



PARLIAMENT OF TASMANIA  
Legislative Council

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# **GOVERNMENT BUSINESSES SCRUTINY COMMITTEE 'A' 2020**

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## **Report with Minutes of Proceedings**

### **Members of the Committee:**

Hon Ruth Forrest MLC (Chair)  
Hon Mike Gaffney MLC  
Hon Sarah Lovell MLC  
Hon Dr Bastian Seidel MLC  
Hon Rob Valentine MLC (Deputy Chair)  
Hon Meg Webb MLC

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# MINUTES

**FRIDAY 11 DECEMBER 2020**

The Committee met at 1.20 pm in Committee Room No. 2, Parliament House, Hobart.

**Present:**

Ms *Forrest* (Chair)

Mr *Gaffney* (via Webex)

Ms *Lovell*

Dr *Seidel*

Mr *Valentine* (Deputy Chair)

Ms *Webb*

**In Attendance:**

Mrs Jenny Mannering (Secretary)

**Confirmation of Minutes**

The Committee confirmed the Minutes of the Meeting on Tuesday, 28 October 2020 as a true and accurate record.

**Outwards Correspondence**

The Committee endorsed the following outwards correspondence:

1. Letter dated 30 October 2020 to the Premier and Treasurer, the Hon Peter Gutwein MP advising of meeting details for his appearance on behalf of the Tasmanian Public Finance Corporation.
2. Letter dated 30 October 2020 to the Minister for Energy, the Hon Guy Barnett advising of meeting details for his appearance on behalf of Aurora Energy Pty Ltd.
3. Letter dated 4 November 2020 to the Minister for Infrastructure and Transport, the Hon Michael Ferguson MP advising of meeting details for his appearance on behalf of the Motor Accidents Insurance Board.
4. Letters dated 4 November 2020 to relevant Chairs advising of time of appearance.
5. Email dated 3 November 2020 to Rod Whitehead, Auditor-General requesting briefing in relation to all four government businesses.
6. Letters dated 4 November 2020 to stakeholders regarding invitation to meet or make comment.
7. Letter dated 25 November 2020 to the Auditor-General, Mr Rod Whitehead, Tasmanian Audit Office providing confirmation of briefing details.

**Inwards Correspondence**

The Committee received the incoming correspondence from stakeholders.

At 1.30 pm the Committee commenced informal discussion with stakeholders.

The Committee suspended at 4 pm until 8.45 am on Monday, 14 December 2020 in Committee Room No. 2.

## **MONDAY 14 DECEMBER 2020**

The Committee resumed at 8.45 am in Committee Room No. 2, Parliament House, Hobart.

### **Present:**

Ms *Forrest* (Chair)

Mr *Gaffney*

Ms *Lovell*

Dr *Seidel*

Mr *Valentine* (Deputy Chair)

Ms *Webb*

### **Apologies:**

Nil

### **In Attendance:**

Mrs Jenny Mannering (Secretary)

## **TASMANIAN PUBLIC FINANCE CORPORATION**

At 9.00 am the following witnesses appeared before the Committee:

**Hon Peter Gutwein MP**, Treasurer

**Mr Tony Ferrall**, Chairman

**Anton Voss**, CEO

**Andrew Finch**, Chief of Staff

The Minister provided a brief overview and the Committee proceeded to questions.

### **Question on Notice**

- Explain the difference between the \$579 million reported in TAFR and the \$522m reported in Tascorp Annual Report (RF).
- How has the leave liability grown over the COVID period (RF).

[Mr Gaffney left his seat at 10.36 am]

[Mr Gaffney resumed his seat at 10.37 am]

The witnesses withdrew at 10.48 am.

The Committee suspended at 10.48 am.

The Committee resumed at 11.12 am.

## **TASMANIAN WATER AND SEWERAGE CORPORATION**

At 11.15 am the following witnesses appeared before the Committee:

**Mr Doug Chipman**, Owners' Representative Group Chair

**Mr Dion Lester**, Acting CEO LGAT

The witnesses withdrew at 11.46 am.

The Committee suspended at 11.46 am.

The Committee resumed at 11.50 am.

**Dr Steven Gumley AO**, Chairman

**Mr Michael Brewster**, CEO

**Mr Matthew Pidgen**, Chief Financial Officer

At 11.50 am the following witnesses appeared before the Committee:

The Minister provided a brief overview and the Committee proceeded to questions.

The Committee suspended at 12.28 pm.

The Committee resumed at 12.32 pm.

### **Question on Notice:**

- Has there been a notable increase in uptake of the EAP during the COVID period (MW)
- What are the KPIs in relation to gender diversity (RF)
- What were the dates for the public input period for the Development Application for the Waratah Dam commissioning? (RF)
- What was the initial budget for the Henderson Dam works that was awarded to a Tasmanian contractor? What was the final budget and how much was paid to the CDO (RF)
- What was the initial budget for the Mikany Dam upgrade works that was awarded to a Tasmanian contractor? What was the final budget and how much was paid to the CDO (RF)
- What was the initial budget for the Duck River Pump Station and Pipe Mains. What was the final budget and how much was paid to the CDO (RF)

The witnesses withdrew at 1.19 pm.

The Committee suspended at 1.19 pm.

The Committee resumed at 2.00 pm.

## **MOTOR ACCIDENTS INSURANCE BOARD**

At 2.00 pm the following witnesses appeared before the Committee:

**Hon Michael Ferguson MP**, Minister for Infrastructure and Transport

**Mr Don Challen AO - Chairman**

**Mr Paul Kingston - Chief Executive Officer**

**Mr Daniel Gillie - Chief of Staff**

The Minister provided a brief overview and the Committee proceeded to questions.

The witnesses withdrew at 3.07 pm

The Committee suspended at 3.07 pm.

The Committee resumed at 3.15 pm.

## **AURORA ENERGY PTY LTD**

At 3.15 pm the following witnesses appeared before the Committee:

**Hon Guy Barnett MP**, Minister for Energy

**Professor Mary O’Kane AC**, Chair

**Rebecca Kardos**, Chief Executive Officer

**Grant Russell**, Chief Operating Officer

**Mel Percival**, General Manager Marketing and Products

**Kane Ingham**, General Manager Commercial Services

**Andrew Crozier**, Chief Product and Customer Officer

The Minister Rebecca Kardos each provided a brief overview and the Committee proceeded to questions.

### **Questions on Notice:**

- What consideration was given to providing free access to the app for all Aurora concession customers? (MW)
- How much of the support provided under the \$5m COVID-19 Customer Support Fund was in the form of direct assistance with bill costs (as distinct from waiving a fee or charge)? (MW)
- How many customers have received assistance under this Fund with bill costs (as distinct from waiving a fee or charge)? (MW)
- What proportion of those assisted with direct bill costs were concession customers? (MW)
- Of the employees currently on maximum term contracts, how many of those have had contracts rolled over/extended since first being engaged with the company, and over what period of time/number of extensions? (SL)
- What was the number of concessions customers prior to COVID and what is the current number (MW).

### **Questions on Notice (IN CAMERA):**

- Costing for the development of and ongoing costs associated with Aurora (RF)
- Do the contracts require AE to take all the LCG’s from Cattle Hill Wind Farm (RF)

[Mr Gaffney left his seat at 4.31 pm]

[Mr Gaffney resumed his seat at 4.32 pm]

[Ms Lovell left her seat at 5.00 pm]

[Ms Lovell resumed her seat at 5.02 pm]

The witnesses withdrew at 5.18 pm.

The Committee suspended at 5.18 pm.

The Committee resumed at 5.21pm.

### **Other Business**

Question on notice responses to be provided by COB Thursday 17 December 2020.

The Deputy Chair Hon Rob Valentine MLC is to present the report of the Committee to the President out of session during the week commencing 21 December 2020 (subject to the availability of the President) at a time to be confirmed.

**Next Meeting**

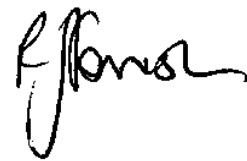
At 9.30 am Monday 21 December 2020 (CR2 and via teleconference).

**Adjournment**

At 5.24 pm the Committee adjourned.

**DATE: 21/12/2020**

**CONFIRMED**

A handwritten signature in black ink, appearing to read 'Rob Valentine', is written over the 'CONFIRMED' text.

**CHAIR**

## APPENDIX – TRANSCRIPTS OF PROCEEDINGS





# **PARLIAMENT OF TASMANIA**

## **TRANSCRIPT**

### **LEGISLATIVE COUNCIL**

### **GOVERNMENT BUSINESS SCRUTINY COMMITTEE A**

**Tasmanian Public Finance Corporation**

**Monday 14 December 2020**

### **MEMBERS**

Hon Ruth Forrest (Chair)  
Hon Mike Gaffney  
Hon Sarah Lovell  
Hon Dr Bastian Seidel  
Hon Rob Valentine MLC (Deputy Chair)  
Hon Meg Webb MLC

## **WITNESSES IN ATTENDANCE**

**Hon. Peter Gutwein MP**, Premier, Treasurer, Minister for Climate Change, Minister for the Prevention of Family Violence, Minister for Tourism

**Mr Tony Ferrall**, Chair Tascorp, Secretary of the Department of Treasury and Finance

**Mr Anton Voss**, Chief Executive Officer, Tascorp

**Mr Andrew Finch**, Chief of Staff

**Mr Ignacio Welch**, Chief Financial Officer and Corporate Secretary, Tascorp

# PUBLIC

**The Committee met at 8.57 a.m.**

**CHAIR** (Ms Forrest) - Welcome, Premier. I you would like to introduce your team at the table.

**Mr GUTWEIN** - From my right, Anton Voss, CEO of TASCORP, Tony Ferrall, Chairman of TASCORP and well known as Secretary of Treasury. To my left, Andrew Finch, Chief of Staff.

**CHAIR** - Did you want to make any opening comments. It has been a bit of tough year in some respects so I invite you to make some opening comments and then we will get into the questions.

**Mr GUTWEIN** - I will make a very short opening statement, thank you.

Like for many Government and private businesses, 2019-20 was an extraordinary and challenging year for TASCORP with COVID-19 having significant impacts on global economies and financial markets. While there were periods of financial market stress, demand for TASCORP bonds remained strong with unprecedented policy intervention by the Reserve Bank of Australia calming bond and money markets. Interest rates fell sharply across the yield curve and TASCORP bond yields fell to record low levels.

The economic impact of COVID-19 had major and rapid implications for many of TASCORP's clients who suffered declines in revenue. In response to the uncertainty and widespread impact, the Government explicitly guaranteed all TASCORP's loans to government businesses and other clients to ensure they had timely access to funds from TASCORP if required.

One of the key priorities in times of market stress is to ensure liquidity is available to meet our client's cash needs and support the credit rating of TASCORP and the state. TASCORP's gross balance sheet grew by approximately \$1 billion to \$9.2 billion by 30 June 2020, due to increased issuance of benchmarked bonds to fund increased client loans and to enhance liquidity.

Despite the significant market volatility that arose at times during year, the high credit quality of TASCORP's balance sheet and the low risk approach taken through hedging meant TASCORP met or exceeded all financial and non-financial targets set out in the statement of corporate intent. Total tax and dividend returned to the state in 2019-20 totalled \$144.9 million. This included a special dividend of \$39.5 million to return excess capital built up over previous years and \$83.7 million for the Mersey Community Hospital fund.

TASCORP continued to operate without interruption throughout the pandemic with staff split between the Murray Street office, the business continuity site at Lenah Valley, with others working from home.

Finally, I take the opportunity to thank the board and staff for their commitment and professionalism during what was a very challenging year and one I am sure they will not forget.

**CHAIR** - Thank you. I will start.

## PUBLIC

TASCORP's client exposure by sector, Government has become a significant borrower with TASCORP, which is not a surprise. It is not a criticism; it is just the reality. How are you expecting the borrowings to be repaid? What are the terms and the interest rates on the borrowings? Looking at page 11 of the annual report, the money on deposit from Government -and I ask if next year you produce it so it can be printed on an A4 page; even with my glasses I have real trouble reading this.

**Mr GUTWEIN** - It is the first year we have gone to that format.

**CHAIR** - I know. It is terrible, so I am just telling you.

**Mr GUTWEIN** - Thank you for the direct feedback.

**CHAIR** - Even those with good eyes might struggle.

With the money on deposit from Government - which is probably a lot less - I assume this was unspent funds earmarked for the COVID-19 response. If you could address those issues about the borrowings initially and then the money on deposit.

**Mr GUTWEIN** - I will get either Tony or Anton to provide some more detail. The current weighted average interest rate of the Government's portfolio is 1.28 per cent, and the weighted average term to maturity of the portfolio is about 7.24 years. So, borrowing at a very low rate. Obviously, over the course of the forward Estimates, the level of borrowings increases as has been well documented through the Budget and through the Budget period.

Currently with the metrics we use, the fiscal strategy includes a benchmark of interest costs and payments in terms of superannuation not exceeding 6 per cent of cash receipts. Over the four years we remain within that metric in terms of the fiscal strategy. When you look at the numbers it would need a blow-out of more than a doubling of the amount of interest charged that we pay over that period to get anywhere near pushing that.

**CHAIR** - How long a period are we talking here?

**Mr GUTWEIN** - That is the forward Estimates. Regarding what we will do in respect of managing this and paying it down, work is under way at the moment on the fiscal strategy, which will be detailed in the lead up to next year's budget of what the options are in either managing it in a steady state or, conversely, looking at how we might pay that down. Obviously, for the benefit of the committee, it is simplistic, but the bottom line is we need to grow our economy, we need more revenues. If we have more revenues and surplus capacity then we will start a program of paying that down over time.

**CHAIR** - In the annual report, which I accept is an annual report -

**Mr GUTWEIN** - What page of this very difficult -

**CHAIR** - Page 11, if you can see the numbers. That only goes out to the financial year 2021. How big are the borrowings? Are you expecting them to get bigger in 2022, 2023, 2024?

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**Mr GUTWEIN** - I refer you to the general Government balance sheet of the Budget. Borrowings over the forward Estimates rise by 30 June 2021 - this is gross borrowings it is not net debt - of a little over \$3 billion to around \$5.2 billion over the four years.

**CHAIR** - From what you said, Treasurer, I believe there has been some modelling done as to what the impact of a rise in interest rates would do.

**Mr GUTWEIN** - Over the forward Estimates, the metric we use - the 6 per cent of cash receipts - at the moment the total interest costs for the Government are around, I would need to look it up, but I think it is around \$70 million at the end of that four-year period.

If you apply the 6 per cent benchmark to the then cash receipts in that particular year, you could almost double the level of interest payments and still be within that 6 per cent envelope.

We have had that same fiscal strategy since I became Treasurer back in 2014-15. It stood the test of time. We haven't changed it. In fact, when I became Treasurer, from memory, there had been seven changes to the fiscal strategy over the last 12 to 15 years. As a new aspect of that fiscal strategy, we will need to introduce options for reducing the debt in next year's budget, and over the next decade.

**CHAIR** - There is still some money on deposit shown in that same table or chart. In 2020, there is a not insignificant amount of state Government deposits. In 2021, that drops right away.

**Mr GUTWEIN** - Tony can talk about the money held on deposits, but again I refer to the balance sheet. Right across the forward Estimates, in the general Government sector, we hold about \$1.16 billion, starting from the end of this current financial year. We are still holding more than \$900 million in cash at the end of the four years, which then provides us with that obvious offset in terms of net debt, and we arrive at a little over \$4 billion worth of net debt at the end of four years.

**Mr FERRALL** - One reason you see the drop-off is that the general Government is holding deposits with Westpac, so not all the deposits are directly through TASCORP.

**CHAIR** - The ones TASCORP is holding are the ones I am interested in.

**Mr FERRALL** - That's why the general Government sector, the reason the state Government deposits has fallen away is because we are holding substantial deposits with Westpac. We are budgeting to hold them through Westpac over that period.

**Mr VOSS** - The other issue is that the annual report was also done before the Budget was released. For example, the cash balances in the specific purpose accounts - the amount and deposit - that was our estimate at the time, but that could vary going forward, depending on the outflows of the Government and what is required.

**Mr VALENTINE** - Trying to understand as a layperson - I am not an accountant by any stretch. You borrow money from TASCORP, and then you give money back, basically?

**Mr GUTWEIN** - They hold deposits.

**Mr VALENTINE** - So, where is the benefit to you in actually doing that?

**Mr GUTWEIN** - That money that Westpac would hold, I think, would largely be the cash-backed specific purpose accounts which we hold.

Across Government, and in the Budget, if you go to the section on public accounts, it actually details the specific purpose accounts that we hold across agencies. That is cash back in, for example. I make the point that there has been a policy change in this area. Normally what we would do, during the course of the year, is not cashback for specific purpose accounts, but we would have an overnight borrowing on 30 June.

**Mr VALENTINE** - I've heard about that. Someone brings that up occasionally.

**CHAIR** - Not any more, because now we have the Financial Management Act. That's changed that.

**Mr GUTWEIN** - We now cashback those accounts through the course of the year, and as Tony said, some are held on deposit with TASCORP, not much. Others are held with our bank, Westpac.

**CHAIR** - On page 25 of the annual report, I made a comment as you walked into the room about your staff profile, and the pretty apparent lack of gender diversity. I am wondering what you are doing about that, Treasurer? The other point, because it is quite a small workforce, how you deal with key person dependency and succession planning and that sort of thing?

**Mr GUTWEIN** - I'll let the Chair of the board talk to that. It would be fair to say that we have a small specialist team. In fact, we have sat at this table now for the last seven years, and I don't think the people behind me have changed.

**CHAIR** - Kath Morgan-Wicks was there once. Oh no, she wasn't in Treasury.

**Mr GUTWEIN** - She was a deputy secretary. In terms of TASCORP's specialist team, while gender diversity is an obvious matter we need to consider as we move forward, the other point I make is that we have an experienced team that has been with us for some time.

**Mr FERRALL** - The Treasurer is correct. We have a longstanding team. While some positions change, not many change in TASCORP, and certainly the more senior members of the team have been stable for a long time. We are committed to improving gender diversity, but you also have to recognise that the nature of the industry or business we are in does mitigate against that to a degree. We are working on it. We know we have more work, but I think the guys behind me would rather keep working for a while.

**CHAIR** - We are not getting rid of their job today.

**Dr SEIDEL** - Don't give up, because the industry you work in mitigates against it. That is not the way it is meant to be, is it? I think there would be an expectation that you lead in order to demonstrate.

## PUBLIC

**Mr FERRALL** - We have very few positions come up on an annual basis.

**CHAIR** - Which takes me to the concern about key person dependency.

**Mr GUTWEIN** - One other point to make is that, setting aside the Chair, the board is split 50-50 men and women. Add the Chair in, and let's say a 40-60 split, so we do have gender diversity at the board level.

**Mr FERRALL** - It's 50-50, because Anton is not on the board.

**Mr GUTWEIN** - That's true, it is 50-50. Sorry, Anton. To come back to Dr Seidel's point, we are not losing sight of it but, at the end of the day in a small specialist team, you are not going to let people go just for the sake of balance.

**CHAIR** - No, I am not suggesting that.

**Mr GUTWEIN** - As we move forward, it is front and centre in our thinking.

**CHAIR** - With all due respect to Anton, he is a relatively new appointment, so there is some change. Could you address the key dependency concern?

**Mr FERRALL** - We do have key dependency issues, and they are challenging, and Anton can comment in a moment. We try to work across the teams we have and cross-skill within the organisation. The skills we have in some areas of TASCORP can be found in other areas in the state, but quite often they are very specialist. There is no other equivalent organisation in the state, and each jurisdiction only has only has one central borrowing authority, so it is quite a confined or defined market.

Some of the skills are replicated in the banking sector, and so to a degree there are opportunities or options for dealing with those key person dependencies by bringing people in from the banking sector. Primarily we look at the team internally and try to ensure we have enough coverage of the skill sets, so that if we lost an individual, we have capacity to cover.

**CHAIR** - How did you manage that during COVID-19?

**Mr VOSS** - Through COVID-19 specifically?

**CHAIR** - Yes. If any of your team had become sick with COVID-19, it could have been quite a difficult situation.

**Mr VOSS** - As the Premier and Tony said, it is challenging. I have gone into the organisation from Treasury with hundreds of staff to 19 FTEs. When I came on, I was very cognisant of the gender diversity issue, for example. It is pretty challenging because the staff have all been there for a very long time and I don't have much staff turnover. Since I have been there, we have had two new staff members, but they're largely covering for maternity leave. One was a male and we had a female as well, so we have had both. I certainly was looking at those matters, and I bring it back to key person dependency.

At some point, with people having been in the organisation for a long time, I expect I will see some retirements at some point. That will be an opportunity for me to focus on gender

## PUBLIC

diversity and what could be done. But, as Tony said, it is very difficult. There are not people in Tasmania who do the types of things that we do in TASCORP.

Many of the people in the organisation are from interstate and from the banking sector and, as Tony said, also at the moment, at least - it's changing, thankfully - but at the moment it is still predominantly male, in that sector. So, we are very aware of it, trying to work through it, but it's not something I can just do because, unless I put more staff on, the good staff I've got are there at the moment. And on key-person dependency, that's a challenge. As Tony said, you try to do things around cross-skilling and what-have-you and we've got a few people in the organisation who have moved around the organisation but it is a challenge.

**CHAIR** - How did you respond to COVID-19 regarding managing the office with such a small team?

**Mr VOSS** - With COVID-19 in particular - outside of someone important getting sick like one of the gentlemen behind us - pretty early on we made a decision that we had to break the office up in case someone in the office came in with COVID-19. We were going to have problems like every other organisation would have, so very early on we split the office.

We have a business continuity site - two rooms out at TasNetworks at Lenah Valley - and I sent around a third of the team out there, which included Ignacio behind me. We sent strategically senior managers and senior people from each team. We had a core little unit operating out at Lenah Valley. We had a core group continuing to operate in the Murray St office up the road here. We continued - including myself - to operate right through that period. We stayed in the office.

We're a critical service provider, for want of a better word. We made them ensure that all the government businesses and the government had their liquidity. The other third went home and did working from home. Like every other organisation, we had to work through IT and various other issues, which we did. That's how we dealt with it and it wasn't until the end of June that we brought everyone back into the office.

**CHAIR** - Everyone is back in the main office now?

**Mr VOSS** - Everyone is back in the main office now and have been for a few months but, again, we can respond fairly quickly. But that's how we dealt with it. I split the team up in such a way that if someone got it I would only lose that segment of the team as opposed to the whole team, if that makes sense.

**Mr GUTWEIN** - On that, it was a question I'm certain I wasn't asked at Budget Estimates - regarding the way the Treasury managed the budget process and for obvious reasons we have got a relatively small team - I want to place on the record David Bailey's efforts through that and with Tony as we were working our way through key-person dependency. It was something that was front and centre in Treasury's thinking as well because, if we had had an outbreak in that team, then we would have had no budget to work our way through. I add my thanks to Treasury's work and especially Mr Ferrall's work through that period.

**CHAIR** - A lot of pressure, yes.



## PUBLIC

**Mr GAFFNEY** - A follow-up to that one. Since we've been through the COVID-19 experience and you had staff working from home, now that you've had that period of time have you considered a different way of operating now within the organisation and some positive aspects of that?

**Mr VOSS** - Yes, absolutely. We are an operational business, for want of a better word. Going back to my previous role, there was quite a lot of policy-based stuff, for example, when I worked in Treasury, so that type of work can lend itself better, I think, to working from home in that I can go home and write a paper or a brief to the Treasurer on whatever it might be. We don't tend to have that type of task in TASCORP.

We tend to be, as I said, more of an operational business. Having said that, we certainly got some positives out of COVID-19 that I'm sure a range of other businesses did as well. We didn't, for example, have many people able to work from home to the extent we can now. Now, if we wanted to and, in fact, we did a test run deliberately through the COVID-19 period where you can have everybody working from home, and it works. Now, there's a range of inefficiencies around that, but if push came to shove you could do it.

But, yes, what it has done is that it has allowed - even in the organisation some of the thinking around what can be done from home, how does flexibility work and all those types of positives organisations that have dealt with COVID-19 have got out of this. Certainly, looking forward, for example we still have at TASCORP desk top PC's and probably at the next hardware refresh I will get some more powerful laptops to permit some more flexibility. We will probably similarly change how our business continuity site works because of that.

**Mr GAFFNEY** - While you said there was a range of inefficiencies, were there any efficiencies from that situation, such as staff travel?

**Mr VOSS** - Yes, the same as many other organisations would get, it is one of those things where typically in an operational type business it would not have been potentially looked at in the same way as it is now. Having had to go down that path we see it works. Similarly, IT has come a long way as we have upgraded to Microsoft 365 through that period which we previously had not done. We had a lot of our stuff on our own servers and now it is in cloud and all those types of transitions have been very positive for the organisation.

**Dr SEIDEL** - You mentioned the cloud. In terms of safety and security are you comfortable the Microsoft cloud is meeting the standards you would expect a server-based system can offer?

**Mr VOSS** - Yes, in short. They are as you know one of the largest providers and it is critical to their business. It is very important for a small organisation like ours - the efficiencies you gain about going into the cloud versus hosting things yourself are quite significant. There are risks with hosting your own stuff and there are two sides to the cloud security issue. It is not only what your service provider is able to do and the security they have and the efficiencies we gain from moving into the cloud.

A good example is I am looking at my notes through Microsoft cloud at the moment. The flip is if you keep it onsite on the basis it is more secure on site then I have to think through who is looking after my security, who's dealing with cyber, what staff have got as I don't have

an IT department at TASCORP. We are fortunate we have a gentleman there in operations who has a lot of technical IT background and we have also outsourced to a local firm.

We have progressively moved away from hosting things onsite to in the cloud and yes, we do think about those things, but we stick with the very large companies. If we have an issue with Microsoft 365 then everyone has a problem in the security sense because much of the government is on 365 and, as I said, that is their key business.

**Mr VALENTINE** - With the key person dependency, last year I asked the question about knowledge management and about people walking out the door and getting run over by a car and what they take with them, what is it that has to be rebuilt, what information have they got that could be stored electronically to aid someone else coming into that position. The answer that came back was, we are looking at it and trying to work our way through it. This is about knowledge base and knowledge management from Mr Rochester last year. Have you done any more work on this? So, while individuals are critical in what they do, the knowledge they hold is more available should something happen to them.

**Mr VOSS** - The answer to that is yes. We continue to update procedures and policies. For example, I have been checking with Ignacio, our CFO, on updating the finances menu. We are continually updating our documentation. Having said that, the reality is you cannot document everything that is in -

**Mr VALENTINE** - No, daily things.

**Mr VOSS** - In a daily set up. Yes, we do have documents there and they are continually being updated by the senior managers.

**Mr VALENTINE** - With business continuity you are not over reliant on various aspects of your operations that you can't pull yourself out of fix. Do you have well-established business continuity plans?

**Mr VOSS** - Yes, we have a business continuity plan. We are in the process of updating it now post-COVID-19. We had a pandemic section in the business continuity plan but I think it was in response to SARS. It is interesting. I reflect on those things. You have to react to what is front of you at the time and you go through what our pandemic plan was in our business continuity plan versus what we did. The reality of COVID-19 versus SARS is they are quite different things. As I said before, the COVID-19 outcome has been such that now we are probably more robust in a business continuity sense than we were before because we have much stronger work-from-home capacity than we previously did.

**Mr VALENTINE** - You probably plan on revisiting them at more regular intervals?

**Mr VOSS** - The organisation frequently did business continuity site tests, even in the first year I was there, pre-COVID-19. I went out and did one myself to make sure it is all functioning. I have to say I wasn't expecting in my first year at TASCORP to be pressing the 'go' button to use the thing.

**Mr VALENTINE** - That is why it's so essential.

## PUBLIC

**Mr VOSS** - They are but it is for a different reason. That is the interesting thing about it. The business continuity as we have currently got it set up, it is two large rooms which basically replicates a desk for everyone in the organisation because we are small enough that we can do that: 20 people, a PC for everyone, log on there and away you go.

That is really to deal with something happening in the CBD or our building burning down or something. Now, as we moved through COVID-19 we probably don't have to do it that way. We can probably have a smaller continuity site with key personnel, and the rest of the people could probably work from home quite adequately. That is something we are working through, doing a post-COVID-19 review with the board.

**Mr VALENTINE** - It is just key software failure, those sorts of things I am thinking of.

**Mr FERRALL** - At board level we get regular reports on all these sorts of things, including regular reporting regarding software and whether it is current or not. Regarding staff training, we get regular reports on how staff are keeping up-to-date. All of the internal policies and procedures are regularly updated and tested as well.

For a very small organisation it does have all of the overlay you would expect in a much larger organisation, which is one of the challenges we deal with. At board level, we are very cognisant that we are a small organisation, that all of the policies and procedures need to be regularly tested and regularly updated. We are cognisant that unless you are vigilant internally, sometimes these things can slip because of other priorities and all the other issues that people have to deal with. We keep a pretty firm view on those things as we roll forward.

**Mr GUTWEIN** - On that point, right across Government there are learnings that will come out of COVID-19. Whilst a difficult period, it will lead to some opportunities, Rob. Everybody is having a look at the response post-COVID-19 and working our way through it. I would make the point, though, that we are still in COVID-19 and we need to be cognisant of that as we move forward over the next months.

**CHAIR** - We might move on. I would like to ask Treasury is I understand there has been a change in the dividend and tax policy for TASCORP. Could you explain the rationale, the timing of the change and the impact? Maybe the chair is better to address the impact, but you can address the other matters perhaps?

**Mr GUTWEIN** - In terms of the policy, I will read you the note in terms of the Lump Sum Dividend and Income Tax Equivalent Regime (LSDITER) -

In terms of the Treasurer's instruction, the lump sum dividend and income tax regime has a long-term effect if TASCORP's net earnings that are above the amount required to maintain the appropriate capital structure that we agreed between the Government and TASCORP will be returned to Government. Under the TI when TASCORP recommends a total lump sum payment to the Treasurer, it considers factors such as ability to pay, the effect on the general reserve, and the accumulation of retained earnings and volatility arising from market-to-market accounting.

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As you would be aware, they are typically paid in December each financial year, and includes the corporation's income tax equivalent liability for the preceding financial year, and the corporation's dividend payment relating to the preceding financial year, as approved under Section 84 of the Government Business Enterprises Act.

The corporation paid a \$39.5 million special dividend in 2019-20, as directed under section 86.1 of the Government Business Enterprises Act, following consultation with TASCORP. The direction was approved by both Houses of parliament, as per the act's requirement.

I make a point here. If you go back to when I first became Treasurer, and before that, we kept a \$10 million general reserve, which is held by TASCORP. We also had a capital adequacy, and I think, Tony, \$38 million was what we used to target? The retained earnings by the corporation, prior to the decision being taken to issue the special dividend, were around \$100 million. Now we are targeting a \$50 million capital adequacy or thereabouts, including the \$10 million of general reserve. Then, as I have said, we calculate the taxation equivalent, and a dividend is paid subject to the company's ability to pay.

**CHAIR** - It is different from the other GBEs, for the obvious reason it is a different GBE.

**Mr GUTWEIN** - It is. I make the point that we do not apply the 90 per cent standard dividend policy to TASCORP.

**Mr FERRALL** - TASCORP is not a capital-intensive business, so we do not have the need for major capital investment that you see with the other GBEs. Going forward, the expectation is effectively that between the tax payment and the dividend, that will be equivalent to our net profit before tax. Effectively, we return to the Government all our net profit. There is no need for us to retain profit in a capital-intensive business. The board reviewed the capital requirements prior to recommending to the Government that we pay a special dividend of \$39.5 million, and through that process we effectively evaluated that we required capital of about \$50 million. I would have to check the exact amount, but I think currently our capital is about \$61 million.

**CHAIR** - Okay. Anyone feel free to jump in, otherwise I will just keep going.

**Ms LOVELL** - Are you going to the Mersey?

**CHAIR** - Not yet, but you can if you like.

**Ms LOVELL** - Premier, I had some questions about the Mersey fund. We have seen that the dividends have continued to rise, but the returns have fallen. Obviously, we are operating in an environment that nobody was anticipating, but how will this year impact on the long-term plan for the Mersey fund? What is expected in the next year or two in particular, and have any adjustments been made to that plan?

**Mr GUTWEIN** - The plan we laid out was to provide a return to the state over a 10-year period. There is a dividend that is paid into the tenth year, albeit through what are difficult circumstances. That dividend is currently forecast to only be around \$16 million,

**Ms LOVELL** - In the tenth year?

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**Mr GUTWEIN** - In the tenth year. The plan that was laid out by TASCORP when they took on the role of managing that fund was to provide a return over the 10-year period. Obviously I would like to see the full dividend paid in the tenth year, but at this stage it is forecast to be \$16 million.

You asked in the coming years if there is any change to what is proposed? No. The annual indexation at 3.5 per cent continues, in terms of the dividend payment in return to the state. That will continue. Tony or Anton might like to speak about the investments that sit behind that fund.

**Ms LOVELL** - Can I just clarify? The \$16 million in the tenth year, is that a revised estimate, taking into consideration this financial year?

**Mr GUTWEIN** - Yes, it is.

**CHAIR** - It was more than that.

**Mr GUTWEIN** - It was.

**Ms LOVELL** - Thank you. I think we were going to hear some more about the investment plan for the Mersey.

**Mr VOSS** - I don't want to use the words 'set and forget', because we're not forgetting it, but the Mersey fund was originally set up in such a way that the investments were purchased. It's currently a 75 per cent fixed, 25 per cent floating exposure.

**Ms LOVELL** - Okay.

**Mr VOSS** - Sorry, incorrect: 65 per cent fixed, 35 per cent floating. To your point earlier, as interest rates have come down, the floating rate has impacted on the Mersey return. As the Treasurer said, we're still getting a return in the tenth year of around \$16 million. The majority of the funds are in two types of instruments. They're either in corporate-type bonds, or residential mortgage-backed securities. Most of those - or all of them - are investment-grade securities, and they range from AAA through to BBB.

The reality in the declining interest rate environment is that, as rates have fallen, the returns on the Mersey for that floating part also fall, but obviously the fixed ones don't. We do have some compositional changes over time but, as I said, largely the investments have been bought, and there's not a whole lot of churn. We monitor those investments and we can move some of those things around, but the Mersey fund is what it is.

**CHAIR** - It has taken a significant hit, though. I remember when it was first set up, there was an expectation that they would get an average 10 per cent to 12 per cent return, and I asked where that could possibly be, because I would like to put my money there as well. I am interested in what the average rate of return is at the moment. If interest rates stay as low as they are in a similar sort of frame, are we going to see a further reduction in that expected \$16 million in the tenth year? It's on the record that the government at the time thought it might last until the eleventh year.

## PUBLIC

**Mr GUTWEIN** - I think the expectation was it would be between 10 to 12 years, not 10 per cent to 12 per cent interest. We haven't seen 10 per cent to 12 per cent interest rates since the early 2000s.

**CHAIR** - I know. That's why I thought they were expecting a better rate of return than they're getting now.

**Mr GUTWEIN** - When we landed this back in 2017, I think interest rates would have been 3 per cent to 4 per cent, maybe up to 5 per cent, depending on what was backing it, and mortgage securities do back it - so, a 5 per cent return would have been reasonable at that time.

It's probably important to put some context around this. By the time we get to the end of the 10 years - which will be 2026-27 - looking at the overall revenue situation of the budget, with its long-term average revenue growth of 3.5 per cent to 4 per cent, we will have revenues just south of \$10 billion. At the moment we're sitting somewhere between \$6 billion to \$7 billion and, by the end of the four-year period we are at looking at about \$7.5 billion in the current budget. At that time, the dividend payment at 3.5 per cent compound growth each year, would need to be somewhere between \$100 million and \$110 million in the tenth year, that would be the expectation.

It has always been the case that we would move at that particular point to the activity-based funding model that applies to health more generally, which is a 55 per cent to 45 per cent split - the state's contribution being 55 per cent. That would mean we would need a contribution out of the general government sector at around \$60 million in that 11th year moving on.

In a \$10 billion budget that is a fraction of 1 per cent, in fact it is less than 1 per cent, of our overall revenues. It is manageable. That is the view I have always taken as Treasurer, that as long as we are cognisant of where we are going to end up in managing the Mersey Community Hospital back onto activity-based funding in that year - regardless of what level the dividend is - is manageable in the context of the budget.

**Dr SEIDEL** - A follow-up because the fund was set up as a 'set and forget' and the dividend is pretty much of index of 3.5 per cent, why would you take the risk of having 35 per cent as floating investments? Why wouldn't you look at fixed index? If you are 3.5 per cent of the dividend, why don't you look at the 4.5 per cent to 5 per cent you get, because now you have exposed yourself to unnecessary risk because the markets have changed. Why at the time did you make the decision to say, 'Well, 35 per cent are going to be in floating investments', considering you are looking for a 3.5 per cent fixed dividend anyway?

**Mr FERRALL** - It has a high component of floating rate in it, effectively because the capital erodes over time. So, you have to have sufficient cash coming out of the capital to pay the dividend. The dividend is not just a component of interest earned. Effectively, the capital has to form part of that which is why the fund is running down from \$730 million to zero over the period.

**CHAIR** - What is the average rate now ?

**Mr VOSS** - The current return is 2.36 per cent at the moment.

## PUBLIC

**CHAIR** - On page 4 of your annual report I note there in the key limitations of TASCORP's cost of borrowings that its access to debt capital markets depends on the state's credit rating, over which the corporation has no control. A few questions on that. Doesn't the RBA determine interest rates of state government debt?

**Mr GUTWEIN** - No. I will allow Anton to speak to that.

**Mr VOSS** - Sorry, could you repeat the question.

**CHAIR** - Does the RBA determine interest rates on the state government debt? Will any further deterioration of RBA rates cause further deterioration to TASCORP financial position and what is the projection?

**Mr VOSS** - No, they don't. They are targeting Australian Government bond rates out to three years under their very large suite of unconventional monetary policy you might want to call it, in response to COVID-19.

**CHAIR** - Necessary.

**Mr VOSS** - Yes. The governor has been very clear that they are not targeting specific levels of rates with regard to semi-government bonds. They are buying semi-government bonds through the secondary market; they are not purchasing them directly from the central financing authorities. Our bond rates move depending on what the market view is at the time, and the credit rating of the state is a component of that.

**CHAIR** - If we go a little bit further with that, if the RBA has bought a significant number of TASCORP bonds, doesn't the price they are prepared to pay to acquire TASCORP bonds on the secondary market determine the price of TASCORP bonds?

**Mr VOSS** - The price they pay at the time will reflect a market on the day, if that makes sense.

**CHAIR** - So it does affect the price that you get?

**Mr VOSS** - Yes, targeting in particular the Australian Government bond rate, drags all the other rates down. That is the intention of what they have tried to do. They have so-called yield curve control at the short end where they are targeting a particular rate, and then they have what's commonly termed quantitative easing policy at the longer end of the curve where they are targeting an amount to purchase the bonds, which includes, as you say, semi-government bonds as well as Australian Government bonds and they have purchased some TASCORP bonds. To the end of October, I think it was around \$150 million.

**Mr GUTWEIN** - Would it be fair to say that the RBA went to the market with a 0.25 per cent rate for three years? Three years is a relatively short window of time in running a state and looking forward in terms of where we are at. The real issue is what we can get a bond away for the longest period of time at the lowest rate is really where we want to be. That is probably the simplest way of putting it.

**Mr FERRALL** - We're not targeting, from the general government sector, long or short. We are basically looking at a situation to ensure there is no particular refinancing risks going

forward. You don't want all of your maturities at one point. We are buying across the curve effectively, or across the range of maturities.

**CHAIR** - What were the interest rates for new bonds issued during the year, not the face so much, but the yield that investors accepted?

**Mr VOSS** - It varied depending on the term because the curve is an upward slope.

**CHAIR** - Do you have a range during the year?

**Mr VOSS** - The bonds would be from 0.5 per cent out to 1.75 per cent at the longer end of the benchmark curve and we do issue bespoke beyond that. Rates can be a bit higher than that, but on any outright basis they are very low and one of the benefits - if there is with regard to the government borrowing funds now versus where previously they had no borrowings compared to other states - the rate which the Treasurer talked about earlier is very low compared to some of the other states, which is a positive in a debt servicing cost perspective because they don't have any overhang of previous debt. We are issuing at record lows at the moment. Rates have gone lower. In the annual report the low in the 10-year was 1.35 per cent and they have gone lower since then, part of which is the RBA monetary policy approach.

**CHAIR** - Does TASCORP run a tender system for bonds like the AOFM does?

**Mr VOSS** - We do a range of things. Sometimes we will do what is called reverse inquiry where we will be approached through banks and by investors to purchase on a bespoke basis. We will do syndication. We will do a large issue through a range of banks and we will also do a separate tender through a yield broker, which is a new thing we have done recently. We have done it in the past but we have brought it back in now. That is going with a broader issuance where more people can participate from the market in a direct sense. We have a range of ways in which we can raise funds.

**CHAIR** - If the RBA is prepared to lend to private banks, as I understand they are, at 0.1 per cent loan facility, why doesn't the RBA lend to the states at the same rate? It is a question for the RBA but I am interested in whether you think it is important, Premier, and whether it is something you should take up with them at National Cabinet?

**Mr GUTWEIN** - One of the things, and by our exposures lead to the RBA at the moment, albeit a sizable level but still low comparatively to the overall portfolio is, as Mr Ferrall said, what is important is we borrow right across the bond curve as that we set across that so we do not get caught. I know other Treasurers were a little concerned with the 0.25 in the 3-year window available for sovereigns, was you might have put yourself in a position where you are doing a refinancing in three years and the world has changed completely again. As Tony said, we try to borrow right across the curve to ensure we have refinancing flexibility in future years.

**CHAIR** - Do you think there should be discussion at a national level about all of this? In that regard some states are more exposed than we are.

**Mr GUTWEIN** - Again, that is a matter for other states. You are right, other states are much more exposed. Victoria makes the borrowings we are entering into look of no consequence whatsoever.



**CHAIR** - They also have a bigger population and other things that can back them.

**Mr GUTWEIN** - Utilising a range of metrics they are in far more challenging circumstances than what we are.

**CHAIR** - I do not know whether you read *The Age*, Premier, but there was an interesting article in there by Ross Gittins this morning. I encourage you to have a look at it.

**Mr VOSS** - No. I will now.

**CHAIR** - It is in the Opinion section. He makes the point, and a question I already had on my list, was do you believe credit rating agencies are still relevant in our current climate. I know there was a bit of argy-bargy with some of the other states and opposition parties trying to have a crack. Fell pretty flat as Ross Gittins says in his article. Do you think they are still relevant at this point? Should we even be considering what our ratings are because of the way the monetary policy is being handled at the moment?

**Mr GUTWEIN** - The Governor of the Reserve Bank has made some fairly strong statements on the public record in that regard, that right now is the time for states to be exercising their fiscal capacity, their balance sheets as economic stabilisers. I know there will always be something in a political sense made of credit ratings. It is important ensuring you manage your finances sensibly and sustainably. Right now, in the scheme of things, any commentary about credit ratings in the current circumstances does not add a lot of weight to the public discourse.

**CHAIR** - As the article says, it is unlikely the federal government is going to allow a state to default, especially when the debt is with the RBA. It becomes a bit of a moot point, doesn't it?

**Mr GUTWEIN** - It will impact in the future. You would not want to see a state take itself into a difficult set of circumstances and then, as a result pay a penalty in interest costs in future years. At the moment the commentary from both Moody's Australia and SMP Bank Credit Rating, is relatively positive for us. They have both recognised the strong financial management the state has in the teams it has afforded. My job is to focus on ensuring we bring down a budget that is manageable and sustainable in the state's context. That is what we have been able to do, regardless of the commentary the credit ratings agencies might provide.

**Mr FERRALL** - You have to recognise all Australian states are very strong in a credit rating, notwithstanding there might have been some changes recently. The importance of the credit rating is there is some form of independent separate analysis that occurs. With absolute issues such as debt costs, it is quite insignificant in the difference between a triple-A and a double-A plus of the pure impact on debt cost. They do have a role.

**CHAIR** - They are not completely irrelevant then.

**Mr FERRALL** - No, I do not think they are completely irrelevant. TASCORP as an entity, goes to the market and the market requires an independent assessment. It would be more difficult for TASCORP to go to the market if we did not have a credit rating. I am not saying we could not go to the market, but it would be much more difficult.

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**Mr VALENTINE** - In the annual report, page 39, on Note 3 there you talk about credit risk and you talk about client advances. I am interested to know whether any state entities had any triggers that went off in their loan agreements and what you did about them if indeed that happened?

**Mr GUTWEIN** - I do not think there were any triggers that went off. What the Government did was to explicitly guarantee the borrowings of all the state entities - right in the midst of COVID-19, I think it was - so that we ensured all our businesses had access to credit when they needed it.

**Mr VALENTINE** - Basically so their operations could continue without any risk?

**Mr GUTWEIN** - If they required it. For example, and Tony will correct me if I am wrong, I think Aurora currently has a facility of over \$400 million but has not drawn any down at this particular stage.

**Mr FERRALL** - I would have to check that, Treasurer.

**Mr GUTWEIN** - If a briefing note I read last night is correct, Aurora had a maximum supported borrowing limit of \$425 million but nil borrowings at 30 June.

**CHAIR** - It certainly didn't last year, did it? We are looking at them later today and I did not see any evidence of borrowing.

**Mr GUTWEIN** - Aurora did carry quite a significant level of the COVID-19 response. They supported businesses with the quarterly refund of electricity bills. They established a \$5 million fund for hardship and the level of increase moving forward was a negative number in terms of price rises over the coming 12 months. Their revenues will have been impacted, there is no two ways about that.

**CHAIR** - We will talk to them later about that.

**Mr VALENTINE** - With respect to Local Government in that space, did anything change in how TASCORP dealt with their requests for loans during the COVID-19 situation? Was there an increased risk? Were there local governments - I won't ask you to name them, I do not know whether that is appropriate - that might have been an increased risk because of COVID-19?

**CHAIR** - Local government had \$140.4 million advances in that year.

**Mr VALENTINE** - In terms of the risk there, was that a heightened risk because of COVID-19 or not?

**Mr GUTWEIN** - With local government we run a very conservative metric in terms of their borrowings. One of the benchmarks is that loans can't exceed 40 per cent of their rates revenue, I think it is, Tony, or it is overall revenue?

**Mr FERRALL** - Net debt to revenue.

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**Mr GUTWEIN** - Net debt to net current revenue. They are held very tightly. It would be fair to say that as a result of the appetite for the interest-free loans that were provided by government, that two local government entities requested amounts that we massaged and worked with them on to ensure that they remained in and around that current metric. Outside of that there were no major issues.

Borrowings across the general government sector are really very low, to be frank, and they are very safe because of the fact that local governments can control in large part usually around 50 per cent to 60 per cent of their overall revenues in terms of their rates base.

**Mr FERRALL** - For local government, any borrowing must be approved by the Treasurer.

**Mr VALENTINE** - I appreciate that.

**Mr FERRALL** - It is, as the Treasurer indicated, a relatively conservative approach to borrowing. There are some of the local governments that are approaching or are just over that 40 per cent at the moment which is understandable given some of the support that councils provided, but it's also within their servicing capability.

**CHAIR** - Can I follow up on that line for a minute? The client advances there are noted on page 58 of the annual report. Before we get to that, in the past, letters of comfort have been issued by you, Treasurer, to government businesses when their borrowing levels are quite high. In light of the fact that you've basically given almost a government guarantee on all loans, does that mean there are no letters of comfort in place now, or are there still letters of comfort?

**Mr GUTWEIN** - No, there are still letters of comfort in place.

**CHAIR** - Who are they with?

**Mr FERRALL** - It would be fair to say because of the way we put in place the guarantee, going forward the letters of comfort become less relevant, obviously, if you've got that form of guarantee compared to the letter of comfort. We're looking at that from both the Treasury and the TASCORP point of view going forward. Whether we maintain that explicit guarantee approach or whether we step back from that is a matter that we will provide some recommendations to the Treasurer over the next coming months. The letters of comfort are less relevant, obviously, for TASCORP as an entity when you've got an explicit guarantee.

**CHAIR** - What is the term of the government guarantee then? I will come back to who has letters of comfort still but -

**Mr FERRALL** - It's irrevocable. It's open and -

**Mr GUTWEIN** - It's open.

**CHAIR** - Right.

**Mr GUTWEIN** - We will make a decision on that as we move forward.

**CHAIR** - How does that overlay with the letters of comfort?

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**Mr GUTWEIN** - What we wanted to provide was a broad-based level of comfort for our businesses and that's why the letter was issued. In terms of the letters of comfort, they were in place prior to that and will remain in place moving forward but obviously reviewed, as Tony has said, as part of the process.

**Mr VOSS** - It's note 46, Treasurer.

**Mr GUTWEIN** - Thank you. I knew it was in here somewhere. There's only a handful.

**CHAIR** - Yes.

**Mr GUTWEIN** - Hydro Tasmania, they currently have exposure - this is at 30 June - this is the level of their borrowing, \$769 million. They have a letter of comfort of \$1 557 000 000. Tas Irrigation has a \$68.2 million guarantee in place; their exposure is \$32 million at the end of June. Tasmanian Railway, a \$20 million letter of comfort; \$8 million of exposure. Tasracing has a \$43.13 million letter of comfort; their exposure is \$9.9 million. TT-Line has a letter of comfort for \$665 million and their exposure is zero. They are the letters of comfort in place.

**CHAIR** - The Tasracing letter of comfort, is that related to the money that was set aside for them to do capital works that the government just pays them interest rates on, or is that a separate bucket of money?

**Mr GUTWEIN** - That goes back a few years, I think.

**CHAIR** - It does. It goes back to the sale of TOTE, before you were in charge.

**Mr GUTWEIN** - That was in terms of the capital upgrades that were announced back then.

**CHAIR** - Yes. Is that the money that refers to?

**Mr GUTWEIN** - Yes.

**CHAIR** - Oh, right. Which is basically a standing thing until it has gone, isn't it?

**Mr GUTWEIN** - Their borrowings are only 9.9, as I pointed out, that letter of comfort there, but these are reviewed with the businesses on an ongoing basis.

**CHAIR** - There are none with TasNetworks then?

**Mr GUTWEIN** - No.

**CHAIR** - No. Okay.

**Mr VALENTINE** - With the TT-Line, are you going to that?

**CHAIR** - TT-Line had \$665 million.

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**Mr VALENTINE** - How much was it?

**CHAIR** - 665 but no exposure.

**Mr GUTWEIN** - 665. That's the letter of comfort but they have zero exposure.

**Mr VALENTINE** - Yes. That's obviously because of the ferries not being purchased at this point.

**Mr GUTWEIN** - Regarding the vessel replacement fund, obviously the payment of deposits moving forward would come out of that fund. At the moment, as at the end of October, I think the balance of that fund is over \$160 million.

**Mr VALENTINE** - Is that still held overseas?

**Mr GUTWEIN** - No. With the original hedge that was in place, I think the Government made around \$1 million after costs for the original work that was done with FSG. From memory, that hedge returned to the Government about \$37.2 million, so a net \$36 million as a result of exiting that.

**CHAIR** - The note on page 46 about the foreign exchange risk - does the amount referred to there basically deal with closing off the TT-Line?

**Mr GUTWEIN** - I will ask Anton or Tony to provide commentary on that.

**Mr VOSS** - The TT-Line one is the forward FX at that stage.

**CHAIR** - It says here that it was effectively \$3 million, but you said it was more than that, Treasurer?

**Mr GUTWEIN** - No -

**CHAIR** - The \$3 million profit, if you like.

**Mr GUTWEIN** - No, it's the \$36 million - the \$1 million in costs I think was the way I explained it. On 24 March, the FEC contracts were closed, resulting in the gain of \$37.2 million to TT-Line, due to the significant fall in the AUD-Euro exchange rate since the foreign exchange contracts were struck. From memory, there were around \$1 million-worth of costs associated with that. The net is actually \$36.4 million

**Mr VALENTINE** - I wondered what was happening to those funds that were overseas.

**Ms LOVELL** - The Government guarantee that has been provided - is that provided to all GBEs?

**Mr GUTWEIN** - GBEs and SOC's.

**Mr FERRALL** - We put in place guarantees across the board. I will give you some more context around the guarantees. TASCORP has had letters of comfort for many years in respect of entities that we may have been less comfortable in lending to. Effectively, the letters

of comfort were an indication from the government of the day that they were well aware of the lending that was occurring. They were ready to give TASCORP as an entity comfort that the government was itself backing it.

**Mr GUTWEIN** - Tony did explain the letters of comfort to me after I first became Treasurer; they were probably more for my noting than anyone else's, that they actually provided that framework, so that as a government, we were well aware of any concerns.

**CHAIR** - Because you signed them.

**Mr FERRALL** - When we move to a guarantee scenario through the COVID-19 situation, at that point - and this was more a Treasury than a TASCORP concern - but we were concerned that the entities may require funding quite rapidly. It was a very fluid situation. Some entities looked like they might have lost significant revenues and had significant outlays in the short term. Ordinarily, in a process sense, if they were looking for an increase in their borrowing limit, quite a few steps would have to occur, involving TASCORP doing a detailed assessment, and Treasury looking at it as well, on a recommendation to the Treasurer.

Treasury's assessment at the time was that, given the high fluidity of the environment, we were better striking very clear guaranteed amounts, so that TASCORP could act quickly if necessary to provide support to those entities. From discussions with the entities, we identified a level of borrowing that they thought they might need in the short term. That is how we established those levels of guarantees.

That gave TASCORP certainty to be able to advance those funds overnight or instantly, if required. It gave the Government businesses certainty that they had funding, because otherwise, potentially, the directors would have had obligations that they may not have been able to meet. Treasury took a set of recommendations to the Treasurer to provide those guarantees. We are now looking at how we might change the framework around that.

It is also fair to note that we have a slightly different framework with our GBE and TASCORP act than some other jurisdictions. We are looking at whether the approach taken in other jurisdictions might be more appropriate or applicable.

**CHAIR** - GBEs and SOC's are the same, regardless?

**Mr FERRALL** - Yes.

**Ms LOVELL** - Speaking from a layperson's perspective, was that a blanket guarantee? Presumably there was a limit for each of those entities. Were any of them refused, or did that guarantee apply across the board?

**Mr FERRALL** - No entity was refused. We identified a limit and the entities could instantly borrow up to that limit from TASCORP without any further approvals. Most entities did not require anywhere near the level of funding they anticipated. The situation in March through to July was quite different to the situation we are in now.

**Ms LOVELL** - In terms of the level of liability for the state, what quantum of funding has been guaranteed by the state?

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**Mr FERRALL** - Ultimately, there is no more liability or different level of liability for the state. The state owns all the GBEs and SOCs, and TASCORP did not access the market. We did not need to get funding to support the GBEs and SOCs. We do not have a greater liability. The guarantee in most respects is internal. Everything TASCORP borrows from the market is guaranteed by the state anyway. This is the transaction between TASCORP and GBEs and SOCs.

**CHAIR** - Putting money out of your left pocket into your right pocket.

**Ms LOVELL** - I am curious about what is broader than the letters of comfort.

**Mr GUTWEIN** - This might help. The longstanding letter of comfort to Tasracing, for example, is \$43 million. The maximum supported borrowing limit to Tasracing as a result of that guarantee was \$18.7 million. It was not designed to open up carte blanche, but the advice of Treasury at the time was that we needed to ensure that there was a necessary, if needed, level of borrowings available that companies could draw down relatively quickly.

**Ms LOVELL** - Tony, in terms of what you said before about advice being prepared, is it possible that will be the way the state operates in future, with a guarantee rather than letters of comfort?

**Mr FERRALL** - That is a matter we will just have to work through. We do not have a direct answer to that at this point.

**Ms LOVELL** - Thank you. I am curious about how it works.

**CHAIR** - What I am hearing, and correct me if I am wrong, is that the Government guarantee effectively means that any of these state-owned companies or Government businesses can basically access money on demand, within a limit.

**Mr GUTWEIN** - Within limits, like TT-Line for example which we have just spoken about with a \$665 million letter of comfort. They had from memory access under the guarantee to around \$45 million. It was more of a working capital arrangement put in place should circumstances necessitate it.

**CHAIR** - The letter of comfort remains in place in addition to the Government guarantee, is that what you are saying?

**Mr GUTWEIN** - It is part of a whole if you like. What was under the guarantee and Tony, correct me if I am wrong, but it was my understanding at the time and still is what we wanted to do was put in place and ensure they had a facility and if necessary a button could be pushed overnight, as Tony has said. In TT-Line's case we had significantly impacted that business in terms of passengers. At the height of the challenges we were facing in the first half of this year it was a live question as to whether the boats would even sail, depending on what circumstance was in Victoria and likewise. It was providing a necessary opportunity for working capital very quickly if needed.

**CHAIR** - With current borrowings in place for the various government businesses and state-owned companies are there any concerns regarding their ability to meet the repayments? Aside from the fact there is a government guarantee, are there concerns at all?

**Mr GUTWEIN** - None that have been brought to my attention.

**Mr FERRALL** - TASCORP does annual assessments of all of the lending and from a TASCORP perspective we look at it similar to a banker and make an assessment as to whether we think there is a bankable loan. If there are any concerns from the TASCORP perspective we would raise it with Treasury and the Treasurer.

**CHAIR** - So you would look in the mirror and tell yourself we have a problem here, Tony?

**Mr FERRALL** - Between Treasury and TASCORP we keep a pretty close check on these things.

**Mr GUTWEIN** - It would be fair to say coming out of COVID-19 is occurring at almost the same pace we went into COVID-19. The world has changed dramatically since the first half of this year when these matters when our businesses' capacity and availability of funds was a significant issue. We did not know from the height of the challenges we faced from one day to the next whether there would be further restrictions that might limit the capacity of one of our businesses to operate or conversely provide support as we were requiring of many of them, into the community.

**CHAIR** - During this period, or in the last 12 months, has the Government needed to support or guarantee any loans to state entities?

**Mr GUTWEIN** - What is your definition of a 'state entity'?

**CHAIR** - State department, not a government business or state-owned company?

**Mr GUTWEIN** - No, just the normal operations of the Financial Management Act.

**Mr VALENTINE** - The TT-Line funds are not being held overseas anymore, so what has happened to those funds?

**Mr FERRALL** - To be clear, I do not believe the TT-Line funds were ever held overseas.

**Mr VALENTINE** - I will have to go back to last year's notes.

**Mr FERRALL** - There was a foreign exchange contract, a forward agreement put in place, but the funds themselves have not been held overseas. That is my understanding.

**Mr VALENTINE** - I thought we were told last year they were in France somewhere.

**Mr FERRALL** - They were invested.

**Mr VALENTINE** - What you are telling me is they were not. I will take that as you say. Are they being held in any special facility here? What is happening with their availability for TT-Line? I presume when they need it, they can draw on it?

**Mr FERRALL** - Correct. They can draw it when it is needed.



**Mr VALENTINE** - No special hoops to jump?

**Mr FERRALL** - The TT-Line Vessel Replacement Fund is a fund held by Treasury with TASCORP. Anton may have the relative investments they are in at the moment.

**Mr VOSS** - It is all relatively short-term because the funds are primarily around deposits.

**Mr VALENTINE** - Sorry, just that last bit?

**Mr VOSS** - The idea of the fund largely but not only, is around payment of deposit for example. We do not know what it is going to look like so TASCORP talked to Treasury around the maturity of that fund, for want of a better word, and how soon they may need the money but at the moment it's all held in short-term instruments. Some is like a cash deposit with a major bank. There's a range of deposits in residential mortgage-backed securities again, and there's also some other bank floating-rate notes, so they're all sort of shorter-term instruments. They're all AAA or AA-minus securities.

So, yes, that's separate to the offshore arrangement which was around doing a forward foreign exchange hedge which, as the Treasurer says, has now been unwound from TT-Line's perspective because obviously the circumstances changed.

**Mr VALENTINE** - Yes.

**CHAIR** - On page 62 in your annual report it talks about the TT-Line vessel replacement fund and I know there's an investment management agreement in place. Is this to do with the TT-Line dividends paid into the public account, and some TT-Line dividends in previous years were returned as equity contributions, I recall, I think it was \$81 million, and TT-Line's accounts say that \$81 million of its cash is restricted - that's in their annual report. There's a restricted cash holding in TT-Line of \$81 million plus a balance of \$82.8 million on page 62 of your annual report, in this fund held by TASCORP. I am interested in why it is done this way. Are both deposits covered by the TT-Line Vessel Replacement Fund Act?

**Mr GUTWEIN** - As of October the \$81.3 million has been returned by TT-Line and is now in the vessel replacement fund.

**CHAIR** - It has gone back into here?

**Mr GUTWEIN** - Yes. The balance is now \$163.7 million - that was as at October.

**CHAIR** - Right.

**Mr GUTWEIN** - I am just trying to think in terms of the equity whether that was a special dividend and a return of equity in that particular year.

**CHAIR** - Or shifting of the deck chairs, maybe?

**Mr GUTWEIN** - I come back to the original concept - and it still stands in terms of the vessel replacement fund - was to ensure that we had a centrally-located fund that was protected by legislation that could only be spent in ship replacement and that's -

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**CHAIR** - That's right. That's why I'm asking why - the money sat over there in TT-Line's accounts, restricted -

**Mr FERRALL** - TT-Line took the funding because it was about to be used for the deposit but then it wasn't used for the deposit. That's why it has now been returned to the fund so that's -

**CHAIR** - All the money now will be in this fund here when next year - if I looked up -

**Mr FERRALL** - As at October it is. But as at 30 June there was \$82 million held by TASCORP and there was \$81 million which was actually with TASCORP but it was held by TT-Line.

**Mr GUTWEIN** - Yes.

**Mr FERRALL** - It wasn't in the fund but it was with TASCORP.

**CHAIR** - The \$81 million or thereabouts that was moved to TT-Line's account, was that entirely to pay the deposit?

**Mr GUTWEIN** - Yes.

**CHAIR** - There was no other purpose for that?

**Mr GUTWEIN** - My understanding was that was as a result of the original FSG contract, I think from memory, and then obviously FSG -

**CHAIR** - That was some time ago.

**Mr GUTWEIN** - found itself in trouble. I am just trying to think when FSG matters changed.

**CHAIR** - It would be over 12 months ago, wasn't it?

**Mr GUTWEIN** - The beginning of this year, I think from memory.

**CHAIR** - Was it. It's within that financial year?

**Mr GUTWEIN** - It's within that financial year.

**CHAIR** - Alright. So, it was longer than that ago.

**Mr GUTWEIN** - The money was moved across and now it has been brought back as a result of that going ahead.

**CHAIR** - Any other questions on TT-Line vessel replacement?

**Mr VALENTINE** - No. I checked last year's notes and it did say that you bought a Euro bond.

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**Mr VOSS** - 14 February, Treasurer, was when we were requested by TT-Line to cancel the deposit payment.

**CHAIR** - It seems like about three years have passed since then.

**Mr VOSS** - A lot has happened in the last year.

**Mr GUTWEIN** - It is the shortest, longest -

**Mr VALENTINE** - There was a lot of activity.

**CHAIR** - The shortest of times, the longest of times.

**Mr GUTWEIN** - The shortest, longest year in history.

**CHAIR** - Yes. Rob, did you want to -

**Mr VALENTINE** - No. I was just saying I looked that up from last year and that's exactly what we were told, so you're right.

**CHAIR** - Can I go to note 9 on page 58 with the client advances. Hydro Tasmania had an additional \$31 million; councils an additional \$58 million on last year; TasNetworks, \$69 million; TasWater, \$20 million; TasRail and UTAS went down. Were there any other significant changes in this and what were the purposes of these kind of advances?

**Mr GUTWEIN** - Mr Ferrall can speak. Obviously the Department of Treasury and Finance were government borrowings.

**Mr FERRALL** - I could not tell you exactly why each individual one changed. Some of them would simply be for operational and cash-flow reasons. Clearly the university reduced its advances as at 30 June through that period but we would have to go back to each individual one if you wanted to pick up the reasons why each one has changed. It would be a range of things.

**Mr VOSS** - To some extent we may not know the full detail behind it anyway because at TASCORP's end we will have a limit with regard to some of these businesses. They will have working capital arrangements and they will borrow within the limits that have been approved by the board or otherwise internally. We may not be across the specific details, for example, as to why TasIrrigation went from here to here necessarily.

**CHAIR** - The \$750 million to the Department of Treasury and Finance is the COVID-19 response effectively and the borrowings that we need.

**Mr VOSS** - Yes.

**Mr FERRALL** - Yes.

**CHAIR** - There will obviously be more next year, this year we are in now, that is just to 30 June?

**Mr FERRALL** - Correct.

**CHAIR** - You have the Treasurer's Annual Financial Report there, Treasurer?

**Mr GUTWEIN** - No, I am carrying the Budget with me.

**CHAIR** - Oh, the Budget.

**Mr GUTWEIN** - Yes, that thing we only brought down about five weeks ago. I do not have the TAFR with me but I will see if I can help.

**CHAIR** - We have always known about a few loans advanced to third parties and they appear in the total state figures - advances or loans between government entities that are then eliminated on consolidation. Loan advances are principally to local government, TasWater, UTAS from TASCORP. These movements each year are quite small and to other third parties, business, et cetera, and State Growth and the Tasmanian Development board.

The cash rate statement for the total state on page 34, this is in the Treasurer's Annual Financial Report, shows net advances paid for 2019-20 of \$579 million. All advances between the state-owned companies are eliminated when preparing the total state figures. The note covering advances on page 59 of TAFR said these were advances primarily from TASCORP.

TASCORP's cash flow statement in this annual report, on page 30, says these advances were \$522 million of advances. When I looked at the break up of TASCORP's advances in note 9 which we have just referring to, most of these advances were to the general government under Treasury and Finance predominately as we have just mentioned. Can you explain that? I am not sure the TAFR figures line up.

**Mr GUTWEIN** - I will ask Mr Ferrall to make comment on that.

**Mr FERRALL** - If I get the question correctly, you will find that the TAFR figures may not line up directly with the TASCORP annual report because there are some estimates done at the point of putting the TAFR together because you don't have all of the finalised accounts. There are some differences or anomalies because of that. I would need to get the details of that question to give you a more specific answer on that. There are some differences -

**CHAIR** - Because there are estimates made.

**Mr FERRALL** - which are effectively timing and because of estimates and slightly different points of time. Even in doing the RER as an example, we get figures from TASCORP and we get figures from the GBEs and SOCs and they can be a different point in time. You do see some differences because of that. I would have to go back through the TAFR to pick that up.

**CHAIR** - There is a difference of \$579 million.

**Mr FARRELL** - I am not sure what that is.

**CHAIR** - And it is \$522 million in advances in TASCORP's -

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**Mr FARRELL** - I would need to go back to TAFR. I am happy to answer the question.

**Mr GUTWEIN** - We will take it on notice if you like.

**CHAIR** - Any others? No.

**Mr VALENTINE** - In relation to University of Tasmania, we often receive letters saying they have purchased buildings way over the value. Probably insinuating there has been some sort of deal done for a mate, or whatever. When TASCORP deals with the university, how do you verify the loans happening are indeed at proper value and those sorts of things? Can you give us an indication of this?

**Mr FERRALL** - As with all of our clients, TASCORP does not take into account or attempt to assess whether a purchase is of value or not. What we do is assess whether the entity can afford the borrowing and whether the entity can repay the borrowing.

**Mr VALENTINE** - So it is their risk, not yours?

**Mr FERRALL** - The entity itself would make a judgment about whether the particular purchase is at reasonable or appropriate value.

**Mr VALENTINE** - They are wearing the risk, you're not, because their capacity to repay whatever they borrow from you is they are considered to be able to do that, in simple terms?

**Mr FERRALL** - Yes.

**Mr VALENTINE** - Does it concern you these sorts of stories run around in any way, shape or form?

**Mr GUTWEIN** - There are always lots of rumours.

**Mr VALENTINE** - That gives some interesting information, but whether it is valid information or not is another thing and UTAS is not here to be able answer those sorts of questions.

**Mr GUTWEIN** - No, but I imagine they would be questions for you to put to UTAS.

**CHAIR** - I meant to ask this earlier about the bonds and we skipped over it. On page 3, one of the highlights. It says there was \$1.307 million in new bonds issued. The cash flow statement says \$1.333 million was received. Does this mean bonds with a face value of \$1.307 million were issued to bond holders who were prepared to slightly more, say \$1.333 million because the interest rate was favourable. Is that why the difference in what is in the cashflow as related to what was issued?

**Mr VOSS** - The \$1.307 million number is a face value of the bonds, versus the market value which might be different because of coupon and yield differences. It is the way the markets measure a bond. You can either do it as a face value, so it is a \$100 million face value of a bond. Yields move and depending also on the coupon. The actual amount of money that flows as a result, might be different from the face value. In fact, frequently, it is.

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**CHAIR** - Is it likely further bond issuances are to be necessary in the next year as we know we are not out of the COVID-19 environment yet?

**Mr VOSS** - Very much so.

**CHAIR** - Do you have an indication of what sort of level we are looking at?

**Mr VOSS** - Total bond issuances for this financial year?

**CHAIR** - Yes. This one we are in now.

**Mr VOSS** - We formed the market up to \$3 billion in total. That is a combination of new borrowings that the government, in particular, is taking on, but also, we do, as refinancing. As client's loans mature, they refinance those loans, so it is partially that also. It is how we respond to the client needs and obviously, that is a large number. Yes, you are right. The COVID-19 situation has driven that and the Government is going to become one of our bigger customers as a result, our biggest customer.

**CHAIR** - Something you have to do at the moment.

**Mr GUTWEIN** - There is no option, Ruth. I am sure this committee understands that. End of the day, we will exercise our balance sheet, we will borrow more and TASCORP will support us through that.

**Madam CHAIR** - Any other questions, members? This comes back to the small work force issue and we asked this in a number of government departments through Estimates period with managing of leave. I am sure your team did not have a lot of time off during the COVID-19 and for the foreseeable future there won't be many opportunities without a lot of redundancy. How do you manage the leave, particularly recreational leave? Has your liability increased significantly?

**Mr GUTWEIN** - Anton can speak to the liability and how he is managing matters of an operational level. It is a very real challenge you raise. As I did during the budget Estimates, I place on the record my thanks to Government staff, public servants, especially those who work with our government business; they went above and beyond.

There are a couple of matters: one is the liability that we need to manage so that doesn't become unmanageable but, more importantly, we need to ensure that we are providing our people with the opportunity to have recreation leave and to ensure that we are recharged. There are many public servants across the general government sector but certainly in our government businesses as well as we get towards of this year, I think the overarching feeling that they will have is one of fatigue. We need to manage that very carefully. Anton can speak about the operational.

**Mr VOSS** - Thank you Treasurer. We are similar to all businesses. Exactly as you articulated, it was very challenging for people to take leave for that period because everyone was very busy. At TASCORP we have a policy around ensuring staff take a long break through the year. A lot of that is good practice in a financial organisation regarding fraud, so other people needing to do functions of other people is pretty standard throughout the industry. I

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actually had to formally hold that particular policy this year, because of the amount of work we had to do. Since then we have been proactive and I talked to my senior manager about trying to get people back on track, refresh the batteries and those things. Managing leave in our organisation is always a little bit challenging because we are so small. If someone becomes sick while other people are away that is always challenging, but we manage at the end of the day. The leave liability, like organisations with long-standing employees, people with longer periods of long service leave, we are aware of that and try to encourage people to take their leave.

**CHAIR** - How many employees will be due long service leave but have not taken it at the moment, in light of your comment earlier about longevity of your team?

**Mr VOSS** - There will be a number and I would have to come back to you on the number.

**CHAIR** - Over 50 per cent. That is going to be a challenge.

**Mr VOSS** - Yes.

**Mr FERRALL** - People don't necessarily take long service leave just because it is due. Long service leave does tend to build up in some cases. It is like you tick over a day and then people automatically -

**CHAIR** - I accept that, but you still have to deal with it at some stage.

**Mr VALENTINE** - It can be more expensive if they take it when they have just had a salary rise. That three months is going to be a lot more expensive than it was when it was due.

**Mr FERRALL** - It is an accruing liability for any organisation.

**CHAIR** - How much has your leave liability grown during that period? Do you have any idea about that?

**Mr VOSS** - I haven't got the numbers; I am happy to come back to you.

**CHAIR** - Was that a significant challenge with any of your team taking sick or personal leave during that period?

**Mr VOSS** - Not that I recall as we do not tend to have a lot of sick leave at TASCORP.

**Mr FERRALL** - From a Treasury point of view, during the pandemic our instances of sick leave went down, so people were less sick or took less sick leave, but our annual leave liability did increase. We are doing what all government departments are starting to look at: how do we get people off. From a Treasury point of view, I've asked as many people as possible to take an additional week at Christmas, to try to give people more of a break over that period. We will look branch by branch at how to let 'X' have an appropriate break over the next six to 12 months. It will be challenging, but it is important that people have their leave.

**Mr GUTWEIN** - Where it is particularly problematic, if you think about the nature of recreational leave, is that it's largely focused around the warmer months. We came through that. It wasn't until March that the pandemic hit, and then we have that four-month period to

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the end of the financial year. Whilst leave has increased, as Tony has indicated, the nature of Treasury is that those four months of the year are normally wrapped around Budget and 'end of years' and other matters as well. The challenge is for those people and staff who didn't take a reasonable period of recreational leave at the beginning of this year, and then have had no opportunity through the course of this year. I am very mindful of this.

**Mr VOSS** - Some employees didn't want to, either, because they couldn't go anywhere.

**Mr VALENTINE** - They couldn't do anything.

**CHAIR** - So they saved for when they could.

**Mr VOSS** - Everyone had planned their trip to wherever, and they had to cancel.

**Ms WEBB** - Couldn't they get a voucher and go somewhere in this state?

**Mr VOSS** - Possibly, yes.

**CHAIR** - You should ask them if they had been to the north-west or west coast or east coast.

**Mr VOSS** - It wasn't only because we were busy. It also wasn't fair to make people take leave through that period if they didn't want to, because they were quite restricted.

**Mr GUTWEIN** - Not that I would ever smile at someone else's misfortune, but I did raise an eyebrow when the Victorian voucher website crashed on its release, I think it was Friday. Theirs was a crash. Ours slowed, but theirs actually failed.

**CHAIR** - There are more people in Victoria.

**Mr GUTWEIN** - There are. At one time they had 800 000 people on their website.

**CHAIR** - Most systems would struggle with that. In terms of staff wellbeing, I note there is a comment on page 21 about executive remuneration guidelines. I note that the CEO, who is sitting at the table, was employed at a lower rate than his predecessor. Does this mean that his subordinates already on the payroll are notionally overpaid by the guidelines? It seems to me that the guidelines require a maximum.

**Mr FERRALL** - The CEO salary is a range. In fact, all CEOs of the GBEs and SOCs have a remuneration within a range. The current CEO started within the range, and there is opportunity to move within that range. The previous CEO was at the maximum of the range.

**CHAIR** - These were exceptions to the guidelines?

**Mr FERRALL** - There's a couple of tests in terms of subordinates to the CEO. In the situation we have now, where the CEO has a lower annual remuneration than the previous CEO, when you look at the 80 per cent test, we would have potentially failed that. Treasury is looking at that guideline, because it relates to the actual salary paid, whereas it probably should relate to the maximum of the band. Otherwise, over time, if you bring somebody off the bottom -



**CHAIR** - You end up falling outside your guidelines?

**Mr FERRALL** - You fail to meet the guidelines, simply because of paying the CEO a lower salary than the previous salary - whereas from a TASCORP perspective, we could have met the guideline by paying Anton more.

**CHAIR** - If the policy was within the range.

**Mr GUTWEIN** - The tables in the annual report only reflect a part-year of Mr Voss's salary.

**CHAIR** - I accept that. The note says quite clearly that he was appointed at a lower rate than the previous CEO. I am sure that does not mean he is of any lesser value than the previous one.

**Mr FERRALL** - Definitely of no lesser value.

**Mr GUTWEIN** - Of no lesser value, but you have to give people something to reach for.

**CHAIR** - Back to the client advances. The loan to Treasury and Finance, which we touched on earlier, is basically to support the Budget requirements. How is the interest rate on that determined?

**Mr FERRALL** - TASCORP goes to the market and issues bonds, and then on top of the actual rate from the market there is an administrative margin. That is how the rate is determined.

**CHAIR** - There are a variety of rates, I guess.

**Mr FERRALL** - Yes, and as the Treasurer indicated, the average is 1.28 per cent, but that is across a range.

**CHAIR** - Treasurer, we know from the forward Estimates that there are ongoing borrowings in the out years. Do you expect to finance the deficits the same way, through borrowings like this in the market, through TASCORP?

**Mr GUTWEIN** - We obviously have a not insignificant deficit forecast for this financial year, but then we do return to an operating surplus over two years. Importantly, in terms of an operating cash surplus, we return next financial year, albeit quite small. We are obviously borrowing to fund the infrastructure, as opposed to the operating costs of the Government moving forward. With our borrowings at a state level, I would like to be paying as little as we possibly can, and TASCORP will be looking to raise funds as competitively as it can in the market.

**CHAIR** - Which is uncertain, at best. Treasurer, that is all. I appreciate the efforts of your team. It is a very important part of our whole government structure, otherwise it would be really difficult to manage the current circumstances we are in.

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**Mr GUTWEIN** - Let me place on the record my thanks to Anton and his team, and Tony as the Chair of the board. We should underestimate the challenge that COVID-19 has provided for TASCORP and its new CEO. They have done exceptionally well. I place on the record my thanks for that.

**CHAIR** - They should be fit for anything after this.

**Mr GUTWEIN** - Match fit for anything. Thank you.

**Mr VALENTINE** - Have a merry Christmas.

**Mr GUTWEIN** - And merry Christmas to everyone.

**The Committee suspended at 10.48 a.m.**



# **PARLIAMENT OF TASMANIA**

## **TRANSCRIPT**

### **LEGISLATIVE COUNCIL**

### **GOVERNMENT BUSINESS SCRUTINY COMMITTEE A**

**Tasmanian Water and Sewerage Corporation Pty Ltd**

**Monday 14 December 2020**

### **MEMBERS**

Hon Ruth Forrest (Chair)  
Hon Mike Gaffney  
Hon Sarah Lovell  
Hon Dr Bastian Seidel  
Hon Rob Valentine MLC (Deputy Chair)  
Hon Meg Webb MLC

## **WITNESSES IN ATTENDANCE**

### **Owners' Representatives' Group, TasWater**

**Mayor Doug Chipman**

### **Board and Governance**

**Mr Stephen Gumley AO**, Chairman of the Board, TasWater

**Mr Michael Brewster**, Chief Executive Officer, TasWater

**Mr Matthew Pigden**, Chief Financial Officer, TasWater

**Ms Ailsa Sypkes**, General Manager, Governance and Assurance, TasWater

**Ms Ruth Dowty**, Department Manager, Corporate & Community Relations, TasWater

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**CHAIR** - Thanks, Doug, welcome to the GBE hearings for TasWater for this year. I will introduce you and your fellow compatriot at the table, then I will invite you to make an opening statement, if you wish, and then we will have some questions from the committee.

**Mr CHIPMAN** - I'm Doug Chipman. I am mayor of City of Clarence but also chief owner's representative for TasWater. With me is the acting CEO of the Local Government Association of Tasmania, Dion Lester. I do have an opening statement.

In the first instance, let me thank you for the opportunity to meet regarding TasWater Pty Ltd. Although little has changed since last month when I met with the Legislative Council Select Committee Inquiring into the Operations of TasWater, the local government owners of TasWater welcome the scrutiny of the company on an annual basis by the parliament of Tasmania. Our attendance today comprises me as Chief Owner's representative and Dion's role is with LGAT. LGAT now provides a formal secretariat and provides executive support services to the owners. I point out the constitution for TasWater provides for a secretariat operation.

It should be noted while the owners of TasWater take a keen interest in the activities, performance, practices and economic management of the company, they have no direct responsibility for the operations of corporations. In accordance with the Corporations Act, all decisions relating to the operations of the corporation are made by or under the authority of the board. The shareholders' letter of expectation however provides a vehicle for the owners to communicate and give guidance to the board regarding high level performance expectations and strategic priorities where these do not conflict with TasWater's legislative and regulative obligations.

The owners appoint the chairman and directors to the board and oversee the annual review of the board's performance. We also meet with board members and senior executives on a regular basis through two general meetings each year, quarterly briefing sessions and other meetings as required. For example, each year the owners meet to adopt TasWater's five year corporate plan, and separately to receive the annual report.

Both Dion and I are happy to take a question.

**CHAIR** - Thank you. We haven't got a lot of time with you, Doug, but I am interested overall in the owners' view of the performance of TasWater, and in that, the financial return to the owners, which I understand has been a bit of a bone of contention. If you could talk to us about interactions with TasWater around that and what your expectations are going forward.

**Mr CHIPMAN** - Certainly the owners have been very disappointed with the way it turned out from the dividends point of view. We originally started off several years ago with dividends around \$30 million across the councils. That was reduced under the MOU with the state Government to \$20 million for a finite period of time. Since then with COVID-19 the dividends fell to zero.

To the councils, that has been very much a double whammy. In the first instance it is a big hit to the revenue side for councils; some councils more than others. It has been up to 8 per cent of the total revenue for some councils, so it has been a major hit. The double whammy comes about because with COVID-19 the councils also - in response to the request from the

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state Government - have by and large set the rate increase to zero. So we have taken a double hit in that regard as well.

There is no doubt that over the last 12 months the dividend policy has probably been the biggest issue that the owners have had with TasWater. A secondary one has been the valuation of the company. We have seen the valuation swing, what we believe is fairly wildly, over the last two years, one up one down. That has an impact on the council's books as well because the value of our shares changes accordingly and that reflects on the balance sheet of the councils as well.

They have been the two big issues. In our negotiations with the board, when we have been talking with them about the corporate plan and also the annual report, those two issues have been at the forefront of our mind. We have been seeking consistency on both of those fronts and a return to profitability for the corporation.

**CHAIR** - This year has been a particularly difficult year. We are not out of the COVID-19 environment yet, but what are your expectations going forward? What do you think we should ask TasWater about it?

**Mr CHIPMAN** - We want to see the company return to profitability as soon as possible. It is in the interest of all Tasmanians that TasWater operates on a sustainable basis so that the costs of providing water and sewerage services to Tasmanians is paid for by Tasmanians. We can't have a situation where the company is not operating on a commercial basis in a profitable manner.

**CHAIR** - The government directs at times, the same as they do with electricity prices, so have you had discussions with the Treasurer? No-one is a shareholder minister of TasWater. I understand minister Ferguson has some sort of responsibility as minister for Infrastructure but nothing hands-on. How do you deal with that in government discussions to cap prices or cap increases or, I could say, interfere in the pricing?

**Mr CHIPMAN** - It is fair to say that the owners have responsibly understood the government's position. We have understood that during COVID-19 it has been a very difficult time for all Tasmanians and there is a reasonable expectation that measures were taken. We are optimistic, I think, in that we believe it has been managed, there's a vaccine on the way, and we would want to see TasWater emerge from this period of crisis into a profitable scenario again where it's operating on a sustainable basis. We are lobbying the government, and I believe the government actually understands that and -

**CHAIR** - From what I hear you say, that requires Tasmanians to pay reasonable prices for their water and sewerage services?

**Mr CHIPMAN** - It's in their interests that they pay a sustainable price for water and sewerage services. We can't underwrite it forever without taking the cost of running the business from other places.

**Mr GAFFNEY** - Doug, have you had many councils say they want out of TasWater? What has been LGAT's response to that, or the corporation's? You sometimes hear that around the traps.

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**Mr CHIPMAN** - Over the years since TasWater has come into being, I'm aware of only one council that was talking about selling its share, and I'm not sure that that's even possible. I haven't heard of it recently.

**Mr GAFFNEY** - Sometimes new councillors don't fully understand the journey that TasWater has been through. That's one of the number of things that worries me about all-in or all-out elections, that lack of succession knowledge that is lost through newbies coming to the table and not having had any experience. What does LGAT, or you guys, do to make sure that the new councillors understand how that operates?

**Mr CHIPMAN** - That's an exceptionally good question. Up until now, until COVID-19, I guess the key players around the table had been there from the start. There was a lot of corporate knowledge embedded in all the owners and, indeed, in the board.

What is interesting though, and it has become clear to us over COVID-19 - first of all, there are no original members of the board left. We have had a total turnover there, including the chair, since TasWater first started.

Second, we had a number of councils not understand how the dividends could be cut off. They were hurting, understandably hurting, and they didn't understand the shareholders' letter of expectation or the whole processes around that. To meet that problem, the members of LGAT have tasked the LGAT secretariat to form and provide services to the owners. Up until that decision earlier this year, there had been no formal framework to provide that support to the owners.

LGAT has convened an expert advisory group which is supported by consultants and comprises general managers and chief financial officers for councils to, for example, go through each annual plan, to go through the annual reports, to measure how TasWater is travelling against the shareholders' letter of expectation. That corporate knowledge that you're talking about is now embedded through LGAT with the expert advisory group and will be there to advise the owners, for example, after the next election, on where we are and why we're there.

**Mr GAFFNEY** - Okay. Is the responsibility now so that when somebody stands for local government that they are required - it is mandated - that they must attend a two-day conference or workshop where they can get the information? It's not a requirement of them. Therefore, you get some councillors at the table making decisions about something they know very little about. I think it's an issue with TasWater, with planning, that sort of thing, that, as an organisation, you have to look at. Especially now that you don't have that half-in, half-out election every two years - there's a bigger gap - and people can now become a mayor without having had any experience in local government, talking about these things. As an organisation, how do you handle that sort of conundrum.

**Mr CHIPMAN** - It is a conundrum and I'm aware that -

**Mr CHIPMAN** - It is a conundrum and I am aware there is a review of the Local Government Act coming through the parliament in a moment. I believe there are matters in that revised act that will attend to the level of training or whatever for new councillors coming on board. I will ask Dion to expand on where that proposed legislation is at in regard to training.

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**Mr LESTER** - We are expecting the first sight of the draft bill in April-May 2021. The concept of compulsory training was considered throughout the directions paper, but it was not taken forward and it will not be within the first bill, apart from councils' role in the planning authority. What it will do is look at competencies and various other aspects to try to scaffold around that issue. It will deal with part of your question in the roles of planning authority, but on the matters we are dealing with today and understanding of TasWater, that sort of training will be offered, but it will not be compulsory.

**Dr SEIDEL** - Mayor, you mentioned earlier, you wanted to see TasWater as profitable. Are you concerned if that is the main point from a shareholder's point of view TasWater may cut corners? I would like to refer to page 8 of the annual report, where they say the health and safety targets were actually not met in the last financial year. In fact, they [inaudible] quite substantially. Are you concerned the drive for profitability would be potentially meaning we are cutting corners when it comes to health and safety of TasWater workers?

**Mr CHIPMAN** - No, absolutely not. If I could draw your attention to the guiding principals the owners have for the corporation. They were taken from the act, but also reflected in the shareholder's letter of expectation, that -

- (1) To efficiently provide water and sewerage functions in Tasmania.
- (2) To encourage water conservation, et cetera, and manage that.

To be a successful business,

and to this end,

to operate its activities in accordance with good commercial practice.

I think is the key.

**CHAIR** - Earlier you talked about you appoint the chair and directors of TasWater. Do you undertake annual performance reviews of the board members?

**Mr CHIPMAN** - Certainly, Chair. In fact, we have recently completed one. The board undertakes itself. It usually employs an external consultant to assist it through that process. We as a Board Selection Committee are briefed on the outcome of that process.

**CHAIR** - And the CEO?

**Mr CHIPMAN** - The CEO is reviewed by the board, not by the owners.

**Mr VALENTINE** - With respect to the dividends issue, can you give us an understanding as to how the significant drop to zero dividend will hit some of the councils? Obviously, larger councils can cope to a certain degree, but there might be smaller councils. What percentage of their budget are we talking about does this dividend represent? At its proper level, as opposed to what it currently is.

**Mr CHIPMAN** - Thanks for the question. I will make a brief comment, then call on Dion to make a comment in regard to member councils.



The degree of pain depends on how a council is using it. Some councils, for example, use it to underwrite their operating expenses to some extent. Clearly a hit there will have a direct impact on their overall income and operating account. Probably have either an impact on the services provided or the rates they assign. Other councils inoculate themselves by ensuring the dividends are regarded as something extra and might use it on capital, for example. So, the hit there is taken to the capital program rather than to the operating.

Dion might like to comment further.

**Mr LESTER** - I cannot give you a council by council breakdown, but those that are impacted, there is a number of councils that fall within a 3.5 per cent to 8 per cent of their budget sort of range. Typically, that would be medium to smaller councils. It certainly is not anywhere near that for Hobart or Launceston, but I do not have those figures to hand.

**Mr VALENTINE** - That's okay. I wanted to get a general understanding for the committee.

**Mr LESTER** - But, 3.5 per cent to 8 per cent of a number of councils' budgets.

**Mr VALENTINE** - You meet and adopt five-year plans. I know when this first came into being there was an issue about stormwater versus sewage and potable water. Quite clearly there is an intersection with illegal connections to stormwater. Has there been any discussion with respect to TasWater taking over the stormwater as well, or not?

**Mr CHIPMAN** - I am not aware of any discussion about changing the law and making TasWater responsible for stormwater services. I am acutely aware that with the Launceston combined system, for example, there are issues with illegal connections.

**Mr VALENTINE** - And in Hobart.

**Mr CHIPMAN** - Yes. I can say that the shareholders' letter of expectation does expect TasWater to collaborate with councils in relation to all sorts of infrastructure issues. Ongoing discussions are taking place, but it hasn't really emerged to the owners as an issue.

**Mr VALENTINE** - Okay. You are not getting any sort of push from councils to make that happen? They are keen to keep it, or not keen to keep it?

**Mr CHIPMAN** - I have not been lobbied as the chief owners' representative about that. It hasn't come up at general meetings.

**Mr LESTER** - There has been no mention whatsoever.

**Mr VALENTINE** - Thank you.

**CHAIR** - I am sure other members have had similar representations around concerns regarding the CDO and their contracting processes. Were the owners involved in any decision about the establishment of the CDO?

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**Mr CHIPMAN** - We were kept abreast of the formation of the CDO, and I might say we have become aware of the issues with the CCF. We held a meeting with the CCF and listened to their concerns, which we conveyed to the board. I received a letter this morning from the CEO, Mike Brewster, saying that TasWater is now going to, and I quote -

TasWater will resume business as usual in regard to the small urgent and less complex works and the CDO will now be concentrating on the larger undertakings of a more complex nature.

That will probably defuse the issue. As I understand, it will be back to business as usual for most of the CCF members, the smaller contractors working for TasWater. It is a matter for the next interview with the board, but I can say the owners are aware of the issues.

**CHAIR** - Were the owners aware of the establishment of the CDO? Were you engaged in that process? Were you asked for your opinion? Were you informed of the structure and the intent of the CDO?

**Mr CHIPMAN** - We were informed of the structure and the intent to create the CDO, but it was seen to be an operational matter, and not something the owners should really meddle in, I guess.

**CHAIR** - You can answer this next one, or not.

**Mr CHIPMAN** - I shall try.

**CHAIR** - I can't remember what year it was, but the former government sought to make Tasmanian water and sewage services a state-owned company, and there was a lot of push-back. The decision was meant to be taken with the three regional water organisations and it was amalgamated into what is now TasWater. It has been an ongoing issue all that time, with discontent in various quarters.

Do you see any merit in reconsidering the state-owned company, provided that it actually offers some sort of support for local government? You haven't actually got any support this year financially anyway, but you normally expect to have a financial return? Is it worth having a look at that, to have a more organised structure that is a recognised entity - as a government business, as opposed to this nebulous sort of thing where you are the owners, but you do not seem to have much input?

**Mr CHIPMAN** - I will contest that and I will certainly answer it. First of all, I think the owners are really very proud of TasWater, and really value the fact that we are involved with TasWater. A normal GBE is accountable to the parliament, basically. TasWater is actually accountable not only to parliament, but to the councils, and through them to the communities, and there is value in that connection.

Councils have three roles. First of all, we are owners, and therefore we are interested from the owners' point of view in dividends, but we are also there as representatives of the communities right across Tasmania. As Mayor of Clarence, and I know for other councils as well, to be able to engage with the board and senior executives in TasWater and explain our problems and have them responsive to our local concerns is something that we have no chance

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of doing with, for example, TasNetworks or a company like Telstra. That level of engagement through the councils to the community is just brilliant, and we would never want to lose that.

**CHAIR** - Do you believe it is effective?

**Mr CHIPMAN** - Absolutely it is. There is no doubt. As Mayor of Clarence, there have been a number of occasions where I've contacted either the Chair of the board or the CEO and explained a problem within my municipality, and it has been attended to very quickly. I cannot do that with TasNetworks.

**Mr VALENTINE** - I suppose the old complaint about trade waste comes to mind. How are the councils themselves feeling about how TasWater is handling that particular issue?

**Mr CHIPMAN** - Most of the trade waste issues across the state have been resolved. There are still several. I am aware that the local councils in which there are existing problems are able to raise that, but it has not been on the formal agenda for owners' reps meetings for some time now.

**Mr GAFFNEY** - Doug, how long have you been in local government now?

**Mr CHIPMAN** - Twenty years.

**Mr GAFFNEY** - Doug, would you like to make some comment here. I've been in local government from about 1993/1994 and I think people sometimes forget what it was like before TasWater. Councils were spending a lot of time on lots of water and sewage issues, and some just did not have the resources to adequately address some of the issues with their water. Some councils were spending not even close to enough. Do you think the move to TasWater has, overall, lifted the standard of water services in Tasmania, across municipalities and across the councils? I would be interested to hear that, because you were there when it was a different system.

**Mr CHIPMAN** - I believe the creation of TasWater as a statewide utility that is able to deliver the services has been a brilliant outcome for all of Tasmania. We saw the 24 councils, regions, towns, that did not have potable water. Without the resources of a statewide body such as TasWater, they would still be where they were, because small local councils simply do not have the resources to provide those services that a statewide corporation has. I am unashamedly biased. I think it has been a brilliant outcome for Tasmania, and it is a great governance model, which is far more responsive than a straight GBE would be.

**Mr GAFFNEY** - You used to have reservoirs that were open to possums falling in and dying in the water supply, and all that sort of stuff. That is where people can sometimes forget the journey that it has been on.

With the trade waste, it is interesting how you get pockets of communities that will have it as an issue. I like the idea that you can respond to whatever issue you have in Clarence with erosion or water and that sort of stuff. Can you see anywhere where the structure could be improved long-term, five, 10 years down the track? Where do you think TasWater is heading and the relationship between local government and TasWater?

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**Mr CHIPMAN** - It has been a long journey. With the state Government on board now as one of the owners it has been a real plus. We are now at a point where local government and state government are collaborating with TasWater to deliver these services across the board. I do not see the need to change it much from here. We have now reached a stable point. It has been a long journey but has been a good outcome.

**Mr GAFFNEY** - One of the things put forward some years ago about having a TasWater, would mean one body applying for federal money for water and sewage infrastructure, instead of one council versus another council versus Cradle Coast Water versus Southern Water. Has that proven to be beneficial in accessing federal money to assist or not been fruitful?

**Mr CHIPMAN** - It is still a work in progress. Accessing federal money really depended on collaboration between TasWater and the state Government. While we were having a contention over the ownership issues all of those possibilities just dried up. Now we have this new structure in place, we are well-positioned to lobby the federal government and believe we are making progress there. Projects for example like the Launceston Combined Scheme, has every chance of attracting federal money to support TasWater's operations in the future.

**Mr GAFFNEY** - Because now you have the state and the local government working together?

**Mr CHIPMAN** - We as a state have our act together and the feds can sign up to us.

**CHAIR** - On that one point Doug made, he said, 'The state are now owners'. I understood the state were equity partners, not owners. There is a difference.

**Mr CHIPMAN** - They have a separate class of membership, I agree, which means they can, for example, vote and they participate on the board selection committee with one of their representatives, but they do not have dividends.

**CHAIR** - They do not sit on the board?

**Mr CHIPMAN** - No, none of the owners have a board member. We have an expert board, but we have a board selection committee and there are two reps from the south, one from the north, one from the north-west. There is me as Chief Owners' rep, the chairman of the board - unless we are dealing with the chairman's position - and the state Government has a representative on the board selection committee.

**Mr VALENTINE** - I thought they did not vote?

**CHAIR** - Only on that committee, I assume - is that what you are saying?

**Mr CHIPMAN** - Can I take that on notice? I will let you know.

**Mr VALENTINE** - I am pretty sure they do not vote?

**CHAIR** - That is what we were informed by the Treasurer when it was put in.

**Mr CHIPMAN** - Can I just ask -

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**CHAIR** - We need to get this put on the record properly, Doug.

**Mr CHIPMAN** - Ailsa is TasWater's Company Secretary. She can advise us and she will be here shortly. I know that state Government definitely do not get dividends.

**Mr VALENTINE** - That is right. They have a vote.

**CHAIR** - Where can they vote?

**Mr CHIPMAN** - For example, at the owners' reps' meetings where we vote for example to accept the annual report or adopt the corporate plan. The TasWater representative has a vote at that.

**CHAIR** - The Government representative?

**Mr CHIPMAN** - Sorry, yes. Government representative has a vote. They are one in 30; 29 councils plus the state Government is your voting college.

**Mr VALENTINE** - I thought we were told they did not.

**Mr CHIPMAN** - You tested my memory there, I must admit.

**Mr VALENTINE** - With respect to lobbying federal government assistance, et cetera, where does that primarily sit? Does it sit with the member councils or the council body, representative body or does it sit with TasWater itself? How does that work?

**Mr CHIPMAN** - All I can say is the owners are not directly engaged in that.

**Mr VALENTINE** - They are not?

**Mr CHIPMAN** - Are not directly engaged in that but, clearly, as councils, we are in a position to lobby along with any - in a coordinated manner, if necessary, but we are not engaged in negotiations as such.

**Mr VALENTINE** - Okay.

**CHAIR** - Thank you, Doug and Dion, for your time. I appreciate you fronting up.

**Mr CHIPMAN** - Thanks very much, Chair.

**CHAIR** - We will change the guard for TasWater.

**Mr CHIPMAN** - Okay. Thank you.

**CHAIR** - Thanks.

**The Committee suspended from 11.45 a.m. to 11.49 a.m.**

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**CHAIR** - Would you like to introduce your team, Mike? Then I invite you to make an opening comment and then we will get into some questions.

**Mr BREWSTER** - Steve, the chairman, might introduce the team and he'll make the opening comment.

**Dr GUMLEY** - Mike Brewster, chief executive officer, and Matt Pigden, the chief financial officer, and me as the chairman of the board. Just the three of us.

**CHAIR** - Would you like to make an opening statement?

**Dr GUMLEY** - Chair, the 2019-20 financial year was one of two parts. During the first eight months everything was going to plan and the company was profitable. From March, COVID-19 cause enormous disruption to TasWater and to all Tasmanians. Amongst the disruption, the most important mission for TasWater was to keep essential water and sewerage services fully operational. I am proud of how well the TasWater staff achieved that in very difficult circumstances. There have been localised issues that TasWater is dealing with, but overall customer sentiment remains high.

During 2019-20 financial year our customer service team continued to deliver strong outcomes. For the full financial year we responded to more than 168 000 customer calls - an increase of more than 14 000 compared with the prior year. The total number of complaints reduced by 57 per cent from the previous year and represents about 0.5 per cent of our 220 000 connections. This downward trend in complaints is reflected by good results in the reduced number of breaks, bursts, spills and leaks.

We are meeting service standards set by the Economic Regulator for the number of water and sewerage main breaks and the response taken to fix them. This is a result of the continued investment in maintenance and renewals of the ageing infrastructure. As well as working hard to provide the quality services our customers deserve, we are also acutely aware of the extra financial pressure that has been placed on some of our customers this year.

To provide immediate support the TasWater board made the decision to freeze prices for the 2020-21 financial year and to give a 100 per cent rebate of the quarter four bills to eligible small businesses. Coupled with a projected drop in revenue as hardship levels rose, this saw TasWater anticipating a \$24 million underlying loss for the financial year. This saw the very difficult decision made to suspend dividend payments to our owner councils. The TasWater dividend policy states -

Dividend payments will be paid on a quarterly basis during the financial year in which the profits are generated.

This financial year, the one we are in now, we have budgeted for a net loss of \$8.7 million and an underlying net loss of \$24.3 million. We are forecasting profitability to recover to \$36.9 million the year after, and ultimately \$57.6 million by 2024-25. The board of management are making every effort to see TasWater is in a position to pay some level of dividend again this financial year. Provided there is not a major resurgence of COVID-19, the quantum will be known by about March.

Work is under way on our next price and service plan, called PSP4, and significant community and stakeholder consultation has begun. As well as direct support to our customers through the price freeze and the rebate, we also made the decision to increase the net borrowing limit by \$75 million to \$735 million to ensure we are able to continue our capital work program without any delays. Apart from dam upgrade works on Flinders Island where the community requested temporary cessation of travel to the island during the peak of the north-west coast COVID-19 outbreak, capital projects have mostly stayed on track.

A significant amount of planning, investigation and project development activity was undertaken during the first five months of this current financial year on projects spread throughout the state. This is expected to result in an acceleration in expenditure through the Capital Delivery Office over the coming months, providing an economic boost.

Some of the major projects representing about \$100 million are on track for a significant 2020-21 forecast spend including the new water treatment plant upgrade at Bryn Estyn, sewerage system upgrades in Longford, Smithton and Latrobe, as well as the Mikany Dam upgrade in Smithton. Major capital projects such as the work in Longford and the Prince of Wales Bay continued throughout the year despite the lockdown.

Planned and unplanned maintenance of our assets has not stopped and our plants have remained operational because of the tireless efforts of our essential workers. At a daily, practical level this was made more challenging due to social distancing. Early next year we will see the tenders released for the design work to be undertaken to deliver reticulated water to the community in Pioneer.

The Tasmanian Budget includes an allocation for work to commence in moving the treatment plant at Macquarie Point. Work is currently out to tender for the first stages of moving the treatment plant at Macquarie Point. Work is currently out to tender for the first stages of the TERHAP program of works that will see \$130 million spent addressing some of the issues impacting the Tamar Estuary. It is important that the Waratah Dam situation be resolved. After an extended and, unfortunately, unsuccessful effort to locate a new owner for the dam, we recently lodged an application to commission that dam and, if successful, that work is proposed to begin in late March. We will also continue to develop and improve our relationship with key stakeholders.

We're developing stronger ties with the state's oyster growers to make sure we're hearing their concerns and providing them with the information they need.

The separate Legislative Council committee recently heard that work done with the hospitality association and its members over the last year has significantly improved that relationship and the industry's understanding of the issue of trade waste compliance. The same committee has also heard concerns from civil contractors in the state and we're working closely and constructively with that vitally important industry sector on how we can address some of the issues they have raised with us. For example, we have reviewed the current operating model and have decided that TasWater will take direct responsibility for some of the simpler and lower cost works including those that require an urgent response. This will free the CDO up to focus on what it does best - delivering medium to larger scale projects where detailed planning and construction experience is essential for success.

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I think we all hope to never see another 12 months like the last 12 months we've lived through but I'm confident that some of our plans, which we can hopefully share with you today, will see us return to parliament in a year's time with an improved financial position, an increasingly high standard of delivery of water and sewerage services, major capital works well under way across the state, and a price and services plan that will enable us to deliver on our promise to Tasmanians. Thank you.

**CHAIR** - Thank you. Did you want to add anything, Mike? No. I will start off looking at the financial position which has been a challenge and you're not alone in that; I think you all know that. Note 3 refers to the lower future cash flows.

**Mr VALENTINE** - What page?

**CHAIR** - Page 69 in the annual report. There are a couple of things I want to ask about this. Are these due to COVID-19 - I'm sure some of them probably are - but, to be clear, can you explain, does it mean that due to the pricing policies adopted after COVID-19, or is it due to changes in consumer demand in some way or a combination of both? The fall in asset prices -

**Dr GUMLEY** - I'm a bit confused where you are.

**CHAIR** - It's in relation to events after the balance date.

**Mr VALENTINE** - The annual report, page 69.

**Mr BREWSTER** - Matt should be in a position to answer the questions, anyhow.

**Mr PIGDEN** - Would you like me to respond to that?

**CHAIR** - Yes.

**Mr BREWSTER** - Matt, could you answer that?

**Mr PIGDEN** - For background, the asset valuation model that we use is based on our future net cash flows. Because there isn't a comparable market such as a direct comparison like a stock on the Australian Stock Exchange, or property with comparable sales, we use a future net cash flow approach. The biggest impact on the valuation wasn't the changes in the cash flows; it was the change in the discount rate applied to those cash flows.

Obviously, the cash flows did have an impact as well but it's certainly the less material of the two and it's to do with the COVID-19-related loss of revenue - \$13 million in the current financial year from the price freeze - and you don't necessarily catch that up as well so there's a compounding effect of that.

**Dr GUMLEY** - Could I just add something there - we didn't put the 3 per cent price rise into the system so not only do we lose it this year, we actually lose it every year because it's not compounding and so that actually affects your asset valuations.

**CHAIR** - Going back to the point you made about the asset valuations. I note the fall in asset prices is due to changes in future revenue, as you have just said, and the rise in the discount



rate which you mentioned. Why has the discount rate risen at a time when interest rates are falling? I don't quite understand that.

**Mr PIGDEN** - At the end of last year we did a bit of a review. We've had lots of reviews undertaken over the last three or four years, independent reviews at the direction of the Auditor-General as well. What we understood and determined from that revenue was our discount rate compared to our counterparts on the mainland, was quite a bit lower than theirs. We engaged another review to determine are there changes we need to make as a result. In the end it turned out as a result of historically low government bond yields - which is a key input into the discount rate, so that risk free rate, that ongoing low level was impacting that discount rate significantly. We found that other entities started to move to a more prospective looking view of that. So, taking a blended rate from the spot rate on the day as well as the longer term view of what the future projections of that risk free rate might be and the weighting shifted from the spot rate to the future forecast, this resulted in our discount rate increasing and becoming more in line with other discount rates.

**CHAIR** - By adopting a higher discount rate that led to the fall of the value of the assets, which then in turn leads to losses, which then means a reduction in returns to the owners. What engagement with the owners did you have about this?

**Mr PIGDEN** - We had a series of meetings with owners during COVID-19 where this was all played out. Admittedly, a lot of those meetings were on line by video conference which is a little challenging. A number of financial updates were given including the prospect of a significant write down. It is certainly a big impact on the FY19-20 financial results. What it does do as a side effect is reduce the ongoing depreciation impact on future financial results. This then leads to a high level of profit being reported than otherwise would have been the case had we had higher asset values that were being depreciated.

**CHAIR** - I understand there has been a variety of reasons why you have dealt with this this way as it has effectively helped meet your capital expenditure requirements, that is your capital intensive business, the expectations you will deliver infrastructure.

**Mr PIGDEN** - First off, the reason why we undertook the valuation was because under the Australian Accounting Standards we are required to fair value our assets every year. That is why we did the exercise. As a result of that it does produce high profits in future years. When we look at our asset base and what we need to spend to renew it, we look at the replacement costs of those assets, which is our regulatory asset base and what we used to determine our pricing and the return we need on the pricing to renew those assets. The statutory value is somewhat independent of that process.

**Mr BREWSTER** - We should add, Matt, going back to an earlier point, we pay profits out of underlying net cash flow driven profits so the valuation per se does not go to the heart of our ability to pay dividends. We could not pay dividends, because basically we lost cash in that year. We did not generate an underlying profit and that's why we did not pay. Last year we had a valuation adjustment for a different reason. Some went up and things that go up go into the balance sheet, and the things that go down push through the P and L. Up until COVID-19 we were on track to pay our dividends because our underlying profit was still solid.

**CHAIR** - Do you consider the sensitivity of profits and equity to change in parameters when you are doing all of this. I could find no mention of it in your annual report, but Aurora

Energy do and they can have interference from government and price setting at times. Do you have a process of looking at the sensitivity measures?

**Mr PIGDEN** - What we do is look at a base case example when we are doing our modelling. Some of the key inputs are the discount rate, the revenue, operating expenses and then capital renewal that is put into that model. We model sensitivities up and down on the base case and come up with a range of reasonable values. If our book value sits within that range - provided that range is sufficiently tight to be sensible; it can't be too broad - then we can intentionally elect not to revalue the assets. With the significant movement in the discount rates in the last financial year, that wasn't possible, but with the new methodology to determine that risk-free rate, the blended rate with the forward-looking view, that will bring about less volatility than in the past.

**Mr VALENTINE** - How do you approach customers' capacity to pay when you are putting these sorts of things together? It is all very well to say we want to be here in five years or 10 years, but how do you deal with people's capacity to be able to afford increases down the line?

**Mr PIGDEN** - Part of our Price and Service Plan (PSP) process is to engage with customers to understand what impact price increases may have on them. We are not at our maximum allowable revenue - quite a way off our maximum allowable revenue - and we need to come up with a plan to transition up to that, in a way that can be affordable and avoid price shocks.

**Mr VALENTINE** - Especially at the moment, with COVID-19.

**Mr PIGDEN** - That is right. Under our PSP3, the one we are currently in, our maximum allowable revenue would have seen price increases of around 8 per cent. We are required, through regulation, to examine the affordability question. As a result of that, the Economic Regulator presented pricing increases of 4.6 per cent, and we ended up charging 4.1 per cent. This was before the MOU with the Government changed those prices. We ended up having a price freeze last financial year, and due to COVID-19 we have kept that price freeze for the current financial year as well. It is a core consideration in setting prices.

**Mr VALENTINE** - At that rate, do you think you will be able to satisfy your debt repayment going forward?

**Mr PIGDEN** - We have a long-term financial strategic plan. We are reassessing and renewing that plan at the moment. We want to understand the impacts that COVID-19 and decisions around COVID-19 have had on that. We need to balance price increases with the ability to deliver our capital program and meet our owners' requirements for dividends as well.

**Mr BREWSTER** - It is worth noting that prior to COVID-19, we had a fully funded long-term plan. There was not an issue. We had declared the scheduled price increases in that plan, which was part of the MOU with the Government. It mightn't necessarily have played out that way, but they were capped at 3.5 per cent until FY 2025-26. Our debt profile was manageable, and again we declared it. Our interest cover ratio looked solid, so the issue here is the impact of COVID-19 in terms of increased debt and the associated loss of revenue, as the chairman pointed out.

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**Mr PIGDEN** - That pricing path would have seen us at full cost recovery, at maximum allowable pricing, by FY 2027-28 - but as I say, we are reassessing that now post-COVID-19.

**Mr VALENTINE** - As a result of COVID-19, has your capital expenditure reduced, or not?

**Mr BREWSTER** - There has been some impact. There is no question. In the middle of COVID-19, we had a project on Flinders Island with contractors ready to go, but the people on Flinders Island didn't want visitors and we had to stop.

**Mr VALENTINE** - Was that a costly exercise?

**Dr GUMLEY** - It goes to delay more than anything. Yes, there is a bit of cost associated but mostly the project is delayed, so you don't get all of your capital spend away in the time period you expected.

**Mr VALENTINE** - I thought contractors might have come to you and said, well hang on a minute, this has cost us at this point, and the delay is going to cost more.

**Mr BREWSTER** - There will absolutely be costs associated with that. We are working our way through those as we get the claims, as you would with any other claim. Yes, there have been some costs associated with that. Where we had challenges and impacts, we tried to put more of our time into planning, so that as we come out of it we are better positioned - particularly for next year's program, which looks really solid.

**Ms WEBB** - In relation to the new pricing plan - the PSP4 I think you said it was - can you be a bit more specific about the time line for that, and who specifically is being consulted as part of developing it?

**Mr PIGDEN** - The time line was pushed back a year due to COVID-19. We had initially planned to develop the Prices and Services Plan for submission by the end of this financial year. That has moved out to the end of next financial year, and that is where, I guess, feedback is requested.

Leading up to that, there's a series of different events where we consult with different stakeholders, depending on what topic we might be discussing. Developer chargers is one. Willingness to pay for different types of services that could get introduced and reused, and so on. There is a range of different mechanisms for that.

**Ms WEBB** - How about residential customers, and vulnerable customer groups?

**Mr PIGDEN** - Yes, we engage with different industry groups. We engage with customer panels as well. Business, residential.

**Ms WEBB** - And within that, vulnerable residential customers? The COVID-19 impact is obviously quite high, so do you have a specific advisory group that you go to?

**Mr BREWSTER** - We do. Part of the process is to engage through more than one mechanism. Some of it can be surveys. We do get survey data, but we also have specific groups, and we have also built long-term relationships within the broader industry for

supporting those who are most vulnerable in terms of pricing increases. They are engaged as part of the process.

It is quite a wide-ranging process. It is also important to note that we have quite a strong vulnerable customer program, which we regularly monitor. To be frank, one of the biggest impacts on us, in this financial year, has been the increase in the size of the anticipated support that we will have to provide to vulnerable customers.

**Ms WEBB** - Could you talk a bit more about what that increase has looked like, from the normal setting, to what you are experiencing now during COVID-19? Have you had a higher incidence of people having to be disconnected or restricted in their water usage, as a result of not being able to make payments, or those sort of arrangements?

**Mr PIGDEN** - We made some decisions around the different tools we have to collect a debt. During COVID-19, we understand that there are a lot of impacted people, so no, we haven't placed any further restrictions on people. As Mike said, we have expanded our customer hardship program, which traditionally was only offered to owner-occupiers. Now businesses are able to access that. People who may have a secondary property, an Airbnb, and are perhaps unable to lease it out with travel restrictions and so on. It is open to a lot more people. We also expanded some of the offerings under the customer hardship program, allowing deferred payments without attracting interest, and entering into longer-term payment plans as well, to give people more time to get back on their feet.

**Ms WEBB** - Do you have some figures to show, compared to usual, what increase has occurred due to COVID-19 on those measures you have had to take?

**Mr PIGDEN** - Yes. At this stage, we haven't had the level of bad debts come through that we had anticipated. We have been providing pretty heavily each month for new bad debts to come onto the books. Our overdue debt to revenue percentage did gradually rise over the COVID-19 months, but only marginally. As of the end of November, it returned to almost pre-COVID-19 levels. We are a little bit cautious with that, because we understand there are still some financial support measures out there.

**Ms WEBB** - We haven't seen JobSeeker and JobKeeper drop away yet.

**Mr PIGDEN** - That's it. At the end of September we planned to do a new review, as they were meant to disappear.

**Ms WEBB** - You would be looking ahead, then, to when they are meant to be rolled back?

**Mr PIGDEN** - Correct. At this stage we have provided pretty heavily. We want to reassess that at the start of the next calendar year, or throughout the first quarter of the next calendar year. As Stephen mentioned, we might then be in a better position to determine what our financial result is looking like, and what that means for any potential dividends in the future.

**Dr GUMLEY** - Perhaps I might add how we modelled it. We had three scenarios. Remember this was going on in March and April. Scenario two, the mid one, you would probably describe it more closely as what happened in Victoria. Of course, scenario three you might describe as what is happening in America. But scenario one is closer to where we have

ended up. It looked like we ended up about scenario one and a half there for the first three or four months and now it is sort of drifting back towards scenario one. All that means is we are very hopeful our bad debt provision will not go up as much as we anticipated.

**Mr VALENTINE** - Further to Meg's question, have you the split between assistance to residential customers versus business customers?

**Mr BREWSTER** - I could probably go through to Matt. The simplest way to look at it is we provided direct support to the residential customers in the order of the price freeze of \$13 million, which went straight through. We then put a further \$35 million aside for bad debts which can be basically anybody, as well as customer hardship I mentioned earlier. That is the net impact and last financial year we took the additional impact which is that \$12 million - Matt -

**Mr PIGDEN** - \$11.8 million.

**Mr BREWSTER** - Which was associated with the price freeze to small business. Last year we gave to small business support. This year we gave to a residential price freeze and we put aside bad debt and hardship funding to the tune of \$35 million. As Matt said, if that does not eventuate, and that is a tricky issue for us, then that puts us in a position then to potentially have underlying profits that could fund some form of dividend. The tricky piece for the board and management is, at what stage do you have the confidence that there is not either a second wave of COVID-19, or what happens when the support programs run out nationally? Will that suddenly see an eruption of claims. It is a challenging judgment and why the board has made the decision in February/March we will have another assessment of where we are and the impact on our bad debt and hardship.

**Ms WEBB** - Vulnerable residential customers who may be struggling to pay a bill, is it the requirement they come to you to request assistance through that allocation you have made for bad debt, or do you have a way that you trigger for particular vulnerable customers, a piece of communication to them about the availability of support? How does that interaction look?

**Mr PIGDEN** - It is an area we have done a lot of work on recently and still are. I guess we have a target for what we call controlled debt, which is essentially overdue debt, where we are actively communicating with the customer, trying to generate that conversation. Our systems are getting more sophisticated and we are looking at ways where changes in payment patterns are alerted to us more swiftly than in the past, which allows us to reach out and make those contacts where we see this person has traditionally paid their bill on time or slightly late but now that is slipping. We are doing a lot of work in that area.

**Ms WEBB** - That is in place now where you can proactively identify that through your system and then reach out in a proactive way?

**Mr PIGDEN** - It is getting developed further. There are instances of where we have done that, but I would not say it is fully in place at the moment. It is something we are developing through our billing system. The other thing we do is communicate through the bills we send out what our programs are. We advertise it where we can also and encourage anyone having difficulty to contact TasWater so we can develop a response going to fit their needs.

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**Ms WEBB** - Do residential customers have to demonstrate some tangible COVID-19 impact on their circumstances the way you might expect a business customer? Will they be able to access these support allocations without having to demonstrate some specific COVID-19 impact on their financial circumstances?

**Mr PIGDEN** - We certainly have conversations with the customers to better understand what the impact has been on them through submitting financial information to us. That is not overly onerous for what we require. It is more a conversation and understand what the impacts are. Some people might have the house pending sale and they might only need a short-term extension until the house is sold and then they can pay their bill. Others definitely need much longer support, depending on their circumstances.

**Mr BREWSTER** - It is worth noting pre-COVID-19 we also put quite a bit of investment into how to help customers with hardship through places like Anglicare and the not-for-profits, because some people will not come to us. They do not feel comfortable ringing up and saying, 'I cannot pay my bill'. We developed this in conjunction with Kildare about two years ago. From a process perspective we were reasonably well set up, but this additional work Matt is talking about, we can get in contact and if we can see they have been a really good payer, never had an issue and suddenly struggling with their next couple of bills. We can either put someone in contact with them from our business or, if they do not want to talk to us, can talk to one of the agencies.

**Mr VALENTINE** - How many residential customers have been disconnected through not being able to pay bills?

**Mr BREWSTER** - Virtually zero, I think.

**Mr PIGDEN** - None.

**Mr BREWSTER** - That is an absolute last resort because usually when people cannot pay their bills, there is a good reason.

**Mr VALENTINE** - I just want to get it on the record.

**Mr BREWSTER** - It is a good reason usually when they cannot pay it.

**Ms WEBB** - Part of the gap we have understanding the COVID-19 impact is those in rental properties. It is a bit less clear there as you are not billing the tenant. You are billing the landlord and the way that arrangement is then dealt with is between the landlord and the tenant. Would it be fair to say payment of bills is a bit unknown, or do you somehow track how that is dealt with?

**Mr PIGDEN** - From a business sense, our quarterly rebate from last financial year was offered to eligible small businesses based on an electricity tariff. We were provided with information from the electricity providers as to who those people were. About 18 000 businesses qualified. The issue we had was there weren't 18 000 direct matches in our billing system because, as you quite rightly mentioned, we bill the owner, the landlord, and the electricity providers bill the tenants. We ended up matching around 7000. I think about 6500 of those were automatically matched. There were 7100 matched up after the customers come forward and self-identified. That resulted in rebates of just under \$5 million. The rest, we have

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been trying to communicate with those tenants to let them know via email, via advertorials, via any means we can, to get them to come forward to claim those rebates. It is challenging.

**Ms WEBB** - Are you talking about business tenants?

**Mr PIGDEN** - Correct.

**Ms WEBB** - I was mainly speaking about residential tenants in rental properties also. I guess that is where there is a gap in our visibility, because from your side of it you would not be aware of how that is dealt with. Would residential landlords have qualified for one of your business assistance rebates?

**Mr PIGDEN** - No, it is only small businesses on a small business tariff from an electricity perspective.

**Ms WEBB** - For residential tenancies there was not assistance available to either the landlords or the tenants around water costs?

**Mr PIGDEN** - Certainly, the price freeze we have for the current financial year and our customer hardship program is accessible to the customers we bill.

**Ms WEBB** - Which would be the landlords?

**Mr PIGDEN** - Which is the landlords, correct.

**CHAIR** - We might move on now.

**Ms LOVELL** - I had some questions about the people and culture section of your annual report starting on page 20. You have identified a number of health and safety initiatives implemented, but your results in lost time injuries is worsening. Essentially, you've got some pretty significant changes there, that are not heading in the right direction. How do you explain that and what is the company doing to address that?

**Mr BREWSTER** - Our loss time injury rate has actually come down significantly since we commenced. It did go back, you're absolutely right. We started with a loss time injury rate in excess of 20. We are down at 2. It did spike back up and the bigger issue for us is our total reportable -

[Technical issues]

**CHAIR** - I don't know what that is but we are going to get IT to come and have a look at it. We might need to pause. So just stop the broadcast.

**The Committee suspended from 12.25 p.m. to 12.31 p.m.**

**CHAIR** - I will get the broadcast to recommence. Sorry for the interruption.

**Mr BREWSTER** - Thank you. As I said earlier, at one level in terms of context where we come from it's a massive improvement. Was it a disappointing year in terms of safety?

Absolutely. We found we were going quite well; as Stephen said, we were tracking well even in safety until around September and things started to turn.

It was very difficult to nail why that was. Then COVID-19 hit. We didn't see a massive increase, as you see, in lost-time injuries, but we saw an increase in our total number of injuries, mostly soft tissue injuries. We have an ageing work force. In the end it is interesting because since about September when senior management has been able to get back in the field, our numbers have driven back to where they should have been.

We have to sustain that. There are two elements to that. One is, yes, obviously leadership presence in the field makes a lot of difference, but also we are still working our way through what is in the culture that allowed that to come back up. Having said that, our staff are very focused. We have a plan; it is multi-year program. Our aim has always zero harm. It is an aspirational vision, and that is where we are going. As senior management and the board, our biggest issue are our near-misses, so that is where we are putting much of our focus.

Yes, there is a financial impact from the soft tissue injuries, but my number one focus in safety is when things occur that could have resulted in a serious injury. Why are we all over-fatigued? That striving is pretty much our number one safety risk. What can we do to reduce the fatigue risk?

Our other big risks, apart from driving, are around operating machinery, working at heights et cetera. It is an industry with significant risks. The board and management and I don't think it is overstating it to say we were pretty disappointed with our safety performance last financial year.

**Dr GUMLEY** - The board has restructured the board pack each month so that instead of safety being part of the overall operational reporting, it now has its own section right at the front of the board pack to get immediate attention every month.

**Mr PIGDEN** - I think in the last hearing there was a question around whether we were forced to cut corners as a result of COVID-19 and the financial implications on TasWater as a result. Certainly, we looked at our discretionary spend and where we could save some money, and safety wasn't one of the areas. Our recently endorsed health and safety strategy was funded, so we have increased funding to health and safety, not reduced it.

**Ms LOVELL** - Mike, you mentioned culture in that. Does the company conduct regular workplace culture wellbeing surveys amongst your employees?

**Mr BREWSTER** - Every two years we do an organisational-style inventory program which effectively is a culture program, but it has a lot of research. We go with that because it is internationally recognised.

**Ms LOVELL** - Does it include surveying your employees?

**Mr BREWSTER** - That is the whole purpose of it. It gives you a very good insight into your culture and breaks it down into certain attributes, cultural attributes. Since then we do regular surveys, what we call pulse surveys, nominally every quarter - although we're starting to think that's probably a little too close together - to get a pulse survey of: Are things getting better? Are we addressing the cultural gaps?



We want a highly constructive organisation and that's what your target culture is - people who are affiliative, who are achievement-focused, humanistic and encourage styles of operation. Frankly, we're probably more in the avoidance style of culture; we're trying to move the organisation with our employees to that, and I think the recent results have been very promising, quite frankly.

COVID-19 probably helped us in a strange way because that's a time when you really have to communicate closely with your staff to keep them involved in what's happening and how you're making decisions. Our results did peak very quickly and we think that was probably a bit of overshoot from COVID-19. Our last survey gives us a picture of where we're at and I think we're on a pretty good journey.

**Ms LOVELL** - In terms of that two-yearly survey, where are you at in that cycle at the moment? When was the last -

**Mr BREWSTER** - We're just coming up - I think next year - we run again next calendar year.

**Ms LOVELL** - Okay.

**Mr BREWSTER** - That will give us another data point to cross-check our pulse survey data points.

**Ms LOVELL** - Okay. I have some questions about the Blue Bus program. Who designed that program and who runs that? Is that an in-house program or was it designed externally or -

**Mr BREWSTER** - It was designed externally. The program came out of New South Wales, out of the steel industry -

**Dr GUMLEY** - Newcastle.

**Mr BREWSTER** - Newcastle. Yes, thanks, Steve. That's where it came from. It ran through Sydney Water. They had a lot of success with it. We looked at our culture survey results and we said, 'Well, okay, what can we do that will make a real difference here?'. Because we're a member of the Water Services Association of Australia, we looked at what other water utilities and other businesses were doing, and this program was flagged as driving - it's aligned completely - so the Blue Bus goes to the blue constructive styles.

It was aligned directly to what we were trying to achieve. It's an independent, external organisation that we engage. Because of COVID-19, in the last nine months - it's very difficult to make it work online - we have continued to drive the program internally because we couldn't get everyone together and couldn't give half our organisation direct exposure to the trainers, but we will bring that back next year to take the rest of our workforce through that experience.

**Ms LOVELL** - How does it work? Can you talk us through it?

**Mr BREWSTER** - In essence, being on the Blue Bus is being on a journey to be constructive. You get a cohort that slices right through the organisation. So, from the CEO,

you might have some of the people in the field, some of the people in the office. I went with a big mix. You do a preliminary workshop to give everyone a little bit of comfort - that took about half a day - and then a two-day workshop.

That basically breaks down some of the barriers as to why people don't do the things they [should] do and why they do things. It reinforces at the end of the day that people can actually make choices about most of their decisions and the things they do. It also sent back to management some pretty direct feedback about where we had constrained decision-making - sometimes your culture is often driven by decisions you make at a senior level and you don't understand their impact.

That's how it rolled down to the bottom. You get a lot of engagement at all levels in the business, and that does make a big difference because things get brought to the fore and people have to make a choice - are you going to be a victim or are you going to be part of generating a new culture? The new culture will only work when the staff embrace it. Senior management and the board are just the starting point.

**Dr SEIDEL** - Looking at the Blue Bus website, it seems to be a private organisation. It clearly states it bridges the gap from their current performance to beyond what they thought was possible. Is it just a performance-measurement program? Isn't it a concern that you are driving your staff towards more and better performance, and the ones who are not on the Blue Bus are just missing out and then they are performance-managed out of the organisation?

**Mr BREWSTER** - No. That -

**Dr SEIDEL** - Is it a concern? What strategies do you have in place to make sure they are inclusive rather than targeting some people with an external program?

**Mr BREWSTER** - No, we do not do that. We do not say if you are not on the Blue Bus then we are going to move you out of the organisation. That does not happen. The whole point of the Blue Bus is for all of us starting from me, all the way through the organisation to understand the challenges together. There is a series of check-ins on the way through. I keep connected while it was running down here, all the way through to ensure there is support. There is also coaching support for those people who need it through the program.

When we say performance, of course if you are a business you want better outcomes for your customers. That is your primary aim. They are paying money, they want service. I have found over the years to get great outcomes from the business your starting point is to have a great strategy. But a great strategy with a poor culture does not take you anywhere. What we are trying to do, and what this program does, is to align the culture of the organisation with the strategy and the outcomes, then the whole point of it is to assist people to be successful.

We have had a lot of successes so far of those who have been through the program and certainly shared their stories. We share our Blue Bus stories at the senior executive table. We share the great things happening from others that come up through the organisation and we also share our failures.

**Ms LOVELL** - You talk about being on the Blue Bus where people can choose to be on the bus or be a victim. There is a lot of talk about personal responsibility and personal choice. For those people who might be identified as not being on the Blue Bus, what work is done to

identify what obstacles are in the way and working with those people to overcome those obstacles? It is not always about personal choice or personal responsibility. There can be a whole lot of factors that influence people's mental health at work. What part of the program addresses those aspects?

**Mr BREWSTER** - Once the workshops have been done, there is check-in coaching, but fundamentally, that is what leadership and management of the business is there to do. We have coaching programs sitting inside the business. We will follow up. I personally followed up a couple of people who were not happy through the program, who felt that on the way through it was not addressing some of their issues. It is really about managers and leaders engaging with their people. Usually the success comes when your direct manager has that conversation. It is not just one conversation. It is always a number of conversations to get underneath why is someone behaving the way they are and why don't you support the Blue Bus? Is that an issue? I never support it may be the way for some people. Largely the success we have had of the vast majority who have been through with an improved sense of what they have control over and how they can make a difference. It is not going to be for everybody and it is not going to be perfect for everybody.

**Ms WEBB** - Do you feel under this program it is less likely your employees will bring up negative experiences or issues to their manager or into the system?

**Mr BREWSTER** - I think it is more likely. It has been my experience, people write to me directly and tell me what they think is not working. I have had more of that since. If people want outcomes they write in a respectful way. I encourage it, I get it. Some people won't when you are the CEO, I know through the workshops. We have also tried to have more team workshops and team discussions, because ultimately people are influenced by their direct manager. That is the person with more influences on their work experience, trying to help the leadership.

Hand in hand with this has been a significant investment in coaching and leadership. You cannot just do the Blue Bus and hope it is all going to be fabulous. If you do not train your leaders and coach them on what it means to be a great leader you are only doing half the job. We invested heavily in the last two years in coaching for our senior leaders, the next level down through the organisation and hired an external coach to assist us. The next level is to improve our performance development systems to make sure people get meaningful feedback. Feedback is about getting that balance so people trust you.

**Ms WEBB** - I presume you have an EAP - an employee assistance program - in place. Since you have had the Blue Bus and coaching model rolling out, what have you noticed about your stats, in terms of access to your EAP?

**Mr WEBSTER** - They haven't gone up, but if you want me to provide the exact numbers year on year, I would have to take that on notice.

**Ms WEBB** - It's really only if there had been an up or a down change, or is it sort of the same?

**Mr WEBSTER** - I am not aware, but I would usually be notified if there was a sudden significant increase. I expect there would be an increase through COVID-19, but I can't recall there being any evidence of that, so I would like to take it on notice.

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**Dr SEIDEL** - Is the Blue Bus compulsory for all your staff, and have your board and senior executives participated?

**Mr WEBSTER** - The senior execs have all participated in both the half-day introductory workshop and the two-day workshop. The board also participated in it, but we have to make sure there is some independence with the board from management. So, they participated, but not to the same level in the workshop, because the board needs to understand that at the end of the day, management is responsible for delivering results.

**Dr GUMLEY** - There has to be some governance. The board is fully across it. We are briefed on it in the board meetings, but there needs to be a little bit of an air gap to make sure the program is running as everyone hopes it is running.

**Mr VALENTINE** - If you have a manager in the system who is not performing, how do you pick that up?

**Mr BREWSTER** - That is why you have a performance management system.

**Mr VALENTINE** - But in this Blue Bus program?

**Mr BREWSTER** - We don't target that way. The people who have been running this program have been doing it successfully for some time. If anyone has an issue - whether it's the CEO, manager or employee - it is generally pretty easy to pick up, because when you are doing the program, it is not sitting in a seat being lectured to. It is quite interactive. It is very evident when someone is not engaged, and what they tend to do is encourage people to speak their mind. They certainly spoke their mind when I was in the room and had no fears. From there, if there is still a lack of engagement, the people running the Blue Bus will talk to them during the breaks and will try to work with them to work out what is really happening.

In some cases it was, 'We need to push this back to senior management', or to management. There is some underlying reason why that person doesn't want to participate, but we didn't have many. Most people by the end of it found it a really enlightening and enjoyable experience.

**Ms LOVELL** - I had some questions about the Capital Delivery Office.

**CHAIR** - Can I deal with the workforce ones before we go to that? What impact has the COVID-19 period had on employee leave entitlements - particularly recreation leave - and how you are managing that?

**Mr BREWSTER** - The leave has gone up. The balance of their leave has increased, because people were not taking leave. This was a problem right across industry, so we checked in with other GBEs and what was happening on the mainland. Everyone is struggling with this, and particularly in our case, we can't direct people to take leave under our enterprise agreement.

**CHAIR** - What are you doing to try to manage it?

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**Mr BREWSTER** - First of all, we got behind the program the Government is running to encourage people to holiday in Tasmania. Senior managers and managers are expected to talk to people with excessive leave levels. I get a report once a month. The board gets a report on top of that. We are seeing it starting to finally come down now. Our excess leave numbers are reducing, but we have to keep on top of it all the time.

**Dr GUMLEY** - Could I just add to that? During COVID-19, TasWater maintained all its outputs, but the inputs were higher, because people weren't taking leave. We decided, from the board down, that the single most important thing we had to do during the COVID-19 period was maintain essential services. That was more important than leave balances.

**CHAIR** - I am not disputing that. I am just asking how you are seeking to manage it.

**Dr GUMLEY** - Now we have to encourage people to take their leave.

**Mr PIGDEN** - Leave in October was up 60 per cent on the first quarter of the financial year. It has turned around. I don't have the numbers for November, but I suspect there are much higher levels of people taking leave as well.

**CHAIR** - I notice on page 20 of the annual report -

This is our first year working proactively toward a more diverse and inclusive organisation.

Why it has taken so long? Also, what percentage of women in leadership positions are you working towards? I note you have three women and five men on the board, but only one of those women chairs a committee.

I am interested in what your key performance indicators - KPIs - and expectations are around this?

**Mr BREWSTER** - I don't have the KPIs in front of me, but I am happy to table them. I will send them through.

At our executive team level, at the moment it is about 40:60 or 50:50. I think I have three women on the executive team, and four men, including myself. So, it is 3:3 at the moment.

Coming back to your question about diversity. Yes, we weren't doing enough. We identified that a couple of years ago. We felt we weren't doing enough, so we hired someone specifically to help us with how to go forward. We were doing things, but they were sort of ad hoc and not making enough of a difference.

One of the positives has been that the remuneration gap between women and men has virtually been removed. There is very little difference now, but as you get further into the organisation, particularly in the field service areas, it is very male dominated.

Again, courtesy of our person who has been leading this - who is on maternity leave at the moment, so it has sort of dropped away a little, but it will come back - what we did was to recut our trainee program

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In the past, we've put out programs for trainees, and attracted a bunch of young males, to be honest. Sophie Fahey, who was leading the program, said we need to recut it - we needed to target it and make it attractive to women as well as men. We had a lot of success; I think 40 per cent of the applicants were women.

**CHAIR** - You haven't made appointments from those applicants yet?

**Mr BREWSTER** - Yes. Over a year ago, I think we brought on about 11 trainees.

**CHAIR** - How many were women?

**Mr BREWSTER** - I will doublecheck the number, but I think either four or five women went into the trainee program.

**CHAIR** - I note on page 39 of your annual report for 2019-20, it says, 'TasWater does not have an equity based remuneration scheme'. You mentioned the gender pay gap almost being closed. I am just interested in what that actually means.

**Mr PIGDEN** - Equity base as in share base? There are no shares offered in the company, in terms of remuneration.

**CHAIR** - Right, okay.

**Ms LOVELL** - When the Capital Delivery Office - CDO - was established, at the GBE scrutiny hearings in 2018, a statement was made that alliance partners would be brought to Tasmania, and that you wanted them to be on the ground in Tasmania. Are all the alliance partners in Tasmania now? If not, how many are still on the mainland?

Also, what level of expenditure in actual delivery of projects is the CDO taking carriage of? Not labour costs or staffing, but actual infrastructure delivery.

**Mr BREWSTER** - I am happy to get the exact number, but very few, because I asked for this detail a couple of months ago. Very few of the CDO people are fly in, fly out. The only ones in recent times were impacted by COVID-19, so part of the deal was they would bring people down to basically live here. That has been the majority of the exercise, except where we have short-term contracting arrangements - then, yes, they will come in and they will fly back sometimes, and that happens on projects because you need a specialist skill.

In terms of your numbers - so I am accurate, maybe someone could find that page for me, but from recollection, it is about \$140 million from the CDO since its implementation. We also continue our own capital projects as well on top of that.

That is under management. A large share of their projects were planned and prepared prior to the Capital Delivery Office some of these projects take two of three years in planning. That share go out under the TasWater contracts. Of the projects that have been developed completely by them and gone out, the expenditure has been around \$45 million to \$50 million of that number. The last year we did about 140 from recollection.

**Mr PIGDEN** - One hundred and twenty-eight.

**Ms LOVELL** - That is on the actual infrastructure.

**Mr BREWSTER** - That is a combination of infrastructure, IT and other capital projects we undertake. Some IT projects are capitalised and not necessarily infrastructure. That is the case every year. Those numbers I provided are pretty accurate.

**Ms LOVELL** - Is that in keeping with what was expected?

**Mr BREWSTER** - No, it's about \$20 million below what we had anticipated last year. We took that \$20 million and added it to the \$170 million or thereabouts we targeted for this year. This was the key reason for the CDO. We had a massive step change required and did not have the capability to deal with that step change in that period.

**Ms LOVELL** - So you have rolled that over to the coming year. Are you anticipating any problems with meeting that new target?

**Mr BREWSTER** - Possibly, we went from \$170 million to \$190 million. Some of it is COVID-19, but I certainly would not put it all down to COVID-19. Some things have taken longer to get out the door than we had anticipated when we originally set it up, particularly the smaller projects. It has taken longer to get them out, but we are really strongly positioned for the following financial year.

One of the things we have done through COVID-19 is invest as much time as we can in planning. The more planning you have, the more estimation you have done, the better the following year becomes. Our intent is we are looking to get over \$200 million. Why we went down this model is this does not include in the next couple of years, we also have to deliver Macquarie Point not included the transfer. There is another \$150 million to \$160 million we have on top of that to combine system, another \$130 million we have to be included and we have our Launceston Sewerage Improvement Project which was about \$200 million that is not going to happen without a different model.

**Ms LOVELL** - How many employees have now been moved into the CDO from other parts of TasWater.

**Mr BREWSTER** - Let's say about 90, so it will be 50/50. It is about 180 in the CDO half TasWater half partner.

**Ms LOVELL** - Will those TasWater employees have a role within TasWater to go back to and will it be the same role they were moved from.

**Mr BREWSTER** - Probably not in terms of the role because part of this is upskilling them to create new opportunities.

**Dr GUMLEY** - In many ways you would hope not. The whole purpose of the CDO was to have a learning effect.

**Mr BREWSTER** - One of the benefits is they have a lot more security than the partner employees. The intent for us is when we roll off the Capital Delivery Office we build enough capability to deliver with a partner. We still need a partner of that size until your program

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drops back to the one ten, one twenty, but if it does a million per annum, but that is how we are approaching it.

**CHAIR** - You said in your opening you are changing the projects being taken on by the CDO and you are pulling out the smaller simpler projects. What is the bar?

**Mr BREWSTER** - We do not have a bar right now and there is a reason for that.

**Dr GUMLEY** - You can do a really simple project that costs quite a bit of money as to put a pipe in and it is very simple to dig up the ground long distance no complexity. Similarly, you can have a small project that is highly complex and it is really the complexity.

**CHAIR** - I will reframe the question: how do you determine which projects will be outsourced to local contractors rather than done within the CDO?

**Mr BREWSTER** - To be clear, all projects are out sourced to local contractors.

**CHAIR** - Managed then by TasWater as opposed the CDO?

**Mr BREWSTER** - Right now we're undertaking a risk assessment of all the current projects. We have 65 projects under way plus our programs, and then we've got a whole bunch on top of that. What we do is go through line-by-line and assess where it's at. We will assess the level of risk and complexity. If it's multi-disciplinary and it's relatively complex, we would definitely leave it in there because that's what our alliance partners are great at. That's why we brought them. If, as Steve said, it's a linear renewal, so, it's an underground pipe, there's little to it, we would probably take it back because we're better positioned to quickly do it and probably take on a bit more.

**CHAIR** - You do a risk assessment; that's what you're telling me?

**Mr BREWSTER** - We would do an assessment of risk and size - so, not just the risk but, also, a much larger project tends to invite more disciplines. If you get more - you get civil, you get electrical, you get mechanical - then that's when an overlay - the sort of systems that our partners bring are absolutely essential, which is much more challenging for us to do. So what we're trying to do is to - given, as I said earlier, we've got Macquarie Point, LSIP, a combined system all coming towards us which need to be delivered plus our program, we're saying how do we free them up to do what they're best at, what can we do then - so, what do we take back that allows them to concentrate on that and we can do with little risk and get more work out to the market more rapidly. That's exactly what we're doing.

**Ms WEBB** - I'm going to move onto another area if anyone wants to follow up on this.

**CHAIR** - Are there any other questions on the CDO? No? Okay, Meg.

**Ms WEBB** - I want to ask a couple of questions about - obviously during COVID-19 you closed your face-to-face customer interactions across your counters in your physical sites, but my understanding is you're keeping those public interfaces closed from here on in and re-deploying staff. Can you talk a bit about that decision and the implications that has for customers or members of the public who may have utilised those face-to-face services?



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**Mr BREWSTER** - Yes, we are - just like Aurora, Treasury, et cetera - removing the front counter in having someone there at the front counter but we're setting up interactive centres for customers when they come in, so they can get the information themselves. Some people will still want to come in, and they do now, and when they do we try to help them, but there is not a large number of them.

We've assessed what's driving this; why do people come to the front counter; what things can we do to help them with self-service? Who is coming in regularly? We're writing to all the people who do come in regularly to say, 'This is what we're doing; this is why we're doing it; this is what will look different for you; if you have any concerns, please contact us'. We're also setting up a means for someone to make an appointment to come in if they need to. In the last eight or nine months there really hasn't been too much issue with the offices being closed but we understand there are some people who do like coming in.

The benefit of that has been, obviously, we've been able to take those people and we didn't let those people go. We didn't go through a bunch of redundancies or say, 'We've got nothing for you'. We retrained them as customer service officers and they've done a fantastic job - and you will see that if you look at our customer statistics in terms of the customer support levels, and the complaint numbers are dramatically down.

**Ms WEBB** - To come back to the members of the public, the customers who were coming in, I appreciate that you said that there were some who liked to come in. There would have been also some for whom that was the appropriate way for them to interact because they may not have had access to technology, for example; they may have other issues that make it more difficult for them to contact you by phone or other mechanisms' so it's beyond just preference for some people. In terms of those people, if they now just come into your physical offices, there's still a way that they are provided with service, face-to-face -

**Mr BREWSTER** - We're still working through it but there will be a customer service interaction centre where the current front desk is in each area. They can come in -

**Ms WEBB** - Does that mean a computer?

**Mr BREWSTER** - Yes, it does mean computers.

**Ms WEBB** - Right. It requires literacy and computer digital literacy?

**Mr BREWSTER** - It requires, if you can't solve it, to dial our number and we'll help you. That's the net result. We start with the data, Meg, so we don't just say - exactly as you say - that everybody has the same need'. You have to go through your data and ask why are people coming in. We've also looked at what companies have done, such as I said, Aurora, Treasury, others, to ask how are they managing it. We are not necessarily going down the same paths. We have learned from them and adopting their learnings and we will see how that goes over the next 12 months. I have walked down to the bottom of the building and there has been someone on the outside desperate to get in. We do not just say well that is tough luck, off you go. We open the door and say how can we help you? But they are not lots of numbers.

**Ms WEBB** - We are at that sort of tipping point, aren't we, where we still are going to have a residual cohort of people who will still want, but also need in many cases, to interact in that face to face way rather than the other more technologically based way.

**Mr VALENTINE** - This is more an infrastructure question. With respect to your re-use schemes. You have 32 of them. What sort of a return on investment are you getting from those?

**Mr BREWSTER** - We do not get a return on investment from our re-use schemes. Most of them are loss-makers.

**Mr VALENTINE** - I suppose at the end of the day it is saving water. Are there any complications with them? Any costs to you apart from the main infrastructure cost of putting the lines in, I suppose? Are the irrigation schemes putting the lines in?

**Mr BREWSTER** - We are in favour of re-use schemes and we would like to see more re-use, more recycled water, but we have to work within the framework we have. There are a couple of issues. One is we have historical pricing, very low historical pricing, which is not full cost-recovery pricing. You can't just double and triple peoples' prices overnight. When we tried to increase it farmers then say, 'We are going out of business, how can you do that to us?' We try to get the balance right and incrementally move it up.

The other issue is that when we are using recycled water often you have to locate an irrigation customer, a single farmer, et cetera, you put it on to their property. They have a dam and they take it. There are certain constraints they have to meet which is fine. Then it rains in the winter and it rains heavily, and they say, 'We do not want your water now'. Then we have to say, 'What are we going with that?'. The next thing you know we have built an outfall. In effect the benefit you get in terms of the capital program and savings for customers longer term, is defeated. We are working with the EPA at the moment on how might we look at restructuring this to encourage more recycled water in an economically sustainable manner. Where we do see opportunities, we continue to pursue them. We were hoping to have a large recycle scheme in the Pittwater area in the near future, but we have a long way to go to get there.

**Mr VALENTINE** - Storing it for significant periods of time when it is not being used causes problems with the quality of the water too, doesn't it?

**Mr BREWSTER** - I am not across the extent to which it causes quality - I would have thought probably less so because you have more time - but I think the bigger issue is when it rains. We have an obligation to deal with the excess and that is where we get into trouble. So, okay, what are we going to do when it rains because our recycle dam fills as well? What do we do with all of this? We have to push it through an outfall and put into a receiving water which then makes it tricky for us. As I said, it is a long way from doom and gloom. We are determined to make this work for the state and the starting point is to work with the EPA, which is what we have been doing.

**Mr VALENTINE** - Water security with regard to a couple of things. Ridgeway Dam, what is the status of that? That has a bit of an issue, hasn't it, one of those dams up there? And Bryn Estyn happening at the same time. How are you going to handle that so that there is a security of water for greater Hobart in general terms?

**Mr BREWSTER** - Ridgeway Dam is about five metres below its top level at the moment. We won't bring it above four metres unless we get independent expert advice to say

that it is safe to do so. That is the net result. Once we understand that extent of the problem we will then upgrade the dam but that will take a number of years to do so.

**Mr VALENTINE** - What work is happening in relation to that dam?

**Mr BREWSTER** - We had two independent consulting views that were largely at odds on what work needed to be done. When you are spending \$30 million and the alternative might be \$5 million, I am not saying they are exact numbers, you do not just go and spend the 30. You make sure you understand the full extent of the risk because we can't afford to have the dam fail. It is a 100-year-old dam and you want to be confident you are spending the money wisely. At the moment, the independent consultant is working and looking at the two alternatives. They will provide a final view in the next few months as to where we go from here. In the meantime, the big issue at Ridgeway is that when it rains, a lot of dirt is washed in, which changes the quality of the water and then we are at risk of not being able to supply Kingborough. Effectively we are putting silt covers around the dam. It is a short-term measure to prevent that from happening and then we are going to put some further investment in for the long term.

**Mr VALENTINE** - Is that fed from the mountain or from Lake Fenton?

**Mr BREWSTER** - It can be fed from all of them, but mostly the mountain. We can basically push water in from Bryn Easton, from Fenton et cetera because of the configuration. However, there are constraints as to how much you can put into it. Going to your BE question, it is a challenge to ensure we are on top of it every day. We have done a lot of work on understanding the risks. The biggest risks are that when we get heavy rain in Lake Fenton, we cannot use that supply. That heavy rain also washes through into the Derwent River, which means we have to slow our plant down in BE significantly. At times, we have been down to 20 to 30 ML a day as against our needing about 120 ML. If we have problems on the mountain, it is very challenging to manage.

**Mr VALENTINE** - And fire access?

**Mr BREWSTER** - Yes, exactly. Hence why we have put our absolute efforts into getting the new plant underway and building it alongside the existing plant to the extent we can maximise the quality of water and our storage as we do around Hobart. There is always the opportunity of restrictions and ultimately you will not run out of water. Ultimately, you would have a boil water alert, and you would push the water through because that is the critical issue. Restrictions are possible in the next 2 to 3 years when we have built this plant. We are building it for 160 ML all the time. We are building it for much worse conditions than it was built for back in the 1960s and with the upgrades in the 1980s and 1990s.

**Mr VALENTINE** - Any advance on stormwater incursion into sewers? That was happening over quite a number of years.

**Mr BREWSTER** - We probably have not come as far as we would like because it is a matter of investment. It has gone really well in the Kingborough area. I give credit to the council, which has invested heavily in sourcing where we have sewage going into the stormwater system. They also help by working together. That is why Blackmans Bay Beach has improved. It is quite tricky and one of the programs I am looking at next year is increasing the number of people dedicated to inflow and infiltration to try to reduce it. The problem is we

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could spend a lot of money reducing the amount going in and then in two years time find ourselves back where we started again. I am quite cautious of that.

**Mr VALENTINE** - It does have to be addressed, though.

**Mr BREWSTER** - It has to be addressed, but we have to look at where our best bang is for our buck. We have to identify the pipes most at risk, but sometimes it is as simple as manholes - and we have lots of manholes - and high-level rain - in it goes and floods the system.

Right now our target is on the oyster industry. We have to do everything we can to keep it afloat. Most of our focus on where inflow and infiltration - I & I - has been in the areas where we have oysters.

**Mr VALENTINE** - What responsibility are councils supposed to take in this? Obviously, it is a collaborative effort.

**Mr BREWSTER** - They are the only ones who can disconnect people who have stormwater connected straight into our systems. You would know this from your days in council, it only takes a few roofs connected to the sewer to make a massive difference that then results in a spill.

At the last owners' meeting coming from the owners as part of their new expert advisory group was a desire to work more closely with us on how we can reduce stormwater inflow into the network, which is pleasing for us. We are happy with that.

**CHAIR** - I have some quick questions that you might want to take on notice. With regard to the Waratah Dam, has the interested party completely withdrawn? When is the period of public input into DA for the decommissioning?

**Mr BREWSTER** - I'll take the exact timing of the public input on notice, if you don't mind, and write back to you because there's a set process that -

**CHAIR** - It hasn't started already then? Don't tell me that.

**Mr BREWSTER** - We can't do anything unless we've got approval, so we've asked for approval.

**CHAIR** - Yes, I know that, but I'm interested in when. I've tried other means to get this answer so let me ask you again: has the period for public input into the DA for the decommissioning of the Waratah Dam commenced?

**Mr BREWSTER** - I will just take it on notice, Ruth, because I don't want to guess. I'm happy to give you the answer and I will give you the answer, right, but I'm not going to guess it here because there is a process and that process is quite well-structured, so I'm not going to run over the top of that by guessing.

**CHAIR** - Right.

**Mr BREWSTER** - Regarding the other proponent, at this stage we understand they're still interested, but they didn't get the federal funding for their feasibility so I don't really know

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what that means for them in the longer term, whether they will proceed or not proceed. It's not known.

**CHAIR** - This one you might want to take on notice if you can't provide the detail - what was the initial budget for the Henderson Dam works awarded to a Tasmanian contractor? What was the final budget? How much was paid to the CDO? I want the same information regarding the Mikany Dam and the Duck River Pump Station and pipe mains.

**Mr BREWSTER** - I'm happy to take them on notice, but I can say that it's commercial but there is a fixed margin for our partners in terms of what they get to manage our program. That's it and that was a -

**CHAIR** - Fixed margin on what? On the overall -

**Mr BREWSTER** - On the overall program. That was tendered nationally and they were the lowest tender, and that's what determined the margin they receive with a small amount of risk and upside limited to the size of their fee. That's for all the major projects. That's how that works. In terms of Mikany and Henderson, both those, I think, were - and I will go to Mikany because it's the best example of what I can give - what the CDO did extremely well. It did increase the price; because they do first principles estimates, they were estimating the design provided by our people and other consultants.

As they built it up, they identified that the interim design would have meant, in terms of the spillway, that we didn't have enough water potentially to supply the customers while we're doing the dam upgrade. That's a really big deal for us. Had we found that out when we were well into the project, it would have been a massive impact so that's why we took it back to the consultants and our own dam safety people and re-estimated it, and that price did go up significantly.

**CHAIR** - You can provide that clarification when you provide the answer.

**Mr BREWSTER** - Yes. I'm happy to give the numbers.

**CHAIR** - Meg?

**Ms WEBB** - No, it's not urgent. I'm mindful of time. That's fine.

**Mr VALENTINE** - The status of Macquarie Point - just a quick summation.

**Mr BREWSTER** - We have a deed being prepared right now for short-term funding to get us through to the end of this financial year. In parallel with that, there's a larger deed for the full funding of the Macquarie Point transfer underway by Treasury. We're not losing time because the interim funding will keep us going through the planning and we are currently underway with the project and have people on the project.

**Mr VALENTINE** - Delivery time?

**Mr BREWSTER** - Four years from signing up to the deed. That has always been our position.

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**Mr VALENTINE** - Thank you.

**CHAIR** - We have run out of time. We caught up the time that we were off the air for a moment. Thank you for coming. I know you still have other presentations, no doubt, to make to another committee. TasWater warrants a fair bit of attention from the community at large. Thank you for your time.

**The committee suspended at 1.19 p.m.**



# **PARLIAMENT OF TASMANIA**

## **TRANSCRIPT**

### **LEGISLATIVE COUNCIL**

### **GOVERNMENT BUSINESS SCRUTINY COMMITTEE A**

#### **Motor Accident Insurance Board**

**Monday 14 December 2020**

#### **MEMBERS**

Hon Ruth Forrest (Chair)  
Hon Mike Gaffney  
Hon Sarah Lovell  
Hon Dr Bastian Seidel  
Hon Rob Valentine MLC (Deputy Chair)  
Hon Meg Webb MLC

## **WITNESSES IN ATTENDANCE**

**Hon. Michael Ferguson MP**, Leader of the House, Minister for Finance, Minister for Infrastructure and Transport, Minister for State Growth, Minister for Science and Technology

**Mr Don Challen**, Chairman, Motor Accident Insurance Board

**Mr Paul Kingston**, Chief Executive Officer, Motor Accident Insurance Board

**Ms Sonia Tuff**, Chief Operating Officer, Motor Accident Insurance Board

**Mr Derek Thurm**, Chief Financial Officer, Motor Accident Insurance Board



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**The committee resumed at 2.02 p.m.**

**CHAIR** -Thanks everyone for coming to the GBE hearings for this year for MAIB. Minister, if you would like to introduce your team at the table. Some of the team might not know Bastian, one of our new members, and Meg Webb. You would probably know the rest of us. We have been here for some time. Over to you, minister.

**Mr FERGUSON** - Than you, Chair, and good afternoon to you and to all the committee. I introduce Mr Don Challen to my right, the Chair; Mr Paul Kingston, Chief Executive Officer; and my Chief of Staff, Daniel Gillie, who is assisting me but will not be giving evidence.

**CHAIR** - Thank you. Did you want to make an opening statement or comments?

**Mr FERGUSON** - In 2019-20, MAIB like all organisations faced an unprecedented year due to the pandemic. The MAIB's response and planning focused on maintaining the provision of care for clients and their families as well as prioritising the health and safety of our staff.

Despite challenging financial market conditions with significant volatility the MAIB's diversified investment portfolio returned a modest positive return for the year. The MAIB's investment strategy is to maximise long-term returns and not to react to short-term volatility in the markets. This strategy was evident during the impacts of COVID-19 on financial markets with MAIB's portfolio being valued at \$1.88 billion before the impacts of COVID-19, reducing to \$1.7 billion at 30 June, but already returning to higher value than pre-COVID of \$1.94 billion as at the end of November. This outcome is testimony to the prudence of the MAIB strategy and its strong management.

The organisation is well positioned in terms of its long-term financial position with a funding ratio of 126 per cent whilst consistently providing strong returns to Government. The general trend of reducing claim frequency and average claim costs reflects ongoing road safety improvements including infrastructure works, but also importantly education campaigns and enforcement activities.

Importantly Tasmanian motorists have received direct benefits from these positive outcomes with no general premium increases from 1 December 2019. It is with great pleasure I can inform the committee today of a 4 per cent general decrease to premiums this year and for a standard this translates to the annual MAIB premium being less than what it was in 2001. Tasmanian premiums are the cheapest in Australia. This is despite the MAIB scheme providing arguably the best overall no fault benefits to those injured through motor vehicle crashes as well as achieving consistently high client satisfaction results.

As at 1 July, the highest premium for a standard motor vehicle in Australia was \$561 and that compares to Tasmania's current premium of \$282. These consistently low premiums assist with the cost of living pressures and ensuring those injured in motor vehicle crashes are provided appropriate care and support on a no-fault basis. This is a positive announcement for Tasmanians. It also means that in real terms, relative to average weekly ordinary-time earnings, the MAIB premium for a Class 1 motor car has reduced by more than 50 per cent over the last 15 years.

Briefly, in other highlights, the MAIB continues to work with the Road Safety Advisory Council and Tasmania Police to implement advertising and public education messages,

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combined with appropriately targeted enforcement activities. The council is a joint initiative of the departments of State Growth and Police, Fire and Emergency Management, and the MAIB.

Some of the council's current road safety campaigns, which I have to say are very important, particularly in this year when the road death rate is unacceptably high, include -

- Quality Time - to promote improvements for learner drivers in the graduated licensing system
- Real Mates Don't Let Mates Drink and Drive - targeted at younger men
- Don't Drive Blind - to educate road users on mobile phone distraction
- Love 40 - to promote driver awareness and speed in school zones, and
- Your Speed is Our Safety - to encourage compliance with lower speed limits in road work zones.

The MAIB provides annual funding of \$3.9 million to the Road Safety Advisory Council. It has been funding this initiative since 1996. A range of other support is provided across the state, which we can explore if the committee would like.

A major component of the MAIB's funding is managed through the Injury Prevention and Management Foundation, a range of supports right around the state. In 2019-20, funding through the foundation was \$340 000.

I take this opportunity at the end of a difficult and challenging year to thank the MAIB, particularly its board and management, for the exceptional service it provides to the Tasmanian community, as well as for the very impressive financial outcomes that have been achieved.

**CHAIR** - Thank you, minister. I will open with a question, then go to other members.

In your opening comments you mentioned the unacceptably high rate of fatalities on our roads. Back around Easter, I remember thinking it would be interesting to see what it does to the road toll when people were required to stay at home and not go out, other than for essential purposes, particularly on the north-west coast. Do you have any insight into this, or has the MAIB done any work to understand what the key contributing factors are, in order to focus the efforts of the Road Safety Advisory Council, given the MAIB funds its programs?

**Mr FERGUSON** - Yes, we will take the question. I will ask the chief executive, Mr Kingston, for his perspective as well because he is a member of the Road Safety Advisory Council by virtue of his role with the MAIB.

It is tragic that 35 people have lost their lives on Tasmanian roads so far this year. That compares to 28 at the same time last year. The number of serious casualties is also higher at this point - 299, compared to 262 the previous year.

It is also the case - and Mr Kingston may have these figures - that there were several months when the number of vehicle movements on our roads was lower because of the

restrictions. Nonetheless, we are coming to the end of the calendar year, and we are seeing our fatalities, trauma and serious injuries number higher than trend, which is very concerning.

As the Road Safety Advisory chairman was saying only in the last 24 hours, it is of note that some of those crashes and losses of lives seem to have been more pronounced because of multiple fatalities in those individual crashes.

As a government and as a community, we will continue to work hard, not just on the infrastructure and making sure it is as safe as it possibly can be, noting that most of the crashes we are hearing about don't relate to the safety of the infrastructure - they relate to driver behaviour. Therefore we have to redouble our efforts around education - around the fatal five.

The changes that were introduced on the first of this month for younger and novice drivers are also very important to us, because while we are providing support to make it easier for people to obtain their full licence without bureaucratic hurdles, they are nonetheless required to spend 80 hours during their learner stage of supervised hours, which is an increase from the previously mandated 50. If you are happy, Mr Kingston might be able to supplement my answer, but to make it very clear - it is a challenge for the whole community, not just government, but also the Road Safety Advisory Council is particularly exercised on ways to continue to drive the toll down by working with the community.

**Mr KINGSTON** - The biggest contributing factors continue to be those fatal five that police continue to try to tell everybody about when they have a chance when in front of a camera about unfortunate crashes on our roads. They continue to be the issues, the same factors, the same proportions as previous years.

**CHAIR** - Same proportions.

**Mr KINGSTON** - The same proportions as previous years. If you look at the long-term trends, we are heading around about the long-year, five-year average this year, despite having three months of pretty much no movement with lockdown. Taking away those three, we have had a fairly big year, but it is pretty consistent with that long-term trend of crashes.

Two of the key areas disproportionally represented in serious fatalities and serious injuries are motorcyclists and young drivers, and that still continues to be the trend. Over the last two years, the Road Safety Advisory Council has put to the Government improved training for both of those groups, which has been accepted. For a couple of years, a new program for motor cyclists has increased the amount of time that particularly young motorcyclists first getting their licences have to go through to get on the road by themselves.

Previously, they used to basically have very little time on the road before they could get their Ls and off they went. Now they have to have some guidance training first. The improvements to the graduated licence system include increasing the number of hours and restrictions, such as the number of passengers particularly young L1 drivers can have with them. We know, from what police tell us, that is where a lot of tragic accidents occur. We tend to get the worst injuries, multiple injuries, and fatalities when we have groups of young people in cars late at night, who are also unfortunately breaching some of the other fatal five, such as drugs, alcohol and speeding.

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The minister is right - the other thing we have had this year is several multiple fatality injuries, and we have not had that over the last few years. The fatality number is probably a little bit higher because of that. The Road Safety Advisory Council's view, which MAIB is funding, is to continue to focus on those fatal five and improved education and training, which is really a long-term game to try to bring those trends down.

From what road safety experts told the Road Safety Advisory Council in their meetings, their theory is that when people came out of lockdown, they might have taken more risks because they saw fewer people on the road - they might speed more, they might do more extreme driving - and that would increase the statistics pretty quickly to where we would have been without lockdown.

Those have been the trends we have seen over that last 12 months. Unfortunately, we are actually on our five-year average. That just means our five-year average is not where we want it to be. We particularly need to continue with education. The other aspect is enforcement. Tasmania Police have been required to do other COVID-19 work, trying to keep everyone safe from the issues around that, but getting police back to being able to do more on the roads will be important heading into next year.

**CHAIR** - With the two key groups you mentioned, young people and motorcyclists, how have you as minister or the Road Safety Committee engaged young people? You try to tell them what to do, and if they are not going to buy into it - some of us have had teenagers. Is it best to tell them what to do or engage them in the conversation? What has been done with young people and motorcyclists particularly to try to see what might work?

**Mr KINGSTON** - Obviously, the Government funds the Rotary Youth Driver Awareness program, which goes out to largely grade 10 students, 16-year-olds, and that has proved an invaluable project for engaging with young people. Really good police officers engage with them well and actually show them that the police are there to help them. They also engage people like some of our claimants who have had serious injuries, particularly some motorcyclists who have had some amputations go along to those presentations. Because they are younger they tend to engage better with that age group; they listen to them and then they shock them by telling them 'Look what happened to me because I did not listen to other people.'. That program has proved to be very effective at that age group just as they are entering their Ls, so hopefully is a course that can continue and continues to be improved.

**CHAIR** - Learner drivers are the safest drivers on the road. They are not the problem. It is the Ps. The day they get their Ps, their risk goes through the roof.

**Mr KINGSTON** - Another program the MAIB has funded, and also basically helped create, for over the last 10 years is the Real Mates campaign. That has achieved good traction from the 17- to 24-year-old group. It is that next group, as you say, that goes into their Ps. Looking at the statistics over the previous 10-year road safety strategy, which ended in 2017, the number of crashes involved in that age group - serious crashes reduced by over 50 per cent, and the number of drink driving offences dropped by slightly less, but apparently by the same margin.

What has become clear is that age group, as it goes through that campaign and through their learning, is probably less likely to find the 17- to 24-year-old age group drink driving than it is - perhaps - some older age groups. The social acceptance of drink driving that used to be

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around many years ago definitely is not now in the majority of the population. I dare say that Real Mates over 10 years has had that impact that is attached to drink driving. We are looking with Real Mates to broaden that message to include the other fatal five - particularly inattention and speeding, because they are the next ones for that age group.

**CHAIR** - Have you talked to young people about how they think that could be applied?

**Mr KINGSTON** - Yes, part of the process when we run our educational campaigns - and this is the Road Safety Advisory Council, not MAIB - is we do full surveys and reviews of whether the campaign actually hit that message, and targeted people in the age group. For Real Mates, they talk to maybe 17- to 30-year olds across the state. They not only get the feedback but also they have focus groups where they say, 'Well, where did you hear about this? Did it really matter? Did it change your behaviour?'

Real Mates scores pretty high in that. Some of our education campaigns, our more generic ones, people say they notice it, they see it, but it does not necessarily change their behaviour. We still have to target change in that behaviour.

**CHAIR** - We will move to the financial. I am trying to understand more about the claims. Obviously, these crashes drive the claims, and the impact of prior year claims the discount factor. I appreciate the gross claims incurred is determined by actuaries. In 2019, previous year claims were significantly reduced by \$284 million, but the actuary increased the discount factor by \$374 million. This led to an increase in prior year claims in 2019 to the value of \$9 million. As I understand it, that is why MAIB had a large underwriting loss in 2019 of \$112 million. The loss was offset by a strong investment income, particularly unrealised gains which is all in the previous annual report.

My questions are: what happened in 2019 with regards to major changes in prior year claims and the even larger change in the discount in the other direction, which was fortunate in terms of financial position to ensure the underwriting result in 2019, when it coincided with a terrific year with investment returns? I am interested in how that works?

**Mr KINGSTON** - I think more broadly with the impact on, if you are talking about the impact of prior year claims, which was the first part of your question. What has happened is that we had a few exits of unfortunate deaths from our lifetime care scheme earlier than they were probably estimated to be on the actuarial life mortality tables. Our most recent experience over the last 12 months has been we have had fewer catastrophic injuries in our lifetime care claims, which is good. That means the actuary will be taking out some of those bigger claims in previous years and therefore won't allow for them. It also informs future years where he goes, okay, instead of getting our average of five or six a year, he is now estimating we will get four or five a year. That reduces not only past year claims, but also what goes into the future. This will have an impact on our future claims but has been more than offset by the adverse movements in economic assumptions which unfortunately we have to value our assets at, at the end of 30 June, in our liabilities. Because the economic assumption gap is more into negative territory for us, that eats away all those gains and adds more to our long-term liabilities.

**CHAIR** - So, the prior year claims weren't overstated; it was just that some people passed away?

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**Mr KINGSTON** - We have had four or five people pass away from their lifetime care scheme as well as some other very seriously injured people, and they went earlier than we had estimated. We set a life expectancy for them; we hope that they fully make that, but sometimes they pass away before then, sometimes from matters unrelated to the injuries from the motor vehicle accident. When they do, that means the actuary goes, 'We were putting away a bit too much money', but he also uses that real history to predict what is going to happen in the future, so it helps him lower what might happen in the future as well. Despite the long-term crash statistics, our lifetime care - the people who get catastrophically injured - is declining. Not much, but it is declining.

**Mr VALENTINE** - There are 103 at the moment.

**Mr KINGSTON** - Unfortunately now we have had a couple of accidents, there are close to 100; and the number we are getting in is almost matching the number that go out, which has changed our scheme from being a developing scheme to more of a mature scheme where it will stay hopefully level, if not drop. We have had at least four pass away in the last, say, 15 months, which is a high number for us to experience, and a couple of them were very, very early - much earlier than expected. One of those claims can be actuarially assessed at a present value of well over \$20 million - \$60 million in actual cost - so you only need one or two of those to go early and that takes a large chunk of what we were reserving out of what we have to in the future.

**CHAIR** - The actuary assesses this every year?

**Mr CHALLEN** - Quarterly.

**CHAIR** - Quarterly they do. What is the current discount rate and what was it previously?

**Mr KINGSTON** - We have got that.

**CHAIR** - While you are getting that, my second question is: what effect did changes to the discount factor have?

**Mr CHALLEN** - That big underwriting negative result in 2019 was driven by a big drop in interest rates between 30 June 2018 and 30 June 2019. Because we are long-tailed scheme we have a set of cashflows that are the costs of looking after injured people that go out 80 years into the future. A very long stream of cashflows. A small change in the discount rate can have a big impact on the actuarially assessed liability and, of course, the change in the liability that occurs within a financial year is booked on the statement of comprehensive income, and that is what has driven that big underwriting negative result in 2019. That is almost entirely interest rates falling through 2018-19.

**Mr KINGSTON** - We just found those figures. As at 30 June 2019, the weighted average inflation rate was 2.8 and the interest rate was 2.32, which led to a gap of -0.48 per cent. As at 30 June 2020, inflation was 2.89, which had gone up a bit; the interest rate was 2.08, which had fallen quite a bit, so the gap was -0.81. They may seem small movements in our gaps when we have clients out 50 or 60 years, and \$1.3 billion in long-term liability, but it doesn't take much to make a big change on our estimates.

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**Mr VALENTINE** - You talked about 4 per cent premium decrease in 2021 and yet the accidents are going up. How can you provide that 4 per cent decrease in premiums going forward?

**Mr CHALLEN** - It is just a question of the long-term trends in the scheme. On the claims side, the injury frequency rate is still falling. It is almost flat. It is in a very slow decline but it is still falling and it has been falling for many years. We have had a significant drop in the number of future-care claims that the actuary has taken into account. When I took over as chair, we were providing, I think, 12 future care claims a year. The actuary is now providing five. Seven less future care claims makes a massive difference in terms of what we need to provide for the scheme. That is the main reason we are able to reduce premiums. We are seeing -

**Mr VALENTINE** - I'm not complaining.

**Mr CHALLEN** - Nor am I. We have had a long discussion about a short-term road safety performance - and I agree absolutely all that is very important - but the reality is that the long-term trends are still positive and it is driven by a whole lot of things. It is driven by safer roads. It is driven by better driver attitudes to - I would like to say speeding, but I don't think it is true - but certainly alcohol and drugs.

**Mr VALENTINE** - Capacity of cars?

**Mr CHALLEN** - Much safer cars, exactly. Even though we are conscious of what has been going on the last few months, the reality is that if you look at the long-term trends, and that is what drives premiums, the trends are still generally positive.

**Mr VALENTINE** - So it is not going to impact on dividends that you pay, or the level?

**Mr CHALLEN** - Short-term performance won't impact on dividends. Premium setting is all about the long-term trends. On the claims side, it is about long-term injury frequency rates, and on the investment side, it is about what we can expect our portfolio to generate in terms of returns over the sort of medium term, not year to year. Dividends tend to be impacted more by the performance of investment markets over a short period of time, but we have an arrangement with the Treasurer that allows our financial performance to be smoothed over a five-year moving average to take out some of the ups and downs in dividend payments.

**Mr VALENTINE** - The reduced income interest during COVID-19 is not a huge factor?

**Mr CHALLEN** - It won't have any impact on premiums at all and it won't have much impact on dividends. As the figures the minister quoted on the overall level of our investment portfolio [indicate?], we have had a strong performance the last 3 to 4 months, very strong performance.

**CHAIR** - Can I follow up on the investment strategy? A clarifying point before I go into more about that. When you look at the net investment income - note 4 on page 26 - investment income for 2020 was \$23 million compared to \$162 million in 2019 and unrealised losses of \$38.9 million. Can you clarify what the unrealised losses relate to here?

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**Mr CHALLEN** - They're changes in the market value of our investments essentially. We haven't sold anything, but the market value of our investments has moved because the stock market went down through the year and they are our unrealised gains and losses.

**CHAIR** - How often is the investment portfolio reviewed by the board?

**Mr CHALLEN** - Every month.

**CHAIR** - It's a standing item?

**Mr CHALLEN** - Absolutely. We probably spend half our board meeting reviewing and agonising about investment.

**CHAIR** - It is core business.

**Mr CHALLEN** - Unfortunately it is core business. The MAIB is basically two businesses stuck together. It is a business which manages a \$1.5 billion investment portfolio and it is a business which looks after people who get injured in motor vehicle incidents. Our board meetings are roughly 50/50 on those things.

**CHAIR** - Has the investment strategy changed in recent times?

**Mr CHALLEN** - Not really. There have been some tiny tweaks at the margin. In late 2019 we introduced a couple of new asset classes to try to get less correlation with equity market performance, but they are quite small and essentially the philosophy we operate on is to put a lot of effort into establishing a strategic asset allocation - so where the assets go in terms of cash, equities, bonds, infrastructure, property and a few other little bits a pieces - get it right, try to get a strategic asset allocation that will carry you through all sorts of circumstances in the investment markets and then sit on your hands and watch the performance of it. We are not active in our management of the portfolio and our philosophy is to get the asset allocation right and leave it alone and see how it carries you through. That worked extremely well in the global financial crisis a decade ago. It has worked extremely well through the COVID-19 pandemic crisis in investment markets this year.

**CHAIR** - Do you have any exposure to TASCORP bonds?

**Mr CHALLEN** - We have exposure to Australian bonds and there will be some TASCORP bonds in there. We do not buy them ourselves.

**CHAIR** - Is that a deliberate decision?

**Mr CHALLEN** - We contract out all our investment management to external managers. We have a bond manager that looks after Australian bonds for us and, for sure, there will be some TASCORP bonds buried away in there but we do not actively trade them. The manager would do that.

**CHAIR** - Going back to the investment strategy and management of risk, you mentioned there has been registration relief provided and you didn't apply the premium increases they could have. Would that have any short- or longer term impact on revenues or is it overall a win for everybody?



**Mr CHALLEN** - The Tasmanian Economic Regulator essentially approaches the ceiling he puts on our capacity to set our premiums by looking at the premium needed to have the scheme break even over a long period of time and then he allows us a little profit margin of 10 per cent on top of that. That is basically the methodology. Our job when we come to make recommendations to the Government for premium setting year-on-year is essentially to try to make sure we have sufficient capital in the scheme to carry us through the ups and downs in investment markets and so on.

Putting that aside, we really look to keep premiums as low as we can. We are not like a private insurance company that is looking to make the biggest profit we possibly can. The best thing we can do for the Tasmanian community is make our premiums as affordable as possible, while being confident we have a well provided for scheme. The relief the Government has given through COVID-19 on some motor registrations and, consequently, our premiums is, yes, it had a little impact on our revenue but in the scheme of things, it was quite small - probably around a couple of million dollars. We have \$140 million of revenue, so it was about two.

**CHAIR** - There is not likely to be a catch-up premium required?

**Mr CHALLEN** - No.

**Ms WEBB** - Mindful of Tasmania's population profile and low income households being a sizeable proportion, at the moment with the premiums, if registrations are paid at six- or three-monthly intervals, there is a surcharge on the premium and penalised for smoothing your premium out.

Can you talk me through the rationale, given it would be beneficial for people to be able to pay registrations and MAIB premiums in smaller instalments across time?

**Mr CHALLEN** - This is an issue between us, Service Tasmania and the Department of State Growth so I might let Paul take that, if I may.

**Mr KINGSTON** - We do not collect premiums ourselves; we obviously do it as part of registration, so it has gone to the Department of State Growth because they collect the registrations. They charge us a rate to collect per transaction. There are actually quite a few transactions because there are people that pay it six-monthly and also heavy vehicles can actually pay on a quarterly basis.

There were nearly 750 000 transactions last year and they charge us \$3.95 per transaction so the more transactions there are, the more we pay to them. It is a flat fee and we do not get any reduction for having more or less. Our actuary gives this evidence to the economic independent regulator, who ultimately sets the range of our premiums, so he has to account for all our costs as part of that. He provides for a cost of those extra transactions and lost investment revenue, which is very marginal but there is some, and then puts that as part of our cost, which goes to the economic regulator who either allows it or not, as his determination sees fit.

That is a charge imposed on us by State Growth and they use Service Tasmania as their collection agent, so it is whatever charge they provide us, we have to meet. Our actuary puts

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that as a cost and the regulator decides whether that is included in our premium. Really the extra transactions would lead to a cost to us.

**Ms WEBB** - Beyond that cost then imposed on you through State Growth, from an MAIB point of view there is no detriment to you if you were to have those payments spread out?

**Mr KINGSTON** - No.

**Ms WEBB** - There is no implications of the protection provided and the insurance?

**Mr KINGSTON** - No.

**Ms WEBB** - It is purely a matter to be taken up with State Growth then around what is imposed on you as a cost to that?

**Mr KINGSTON** - Yes. That was \$4.20 per transaction. We pay an extra 25 cents which is to fund an uninsured, unregistered project whereby we fund people on the roads and cameras to detect unregistered vehicles and get them re-registered. We want everyone in the system, so we pay a bit extra to try to get the unregistered people, who can be people who forget to register. We write to them and try to get them to register, because the more we have in the system, the cheaper it is for everybody because it is a socialised insurance scheme.

**Mr VALENTINE** - It can have dire consequences for people who are driving an unregistered vehicle?

**Mr CHALLEN** - A very unwise thing to do.

**Mr VALENTINE** - That happened to an 84-year-old I know who came to me and they were at risk of losing their house.

**Mr FERGUSON** - That is a pertinent question. The Government has been working closely through the Department of State Growth to search for some other solutions that might assist people on lower incomes or who are going through difficult times. The MAIB does not really have an opinion on this matter because, as Mr Kingston has outlined, it is unaffected by the frequency of the payments. There is an impost borne by the insured, the registered vehicle owner, if they having to make those transaction payments on a regular basis, but also there is a statutory tax liability, I think it is called motor tax, that occurs when a payment is made.

While it would be good to find a way for a smoother bill paying process for the end user, the customer, the registered vehicle owner, it is optimum for the registrations and the insurance within it to still be annual, not only because you get the better value, but also because you get the insurance reliability. We would not want somebody, if we were able to find a way to go a three-monthly or even a monthly, you are increasing the chance they might miss a payment and find themselves driving uninsured. The Department of State Growth, at my request, is currently working through a project design we intend to have more to say about in the new year. We are looking to do an exploratory piece of work with the No Interest Loan Scheme so people can continue to have annual cover, but a smoother way of paying for frequent smaller amounts towards that micro loan. We hope that is a way, in the fullness of time, people on lower incomes or just simply cannot meet the \$400 approx. annual registration will be able to get the benefits of bill smoothing, but also the benefit of a fully annualised insurance product.

**Mr CHALLEN** - Our premium is only \$282 of that, the lowest in Australia.

**Ms WEBB** - I know you say only and it is great that it is the lowest in Australia, but for a lot of Tasmanian households, it is still a substantial amount. It is positive to hear those plans are afoot to look at a way to smooth that whole bill profile for low income households, particularly households that might have two cars.

**CHAIR** - What modelling has been undertaken with regard to the long-term nature of claims? We have heard we have had some unfortunate deaths of some of our longer term clients. What modelling is done in regard to the number and size of future claims?

**Mr CHALLEN** - This is an exercise that our actuary puts a lot of effort into. Essentially, the claims are partitioned into three groups -

- Scheduled benefit claims, which are basically driven by the number of vehicles on the road and are relatively easy to model and predict.
- Future care claims, which are people who are sufficiently seriously injured they need at least two hours of personal care every day and tend to be the biggest component of our claims' costs. The modelling there really is about projecting long-term trends. When I answered Mr Valentine's question earlier about the number of future care claims that have been taken into account, that is the modelling that drives those numbers.
- The third component is common law court judgments and settlements. Where a driver has been negligent in a motor vehicle incident and the injured party has sued through the courts, of course we are the insurer of the negligent driver. That is why it is so important not to drive a car uninsured, because if you are negligent and someone sues, you can be up for literally millions of dollars in settlement. Common law claims are hard to predict, but they do tend to have a momentum through time, and the actuaries are reasonably good at modelling and predicting that.

**CHAIR** - How many common law claims would there be annually, on average?

**Mr CHALLEN** - I would need help with that.

**Mr KINGSTON** - I will just check the figures, but I think it is not anywhere near as many as our number of claims. It is hard to say with common law, because we do not usually know until a couple of years later. We look after the medical benefits from day one, and then common law is just the other things, or the settlement of the smaller claims. They tend to take a couple of years to evolve. We might think they have common law and then they don't, or some might come later.

As a way of estimating what we do, in 2019-20 we settled 153 claims, and that 150-odd mark is about how many we settle. That is not how many we get each year, because they take many years in some cases to settle, depending on where the claimant or the party that is taking the action wants to take it - but that is about how many we settle each year.

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**Mr CHALLEN** - We have a stock of outstanding claims at any point in time that is much larger than that. I do not know what the number is, but it might run to 1000, say. As Mr Kingston says, these claims tend to take quite a long time to come to light, and then they take a very long time to work their way through the settlement process. That number, that 150-odd, is about what we are settling each year.

**Mr KINGSTON** - At any point in time there are about 860 that either have potential common law, or are working their way through it - but quite a few fall away.

**Mr CHALLEN** - We actually become aware of motor vehicle incidents very quickly, through the police letting us know, and because hospitals in Tasmania are extremely good about telling people about the MAIB scheme, and the support we can give them, and they tend to get them to lodge a claim with us quite quickly.

As soon as we hear about an incident, we make an assessment about whether there is likely to be a common law claim arising from it. You can usually tell from the circumstances of the incident whether there is a high probability of a common law claim. Sometimes we get it wrong, but not very often. That allows the actuary to fairly effectively model common law.

**CHAIR** - You feed that information to the actuaries?

**Mr CHALLEN** - Yes.

**Mr FERGUSON** - A really well-oiled machine, that one.

**CHAIR** - The next question I have is about managing risk during the COVID period and recovery, in terms of the operational side of the business, which goes to managing leave as well. I assume the MAIB is no different from most other businesses, and leave was not taken by staff for a number of reasons - some because they could not go anywhere, and some because there was too much to do. Also, I note the organisation has less than 40 FTEs. It is quite a small organisation, and so there's key person dependency in those sort of times. You can talk about how you managed during COVID with keeping your staff safe, but I am interested in those aspects.

**Mr KINGSTON** - We responded to COVID fairly early on and set up our staff to be able to work fully at home. We had a handful of people working mobile before then. We have about 45 staff in total, with some part-time, so less than 40 FTEs. We got them all able to work at home on all our own equipment - our laptops, phones, modems et cetera - within two weeks. During the worst of the lockdown, we gradually shut the office to a point that we only had one or two in the office. That was because we still get hard copy claims coming in, and we have some clients who we still have to interact with, so we kept on or two staff in the office even during that lowest period.

Since early July, we have been back to an approximate 50 per cent split working at home and working in the office. That gets us towards the key person dependency here. Because we have such a small number of staff, our teams are usually five or six people, so key person dependency becomes an issue through all our teams. By splitting the staff working at home or in the office, we have given them some physical protection. It has also enabled people to manage the workload.

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While we had three months without too many claims, that returned to claims coming back pretty quickly straight after the lockdown, so we still had quite a lot of work to do.

We didn't need people to take forced leave; we managed to keep working through. We had our Future Care clients, of course. We have 103 people who need a significant amount of care every day of the week, regardless of the fact that for those teams it became more work, because it was harder to get allied health professionals out to those people. Fortunately, things like telehealth helped our providers get to our clients and continue service.

In terms of key person dependency, like any other office set-up, we have had to manage our way through that, and will continue to do so by splitting the teams at home. It has been, in effect, a test of the business continuity plan we had in place. We make sure that through each of the levels, right up to the senior executive level, we have at least one person off site at any stage, so that if anything does happen, we have a split of people.

It has probably been a good test, having people work across different systems and different locations and different areas of the business. With only 40-odd people, it is very difficult to split it too much more.

Our key focus all the way through this, as we said, is the health and safety of our staff and continued client service. They were the things we were trying to do. By working remotely from home, we believe we kept our service up to clients, and made sure our staff were still there to continue to serve them in the long term.

**CHAIR** - I know how stressful it was trying to help people during that period, when it was difficult to access services and a whole manner of things, particularly on the north-west. I notice you have your Employee Assistance Program - EAP - and I assume a number of your employees are directly exposed to the very sad stories and circumstances of your clients.

I am wondering about the number using the EAP before, during and after COVID, and how you manage the mental health and wellbeing of your staff, not just around COVID, but all the time, because they are dealing with some pretty sad stories.

**Mr KINGSTON** - Yes, that's right. Our claims officers, in particular, deal with people and families who are usually at their worst, when they have had a major incident. The families and clients aren't used to this, and they have to go through the health system, and in some cases are going through significant tragedies. Our staff are exposed to that most of their working life with us, so we have some long-term programs in place.

We have been running professional development and leadership programs that focus heavily on resilience for staff - their own resilience - but also providing resilience to our clients our claimants. It is largely training around how we help our clients get through those situations, but also it focuses on staff. We have been running those programs for at least the last three or four years.

We did have an increase in the use of the EAP provider. I don't get to see who. It's just a number-based thing that I sign off, but it probably something like doubled.

**CHAIR** - Since when?

**Mr KINGSTON** - Since the same time last year, probably from March through to even now. If people require something more than that, we have in a few cases - and it's not necessarily COVID-related - provided extra counselling to them. That is just something we do. I hope people aren't there, but if they are that way, we try to help them with extra counselling.

We fund Road Trauma Support Tasmania, which is the helpline for road trauma, which we have funded for many decades. We got their staff to talk to our staff about how they help with counselling on the helplines and what they do. We are not trying to turn our staff into counsellors, but to give them some ideas about how to manage people when they are in stress, and the triggers and supports that they can refer them to, because that helps clients, and it also helps our staff as well.

Recently, we have had the Brain Injury Association of Tasmania, which we also fund, come up to talk about how to deal with people with an acquired brain injury because that can be quite confronting for staff. Some of our more experienced staff do that day-in, day-out, so they become quite used to it but it can be quite confronting when someone with an ABI can't present themselves well because they are just not able to, about how they can help clients through that as well.

We have a fairly long-term program that has probably been heightened a bit during COVID-19 but the health of our staff continues to be a priority, as you say, particularly because the work we do is helping people through the worst part of their lives, so it can have a big impact on claims officers, particularly after many years.

**CHAIR** - In terms of your leave liability, has that altered much during this period, this last 12 months?

**Mr KINGSTON** - In 2019-20 we didn't use as much leave as we had in 2018-19 which is sort of natural, I guess - just the way things went. We have had people on leave during that period so we still tried to get people to go on leave but most people cancelled any interstate or overseas holidays that they had, so they didn't take the big periods of leave.

Our policy is for people to try to use their leave in a year, so their 20-odd days of leave each year. I think 30 caps it out under our enterprise bargaining agreement where we try to get people to go below and the vast majority of staff - I think there would only be one or two that are above that limit. We do tend to try to keep that over time and it crept up maybe a bit during COVID-19 but people still did take leave and, as they can again, we will encourage them to do so. We want them to take their leave.

**Ms WEBB** - Forgive me if we've covered this already. On page 13 of the annual report where you have the non-financial targets there, I noted that in your staff engagement you had a target for 2019-20 that was 76 and the actual was 67. Above that, congratulations on your client satisfaction rating because your target there was 76 and your actual was 87.5 so that's great. Given what you have just described around your care for your staff and programs, could you reflect on that not meeting the target there for your staff engagement?

**Mr KINGSTON** - Yes, that was one of the first years we put a target in for our staff engagement.

**Ms WEBB** - Risky, isn't it?

**Mr KINGSTON** - Perhaps we set it optimistically high.

**Ms WEBB** - When I read it I wondered what the previous year had been or what the trend was because that might have been more relevant to contextualise rather than against your target.

**Mr KINGSTON** - Yes. What we sat on was that if we got a target for client satisfaction at 76 per cent, we shouldn't probably treat the staff any differently so we set it at the same level. If you look at most culture pulse surveys, as we have now done to re-assess this, anything above sort of 60 per cent you're usually pretty happy with. It's a good score; you would want it to be more. In 2016 it was 63 per cent. In 2018 - we had one year where we were doing it every two years for a while - in 2018 it was 73 per cent. 2019 was 67 per cent. We had just completed our staff survey at the end of COVID-19. We were interested to see where that would go and it has gone up to 74 per cent which is the highest we've ever had.

**Ms WEBB** - Congratulations.

**Mr KINGSTON** - There are always things to learn but we believe that has been balanced pretty well and I think our target was just a little bit optimistic although we nearly got there this year. We did ask some questions around our COVID-19 responses and management as to whether that was handled well for staff. The response was 89 per cent that we did. We also looked at work/life balance which we think is fairly important for our staff, given the work that they do, and that scored 85 per cent, which are both very high. We think we have got that covered and there's always targets that we will try to improve.

**Ms LOVELL** - In relation to the client satisfaction target and the actual rating that you've achieved which is, you've noted, very high and that's an excellent result, I have noticed it says it's based on a survey of all completed claims so presumably long-term clients have an ongoing claim. Are long-term clients included in that client satisfaction and, if not, is there a separate survey process of long-term clients?

**Mr KINGSTON** - No. It's only completed claims, so claims are complete and where we have exits from our lifetime care scheme we're not going to include those. It's insensitive around that time to do so.

**Ms LOVELL** - Of course.

**Mr KINGSTON** - With our lifetime care - it's about 100 long-term clients that we have in that scheme - the claims officers tend to be talking to them weekly, sometimes daily, depending on the claim, so they are very heavily involved with the clients and their family. When there are issues that are raised directly by them - either to us or quite often we have advocates raise it because, again, many of these people have acquired brain injuries and so it can be difficult for them to articulate what they're not happy with - we tend to have case conferences which is all the allied health, all the medical staff, the representatives from the family, the family themselves, and they can get quite large. They usually go to the doctor's location or an independent location and talk through any issues about how it can be resolved.

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We tend to handle them very intensively, one on one, most of the claims that are finalised finalise within 12 months. It can be broken legs and get better, or physio and they are gone after six months, so they are more a score whereas with the future-care clients we are looking for individual management.

EMRS do our survey. We are talking to them now about whether we can look at a survey for our future-care clients - 100 people, we normally have about 1000 close claims - so de-identifying becomes difficult. We are very cautious about it. We have spoken to our equivalent schemes on the mainland that have more numbers - TAC in Victoria and iCare in New South Wales - and borrowed some of their questions that they do in surveys with bigger numbers and we will work with EMRS to try to look at a survey.

We are less worried about the score and we are more worried about how we engage with people so that they are raising issues with us and we are responding. I don't think it will be something we will look to necessarily publish. We will have it there but it will be more about how we get them to have a voice to us. We are also looking into trying to more formally engage with some advocates - whether that be disability advocates or more general services in Tasmania - to help those people raise issues where they might feel they can't with us. That is another thing that we are looking to do.

**Ms WEBB** - That would be valuable even just for the organisation's benefit to know people are not able to feel like they can raise those things themselves.

**Mr VALENTINE** - A supplementary question with regard to the survey. What percentage of people are responding in that survey? I do not know what your sample size is.

**Mr CHALLEN** - Our sample size is 100 per cent because we go to everybody.

**Mr VALENTINE** - How many are actually responding?

**Mr KINGSTON** - I think it is around 35 per cent. It is about a third, roughly. Some people just do not want to, they were with us for a short time. In some cases, for example, where there is only an ambulance invoice so that is all that is on a claim, they don't take them to hospital, they do not even know they are our client until we have paid the bill for them. They find out later. Of the ones that EMRS can get hold of, some people do not want to talk on the phone and they do like that intensive follow up because it is a very intensive survey, a third is about normal. We went from doing it every two years, even when I started in 2015, we moved to every year and the numbers responding have stayed the same despite us going from two years to one year. I think we are still getting a good broad spectrum.

**Mr VALENTINE** - It's a pretty good indicator of satisfaction.

**Mr KINGSTON** - Yes.

**CHAIR** - Regarding investment in road safety strategy and other things that MAIB invests in, how are the outcomes of these measured specifically? Do you report outcomes on your investment in these programs?

**Mr CHALLEN** - There are two different ways this is done. The biggest component of the support we provide in this area is put through the Road Safety Advisory Council. For many



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years we have been using an independent survey, a professor at the University of Adelaide, to do a formal review of that program every three years. He is about to commence one for us very shortly. It is three years since we have done one. He does a very thorough job of looking at the way RSAC used our funds and how effective it has been in improving road safety outcomes. It always comes up with a few recommendations that help us fine-tune what is done and improve things.

**CHAIR** - Do you publicise that report, or is it just an internal document?

**Mr CHALLEN** - No. I think we could, I don't think there is anything especially secret about it. No, we haven't publicised it in the past. We have seen it as an internal discipline to make sure that we are getting good value for the money that we are putting into the Road Safety programs.

The other chunk of money which the minister mentioned in his opening remarks we have put out through our foundation. We have a formal acquittal process, people put in applications for funding, they say what they are going to do with the money and we ask them to acquit. At the end of a program we get a little report back, it is not very onerous, but we get a report back that says what they have done, where the money was spent and whether they achieve the objectives that they told us they were after. Some of these are very simple. For instance, one of my favourite things the foundation does is we fund education programs for kids in country schools. This is particularly with all-terrain vehicles, those things with big wheels, that farm kids just spend their lives on and, unfortunately, they are pretty dangerous. There are lots of incidents around them and for quite a few years we have been funding a number of country schools to educate kids in how to ride ATVs safely and responsibly. It does not cost a lot of money, \$10 000 will deal with a school program for a year and we do quite a few of those. At the end of it we get a little report back. There will be a teacher in a school that coordinates these things and will tell us how many kids went through and the success rate of the program. Little things like that can make a huge difference.

**CHAIR** - It is a bit hard to measure the success rate of that until these kids do not kill themselves on an ATV. It is a bit like preventive health?

**Mr CHALLEN** - It is about education. Much of what we do in road safety is about education. The other thing you have to do in road safety is compliance. That is an area in which Tasmania could do a whole lot more.

**Mr VALENTINE** - Can I go back to the issue of premiums again and people who do not re-register, because they simply forgot. Do you have any statistics on the length of time from when it should have been registered till when they end up registering? What is the average for the people who simply forgot? They do not have registration stickers to remind them anymore. You did talk about text messaging or whatever. Do you have any figures on that?

**Mr CHALLEN** - They get a renewal notice in the mail. It is hard to forget.

**Mr VALENTINE** - If you are not at home, away on holiday somewhere, and not getting your mail.

**Mr CHALLEN** - Very few people forget. Paul probably has some statistics.

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**Mr VALENTINE** - Given the consequences of forgetting, I know what the stress was for this particular couple and it was 11 days. It nearly cost them their house.

**Mr KINGSTON** - State Growth would have to look at the full numbers because they do the registration side of things. I spoke before about 25 cents for every registration goes towards the uninsured, unregistered program and State Growth runs that. They use automatic number plate recognition software from their own staff, transport inspectors and other sources to detect hundred of thousands of vehicles through the year. That lets them know instantly if someone is driving uninsured. We fund, which is becoming more expensive with mail, we are now using SMS a bit more, literally a letter goes out saying you are unregistered get it back in because like us, State Growth want people in the system because the more people who pay, the more it is spread and obviously everyone is covered. When that program first started in 2000 the detection rate of uninsured was 3 per cent and over the last handful of years it has ranged between 0.5 per cent and 1 per cent being detected as unregistered. It is not the full number, but it gives you an idea. We get 70 per cent to 80 per cent of them re-registering when they get that follow up letter. That is a very high percentage to what we get back and is what we want to do.

**Mr VALENTINE** - The follow-up letter comes just prior to when the registration is due as opposed -

**Mr KINGSTON** - This is they have been detected on the road as uninsured and they get a letter.

**Mr VALENTINE** - Sorry, that is right. That could be any length of time.

**Mr KINGSTON** - It is when they get detected.

**Mr VALENTINE** - You have not thought about a grace period of some sort? Has that been talked about?

**Mr CHALLEN** - The act does not provide a grace period, so we do not have that scope. It is obviously not in our interest to have people driving uninsured.

**Mr VALENTINE** - I absolutely appreciate that.

**Mr CHALLEN** - We are still liable for all the innocent parties that get hurt. It is only the driver of the uninsured vehicle who knew or should have known the vehicle was uninsured is not covered. Everybody else involved in the incident, passengers and people in other vehicles are all covered. It is definitely not in our interests to have uninsured vehicles out there. It is just a question of how much you can do to remind people of their responsibilities.

**Mr VALENTINE** - It sounds like you are taking steps to improve it.

**Mr CHALLEN** - Absolutely. We take this very seriously.

**Mr VALENTINE** - We have talked about bicycles before, but given the fact that electric bikes are becoming more and more common on the roads, have you given any consideration to the possibility of registering electric bikes? There is not much difference between a motor cycle and an electric bike. They are a more powerful machine -

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**CHAIR** - Watch the time, Rob. Cut to the chase for the question.

**Mr VALENTINE** - That is the question about consideration of electric bikes.

**Mr FERGUSON** - Consideration has been given insofar as finding an appropriate wattage of an electric, but fundamentally small powered electric bicycles should be legally allowed to use public roadways. That has been settled about four or five years ago.

**Mr VALENTINE** - 250 watts I think.

**Mr FERGUSON** - I would need to consult and get back to you exactly. The implication being anything above that needs to be a registered motorcycle to be legally able to be used. There has been that undertaking to find what is the common-sense outcome here because the higher up you go in a powered vehicle the more likely you are to be travelling at speed and causing a collision that might be road trauma.

**Mr VALENTINE** - Clearly with a car that crashes into an electric bike, the electric bike rider's covered.

**Mr FERGUSON** - Yes.

**Mr VALENTINE** - But if an electric bike crashes into an electric bike, they're not.

**Mr FERGUSON** - Similar to a non-powered bike.

**Mr CHALLEN** - If they were very seriously injured though, NDIS would cover them.

**Mr FERGUSON** - If they're under 65.

**CHAIR** - So an area you may need to focus on in the future is electric vehicles not being heard by pedestrians and getting cleaned up.

Anyway, we're out of time and that is something for you to think about for the future. Not so far away, I might add. Thank you minister. Time goes very quickly but we appreciate your attendance and that of your team and we will have a short break.

**The committee suspended at 3.06 p.m.**



# **PARLIAMENT OF TASMANIA**

## **TRANSCRIPT**

### **LEGISLATIVE COUNCIL**

### **GOVERNMENT BUSINESS SCRUTINY COMMITTEE A**

**Aurora Energy Pty Ltd**

**Monday 14 December 2020**

### **MEMBERS**

Hon Ruth Forrest MLC (Chair)

Hon Mike Gaffney MLC

Hon Sarah Lovell MLC

Hon Dr Bastian Seidel MLC

Hon Rob Valentine MLC (Deputy Chair)

Hon Meg Webb MLC

## **WITNESSES IN ATTENDANCE**

**Hon. Guy Barnett MP**, Minister for Primary Industries and Water; Minister for Energy; Minister for Resources; Minister for Veterans' Affairs

**Prof. Mary O'Kane AC**, Chair, Aurora Energy Pty Ltd

**Ms Rebecca Kardos**, CEO/Managing Director, Aurora Energy Pty Ltd

**Mr Andrew Crozier**, Chief Product and Customer Officer, Aurora Energy Pty Ltd

**Mr Grant Russell**, Project Executive Systems, Transitions and Decommissioning Aurora Energy Pty Ltd

**Mr Kane Ingham**, General Manager, People and Commercial Services, Aurora Energy Pty Ltd

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**CHAIR** - Thanks, minister. Welcome to GBE scrutiny for this year, very late in the year. If you would like to introduce your team at the table for the purpose of Hansard and then I will invite you to make an opening comment if you wish, and we will go to questions.

**Mr BARNETT** - Thank you very much for that and for the opportunity to be here for the GBE scrutiny hearings today with Aurora Energy. I would like to welcome and introduce Professor Mary O'Kane, chair of Aurora Energy; Rebecca Kardos, CEO of Aurora Energy; Grant Russell, Project Executive Systems, Transitions and Decommissioning; Kane Ingham on the CEO's right, also Andrew Crozier, Chief Product and Customer Officer at the table. We have a full book at the table to support the committee and to support me, the chair and the CEO through today.

With your permission I would like to share a few opening remarks, Chair.

It is a pleasure to be here for the 2019-20 financial year. As the Energy Minister I am excited to work with Aurora Energy to implement the Government's Tasmania First Energy Policy to provide lower electricity prices and to empower the people and businesses of Tasmania with the information and tools needed to manage their energy costs.

This year has been a particularly challenging one for all Tasmanians with the COVID-19 pandemic and Aurora Energy has played a significant role in helping to address the impacts of the pandemic. Through the challenges of COVID-19 Aurora has supported its 280 000 customers with a wide range of services. First, for small business, Aurora, along with other retailers, helped to implement the Government's waiver of quarterly electricity bills from 1 April this year. Aurora's small business customers' base had over \$17 million waived across their eligible bills, reaching 19 122 eligible small business sites.

Aurora Energy established a COVID-19 customer support program as an appropriate and targeted method that assisted customers during COVID-19 with actions such as bill relief, waiving fees or charges, and a range of other support measures. With just under \$4 million left in this fund, Aurora is willing and waiting to assist customers with high bills. Aurora also offered a dedicated help line to deliver the fund and other forms of energy bill assistance as well as restructuring a round of its grants to community organisations to enhance digital capacity, which was greatly needed as we all started to work and live more in the digital world.

By acting to address the impacts of the pandemic for Tasmanians, Aurora itself has been impacted. In 2019-20, Aurora Energy made a loss after tax of \$5.4 million, primarily impacted by the funding of the small business bill waiver as a COVID-19 support measure. As a result for the 2019-20 year, no dividend is recommended to the shareholders. However, when Aurora's financial result is adjusted for extraordinary items such as the COVID-19 support measures, Aurora's financial performance exceeded its 2019-20 budgeted profit.

Amongst the challenge of the pandemic the Government has maintained its commitment to lower the cost of living continues to benefit Tasmanians. We have delivered a regulated power price decrease of 1.38 per cent from 1 July 2020. Tasmanians continue to experience some of the lowest regulated prices in the nation according to the Tasmanian Economic Regulator's July report on the National Comparisons Standing Electricity Prices.

Aurora is a community and customer-focused organisation that Tasmanians should be proud of. This past year has seen the roll-out of its new digital product, Aurora+, which has

been an unqualified success in giving the customers more control and visibility over their energy usage.

Aurora has also provided tens of thousands of dollars in community grants in 2019-20.

These are exciting times in the energy space for Tasmania. We are now 100 per cent self-sufficient in renewable energy, confirming our status as a world leader in renewable energy generation. We have also passed legislation to double our state's renewable generation to a global leading target of 200 per cent of our current needs by 2040.

Aurora Energy is a committed state-owned business dedicated to supporting the people and businesses of Tasmania through delivering renewable energy. I would like to hand to the chair for a few short opening remarks.

**Prof O'KANE** - I am pleased to appear before the committee today as chair of Aurora Energy. The COVID-19 pandemic has had a significant impact on Tasmania. However, in spite of the unprecedented challenges and ambiguity presented, the business mobilised quickly to ensure support for our customers and the safety of our people. For Aurora Energy this meant new ways of working with 100 per cent of our workforce transitioning to working from home in less than a fortnight.

As chair I am incredibly proud of the way the business has adapted to new technology, new ways of engagement, and the challenges of working from home in a time of great change and uncertainty. I have also been heartened by Aurora Energy's unbroken focus on supporting our community, particularly those most vulnerable. As you may be aware this support has included a significant financial contribution through a \$5 million COVID-19 customer support fund along with the implementation of the Tasmanian Government's small business bill waiver.

Funding the small business bill waiver as a COVID-19 support measure in line with the shareholder direction to Aurora Energy was the primary driver, as you heard, of Aurora Energy's \$5.4 million loss in 2019-20. However, as I am sure the minister will agree, we are proud of the swift action taken to provide direct financial support to our customers at a time when they needed it most.

Alongside these measures and amid all the uncertainty Aurora Energy has also made significant progress on its strategy, focused on creating and delivering value for its customers. This began with the reset of the internal operating model. Through this process the organisational structure, core process and systems were redesigned to increase the speed with which the business was able to respond to continuing challenges in the market and delivering new products and services to its customers.

Through this process the business also took the opportunity to develop a new set of organisational values with widespread involvement across the Aurora workforce. These values importantly include the value 'customer obsessed' demonstrating its commitments to putting customers at the centre of the business. At the heart of delivering transformative customer experiences has been the roll-out of Aurora+, a new digital product which harnesses the benefits of advance meters to offer users greater convenience and control in managing their energy costs. Initially made available to customers transitioning off Aurora's pay-as-you-go product, Aurora+ is now available to all Aurora Energy's residential customers and particularly offers energy insights to customers with solar.

As the business continues to invest in product development, Aurora Energy recently launched Aurora+ business to offer small- to medium-sized business energy insights and create an integrated payment plan experience for customers who enter into payment plans which include those on Aurora Energy's industry leading Your Energy Support, better known as YES program. In marketing the rollout of Aurora+ as a key highlight for the year we also acknowledge the successful decommissioning of the pay-as-you-go product. This was a significant undertaking for Aurora Energy which saw the replacement of over 20 000 pay-as-you-go meters with advanced counterparts, and a comprehensive communication campaign to help customers select and transfer to new products.

These significant changes to Aurora Energy's product offerings have been complemented by a range of new online tools including a bill estimator and right plan calculator, along with the thriving community program which provided over \$80 000 in grants across 13 projects in 2019-20 supporting not-for-profit and community organisations to build digital capacity in support of their impact.

Moving into 2021, Aurora Energy still faces potential financial headwinds caused by the COVID-19 pandemic with the border economic impact expected to have adverse implications on Aurora Energy's future financial performance and position. That said, we had a better than budget first half of the year. We are working on the assumption that COVID-19 impacts are yet to hit us fully and to be fully seen. Before the COVID-related financial challenge, the existing energy industry disruption is also expected to continue. We recognise that there are still challenging times ahead for our customers and, as a proud Tasmanian owned and operated company, Aurora Energy is committed to doing what it can to help however long it takes.

It is fair to say that change and uncertainty will also continue to charters our operating environment. However, we welcome the opportunities that inevitably arise from change as we continue our journey to, as you see in our advertising, reimagined Tasmanian energy experience. Thank you.

**CHAIR** - Thank you. Does anyone want to open the questions?

**Mr VALENTINE** - I wouldn't mind having a question on the Aurora+. I am bemused by this because when you look at the figures around this, it is basically 11 cents extra a day for people to access information on their data - 37.9 cents a day is the cost to serve allowance; you add 11 cents to that. It is a 29 per cent increase for a person to actually gain access to the data via that method - it is their data and it is already calculated; you can get it through the help desk or call centre - why would you charge people to access their information in this way? It seems to be counterintuitive and the people who really need it the most are the ones that can least afford to pay that money. I am really left wondering. You provide grants to build digital capacity - you talk about that on page 9 of your annual report - and yet at the same time, the people who really need the information to help them manage their bills are being charged 11 cents extra a day.

**Mr BARNETT** - Thanks for your question. I can understand where you are coming from. It is best if the CEO provides a detailed response to that thoughtful question.

**Ms KARDOS** - Thank you very much for the question. I really appreciate the opportunity to explain the logic and rationale. You make really valid points about the



information being readily available through free mechanisms - you can access it and it is the customer's data.

However, what Aurora+ does is provides that in a format that makes it insightful and useful. What we learned through Pay as You Go Plus is customers really value the convenience and the control it gives. We want to further develop those insights and give customers greater understanding of what are the tangible and practical things they can do to control their energy within their home or business and make energy more manageable.

You also made the point around for those doing it tough: how can they afford an additional 11 cents? That is a really good point. For our YES customers, so those customers on our Your Energy Support Program, we waive that fee. We recognise that for those who are experiencing financial hardship, charging them for that fee is not appropriate. We waive it for them because we also recognise they will gain a lot of value in being able to see when and where they are using energy and how they can make that more manageable and potentially find savings far more in excess of 11 cents a day.

Going back to your initial point, customers have a choice of whether they want to go onto Aurora+; we have been really open and transparent around the fee. If a customer says, 'I have already got access to this data through free means', they can choose not to sign up to Aurora+ and their choice and we value that. However, the feedback we are getting from customers who have made that choice is they are being able to get greater control and visibility and are being able to find savings potentially greater than that 11 cents per day.

**Mr VALENTINE** - Is it made clear to them they are actually paying \$40 a year?

**Ms KARDOS** - When a customer rings up to inquire about Aurora+, we make it very clear of what the product service fee is. We itemise it on every bill. We have consciously done that because as a business, when we were looking at this, we had a choice. There is a cost in developing this product.

**Mr VALENTINE** - How much would that have been?

**Ms WEBB** - What was the cost?

**Ms KARDOS** - There is a cost in developing that product.

**Mr VALENTINE** - Yes, but what was the cost?

**Ms WEBB** - What was that cost?

**Mr VALENTINE** - What was the cost?

**Ms WEBB** - Yes, so what are those costs?

**Ms KARDOS** - That's obviously commercial-in-confidence. I am not really at liberty to share the investment.

**Ms WEBB** - But we cannot assess whether what you are charging now covers the initial development and then whether the ongoing or whatever elements of that are covered.

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**Ms KARDOS** - I am happy to provide that in camera if it would appease the committee, given this is a public hearing and we operate in a competitive environment.

**CHAIR** - You can provide it in camera.

**Mr VALENTINE** - Yes, you can provide it in camera, but I wonder why it has to be in camera.

**Ms KARDOS** - We can get that information, if you are comfortable with that, minister.

**CHAIR** - No, no, it is. If it's commercially sensitive, the committee can receive it in camera.

**Mr VALENTINE** - No, I appreciate that. I am wondering why.

**CHAIR** - But the ongoing costs wouldn't be.

**Mr VALENTINE** - No.

**Ms KARDOS** - But we are going to continue to invest and develop the product so part of the fee is reinvesting that into the product to enhance it and bring more features, insight, greater control and convenience for our customers. That is the intent.

**Mr VALENTINE** - How many customers would have this available to them if they chose to go down that path? How many customers are you talking about this being available to?

**Mr BARNETT** - It is a good question. My understanding is that over 30 000 customers are now using the product. I will just check with the CEO and she can provide more detail.

**Ms KARDOS** - More than 30 000 customers have chosen Aurora+. We have, over the course of this year, expanded that out, and we have -

**Mr BARNETT** - Is that 30 000 or 20 000. I am trying to remember. Is it more than 20 000 or more than 30 000?

**Ms KARDOS** - Andrew is our chief product and customer officer. He will know the numbers.

**Mr BARNETT** - How many customers have you got, Andrew?

**Mr CROZIER** - It is over 25 000.

**Mr VALENTINE** - Would they all have access to this Aurora+?

**Mr BARNETT** - That is my understanding.

**Mr CROZIER** - That is correct.

**Ms KARDOS** - They are customers who have chosen to sign up to Aurora+.

## PUBLIC

**Mr VALENTINE** - You basically could raise a \$1 million a year through this?

**Ms WEBB** - That is only from the 25 000 current customers. There are a lot more than that potentially.

**Ms KARDOS** - When developing products there is always a cost involved in that. Those costs can be embedded into your standing prices. We made a choice to be transparent and for those customers who choose Aurora+ only they pay the product service fee. For those customers who want to continue to get that data through the freely available means that you highlighted earlier, they do not pay a fee associated with that. For those customers who are on our vulnerable customer program, the YES program, they do not pay for that. For those customers who see value in that product and are willing to pay that 11 cents a day, they are the only ones who are paying that. If, after using the product over time, they see no value, they can choose to opt out of that product as well.

**Mr VALENTINE** - Are there other utilities that employ this sort of a system that charge for it?

**Mr BARNETT** - If I can just kick it off, in terms of that response, it depends on the business case. This is, at the end of the day, it is a matter of choice. You do not have to do it, it is not compulsory, so it is not across all our customers in Tasmania. It is across, as Aurora indicated, 25 000-plus customers. You would think that maybe that would increase over time. It has obviously increased over recent months and since it started.

My point would be that it is a business case. The point you are making, you are getting a return on that investment, as the CEO has made, and you have made that point, and it is a good one. I am sure that Aurora Energy and the management and the board would think about what is the business case, what return, do we have the return based on that initial investment, and then the ongoing operational cost to deliver those benefits. Always remembering this is a choice for the customer so it is not compulsory.

In terms of other instrumentalities, government business enterprises, the boards look at it very carefully. It is all based on a business case. Whether it is for a dedicated customer set or a dedicated identified stakeholder group, it would depend on the policy position of the board as to whether they can get a return on those funds invested, remembering it is taxpayer's money at the end of the day in terms of the investment.

**Mr VALENTINE** - To clarify the numbers, I have some confusion going on here. The number of customers that you have as an organisation, as a utility, how many do you have?

**CHAIR** - How many overall connections have you got? That is the question, isn't it?

**Mr BARNETT** - The CEO can answer how many total numbers we have in terms of customers -

**Mr VALENTINE** - Total customers that might be able to access this. I am not talking about the ones that are. I am talking about the ones that could possibly.

## PUBLIC

**Ms KARDOS** - That's a good question. There would be approximately 150 000 customers who would be eligible to sign onto the product, in terms of number of residential customers.

**Mr VALENTINE** - Residential?

**Ms KARDOS** - Assuming residential and small business customers, not all of them would choose the product, obviously. If they found value in it and felt that they were getting value for that 11 cents a day, they would have the ability to apply for it.

**Ms WEBB** - Can I clarify those numbers? My understanding is that your total customers is 280 000. Residential customers are about 85 per cent of that, which would make it about 238 000. Presumably all those would be potentially eligible to sign up to the app. If you could just clarify those figures are about right, because it is a more than you suggested.

**Mr VALENTINE** - That is different to 150, yes.

**Ms KARDOS** - I appreciate that, Meg, and I am just doing the numbers in my head. We would be talking about approximately 250 000; I was out 100 000. Thanks.

**Ms WEBB** - I was out 12.

**Mr VALENTINE** - 250 are residential customers?

**Ms KARDOS** - Residential and small business customers because we have developed an Aurora+ for business. Not all small businesses would find that product useful at this stage because we are still developing that. It is only a small proportion of that. Andrew, would you know what proportion of the small business customers would be eligible for Aurora+ for business?

**Mr CROZIER** - Yes, based on how it is currently designed it would be appropriate for nearly 50 per cent to 60 per cent because as the business gets larger the product probably becomes less useful.

**Ms KARDOS** - That would make it around 230 000. Is that right? So, 240 000.

**Mr VALENTINE** - At 238 000, it is \$10 million a year. My thinking says why not build that into your costs and just make it available if people wish to use it, rather than charging customers? It is just a question.

**Ms WEBB** - To clarify, if it is up to \$10 million a year, is that what you will be re-investing into further development - covering the initial development and then further development - or is that going to go into revenue? The question then is, on top of what you are collecting for the app is Aurora also making savings as a result of providing the app? Is there actually a double benefit to the revenue potentially?

**Ms KARDOS** - I think you are making really valid points. When we get to the point we have 100 per cent of customers on Aurora+ we as a business would make a decision then around how we do our pricing. At this point in time we have made a conscious decision, given the investment we have put into developing the product, to take the approach that only those

who choose to use the product will pay the product service fee recognising that we are waiving that for our vulnerable customers who participate in the YES program.

At this point in time that is the business decision we have made, but we operate in a market, in a competitive market. We are always looking at how we operate our business and if circumstances change and we are seeing that this has value for all customers and it no longer makes sense for us to do it that way, then we would consider changing that. But at this moment we have been really upfront and transparent around what the cost of that additional product is and that only those who choose that product pay that fee.

**Ms WEBB** - Can I clarify the other choices people might have? In last year's GBE Estimates, you pointed to Aurora Online portal as a free option for people to access to get similar information. That was subsequently closed down, is my understanding. That is one free alternative option people no longer have. What are the other options they have to get the same benefit that the app provides but for free?

**Ms KARDOS** - Unfortunately we found this year an underlying issue with Aurora Online. Consumer information privacy is paramount for us at Aurora Energy. Once we realised that there was an underlying issue with the legacy product, we made the decision to shut down Aurora Online to ensure that we can continue to protect customer data.

In doing that, we also quickly mobilised the functionality that Aurora Online provided on our website and the large majority of that functionality is all available online. There is, however, for some functionality that does require a customer service agent to assist with.

In terms of those customers who were using Aurora Online, all of the functionality that was available is now available on our website. So it is doing that. We also, as the Chair outlined, are continuing to invest in our product capability and we are continuing to look to ways we can meet our customers' expectations. We are looking at what else can we do to provide those services in 2020-21 to provide all our customers with the ability to have better control over their energy costs.

**Mr VALENTINE** - How many PAYG customers have switched to Aurora+? Can you tell us that?

**Mr BARNETT** - How many have switched? I will check. The CEO may have a response, otherwise somebody at the table might be able to assist. It is quite a focused question/operational matter. I will check with the CEO.

**Ms KARDOS** - We have transitioned all PAYG customers to an alternate product. Some of them chose Aurora+. The actual number who chose Aurora+, Grant, do you have that for me?

**Mr RUSSELL** - I do not have that exact number. It was running at about 45 per cent historically when we did the swap out. Whether those customers are on that product, I could not tell you whether that percentage has changed.

**Ms WEBB** - And that percentage represents what number?

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**Ms KARDOS** - Roughly around 10 000 PAYG customers would have changed to Pay as You Go Plus based on that because we had 20 000 Pay as You Go customers.

**Ms WEBB** - Is that included in the 25 000 who are currently on it?

**Ms KARDOS** - Yes, that is part of that 25 000. What we have done is the feedback from our Pay as You Go Plus customers, we have further expanded Aurora+ and made it available to a broader customer base, to customers who are on Tariff 31, 41, business customers, solar customers. We have created additional functionality where solar customers can see how much energy they have exported back into the network. We have been looking at amplifying the information and insight that customers can get so they can get greater control over their energy costs.

**Mr VALENTINE** - So that is 15 000 of the standing offer who have gone from PAYG to a standing offer?

**Ms KARDOS** - No, I think it would be closer. I am working on rough numbers here.

**Mr VALENTINE** - It is -

**Ms KARDOS** - Ten thousand Pay as You Go customers went to Aurora+.

**Mr VALENTINE** - Yes, and the remainder?

**Ms KARDOS** - The remaining 10 000 would have chosen our normal base service offering.

**Ms LOVELL** - The 25 000 customers who have taken up Aurora+ and the business case and projections you are talking about, is that in line with what you were expecting at this point in time?

**Ms KARDOS** - Nothing is in line with what we were expecting at this point in time a year ago, given COVID-19. We have spent a lot of our time this calendar year ensuring the health and safety of our people, making sure we keep them safe in the circumstances we found ourselves in and then also ensuring we support our customers through this time. That included establishing our COVID-19 Customer Support Program, recognising that during winter we also had estimated real reads. We had people living, working and schooling from home so we saw increased energy usage and saw this winter a real amplification of bill shock.

This year we have spent a lot of time improving our readily freely available products on our website. We created a high bill checklist, a Right Plan Calculator where customers can check whether or not they would be better off on a time of use plan. All of those things are freely available, supporting Tasmanians to get the best offer they can and the best control of their energy costs.

**Ms LOVELL** - In terms of it not being in line and the impact of COVID-19, are you suggesting that the financial impact of COVID-19 has been an inhibitor for people coming across?

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**Ms KARDOS** - It is about us choosing where our efforts are best employed. During COVID-19 we put a lot of time and energy - we are a small organisation - we are always choosing where we most appropriately to put the efforts of our people. Our focus during COVID-19 was making sure we could support Tasmanians through that period, and putting online as many services as we can, so customers could have that self-service. Andrew Crozier, our Chief Product and Customer Officer, can talk more about what we've done on our website over the COVID period.

**Mr CROZIER** - Yes, we recognised quite quickly as a business we were living in extraordinary times. We had been very focused on encouraging uplift in our Aurora+ customer numbers, but at the moment that COVID hit, we repositioned all of our effort and activity towards trying to do the right thing, to create capability and support for customers.

We developed a wide range of capability on the website, and in other ways - from information on a high bill checklist, for example, to help customers who were really using more energy than normal, and also those who had been impacted by the estimated bill-read, which happened for a couple of months while TasNetworks paused bill reading for safety purposes.

We also created tools such as a bill estimating tool, so that those customers who were being impacted by estimated bills would be able to put in a read that they had received on their last bill, and what was actually on the meter at that particular moment, in order to start to understand exactly what their bill might be, just to give them some degree of surety.

At the same time, we did a number of other small things, like putting links to local charities which might be useful at that time, such as SPEAK UP! Stay ChatTY. We went out of our way to think what could we do to turn the website into a service tool for customers, where we provide them with the right information to help them understand how to manage their usage, to give them the tools to enable them to understand their costs, and also to make the process of transitioning or moving home - or even moving onto us, if they choose to - easier at that time.

We also recognised that Aurora+ actually became incredibly powerful for customers, because on a daily basis they could see how their energy usage was - it was increasing, or decreasing - and they could take immediate action to do something about their costs and consumptions.

**Ms LOVELL** - People still have the option, obviously, to switch across, or take up.

**Mr CROZIER** - Absolutely.

**Ms LOVELL** - That's more where you've had your people and the organisation's priorities, rather than encouraging people to switch across?

**Ms KARDOS** - Exactly. We have invested a lot of time and effort and resource this year in making sure our website can deliver a range of functionality to support our customers during these really challenging times.

**Dr SEIDEL** - I am interested in the language you use because, as you mentioned, it's very powerful for customers, and we are, you know, customer-obsessed. You're actually developing some unique insights into customer behaviour, aren't you? It's quite a powerful

tool, and you get a lot of data, and you develop a lot of intelligence on behavioural economics. It's going to help your organisation quite substantially in predicting future customer behaviour. You also change information, so you know how customers actually react to it, so it's quite powerful, isn't it?

At what stage are you going to say, 'Well, the program pays for itself, and we don't have to charge customers anymore.'? Because the main beneficiary, it seems to me, is actually Aurora and not necessarily the customer.

I might be wrong, but I'm mindful you will get a lot of insights. If you had a team of artificial intelligence experts right now working on it to see how things develop, you will monitor customer behaviour quite closely, and you can see how people react to certain triggers and areas.

**Ms KARDOS** - Andrew, I will invite you to talk about our team of artificial intelligence experts.

**Mr CROZIER** - I think the most important thing to reference is that this is a product that is made for Tasmanians, in Tasmania. All Aurora+ has been designed and built either with Aurora staff, or using our partners based in Tasmania as well.

I think perhaps our capability in that space isn't quite as significant as you might expect, but certainly we're very much working to take the insights that we develop - either through the app or engaging with our customers - to really understand the unique needs and desires of the Tasmanian customer, so that we can do our best to meet that in a very specific way.

From an Aurora perspective, we're in a unique position where we are a community business, so anything that benefits Aurora benefits the people of Tasmania. We reinvest some of those funds in product development, or the funds go back to the state.

The product is being designed very specifically to help specific groups within Tasmania, and to take the insights that we have in order to understand how we can further develop and prioritise new things in the future. Everything that is developed does come back in one way or another to the Tasmanian community.

**Ms WEBB** - Just to pick up on the question I had before, which wasn't addressed. What savings are there to Aurora in this app, so we can understand the cost and where investment is required?

The energy charter disclosure says only 14-23 per cent of aurora+ customers log in daily. Is it 14 per cent, or is it 23 per cent? That is quite a range. If they don't log in, what benefits are they getting from it? How are you measuring the benefits? Are you putting efforts towards improving the active use of the app once it has been purchased for the \$40 a year?

**Ms KARDOS** - I think these are best answered by Andrew.

**Mr CROZIER** - How many people log in any particular day is actually a range. Different times of the week are more popular than others. What I can say is that 50-60 per cent of our customers log in during a month. Obviously, how often you log in and engage with that information is really dependent on how engaged you are with your energy use. We do have



some customers who are very engaged and look at it quite frequently. Some customers use it a little less frequently than that.

The app has insights which are incredibly useful every single day, but the benefits go beyond that. It sits on the individual metre, and also has very capable payment functionality where customers can go in and make payments any time they wish. The product is available to use whenever you need it, much the same way as an internet banking platform might be. We are also thinking what comes next, to help customers engage even more, but also provide insights and useful information on which they can then take action to reduce or change their energy consumption patterns. That is certainly something that we are looking to develop in the coming months.

**Ms WEBB** - My first question was around savings to Aurora.

**Ms KARDOS** - We haven't actually quantified the savings at this point. The onboarding experience of getting someone onto aurora+ is quite resource intensive. Plus, we haven't done detailed modelling of their change in cost, but we would hope it will assist us in becoming more operationally efficient in time. As I said before, we made the conscious decision to charge those who elect to choose aurora+ a product service fee, but that fee is waived for YES customers, and in time we may choose to take an alternative approach. We thought this was the most fair and transparent approach at this point.

**Mr VALENTINE** - Have you noticed an impact on your call centre traffic?

**Ms KARDOS** - This financial year, no. This is not a normal year for us in any way.

**Ms WEBB** - Two things you could probably take on notice, and get back to us, because it relates to figures. Of the 25 000 people who are currently signed up to the app, what proportion are concession customers, and of your total residential concession customers, what proportion of them are signed up to the app?

**CHAIR** - Do you need to take that on notice?

**Ms WEBB** - And a follow-up. Acknowledging that fees are being waived for YES customers, was consideration given to provide this for free to all concession customers, regardless of them being in circumstances such that they need the YES program - acknowledging that all concession customers will be vulnerable to some extent?

**CHAIR** - I will get you to put those in writing to our secretary, and they can then be forwarded through.

**Mr GAFFNEY** - How did you come up with the 11 cents a day? Was it modelling on what the app would cost? I have had people ask me, how do they get the 11 cents, because the app should not cost millions of dollars. If you do get to a stage where you find it is covering it really well, do we decrease that down to 5 cents a day or something. I accept the user pays principle. I think most people would, but at what stage do you find revenue is far exceeding the cost for the app and where are we going to take it? How do you as a board make that assessment?

**Ms KARDOS** - The 11 cents a day - when we did the original business case for developing pay as you go products, as the minister discussed, we looked at what was the cost of developing Pay As You Go Plus. We have enhanced it since then versus what would be considered a reasonable return on that investment. That is how we came up with that number. Kane, you were involved in developing that. Would you like to add anything further?

**Mr INGHAM** - That is mainly it. The other thing too, obviously this was replacing the legacy Pay As You Go product which relied on particular meter hardware at the meter and customers having a particular card. That had its own unique pricing structure. The other thing we overlayed that was together with the new pricing structure and the 10 cents per day or 11 cents including GST. How fair was that to the customer and how did that compare to the existing Pay As You Go pricing back then, which was a lot cheaper? Customers on those legacy products would be better off under the new arrangements. That was just another consideration on top of the one mentioned by Bec.

**Dr SEIDEL** - You mentioned initially the customer's data, but if you have a look at your privacy terms and conditions, they clearly state all intellectual property in relation to Aurora+ and its content mobile interfaces belongs to Aurora Energy or its licencees. You obtain no interest in that intellectual property. You really obtain it for your own purposes rather than giving it back to the customer. The insights you develop with Aurora+ -

**Ms KARDOS** - Sorry, I am still not sure understand the question.

**CHAIR** - What is the question?

**Dr SEIDEL** - The question is: are you willing to share the insights you develop with Aurora+ to the customers?

**Ms KARDOS** - That is why we developed the product - to empower our customers so they could get greater control over energy. Does that answer your question?

**Dr SEIDEL** - That is right.

**Mr BARNETT** - Can I conclude this session by saying Aurora Energy, being a state-owned enterprise, is there to protect and support Tasmania. The board has a job to do and based on the business case, they implement that through the CEO and the management, and this is a good example. We have been talking about the pros and cons, returns on funds invested, but at the end of the day, the whole objective is to support Tasmania and Tasmanians and to get the best possible outcomes.

I have talked about the importance of consumer empowerment with the board, with the CEO and others, and that is a message you can hear coming through - that we are trying to empower the consumers based on choice and opportunity and, of course, based on a business case. The overarching message I would share as minister is that it is Team Tasmania and we are trying to deliver for Tasmanians through Aurora Energy. You have seen that in the last financial year with the support through the waiver for the bills, the \$5 million support through COVID-19. It has been a particularly challenging year and that has been there to support Tasmania.

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**CHAIR** - We will move on to another area. I would like to look at the onerous contracts. On page 68, it talks about the provision from onerous contracts. What impact has the onerous contract with Cattle Hill Wind Farm had on the financial result?

**Mr BARNETT** - Perhaps if I can kick it off and the Chair and/or CEO might want to add to my remarks in terms of onerous contracts. Certainly, our market participants are committed to meeting their responsibilities and market liabilities at the lowest possible cost to minimise price impacts on that customer. That is an overarching message and, of course, this year we saw a downward 1.38 per cent reduction in the regulated electricity prices from 1 July,

**CHAIR** - Minister, we have heard this in the opening. I want to know what the impact of the onerous contract that the Cattle Hill Wind Farm had on the financial result.

**Mr BARNETT** - As I say, I will pass to the Chair and the CEO, but the renewable energy certificate charges account for just 7.4 per cent of the retail bill, so that is part of your answer. The contract signed by our energy businesses to support their market responsibilities, such as the purchase of the Renewable Energy Certificate, are part of the requirement for energy market participants to meet their mandatory market responsibilities. Some of those contracts are commercial-in-confidence.

**CHAIR** - I just want to know what impact this one has had on the financials? A pretty simple question.

**Ms KARDOS** - In meeting our wholesale and renewable obligations, we take positions in today's markets and we have approved strategies around how we go about that. As you are aware, there are accounting requirements where, if a contract we have entered into is no longer the value of that contract, the benefits are not in line with the economic value of that, it is then deemed onerous and that then flows through your accounts. I will get Kane to give you the actual specific numbers on that.

**Mr INGHAM** - For this financial year, the one that has gone, we recognised an onerous contract back in 30 June 2019. As you do every year, you reassess that value each year and that is what has happened for 30 June 2020. For this financial period, the impact of the onerous contract is not that great. A lot of it was recognised 30 June 2019.

**CHAIR** - So what was the impact for this year?

**Mr BARNETT** - It is around \$2 million and there was actually the value of the revaluation of the contract went up. I think it is a positive \$4 million this financial year.

**Ms KARDOS** - When you take a position in the market, the market is constantly moving and, as Kane explained, prices within the wholesale and renewable markets are continuing to fluctuate. Every financial year, we have to reassess that and that means it can become less onerous or more onerous, or that in time it could no longer be onerous.

**CHAIR** - I accept that. Was Aurora Energy directed by the minister to sign the contracts with Cattle Hill Wind Farm?

**Mr BARNETT** - No.

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**CHAIR** - Obviously, Aurora Energy made that decision of its own necessity. There was no direction from the minister to Aurora regarding this onerous contract?

**Mr BARNETT** - Correct. There was no direction from the minister.

**CHAIR** - How many separate contracts relating to Cattle Hill does Aurora Energy has?

**Ms KARDOS** - To meet the mandated renewable energy legislation, we have a renewable energy strategy and to decide to what extent how best to meet that liability, ensuring we get the best outcome, because we operate in a competitive market, we went out to tender in 2018 - I checked the right year - to contract with a renewable energy party to assist us in meeting some of our liability to 2030. In doing that, we made a conscious decision to consider only Tasmanian renewable projects. If we are needing to invest in meeting that renewable energy target, we thought it would be best if we met that liability by supporting renewable development in Tasmania, given that we are owned and run by Tasmania, and also to support the 100 per cent renewable state policy around that, which we have recently achieved through the construction of Cattle Hill and Granville Harbour.

Through that procurement process where we assess value for money, buy local and the range of our procurement principles, we entered into a contract with Goldwind for the purchase of its large-scale generation certificates that will be produced by that wind farm.

**CHAIR** - Do the contracts require Aurora Energy to take all the LGCs from Cattle Hill?

**Ms KARDOS** - The contract itself is obviously commercial-in-confidence, but I would be more than happy to share that information in camera if the committee would like to.

**CHAIR** - I would be interested to see that, thank you. How many LGCs were bought from Cattle Hill in the 2019-20 year?

**Ms KARDOS** - Our liability for LGCs in 2020 was 850 000. I can't give you the specific numbers that Cattle Hill has provided this year at this moment.

**CHAIR** - In terms of the LGCs, I think you indicated in a previous answer that you purchase not just from Cattle Hill, but from other -

**Ms KARDOS** - From the market as well.

**CHAIR** - For Tasmanian product you are talking about?

**Ms KARDOS** - We have a renewable strategy; some of them we just buy from the market. They may be sourced from mainland renewable projects, but we take a balanced approach to our strategy in terms of meeting our liability.

**CHAIR** - With the recent changes in federal legislation giving the federal government powers over dealing with China, have they had any effect on these changes? China has an interest in Cattle Hill - Goldwind, isn't it? Is what's going on with China at the federal level, at the moment, having any impact here?

**Mr BARNETT** - That's a very big question. In terms of China trade policy and investment policy, that is as important to Tasmania as it is to Australia. Jeremy Rockliff as Minister for Trade has a leadership role there, but with respect to all of the productive industries, many of which or most of those I represent as minister, there has been an impact, absolutely.

We are assessing and monitoring our position very closely to advance Tasmania's interests and we are working closely with the key stakeholders in each and every respect, whether it be with respect to seafood and other productive industries. Whole logs is the most recent matter being brought into the public arena, but there is an ongoing conversation that will take place with the federal government. They are monitoring it very carefully.

Senator Birmingham as minister for Trade, David Littleproud I communicate with, and his office. The impact is there and it is being monitored very carefully by the Government working closely with the key stakeholders.

**CHAIR** - Has the board discussed it and the implications of that?

**Prof O'KANE** - No, we have not discussed it in detail. Beyond banter, we haven't had a formal discussion.

**CHAIR** - On page 48, in the annual report, under note C2, there is some contrary around the LGCs and the STCs which are the small-scale technology certificates, do they have the same value? Are they interchangeable? We are talking about two different things here.

**Ms KARDOS** - There are two distinct markets and prices for LGCs to STCs and the arrangements for STCs are quite distinct because there is a clearing house from which you can purchase them at a set price. From recollection I think that is \$40. Grant, is that \$40?

**Mr RUSSELL** - Yes, \$40.

**Ms KARDOS** - Yes, so there is a ceiling on the price to STCs. However, the market can sometimes be less for STCs and we will then buy them from the market if we can get them at a better price.

**CHAIR** - The note here says that \$78.3 million-worth of renewable energy credits were expensed during the year. How many RECs did that relate to?

**Ms KARDOS** - Let me just get the numbers for you. Apologies.

**Mr BARNETT** - Chair, through you, just while the CEO is getting those numbers for you, I want to make it very clear on behalf of the state Government that we welcome foreign investment, and foreign investment is managed and monitored at a federal level. I have every confidence they will continue to manage and monitor it carefully, but as a government, it is across not just energy, but across all our industries so we have foreign investment. We welcome that on the terms and conditions set by the federal government, but that helps create jobs and development opportunity in Tasmania, particularly in our rural and regional areas, which we strongly support.

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**Ms KARDOS** - We acquired approximately 306 000 Small Scale Certificates. The liability increased significantly. We had a higher small-scale technology percentage for 2020. As a result of that, we are forecasting our Small-Scale Technology Certificate liability for 2020 to be approximately 970 000 certificates. As I said before, our large-scale generated certificate liability for 2020 is forecast to be approximately 800 000 certificates.

**CHAIR** - On the same note there, it says that at the end of the year there was effectively \$11.2 million-worth of RECs on hand. How many RECs does that relate to?

**Mr INGHAM** - I don't know how many RECs on hand it relates to, but probably the interesting point there is that you surrender the RECs on a calendar year basis so at 30 June we often have RECs on hand. Equally, there is a liability on the other side. I don't have the number.

**Mr VALENTINE** - We often hear we're producing green energy, 100 per cent renewables, and yet when I dig down a little bit we see that Tariff 31 - that is 26.587 cents a kilowatt hour, we have to pay an extra 6.0273 cents extra on top of the standard tariff to get 100 per cent green energy. Is that correct?

**Mr BARNETT** - Sorry?

**Mr VALENTINE** - Tariff 31, 26.587 cents a kilowatt hour. To get 100 per cent green energy we have to pay an extra 6.023 cents a kilowatt hour. Can you confirm that?

**Mr BARNETT** - Let us check whether the CEO might be able to assist on that question.

**Ms KARDOS** - You're talking about our green energy product.

**Mr VALENTINE** - Yes.

**Ms KARDOS** - Yes. That's to have accredited green energy. So you pay that additional amount to have that accredited. We have a very low uptake in Tasmania of that product because our underlying product is already predominantly green. However, the green energy product means that you have sourced that energy through using an accredited 100 per cent renewable product whereas, obviously, at any given point in time the energy you get, say, through tariff 31 to power your lights and your household and your premise, whilst Tasmania is now at 100 per cent renewable at any given point, that energy may be coming from a non-renewable source depending on how we're meeting the energy demand at that point in time.

**Mr VALENTINE** - If Basslink didn't exist, we would be pretty well 100 per cent. Occasionally the Tamar Valley power station was switched on and developed energy for us, but if we didn't have Basslink it would be virtually 100 per cent green. Yet Basslink is in place and we've got to pay 6 cents extra on the tariff to get 100 per cent renewable. It seems a bit odd, doesn't it? Do you want to comment on that?

**Mr BARNETT** - The CEO has already responded in terms of the 6 cents. Did you want to add -

**Ms KARDOS** - That's our accredited green power product. I'm pretty confident that's what you're referring to.

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**Mr VALENTINE** - I am, and it's 23 per cent more, and on tariff 41 it's an extra 34 per cent.

**Ms KARDOS** - That's for the accredited but, like I said, we've had a very low uptake on that product because admittedly the energy the majority of customers are using on tariff 31, on tariff 41, is renewable. However, if you want to guarantee that it is 100 per cent and that it's accredited, you then have to pay that additional amount, so we can buy an accredited green product.

**Mr VALENTINE** - Wouldn't you think Tasmanians have actually been paying for the development of the dams and the maintenance of those dams and the renewable energy infrastructure that we've got in place, that Tasmanians wouldn't actually have to pay that extra. Maybe, yes, if you're selling power to the mainland. Wouldn't that seem reasonable?

**Mr BARNETT** - Perhaps if I can talk about that a little bit. We've announced that - I think it was 27 November, a few weeks ago, the 100 per cent fully self-sufficient renewable energy at Granville Harbour that you might recall. But, in coming weeks and months, we will be going through a process with the federal government in terms of certification so, you're right, there is a certification process. I can just give you a heads-up that we're already progressing down that track to ensure that that is certified as accredited renewable generation.

It's fair to say there's more work to do and with respect to announcements around that, we will have to wait and see. But we're working that through pretty positively. My understanding in terms of what you're referring to - and the CEO can clarify this, if you possibly could - but in terms of that subscription to that product it's sort of minimal subscription levels. Would that be right, CEO?

**Ms KARDOS** - We have a very low uptake of Aurora Green which is the product you're referencing. I haven't got the specific customer number. I can get those numbers for you but it's a very small number of customers. To be honest, we don't promote it because in reality we're already investing in renewable energy to meet our mandated renewable energy target.

**CHAIR** - By purchasing the LGCs and the -

**Ms KARDOS** - Yes, exactly, which is already in the price that customers pay. We're already largely renewable and, as you're making the point, the energy we produce - however, Aurora Green was developed some time ago. I think it was developed prior to me starting as CEO. It is there for those customers who want accredited green power. The base energy that we sell, and I think this is the point that you may be referring to, is not accredited green power.

**Mr VALENTINE** - I can appreciate that because I know that brown coal-fired power comes across Basslink. The point I am making is that Tasmanians have basically helped build the system, yet they are being charged to get renewable energy out of it. That is the point I am making. Anyway, I have made my point.

**Mr BARNETT** - That is right. You have made the point and I have sort of responded on the wonderful achievement, which is globally significant, that we have fully self-sufficient in renewable energy, 100 per cent, but it will take some time, weeks and months, working through the federal government to have that accredited. To your point, yes, we all want to be in that position where it is accredited. You can stamp it, using 100 per cent Tasmanian clean

electricity, whether you are making a widget, providing a service, whatever it is, it will be part of a Tasmania brand for which I am a big advocate as you know and the Government is. It is clean, it is fresh, it is pure, it is natural, it is 100 per cent clean electricity. That is why we can be so proud in Tasmania with this globally significant initiative.

**Ms KARDOS** - If I can further add to that. I am reminding myself because I have not thought about the green power product for quite some time for obvious reasons, but one of the challenges with the accreditation of green power is that renewable energy sources built prior to 1997 cannot be accredited. That is part of the challenge with accrediting 100 per cent renewable energy because a large percentage of our hydro fleet was built long before 1997. You make a really valid point. But Tasmanians can know that the large majority of the energy that they are using, we are using right at this moment, is predominantly renewable. We are in a very fortunate place in Tasmania in that the energy we have is not producing CO<sub>2</sub> and is not polluting the atmosphere.

**Mr VALENTINE** - I think many Tasmanians would think that they were getting fully renewable though.

**Ms WEBB** - I would like to ask more about the financial support provided during COVID-19. My understanding is household electricity consumption across the COVID-19 time increased by about 20 per cent in this state and, at the same time, business use decreased by about 20 per cent. So there was that transfer from business use into home use. Is that a correct approximation of what has happened across that first six months of the COVID-19 time?

**Ms KARDOS** - Let me get the exact numbers for you. You can tell I am getting old as I peer into my screen. I do apologise.

**Ms WEBB** - We can come back to that. Someone can find it for you.

**Ms KARDOS** - Here we go, I have got it. Apologies. What we saw is that -

**Ms WEBB** - I am really looking for a broad brush. How much household went up, how much business went down, so I understand what that transfer looked like as people were at home.

**Ms KARDOS** - During April and May, when we were during the peak period where significant restrictions were in place, average residential usage peaked at around 25 per cent above our forecast. It is really important to note it is against forecast. We make forecasts depending on how many customers we have and the key variant in energy usage is weather. We use more when it is really cold and we use less on days like today.

**CHAIR** - Not that we would ever know being in here all day, but there you go.

**Ms WEBB** - So 25 per cent up on expected and business was?

**Ms KARDOS** - Small business usage decreased by around 15 per cent.

**Ms WEBB** - We had that sort of transfer into the households from the businesses. Then we provided bill waivers to 19 000 small businesses to the tune of just over \$17 million.



## PUBLIC

**Mr BARNETT** - Correct. This is Aurora Energy.

**Ms WEBB** - Then \$5 million was put up to support households of which \$1 million has been spent

**Mr BARNETT** - A little more.

**Ms WEBB** - Slightly over \$1 million. We are virtually the only state or territory, the only other one being Northern Territory that didn't provide a direct payment of assistance to concession card holders in this state during this time. Western Australia, \$305 plus \$600 credit; South Australia, \$500 once off; Queensland, \$200 rebate plus \$250 asset payments; ACT, \$200; New South Wales, \$50; Victoria, \$250, \$650 for utility relief grants. We chose not to relieve households even though we know they went up 25 per cent but we relieved small business that went down 15 per cent. If we had invested the same amount, the \$17 million, to households we could have given every concession holder in this state a \$200 rebate. Was that considered and, if not, why not?

**Mr BARNETT** - Every other state is different from Tasmania. Tasmania is in a position where we are fortunate to have either the lowest, or amongst the lowest, regulated electricity prices for both residential and small business. Since we have been in government there has been a 2.2 per cent increase in nominal terms but in real terms a 19 per cent reduction for small business and a 12 per cent reduction for residential regulated prices. On top of that you have just seen a reduction of 1.38 per cent from 1 July 2020. On top of that you have the ongoing concessions to our concession card holders in Tasmania which is amounts the most generous in Australia - we can flesh that out for you, if required. On top of that, as a government, we have also expended some \$1 billion to provide community support during the COVID-19 pandemic, a very difficult time.

So, as a government, we have supported households' individuals, communities, small businesses and the like as a result of that. I wouldn't describe it or characterise it as you have. I think the support provided has been quite substantial.

**Ms WEBB** - I didn't characterise it in that way. I asked you a very straightforward question. That was, did you consider providing a direct rebate to Tasmanian concession card holders like every other state and territory virtually did given we know that household consumption is the area that went up and we gave a rebate to small business through the bill waivers, essentially gave them cash to cover that bill, \$17 million, and we didn't do the same for households; \$1million has been provided in support. I asked the question, did you consider providing a direct rebate to concession card holders and if not why not? Your answer appears to be they are getting enough support as it is.

**CHAIR** - I think the question is, did you consider that as an option.

**Mr BARNETT** - I answered it and I will provide a further answer to the member. That is, we provided support to concession card holders in different ways. We had a targeted approach to provide assistance to a range of customers. I should note that the quantum of support is in fact very substantial. I have noted that they are a very important group in the community. Of course some of those concession card holders were impacted in different ways to other concession card holders. The federal government had its own support measures in place through the JobKeeper and JobSeeker arrangements, which was gratefully appreciated.

## PUBLIC

It should be noted that support was not only ongoing but increased and that was certainly appreciated by the feedback that we had as a government.

We wanted a very focused and targeted approach. We have delivered that in a very appropriate way and the feedback that we have had its been appreciated.

**Ms WEBB** - Can I ask then about the \$5 million of which just over \$1 million has been spent to provide this targeted support to concession card holders or people experiencing hardship. How has the utilisation of that funding differed from the business as usual hardship programs that you offer? How is that being spent in providing assistance?

**Mr BARNETT** - I will pass to the CEO.

**Ms KARDOS** - We quickly mobilised because we recognised as a result of the global pandemic our customers would require support. We established the \$5 million COVID-19 Support Fund and made that available, alongside a program with a dedicated phone number and a range of support. That is in addition to our Your Energy Support program which is our vulnerable customer program. It is a targeted program, so if customers contacted us who had been either directly or indirectly impacted by COVID-19, we could waive any fees or charges. We may contribute in terms of a bill waiver, payment extensions. It is quite an extensive program underpinned by this \$5 million COVID-19 Support Fund.

However, as the COVID-19 has extended, what we have also recognised is not every customer is contacting us who needs support. The team has now taken a different approach where we are proactively now contacting customers who we believe may have been impacted by COVID-19. I would like to invite Kane who has been leading this proactive customer support, to explain what and how we have done and what impact that has had.

**Mr INGHAM** - One of the things we have been able to do is look back on the customer data and their history in being able to pay their bills and look at customers who have found themselves 'newly vulnerable'. Customers that have had a history of being able pay their bills and then all of a sudden with COVID-19 hitting, clearly something has happened and they have been impacted, we have proactively contacted those customers to talk to them, among other customers. Those customers we can clearly see have been impacted to have a conversation with them about whether someone within the household has lost a job or there have been other circumstances that COVID-19 has impacted their ability to pay. We have had a conversation with them about the fund and what assistance we can provide with them.

Like Bec said, sometimes that is not the \$5 million. Maybe it is payment arrangements or other support measure we can provide. It might be assistance through our YES program. As Bec mentioned, when the fund was initially made available, not all customers were contacting us so we looked at ways of being able to reach them.

**Ms WEBB** - Is the proactive contact as a result of non-payment, delayed payment of bills or is it you have actually assessed here is somebody whose bill has gone up more than 25 per cent or whatever it might be, let's contact them and see if they need assistance.

**Mr INGHAM** - A bit of both. First, non-payment. If a customer historically has been able to pay and we look at the history in the current context.

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**Ms WEBB** - Is this after they have come to you to say I cannot pay, I am going to be late?

**Mr INGHAM** - Not necessarily. Obviously if a customer has come to us and said, 'I cannot pay, I have been impacted by COVID-19', the fund has been available for them and we have had a conversation with them about what we can do for them. We have called these customers when we have been able to see that. The calls in many respects have been well received from the customers and other stakeholders, recognising that some of them are doing it tough.

**Ms WEBB** - In what sense have people had to demonstrate negative impact from COVID-19, specifically in order to access some of this support, whether it is waiving of fees, or assistance with paying the bill?

**Mr INGHAM** - It is a conversation about impacts in the household. It might be one of the household has lost their job. It might be family circumstances have changed as a result of COVID-19.

**Ms WEBB** - People have to explain themselves in some sense, and you have a threshold that has to be reached, for you to determine that, yes, they are impacted by COVID-19.

**Mr INGHAM** - Yes.

**Ms WEBB** - Is that a formalised threshold we could understand?

**Mr INGHAM** - It is just a judgment of the person taking the call. The person from Aurora having a conversation with the customer about the impact from the customer.

**Ms WEBB** - Who decides what element of support is provided, whether it is a waiving of that fee or charge, or whether it is actually providing assistance with the bill?

**Mr INGHAM** - Our agents are trained to make that assessment based on the customer's circumstances. As you can imagine, there are lots of different circumstances that our people -

**Ms WEBB** - How many people have been assisted with payment of actual bills, beyond just waiving of fees or charges?

**Mr INGHAM** - Over 1000.

**Ms WEBB** - What proportion of the \$1 million and a bit would that represent?

**Mr INGHAM** - Sorry, I do not understand the question.

**Ms WEBB** - I understand that a little over \$1 million has been provided in assistance of some form through this effort. What proportion of that is directly assisting the payment of the bill, rather than waiving of fees or charges, reducing bills?

**Ms KARDOS** - We do not have that specifically broken down. Would you like us to get that?

**Ms WEBB** - I think that would be interesting to see, so we understand in the household context what element of assistance for actual payment of bills has been provided. I would also like to know in how many cases that is to a concession customer.

**Mr BARNETT** - We will take that on notice. I wonder if an overview of the \$5 million COVID-19 support would be helpful, because this came through the board to the management, so you understand what is behind it.

**Prof. O'KANE** - Thank you, minister. We were very keen to do something, so we got out quite fast with the \$5 million, and we were anxious about exactly the points that have been raised in questioning. Is it actually going? How badly are people going to be affected? What will provide the greatest help? How long will this go on?

We put a lot of training into frontline staff. Luckily, we had done a lot of work with the staff about this customer assistance. That came out of staff consultation. There was a lot of discretion given to people who answering at home, but we didn't know how long we would have to continue with what we were doing. We didn't know whether Tasmania was going to be locked down for 2, 3, 4 or 5 months, so there was a balancing act between working out how much to give, and whether we would need to cut in again. We were already looking at making a loss. There was a lot of judgment in there.

I think the management and the frontline staff did a tremendous job of balancing. We were a bit surprised. We had only spent a bit over \$1 million, but we had expected to spend more.

Tasmania - and I come from the mainland - did a fantastic job of coming through COVID-19 so well that we ended up where we are. It is one of those things that is very hard to give a very precise answer. If COVID-19 hits again, we will know a lot better.

**Ms WEBB** - In terms of the additional \$3.7 million that might be left in that fund, where is that now? Is it still going to be provided to people? I am cognisant we have spent one-fifth, or just over, of what had been made available. The whole \$5 million could have been spent, and from my assessment we probably could've given every concession card holder a \$60 refund or rebate, just like that, and no-one would've had to come forward and ask for it, and prove they needed it - and yet we have close to \$4 million still sitting there, not helping anyone.

What is happening with that leftover? What is the plan?

**Mr BARNETT** - Thank you. The first part of that answer is that it is a targeted approach, as I indicated earlier.

**Prof. O'KANE** - The money is still there, and the program is still technically there. The pandemic could wind up again. The principle Aurora tends to follow is that we try to be quite targeted on those who are most vulnerable. We are very conscious that Tasmania has a high number of vulnerable people, so we were trying to be targeted rather than give a general amount to everybody.

**Ms WEBB** - Why was that?

**Prof. O'KANE** - Because those most vulnerable could be in really dire circumstances if we are locked down for a long time.

**Ms WEBB** - You will cover them if you go to everybody.

**Prof. O'KANE** - Yes, you cover them, but you also maybe could give them more, too, if you stay with the targeting. In retrospect, it looks like maybe we were too conservative, but as I said, Tasmania came out of it remarkably well. It might not have, and it might not again. We only have to look at Europe to see that it can blow up, and we still have that program there.

I definitely hear what is being said. I think we need to review our programs, as we always do, and we need to think about: did we do the right thing? I think we need to do that exercise. I hear what you are saying very clearly.

**Ms LOVELL** - Minister, I have some questions about employment. In last year's hearings there was a discussion around permanency and a recognition of the fact that job security is very important to people and, I would argue, now more than ever. At that stage, as I understand, a review into employment contracts was underway, with the aim of converting people to permanent employment, and that was expected to be completed by March this year.

Can you provide us with an update on how that work has progressed, particularly the numbers of permanent employees now compared to last year, and compared to labour hire or third party, or employees of Aurora who are on fixed term or maximum contracts?

**Mr BARNETT** - Thank you for the question. There are a number of parts to that question, which are clearly operational, and I will pass to the CEO.

**Ms KARDOS** - You are correct. We were asked and we made a commitment and we did deliver to that. As a result of that change, 15 per cent of our employees are now employed on a maximum-term basis, 14 per cent are via a third-party provider that we use to assist us in meeting our fluctuating call volumes, and 69 per cent are on a permanent basis.

**Ms LOVELL** - So, still 31 per cent on some form of insecure work. Is there further work to be done in terms of converting those people to permanent?

**Ms KARDOS** - In the process we went through at the beginning of this year, we looked at the role, and whether it had an ongoing nature. In determining that, we found 69 per cent of our roles had an ongoing nature. If it does not have an ongoing nature - say they have been employed to do a project for a period of time - they were offered a maximum-term contract.

For our third party arrangement, we obviously get more than 300 000 calls a year, and we have fluctuating call volumes, so we supplement our permanent workforce to meet that.

Going back to the changes we have made, there was a 152 per cent increase in permanency as a result of that review.

**Ms LOVELL** - Of the 15 per cent of employees who are now on maximum-term contracts, how many have had a rolling contract? Have they had contracts renewed, or has that been one contract that they are still in process of completing?

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**M KARDOS** - I do not have that information at my fingertips. Kane, do you know?

**Mr INGHAM** - No, I don't, but one thing we did take into account in making that assessment was those people who may have had one contract extended multiple times that would go onto the consideration of whether they were made permanent or not. As Bec said, we've had 51 permanents go up to 136 so you can see there is quite a big jump in permanents as a result of that review, so, yes.

**Ms LOVELL** - Would you be willing to take that question on notice?

**Ms KARDOS** - Yes.

**Ms LOVELL** - Thank you.

**Mr BARNETT** - It is fair to say it may be difficult to get the exact details, but we will do the best we can to respond to that.

**Ms LOVELL** - I will put it in writing and you can see how you go.

I also had some questions about returning to onsite work after COVID-19. I understand in the call centre in particular, there is a requirement for hot-desking.

**Mr BARNETT** - Is that a question?

**Ms LOVELL** - Well, that is the first question. Is there a requirement for hot-desking?

**Mr BARNETT** - If that is the question, I will pass to the CEO.

**Ms KARDOS** - So I understand the question, what do you mean by hot-desking?

**Ms LOVELL** - Where people do not have a fixed workstation. They might come in one day and work at one workstation; they come in the next day and work somewhere else.

**Ms KARDOS** - Thank you for the clarification. During COVID-19, everyone worked from home and we were also in the process of moving office. We have relocated to a new office. In moving into that new office, we have moved to an activity-based working model where no-one has a specified allocated desk, whereas on any given day they can come in and choose what desk they have.

**Ms LOVELL** - Yes, so that is known as hot-desking.

**Ms KARDOS** - I have not known it as hot-desking.

We have also ensured we have put into place COVID-19 safety protections to ensure there is no risk of infection or contamination, but, obviously, with multiple people being able to use that we have a full cleaning regime.

**Ms LOVELL** - Yes, that was going to be my follow-up question. Can you elaborate on that regime and particularly where people do not have an allocated workstation and they are sharing workstations and, presumably, equipment? What is the process to ensure they are safe?

## PUBLIC

**Ms KARDOS** - In moving into this new office, we have put into place a whole COVID-19 safety plan in line with the Health and Safety Guidelines by Tasmania WorkSafe. That plan includes how we ensure the ongoing safety. The safety of our people has been our key and priority one focus through the COVID-19. With actual desks, every night they are fully cleaned and we have more sanitiser and the bacterial wipes than probably on this table, as I look around. We encourage employees to clean down the desk and wipe any equipment on that desk before they commence work and also when they finish work.

**Ms LOVELL** - Okay.

**Ms KARDOS** - We also have a series of controls; we have also taken activity-based working to its fullest extent where if it makes sense for them to work from home that day, then they can work from home. Probably our best COVID-19 control is if they have any flu-like symptoms and are feeling unwell, they are to work from home or to take the day off in personal leave.

**Ms LOVELL** - Okay.

**Ms KARDOS** - We are really encouraging employees - because they have the ability to work from home - that if they have any reason to have a suspicion they may have any form of COVID-19 symptoms, please not to come into the office because that is elimination.

**Ms LOVELL** - What we should all be doing, anyway.

**Ms KARDOS** - Elimination is the best prevention.

**CHAIR** - If people do not have the message by now on that, we really have to worry about them.

**Ms KARDOS** - It is but, it is one of those things you need to keep top of mind. We do regular messages on this. We make sure there is a significant number of antibacterial wipes, cleanser, cleanse the stations, really encouraging. We really ensure the cleaning regime in our new building is to a very high standard because keeping our employees safe is our number one priority.

**Ms LOVELL** - Understanding that you have full clean overnight, does the shift pattern mean that two people might use the same desk in between those overnight cleans? Could it happen that in one day somebody comes in and works and then they go home and someone else comes in and uses that same station?

**Ms KARDOS** - That's why we have put in the additional control that you wipe down the work station before you commence work, just in case someone has used that desk previously. It is probably unlikely because we are finding that a large percentage of our employees really appreciate the flexibility of being able to work from home, especially our contact centre agents.

A large bulk of our workforce are female; they have school-aged children and they really appreciated the ability to be able to work from home and have greater connection with their family. We are finding that our office occupancy is nowhere near our maximum occupancy level, but we put in that additional control so that if you do go to a desk, you give it a thorough wipe down, and then when you finish work, you clean it down as well.

**Ms LOVELL** - In terms of occupancy and capacity, understanding that at the moment you have a large number of staff working at home, that might not be suitable forever or into the future, and particularly on an individual basis that might not be suitable for people on an ongoing basis. Is there the capacity in the office for the full workforce to come back and work in that new office space? Has that been taken into account, given that move happened throughout COVID-19 when people were working at home?

**Mr BARNETT** - When COVID-19 kicked in, Aurora Energy through the board and the management responded incredibly swiftly regarding working from home - protecting their staff safety is of top priority. The Premier said that a hundred thousand times but Aurora Energy implemented it really quickly, and I commend the chair and the CEO on responding so swiftly to get people working from home and keeping their employees safe.

**Ms KARDOS** - Apologies, can you repeat the question?

**Ms LOVELL** - My question was in regard to the capacity of the new office space and whether it has the capacity to accommodate the full workforce if it was determined at some point in the future that people either wouldn't want to, or wouldn't be required to, work at home any longer.

**Ms KARDOS** - We have done a lot of staff engagement around their preferences going forward and what would they like to do. The strong preference we have from our people is they want some flexibility between working in the office and from working from home, and Aurora Energy is fully supportive of that. We have seen our staff engagement increase significantly with our most recent staff engagement being 77 per cent, which is a significant improvement on previous years. What we are finding is our staff are really enjoying the greater autonomy about where they can choose to do their best work, and as a business we are seeing that our productivity is fantastic and we are achieving our business and customer outcomes to the same standard, if not greater, than we did prior to COVID-19.

On your first point - are we ever going to force our employees to all come back into the office? Not if they don't want to.

**Ms LOVELL** - It's not really a question whether you are going to force them to come back or require them to come back in, but if at some point, and it could be that they decide that working from home doesn't suit them, is there a limit to the number of your employees that you can accommodate in the office?

**Ms KARDOS** - We have a maximum occupancy level which, from memory, is that we can accommodate all of our employees in the office.

**Ms LOVELL** - Thank you

**Mr BARNETT** - Sorry, Chair, I think there was a question from the member for Hobart on green energy and we have an answer for you on that.

**Ms KARDOS** - Yes. We have 25 residential and eight business customers who are 100 per cent accredited. They will be on a level of accreditation - 100 per cent accredited is the one you were referring to at 6 cents. Obviously lower levels of accreditation have a lower price.



**Mr VALENTINE** - Thank you for that.

**CHAIR** - I want to just have a look at on page 72, your related party disclosures. I note F4 - 'that the company purchases electricity derivatives from Hydro Tasmania'. I note Hydro Tasmania has also suffered equity losses in value over the last two years of almost \$500 million. If Aurora Energy suffered losses from its electricity derivatives over the year and Hydro Tasmania is the party on the other side of the deal, does that mean that Hydro Tasmania made gains on its electricity derivatives? I am trying to understand the connection between the two here, being both government businesses.

**Mr BARNETT** - It is a bit technical for me on that one. I will pass to the operational team on my right.

**Ms KARDOS** - Kane, would you like to explain how that all flows through the accounts?

**Mr INGHAM** - The accounting standards require us to value all our derivatives at market value and, as we mentioned before, the forward mark curve is declining, which has meant - in the statements - the valuations have come down. The thing that the accounting standards don't require is recognising the value you then pass on to customers. In effect, we are passing the valuation of those contracts through to customers at a lower price. That is the flow-on impact of lower wholesale prices that doesn't necessarily get picked up in the financial statements.

**CHAIR** - To go back to the relationship between Hydro and Aurora, they are both government businesses - one sells electricity and one buys it. That's how it works. Isn't that a natural hedge already? Whichever direction the price moves, one party will benefit and the other party will lose effectively. That is how I see it. I'm happy to be told I am incorrect in that. Do the companies hedge when dealing with themselves and, if so, why do they do that? Do you hedge when you are dealing Hydro buying derivatives?

**Mr INGHAM** - We don't look at it that way. We operate in a market as a half-hourly spot price with AEMO, we are potentially liable for and the spot price can exceed \$10 000 per half hour. We obviously then enter into arrangements with market participants to make sure that we can secure a price for a lot less than that. In our instance one of our biggest counterparties is Hydro Tasmania. We have a lot of strategies around how we do that to make sure we can deliver energy at the lowest price. I am not sure I have answered your question, Ruth.

**CHAIR** - It is an odd one that you have your hedging with Hydro and the Government owns both so ultimately there is a winner and a loser in that. If Aurora wins, customers benefit. If Hydro wins, customers lose?

**Ms KARDOS** - We have a wholesale strategy with border-proof limits in terms of the level of exposure we have to the spot prices as Kane mentioned there. We operate within a market and we are constantly transacting in that market. How much we want to hedge that position at any given time is the thing. You are right. There will be times when potentially our hedging strategy will be more beneficial to us and our customers. You have to have a buyer and you have to have a seller, and both parties have to be happy with that strike price.

## PUBLIC

**CHAIR** - I was going to suggest, if I might, minister, that if Aurora ends up in the position where it has taken a hit - because we know how volatile the sector can be - you cannot actually pass that hit on to your customers, can you? You cannot increase their prices to make up for the loss you made in trading?

**Ms KARDOS** - No, typically we enter into multi-year contracts with customers with a guaranteed price to remove their exposure to the volatility of the market. That is effectively what we do and the service we offer our customers. I am not sure though the relation of that question.

**CHAIR** - When there are winners and losers - Aurora takes a financial hit there, if you like, because it will hit your bottom line. You cannot just ramp up prices for your customers because they are locked in and the wholesale energy price is set by the Government at the moment effectively.

**Mr BARNETT** - We have regulated prices.

**CHAIR** - Yes, but you are still capping it.

**Ms KARDOS** - That is for residential.

**CHAIR** - I am talking about residential, yes.

**Mr BARNETT** - Regulated customers, residential or small businesses?

**CHAIR** - I am talking about residential.

**Mr BARNETT** - Regulated customers - residential or small businesses are regulated. My point would be as a responsible state Government-owned entity and as a retailer they have to do what is responsible in the best interested of the entity.

**CHAIR** - Where does Aurora take measures to deal with a loss, should that occur? Hydro had a big loss this last year and the losses are on that side this time, but it could swing.

**Mr BARNETT** - To clarify, Hydro made a big profit this year - I am clarifying for the record, for *Hansard*, and for other listeners - a 56 per cent increase on budget, a very healthy profit. I think the Chair was wanting to make a comment.

**Prof. O'KANE** - Only to say it is a very good point, but it is about being a national market. At the moment, there is a big review on again as to how the market is designed. It is whether as a state, we face the market or is it as a commercial entity, as we are at the moment, in which case we cannot really think of Hydro as in a particular case. The design of the electricity market is one of those endlessly fascinating things, like a board game.

**CHAIR** - Oh, it is - you get sucked down to a big vortex trying to understand it.

**Mr BARNETT** - Now there is a review going on by the Energy Security Board for the post-2025 National Electricity Market currently underway.

## PUBLIC

**CHAIR** - Has Aurora looked at the likely impact of increased solar and battery technology on your future profitability and has this been modelled?

**Prof. O'KANE** - Yes, it has been one of those things we have been looking at in very considerable detail as part of our strategy on the board's point of view and detailed through management. Interface modelling is one of the things we are finding frustrating at the moment, because it is very hard to know when batteries and what prices they come on. It will probably be like the iPhone.

**CHAIR** - Everyone will have one sooner.

**Prof. O'KANE** - Everyone will have one eventually, but there will be quite a wait, then suddenly you will get a real drop. It is hard to model, but our whole strategy in recent years has been to look at the ultimate situation which, of course, is the retailer is the connector of last resort and what are we - a business in time? That is one of the reasons we are looking at new products, and the work Andrew and Rebecca has done has led quite a remarkable series of transformations as we look at what we can do.

**CHAIR** - Do you have any idea of what we are looking at, particularly once batteries increase? They are still fairly expensive at the moment. I have them at our place and they do save quite a bit of money, but you have got to pay up-front.

**Prof. O'KANE** - You have got to pay a lot up-front.

**CHAIR** - I am hoping they will last longer than me.

**Prof. O'KANE** - It is very hard to estimate, as you know, in an international sense as to what is going to happen.

**CHAIR** - There is certainly a desire and an interest in this area.

**Prof O'KANE** - A big desire and particularly in Tasmania because it sets the renewable energy target and it is going for a larger one being something of an exemplar. Batteries at a domestic scale would be transformative anywhere but in a state like Tasmania particularly. It is hard to know but we do spend a lot of time thinking at some point our future changes dramatically.

**CHAIR** - Can I take it you are alert to it and looking at it, but you do not actually have any formal modelling on it.

**Prof O'KANE** - We do not have any formal quantitative models on it, no.

**Mr VALENTINE** - The number of customers in the last financial year that have joined up with solar? It goes around 2000 new customers a year. What has been the experience over the last?

**Mr BARNETT** - In terms of solar? That is an operational question. I will see if the CEO or Professor O'Kane have any feedback.

**Ms KARDOS** - I was trying to think whether we have the uplift in solar customers just in this financial year. I think we have a total. In the last financial year solar installations increased by 5.1 per cent which, based on these numbers here, was roughly 1500.

**Mr VALENTINE** - In a sense, it is slowing a little, given it was 2000 new customers a year.

**Ms KARDOS** - The year before, between June 2018 and June 2019, yes, it was roughly 2000, so we saw a reduction. However, it is also important to note, we do not have 100 per cent market share. We operate in a fully competitive environment. We would not necessarily have every solar customer. These are our customer numbers.

**CHAIR** - There is also a risk, I would have thought with COVID-19, people might not be willing to make that investment just at the minute, they might be holding off.

**Ms KARDOS** - I am assuming solar installers were probably impacted during the shutdown period as well. That might have had a bearing on it as well.

**Mr BARNETT** - We also had the Tasmanian Energy Efficiency Loans Scheme for a while, which ended the year before last. That certainly boosted it a bit.

**Mr VALENTINE** - Last year you said, in 10 years' time, 50 per cent of cars are going to be electric. Have you changed your thinking on that yet?

**Mr BARNETT** - I was quoting Arena last year and I am still quoting Arena. That is the CEO of Arena's advice or feedback to me 12 months or more ago. That has been demonstrated by the Premier's statement in the Budget in terms of government car fleets through to 2030 - that the transition for government car fleets to be 100 per cent electric -

**Mr VALENTINE** - Truly electric or hybrid?

**Mr BARNETT** - At the moment it is both. We are heading that way. Obviously hybrid is a key part of that. That is the target: electric by 2030. I would like to think that renewable hydrogen could be in there.

**Mr VALENTINE** - Certainly for trucks.

**Mr BARNETT** - For heavy vehicles, for trucks, is a very good example. Obviously, industry, big opportunities for renewable hydrogen and on-island value adding and processing. I know we are a little bit outside the scope of Aurora Energy but it is a very exciting place to be. Capitalising on that renewable energy advantage that we have and we want to have the bells and whistles around it but we need the substance as well. That is why we are on that track. The Premier has been very clear, he has that target and it is a very good one to have.

**Mr VALENTINE** - The reason for the question is to find out whether the board has given any further consideration as to the sorts of incentives that you might offer to get people into electric cars, or subsidising charging units on walls on domestic premises. Has there been any consideration of those sorts of things?

## PUBLIC

**Mr BARNETT** - I will pass to the Chair and/or the CEO but certainly a lot of those questions you ask about Government policy and we are acting with the Premier in particular leading in this space in terms of climate initiatives to respond to climate.

In terms of a state-wide charging network, we have some 14 fast chargers and 23 workplace and destination chargers, and increasing the number of electric vehicles, as I have mentioned. So there has already been some progress but with our plans going forward I suspect you can see that increase and improve.

We haven't touched on buses but Metro Tasmania is looking at electric or hydrogen buses in terms of a pilot program for a number of those. Minister Ferguson is leading the charge there with Metro Tasmania.

**Mr VALENTINE** - Forgive the pun.

**Mr BARNETT** - Yes, leading the charge. He would laugh at that as well. Metro Tasmania has been tasked to trial zero emission buses or hydrogen with both a northern and southern trial under way within the next two years.

**Mr VALENTINE** - And Aurora?

**Mr BARNETT** - That is through Metro Tasmania.

**Mr VALENTINE** - But has Aurora considered what it might do to assist?

**Mr BARNETT** - I think Aurora is working side by side with the state Government on these measures but I will pass to the chair and/or CEO if you would like to respond.

**Prof O'KANE** - I was going to say the same thing, that we are working closely with the state Government. Obviously we would love electric trucks, vehicles, buses, the whole thing. Within Aurora we would welcome it as a way to sell more electricity and experiment in this space. Tasmania is the natural place to do the experiment so we are looking to the state Government to lead and we are ready to jump in.

**Ms KARDOS** - We're looking at how we can support customers choosing electric vehicles. It is an interesting space for Aurora Energy to participate in. I know Andrew has started looking at some of those product options. We are getting to that point. We have been talking about electric vehicles for a long time. I am eager to get an electric vehicle but the supply of electric vehicles is still a developing space. We are seriously looking at what we can do to encourage uptake and support customers in choosing electric vehicles.

**Mr VALENTINE** - Any further discussion with TasNetworks with regard to the possible surges though that might occur as the result of people plugging in?

**Ms KARDOS** - One of the considerations with electric vehicles is when customers choose to charge. One of the well-known concepts is that if we all choose to plug our electric vehicles in all at the same time it could potentially have network issues. They would be a key stakeholder that we would consult with around that to ensure we don't put any undue stress on the network. We are only in the initial stages at this stage around electric vehicles but that would be definitely a consideration in the design of a product.

**Mr VALENTINE** - It might be the opportunity to offer the charging units and you could fix that problem by scheduling them.

**Ms KARDOS** - There is a lot of opportunity for us to explore this, consider how we would want to play with that. How we would may potentially partner with other parties as well and how can we support Tasmanians in choosing an electric vehicle. There is real opportunity for Aurora Energy to look at that.

**Mr VALENTINE** - It seems to be that it is going to happen reasonably quickly as soon as the electric vehicles are there out on the market. So it is better to be dealing with it now than having to deal with it in a hurry, is my observation.

**Mr BARNETT** - It is a fair observation. We are actively considering these sorts of issues at a policy level via state Government and Aurora Energy, not to mention TasNetworks and Hydro Tasmania. We are very focused on how we take advantage of our renewable energy success and the added natural advantages we have in Tasmania with the natural water resource, natural wind resource. That is why we are very active in this space. Some of the comments you make will certainly be taken on board, Rob, and I really appreciate your feedback.

Chair, through you, I have been informed that the CEO has a further response to the member for Nelson, if that is okay.

**Ms KARDOS** - I have those concession numbers for you. You asked what percentage are concession customers of the 25 000 customers we have on Aurora+. It is 40 per cent. Of the total concession customers, what percentage are signed up to Aurora+ was the other question you asked, and that is 11 per cent.

**Ms WEBB** - Thank you. Can I put one that maybe will become one to take away and come back to us on. It follows up on concessions.

**CHAIR** - Let us just see if we are clear and if they can answer it right here, right now.

**Mr BARNETT** - We will try to answer it. We normally try to answer these questions at the table.

**Ms WEBB** - It does not appear in the annual report that you report on the number of total residential customers and the number of concessions within that. One of the things I am interested in is what has changed this year during COVID-19 in terms of the number of concession customers from March, knowing that many people did lose their jobs, some of which have been regained but many have not. I am interested to know what the number of concession customers prior to COVID-19 and then now where we find ourselves with that.

**Mr BARNETT** - I will just check that the CEO is clear on that question.

**Ms KARDOS** - I think so. We administer the concession scheme on behalf of the State Revenue Officer. We are not the only energy retailer who has concession customers. I thought I should clarify that because that is probably something that has changed in recent times. In terms of concession numbers, we have seen a 3 per cent increase in concession numbers

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between the same time last year at the end of 30 September 2020. Same time, 30 September 2019, we have seen a 3.6 per cent increase in concession numbers.

**Ms WEBB** - Do you have the numbers?

**Ms KARDOS** - At 30 September 2020, we have a total of 91 918 concession customers.

**Ms WEBB** - That is 3.6 per cent up on 30 September last year?

**Ms KARDOS** - It is, 88 694.

**CHAIR** - Thank you. Thanks, minister, and your team for attending. It was a longer day for us than it has for you possibly.

**Mr BARNETT** - Thank you very much, Chair, and thank you to the Chair and CEO and the team at Aurora both here at the table and elsewhere for all the support to be here today to support the committee. Thank you for the opportunity.

**The Committee adjourned at 5.18 p.m.**