can actually employ them for a fixed period of time.

The fixed period of time can be as little as a day, a week, a month or as long as several years if the project is that length of time, as some of our larger health and education programs are. So there is a great deal of flexibility and the ability to compete on market rates easily. Flexibly is very attractive to us as well.

**THE CHAIR**: Ms Porter and Dr Bourke, did you have a substantive question for this area?

**MS PORTER**: No.

**DR BOURKE**: I do. Minister, I refer to volume 1, page 7. Could you explain how you promote social procurement within the ACT government and how you "assist directorates and agencies to identify social procurement opportunities and establish social contracts"?

**Mr Barr**: We have certainly made a policy commitment in this area from a whole-of-government perspective, through the Commerce and Works Directorate, as it is now, but formally through Shared Services, to assist. There are a number of examples of areas of ACT government work itself that lend themselves to partnerships with the community sector in particular that I think have great opportunity in the future for more enhanced social procurement guidelines and interaction. There are examples within other directorates where there are programs and projects that I think lend themselves to that partnership.

More broadly, through policy commitments we have put in place a framework that facilitates social procurement opportunities. They are like pilot or lighthouse projects as part of that work. I would anticipate in the coming years that there will be a greater focus on this area. As I say, there are some opportunities for existing ACT government programs and projects to have an even greater social procurement focus.

**DR BOURKE**: You mentioned some examples. Are you able to elaborate on those?

**Mr Barr**: Not really today, no.

**MR SMYTH**: The minister may take it on notice?

**DR BOURKE**: I will leave it to you, Brendan.

**MR SMYTH**: Minister, the ICT side of Shared Services maintains offices in each of the departments and agencies, I take it? That is right?

**Ms Divorty**: Yes, we have an ICT presence. It may be co-located or not, but each directorate has a dedicated team.

**MR SMYTH**: Is that under review and is Shared Services ICT looking at withdrawing officers who are currently actually in agencies?

**Ms Divorty**: Shared Services is carrying out a review of the work and functions of our ICT embedded teams. I think that is very timely. Our embedded teams have been in place and unchanged for probably about seven or eight years now, Mr Smyth. We have not really reviewed the functions or range of duties they undertake during that time. There has been a tendency for those teams to grow and expand their functions, and we think it is timely to have a look at that and see whether all of those functions actually need to be co-located with the agency or embedded in the way that they are now or whether, in fact, some of those would actually be more efficiently and effectively delivered as a centralised service.

I can give an example if you like, which might be the asset management functions that are carried out. Asset management of the ACT government's equipment is obviously really necessary. Is it necessary that the person who does asset management is actually co-located in the directorate or could we actually have a team that is centrally located in Shared Services who just roam directorates, if you like, and management assets as or when needed?

We think there is a legitimate need for ICT teams to be co-located when there is a responsiveness task. So, for instance, those teams who maintain and support business applications, we would not be looking at removing those from their co-located status with directorates. But there might be other functions which are, if you like, more administrative in nature that do not necessarily need to be located with the directorates.

As a shared services centre we are always looking to operate more efficiently and effectively, and we feel our customer relations area is an area that has not been looked at for quite some time. So rather than wait for someone else to review us, we thought it would be timely for us to review ourselves and make sure we are being efficient and effective.

There are no decisions; that review is still underway and no decisions have been made out of that. We would normally consult with our governing committee, which is made up of all directors-general, before we took any action in that regard.

**MR SMYTH:** How much is the review costing?

**Ms Divorty**: I understand it is around $70,000.

**MR SMYTH**: Specifically for emergency services, is it the intention of Shared Services to withdraw the ICT staff from emergency services?

**Ms Divorty**: Emergency services, like a number of our directorates, carry out very critical functions and we would not compromise those functions in any way. If that meant that our teams needed to be embedded and co-located due to responsiveness needs or criticality of functions, we would not change that. We are looking more at the administrative side of these teams.

**MR SMYTH**: So there is no plan to withdraw ICT staff from emergency services?

**Ms Divorty**: I would say that the review is not finalised, and I am unable to tell you at this stage exactly what functions the ESA embedded team do. If there were administrative functions there that could be effectively delivered from a centralised location which would actually be more cost effective, we may consider that. But we would not consider withdrawing any essential services.

**MR SMYTH**: How many Shared Services staff are currently with the ESA?

**Ms Divorty**: I would have to take that on notice, Mr Smyth.

**MR SMYTH**: Page 27 of volume 1 talks about the completion of the rebuild of the communications centre at Fairbairn. How much did that cost?

**Ms Divorty**: I will call on Sarbjit Sidhu. Do we have an understanding at the moment of what the cost was?

**Ms Sidhu**: We will take this on notice. A fair bit of work was done to build that and get that working. We were very careful about making sure that that centre operates and can be expanded to provide the services that are required as soon as possible.

**MR SMYTH**: The paragraph on page 27 talks about enhancements for the capability. What were those enhancements?

**Ms Sidhu**: I will need to take that on notice.

**MR SMYTH**: The fact that you had to enhance the centre so soon after it was completed, does that indicate that sufficient capacity was not built in initially?

**Ms Divorty**: I am sorry, we will have to take it on notice, Mr Smyth.

**MR SMYTH**: So you are taking the previous question on notice or that question?

**Ms Divorty**: That one as well. Sorry, we did not bring technical expertise in terms of specific projects, but we are happy to provide answers to those.

**MR SMYTH**: So we do not know what the nature of the enhancements were?

**Ms Divorty**: Not if you want a level of detail, no.

**MR SMYTH**: Under these areas we do not have an outline of what happened, for instance, with the cancer information service?

**Ms Divorty**: I am sorry, I could not hear because of the background noise.

**MR SMYTH**: So, therefore, we do not know what phase 1 of the cancer information system was?

**Ms Divorty**: I am sorry, we have something like 60 project managers in our project management office. Although our executives who are in the room have an oversight, I do not think they have the detailed knowledge that could answer all of those questions on a project-by-project basis at this stage. I am really happy to take that on notice, though.

**MR SMYTH**: Under the future direction, how much of the focus will now be on cloud strategies?

**Ms Divorty**: Shared Services tries to keep an eye on operational detail as well as an eye on the future. We have introduced an innovation office within our organisation to try and implement those ideas as effectively as we can. Cloud is one of the ideas that we are looking at, not only from a software-as-a-service perspective but also the infrastructure of the service. Certainly our new data centre has taken account of cloud technologies. It is a strategy we are actively engaged in, and Sarbjit may be able to provide some more detail if you would like.

**Ms Sidhu**: We have undertaken a review, and in accordance with that review we have a program we are looking at. That program is to strengthen the governance, including the application of portfolio management and enterprise architecture. The second one is the review of the business systems and other capabilities to see which can be capitalised on using the cloud technologies. The other approach is to pilot something to quantify the benefits and all that before we adopt anything on a production larger scale. We also keep in touch with other organisations in terms of where they are heading and what kind of real benefits they are getting from cloud technologies.

**MR SMYTH**: Does the use of cloud technology negate the need for a new data centre?

**Ms Divorty**: No. We are hoping that it will slow down the need for storage in our new data centre. We have several data centres around town, some of them located within our office buildings. The data centre we are currently looking to lease will replace one of those data centres. We are hoping cloud technology will be one of the strategies that will enable us to slow down or perhaps reduce the size of the next data centre that might be needed after that.

**DR BOURKE**: What will be the risks associated with using cloud technology?

**Ms Sidhu**: There are risks such as meeting the security requirements and interoperability and standards—standards are not as mature as yet for using cloud—procuring services on a consumption basis and reusability across the ACT government. There are a number of things the federal government is looking at. We also are very well aware of the risks and, hence, the need for us to mitigate those risks before we pursue that pathway on a larger scale.

**THE CHAIR**: On the same page under future directions it talks about increased mobile device capability being one of the priorities for this year. I am interested in what progress has been made on that because it has been one of the issues even here in the Assembly that we face difficulties with in terms of mobile devices being linked to other parts of the system. Has progress been made and, if so, what has been that progress?

**Mr Doran**: In terms of mobile devices we have been working on a number of fronts. The main one is to do with iPad technology. We have implemented that as a service and we are now revamping and enhancing that to allow a file and print capability. That project is just starting and is in its infancy and planning at the moment.

Other mobile devices technology we are considering at includes, from a security point of view, the use of Android and not just iPhones and iPads. The mobile devices then move through to a number of other unified communication technologies which we are planning at the moment. Videoconferencing has been implemented and there are other follow-on services.

**THE CHAIR**: When you say you are looking at issues around mobiles, does that mean nothing particularly has been progressed since the end of the financial year? Are we expecting something soon in terms of changes and the ability to interlink with mobile devices?

**Mr Doran**: Yes. There is a lot of work being progressed. It is at the planning and design stage at the moment. Our enterprise architects have been working on that and we have a framework for moving forward. That is being pushed aggressively by our executive.

**THE CHAIR**: Is that an in-house project or have you brought in outside expertise for that?

**Mr Doran**: It is in house, but we use external vendors to support us all the way through—Microsoft, for example, and other organisations.

**THE CHAIR**: So there are contracts in place with Microsoft and others in order to try and deliver that?

**Mr Doran**: That is right. We have an enterprise agreement with Microsoft.

**THE CHAIR**: What is the size of that contract with Microsoft?

**Ms Divorty**: The overall contract is quite large because it is the enterprise agreement for all of the services—

**THE CHAIR**: For the entirety, yes.

**Ms Divorty**: but it is not specifically for this mobile strategy.

**Mr Doran**: No. Under that agreement we get a certain number of hours when we are allowed to call on Microsoft for their consulting services and their expert support if we have issues.

**THE CHAIR**: Page 309 of volume 2 looks at some issues around liabilities and the like and comparison to budget and comparison to actuals. The increased bank overdraft both in the actuals and in the budget--$53 million and $49 million respectively—it says is due to the timing associated with the billing and receipt of payments. What has been the issue there and can you bring us up to date? Are we to assume that that overdraft is now significantly less than it was at the end of the financial year? Has it changed one way or another?

**Ms Divorty**: I will ask Ross Burton, our CFO, to join us. I wish it were all happy news but I think we still have an overdraft, Mr Seselja.

**Mr Burton**: The issue associated with our bank overdraft is that we continue to run at a loss, of overdraft, especially in our capital works area. The rest of Shared Services pretty much is above overdraft.

The reason is that we changed our practices a couple of years ago in relation to how we bill capital works. There used to be a pre-payment arrangement in place; now we basically work on a cost-recovery basis. So we have incurred the cost, we pay the supply bill and we then forward that invoice on to the directorates to pay. There is normally 30 days to pay that invoice and they have to verify that the project work has been completed. But that has changed from where we used to pretty much run no overdraft to over the last two years where we have sustained an overdraft in that area. The money is retained within government, of course. Through the capital works side they get a drawdown, they pay those bills and then basically that offsets those accounts there.

A lot of the timing is also in relation to the year end. Even though it is in the accounts, the overdraft appears to have increased from about $5 million from the previous year as at 30 June 2011 to $54 million as at 30 June 2012. Again, it comes down to the timing with our billing. Because there is quite a substantial amount of work—normally always with capital works it tends to happen in the last quarter of that financial year—the thing is to try and get those bills out in as timely a fashion as possible and to try and get them prior to 30 June so that they can be paid on a timely basis or prior to that year closing.

It has not happened as cleanly as you would expect with that process. We normally find the same in around December-January. We have a larger overdraft at that point in time because people are away, with respect to verifying the financial side of things, but then we get a large injection of cash in January-February, and the same thing happens in July-August of the following year.

The balance does still pretty much remain at around $50 million to $54 million. Again it is really associated with the timing. The balance is obviously reflected in our balance sheet, so you may see an increase in that, but then there is also an increase on the receivables side, and there also may be a change in relation to payables because they are all interrelated.

**THE CHAIR**: Did you say the balance is currently around the same as it was at the end of the financial year?

**Mr Burton**: Yes. It has its peaks and troughs. I think today it was $61 million.

**THE CHAIR**: Is there a reason for that? You said the payments are normally late at the end of the year but then there is an influx in February-March. How high did it get before these payments started coming in in the first part of this calendar year?

**Mr Burton**: It has been as high as around $88 million in overdraft.

**THE CHAIR**: And that is due to agencies not paying on time?

**Mr Burton**: There are some timing issues with that 30 days and arranging their drawdowns. I think the average time that it takes for a capital works invoice to be paid is around 43 days.

**THE CHAIR**: So the average time for government to be paying government is 43 days?

**Mr Burton**: In those specific circumstances. It depends on the individual project and the works associated with that. Individual directorates are different. The smaller directorates have a very small capital works program and are very timely in their payments. With other ones, as I say, we generally tend to keep a close eye on that with the directorates. There are internal processes there, but we still work with themm and if we notice that it stretches from 30 to 60 days then we follow it up directly with those directorates.

**THE CHAIR**: Treasurer, this is not best practice. You have had problems paying external businesses, which is obviously more of a concern, but are you concerned? Are you doing anything about it to make sure other agencies get their houses in order so that at least we have good practices within government before we then go external?

**Mr Barr**: Yes. I meet regularly with the CFOs of all directorates.

**THE CHAIR**: Are you making any progress on that?

**Mr Barr**: In terms of my meetings with CFOs from all directorates?

**THE CHAIR**: Are we seeing improvements? Have we seen improvements in payments?

**Mr Barr**: Yes, I believe the capital program is more robust now.

**THE CHAIR**: So they are paying more often on time, are they?

**Mr Barr**: Certainly, in terms of the flow of the capital works program, that has been the experience, yes.

**THE CHAIR**: Are your agencies paying on time or not? Is Treasury paying on time when it comes to—

**Mr Barr**: Treasury does not have a capital works program, generally speaking, so—

**THE CHAIR**: Your other agencies, they are all paying on time?

**Mr Barr**: I would have to look at the detail of that but, yes, they are constantly reminded of their capital works requirements.

**THE CHAIR**: Ms Divorty, it might be helpful if you were able to provide a breakdown of who is paying on time and who is not so that we can get a handle on exactly where the problem was.

**Ms Divorty**: I am happy to do that.

**MS PORTER**: Are we able to go to another area relating to targeted assistance at this point?

**THE CHAIR**: Yes.

**MS PORTER**: Page 17, volume 1 talks about targeted assisted measures to ameliorate the impact of reforms and support ageing in place. I am interested in the rates deferral scheme, which has been extended to non-pensioners over the age of 65, whether working or retired. I will ask that one first and then I will go to the next one.

**Mr Barr**: So the specific question was how many have taken up the—

**MS PORTER**: Yes, I am interested in the take-up. It has now been offered.

**Mr Barr**: Yes.

**MS PORTER**: Sorry, I was getting distracted by thinking about the next question without finishing my first one. So I am really wanting to know whether that has been a success and how we are helping the people that we are looking to help.

**Mr Barr**: Certainly, the extension of eligibility has been welcomed by those who have had the eligibility extended to their circumstance. Kim, are you in a position to give those figures?

**Mr Salisbury**: I am in a position to say that two people have taken up the new deferred arrangements since they were introduced.

**MS PORTER**: That is fairly low at the moment. Do you think that is because we are not getting that word out there to let them know that it is available or is it just very early days in getting the message out?

**Mr Barr**: Again, it is an option available for people.

**MS PORTER**: Yes.

**Mr Barr**: I think it might actually reflect that whilst there is a need there for some and it is good that we have that option available, most people are not—

**MS PORTER**: They do not particularly like that option? It is not an option they want to take up?

**Mr Barr**: No, their capacity to make a payment as per the normal arrangements is there, but it is useful to have that option, undoubtedly. I know that in the context of extending eligibility there certainly was support for that amongst the group who would be affected. But whether they take it up on an individual basis is really a matter for them.

**MS PORTER**: What about the homebuyers concession scheme which is mentioned on the same page with regard to housing affordability? Are there measures in place to deal with typical increases in house and/or land prices over time?

**Mr Barr**: Yes. There is a six-monthly indexation process there that looks at market movements. I think it would be fair to say that there is greater utilisation of this particular concession scheme than others that are offered within the suite of concessions offered by the territory government, although clearly there are fluctuations here that are based on activity in the housing market.

Overall, the changes that were made in the last budget have certainly extended access to this scheme, particularly around income thresholds. The scheme has been aligned with the affordable housing policy thresholds around the types of products that people are eligible for.

**DR BOURKE**: In volume 1 at page 7 the report says:

> There will be a continued focus on robust procurement process and managing risk in the pursuit of value for money.

Can you give us some examples of how that is going to be achieved?

**Ms Smithies**: Yes, we actually might have Jill back up to have a talk about it.

**Ms Divorty**: I am sorry. Would you mind repeating that question for me?

**DR BOURKE**: I shall. In volume 1 at page 7 the report says:

> There will be a continued focus on robust procurement process and managing risk in the pursuit of value for money.

Can you give us some examples of how this is going to unfold?

**Ms Divorty**: Sure. So one of the main areas that we use to test value for money is, of course, tendering arrangements. Getting a good competitive field in a tender is really important. So we are investigating things such as e-tendering. E-tendering we think will allow industry to have a better view of our upcoming tenders, allow a more competitive field and, hopefully, if you like, get a better base of industry players, both locally and interstate.

In terms of e-tendering, we are looking at adopting another jurisdiction's model so that we do not actually have to start from scratch. So that is one of the ways that we would try to enhance value for money or increase value for money for the territory.

We also of course use existing panels and contracts wherever we can. We are a small jurisdiction. Being a small jurisdiction, you do not always get the best bang for your buck. So where we can piggyback, if you like, on the back of either large commonwealth agencies or neighbouring jurisdictions in buying arrangements, that is also very helpful to us. We work quite actively with commonwealth agencies, New South Wales and other jurisdictions to try to get access to some of their very good buying arrangements that they have in place.

In addition to that, we try to reduce red tape and reduce bureaucracy as much as we can. One of the projects that we currently have going in our goods and services area is actually to streamline our procurement. What we have found is that there is so much volume coming into our goods and services area. Some of it is actually very low risk, low value procurements. With the procurement thresholds that we currently have, anything over $25,000 needs to come through a procurement officer in order to get the right ticks, if you like, in terms of using the right templates, using the right method.

We think that that can be quite onerous for agencies. Time is also money in some cases. We think that the fact that we are slowing agencies down sometimes is actually eroding value for money. So we are looking at a project there which will, as I said, streamline that, come up with some better, smarter tools that will allow agencies to undertake small value procurements much more quickly than they currently are.

**DR BOURKE**: With e-tendering, you mentioned looking at the processes used in other jurisdictions. Do you have one in mind or are you tendering?

**Mr Tomlins**: We are looking at the New South Wales and the commonwealth systems.

**DR BOURKE**: What is more attractive about those systems than those in other jurisdictions?

**Mr Tomlins**: I suppose the attraction is that a lot of people who use those systems are in the ACT and the region, so there is familiarity from the other side. Of course, there are people in the employment market who use them as well. So a lot of familiarity with those sorts of systems is available to us.

**DR BOURKE**: Minister, in the same paragraph the report says that safety on construction sites will also receive greater attention. How will that be achieved?

**Mr Barr**: The government has responded through my ministerial colleague Minister Corbell in relation to the bringing them home safely report. It has implications around a safety element within our procurement process, and that is something we certainly will grapple with as to the best way to proceed in the context of the government's response to that report.

In terms of the process for future procurement, there are prequalification questions and an ongoing examination of safety records of companies that win ACT government work. That is all important. The other element to focus on here is government as a leader in this field, so setting an example through our own procurement and our own projects around workplace safety. That is clearly part of the cultural change that is required within the industry more broadly.

We believe through our own projects we can take a leadership role in driving some of that change within the construction industry in the territory, recognising, of course, that government work, although significant, is not by any means the full gamut of work available on construction sites within the city. Nonetheless, it is an important part and there is an opportunity for us, through our policy response to this report, to take that leadership role.

**MR SMYTH**: Table 1 on page 298 of volume 2 looks at the net cost of services. It is substantially down in 2011-12 and then rises to well above budget. Why is it substantially down in 2011-12, and why the large increases then in the outyears?

**Ms Divorty**: I will call on an expert if I can, please.

**Mr Burton**: If you could repeat the question, that would assist.

**Mr Smyth**: Table 1 on page 298, the outcome for the 2011-12 year is only $6 million, and I see there is a comparison on page 299. But why is it down, and then why does it increase so much when it has tripled in the current year and keeps growing in the outyears? Are we not able to keep it at that level?

**Mr Burton**: Basically, with the Shared Services model, there is a significant amount of flow-through expenditure. There is also ICT expenditure on projects and also on the capital works projects. We do not necessarily budget for the project work from both the ICT side and the capital works side. But if those activities come through, it actually increases the level of revenue and expenditure above what we budgeted for.

The actual result is different because, in the previous year, the net cost of services takes out movements in appropriation, so it just looks solely at the bottom line result. The previous year in 2010-11 there was about a $17 million better-than-budget performance by Shared Services, and then last year there was around $9 million, which equates to why there is a difference there. There is mainly an increase.

The reason for the difference in those two years is an increase in staffing and staffing costs associated with employing more people. We were well under budget on core staffing levels for Shared Services the previous year, and so there was an increase. There were also increases with the wage price increase and those sorts of things which flow through. There is a higher increase in those things. There was also movement in the long service leave discount rate from 92.2 per cent to 106 per cent. Those increases resulted in a slightly less better-than-budget performance in this financial year than in the 2011-12 financial year.

**MR SMYTH**: But the second dot point on page 299 says you had reduced employee and superannuation expenses of almost $6 million because of fewer permanent staff members.

**Mr Burton**: That is in budget; that is what we budgeted for our staffing numbers, if you are looking at page 299.

**MR SMYTH**: Yes.

**Mr Burton**: Page 300 identifies the differences in actuals from one year and the main reasons. As I said, there was an increase in employee superannuation expenses of about $8.3 million, and there was also an increase in depreciation. In the 2010-11 year we were about $4 million under in depreciation, which contributed to the $17 million loss. That was mainly associated with capital works projects and the timing of asset purchases in that year. As you can see, in 2011-12 we were pretty much on our budget expenditure for depreciation. They were two significant movements which reduced, as I say, the $17 million better-than-budget result in 2010-11 to around $9 million in 2011-12.

**MR SMYTH**: At the top of page 299 in the brackets it says to refer to attachment A for comparison. Where will I find attachment A?

**Mr Burton**: It is on page 312. It gives you just the breakdown between what was budgeted for in 2011-12 versus the actual result. And those figures equate to those figures that flow through this document.

**MR SMYTH**: Back to table 1 on page 298, the unsourced revenue declines. For the 2011-12 year you have 189; it is down to 176 this year. It bounces around a bit. Why is that?

**Mr Burton**: As I said earlier, a lot of revenue gets passed through Shared Services, especially in IT. It is mainly associated with project revenue. That is why we do not necessarily budget for that work, because it depends on how the budget flows throughout the year and what gets approved in directorates' agency budgets. At the time we set our budget, we are not aware of the extent of the capital works program or what ICT projects will be funded by the government through those directorates. So we do not make an estimate based on that.

We try to keep to what our core staffing levels are. That is why you will see, even when you look at our staffing numbers, there is a high number of contractors above what is budgeted for. But that is mainly because that is the ICT projects or capital works projects figures.

There is also a steady amount of expenditure—around $30 million—which is solely a pass-through. There is business systems expenditure, agency staffing and bill backs. That is all variable throughout each year. It is very hard to predict. Basically it is a pass-through cost. If someone wants to buy a certain software licensing package or hardware that is outside our normal core business, they come through ICT for better pricing, but that will then be charged back to that directorate. We pay the supplier and then charge it back to the directorate.

Business systems costs are very similar. Where there may be business systems, it comes through Shared Services ICT to be paid and then we seek reimbursement from the directorate for those costs. They can vary. Agencies sometimes determine to change contracts or they pay those costs themselves, and other times they ask Shared Services ICT to pay on their behalf.

**THE CHAIR**: The Auditor-General made some findings in the financial audits report No 10 of 2012 in relation to revenue. This statement was made:

> The systems used to account for taxes, fees and fines … have improved, however, these systems need further improvement …

It also found:

> Control weaknesses exist in Treasury's money revenue applications.

What has been done to address those concerns?

**Mr Salisbury**: In relation to territory revenue systems, we currently have a review of our revenue systems underway. At some stage we are looking to replace our revenue systems. Part of the specs for replacing those revenue systems would be to ensure that the risks around the current systems are completely minimised. So there are a number of projects going on. I have just described a longer term project. We have a consultant on board at the moment who is looking at both our systems and we are looking at what our requirements are going forward. That will come into a business case at some stage.

We are also in the process of upgrading our territory revenue system. That is the system that primarily looks after conveyance duty. We are doing an upgrade of that system at the moment. It is likely that that will enhance the capability and capacity of that system, and that will allow us to turn on a number of the audit functions that we currently do not have operating. We have implemented a number of manual systems to compensate for the lack of system capability.

**THE CHAIR**: When is that system upgrade likely to be finished?

**Mr Salisbury**: We anticipate at this stage that the TRS upgrade will be completed by the end of June. We have built some possibility of slippage into that time line.

**THE CHAIR**: With respect to these weaknesses that have been identified here, there was a case a couple of years ago in terms of the failure to collect a couple of million dollars in rates revenue that was reported. Was that a similar weakness that led to that or was that another problem?

**Mr Salisbury**: I do not believe—

**Ms Smithies**: The issues that are being identified through the audit process go to issues such as logs of user access, automatic password reinvigoration and audit log generation et cetera. So the answer is no. The issue that was identified a number of years ago was around sending out rates to new clients that have been brought onto the rates system, post an upgrade of the community system. So this was an issue that was being addressed by an upgrade path on the community system, not the issues that are coming through from the audit, which are around some of the underlying general system checks and balances.

**THE CHAIR**: But the former issue has now been addressed?

**Ms Smithies**: Yes.

**THE CHAIR**: The same audit report talks about the Commissioner for Revenue obtaining information on unimproved land values from the AVO. It says:

> Treasury has not obtained signed valuation reports and supporting valuation work papers from the Australian Valuation Office to support these valuations.

What is the reason that you have not received those signed valuation reports?

**Mr Salisbury**: I might have to take that one on notice.

**THE CHAIR**: Okay. This report was delivered in December. Is there an issue there? It was a pretty clear finding from the Auditor-General. I assume that the office has had the opportunity to consider it and respond. Is there no reason that comes to mind as to why signed valuation reports would not be received?

**Mr Salisbury**: I think this is an issue that we are discussing with the Auditor-General—what their actual requirements are around a sign-off. We would not want to be in the position where we are signing off the valuation for every single property. I guess it is about operationalising the scope of that recommendation and I understand we are discussing that with the Auditor-General.

**THE CHAIR**: So you have had discussions with the Auditor-General?

**Mr Salisbury**: I believe we have, yes.

**THE CHAIR**: You are able to assure us that there are no issues with the veracity of any of these and it is really a question of in what circumstances you need signed reports?

**Mr Salisbury**: Yes. I do not believe there is a problem there.

**MS PORTER:** Before I go to my question I forgot to comment before when we were talking about the comm cen. I believe that worked very well during the recent perceived emergency with the fires, with the heat and everything recently. Being on the receiving end of some of my contacts through CFU, I found that extremely good. I just wanted to let you know that. Minister, could you let me know how the Gungahlin community health centre and the pool projects are going?

**Mr Barr**: The pool construction started in September 2012. At another committee hearing they have asked for photographs. I have just signed a question on notice giving a photographic—

**MS PORTER**: There are too many committees at the moment, minister; I feel for you.

**Mr Barr**: Yes—the latest photos of that project's construction. Its expected completion date is in the first quarter of 2014. In relation to health centres, you are particularly interested in Belconnen?

**MS PORTER**: Yes, I am definitely interested in Belconnen and Gungahlin.

**Mr Barr**: I am advised that the forecast practical completion date is September this year.

**MS PORTER**: The combined emergency services and ambulance station at Charnwood is going very well, I believe.

**Mr Barr**: I understand construction is progressing well.

**DR BOURKE**: Minister, I refer to page 31. Could you outline the plans to introduce a local industry procurement policy aimed at encouraging local content involvement in the delivery of goods and services?

**Mr Barr**: Thank you, Dr Bourke. This particular policy initiative is aimed at operating within the constraints, shall we say, of free trade between jurisdictions and countries. However, there is capacity within the framework of some international free trade agreements for a weighting to be provided for local procurement. We have been consulting with key industry stakeholders and also looking at what other jurisdictions have done in this policy area to devise a system that will give a weighting for the local element of procurement but will not fall foul of any of our free trade agreements.

In essence that allows for, as I say, a weighting. Without wanting to put an exact figure on it, let us say somewhere around a five to 10 per cent loading for companies that have either a local ownership structure or, in the case of larger procurements where subcontractors may be provided, companies have to demonstrate their use of local contractors as part of a larger bid. So that gets a weighting in the process. These new measures are to be introduced during this calendar year.

**DR BOURKE**: Could you explain how that weighting system mitigates the national and international free trade agreements that you mentioned?

**Mr Barr**: I think it largely comes down to how much of a loading you provide and how you structure your procurement process. We obviously need to ensure that value for money continues to be the major element in terms of procurement decision making. We also need to ensure that project specifications are not altered in order to suit or benefit local tenderers, say, over others. But there is capacity within our current procurement systems to provide this emphasis on local business. Clearly there are some areas of work within some directorates where local firms have a significant comparative advantage over other national or international firms in bidding for that work.

I think you will see, in the totality of ACT government procurement in the period ahead, we would anticipate, and again subject to the quality of tender applications, more ACT firms or consortia with ACT firms in partnership winning government work.

**DR BOURKE**: Can you give us some examples of other Australian jurisdictions that have undertaken similar schemes?

**Mr Barr**: I understand New South Wales has a similar scheme. Most jurisdictions have some variation of this. The sorts of areas they may focus on depends a little bit on the nature of their particular economies. For example, we would not have that many tenders here that would have specialist skills that are not found in the territory, but there are some. So there will always be some work that just simply cannot be won locally because there is not the skill set here to undertake that work. Those sorts of issues would arise in other jurisdictions depending on the nature of their economy.

**MR SMYTH**: I have a question on revenue. On page 42 of volume 1, the Revenue Office did a survey in 2011 which was published and online. The last sentence on page 42 says:

> The ACT Revenue Office intends surveying clients again in October 2012.

Has that happened and has that been published?

**Mr Salisbury**: It has happened but it has not been published.

**MR SMYTH**: When is it likely to be published?

**Mr Salisbury**: I am not sure that we will publish it, to be honest.

**MR SMYTH**: Why not?

**Mr Salisbury**: I do not think it is a particularly useful piece of work.

**MR SMYTH**: In what regard is it not useful? Here comes the interesting bit of the afternoon!

**THE CHAIR**: Was it the questions or the answers that were not useful?

**MR SMYTH**: The survey in 2011 was useful but the one in 2012 was not?

**Mr Salisbury**: The survey is with me at the moment. I guess I will make a call as to whether we publish it or not.

**MR SMYTH**: What would lead you not to publish it?

**Mr Salisbury**: I guess if it is not very helpful.

**DR BOURKE**: When will you make that decision?

**Mr Salisbury**: I guess in the near future.

**MR SMYTH**: Define “not very helpful”. Is it not very helpful in that it might be critical of the office or not very helpful in that it just does not contain anything material to the services delivered?

**Mr Salisbury**: These have been happening for a long time. They provide a set of information that I do not think we can really action in any particular way. So I do not find it particularly instructive in terms of running the organisation. We ask people to comment on us as a service and as a revenue office. The questions are not particularly tailored or directed for any particular learning for us. So it is what it is. It is not my decision; is that what you are going to tell me?

**Ms Smithies**: No, I have not seen the review. I guess what you are describing is probably a bit of a deficiency in terms of how the survey has been compiled in the first instance.

**DR BOURKE**: Does that mean you are going to redesign the survey for the future so that it delivers results that people find useful?

**Mr Barr**: That would probably be a common-sense response, wouldn’t it?

**Mr Salisbury**: Yes, I think that is where I am headed with this.

**THE CHAIR**: Who ticked off on this inadequate survey?

**Mr Salisbury**: I am assuming it was previous revenue commissioners who had undertaken this survey.

**THE CHAIR**: And how much did it cost?

**Mr Salisbury**: We do it internally, so it does not cost anything.

**THE CHAIR**: There are resources internally, though?

**Mr Salisbury**: Sure.

**THE CHAIR**: Is there an estimate of how much this inadequate survey cost to produce?

**Mr Salisbury**: No. I do not know how much it would cost to produce.

**THE CHAIR**: Are you able to get that for us or are we just going to—

**Mr Barr**: We may well estimate how much it costs to estimate the costs, too.

**MR SMYTH**: You could include that in the total cost.

**THE CHAIR**: We have just been told you have undertaken an exercise which is of limited or no use for us, which may or may not be released. It may be reasonable to try and estimate how much time and resources were used in actually compiling it.

**Mr Salisbury**: We can have a go at doing that.

**THE SMYTH**: Can you give us a synopsis of the 2012 survey, which now sounds very intriguing?

**Mr Salisbury**: To be honest, I can't.

**MR SMYTH**: You can't or won't?

**Mr Salisbury**: I do not recall the details of it particularly, other than it was a—

**MR SMYTH**: You have just guaranteed it is going to be a must read and we are now waiting with bated breath.

**Mr Salisbury**: My reading of it was that it was a series of critical comments of the Revenue Office that were not particularly helpful or instructive.

**MR SMYTH**: Is it that you do not like criticism or that they were not actionable?

**Mr Salisbury**: That, but also they did not go to the heart of what the problem was. It was, "My dealings with the Revenue Office were blah." That does not really—

**MR SMYTH**: But surely that is a customer service issue, if people are upset with the service, rather than the outcome. Were any of the comments related to the administration of the Payroll Tax Act?

**Mr Salisbury**: I do not recall.

**DR BOURKE**: But that really goes to the nub of previous questions about redesign of the survey so that you can extract results which are useful for you, which is where I am sure you will be going.

**Mr Salisbury**: As I said, I inherited this survey. I looked at it and I thought, "It does not help me run the business necessarily." I would be looking to redesign it so that it is more helpful.

**DR BOURKE**: Do other jurisdictions run this kind of survey?

**Mr Salisbury**: I think a number of them do, yes. I think they would perhaps be more sophisticated than the one we are running at the moment.

**MR SMYTH**: We look forward to it.

**Ms Smithies**: You would be picking up anecdote or comment rather than issues around systemic weaknesses in relation to service clients.

**Mr Salisbury**: How many hours for the turnaround? What were the channels available to communicate? It is that sort of thing that is useful, but this survey does not capture those sorts of things.

**DR BOURKE**: So it is basically what you would like in a box of—

**Mr Salisbury**: Exactly. It gets a currency more than it deserves as a document.

**DR BOURKE**: Which is a qualitative narrative rather than a quantitative one?

**Ms Smithies**: Yes.

**MR SMYTH**: To go back to the payroll tax, on a slightly more serious matter, are we currently harmonised with New South Wales in regard to the Payroll Tax Act and its application?

**Mr Salisbury**: Not in terms of thresholds or rates.

**MR SMYTH**: No, but application and the way the act is applied?

**Mr Salisbury**: Each jurisdiction has a number of non-harmonised elements, but by and large our payroll tax is harmonised in terms of the law itself and the administration of the law with New South Wales. That is an ongoing project to ensure that as case law develops and as revenue offices take a view on case law, assessments and rulings, we ensure that we maintain consistency across the jurisdictions.

**MR SMYTH**: Are we aligned with regard to discretionary trusts?

**Mr Salisbury**: Prospectively, yes.

**MR SMYTH**: And retrospectively?

**Mr Salisbury**: Retrospectively, possibly not.

**MR SMYTH**: If possibly not, given the reforms of 2007 were to bring us into line with New South Wales, why isn't it also retrospective?

**Mr Salisbury**: I guess that goes to issues around what you can do in terms of making laws retrospective. I think when we moved to harmonise through that legislation it was to take effect going forward, not going backwards.

**MR SMYTH**: New South Wales allows for retrospectivity, does it not?

**Mr Salisbury**: And so do we in some circumstances.

**MR SMYTH**: In what circumstances would you allow and in what circumstances wouldn't you allow?

**Mr Salisbury**: That would depend on the specifics of the case at hand.

**MR SMYTH**: If I have become a beneficiary of a trust unknowingly, when am I liable for anything that the trust is liable for?

**Mr Salisbury**: That would depend on the trust itself and the circumstances around the arrangements in that trust.

**MR SMYTH**: If you are not allowed to alleviate a grouping retrospectively and I have been made beneficiary of a trust for which I had no knowledge and gained no benefit, but suddenly a liability occurs, when am I free of that liability or how can I be made free of that liability?

**Mr Salisbury**: Again that would be determined by the facts and circumstances.

**MR SMYTH**: What about retrospective degrouping? I understand that is allowable under the New South Wales act. Is it allowable in the ACT?

**Mr Salisbury**: In certain circumstances, I understand, yes.

**MR SMYTH**: In certain circumstances. When is it not allowable?

**Mr Salisbury**: We can take on notice how we apply the law here.

**MR SMYTH**: Because you would actually argue that the power is not retrospective to degroup.

**Mr Salisbury**: In some circumstances, I think.

**Ms Smithies**: In essence, what we are getting to here is a particular part of the legislation that is really complex, and answering these sorts of questions in general terms can be quite difficult. Each of these cases has its own particular features that need to be taken into account when the Revenue Office is doing all of the assessments around payroll tax. l think Mr Salisbury is being quite correct to be cautious in terms of how we answer some of these questions.

**MR SMYTH**: In regard to the breadth of degrouping, you say, for instance, we are harmonised with New South Wales. New South Wales in 1986 accepted the ruling in the case of Yeldham where the policy said that you could degroup. New South Wales accept that, but I understand we do not accept that here in the ACT, therefore, there is a disharmony between the two jurisdictions. If you are going to take it on notice, do we accept Yeldham and the ruling from 1986?

**Ms Smithies**: I think the other thing we will probably need to do is take a bit of legal advice on this. As you would be well aware, we have a number of issues going through the legal system right now.

**MR SMYTH**: Yes, exactly. If you are going to take it on notice, joint and several liability under section 81, how is that applied in the ACT?

**Mr Salisbury**: I will take that on notice as well.

**MR SMYTH**: But if a company accrues a debt before, say, 1July and it merges with another company, you would currently apply that liability over both companies?

**Mr Salisbury**: I will take it on notice.

**THE CHAIR**: Are there any other questions in this area before we move on?

**MR SMYTH**: Yes, this section covers the government's property strategy. Does the government have a property strategy? If so, could we have a copy of it, please?

**Mr Barr**: Cabinet will complete its consideration of these matters soon and a strategy will be published.

**MR SMYTH**: So we do not have a property strategy at this time?

**Mr Barr**: We have an existing property strategy and we are considering changes and a way forward, which cabinet will consider and I will release.

**MR SMYTH**: So when is cabinet likely to consider that?

**Mr Barr**: That is a matter for the Chief Minister in determining the cabinet agenda.

**MR SMYTH**: Are you the minister responsible for the property strategy?

**Mr Barr**: Yes.

**MR SMYTH**: So you need to have it put on the agenda?

**Mr Barr**: I am not discussing cabinet matters with this committee.

**MR SMYTH**: Well, the cabinet agenda is not cabinet-in-confidence.

**Mr Barr**: As I said, I am not discussing cabinet matters. I have made a statement in relation to the property strategy. I will release it in due course.

**THE CHAIR**: So the agency has not finished the work?

**Mr Barr**: This agency does not have responsibility for the completion of the work, as it had sat with the Economic Development Directorate. On the completion of that work, this agency will have responsibility for it.

**THE CHAIR**: Has there been external expertise brought in for this new phase in developing this new property strategy? If so, in what capacity?

**Mr Barr**: This, as I say, does not relate to this agency. I will make further comment on the government property strategy when I release it.

**MR SMYTH**: This hearing is also to cover the government business enterprises ownership policy. Does the government have a government businesses enterprises ownership policy?

**Mr Barr**: We have specific pieces of work in relation to one particular government business enterprise that we discussed previously.

**MR SMYTH**: Which is?

**Mr Barr**: I have released terms of reference for a review relating to ACTTAB.

**MR SMYTH**: So we do not have a whole-of-government enterprise ownership policy?

**Mr Barr**: We have only got two now.

**Ms Smithies**: Two territory-owned corporations.

**Mr Barr**: Two territory-owned corporations, yes.

**MR SMYTH**: We are doing ACTTAB another day; that is fine.

**THE CHAIR**: We will now move on to discontinued agencies, the procurement board, territory records and ACT Insurance Authority. We will start with Totalcare as a discontinued agency and then we can move on to those other aspects.

I understand the Australian Government Solicitor's office determined that 933 of the previous employee superannuation files from Totalcare needed further attention and that 424 have been settled. What outstanding action has been taken or needs to be taken on the other 509 files from Totalcare Industries?

**Ms Smithies**: Mr Seselja, Totalcare Industries itself has been wound up and the records have been assimilated into the territory. But in relation to the territory's handling of the outstanding superannuation issues, those are questions best directed to the Treasury portfolio, which has responsibility for both ongoing and residual superannuation matters.

**THE CHAIR**: I would have thought that would be a direct result of a discontinued agency, which is what we are dealing with here.

**Ms Smithies**: I think what we are saying is the policy issues now sit elsewhere. Yes, what we are dealing with here is more the governance issues around the territory's businesses.

**THE CHAIR**: But also the costs that are left to the territory as a result of this wound-up agency.

**Mr Barr**: We will take that one on notice.

**Ms Smithies**: We can take it on notice and get the information. We do not have it at hand.

**THE CHAIR**: Could you also take on notice how much superannuation the territory ended up paying on behalf of Totalcare through the 424 settlements that are listed?

**Ms Smithies**: Sure.

**THE CHAIR**: This may have already been answered earlier, but what is the total? Did we have a final cost to the territory for the wind-up of Totalcare? Has that been released previously or is that still being determined?

**Ms Smithies**: I understand it has been released and we can get that for you again.

**MR SMYTH**: On page 21 under "Expenses", I see that insurance went from $45,000 in the year to 30 June 2011 to $176,000 for the six or seven months. Why is that?

**Ms Smithies**: That was basically paying the tail—the directors insurance; the run-off, yes. When a company is wound up, there are certain insurance obligations that sit around the directors' obligations and the directors' liabilities. I understand that the territory has indemnified the directors in this case and we have actually put a commercial arrangement back to market to—

**MR SMYTH**: So it is a longer period?

**Ms Smithies**: Yes, that is exactly right. It is a seven-year—

**MR SMYTH**: So seven years?

**Ms Smithies**: Seven years, yes.

**MR SMYTH**: Have there been any claims on Totalcare since it was deregistered?

**Ms Smithies**: No.

**MR SMYTH**: There is no active correspondence now; it is all gone?

**Ms Smithies**: No.

**MR SMYTH**: Deregistration was applied for on 29 February but it did not occur until 5 May. Is that just the standard processing period or were there any difficulties in deregistering?

**Ms Smithies**: No, I understand that it is just the standard process, the standard time frame.

**MR SMYTH**: Supplies and services seem to have gone up a great deal. Again, on page 21, they have gone from $14,000 to 14 June 2011 and they are $38,000 for that eight-month period. Is there a reason why that has gone up so much? Most of the other numbers, apart from that insurance one, seem to have gone down.

**Ms Smithies**: Yes, from memory I think it had to do with the run-off of winding up a business—the financial work that needed to be undertaken. I think there was a bit of advertising around the final winding up of the company and that sort of residual work.

**MR SMYTH**: No, I do not know. I have never wound up a company in that way. Is it just disposal of property, excess property, advertising your legal rights and—

**Ms Smithies**: Yes, you have got to advertise the fact that—exactly right. You have to advertise that the company is winding up.

**MR SMYTH**: Okay.

**THE CHAIR**: If that is all there is on Totalcare, we will move on to the procurement board, the Territory Records Office and the Insurance Authority. I will start with the Insurance Authority. Page 30 of the report states that the risk management plan identifies that there is a risk of inadequate cash reserves within the authority to meet future obligations. What is the authority doing to manage this risk and ensure that all future liabilities will be met?

**Mr Fletcher**: Sorry, what was the reference there?

**THE CHAIR**: Page 30 refers to the risk management plan and it identifies risks there as they—

**Mr Fletcher**: The cash reserves?

**THE CHAIR**: Yes, that is right.

**Mr Fletcher**: Yes, the cash reserves. The authority has a risk plan that addressed the five points listed there. Part of our process to address that issue is to engage professional actuaries who undertake a review of our liabilities twice a year. That actuary for the ACTIA portfolio is PricewaterhouseCoopers. Their advice to us is then peer-reviewed by another actuary.

**DR BOURKE**: What is the difference between a potential risk and a risk?

**Mr Fletcher**: A potential risk and a risk?

**DR BOURKE**: It is either a risk or it is not.

**Mr Fletcher**: A risk is a risk.

**DR BOURKE**: It just says "potential risk" in the report and I am just curious as to why this language was used.

**Mr Fletcher**: I do not think there is really any difference.

**MR SMYTH**: It is kind of like forward planning really, is it not?

**Mr Fletcher**: Yes, it could be like that.

**MR SMYTH**: We have a lot of forward planning in the budget papers every year.

**Mr Fletcher**: What is the question?

**DR BOURKE**: I think I got the answer I was after.

**Mr Barr**: The answer is no difference.

**DR BOURKE**: Thank you.

**Mr Fletcher**: Just to complete the answer to that question about cash reserves, the data that we provide to those actuaries is supported by our claims management database. We have a process in place whereby we do claim reviews every quarter with our broker and with the Government Solicitor's office. The data is updated on a regular basis and then provided to our actuaries who make that evaluation, like I said, twice a year.

**THE CHAIR**: So has the position improved since that statement was made in the annual report, has it stayed around the same or has it got worse?

**Mr Fletcher**: In terms of our liabilities?

**THE CHAIR**: In terms of the ability to manage the risk of inadequate cash reserves.

**Mr Fletcher**: It really has not changed. It has been the authority's approach to assessing or managing that risk for quite some time, certainly since I have been the general manager of the authority. It is not a particular issue. It is just a risk issue that we have to try and deal with.

**DR BOURKE**: In other words, it is a reality of the business.

**Mr Fletcher**: Yes, that is right. It is about trying to make sure that you basically get it right, that you have sufficient resources to meet the costs of claims that materialise, obviously, as a liability.

**THE CHAIR**: One area that can be improved on, as is also noted on page 30, is the high claims due to poor risk management within other agencies. What is the issue with how other agencies are managing risk?

**Mr Fletcher**: I am not sure whether it is a particular issue but our liability is driven by claims made by agencies. So if agencies have poor risk management practices in place, that generates more claims; so then our liability increases.

**DR BOURKE**: So what you are saying there is that the risk is the potential for poor risk management by other agencies?

**Mr Fletcher**: Yes, and part of the authority's role is to support risk management activities in agencies.

**THE CHAIR**: Are you in your answer now to Dr Bourke's question saying that there is not currently evidence of poor risk management in agencies?

**Mr Fletcher**: I will always say that agencies can do better at risk management.

**THE CHAIR**: Okay.

**Mr Fletcher**: But this committee gets the opportunity and other committees get the opportunity to see evidence provided by agencies of risk management because they report that as part of their annual report process. So our risk management staff, when annual reports are produced by agencies, go through those annual reports. I go through those annual reports and read that particular section. From what I can read and from our engagement with a number of different agencies, most of them I think are doing well in terms of risk management.

**THE CHAIR**: Which are not?

**Mr Fletcher**: Like I said, I think they can all do better. There is not one that I would point a finger at and say, "That agency has poor risk management practices."

**THE CHAIR**: Are all of them doing well in terms of risk management?

**Mr Fletcher**: I think that they can all do better.

**THE CHAIR**: Okay, you are doing your best not to answer the question. Are they all doing—

**Mr Fletcher**: I do not think I can answer the question.

**THE CHAIR**: Saying they can all do better is fine. Are there any that have particular issues or are you satisfied that all of them have very solid risk management?

**Mr Fletcher**: I suppose if I look at the two key agencies that drive our liability, they are ACT Health and TAMS. I know that our staff are involved in a range of activities with TAMS on risk management. We sit on their agencies' risk management committee. We have been working with them on providing claims report information about their claims profile. Their staff regularly attend introduction to risk management training courses that my staff run. We assist them with one-off type risk management activities like special events that they might be involved with.

As I said, from what I could see—and I am not part of their agency—they are doing a lot about risk management. Do I think that they could do better? Of course they could, but that is probably something you need to refer to them in terms of their expenditure on risk management activities. Obviously, those directors-general think that they are making appropriate expenditure on risk management activities.

**THE CHAIR**: And you agree with them?

**Mr Fletcher**: As I said, I think they are pretty good. ACT Health is the other agency who drive a lot of our claims liability because of their medical malpractice claims that come about. I have seen work done by their risk management people and work done by their quality and risk staff at TCH. I think it is pretty good work. Whether or not it deals with the particular risk issues that Health face, I do not know; I am not close enough to their day-to-day activities to really make a call on that.

**Ms Smithies**: The reason for this particular section in all of the statutory authorities is so that they can actually identify their strategic or their main operational risks. The risk is always going to be the risk is always going to be the risk. You are right; there is no such thing as potential risk.

All of the agencies are asked to identify those risks. The issue around risk planning and the risk plans that all agencies go through is to identify a risk and then actually discuss the likelihood and the consequence and how it can be mitigated. So at the end of it the management task is really to go through that particular process, but at the end of the day these are always going to be risks.

It would be unfair, in any of the statutory authorities, to come out with the view that just because it is under the risk management category these are unmanageable or unmitigated risks. They have all been identified through prudent and proper risk planning and are subject to some degree of treatment.

**THE CHAIR**: I do not think anyone is suggesting that.

**Ms Smithies**: I just wanted to make sure, based on some of the questions, because this is really around the managers of the organisation understanding, no matter what circumstances, what are the risks that an organisation might face and how their circumstances can be improved or how they can be managed.

**MR SMYTH**: On page 3 it does refer to "escalating claims cost due to poor risk management in agencies". Which particular agencies have had poor risk management?

**Ms Smithies**: I guess this is the point that I was trying to make. It will always be a risk for the organisation if there are escalating claims costs due to poor risk management in any agency. Even if all agencies were doing brilliantly in this, it will still remain a risk to ACTIA's business and to the business of government should the circumstances change or should that not be dealt with.

**Mr Fletcher**: It is a holistic comment. It is not about a particular case; it is about the whole claims cost.

**MR SMYTH**: Which agencies in the year had their premiums go up?

**Mr Fletcher**: I would have to take that on notice.

**Ms Smithies**: Again there would be a lot of reasons why their premiums go up. Partially it would be because of the assets base, what is happening with the weather, how many storm events there have been et cetera. So in itself it is not necessarily a sign of performance.

**MR SMYTH**: If you want to take on notice the reasons for the increase in the premiums, I would be delighted to receive that information. Is that taken on notice?

**Ms Smithies**: Yes.

**MR SMITH**: Thank you.

**DR BOURKE**: Minister, page 9 of the report talks about the natural disaster recovery and relief arrangement. Could you explain what that is?

**Mr Fletcher**: The NDRRA is the natural disaster relief and recovery arrangement. It is a commonwealth arrangement that the commonwealth has with each of the state jurisdictions. It is about the commonwealth's support to jurisdictions in the event of natural disaster—typically the sort of floods and cyclone events that you see in Queensland at the moment.

Each jurisdiction has its own threshold. With the relief component, the simplest way to describe that is people who are involved in a natural disaster who have lost all of their assets and they need financial support immediately, health services immediately, the typical sort of "all I've got left is just the clothes I'm standing up in" sort of situation. The recovery element of that is more about community recovery and particular things like essential public assets that may have been damaged that need to be restored and brought back up to speed.

**DR BOURKE**: You talked about an individual's loss of assets. How would that articulate with their own personal insurance policies?

**Mr Fletcher**: It does not deal with insurance issues for individuals.

**DR BOURKE**: Why?

**Mr Fletcher**: It is more about an emergency-type situation. People would go, for example, to a recovery centre. They receive that support and they go from there then to try to start to get their lives back together and deal with insurers.

**DR BOURKE**: So it is more of a supportive arrangement than any form of compensation?

**Mr Fletcher**: It is, yes.

**MS PORTER**: Like we saw in 2003.

**Mr Fletcher**: Yes, the 2003 bushfires are a good example of that with various recovery centres set up to help support people through.

**Ms Smithies**: From memory, the NDRRA also sets a financial aggregate in relation to how much the territory is out of pocket as a result of particular events. It does not cover insurable events but it will cover to some degree, once we get over a certain threshold, which is around a percentage of our total revenues, payment back to the state or jurisdiction in relation to, firstly, the immediate response. This is out-of-pocket costs in terms of the immediate response, in terms of fighting the event and the community recovery. Secondly, there is payment for replacement of assets over and above, again, firstly the threshold and, secondly, any self-insurance arrangements that the territory or state may have taken out. So it has got a couple of elements to it, yes.

**DR BOURKE**: Can you be more specific about what that threshold is?

**Ms Smithies**: At the moment I think—is it still two per cent of total general government sector revenue?

**Mr Fletcher**: I think so.

**Ms Smithies**: It may well have been changed as a result of recent events. We can get it for you. It also covers events that hit across a couple of years. So it gets updated annually. I think it only just came around in the last month or so.

**MR SMYTH**: On page 30 it is stated that the reinsurance premium for the year was $11.4 million. What is it for 2012-13?

**Mr Fletcher**: The budget?

**MR SMYTH**: Yes.

**Mr Fletcher**: I cannot remember off the top of my head. I would have to take that on notice. The budget has increased but I am confident that we will be able to place the program at the same cost, other than the impact of new assets. Our property cover is of course driven by the value of property that we insure. In general terms, with our med mal reinsurance and our liability cover, the aim of the game is to try and roll that over at the same cost. Directors and Officers is a small policy that usually only has market-type increases in it and the property cover usually increases but those increases are usually driven by the addition of assets to the asset base that we insure.

**MR SMYTH**: The fifth dot point in the risk section talks about the possibility that reinsurers may withdraw previously agreed cover. Has that ever happened?

**Mr Fletcher**: It has not happened to the territory. Certainly it is a key issue in convincing reinsurers to take you on. They really want to know the nitty-gritty of your claims data and our submissions to them reflect that. We provide historical data about our claims and about claims development, about what we see as potential areas where we want them to pay attention, because part of the exercise is making sure they understand how the territory's business is changing. We provide a comprehensive reinsurance submission to reinsurers every year that includes detailed claims information.

**MR SMYTH**: The last sentence in that fifth dot point says:

> The Authority will continue to develop better claims reporting and recording practices.

Have we done that?

**Mr Fletcher**: Certainly over the time that I have been the general manager, we have always been trying to look at ways to improve our claims management database—that is in terms of our recording practices—and have always been keen to emphasise with agencies the importance of reporting claims or incidents that might generate a claim, and that is particularly important for liability claims.

We have, for example, an arrangement with ACT Health, who use RiskMan as a system. Each week they produce a report out of RiskMan that seeks to try and identify incidents that may result in a claim. We sit down with their people and go through that and decide how we should categorise those. We actually triage them into an open claim file. If it is a notified incident we will put that on the schedule or we say, "No, that's not one we think we have to particularly worry about."

That data is then made available to reinsurers, particularly the incidents. Life is made a whole lot easier with medical malpractice insurers if they can see that some time ago you notified an incident. If, some years later, you try and notify them, you can do so but they get nervous because they look backwards at their liability exposure and they are trying to control that and manage that across a whole bunch of different policies that they might have.

**MR SMYTH**: Are all directorates and agencies better managing their claims reporting and their recording practices?

**Mr Fletcher**: They are pretty good at it. I just described the Health process. I think that is a pretty good process. They are busy trying to educate their own people on the importance of notifications when they see an issue. Some of the difficulty is that you see an incident as an insurer or as a claims manager and you think, "That's got to be on the claims register." But, as a medical practitioner, they often do not see it. They obviously have a different perspective, in looking at the medical outcome, and they think, “It achieved the right outcome.” But perhaps from the perspective of others, which is often what happens because we deal with their quality of risk people, it ends up on the schedule.

**THE CHAIR**: Finally, on the same dot point that Mr Smyth was referring to—I do not think he touched on it in his question—the other risk identified is:

> Increases in or late notification of claims … and data errors may result in … claim provision being misstated or reinsurers revising insurance terms.

Do you keep statistics on that at the moment?

**Mr Fletcher**: Increases in late notifications? No, we do not. They become fairly obvious when you are talking about previous years. My claims staff are obviously very conscious of that notification process, and when we start to perceive that there might be an issue, it can be as simple as involving some of the stats. I suppose it does happen in terms of the next point about data errors. As part of that actuarial process that I talked about earlier, we do a match process between the old dataset and the new dataset to check whether there are any anomalies in the data that stand out, such as a claim reserve that might be hundreds of thousands or millions of dollars over what was in the previous dataset: why is that?

We go through that process to try and pick up data errors as well as a regular process where a particular staff member who manages that data runs a whole range of reports that I do not understand that identifies what are data errors—keying errors and things like that.

**THE CHAIR**: So you have identified it as a future risk—

**Mr Fletcher**: It is a possible risk.

**THE CHAIR**: You are not keeping stats particularly on it happening at the moment but are you satisfied that it is not a present problem?

**Mr Fletcher**: I am satisfied that it is not a particular problem at the moment.

**THE CHAIR**: There being no further questions on the Insurance Authority, are there any questions in the time remaining on territory records or the procurement board?

**MR SMYTH**: I have some for the records office. The last sentence on page 153 of the Territory Records Office annual report reads:

> Council continues to express firm views on the pressing need for the establishment of an ACT Archives Repository to ensure suitable housing and access for the documentary heritage of the ACT.

Minister, are we going to get an ACT archives repository and, if so, when?

**Mr Barr**: In the fullness of time.

**MR SMYTH**: Which may be what?

**Mr Barr**: When budget capacity allows for it.

**MR SMYTH**: So is it under active consideration by the government?

**Mr Barr**: Not in the current budget, no.

**MR SMYTH**: How pressing is the need for a repository?

**Mr Barr**: Not critical in the next financial year.

**MR SMYTH**: What do we lack, if we do not have suitable housing and access at this stage, that causes this need for an ACT archives repository?

**Ms Wickman**: Agencies have the capacity to store their records now, but in many places they are getting very close to that capacity. It is also perhaps not the most efficient way to store them. Sometimes they end up in office spaces when warehouse space might be better. But there is capacity at the moment to keep storing records and store them appropriately.

**MR SMYTH**: Can you define what "pressing need" means?

**Ms Wickman:** The pressing need from an archives perspective comes from the ability to curate a collection, to provide better access by having archivists in control of the collection rather than leaving them out with the agencies that store them.

**MR SMYTH**: Are records at threat because they are not archived properly?

**Ms Wickman**: I would not say they are at threat, no.

**MR SMYTH**: Are they at risk of either being degraded or lost because they are not archived properly?

**Ms Wickman:** Not at the moment.

**MR SMYTH**: So it is not really a pressing need then?

**Ms Wickman:** They are not as accessible as they would be if we were able to manage them as an archival collection.

**MR SMYTH**: With the anniversary celebrations, as a consequence of that, you are preparing a guide to government records about the ACT. When will that guide be available?

**Ms Wickman:** We hope to launch it in October this year.

**MR SMYTH**: The only other question I have is: Territory Records Standard No 1 is being rewritten. When will that be completed?

**Ms Wickman:** It is complete. It is available now.

**MR SMYTH**: Is that on the website?

**Ms Wickman:** It is.

**THE CHAIR**: Are there any other questions on either of the remaining areas? Mr Smyth, do you have anything for the procurement board?

**MR SMYTH**: I have some questions for the procurement board, yes. Minister, there are a number of select tenders and single select tenders in the chart on page 146 which account for about 20 per cent of all the contracts let. Why do we use single select or select tender for such a large proportion?

**Mr Barr**: It would depend on agency business requirements, presumably.

**MR SMYTH**: Are you concerned that such a large proportion go out under select or single select tender?

**Mr Barr**: Looking at this data, I do not want to be pedantic about what constitutes a large percentage, but I am seeing-

**MR SMYTH**: Are you concerned that 20 per cent—

**Mr Barr**: I am seeing 74 per cent by public tender. I think that is the largest percentage.

**DR BOURKE**: How does that compare with other jurisdictions?

**Mr Barr**: I do not know off the top of my head. We would need to go and look at their annual reports, presumably, if they provide information at this level of detail.

**MR SMYTH**: With respect to breakdown by risk, almost a quarter of the projects were deemed high risk. What makes a project high risk?

**Mr Barr**: Presumably either time frames or the nature of a particular project. I can get a more fulsome answer in terms of the different categories and what fits into those, but given that there are 10 of them-

**MR SMYTH**: Can we have that and a list of the projects that were high risk?

**Mr Barr**: Sure. I presume they are reported on in other annual reports.

**Mr Tomlins**: It is a mix of the likelihood and the consequence. For projects, I think a one in 1,000 likelihood of something like a half a million dollars increase in expenditure is regarded as high risk. So any big project in the construction field in the private sector or the public sector would be regarded as high risk. That does not mean much more than that it is a big project, essentially.

**DR BOURKE**: But the table indicates that the percentage of value for these high risk projects is only 10 per cent, although they do make up 20 or 30 per cent of the number of projects. Does that indicate that these are lower risk projects or lower value projects?

**Mr Barr**: I suppose the estimated value is there—$130 million as opposed to $1.2 billion for the medium risk ones.

**Mr Tomlins:** Yes, 10 per cent of the expenditure. There are some small projects that are high risk because of the nature of the material. If you are handling asbestos or you are working at heights or there are particularly difficult procedures et cetera, they are obviously higher risk, although they may be low-cost projects.

**THE CHAIR**: Given there are no more questions, before we close the hearing I have a couple of administrative matters. Answers to questions taken on notice at this hearing are due with the committee secretariat within two weeks of the proof transcript becoming available. Written supplementary questions from members relating to the areas covered at this public hearing should be provided to the secretariat within two working days of the proof transcript becoming available and answers to supplementary questions should be provided to the committee secretariat no later than two weeks from the date of receipt.

On behalf of the committee, thank you, Treasurer, and thank you, officials, for attending today. When available, a proof transcript will be forwarded to witnesses to provide an opportunity to check the transcript and suggest any corrections. I now formally declare this public hearing closed.

**The committee adjourned at 3.56 pm.**