LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Annual and financial reports 2015-2016)

Members:

MRS V DUNNE (Chair)
MR M PETTERSSON (Deputy Chair)
MS B CODY
MR A COE

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 27 FEBRUARY 2017

Secretary to the committee:
Mr A Snedden (Ph: 620 50199)

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

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Amended 20 May 2013

The committee met at 2.11 pm.

Appearances:

Barr, Mr Andrew, Chief Minister, Treasurer, Minister for Economic Development and Minister for Tourism and Major Events

Chief Minister, Treasury and Economic Development Directorate
Nicol, Mr David, Under Treasurer
Salisbury, Mr Kim, Acting, Executive Director, Economic and Financial Group
Tanton, Mr Graham, Executive Director, Shared Services
Davis, Mr Gary, Executive Director, ICT, Shared Services
McAuliffe, Mr Patrick, Director, Asset Liability Management Branch
Holmes, Ms Lisa, Director, Financial Framework Management and Insurance Branch

ACT Insurance Authority
Fletcher, Mr John, General Manager, and Default Insurance Fund Manager, Office of the Nominal Defendant for the ACT

Icon Water Ltd
Knox, Mr John, Managing Director
Sachse, Mr Sam, Chief Financial Officer
Breaden, Ms Jane, General Manager, Business Services
Lewry, Ms Amanda, General Manager, Asset Management

Independent Competition and Regulatory Commission
Dimasi, Mr Joe, Senior Commissioner
Rawstron, Mr Mike, Chief Executive Officer

THE CHAIR: Welcome to the first public hearing of the public accounts committee for the Ninth Assembly. Good afternoon to the Treasurer. This is the first of a series of hearings spattered over this week in relation to the annual reports of various agencies.

On Friday afternoon the public accounts committee will have before it the Clerk and the Speaker of the Legislative Assembly, and that session will be chaired by Mr Pettersson because I have decided to recuse myself, for fairly obvious reasons.

On behalf of the committee I would like to thank the Treasurer and relevant officials for attending here today. The proceedings this afternoon will commence with the examination of the annual report of the Chief Minister, Treasury and Economic Development Directorate as it relates to the superannuation provision account, the territory banking account, the Compulsory Third Party Insurance Regulator, the lifetime care and support scheme and the Office of the Nominal Defendant. After a break we will hear from the ACT Insurance Authority, Icon Water and the Independent Competition and Regulatory Commission.

I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw your attention to the pink privilege sheet, which I am sure you are all very familiar with by now. Treasurer, could you confirm for the record that you understand the privilege implications of the statement?

Mr Barr: Yes.

THE CHAIR: Thank you. I remind witnesses that the proceedings are being recorded by Hansard for transcription purposes, as well as being webstreamed and broadcast. I would like to reiterate that the committee has asked that questions taken on notice at today's hearing be replied to within three business days of the issue of the proof *Hansard*, which will be in a day or so, so three days from then. Members have five days in which to submit written supplementary questions. They need to be given to the committee office. We ask that the directorates answer those questions within five days of having received them. I want to emphasise that a proof *Hansard* will be issued to witnesses to provide an opportunity to check the transcript and suggest any corrections. It also helps you to record whether you have taken something on notice. As we go through, Chief Minister, if somebody takes a question on notice, we will be as explicit as possible for that purpose.

Without any further ado, we will open with some questions. I will open where I started before. Do you have an answer in relation to the ethical suppliers procurement policy?

Mr Nicol: We are not Procurement, so—

THE CHAIR: Where is Procurement located?

Mr Nicol: It is in the economic development part of the directorate.

THE CHAIR: That will be tomorrow. I might have been misled when I was told I could ask that this afternoon.

Mr Nicol: Shared Services used to contain Procurement, but it has not for about two years.

THE CHAIR: Are you telling me I have been out of the loop for a while, Mr Nicol?

Mr Nicol: No, I did not think two years was a very long time. The Procurement Board will appear tomorrow.

THE CHAIR: We will keep a pin on that one until tomorrow. Without further ado, I will go on to something else. Mr Pettersson, do you want to ask a question?

MR PETTERSSON: Yes, I am more than happy to. Over the period July 2013 to June 2016 the average private passenger vehicle premium has fallen by about five per cent in terms of insurance. Could you outline what steps were taken to see this reduction in insurance costs?

Mr Salisbury: Sorry, what was the second part?

MR PETTERSSON: What have you done to reduce insurance costs?

Mr Barr: The CTP reforms.

Ms Holmes: We are starting to see the benefits of competition coming through. From July 2013 we introduced competition. We now have four different brands in the market. We are now seeing the benefits of that flowing through. For example, we had seven different filings, new premiums, which happened during the 2015-16 year. The insurers are being aggressive about trying to increase market share, particularly the new Suncorp brands which have come in. In particular, the GIO brand has been gaining quite a lot of market share, and that is as a result of this pricing that we are seeing flow through. As well as the benefits of those reduced premiums, we are also seeing the benefit of better products. You are now seeing some of the brands providing some fault coverage as well.

Mr Nicol: The introduction of the lifetime care and support scheme, which essentially took a certain segment of crashes out of the CTP system, has also led to a repricing. Essentially, the most significant end of the risk spectrum is now covered with a broad-based, no fault scheme rather than the CTP scheme, which obviously required litigation to prove fault and to lead to a damages award. That has seen insurers reprice their product. I think that will continue to happen in the future as that scheme plays out.

The other thing that Lisa might want to mention is the investments we make in road safety along with the government’s own investments in road safety. Obviously, reducing accident rates and injury rates leads to fewer CTP claims, therefore lower premiums.

Ms Holmes: Ultimately, the premiums which are set take into consideration the frequency of claims in any given year as well as the actual average cost of those claims. We are seeing that frequency has been within a fairly tight band over the past few years. We have seen the average cost of claims ticking up a little bit in 2015-16, and that has all helped. If you start seeing those two factors increasing, it will impact on premiums. So the fact that we have not seen those increases occurring has meant that you have not had that upward pressure on premiums, which has meant that the insurers are being aggressive in trying to get market share, and we have seen that happening without an offset of an increase.

THE CHAIR: Treasurer, are there any future plans to try to influence the cost of CTP insurance downwards?

Mr Barr: Yes, there certainly are.

THE CHAIR: Would you like to elaborate?

Mr Barr: Not at this point, no. But I will in the fullness of time when the government will bring forward legislation. I hope your party will vote for it this time, because you did not last time.

MR PETTERSSON: I have another couple of supplementaries; a minor one, before I move to a more substantive one. What is the competition within the market? What is the share for the different providers? You mentioned that Suncorp was gaining ground?

Mr Barr: At one point the NRMA had 100 percent—

MR PETTERSSON: Or IAG.

Mr Barr: Yes, but under the NRMA brand. The introduction of competition has brought us three new Suncorp brands: Apia, GIO and AAMI. Their market shares vary depending on who has the lowest premium at the time of renewal, I would say.

Ms Holmes: One of the findings of the section 275 review, which was tabled in April last year, was that we are certainly seeing that motorists are very sensitive to price when it comes to CTP premiums. That is borne out when you look at the market share. In 2014-15, across the year—the average for the year—GIO was at 16 per cent. If you come forward a year, with the average for 2015-16, GIO actually increased to 31 per cent.

MR PETTERSSON: That is quite a variance.

MR COE: As a follow-up, if I may, what is the process for the insurers notifying the government of the prices that then get printed on the registration renewal form?

Ms Holmes: There is a formal filings process. The regulator does not set the prices. What happens is that the insurer will write to the regulator with a new filing. They have to provide all the actuarial evidence to support the premiums that they are requesting. We, as the regulator, need to assess whether the premiums will fully fund expected claims resulting in the cost from those claims and whether the premiums are excessive. So that is the role as regulator. If we then approve on that basis, there is the process that we need to go through about actually getting it uploaded into the rego system, which then flows through to those renewal notices.

MR COE: For how many categories would an insurer need to file a fee schedule? For instance, if two are driving the same car but they are of different ages, will they get a different quote or will it simply be based on the vehicle type?

Ms Holmes: We have a community-based system for our CTP, unlike, say, New South Wales. So we have CTP classes. A passenger vehicle is a single class. The insurers do not have the ability to look at other factors in terms of how many kilometres someone might be driving, the age of car or the type of car. So a passenger vehicle has a set fee.

MR COE: Would there be potential for the government to, in effect—

Mr Barr: Move away from community rating?

MR COE: Just to have more classes, in effect: a class of vehicle zero to five years, five to 10, 10 to 15 or whatever, in terms of ages of cars.

Mr Nicol: We have introduced one new class and we are about to introduce another.

Mr Barr: Ride sharing.

Mr Nicol: Ride sharing and car sharing. We have taken the route to have two different classes. The government has considered and agreed to that sort of approach. So we have a taxi and hire car classification, we have ride sharing, we have car sharing and we have private passenger vehicles.

Ms Holmes: There are some 20-odd classes.

Mr Nicol: Yes, commercial vehicles et cetera.

MR COE: Particularly in that private vehicle class, where you are trying to get the market to be price sensitive, it would stand to reason that there would be other options.

Mr Barr: The reason for my amusement is that this area of policy has been a closed door with the most unholy of alliances between the Liberal Party and the Greens blocking the attempt at reform previously. If you are now opening the door for some rethink—

MR COE: Well, that was—

Mr Barr: It was a long time ago. It was four years ago; that is true.

MR COE: That was also looking at capped payments as opposed to looking at how to better insure specific motorists for a specific class.

Mr Barr: The fundamental drivers of the increase, the much higher costs in the territory, are the design of the scheme—particularly the highly legalised process associated with finding fault. So a no-fault scheme that moved beyond the elements of litigation that are currently a major feature of our scheme would enable the system to deliver similar levels of benefits to injured people. In effect, you would be redistributing the plaintiff lawyers' costs, which are, in the latest indication, a bigger cost driver than medical expenses. So, more money is spent on lawyers than on helping people who are injured in motor vehicle accidents to heal. That tells you something about why our scheme is so high cost. I do not know whether you listen to any commercial radio in this city, but the number of ambulance chasing advertisements from certain law firms is extraordinary. But I also look at who donates money to political parties, and that is extraordinary, too.

MR COE: Separate to that would be the introduction of new classes, though, based on risks associated with the various vehicles?

Mr Nicol: I must admit that I am not aware of any work yet done. We might have a look and see, but I am not sure that there would be a great variation in premium based on those factors. We can certainly see. There might be a greater variation in premium based on driver, which brings in a whole—

MR COE: Yes.

Mr Nicol: CTP is associated with the motor vehicle and not the driver, so there is a difference there.

Mr Barr: From a first principles perspective, if you are saying that those who drive older cars should pay a higher premium then that is a—

MR COE: No, it could be something else. It could be that somebody who has a new car is at a higher risk; who knows? I am not stating one thing or another, albeit, of course, the more information that an insurer gets, the more precise their assessment can be.

Mr Barr: Sure; I would accept that as a principle. Largely, all of this would be tinkering around the edges. The substantive issue is the way our scheme is designed. Obviously, this has been debated before in the Assembly. We did bring forward legislation and it was voted down. We lost by one vote. I have indicated in response to Mrs Dunne's earlier question that it is the government's intention to undertake further work in this area. I will take today's discussion as at least the slight opening of the possibility of a negotiated outcome amongst the parties in this place to ensure that we get a better scheme design in the future. You have opened a door, Mr Coe, that I thought had previously been slammed shut.

MR COE: Or shut badly.

Mr Barr: Maybe that scoffing remark in response indicates that my optimism at his—

THE CHAIR: We might get back to asking and answering questions at this stage.

MR COE: Of me or of him?

THE CHAIR: No. The people on this side of the table ask the questions. I think it is Ms Cody's turn.

MS CODY: Back to CTP—sorry about that.

Mr Barr: That is all right. It is a good topic to talk about.

MS CODY: It is a fabulous topic. I notice that during 2015-16 you did an online quiz to gauge drivers' level of knowledge of the ACT CTP scheme. Can you tell me if this quiz highlighted any possible gaps in the current CTP scheme?

Ms Holmes: We undertook the quiz. We actually were very happy about the level of response we had. We had about 1,600 people respond. The reason why we did the quiz was that we very much wanted to get a feeling from motorists of what they did understand about the scheme. The majority of people actually got about three to five questions incorrect. The areas where we found there were knowledge gaps were in relation to the fact that people had to prove fault. They thought if they had an accident they were covered. Another area where there was definitely a lack of information from motorists was what was actually covered by a CTP scheme. You had a number of people actually thinking that property damage was covered by CTP—be it their car or if they hit a building or something along those lines—that property damage was covered as well. They were two of the big findings.

People also did not realise the cost of our scheme compared to other jurisdictions. They did not particularly understand lifetime care and the interplay between CTP and lifetime care and they also did not realise that non-economic loss payments, which a lot of people think of as impairment payments, are actually the highest paid out by the scheme, with legal costs closely following that.

MS CODY: Have other states or territories also identified some of those areas of consumer misinformation?

Ms Holmes: I am not aware of any other jurisdiction doing a quiz quite the way we framed it in recent years. New South Wales certainly undertook a survey in relation to the reforms that they are looking at doing at the moment. Their survey was around what people most wanted out of their scheme. They were wanting affordability, they were wanting coverage, not having to prove fault. So there were definitely some links between the findings from ours and some of the information flowing from theirs.

THE CHAIR: You got 1,600 people out of 260,000 people that you targeted. How was it targeted?

Ms Holmes: Online mechanisms, not just within the government notices but it went out on Facebook, it went out on Twitter; it was in the community newsletter as well.

THE CHAIR: If you logged on to pay your rego, did it pop up there? Was there a pop-up on your page at rego?

Ms Holmes: No, not on that one.

MS CODY: Was there a huge age variance? I notice you mentioned Facebook. Was that something that played a part? Was there a noticeable age identifier or was it a pretty good spread?

Ms Holmes: We got responses right across the spectrum. There actually was not that much difference, from my recollection, between the various age categories and male and female. I think males tended to do a little better but not by a significant amount.

MR COE: This is bouncing around a bit but while we are, I guess, broadly on the lifetime care and support fund, who is actually covered by this scheme? Is it just people who have accidents with a registered vehicle or an unregistered vehicle, including pedestrians, segway riders and others?

Ms Holmes: It has to be as a result of a motor vehicle accident. One of the vehicles has to have CTP cover or deemed CTP cover, which means something that a nominal defendant would traditionally cover. If you do have a motor vehicle involved, then it is everybody then covered, be it the driver, passengers, if a pedestrian was hit. In fact, two of our participants had the role of a pedestrian.

MR COE: And cyclists as well, I guess?

Ms Holmes: Cyclists would be covered if the accident involved a vehicle, yes.

MR COE: And what is the rough number of claimants that you get in a given year?

Ms Holmes: If you look at the actuarial work, in any given year the actuary estimates that you could have between zero and 12 claimants or participants coming through. The estimated number is 4.5 in a year. In our first year we had five. In 2015-16 we did not have any, but that is within the range. Because we are talking about catastrophic injury and we are a small jurisdiction, we are going to see significant volatility year on year in the number of participants that we will have in the scheme.

MR COE: And in terms of how claimants are financially supported, is it in effect a fortnightly-type payment or is it going to be a lump sum or a combination thereof?

Ms Holmes: The scheme covers treatment and care costs. If you could prove somebody else was at fault, you still have the CTP supports available in relation to the others. It is purely treatment and care. It is on an ongoing basis across someone's life. One of the key reasons for the scheme is that, if you have got this type of injury, it is very hard to predict across the life of an individual what supports they will actually need. When you are talking about common law, you have got discounts applied so then it depends on how well a person has invested. There are a lot of factors why lump sums are not particularly good for this type of injury. The way it works is on an ongoing basis.

The individual, the participant, has both a coordinator and a case manager. They work with the individual to identify what needs the individual has. It is their reasonable and necessary needs. The scheme covers medical, attendant care, rehabilitation, home modifications. I am sure there are more on that list. So it is working through what the individual needs. The scheme actually then sources those particular services and will pay directly for those services; so it is not a case of making a payment to the individual and they then have to actually do the arrangements for it. They are totally supported and in fact, that was one of the things that we found out in the first survey that we did of our participants. As you can imagine, if you have had this type of injury you do not know where to start. They do not know where to start looking for the sourcing, the types of services. They do not know what they need. So to have someone who actually assists and actually does all those arrangements and makes payments, they were all extremely positive in that regard in relation to the scheme.

MR COE: And is the case manager work outsourced or is that done by a public servant?

Ms Holmes: No, the case manager is an external person who has the necessary qualifications, who actually meets with the individual regularly, particularly in the beginning, after the accident, around what their needs are.

MS CODY: Does it tie in with the NDIS as well?

Ms Holmes: This particular scheme is a companion scheme to the NDIS. It was felt catastrophic injuries actually needed a different system to the NDIS and was also seen as defraying some of the costs to the NDIS.

Mr Nicol: Just as a bit of further background, all jurisdictions, when the NDIS was set up, agreed to look into establishing four companion schemes to deal with essentially catastrophic injuries caused by certain events. The agreements between the commonwealth and the states and territories were that essentially if we did not have those schemes up and running the jurisdiction would bear those NDIS-like costs for the people who were injured and with those results. We have got two of the schemes actually implemented and they are for motor vehicle and workplace accidents. The two to go are medical, which is proving a little problematic, and the fourth one is—

Ms Holmes: General accidents.

Mr Nicol: General accidents.

MR PETTERSSON: Why is medical proving difficult?

Mr Nicol: For several reasons. One, it is very difficult, in some situations, to prove cause. It gets very complicated. In the case of children, for birth problems, they all are covered in NDIS, basically. There is not a medical link. The other issue is that there is a good argument for premiums for medical practitioners to show a price and a cause effect. I know the medical industry does have registrations and quality assurance, but an insurance premium is not a bad thing to have to try to reduce medical negligence in the first place. There are a couple of other issues, Lisa. Do you—

Ms Holmes: They are the key issues.

THE CHAIR: So professional indemnity is a problem?

Mr Nicol: It is medical indemnity, medical negligence, yes.

THE CHAIR: And would that vary from speciality to speciality?

Mr Nicol: It would, yes. The big issue is proving cause and effect and how do you tell if someone had a severe disability as a result of a medical intervention, which, by its definition, occurs in a situation where a person has a medical issue. And it gets a bit technical, which it probably should not be, but questions arise as to whether that person should be funded through the NDIS or through the subsequent medical schemes.

THE CHAIR: What are the sources of funding for the catastrophic injury schemes? The medical one, which we have not got to yet, is through medical—

Mr Nicol: It would be through some sort of surcharge on general medical indemnity, because medical indemnity insurance would not disappear because you have economic loss et cetera. But for lifetime care and support, it is a levy on your car registration. It is currently $35 per annum, and that is under active monitoring to ensure that we have sufficient funds, essentially, to pay for the lifetime liabilities. For insurance it is a levy on workers—

Ms Holmes: Workers comp insurance and self-insurance.

Mr Nicol: Private workers compensation insurance.

THE CHAIR: And when we get to general accidents, what is the source? What will be the source of funding for that?

Ms Holmes: That is one of the things that we will need to consider when we are looking at that particular limb.

THE CHAIR: That seems to me to be a hard question.

Mr Nicol: It is, and that is part of the reason why we did the two easier ones first: so we get some experience and work out how these things would work. We are working with our colleagues across the states and territories and the commonwealth to—

THE CHAIR: What is the quantum of the levy on workers comp?

Ms Holmes: It is $3.8 million per year. The workers comp started on 1 July 2016. We are actually in the first year. We have to do a levy assessment every single year for workers comp as well as for CTP, and it is then an instrument that we put out as to what we think the estimated amount is. It is $3.8 million that we have levied.

THE CHAIR: How do you work that out, per employee or per person covered with—

Mr Nicol: I am going from memory now. Mr Young is my expert in this. I think it is the 3.8 divided by our total premium base, and that is just a percentage increase on workers compensation premiums. Can I confirm that?

THE CHAIR: Yes.

Mr Nicol: And I can give you what the delta is, unless you know the answer.

Ms Holmes: We use the same splits that we use for the workers comp levy that they charge across the insurers, and it is based on the risks and the amount of premiums that each of the workers comp insurers actually collects. In the case of the self-insurers, there is a nominal amount which is calculated for them.

THE CHAIR: I think this is a question to take on notice, but could you provide for us an indication of what CTP premiums look like in other jurisdictions at 1 January, 30 June—at a particular point—just for comparison?

Mr Nicol: That will not take us long to get out. We can take it on notice.

Ms Holmes: That is something that we regularly do.

THE CHAIR: The most recent one.

Ms Holmes: Yes.

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

Ms Holmes: I will say that we actually need to include the lifetime care, because some jurisdictions split it out like we do. They have got a separate levy. Some other jurisdictions, such as Victoria, do not, because it is all done by the Transport Accident Commission. They actually do not have a split. In order to be able to do a comparison, we have to include both of those so that it is consistent.

THE CHAIR: It would be good to be able to compare, as much as possible, like with like. Thank you.

MR PETTERSSON: I have a question about the nominal defendant. The objective is to collect recovery from uninsured drivers who are at fault in an accident. How difficult is it to recover funds from these drivers?

Mr Fletcher: Very difficult, is the answer to that question. There are some recoveries that you will see that the fund has made against drivers, but the bottom line is, in proportion to the expense associated with taking care of people who are part of the fund, it is very small. Firstly, a percentage of the claims that come to us are unidentified drivers, so obviously we are not in a position to be able to recover from them. The others tend to be very difficult to recover funds from simply because they do not have any assets and they are difficult to find sometimes as well.

MR PETTERSSON: What has the trend been in terms of the share of accidents involving uninsured drivers? Is it becoming more common or less common?

Mr Fletcher: The percentages are about the same. If you look on page 300 under "Claims", there is a stat of 115 open claims. Unidentified vehicles make up 39 per cent, unregistered and uninsured vehicles are 55 per cent, and six per cent are related to unregistered vehicle permits. Those numbers from year to year pretty much stay the same. My involvement has been the past five years in the fund, and they are pretty much consistent numbers.

THE CHAIR: What are unregistered vehicle permits?

Mr Fletcher: An unregistered vehicle permit is a permit that is issued where you have an unregistered vehicle and you want to take it to be registered. Your registration may have expired or you may have restored a motor vehicle and you need to take it to get it inspected and registered, so you apply for a permit to do that, a short-term permit.

MR COE: The reinsurance program placement.

Mr Fletcher: There is not a reinsurance program placement for the nominal defendant.

MR COE: Sorry. I am on the insurance authority. With regard to the reinsurance program placement, what guarantees are there that there is no actual or perceived conflict of interest out of targeting insurers in Australia or London or elsewhere?

Mr Fletcher: The procedure for avoiding conflict of interests? I am not sure who you think the conflict of interest would arise with? With me?

MR COE: Perhaps you could talk us through the process for—

Mr Fletcher: The program?

MR COE: Yes.

Mr Fletcher: So we have reinsurance arrangements that we place in the Australian and London markets. The program consists of a medical negligence program, a property damage program, a liability program, the directors and officers, and some other, smaller placements that are to do with corporate travel, some aviation cover, things like that that are smaller policies. The process for accessing a reinsurance program, they are organisations generally that have access to significant amounts of capital. In the Australian market they are the usual range of large insurers that you can imagine. In the London market they are generally Lloyds-syndicated insurers.

We engage Marsh as our broker services provider. As an international broker they have access to markets overseas. We develop with them a program that is then considered by the advisory board, recommended to the Under Treasurer and to the Treasurer and approve that program and its structure. Then we basically market that program to a whole range of insurers who then provide us with pricing of various layers and components of that reinsurance program. Depending on what the strategy might be for a particular year, I could find myself in a room with 15 to 20 different insurers in Melbourne talking about our property program who all want a slice of the territory's program and its spend.

MR COE: What transparency and governance measures are in place to ensure that either the immediate brokers or perhaps brokers downstream are not pushing a product that may or may not be in the territory's interest or have a higher premium than what is required?

Mr Fletcher: The territory controls the scope of the policy cover. The policy wordings in the reinsurance market are broad. Our policy wording has evolved over time. It is a brokered arrangement, which is a delivery mechanism used by other government entities and large corporates. You rely on the broker to provide you with access to the underlying market and they push on your behalf the price. We see that pricing and develop the program from there.

Mr Nicol: I should also add, Mr Coe, that we have an insurance advisory board who are appointed. We can give you the list of who is on that committee. They are independent people appointed by the government but they are experts in the field. They consider the program. I discuss that with them. My main focus is on value for money. That goes to premium but also to the reputation of the insurers. Ultimately the product is only as good as the insurers who stand behind it. I also look at what process Mr Fletcher has undertaken to test the market.

I think the market is also one where—and Mr Fletcher might comment on this—it seems undesirable to suddenly completely switch around your insurance program from year to year. You want to maintain and develop a relationship with insurers over time because that is when you can get more competitive pricing. A significant part of the process, in my view, is that the insurers look at how good we are at managing our risks: are we just trying to lay off potential future costs to them, or are we looking to minimise costs? The more we can convince them that we are looking to minimise our costs and minimise our claims, the better pricing we will get. A very big part of our program is to develop longer term relationships in this market. That does raise issues of competition neutrality. Mr Fletcher can talk about how we invite bids from insurers.

Mr Fletcher: Deciding on what the strategy is going to be is very much about a lead insurer. As the Under Treasurer so rightly points out, we have been a jurisdiction that is committed to trying to form good relationships with a lead insurer. That means revisiting them each year, having them understand what our risk profile looks like, pricing competitively to lead the program. Generally what happens is the lead insurer puts forward a price. That price is compared against others in the market that have the potential to lead the program. Then that program price is put out to others who basically follow that price. That is the market mechanism for placement of this type of reinsurance.

For example, in our medical negligence program, way back in 2000 when the authority went to the London market, we did not have a lot of information about what our risk looked like. I think the submission that the authority took to London was one page worth of information. There was at that stage only one syndicated Lloyds underwriter that would take our program on in the primary layer.

For several years the authority had worked well with them. Some things changed within their organisation. Their pricing was not competitive, and we switched to another insurer who now leads the program at a cheaper price than them. It is this fine balance of understanding what the market looks like, what the relative pressures are, and trying to know how broadly to go to the market.

MS CODY: You raised that you have changed insurer for the medical malpractice reinsurer.

Mr Fletcher: Yes.

MS CODY: Is that how we now have the ACT home birth trial covered?

Mr Fletcher: One of the advantages of the new lead provider was that we were able to negotiate with them as to lead for the inclusion of the ACT Health home birth trial. The previous insurers we had been involved with were not so keen, but CNA is our lead—they have the bottom layer of the program where most of the risk is—and they are prepared to take it on. Others were prepared to follow.

They are a little bit different as a lead, which is one of the things that they offer in terms of deciding who we are going to get to lead our program. They have staff in their organisation who have been extensively involved with home birthing in the UK. They have also a lot of business in the US. They insure hospitals and health providers that are very much like us, so their offering is not only the inclusion of that type of cover but some other opportunities to access more broadly information they have about insurers who are similar to us.

Next week I have two people from CNA coming to visit. One of them is a former nurse who has extensive experience out of the UK system. We are taking her down to Canberra Hospital to talk to the midwives about her experience in home birthing. They will also do a tour of the hospital so they can see the standard of our facilities. In preparation for placing the 2017-18 program we are in the process of telling our story about our people, our facilities and how good we are as an insurer in terms of them putting their capital at risk for a premium. That is really the aim of the game with them.

MR COE: With that remarketing of medical and general liability placements, is that where the saving is of $3.3 million or thereabouts per year?

Mr Fletcher: That is where the savings come from, yes. Progressively over time for the past five years we have been able to secure that reinsurance cover for savings of millions. Five or six years ago I think our spend was about $12 million; this year I think it is about $6 million. I would have to look at the numbers. We have made some considerable savings in our reinsurance costs in recent years, and that comes from that remarketing, and from the market also. It is not just because of the great work that we do. A lot of it is about the market as well. The price of that capital and the competition in the market, like any supply and demand equation, it drives the price down.

Mr Nicol: I think our job is to take advantage of those market conditions and get the best price that the market is offering. It is hard to say we are at the bottom, but we are certainly going down the curve. The other thing is if we can get better information out amongst our insurers about our risks—I think our risk story is very good; I think we are a very good risk manager—then they will price more competitively because they think there is lower risk and therefore they are willing to accept a lower premium.

MR COE: Coming to the board members, if they are experts and have experience, there is a fair chance they also have relationships in the industry and potentially conflicts along the way. How are they declared and managed when decisions are being made?

Mr Fletcher: That is a good question. Both of them do not have current links to insurers, as I understand it. They are certainly very well known in the industry, and that is why they are on our advisory board. But I would have to check whether there are any declared conflicts of interest. There certainly has not been any brought to my attention recently.

THE CHAIR: What you are saying is that they were formerly active in the insurance industry but are now withdrawn from it?

Mr Fletcher: That is correct.

THE CHAIR: So you are drawing on their long-term past experience rather than their present experience?

Mr Fletcher: Yes. On page 6 there is a short description of each of our members, Mr David Sandoe and Maxine McDowell, who is our chair. They have been around in the insurance industry in Australia and internationally for a long time. Mr Sandoe is retired but he is on a number of advisory boards around the country.

Mr Nicol: They are an advisory board. It is ultimately up to the government to make the decision. We seek advice from them as to structuring the program, how we engage with the market, and the pricing, to the extent with their knowledge they know what the current pricing conditions are. My discussions with the board on this issue have been that they think we are doing the right thing and doing a relatively good job, actually. They have not come to me and said, "Well, actually you should go for company X over here." That would sort of raise my suspicions in that sort of—

MS CODY: How long have they been board members?

Mr Fletcher: Maxine McDowell is in the first term of her appointment, so that is less than three years. Mr Sandoe has been on our advisory board for a bit longer than that. I think he is potentially into his third term; he has been around a while. The difficulty with appointing people is avoiding the conflict of interest issue. Canberra is only a small market; the main game is in Sydney and Melbourne so finding people of this calibre is difficult. In fact, both of them were living in Sydney. Mr Sandoe's tenure runs out in December this year. I have had some discussions with him about whether it is time to transition off the advisory board. Then the challenge for me is going to be finding someone to recommend to the Under Treasurer in terms of a replacement.

MS CODY: And you look locally for replacements?

Mr Fletcher: Yes, we have in the past, but they are difficult to find. The industry obviously is based in Sydney and Melbourne, and so it makes it difficult. Anyone local tends to have a conflict, so that makes it a bit of a challenge.

Mr Nicol: This industry is very specialised. Generalists would have to have very strong insurance industry background—I did not want to talk about skill sets—in the pricing part of the industry rather than the brokering end even.

Mr Fletcher: Yes, or the risk management side of it. We can find people who have risk management skills and experience, and that is great. But it does not help us when we are looking for some advice about structure of a reinsurance program and dealing with that market.

THE CHAIR: I am just mindful of the time. There has been a sort of notional cutting up here. We have wandered a little out of the Chief Minister's portfolio, so I was wondering if you could get back to that. Can I go to some issues in relation to Shared Services. Shared Services talks about its next gen ICT projects. Can you give an outline of what the next gen projects are and what the projected costs of those projects are?

Mr Tanton: Certainly. Next generation really consists of the desktop modernisation project. I will hand over to Gary Davis for the costings in and around that. It is basically looking at reviewing our current SOE—standard operating environment—our desktop. There might be some IT jargon here.

THE CHAIR: Hansard will need that.

Mr Tanton: I apologise. It is looking at how we roll out that next generation of desktop ICT, noting that there are a number of different ways of doing that through virtualisation of applications, desktops, servers and the like. It is really having a look at what is the best way of delivering that desktop environment to all of our 22,000 public servants that we have. What is the most cost-effective way? How do we utilise the cloud functionality that is coming across now? It is looking at all of those different services and how we can package it up and deliver that next level, noting that Microsoft are moving very quickly with their upgrades. We are currently running on 2007, I think, so it is a matter of trying to keep ahead of the curve. Microsoft have a tendency to provide upgrades and the like and then not support old legacy systems, so we are just running through that process.

Mr Nicol: I might just add—and I am sure the guys can fill in the details—that obviously the way we work is changing. The old way of sitting down at a desk with a desktop is rapidly moving to mobile devices and computing. That is an important part of our consideration. We just do not roll out the next version of Windows and then two years later no-one uses a desktop anymore. We have to integrate this work with our planning and management and future workforce work that occurs in the Chief Minister's Directorate.

THE CHAIR: Chief Minister, can you summarise that in 25 words or less?

Mr Nicol: We are trying to get the right computing equipment for our public servants so they can do their jobs better in future.

Mr Tanton: Yes, and noting that the portfolio in the ACT is so diverse that it is a very complex kettle of fish to try to—

THE CHAIR: What is the time frame on next gen desktops?

Mr Tanton: We are starting to look, with splitting the Microsoft desktop application, at Word versus SOE. We are looking at starting to prototype the Microsoft Office program later this year. It will be around looking at how your Word documents come up. Then there is the actual operating platform, which is a 23-year program going forward. Initially, as to the look and feel, we are looking to start to roll that out later this year.

THE CHAIR: And the costs?

Mr Davis: The costs we have are $8.46 million over four years to do this piece of work. We do have that broken down by financial year, of course, in a—

THE CHAIR: Is that the development or is that the rollout of the hardware?

Mr Davis: That is the full project cost. We are minimising the hardware costs where we can, because you can implement some of the newer technology onto the existing capability where it makes sense to do so. As my colleagues have pointed out, this game moves quite quickly. We have new accommodation—buildings—to consider as well and we are trying to adapt to activity-based working—which I know was a topic this morning—to make sure that our IT environment supports that. There will be some users who are still on what we might refer to as clunky desktops, larger form factors, but of course we are looking to move more into the tablet space, the laptop space, to allow that flexibility of work.

THE CHAIR: $8.4 million?

Mr Davis: $8.46 million over four years.

MR PETTERSSON: I had a question relating to the superannuation provision account.

Mr Nicol: Can I ask if there are any more questions for Shared Services first?

THE CHAIR: Yes, I was about to. Are there any more questions for Shared Services? Yes, Ms Cody.

MS CODY: Like Shared Services, there is a huge raft of different public service-type things. One of the areas that you were looking to improve on was wireless services to schools. Can you expand on that a little bit for me?

Mr Davis: Absolutely. There has been a project over the past few years to implement wi-fi into schools. We have recently concluded the high schools and are now nearing the end of the primary school program, ahead of schedule, which is pleasing to see. We have around 87 schools across the territory hooked up so far. We have had a few hiccups along the way because the different architectures in some of the schools, as in the physical layout of the school, make it a little tricky to cookie-cutter the design. That is what we have been doing over the past couple of years, and 87 schools are now hooked up for wi-fi.

MR COE: The report states that 87 per cent of government employees have access to the self-service payroll system. I am just wondering why it would be 87 and not much closer to 100.

Mr Tanton: It is a body of work that we continue to do, so thank you for your question. There are a number of organisations and ACT agencies that do not run on Chris21 and HR21. We are in the process of transitioning some over. ACTION buses are going through that process at the moment. We are starting to transition them over from Orion, which was an older legacy system, onto a newer system. The intent is to get as many as we can onto that system. But we are still working through those legacy systems and the transition going through with transition of the data and the other processes going through. We are striving to get to that 100 per cent, if it is achievable. We will be trying to do that but, again, there are some legacy systems that folks are working on. There are some agencies which are separate to the Shared Services roll. That is where we are at.

MR COE: I guess Transport and City Services, due to the nature of the work, is probably going to be the agency that is hardest to get to that 100 per cent. Would that be fair?

Mr Tanton: It is something that we are working with. Again, there were some legacy systems there to begin with. It is a matter of putting that migration and transition, communication and change management strategy in place to really facilitate that and also making sure that in the body of work that is done to get to that point all the records are correct. We are working actively in Transport Canberra to facilitate that. It is a body of work. By the end of the year we are hoping to have ACTION buses and the majority of those folks 100 per cent over onto Chris21 and HR21, which is a standard Shared Services system.

THE CHAIR: One of your priorities for 2016-17 is to work with the Local Industry Advocate to improve engagement of local industry in ICT services to government. Can you tell us—this is probably something to take on notice—the total value of work undertaken by local providers in the ICT area to support the ACT public service in 2015-16, the total value of work for outsiders and the number of contractors engaged, and whether they are classified as local or non-local.

Mr Nicol: We will certainly give you some information. I think the challenge will be the definition of what is local and what is not local.

Mr Barr: We will use the Canberra region—

THE CHAIR: Yes, I am happy if you use the Canberra region.

Mr Barr: That is the basis of the—

Mr Nicol: I was going to points like it might be a Sydney firm that wins business but sets up an office here, so they might be local. That is the challenge.

THE CHAIR: That is the thing. Were they local when they got the contract? It may be advantageous for them to set up an office here once they get the contract.

Mr Nicol: Indeed, or they might have had an office here and expanded it.

THE CHAIR: Yes.

Mr Nicol: We will do our best to get as much information as we can.

THE CHAIR: That also indicates how difficult it is for you to assess the thing that you set out to do, which is to improve local participation in the industry.

Mr Barr: Yes, there is a definition.

THE CHAIR: Yes, there are definitional issues. If we are, as a group, to measure that, we have to agree on the definitions.

Mr Nicol: Yes.

MR COE: What is the advocate doing in the space?

Mr Nicol: A couple of us can have a go at answering that. I have met with the advocate.

THE CHAIR: Who is the advocate?

Mr Nicol: Kate Lundy. I have met with Ms Lundy three or four times now to discuss issues surrounding local content and local participation in our procurement activities. It is several of my staff, including not only Shared Services but in other areas of Treasury as well. I know that Ms Lundy is working with others across the ACT government. Those meetings have dealt with specific issues as well as general issues about what we can do from a procedural aspect that makes it easier to deal with government from the private sector. She is a very useful conduit to get those messages back to us. Certain specific issues have also come up which we have attempted to address, whether it is a particular contract or a particular issue, to the extent that we can. Those are my dealings with her.

Mr Tanton: It is fair to say she also represents the ICT. We work with an organisation called CollabIT, which is an ACT association of ICT local providers. And she works closely with them. We are working on a couple of programs. One includes how do we make government APIs—and I might need Gary to step in—which is basically some of the technical writing of programs that small companies can actually link into.

THE CHAIR: Hansard will want to know what an API is.

Mr Tanton: Automated—

Mr Davis: Application—

Mr Tanton: Application program interface.

THE CHAIR: Thank you. Hansard is very bright.

Mr Tanton: By publishing that—how you actually do programming—it means that local companies or other companies can then write their own programs over the top. I will use the example of the Bureau of Meteorology using their website for the weather and the like. They publish their APIs and then other websites and applications can build their own websites and publish and make their own money from using those datasets that are published by that department. We are seeing that more and more often with regard to making that information available to the public and then letting the public and enterprise go out there and design their own applications, their own user experience, to try to make money from that and also use that information—so publish once, use multiple times. That is the sort of work that she will speak to us about with regard to what sort of information we can put out there that local industry can use more broadly.

THE CHAIR: So that is a whole-of-government issue?

Mr Tanton: Yes.

MR COE: What is an example whereby you have an API which is currently accessible?

Mr Tanton: That is a very good question.

Mr Davis: I cannot answer that question.

MR COE: Are there any?

Mr Nicol: Isn't the GPS on the buses—

Mr Tanton: I think so. We might take that one on notice and give you a listing of that.

Mr Nicol: I think an older example, which is not quite up to the technical standard but it is the same methodology, is the data that was sold for a nominal amount or is sold to Allhomes.com. That has now been taken over by more sophisticated valuing.

MR COE: That is done in a data drop, as opposed to a live—

Mr Nicol: It is different. The goal we want to get to on this is to get our data out there so that, instead of the public service trying to find out what is the best way to make a useful product, there are ways to get the private sector to take this data and run with it and do things that none of us could think about.

A couple of things I would just mention on procurement is that we have had a couple of sessions—not necessarily in the ICT space but more in the capital space—with our local industry to try to help them make a more competitive bid when they tender for our tenders so that we can educate them as to what is important. There are certain things involved when we put out a statement of requirements. We are legally obliged to stick with that statement of requirements, for example. Not all of our local tenderers understand that and the obligations we are under. Through those processes we are learning what not to do in a tender that is not necessary, that is perhaps overly restrictive for us, so we can get more flexibility. Certainly a goal we want to get out of this process is our local bidders being as competitive as possible in tendering for work.

The other thing in the ICT space is that our chief digital officer is working on a few smaller local demonstration projects where we can put some seed funding out there to local developers to develop up essentially their good ideas using our data or our requirements. Unfortunately, he is not here, but he might be able to give you much more information on those projects. It is another way we can stimulate the local IT industry.

MS CODY: I have a question about some of your targets.

THE CHAIR: Yes, sure.

MS CODY: You noted that you met three out of five targets. One exceeded, and one did not quite get there, which was the answering of telephone calls in the 20 seconds.

THE CHAIR: That was my next question, so thank you.

MS CODY: I was just going to ask what you have done to improve on that outcome. I note you noticed that there was some skills development and that sort of stuff.

Mr Tanton: Thanks for the question. The target of 20 seconds is a notional target around service delivery. I think that if anyone has spoken to Centrelink or tried to get on their phone line at the moment, they would have found that it just drops out these days. So 20 seconds is good. What are we actually doing? There have been a number of staff training sessions in regard to how to handle questions. But what we are seeing is that in a positive manner, whilst there is a slightly longer time to answer questions, the first point of resolution is actually improving as well. So we are seeing trends going up.

Whilst we are taking a bit longer on the phone to answer calls, we are seeing that the trend for people only having to do it once to get an answer to their problem is increasing. It is that broad thing of getting people off really quickly but where they have not got the answer they want versus taking a bit longer to answer a phone or a call. We do have peaks and troughs. It is trying to get a balance. Most of our calls come in on payroll week. When people get paid, basically when they get their time slips, they are looking through them. It is trying to manage the peaks and troughs of an average. But we do get a lot of calls around those times of 22,000 public servants getting paid on the same day.

As I said, we are seeing that the first point resolution conversion is actually increasing. At the moment, I am just monitoring how that performance goes. If there was a trend down in the first point of resolution, I would start to be getting a bit more concerned, but at 26 seconds, six seconds over time, I am comfortable at this point until I start seeing trends otherwise.

MS CODY: Has that led to the upskilling of staff? Is that how that is improved, or what sorts of mechanisms have you used to improve that?

Mr Tanton: Yes, upskilling of staff but also just looking at how we manage and have subject matter experts on for those peak times. With payroll, we know that the week or the few days before the Thursday of the payroll we will start getting questions because the payslips go out. We then are manning up those levels of staff around those people with payroll expertise who can go in and answer those. Generally with payroll, the answers take a bit longer, because people are asking questions. It is not a matter like ICT where it is about changing your password because someone has forgotten it. The questions are generally a bit more complex, and they do take a bit more time. Again, if you can give people the answer they want the first time, it means that people who are in hospitals or in emergency are not ringing up a second time or a third time trying to get the same answer. Again, it is more efficient to try to get the answer done and move them on.

Mr Nicol: In the longer term, the strategies that we have talked about, which are going to take some time to roll out, are trying to get our systems to a state where they can answer most of the questions we get. Currently our systems are a little old. They cannot answer every question that everyone has and in many cases they should do. For example, we do not keep long service leave balances in Chris21. People ring up and say, “What is my long service leave balance?” It is some pretty simple stuff that requires some system investment. If we can get those, hopefully, for the bulk of the questions that are simple—you are never going to get a system that is going to answer every question; you need a human being on the other side—we can focus our resources on those questions that are more complex, that are more value adding for the people calling up and that are more rewarding for staff answering complex questions. That is our longer term strategy.

THE CHAIR: I am mindful of the time. I have a question about Shared Services. Has anyone else got a question about Shared Services? Are there deadlines in place for payment of accounts to local small business people?

Mr Tanton: Yes, there are.

THE CHAIR: What are they, and are they being met?

Mr Tanton: Ninety per cent of invoices need to be paid within the term of the invoice—within 30 days generally for the government commissions. I think we are just underneath that; I will just check that. If you have another question I will find out where it is and come back to you.

THE CHAIR: No; I think we might be—

Mr Nicol: We will dig that out.

THE CHAIR: Perhaps you can take it on notice.

Mr Nicol: My recollection was—there are various ways to look at this—that for those we do meet we meet within two weeks rather than 30 days. Some take longer for various reasons, about ensuring that the services or product have been delivered before we pay. But that is my recollection of the statistics when I last looked at them.

THE CHAIR: If you could take that on notice, that would save a bit of time. Mr Pettersson, you had questions on superannuation.

MR PETTERSSON: I did.

MR COE: I have a few on superannuation as well.

THE CHAIR: We will start with Michael and then go to—

MR COE: Do we want to go and have a break?

THE CHAIR: If we finish superannuation, are we finished? I am just a bit mindful of time.

MR COE: On superannuation?

THE CHAIR: Are we finished with CMTEDD?

MR COE: I have more, but I can put them on notice.

THE CHAIR: I do not want to pressure members one way or the other.

MR COE: That is fine; I am happy to put those on the notice papers. They will probably go on the notice paper.

THE CHAIR: We can spend, say, five minutes on super and then go to a break. Then we can give all of your officials an early mark. Then we have Icon and ICRC.

MR PETTERSSON: The superannuation provision account received an A rating for the accounts annual principles for responsible investment reporting assessment. Can you provide an overview of what those principles are exactly?

Mr McAuliffe: I cannot quite remember what year we signed up to the PRI, but essentially there are six principles for the PRI, which basically incorporate environmental, social and governance issues into our investment analysis. We look to appropriate disclosure of our investments, we are going to be active owners, and we report on our activities. That is the broad thrust of the principles. With that in mind, the government has developed a pretty thorough responsible investment policy over the years. It has been a fairly regular topic in these hearings, and over each year we have been improving on what we have been doing.

What does the PRI do? It has been a voluntary process where people sign up to the PRI. It is all about transparency. If you want to sign up to something, they are saying that you should report on what you are actually doing. Each year they put out an assessment survey request. There are a number of questions we have to fill in about how we are actually incorporating these sorts of principles, the extent to which we are actually implementing them. A lot of people sign up to these things and there is a lot of talk about what they do, but they are also trying to measure actual implementation activity.

Towards the end of last year when our last year’s assessment came out, the territory scored an A rating. The median score against our broader peer group is a B. That has been the sort of score for the last couple of years for the government. There is a whole range of questions they ask, such as “What is your policy?”

Mr Nicol: Can we provide the committee with a copy of the questions?

Mr McAuliffe: We can provide the committee with a copy of the report.

THE CHAIR: That would be great.

Mr Nicol: Unless it is copyrighted by the body.

Mr McAuliffe: No, no. It is up to a signatory how they choose to use the report.

MR PETTERSSON: Thank you.

THE CHAIR: Ms Cody.

MS CODY: I am fine.

MR COE: For the provisional account, the net cost of services for 2015-16 was $215 million higher than the budget estimate. I am wondering what the rationale is there. It is on page 4 of your annual report, net cost of service.

Mr McAuliffe: That is mostly to do with the change in our superannuation expense, to do with the valuation that year and because of a lower discount rate compared to the discount rate that was used by the budget.

MR COE: So this is, once again, the five per cent plus CPI.

Mr McAuliffe: No. This is the actual discount rate that is used on valuing the actual liability.

MR COE: So it is six per cent?

Mr McAuliffe: Six per cent. At 30 June we have to use an actual market spot rate.

MR COE: Okay. That was discussed at some length in the chamber late last year, during the budget debate. Are those figures simply passed on from the commonwealth superannuation agency or do they represent calculations done within the ACT government?

Mr McAuliffe: We have our own actuary appointed; we do a valuation of our estimated liability that we owe to the commonwealth, essentially for our share of the overall liability. That actuarial analysis looks at the actual membership base. We still have a lot of current contributors and there are a lot who are still members of the schemes but they might be taking pensions or part pensions—those sorts of things. The actuary takes the actual membership base, applies a whole lot of different demographic assumptions in the main, looking at future mortality rates and take-up of pension versus lump sum. A whole host of those estimates go in. That creates effectively the forward-looking projected cash flows that we have to pay. When it comes time for the end-of-year valuation, there is a present value calculation done using a discount rate. Under the accounting standards we have to use the prevailing long-term commonwealth bond rate. That is the discount rate for that valuation. It brings forward this value at this point in time, and it is based on that actuarially assessed stream of cash flows.

Mr Nicol: So essentially it is our calculation, yes.

Mr McAuliffe: Yes. We have that agreed with the commonwealth each year because each year we have to pay them our share of benefit.

MR COE: Does the commonwealth ever contest or have need to question the calculations that the territory has done?

Mr McAuliffe: No.

MR COE: Or is it simply a matter of whether, each year, their invoice gets paid?

Mr McAuliffe: We agree with them what we are going to pay. For the year coming up, we have already got an agreed estimated amount that we will pay. So we will pay that amount. Then the following year, when we do next year's actuarial—

MR COE: There could be a correction.

Mr McAuliffe: We do a "true-up"; we compare actuals to what we paid. The other key thing with that valuation is that they also use a six per cent discount rate in their own budget estimates. We also keep an eye on making sure we are using—there are some slight differences but generally the broader assumptions tend to be pretty much in line.

Mr Nicol: Going to your question, my view is that we have a better handle on our liability than the commonwealth do. They rely on us pretty heavily; I think that is a fair statement.

Mr McAuliffe: That is right.

Mr Nicol: We have a good level of trust. They check our figures, obviously. They did an independent assessment of our figures and their figure was within—

Mr McAuliffe: It was within millions of dollars, out of a billion dollars of liability.

Mr Nicol: It was very close.

MR COE: With regard to that table, where it has the actual of $458.1 million, that is considerably higher than the budget. What happened to push it up by $220 million based on the previous year's actual, not just the budget?

Mr Nicol: Can I take that on notice?

MR COE: Yes. For 2013-14, it was $101 million then it went to $234 million, then to $458 million.

Mr Nicol: We can give you a detailed—

Mr McAuliffe: I can give you a reconciliation.

Mr Nicol: It is driven by the changes in the discount rate. So the discount rate was still lower over the year.

MR COE: But that is a doubling from 2014-15 to 2015-16 in the actual net cost, which is—

Mr McAuliffe: There are also some changes in what is happening in terms of the investment returns. That is happening as part of it.

Mr Nicol: We can give you detail on that.

MR COE: Sure. On that, is the five per cent plus CPI actually a reasonable target going forward?

Mr McAuliffe: Until 30 June 2016 our 20-year return has been CPI plus five.

Mr Nicol: And we have achieved that, basically.

Mr McAuliffe: That is our target, and that is what we actually achieved.

Mr Nicol: But we continually assess that, and ask that question.

MR COE: In which case that begs the question why the actual cost was so much more than the budget amount. If you do actually achieve the targeted—

Mr Nicol: That change is not due to the return on the fund; it is due to the discount rate on the liability.

MR COE: I realise that; that is on future liability.

Mr McAuliffe: In terms of investment, the investment term is not CPI plus five in a particular year. That is the average return we have achieved over the life of this portfolio. I will give you a break-up of that movement.

MR COE: Thank you.

THE CHAIR: The defined benefit schemes were closed in 2006; is that right?

Mr Nicol: They were closed at various times but the last one—

THE CHAIR: But the last one was closed in 2006?

Mr Nicol: Yes, that is my recollection.

THE CHAIR: Roughly speaking, how many people do you have who are ongoing contributors to the CSS as opposed to people who are beneficiaries of the CSS, and can you provide that for the PSS and PSS2?

Mr Nicol: We certainly can.

THE CHAIR: Somebody did ask about the members of the Legislative Assembly defined benefits scheme, but the Chief Minister and I know the answer to that question.

Mr Nicol: I was going to say there are two left.

THE CHAIR: That is right.

Mr McAuliffe: I will give you a break-up of the membership summary.

Mr Nicol: The expenses of the scheme are essentially all the factors contributing to that. I do not think there are any in the government's control. They are all either the inflation rate, the discount rate, the demographics of people in the fund, how long they are living, and what choices they are making as to whether they take a pension or a lump sum. The return for funds affects the benefits that are paid. All of those factors drive what expenses we incur, what our liability is and how it is valued and measured.

Mr McAuliffe: If you go to page 31 of the super provision account financial statements, there is a table there, as at 30 June 2016.

MR COE: I am sure the Assembly would be happy if the two remaining members would like to opt out and go to the other scheme.

THE CHAIR: Can I just say not this little black duck! That probably answers my question. We might pull up stumps to give people an opportunity to have a break and a cup of tea. Thank you to the officials who have appeared today.

Hearing suspended from 3.37 to 3.56 pm.

THE CHAIR: We will recommence. Welcome back Chief Minister and welcome representatives of Icon Water. I draw your attention to the pink privileges sheet. Can you all nod to indicate that you understand the implications of the privileges sheet? I will start with a really simple question. What is the difference in your community support program between sponsorship and donations?

Mr Knox: I will refer this to Ms Jane Breaden, who is General Manager, Business Services.

Ms Breaden: Icon Water has a community support program. There are two categories that we use to describe the money that we distribute as part of that program. Donations may be a simple cash donation to an event or a particular organisation. It could be $1,000, $2,000. Sponsorships are when we tend to have a longer-term relationship and a more robust relationship with the organisation, such as we have had with Lifeline, Menslink and the CSO for some time now.

THE CHAIR: It is a long-term relationship rather than a one off?

Ms Breaden: Longer term, and often with a donation it will just be the cash and our involvement ends there. With a sponsorship we may attend the event ourselves, set up a marquee, run some education programs. At the recent CSO event at Government House we ran the Icon Water kids play area.

THE CHAIR: In relation to capital works and infrastructure, which is outlined on page 25 of your annual report, are there other major infrastructure initiatives being planned in the future, including the development of new trunk lines? Are there plans for new trunk lines to ensure the continued development of the territory?

Ms Lewry: Chair, there is a number of developments that we are doing for pipelines in and around the ACT. Most of the large augmentations are due to new suburbs or larger-scale developments. We have a number of both water and sewer augmentations in our current and forward plans to ensure that we continue to provide water and sewerage services to the growing ACT community.

THE CHAIR: When you say augmentation, would that be in established areas or is any addition an augmentation?

Ms Lewry: Could be, chair. It could be either. It could be upgrading of an existing service or a duplication for a new suburb. If it is in what we call brownfield, which is typically a built-up population, then it is usually an upsizing of an existing pipe, which is referred to as augmentation.

THE CHAIR: What augmentations do you have currently in train?

Ms Lewry: In train we have an augmentation going to service the new Throsby development up in Gungahlin. We also have a number of augmentations to serve the new Molonglo Valley and those developments in there. We also have on our forward planning horizon—but they are not in train, they are in a long-term planning—to look at the growth along the Northbourne corridor and also to look at the growth to the new Riverview estate development. They are the major ones that we have at the moment.

THE CHAIR: What about the CSIRO estate development between Evatt and Gungahlin?

Ms Lewry: The planning is too early to tell the exact augmentation that will be required with the CSIRO but it is likely that we will need to see the demand on our network. The CSIRO are looking at doing some novel and new concepts that could actually reduce the requirement for augmentation but it is too early with the CSIRO's planning to determine the impact on the network.

THE CHAIR: That would be more for stormwater than necessarily water and sewerage, would it not?

Ms Lewry: It could depend. They are talking a lot about re-use within the scheme. If they particularly use a lot of the water and recycle it on the actual whole site, then it could reduce the overall need for the potable and also for the sewer system there. It really depends on the extent to which their current ideas come to fruition through their planning concept. It will really depend on the demand that that puts on the network.

THE CHAIR: Going back to Northbourne, what are the pressures on Northbourne?

Ms Lewry: There are a number of areas around Canberra that require augmentation. Along the Northbourne Avenue precinct particularly, our sewer system is the main part of our network that will be impacted by the forward projected growth along that precinct.

THE CHAIR: How long is it until you need to do work to augment in Northbourne Avenue?

Ms Lewry: At the moment we have growth projected plans. I will have to take on notice the exact timing of those growth projected plans but a lot of it will depend on when the demand comes online.

MS CODY: Following on from the chair's question around augmentation, you mentioned the Molonglo area, which of course is a very keen interest of mine. With the view to building a pool and additional sporting facilities out around the Stromlo Park area, will that have an impact on some of the augmentations as well?

Ms Lewry: Typically those types of things are factored into the growth and demand placed on the network. I would have to take on notice the specific elements of that. But typically we work with the development and estate planners that already have identified a number of those types of leisure facilities. I will need to take on notice exact details of that.

MS CODY: Thank you.

THE CHAIR: This is a quick technical question. What is de-watering? I know someone has explained it to me on at least one previous occasion but it does seem a little counterintuitive.

Ms Lewry: The de-watering would have been around the Googong water treatment plant, a project there. When you actually treat the water what you often have is what is called a sludge. That is the by-product of treating all the water and taking all the contaminants out of the water treatment. When you coagulate—when you bring together the sludge and you push it together—what you need to do before you can dispose of it is put it through a centrifuge, so basically dry out the sludge before you can dispose of it.

MR PETTERSSON: I have a few questions in regard to community engagements. I am having a look through this report. My opening question is: what is community engagement to Icon?

Ms Breaden: I will answer that question, thank you. We have a community engagement program that is looking at doing a couple of things. One is to educate the community about the nature of our services and how to look after our infrastructure and the water source, and also to get feedback from the community about what they need and expect from our services.

We have a community engagement program that interacts with the community at three levels. The first level is your average community and customer surveys. So we might survey a large number of customers or members of the community where we send them a survey—generally online or sometimes by telephone depending on the nature of our intent from the survey—and we will get their responses on that topic at that point in time.

We also have a think tank with about 300 members at the moment. These are individuals in our community who have in the past agreed that we can maintain their contact details and we can contact them from time to time to do more focused surveys. It may be focus groups where we bring 20 or 30 people together to talk about a particular issue or we might want to do a survey on a particular topic.

The final third tier of our community engagement program is that we have a community consultative forum. That comprises 13 representatives of groups across the community including disabled, aged, young people, businesses and the like who come together every two months. This is a relatively new forum that we have had set up now for less than a year.

We are working with that forum to have those individuals represent their constituents, if you like, from those groups and to get their opinions on things around the price; well, recently we spoke to them about the tariff review.

MR PETTERSSON: You mentioned the community consultation forum.

Ms Breaden: Yes, that is right.

MR PETTERSSON: You said it is very new. Have there been any successes? Has this dialogue been fruitful in any way yet?

Ms Breaden: It certainly has. As I just said, we sought their feedback on our submission to the ICRC's tariff review, which is continuing underway at the moment. We also got their feedback more recently on other proposed arrangements we have about how we structure our user charges.

I guess from our perspective it has actually been quite enlightening because we are operating a business. We think that we are thinking in the best interests of the community. But it is really quite informative to get the views from these community groups who are representing their own individual constituents.

They often think from different perspectives than we do and they often come to an issue from different perspectives to each other. It is just good to have all the different groups around the table and for businesses to consider those who are socially disadvantaged, to consider the aged, for the aged to consider the young and the like. So it is a very positive forum for us.

MR PETTERSSON: Have there been any complaints from the consultative forum at all?

Ms Breaden: No, not at all. We have had nothing but positive feedback from the members of that forum.

MS CODY: Sticking to that vein for the moment, you talked about the wet wipes in the domestic sewerage network. It is a very good campaign. I followed it very closely. Have you undertaken similar campaigns about the impact on the domestic sewerage network in relation to sanitary products in general; —so female sanitary products?

Ms Breaden: We have not on sanitary products in general. I do not think we have identified that as an issue in our network.

Ms Lewry: No, our systems usually are designed to handle those. They provide less clogging, less impact on the system than the actual wet wipes that can really coagulate, particularly if they are covered with fats and the like. They can really become an issue.

MS CODY: I was reading about the Cotter Dam discovery trail treatment plant and asset tour. Can I ask about that?

Ms Breaden: Yes.

MS CODY: Can you outline how you inform the school community of the Cotter Dam trails and all that?

Ms Breaden: Yes, we have a community education officer who has been working with us for a number of years. Therefore, she has connections with the schools. We also have some information, and I will go back to that. She also contacts the schools directly. It is anywhere from primary age through to high school students. We even have some tertiary groups come through that program as well. But we also have information on our website for people who go looking for, "How do I contact Icon Water?" and "How do I get educational information from them?"

MS CODY: Will those tours be continuing?

Ms Breaden: Yes, it is an ongoing program that we have.

MS CODY: Is there any consideration to expand the scope of them? I note you talk about the Cotter Dam. Are there any other areas that you were considering?

Ms Breaden: We do have other tours of our sewerage treatment plant down at lower Molonglo. Those are more on demand. There are other groups. We have professional organisations from overseas sometimes come to Australia.

Ms Lewry: Yes, we often have a number of engineering—I know that a reliability maintenance body often comes to have a look. Lower Molonglo is relatively unique in the Australian context with some of the treatment systems that we have on site. We also have the water industry operators, which is a national body in the water and sewerage industry. They are coming to do a tour of both the lower Molonglo and Mount Stromlo water treatment plants at the end of next month. So we do often get requests from different bodies.

We also had a not-for-profit organisation that was looking at promoting science, technology, engineering and maths: the STEM students. We had a number of young ladies from across Australia who were participating as part of this program. They came and looked at a number of our different facilities with a number of our younger female engineers to try to encourage more young women to actually join the STEM programs in the future.

MR COE: I have a question about the Murrumbidgee to Googong water transfer facility or structure. How often is that actually used?

Ms Lewry: At the moment the actual structure is used three times a year for what we say is a maintenance run. We run the pipeline three times a year to ensure that the system is still operable.

MR COE: Has it ever actually been used to augment our water supply?

Ms Lewry: Not at this stage. M2G pipeline is one of the last strings in our bow for our water security. M2G at the moment, given our current water security, is really only needed in drought situations.

MR COE: Are there any concerns about its functionality, given it is just on those three times a year?

Ms Lewry: We do run it three times a year to ensure its functionality. If we find a problem during times when we are running the M2G system then we typically extend the run and ensure that we iron out any bugs with the system.

MR COE: What are the costs involved with each of these, sort of, maintenance runs?

Ms Lewry: I would have to take that on notice but my understanding is that it is about $80,000 to $100,000. I will take the exact figure on notice.

MR COE: Yes, if you could.

THE CHAIR: What sorts of issues have you identified when you have been doing your maintenance runs?

Ms Lewry: Typically behind instrumentation and censors within the pipeline that need to continue to be calibrated and do like to be run consistently. Often we find if there is a problem on the run it is usually a censor or a piece of instrumentation that has become faulty during that offline period.

THE CHAIR: Do you engage the hydrogenation when you are running that?

Ms Lewry: Yes we do. We have had a number of issues with the hydrogenation and a number of those are around the censors, the instrumentation in the coding for the logic within the actual hydro itself.

THE CHAIR: So it is problematic to operate?

Ms Lewry: The hydro itself? Is that the question?

THE CHAIR: Yes.

Ms Lewry: It can be in that it is the type of equipment that likes to be operated regularly but we find that when we run it every three months we tend to iron out any bugs if and when they do become apparent.

MR COE: If it is the last string in the bow then surely the system was never designed to be run on a regular basis, in which case why are there components that, in effect, struggle when it is not run consistently?

Ms Lewry: The whole reason why we do the lubrication on the engineering runs every three months is that we looked at the equipment that is based within the

M2G system and determined what the maximum between maintenance runs that would support the ongoing operability of the equipment was. That is how the length of duration between the maintenance runs has been designed.

MR COE: I understand but I am going to, I guess, the design of the system. If the design of the system is such that it works best when it is running consistently and it was never going to run consistently then is there a failure in design that it cannot be used ad hoc in a smooth way?

Ms Lewry: When the system was designed M2G was expected to be run in anger for a considerable time. When the decision was made to invest in the Murrumbidgee to Googong pipeline we were in a severe drought and it was expected that we would need to run that pipeline very consistently during that period. The design for which the system was done was to operate more frequently than what has happened post-drought, which is that we have now full dams, and also Canberra has sustained one of the largest reductions in water demand across Australia, across the urban cities.

Canberra’s water consumption now is about 40 per cent lower than it was pre-drought and has remained at that level. That means the number of times we actually have to run the M2G, which is one of our more expensive sources—we tend to run from our cheapest, better quality sources more often—has reduced from what it was when we had the information that the design was done to build the M2G system.

MR COE: Technically what is the difference in altitude? What is the actual climb that the pump needs to operate on?

Ms Lewry: I would have to take that one on notice. I do not recall the exact head pressure.

MR COE: Given the enlarged Cotter Dam and given the reduction in water usage or water demand does ICON envisage a time when the pipeline is going to be used? And if not, at what point do you make a call as to whether it is worth $300,000 a year maintained infrastructure as opposed to a more substantial piece of work on it in 20 or 30 years time if you do need to activate it?

Ms Lewry: One of the things we are looking at, at the moment, is that we have currently got under active consideration looking at the maintenance regime of the Murrumbidgee to Googong pipeline because, given our current water security and demand profile in the ACT, we are unlikely to need it unless we go into a severe drought. What we are doing is looking at the opportunity to extend out the maintenance period and what the cost would be of that. Often when you look at laying up equipment there is also a cost to actually maintain that equipment during lay-up. What we are actually doing at the moment is that we have engaged some consultants to review that cost and understand what is better for the machinery and the cost to make a decision between the option of continuing to run the maintenance runs every three months versus a long-term laying-up and the cost to do that.

MR COE: In effect if it just stops raining what is the water supply that Canberra has before needing to active the M2G?

Ms Lewry: As of this morning we have 90.7 per cent in our dams. All our dams are full. Given that scenario and the demand, if the demand does not increase, M2G, as I said, would be the last storage that we would seek to use. Before we would move to M2G we would go from the Cotter-Bendora to the Googong Dam, then to Cotter Dam, and then we would probably seek to use the Murrumbidgee through the M2G system.

MR COE: What sort of time frame are we looking at though?

Ms Lewry: I would have to take the exact time frame on notice but I understand it is probably not within 20 years unless we see the largest drought that we have experienced as a climate here in the ACT.

MR COE: And on that basis that 20 years, or whatever the precise time frame is, forms the basis for your calculations as to whether to, in effect, turn off the M2G maintenance?

Ms Lewry: There are a couple of things. It is looking at the notice we will get, based on when we will need to turn on a system. If we do choose to go for an extended shutdown of the pipeline we would look at the time, the advanced notice we might need to actually have to bring it back into operable service as well as the potential lay-down time. They are the two determining factors that talk about the amount of maintenance that would be required for the system to go into lay-down. We have done a lot of modelling about those two elements. I just do not have the figures here with me today.

MR COE: Presumably a large drought is not going to creep up on us; so there should be a fair lead-in time, you would think?

Ms Lewry: Yes. The team is telling me it is about 18 months lead time. I just do not have the number off the top of my head for when we think, given current demands, we will require that.

THE CHAIR: Could you just remind us again of the cost of the M2G?

Mr Sachse: It was circa $140 million.

THE CHAIR: Actually that is more than I thought, yes. Also at the time, before we did M2G, there was some work done to transfer water from Googong into the Cotter system through the pipe system. It had a name. I cannot remember what it was. How much did that cost and how often has that been used? It was about changing the backflow so that you could transfer all the way from Googong to the Cotter.

Mr Sachse: We would have to take that on notice.

THE CHAIR: It is really the cost of that project and the number of times it has been utilised.

MR COE: Was the forecasting wrong at the time of committing to this project, $140 million, and you are now, just a few years on, contemplating switching off the maintenance program? Was the forecasting absolutely wrong or was it always envisaged that this was a possibility?

Ms Lewry: I do not think the forecasting was wrong. I think the environment has changed since the timing when the decision was made. If you go back to circa 2007 when the decision was made, our dams were at the lowest level they had ever been and there was a common perception amongst the industry that usage patterns, after drought, would return to what they are now. Usage patterns, sometimes more so than climate, can have a larger determination on the modelling and the factors that you take into these decisions.

I think that particularly here in Canberra that demand just has not bounced back. Other capital cities have seen a much greater bounce-back in consumer demand but the Canberra population has done a really wonderful job of keeping their water demand low.

MS CODY: Do you think that that is due to the education program that was undertaken by ICON?

Ms Lewry: I definitely think that is a contributing—

MR COE: Water prices?

Ms Lewry: I do think the education process is a contributing factor but I also think Canberrans, more so than a lot of places where I have lived, seem to be really in touch with their community and the environment and I think they really do value their urban water.

Mr Barr: I also presume that there are a number of decisions taken at a household level or an institutional level around investing in particular irrigation systems and plan types and the like. Once you have made that investment you are not likely then to change your behaviour in a household. Many households changed the nature of their gardens to be, I guess, less water intensive and whilst they have done that they are unlikely to then rip all of that up and put lawn back in. And you have seen that pattern emerge during the period and then it has remained in place.

When you look at all of the new suburbs that are built and the water-sensitive urban design guidelines and the like, the rainwater tanks, et cetera et cetera, I guess it has become commonplace in new areas. It has meant that the overall demand, even though the city has grown considerably in the time frame, the consumption, did not continue to grow at that same level.

MS CODY: And I suppose with global warming continuing to be a trend those sorts of factors need to be considered in our—

Mr Barr: It has been a long, hot summer; so it will be interesting to see what the position is at the end of this summer.

THE CHAIR: Could I go to the issues in relation to the capital expenditure over the past 10 to 12 years, including $140 million on the lower Cotter Dam and the other project that we talked about that we cannot remember the name of. We are getting up to $600 million or $700 million in capital investment there. What is the service? What is the actual cost to ICON to service those capital investments?

Mr Sachse: We will take that on notice but all of these projects do not have much intensity in terms of an operating cost; so they would be quite small. The dam—

THE CHAIR: No, I meant the interest service on the borrowings. That would include the major upgrades, the Stromlo water treatment works which was probably the first of the big cap-ex expenditures.

Mr Sachse: Stromlo would have been an investment made in 2003 after the bushfires. Is that the one you are after?

THE CHAIR: It would be 2003-04 or 2004-05, yes.

Mr Sachse: Again I would have to take that on notice.

THE CHAIR: A rundown on the capital costs of all of those big projects and the debt servicing costs?

Mr Sachse: Yes.

MS CODY: I have a question. You outlined in your message from the board and then again on page 28 that you undertook some major reviews of the Icon Water people strategy and the work, health and safety strategy. Firstly, can you outline the process you undertook for the review?

Mr Knox: Yes, certainly. With the safety program, we did a top to bottom on it. We had a trend whereby some of our incidents had been inclining. We have two measurements. We have a lost time injury frequency rate and a serious injury frequency rate. There are a number of other lead and lag indicators wrapped around safety. The profile of that was not going in the right direction, so we undertook a major review of our safety program, and since then we have undertaken a switch-on engagement program. We are putting 400 staff through that. It addresses things not so much from a legal compliance perspective but is more about human culture, behaviour, your beliefs and all the rest of it. It is a very different program from a buy-in perspective. It involves people who have strong beliefs around safety. It brings it back to your personal life as well, so you can get connection points. In addition to that, we have undertaken a number of other programs, like mental health and general sprains and strains. We have about six or seven programs that have complemented all of that activity.

Overall we have made a very significant turnaround in injuries through the business and I am delighted to say that it is now well and truly tracking in the right direction. But we never take our foot off the pedal in this area. It is a very long journey. Some people refer to maturity models, but it is a sense of embedding it and then continuing to stay sharp on it and keeping it relevant all the way through. You never stop; you just keep maturing through it. The board in particular have been very pleased with the progress in this area.

MS CODY: Continuing from that, you outline that you basically see progress in the reduction of serious injuries. Can you give me a bit more information about that?

Mr Knox: Yes, certainly. I might refer to Jane.

Ms Breaden: I can give some stats on that. At the end of 2015-16, our serious injury frequency rate was 5.08. As at 31 December, we were down to 1.2. A serious injury is any injury where the worker is off work for five days or more. It does not have to be consecutive. It is measured per million hours worked. Because we have a small workforce, it takes us over 18 months to work a million hours. If you were BHP, you would work it much more quickly and your rate would change much more quickly. In our case, when we have a rate up at 5 or even higher, it takes us a long time and a lot of hard work to get it down, so we are very pleased with the result at 1.2. But as John said, there is no point at which we sit back and say, "Job done on safety." It is a continuous area of focus for us.

MS CODY: John, you also mentioned the mental health initiative. Can you give us a bit more of an update or a bit more information about that?

Mr Knox: Certainly. Again I am going to defer to Jane. Jane looks after safety, but both of us are across it.

Ms Breaden: We engaged an external organisation to conduct a survey of our staff, of the current state of mental health and their views on mental health in the organisation. We followed up the survey with some focus groups to focus on the key areas that the survey identified for us. That revealed that we do not have a significantly larger issue with mental health than the rest of the general population. But as we know, I guess, from media and education, that is a significant enough issue, in that I think one in five Australians will experience mental health issues in their lifetime.

Following on from the survey and the focus groups, we developed a number of initiatives to address those focus areas, including improving internal communications. People like to know what is happening in the organisation, understand why changes are being made. We are trying to improve the clarity of people's roles and responsibilities and how they interact with other groups. Again, it is that clarity about knowing what you are doing.

We have also done a lot of work to de-stigmatise mental health issues. We have a member of our safety team who has experienced mental health issues himself and he has run a number of workshops where he talks about his own experience. He is very open about what he has been through and how he has battled those issues, and he invites others to share their stories as well. That has been quite helpful. I feel that our organisation and all of our staff are much more willing to talk about mental health, in a group forum, which is perhaps not for everybody, or where people are more willing to talk to their supervisors, if no-one else, about mental health issues. We also increased the resources and information we have on our intranet site to give staff a place to go to get expert counselling. In our organisation, even a well-trained and experienced manager cannot always deal with the complexities that come with mental health issues.

MS CODY: What about the culturally and linguistically diverse program? I notice there was a mention of that in the message from the board. It states here:

> As part of the People Strategy, work is underway in the key areas of diversity and inclusion …

Does that include the CALD stuff—the culturally and linguistically diverse stuff?

Mr Knox: Yes. We have had a very strong focus on diversity and inclusion in Icon Water, and we have a number of programs underway. Similar to the safety journey, we are taking stock of where we are at in the business and then what our future targets state, what we are aspiring to achieve through that program. We have a number of activities in place to get there at the moment.

MS CODY: Excellent.

MR COE: I was a couple of minutes late, so I hope it has not been discussed already, but with regard to the new levy which is being proposed on developments—

THE CHAIR: No, we have not got to that.

MR COE: I am curious about the decision to pass on this levy for the four areas of town: Belconnen, north Canberra, Fyshwick and Woden. Is that correct?

Mr Sachse: Yes.

MR COE: What is the rationale for, in effect, hitting up these particular areas, as opposed to spreading it evenly across the territory, which has happened in the past for capital projects, and, indeed, for recurrent costs as well?

Mr Sachse: I should start out by saying that we have had this charge in the past; we have had capital contribution charges in the past for developers. If they did trigger an augmentation, they would have to fund 100 per cent of that charge. What we are trying to do here is to make it a lot fairer and more sustainable for all developers. A lot of developers will have a free ride: they do not trigger it; they just go and do their development. Then a developer would come and trigger it and they would pay all of that augmentation charge; then there would be a whole heap of developers that come afterwards who also get a free ride. What we are trying to do is make it a lot fairer across all developers where they all contribute towards the cost of augmentation.

There are only four precincts that will have augmentation in the next 20 years, and that is where we have looked at the precinct and put the charge on those precincts. Those other precincts that are newer had a design life that might have gone 20 to 30 years. For example, Gungahlin will not have any augmentation requirements for 20 to 30 years. That is how we have structured that.

MR COE: Have developers been paying this augmentation contribution in the past?

Mr Sachse: There have been a number of triggers in the past, but what we have identified is that, given that there is much more of an urban infill priority going forward, we will trigger it a lot more going forward. That is why we thought that now is the right time to put a much fairer scheme in place.

MR COE: I think one of the reports on this states that the LDA and maybe Constitution Avenue with Defence were the only two. Would that be right, or are there more?

Mr Sachse: There are some examples included in that report. Yes, that was the LDA and the NCA. There have been other examples where this has happened. It does include private developers. The key message is that, based on our analysis, it is going to happen a lot more going forward; that is where we need to put in a much more sustainable arrangement.

MR COE: But why would you not spread it across the territory? You built a new dam. In effect, the new dam is for the benefit of everyone; therefore, the rationale is to spread it. You could say the same about Northbourne Avenue as a corridor or Constitution Avenue as a corridor. They do serve the city as well as the immediate area. How do you justify having a policy which is geographically isolated?

Mr Sachse: I should also say that this is just a proposed charge. We are still going through the consultation phase. We are still meeting with developers to understand what their thoughts are. That has been some of the feedback that we have received. We are considering that. We will gather all of that information up and we will put that to the ICRC. They will undertake their own review, undertake their own consultation and make a decision after that.

MR COE: Also, the government has a stated policy of trying to increase density on transport corridors and elsewhere. Is this not, in a way, actually working counter to the objectives of that policy?

Mr Sachse: As I said before, it is a much better arrangement than we have had in the past. If we did stick with the current arrangement, that would stop development. This allows development to be sustainable where we are sharing it across all developers going forward.

MR COE: But if you look at the arrangement in, for instance, Woden, in particular, whereby the cost is going to be split amongst fewer people, you are going to have a higher per person charge than perhaps in the inner north. How is that fair when the same project, in effect, generates a higher price in Woden than it would if it was on Northbourne Avenue?

Mr Sachse: That is good feedback. We have discussed that with our community consultation forum as well. There is a balance between spreading these costs over all customers—we are very wary about low income, low consumption customers—and what would mean a price increase for those customers if we had to spread that cost against all developments.

MR COE: I am not advocating one way or the other; I am just curious as to what the change in rationale is. In effect, this augmentation has always been planned. I know there has been talk about upgrading Northbourne for a long time, whether it is stormwater or sewerage. It is not as though it is unanticipated. To that end, what provisions have Icon or ACTEW made for these upgrades? In effect, do you have reserves ready to go to spend on these sorts of upgrades or is that why you are proposing to charge a levy?

Mr Sachse: We have long-term plans, so we have looked over a 20-year horizon. What we need to do is spend about $180 million worth of augmentation in these brownfield areas. We are proposing to recover half of that through the developers and then we will contribute the other half through Icon Water's funds.

MR COE: I cannot recall the name of the report, but I am pretty sure that maybe four or five years ago there was a fairly substantial ACTEW report about infrastructure and future capital works. Is that correct? Does that ring a bell? No? Okay. I vaguely recall such a report and I was wondering whether that report had been used to model the proposed costings that you are going to have going forward for the capital works.

Ms Lewry: The proposed costs are modelled based on the government's growth projections in and around the ACT. We use the latest information that is available regarding the growth patterns and then determine, based on that demand, what infrastructure requirements would be needed for that demand. One of the biggest changes that have occurred is that there has been very well established development for greenfields, new suburbs. Canberra, by and large, over the past 20 years has seen new suburbs. Often for the new suburbs the developer pays for most of that infrastructure in new suburbs already.

This charge is looking at those new urban densifications. It is those areas that Sam mentioned where the current last man standing principle is the current understood practice there. If that was to go ahead, you could get a stage where you have somebody wearing the entire cost of that significant amount of upgrade. That could actually stifle development in a corridor because nobody wants to go next and have to foot the bill.

That is some of the thinking that is going into ensuring that we continue to support the growth of Canberra. And making sure that the mechanisms are there to support that growth is really important for us and the community.

THE CHAIR: Could I go to the issue of long-term water security licences in about 2004-05, maybe even earlier. ACTEW was actively purchasing water security out of Tantangara and other places. Now it seems that you are looking at divesting yourself of at least some, or all, of that. How much did you acquire? How much security was it? Some of it was long-term security and some of it was short-term security. I need to get back up to speed on that. Also, how much are you proposing to divest yourself, how much did you spend and what do you think the sale price would be?

Ms Lewry: I will have to take on notice the exact amounts and the dollar figures. However, we have divested ourselves of our general security and high security water licences.

THE CHAIR: All of them?

Ms Lewry: All of them. The general security water licence was divested two financial years ago. The rationale is that when you actually want water, the general security licences often will not provide for it. We found it was a better return on investment to sell them and divest. We then looked at the likelihood of calling on that water, calling on our high security water licence and the profits that we were making by selling that water on the market, because we have done so, versus the returns that we would get for selling them, and the projected climatic forecasts and what that would actually do to the cost of those assets moving forward. It made more sense from an investment point of view to sell those licences late last year, which we did. It always means that if we want to call on the Tantangara scheme at a point in the future, we need to buy temporary water in the open marketplace.

THE CHAIR: So on notice you will be able to give the committee a breakdown on the purchase cost and also the income that you received from selling your access to the water? You made a profit on the sale of the long-term security licences?

Mr Knox: On the high security licences, we purchased for $25 million and sold for $34 million, so we did make a substantial profit.

THE CHAIR: Over what period? About eight years?

Mr Knox: We might have bought them in 2010, 2009.

THE CHAIR: It was that recently? I thought it was earlier than that.

Mr Knox: Also, because we did not use them during the year, we could lease those out and generate additional profit during the year. We will bring that back to the committee.

THE CHAIR: Thank you.

MS CODY: I was reviewing your staffing profile and I noticed that it is quite male heavy.

THE CHAIR: Engineers.

MS CODY: Yes. What are you guys doing to help support women in the workforce?

Mr Knox: There has been a substantial amount of focus on this in the past 12 months; actually, longer than that. We have a number of initiatives underway at the moment. We are quite conscious of the fact that our gender mix is not particularly good. Overall we have 23 per cent female versus 77 per cent male. The key area where we have the low results obviously is in what we call the project delivery operations and maintenance, so that is the field crew that are out in the trucks and in the treatment plants. We have approximately 200 staff in there and we have about four per cent female. Otherwise we actually have a much better mix. That is not dramatically different to any other utility sector. I should add that all the water industry at the moment is focused on increasing that diversity from a gender perspective.

The key thing we are focusing on at the moment is where to source females for the roles. We are advertising more broadly. We have changed our recruitment processes. We are targeting that in a far different way than we have in the past. We are also conscious that, as we recruit, our recruitment processes are such that the thinking through that is in no way tainted by any form of bias, intentional or otherwise. We do not believe there is an intentional bias, but they refer to something known as unconscious bias and many other forms of bias.

We are trying to increase the diversity and inclusiveness of our business to change the thinking of our staff so that it opens it up more broadly. As we go through that recruitment process, where we would probably expect a predominantly male oriented workforce, we are going to encourage more women to apply into these areas. We are going to have far more robust conversations about that process as we go through, and we are going to give some really serious focus on trying to change our mix.

The other issue we have to be conscious of when we actually attract good women to our business is retaining them as well. That is very important. As part of that we have been doing a lot of work around our culture and our values in the business. We have been doing a lot of work around safety excellence and openness. There are three key values, and we are having far more progressive developments in our workforce than we have ever seen before. That is a critical input to that as well.

In addition to that, we also have an inspire co-group, which is made up of both ActewAGL and Icon Water women and senior male figures as well. We are running that pretty much quarterly at the moment, so we are actually building a network where people are having far more open conversations around that as well.

MS CODY: I noticed the average years of service is also a bit skewed: the males tend to stay double the length of time. Is that something else that you are looking at in some of those other areas you have already addressed?

Mr Knox: It is. Our turnover rate is very low. The standard target turnover rate for an organisation would be about eight per cent. We are running at about half of that. So it takes a long time to turn staff over to actually break that cycle. Again, it is symptomatic of the industry. We retain people. They like working in the ACT, they like the company they work for and we do not have high turnover. It is certainly one of the factors we have got to consider.

MR COE: I was wondering how Icon exercises its ownership or part ownership of ActewAGL retail and ActewAGL distribution. What are the ongoing reporting arrangements? How do you resolve issues when there are differences of opinion amongst Jemena and AGL?

Mr Knox: Mr Coe, I probably need to tackle that in a new different layers. The first one is, as you would know, there are three Icon Water board members who sit on the ActewAGL board: me, the chair and the deputy chair. That is currently transitioning as the chair has retired and we are evolving through that. Those members have duties on that board to act in the best interests of the joint venture. Then there are our subsidiary boards to Icon Water, which are Icon Retail Investments Limited and Icon Distribution Investments Limited. They tend to deal with partnership-specific issues. Then there is an Icon Water board role as well.

On the Icon Water board, we undertake annually strategy meetings around the energy investment and have active conversations. Indeed, we are now moving the entire board to be members of those subsidiary boards as well.

Going to your question about if there is a disagreement or something akin to that at a joint venture level between owners, if it was a Jemena and an AGL issue, we would try to deal with that at an owner level outside the ActewAGL forum. Icon Water would be briefing the Icon Water board as to any of those disputes or differences. In the main, over the 16 years of the joint venture we have been very successful in resolving any of those issues.

MR COE: In terms of the organisational structure of Icon itself as opposed to the JVs and whatever else is in that, who advises you and who advises the board on electricity and gas issues?

Mr Knox: The Icon Water board. The Icon Water board is kept abreast of any energy investment issues in general.

MR COE: By whom?

Mr Knox: Across energy investment issues we have an array whereby management provide advice to the Icon Water board, which includes me, Sam and Jane, and we have an advisory team in there as well which supports it. Through the strategy sessions we have also at times engaged independent experts within the energy sector and brought them in to do particular pieces of work. In addition to that, we also tap the ENA—Energy Networks Association—to come in and give an industry overview on matters as well. So it is not one person; it can be an array of people who provide advice to the Icon Water board.

MR COE: Have you actually employed people within Icon Water who specifically have energy as opposed to water experience to advise you and the board on exercising the ownership that you have of ActewAGL?

Mr Knox: I am a little bit confused on "exercising ownership", but as far as advice is concerned—

MR COE: As shareholders you still have to scrutinise the entity.

Mr Knox: Yes.

MR COE: Separate to the board role, as a shareholder there is still an important role. At the annual general meeting, for instance, you still have a role there in scrutinising ActewAGL. I was just wondering who actually advises—

Mr Knox: I do. Predominantly it is my role. There are three ActewAGL board members, but in my role as both CEO and Managing Director of Icon Water, my primary responsibility is not only to run the water business but also to provide an oversight to the energy investment.

MR COE: And you have hired energy experts to give you advice?

Mr Knox: On occasions we have hired energy experts to advise us.

MR COE: But you do not have any on staff?

Mr Sachse: John, Jane and I all spent circa eight years each in ActewAGL, so we know the energy industry as well as the water industry. As John said, we get other advisers in where required to give us the advice on the ActewAGL joint venture.

Mr Knox: Sam was manager/adviser in ActewAGL, I was the chief finance officer and Jane was director of internal audit for the energy business. In addition to that, we have two or three who work in Sam's team in our advisory area who work closely over the energy investment all the time.

THE CHAIR: Thank you. I thank the officials from Icon Water. Questions taken on notice today should be back to the committee secretariat within three days of the issuing of the proof *Hansard.* Then members have five days to put extra questions on notice, and we ask you to answer those within five days.

Short suspension.

THE CHAIR: Mr Dimasi, welcome. This is your first—

Mr Dimasi: No, this is my second.

THE CHAIR: It is your second, is it?

Mr Dimasi: First before this committee; the second appearance at one of the committees as the Senior Commissioner of the ICRC.

THE CHAIR: Could I draw your attention to the pink privilege card that outlines the issues in relation to privilege. You just heard the rundown on answers to questions on notice et cetera, so I hope I do not have to repeat that.

Mr Dimasi: That is fine, thank you.

THE CHAIR: In relation to water regulation, regulated water and sewerage prices, if I could start there, what was the process for evaluating the new determined maximum prices for Icon Water's regulated water, sewerage and miscellaneous services?

Mr Dimasi: Sorry, can you repeat that?

THE CHAIR: What was the process for evaluating the new determination for water services?

Mr Dimasi: The new determination is just getting underway. We received our terms of reference recently, and the determination will apply from 1 July 2018 to 2023.

THE CHAIR: Yes, but at the moment you have a determination in place that goes through 2016-17. What were the factors at play there, and then you might like to tell us whether there are different factors at play for the new determination.

Mr Dimasi: I want to make sure that I am answering the right question. Each year there is a price reset that we undertake, and there is the five-year review. Are you talking about the five-yearly review or the annual reset?

THE CHAIR: I am talking about the five-yearly review, but now that you remind me of the annual reset, we can talk about that as well. Are there slightly different factors for the reset?

Mr Dimasi: Yes. The annual resets are pretty well automatic. It is a straightforward adjustment from year to year. Of course, I was not there for the previous one, but the approach was that the commission, as it is doing now, had to have a look at the various efficient costs that Icon incurs and the demand projections that are expected to occur. We have various models to deal with all of those. There is a public consultation process that it goes through. It takes into account the views of all of the stakeholders and comes up with estimated prices based on forecasts which may or may not turn out to be right. So it makes a determination for the period and each year that determination is adjusted to ensure that a couple of the things that are in there are correct, for example, inflation and so on.

It is a fairly standard regulatory process that regulators around the country apply to utilities. Last time around, as I understand it, it was a bit more complex because the ICRC's determination was reviewed by an independent body and its determination was substituted by the determination made by the independent panel. That is now in place, and we are implementing it, until we replace that with the new determination that we will be making, which we are just commencing at the moment.

MS CODY: I note you mentioned in your opening statement on page 6 of the report that the challenges facing the commission are centred on staff and skill development. Have you done anything to help address those concerns?

Mr Dimasi: We are in the middle of doing that right now. One of the challenges for the commission is that we are a small outfit and we have a workload that can vary greatly. Over the next couple of years we will have a pretty heavy workload because we are doing the determination for water that I have just talked about and we are doing the determination for electricity, which we are in the middle of doing. We will be releasing a draft report on that fairly soon, when we release the issues paper. Plus there are a number of other items that we will be doing. These are very substantial pieces of work.

The work can fluctuate. We have had a bit of staff turnover, and we are looking to skill up the commission staff. We have a number of job advertisements out at the moment. We also have some contracts with expertise that can help us; they are helping us at the moment. We will be looking to develop some of that skill in house. We also have to get the right balance between how much we bring in house and how much we buy when we need it because you do not need it all the time. So that is always one of the issues and challenges for the commission that we will be looking at. We are dealing with that right now.

MS CODY: Following on from that, I notice that, being a small organisation, you do not currently have a work health and safety rep as such. With some of those things that you have just outlined, will you be looking to maybe—

Mr Dimasi: We want to review it. In fact, one of the things that we are doing is reviewing all of our practices: work and safety reps and a number of things. Mike Rawstron is our new interim CEO. One of the things that we will be doing is reviewing all of the past practices. What we have in the annual reports is in the past and now we will be looking to see whether it is suitable and viable going forward or whether we need to make changes.

MS CODY: I note that you have not had any major incidents. Is that using the same measure that we have heard about: nothing longer than five days off work, and serious incidents of that nature?

Mr Dimasi: None that I am aware of, no.

Mr Rawstron: Because we are such a small organisation, we do not face the type of risks that some other organisations face. It would have to be a very rare circumstance to have someone off work for five days, unless they have the flu or something. So it is as simple as that. All the staff work collegiately and we try to manage the type of OHS issues together. We have regular staff meetings to identify problems. We have the normal requirements: a fire warden and those sorts of people. We have people dedicated to those roles and we have training arranged for that. So we collectively take responsibility. If we were a bigger organisation, it would be different, but since our numbers vary from half a dozen to over a dozen at any given point in time, it is a bit hard to put those things into place. As the commissioner said, it is on our to-do list.

MS CODY: Fantastic.

MR COE: You will know the price of the water in the fire extinguisher as well. What interaction do you have with the Treasurer in this instance or the Chief Minister? What is the interaction with the ICRC? In effect, it is an independent commission. I am just curious in part as to why the minister is here now as opposed to just the commissioner, and whether that is historic.

Mr Barr: I believe so. Generally, most questions are directed to the—

MR COE: I know, but for instance I am pretty sure the environment commissioner does not come with the minister as well. I am just curious as to whether—

Mr Barr: I am happy to go.

MR COE: I am just curious about the independent relationship and what reporting there is from ICRC to the relevant minister.

Mr Dimasi: We are an independent body. There is no day-to-day or direct reporting mechanism. I have to say there has not been a lot of interaction, quite honestly, although, of course, as we are within the broad Treasury portfolio as an independent agency, we stay in touch with Treasury. With respect to some of the funding arrangements that we need to organise, we talk to Treasury about those. But our work, our decision-making and our priorities are all set through the normal processes. There is a statement of intent, which I think it is normal for all bodies to have, which we sign up to, which is public and which we commit to each year. We report in our annual report. The views of government are put to us through public submissions; in fact we have had experience of that fairly recently. The interactions are pretty much as I have experienced as a regulator elsewhere. I would not describe them as being any different.

MR COE: Earlier I think you were here when I asked Icon Water about the proposed new levy that they are looking at for developments.

Mr Dimasi: We were outside but I heard it.

MR COE: How does the ICRC take that into account? If they were, for instance, to develop an alternative revenue source that was bringing in substantial amounts of money, albeit to pay for significant upgrades, how does that factor in to future determinations?

Mr Dimasi: The way that we regulate Icon is that we work out the efficient cost as best we can, and we develop a price cap based on the expected demand. So you work out a price cap. In effect, you multiply the total into the revenue cap. The regulatory system would not allow Icon to, if you like, escape that cap by putting additional revenue through a side door. If there are additional costs that have to be recovered, those costs would have to be accounted for. How that levy is structured is an issue for their public consultation. They will think about it. But it should not allow them to earn any more than the additional costs that they incur from the developments that they do. It will still be regulated. It will not be a free kick for them, so that they can put on an additional levy and there are funds there beyond the costs that they are incurring.

MR COE: Will that levy have to go through the ICRC?

Mr Dimasi: It does.

MR COE: It would have to?

Mr Dimasi: Yes.

MR COE: In terms of your authority in this space, are you in a position to be able to say, "No, we don't think it's justified to do a new pricing structure outside the existing water pricing regime"?

Mr Dimasi: We could say that. At the moment, as I understand it, the new augmentations are paid for fully by developers for greenfield sites. You could apply the same principle. You could do a different principle. They need to put their arguments to us. We will have a look at it and we will say, "What makes sense? What is the best way of doing it?" Yes, we have the authority to basically reject, accept or modify the proposal that they bring to us.

MR COE: In terms of the current water pricing model, given that the actual marginal cost of delivering water is relatively low, I am guessing, therefore the vast majority of the funds are going to infrastructure and the fixed costs associated with running the network. How does what Icon is proposing with this new levy differ from their current operations, which are, in effect, infrastructure and fixed costs?

Mr Dimasi: The costs that we have in the current regulatory scheme do not include the augmentations that are being proposed. Without going into the definition of "marginal costs" and the like, and the way economists would define them, marginal costs would fluctuate depending on whether you do need augmentation. If you factor that in, the cost will go up. This is a question of how you deal with these new additional costs. What is the best way of dealing with those which is both efficient and fair to everyone and provides the best outcome for the community?

MR COE: Also, what definition do we use for "augmentation"? There is lots of, in effect, routine maintenance which some people could describe as augmentation, as opposed to what Icon are now referring to as augmentation in Woden and north Canberra et cetera. Surely, Icon have been doing such maintenance for decades.

Mr Dimasi: The question of new capital expenditure that the regulator accepts into the regulatory asset base is probably the most contentious issue in regulation across all the utilities. You are certainly seeing it in energy as well. It is a good question. We need to get Icon to justify what the costs are that they are proposing and why they are new and additional costs and why they are not normal operational costs or a bundle of operational costs, or costs they would have incurred otherwise and they are not real augmentation costs that add capacity to the system. That is essentially the test.

That is one of the things that we would be looking at when they come to us with their proposal. Whichever way they want to do it, they are still in the consultation phase, but one of the issues that they will have to do is show that those costs are efficient and those costs are augmentation costs; they are not existing costs.

THE CHAIR: You talk on page 12 about your operational risk and how you have addressed that by employing extra staff. How far do you think you have minimised your operational risk by employing extra staff?

Mr Dimasi: It is a combination of employing extra staff when we need them and bringing in contractors with expertise. It is always a balancing act because the work that we do is relatively specialised. I could find these people. There are a number of consulting firms that I could bring in, but it would be hugely expensive to do that. So we are trying to find the right balance and minimise the extent to which we go to these very good but very expensive consulting firms that could help us when we need them. It is always a balance with these things.

MS CODY: A really quick question. Community engagement and support: I notice that you talk about the fact that you like to engage the community and let them know of your activities. What methods do you undertake to do that?

Mr Dimasi: Not only do we like to—which we do—but we are obliged to, and we take that very seriously. We have a public consultation process for our decision-making, for our tariff reviews, our inquiries. We give a time period for submissions so that people can put in submissions to us. We hold public forums, and we do that regularly on every major thing that we do. We get people to come and present their views. We do that at the draft decision-making stage and before we finalise that. We put out an issues paper to alert people to what the issues are and we get submissions on that. We put out a draft report and we get submissions on that. Then we will hold a public hearing so that people can come along and talk to us. We try to be open, transparent and listen to the views of the community. I think I have said it several times, and I will say it again now, that we listen very carefully to the views of the community before we make our decision. It will still be our decision and we will have to wear it, but we do want to listen to views.

MR COE: I have a couple of technical questions about a couple of the figures in the budget, so I might submit them in writing.

THE CHAIR: Okay.

Mr Barr: Just for completeness, I have responsibility for the ICRC Act under the administrative arrangements as Treasurer. The commission is accountable to the Assembly through me, hence that is why I sit in on these hearings.

THE CHAIR: Could I thank officials from the ICRC for turning up this afternoon and answering our questions.

Mr Dimasi: Thank you.

THE CHAIR: We will get a proof *Hansard* to you, probably in a couple of working days. I thank the Chief Minister and Treasurer for his attendance here today.

The committee adjourned at 5.15 pm.