



PARLIAMENT OF TASMANIA  
Legislative Council

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# **GOVERNMENT BUSINESSES SCRUTINY COMMITTEE 'A' 2018**

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## **Report with Minutes of Proceedings**

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

Hon Ruth Forrest MLC (Chair)  
Hon Kerry Finch MLC  
Hon Mike Gaffney MLC  
Hon Sarah Lovell MLC (Deputy Chair)  
Hon Rob Valentine MLC  
Hon Josh Willie MLC

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# MINUTES

## **FRIDAY 30 NOVEMBER 2018**

The Committee met at 8.30 am in Committee Room No. 2, Parliament House, Hobart.

### **Present:**

*Ms Finch*

*Ms Forrest* (Chair)

*Mr Gaffney*

*Ms Lovell* (Deputy Chair)

*Mr Valentine*

*Mr Willie*

### **In Attendance:**

*Ms Jenny Mannering* (Secretary)

At 8.30 am the Committee received a briefing from Rod Whitehead, Auditor-General.

(*Ms Lovell* left her seat at 9.12 am)

(*Mr Finch* left his seat at 9.24 am)

The briefing concluded at 9.58 am.

### **Minutes:**

The Minutes of the meeting held on Wednesday, 21 November 2018 were confirmed as a true and accurate record.

### **Correspondence:**

The inwards and outwards correspondence was endorsed and received.

The Committee suspended at 10.02 am until 9.30 am on Monday, 3 December 2018.

## **MONDAY 3 DECEMBER 2018**

The Committee met at 9.30 am in Committee Room No. 2, Parliament House, Hobart.

### **Present:**

*Mr Finch*

*Ms Forrest* (Chair)

*Mr Gaffney*

*Mr Valentine*

*Mr Willie*

**Apologies:**

Ms Lovell

**In Attendance:**

Ms Jenny Mannering (Secretary)

Ms Gabrielle Woods

At 9.30 am the Committee commenced received a briefing from Gabrielle Woods.

At 10.30 am the Committee commenced informal discussions with stakeholders.

The Committee suspended at 11.21 am until 9.00 am on Tuesday, 4 December 2018.

**TUESDAY, 4 DECEMBER 2018**

The Committee resumed at 9.00 am in Committee Room No. 1, Parliament House, Hobart.

**Present:**

Mr *Finch*

Ms *Forrest* (Chair)

Mr *Gaffney*

Ms *Lovell* (Deputy Chair)

Mr *Valentine*

Mr *Willie*

**Apologies:**

Nil

**In Attendance:**

Mrs Jenny Mannering (Secretary)

**MOTOR ACCIDENTS INSURANCE BOARD**

At 9.00 am the following witnesses appeared before the Committee:

**Hon Jeremy Rockliff MP**, Minister for Infrastructure

**Mr Don Challan AM**

**Mr Paul Kingston**, CEO

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

The witnesses withdrew at 10.33 am

The Committee suspended at 10.33 am

The Committee resumed at 10.45 am

## **TASMANIAN PUBLIC FINANCE CORPORATION**

At 10.45 am the following witnesses appeared before the Committee:

**Hon Peter Gutwein MP**, Treasurer  
**Mr Tony Ferrall**, Secretary of Treasury  
**Stephen Rochester**, CEO  
**Andrew Finch**, Chief of Staff

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

### **Question on Notice**

- Please provide the 10 year modelling of TasCorp's MCH funding investment (including any assumptions that have been made).
- Information regarding any Government businesses that have advised TasCorps of potential or actual breaches to lending contracts in the last 12 months.

The witnesses withdrew at 12.17 pm.  
The Committee suspended at 12.18 pm.

The Committee resumed at 1.20 pm.

## **AURORA ENERGY PTY LTD**

At 1.15 pm the following witnesses appeared before the Committee:

**Hon Guy Barnett MP**, Minister for Energy  
**Professor Mary O'Kane**, Chair  
**Rebecca Kardos**, Chief Executive Officer  
**Grant Russell**, Chief Operating Officer  
**Mel Percival**, General Manager Marketing and Products  
**Kane Ingham**, General Manager Commercial Services

The Minister, Professor Mary O'Kane and Rebecca Kardos each provided a brief overview and the Committee proceeded to questions.

[Mr *Willie* left his seat at 1.55 pm]  
[Mr *Willie* resumed his seat at 1.56 pm]

### **Tabled Document:**

- Aurora Energy's approved Standing Offer prices from 1 July 2018

[Ms *Lovell* left her seat at 2.01 pm]

The witnesses withdrew at 2.52 pm.  
The Committee suspended at 2.52 pm.

The Committee resumed at 3.04 pm.

## **TASMANIAN WATER AND SEWERAGE CORPORATION**

At 3.04 pm the following witnesses appeared before the Committee:

**Mr Doug Chipman**, Owner's Representative Group Chair

**Dr Steven Gumley AO**, Chairman

**Mr Michael Brewster**, CEO

**Mr Dean Page**, Chief Financial Officer

[Ms Armitage took her place at the table in accordance with Standing Order 230 (9) as a Member of Government Business Scrutiny B' at 3.25 pm]

[Mr Finch left his seat at 4.03 pm]

[Mr Finch resumed his seat at 4.04 pm]

### **Question on Notice**

- Why was there a delay of 3-4 months between residents signing contracts and sending them to TasWater, and those residents receiving co-signed contracts back, thus delaying activating the contracts.
- Is the \$4.3 m spend in 2021-22 at Port Sorell for the connection of the Port Sorell sewerage to the Devonport sewerage pipe?
  - Who do you consult with to plan that Port Sorell work; and
  - What other services might be considered whilst undertaking that infrastructure development?
- Provide a graph showing the amount of work contracted to Tasmanian companies.
- How many apprentices and how many trainees does TasWater have?

[Ms Armitage left her seat at 4.28 pm]

The witnesses withdrew at 4.44 pm.

### **Other Business**

Question on notice responses to be provided by COB Tuesday 11 December 2018.

The Chair (or southern based Member) is to present the report of the Committee to the President out of session during the week commencing 17 December 2018 (subject to the availability of the President) at a time to be confirmed.

### **Next Meeting**

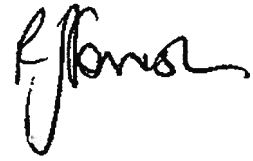
At 8.45 am on 13 December 2018 (CR2 and via teleconference).

### **Adjournment**

At 4.55 pm the Committee adjourned until 13 December 2018.

**DATE: 13/12/18**

**CONFIRMED**

A handwritten signature in black ink, appearing to read 'F. Jones' or similar, written in a cursive style.

**CHAIR**

## APPENDIX – TRANSCRIPTS OF PROCEEDINGS

# UNCORRECTED PROOF ISSUE

**Tuesday 4 December 2018 - Legislative Council - Government Businesses Scrutiny Committee A - Motor Accidents Insurance Board**

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Tuesday 4 December 2018**

#### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney  
Ms Lovell (Deputy Chair)  
Mr Valentine  
Mr Willie

#### IN ATTENDANCE

**Hon. Jeremy Rockliff MP**, Minister for Infrastructure

#### Ministerial Office

**Mr Vince Taskunas**, Acting Chief of Staff  
**Mr Adam Foster**, Infrastructure Adviser

#### Motor Accidents Insurance Board

**Mr Don Challen**, Chairman  
**Mr Paul Kingston**, Chief Executive Office  
**Ms Sonia Tuff**, Chief Operating Officer  
**Mr Derek Thurm**, Chief Financial Officer

**The Committee met at 8.58 a.m.**

**CHAIR** (Ms Forrest) - Welcome, minister and your team, to our government business scrutiny for this year. You know members of the committee. The committee proceedings are being recorded on *Hansard*, which will form part of our report and will be delivered to the

President in the next couple of weeks. We invite you, minister, to make an opening statement if you wish and then we will go to questions.

**Mr ROCKLIFF** - Thank you, Chair. In 2017-18, the Motor Accidents Insurance Board continued to display strong business performance. Despite challenging financial market conditions at times throughout the year, strong investment returns combined with continuing reductions in claim costs have provided another very good financial result for the MAIB.

The MAIB is well positioned in its long-term financial position with a funding ratio of 136 per cent as well as providing consistently strong returns to government. The general trend of reducing claim frequency and average claim costs reflects ongoing road safety improvements, including infrastructure works, education campaigns and enforcement activities. Tasmanian motorists have received direct benefits from these positive outcomes through a 7.5 per cent general premium reduction applied from 1 December 2016, with no further increases from 1 December 2017 and also from 1 December 2018. For a standard car, this translates to annual premium costs being less than they were 14 years ago.

Tasmanian premiums are the lowest in Australia. This is despite the MAIB scheme arguably providing the best overall no-fault benefits to those injured through motor vehicle accidents as well as achieving consistently high client satisfaction results. The highest premiums across the country are \$588 compared to Tasmania's \$294 for a standard motor vehicle. Given that Tasmania has the disproportionate share of residents in lower socioeconomic groups, it is important to maintain downward pressure on the premiums while ensuring those injured as a result of motor vehicle accidents are appropriately assisted.

The MAIB continues to work with the Road Safety Advisory Council and Tasmania Police to implement highly effective advertising and public education messages combined with appropriately targeted enforcement activities. The Road Safety Advisory Council is a joint initiative of the Department of State Growth, the Department of Police, Fire and Emergency Management and the MAIB. The role of the Road Safety Advisory Council is to decrease the number of fatalities and the severity of injuries on Tasmanian roads. Some of the council's current campaigns helping to improve road safety include the Distance makes the Difference campaign to promote the one-and-a-half metre passing distance for cyclists and the Real mates don't let mates drink drive campaign to reduce drink-driving.

The MAIB provides annual funding of some \$3.7 million to the Road Safety Advisory Council and the total funding provided to the council and its predecessors has amounted to almost \$50 million. This substantial investment in road safety has assisted numerous road safety initiatives and has had a major impact in the reduction of incidents and the severity of accidents on Tasmanian roads. The MAIB continues to provide significant contributions to a wide range of community organisations across Tasmania, with in excess of \$5 million provided to further road safety injury management and broader community support.

A major component of the MAIB's funding is managed through the Injury Prevention and Management Foundation. The foundation funds research, education and service programs directed at the prevention of motor accidents, reduction in severity and improvement of the management of injuries resulting from motor accidents. In 2017-18, funding provided through the foundation was \$726 656 to a range of different causes including quad bike safety and driver mentoring. This funding helps support important safety programs and research to reduce the number of serious and fatal road accidents in Tasmania.

I acknowledge the hard work of the MAIB Board and its Chair and the MAIB executive team and their employees in delivering another strong financial result, and ensuring Tasmanians injured as a result of motor vehicle accidents have appropriate and compassionate care. Thank you, Chair.

**CHAIR** - Thanks, minister. We have generally discussed how scheme works and how it is attached to the registration of a vehicle as opposed to the driver. In recent months, an unfortunate number of motorcyclists have had serious crashes and there have been some deaths. How does the scheme apply? Why not register the driver or the rider, as opposed to the vehicle?

**Mr ROCKLIFF** - I can talk about motorcycle incidents if you would like me to begin with that. As you have highlighted, they are vulnerable road users and are more likely to be injured than any other road users. Motorcyclists represent around 3.5 per cent of registrations but account for almost 30 per cent of fatalities and serious injuries. In 2017-18, 63 per cent of incidents involving motorcycles were single vehicle incidents. It was 66 per cent in the previous year. Motorcyclists pay a moderately higher MAIB premium. For medium-large motorcycles it is \$455, with standard motor vehicles at \$294, due to the disproportionately high crash rate resulting in costs for the scheme. In setting the MAIB's premiums in 2017, the Tasmanian Economic Regulator stated that there remains a significant cross-subsidy inherent in the current motorcycle premiums and the regulator recommended increases to premium relativities for all motorcycle classes 4, 5, 17 and 20.

**CHAIR** - Did that occur, minister? Was the motorcycle premium increased on that advice or is it cross-subsidised?

**Mr ROCKLIFF** - It is still cross-subsidised, yes.

**Mr CHALLEN** - The fundamental issue is that the claims we are talking about are associated with incidents that occur when motor vehicles are on the road. The insurable event is associated with a motor vehicle. The system we use in attaching the premium to the motor vehicle rather than the driver is a tried and true system. It is used all over the country and all over the world. It is a system in which compliance is very straightforward.

We put registration plates on motor vehicles and with modern technology it is a simple matter for a police officer or an officer of State Growth to determine whether a particular vehicle is registered and has paid a premium. The number of registered vehicles on the road is very stable and very predictable, which makes premium setting a straightforward matter for us. That is an important thing for the insurance company when we are working to continue to the process of keeping our premiums down. The predictability of the premium base is a very important feature.

A very important consequence of the way we do it at the moment, attaching the premium to a vehicle rather than to the driver, is that there are no gaps in coverage. We can be very certain that wherever a vehicle is registered, whichever state it is in, wherever the vehicle is being driven, the people involved in a motor vehicle accident will be covered because we absolutely know for certain vehicles on the road are covered. One of the features of our scheme is that we cover people who are injured by the drivers of unregistered vehicles. All those features would be very difficult to implement with a system in which we insured the driver rather than the vehicle. The best argument for it is the tried and true system. It works extremely well and I am a bit inclined to say that if it is not broken, why fix it?

**CHAIR** - We removed registration stickers from cars, which has been the case for a number of years now. People using a vehicle would not necessarily know whether the vehicle is registered. That is the question you might have been posing, Mr Finch. The occupants of the vehicle are not covered if the vehicle is not registered. Is that the case?

**Mr CHALLEN** - No, incorrect.

**CHAIR** - Could you clarify that?

**Mr CHALLEN** - The owner is not covered if the vehicle is unregistered, and the driver is not covered if he reasonably knew the vehicle was not registered. An innocent passenger in an unregistered vehicle is most definitely covered. Third parties - a pedestrian, a passenger or the driver of another vehicle involved in an accident with an unregistered vehicle - are all covered. The only exclusions are the owner of the vehicle, because the owner of the vehicle must know that it is not registered, and the driver if it can be established the driver reasonably should have known the vehicle was not registered.

**CHAIR** - It is helpful to have that on the record because it does not seem well understood.

**Mr CHALLEN** - This issue does come up fairly regularly.

**Mr FINCH** - I am curious about the efficacy of the MAIB. I have been involved in many committees over the years, and have always been very impressed with the workings of the MAIB, of the people who are making claims and how efficient the organisation is in reaching the point that people do feel confident the MAIB has dealt with them well. Is any frustration being relayed to you by people waiting for their claims to be paid out? Could you outline what the implications might be in delayed cases and what might hold up claims?

**Mr ROCKLIFF** - Claim payments made during the last financial year totalled some \$79 million. Scheduled benefit payments comprised some \$44.1 million, representing 55.8 per cent of total payments. Of these, around \$13.7 million are for future claims. Common law payments comprise almost \$35 million, being just over 44 per cent of total payments.

Under the governing legislation, the MAIB can only pay benefits where personal injuries result directly from a motor accident and where the benefits are reasonable and necessary. Any claimant dissatisfied with a decision of the MAIB can refer the dispute to the independent Motor Accidents Compensation Tribunal for a resolution.

On occasions, the board will obtain independent medical advice to determine whether an injury is directly related to an accident and/or the service is reasonable and necessary, and make a decision whether to pay accordingly.

At times, the board's decision receives some public criticism. The MAIB is only able to respond in general terms about its procedures and cannot release claim information to people other than the injured party or their nominated representative without the injured party's permission.

To your question on service and efficiency, the board is also mindful of the service it provides to claimants. It has in place a number of internal procedures, including a customer

service charter, to facilitate a high-quality service. The board has achieved a consistently high customer satisfaction rating; this year's result has been a 88.5 per cent satisfaction rating.

In terms of the processes internally, to ensure that satisfaction continues - Paul, have you anything to add to that?

**Mr KINGSTON** - Yes. We take a strong focus on making sure that our role is to get claimants better and back to their pre-injury state as quickly as possible. A lot of actions and strategies we have in place are to make it easier to deal with this over time. Our client satisfaction ratings have been in the mid-80 per cent range for 10 years; 88.5 per cent this year was the second highest we have had on record. That reflects some of the recent focus of trying to make it easier to get information to us and make payments quicker. Our creditor days sit at under seven days. We pay quickly when we do get through. Well over three-quarters of claims that come in are assessed, underway and being paid within five working days.

We try to make sure we assess people quickly. When we can get them into our scheme, we want to get them in and we want to make sure we have a focus on getting them back to their pre-injury state as quickly as possible. While that works financially, people getting back to health quicker is better, and it is a better optimal outcome for them in terms of health focus.

Everything we have done over the last two or three years, including going electronic in our records base, updating our website and reviewing our claim forms, has all been focused on trying to improve that last 20 per cent of customer services. We have always had a very high customer service rating, but we are trying to find different ways of making sure we continue to do that.

There are always some people who might be disappointed with our decisions. Those disappointments tend to focus in areas where we either reject somebody from a claim, which could be because they were unregistered or uninsured or unlicensed, or where they might have some medical opinion on a particular procedure that we, based on our expert medical opinion - and this happens rarely, but it does come up - do not believe is directly related to the motor vehicle accident. We may choose not to fund a particular procedure, but we still provide a range of other benefits to them to help get them better. As to how we deal with that, when we have those disputes, there is the independent Motor Accidents Compensation Tribunal. It is a very low cost, simple procedure where anyone can take any one of our decisions on a claim - acceptance or rejection or a benefit we may or may not have paid to the liking of the claimant - and that independent tribunal makes a decision about what we need to do.

There are a few procedures to try to help people if their perspective is that we have not helped them as well as we could have.

**Mr FINCH** - Would that referral to the tribunal come under the heading of complaints?

**Mr KINGSTON** - It would be somebody who is dissatisfied with our decision. We would go to the tribunal and whatever the tribunal decides, we live with. We do get direct complaints and since I have been there, it would not be one a month that we average in formal complaints, which is quite low given we get nearly 3000 new claims every year. We have a very thorough complaints process where we go through and have it reviewed by independent people who were not involved in the claim. Our focus remains on making sure we do everything we can for our claimants, as long as it is within the bounds of our legislative scheme. We are legislated and can only pay what our scheme actually says, but that is our focus.

**Mr FINCH** - Mr Kingston, you are suggesting you might handle about 50-odd complaints a year?

**Mr KINGSTON** - No, one a month. It would be 10 or 12.

**Mr ROCKLIFF** - There are about 2800 annual claims a year, so 88.5 per cent satisfaction is pretty good, but Mr Kingston is making the point about continuous improvement. One a month.

**Mr CHALLEN** - Don't make it too hard as 88.5 per cent is an amazing client satisfaction number.

**Mr ROCKLIFF** - Yes it is, Chair.

**Mr CHALLEN** - I would be hard-pressed to say we can do better than that.

**Mr FINCH** - It is hard to find fault, but we will keep searching.

**Mr ROCKLIFF** - One a month is a small number when you compare the number of claims made per year.

**CHAIR** - The Tasmanian scheme is recognised for the good scheme it is. There was the comment about the independent tribunal. Can you tell us who sits on that tribunal?

**Mr KINGSTON** - It is run by the Department of Justice, so obviously outside our control, and they use magistrates or other judicial people to sit on it. It tends to be the same sort of people who sit on the Workers Rehabilitation and Compensation Tribunal. They cycle through. As each hearing comes up, a member of the court is allocated.

**CHAIR** - They can take evidence from medical practitioners and that sort of thing to determine the validity of the claim or otherwise?

**Mr KINGSTON** - They do. It is fairly low cost. It is meant to be people can put forward their case with or without medical information, but often there is medical information. If this is on a workers compensation site, the magistrate is pretty well attuned to understanding the medical side and they make a determination. It is meant to be a short, sharp process that gives people a chance if they are not happy with our decision.

**Mr VALENTINE** - Looking at your total payout, what percentage of the payout do you capture from insurance companies' with at-fault drivers? Do you actually get any payments back from insurance companies?

**Mr CHALLEN** - We insure the at-fault drivers. The only situations in which we can recover is if a negligent party is involved who has a private insurer behind them, or where there is an interstate motor vehicle involved in an incident that also involves a Tasmanian-registered driver - we might be able to recover from, say, TAC in Victoria or a similar body or a private insurer in New South Wales or Queensland. We had one case in recent history where a young man was very badly injured in an incident when some cattle strayed onto the Bass Highway.

**Mr VALENTINE** - This is Tasmanian you are talking about?

**Mr CHALLEN** - Tasmanian, yes. In that case we attempted to make recoveries from the farmer who owned the cattle and from a fencing contractor who was responsible for building a fence that failed. We attempted to negotiate a settlement with the other two insurance companies. We failed. We went to court, we won in the Supreme Court, the other parties appealed and we lost on appeal. In the end, we recovered nothing, but it is an example of the kind of case where there is a possibility of recovery from another party, but they are few and far between. The vast majority of cases -

**Mr VALENTINE** - It is a no-fault scheme obviously.

**Mr CHALLEN** - That is right, and even when there is a driver at fault, the common law component of our scheme is we are the insurer of the at-fault driver so basically, we are the insurer of everybody in a motor vehicle incident, even the at-fault party.

**Mr VALENTINE** - Can you give the percentage of motorcycle claims?

**Mr ROCKLIFF** - The figures I mentioned before are that motorcyclists represent some 3.5 per cent of registrations, but 30 per cent of fatalities and serious injuries.

**Mr KINGSTON** - It is about 10 per cent of total claims. Our schedule benefits our smaller claims, what we call schedule benefits. Motorcycles are 10 per cent of total claims even though they are just over 3 per cent of the registered numbers but 30 per cent of the fatalities and serious injuries.

**Mr VALENTINE** - Certainly over-represented for the number of them, compared to the total.

**CHAIR** - Generally would there also be larger claims because of the nature of the injuries?

**Mr KINGSTON** - Yes, those fatalities and serious injuries in particular, in terms of outcomes obviously for the claimant, but also financially, are our worst claims. The cost of motorcycle claims is why their premiums are high. Our premiums are set only on what it costs for that class of vehicle, so if there is a million dollars from a class of vehicles, it is divvied up by how many are registered in that area, so it is only based on the cost. The reason motorcycle premiums are higher than for standard vehicles is that when the Tasmanian Economic Regulator reviewed our premiums in 2017, it found that they still cross-subsidised even though they are higher, so it should actually be higher.

**Mr VALENTINE** - I was going to say, is there still some cross-subsidy?

**Mr KINGSTON** - Yes. They allowed us to increase it by around 7 per cent in a relativity basis for the next four years up to 7 per cent, and it will still be cross-subsidised at the end of the that.

**Mr VALENTINE** - Do you have any understanding of the level of the accidents where injuries occur and how many of those would be involved with what they call a 'cheese cutter wire'? You do not have any understanding of that area? There have been various observations made that these median wires are absolutely deadly for motorcyclists if they come off, and whether you can shoot any of the injury claims back to that.

**Mr KINGSTON** - We do not have those particular statistics, but when the wire rope barrier first came out 10 or so years ago, the MAIB actually funded the first pilot of that new intervention through what was then the Road Safety Task Force. The wire rope barrier has been developed in Scandinavia, in particular, very heavily over the years. I think the very early installations of wire rope barriers here were of such a dimension that, where they sat, they had potentially a very bad impact for somebody if they came off on a motorcycle towards them. The ones now being installed are slightly lower and less spaced. I think they have been improved, from what I can see from road safety literature, which is not our policy area, but the new ones are much safer for motorcyclists. Anecdotally, I cannot think of any cases we have had where that has come up since I have been there in the last three or four years.

**Mr VALENTINE** - I just wanted to see whether you had any figures at all on that.

I note that you provide \$5 million in funding, grants and sponsorships, for various things. I appreciate that it is for training courses and things like that which hopefully will bring down claims, so it is very relevant to what you are covering. How do you arrive at that \$5 million figure to reinvest back into the community? Is there a method you use?

**Mr KINGSTON** - Some of the big components of that are things we have traditionally done for many years, the funding of the Road Safety Advisory Council, for instance, which provides funding to police and State Growth. We provide funding to the SES for recovering people from crashed motor vehicles. We provide funding to Metro Tasmania for the Nightrider service on New Year's Eve, and we provide funding through the foundation for education, research, training and the like. That component of funding is specified in the act; it is a maximum of 1 per cent of our gross premium revenue. What we actually spend in a particular year through the foundation varies a bit; I have the number right in front of me. Last year we spent about \$750 000. This year it will be a bit less than that because the volume of applications to the foundation is a bit lower. The big numbers, the amount that goes to the police and State Growth through RSAC and funding for the SES, are just traditional amounts that have been committed going back 20 plus years. It has just been a matter in recent years of continuing the level of funding for the activities involved and indexing them to reflect the cost increases in providing those activities.

**Mr VALENTINE** - Does the training for the four-wheel all-terrain vehicles - quad bikes - come into it? I know you fund some of that but are rural registered vehicles covered under MAIB?

**Mr CHALLEN** - No. If they are registered, they are covered, yes. Many quad bikes and ATVs are not registered, which is an issue. The funding we provide for quad bike training is through the foundation and essentially all done through country schools.

Around the state there is a group of committed, enthusiastic country school teachers who see the value in giving their kids after-school training in things that will help them on the farm and in their later lives. With the help of some funding from us, they are able to provide brilliant programs for young kids

**CHAIR** - Who are already riding these bikes.

**Mr CHALLEN** - Yes, they are. They are all out there. I am a great enthusiast about these programs and would like to see more country schools doing them.

**Mr ROCKLIFF** - We will look at increasing investment in school farms. The Jordan River Learning Federation School participates in quad bike training.

**CHAIR** - Yolla, one of ours, minister.

**Mr ROCKLIFF** - To your question Mr Valentine, applications are publicly called for on an annual basis, with the key priority areas of promoting and advancing road safety; reducing the frequency and severity of injuries from road accidents; improving access to medical rehabilitation and long-term care services, new developments and techniques in areas such as injury management; and minimising the cost of the MAIB scheme through the Tasmanian community.

The Chair indicated the funding provided through the foundation is \$726 000; some of the projects included quad bike safety training, trauma nursing skills development, the Bridgewater PCYC driver mentor initiative and research into the distribution and determinants of motorcycle crashes in Tasmania, pertaining to your first line of questioning.

**Mr WILLIE** - Last year Mr Challen said there is an agreement between MAIB and the shareholder ministers for the MAIB to pay a dividend of 50 per cent of the average of after-tax profit for the current and proceeding four years.

In the annual report for this year on page 4, it details the dividend to Government. It says -

The MAIB has recommended a dividend of \$51.4 million to Government in respect of this year's operations. This is based on the agreed formula of 50% of average after tax profits and losses over this year and the previous four years

My question is, is that agreement still in place?

**Mr ROCKLIFF** - Yes. The state Government has retained the policy of a 50 per cent dividend from the five-year average after-tax profit of the Motor Accidents Insurance Board. Although we flagged a possible higher dividend from MAIB during the election period, the stronger budget position has meant this was not required.

Returns from government businesses are determined as part of their corporate planning process and in line with expectations of Government and our government businesses are in very good shape and will continue to do well.

The Government will continue its MAIB policy dividend of 50 per cent of the average profit after-tax of the current year and the previous four years.

**Mr WILLIE** - Minister, last year in the hearing, we had the agreement in place. In this hearing we have the agreement in place. In the election campaign, the Government announced in its financial statement that it was going to impose effectively a 90 per cent dividend return to government. What advice was received for the new position?

**Mr ROCKLIFF** - We flagged a possible higher dividend from MAIB during the election, but the stronger budget position meant it was not required.

## UNCORRECTED PROOF ISSUE

**Mr WILLIE** - My question is: what advice was received by the board or by Treasury to adopt the new position to impose a 90 per cent dividend?

**Mr ROCKLIFF** - The policy stands as it is and has not altered. I have explained to you that the higher dividend was flagged in the election, but was not needed as a result of the Government's strong budget position. Pertaining to your exact question, this is probably a question for the Treasurer, but the policy remains.

**Mr WILLIE** - As the shareholder minister now, you would be across that detail.

**Mr ROCKLIFF** - I am across the policy. As I have said, we will continue our policy. An average dividend of 50 per cent of the profit after tax of the current year and the previous four years is the policy, and that remains.

**Mr WILLIE** - Through you, minister, can I ask the chair what advice was given to the Government on the 90 per cent dividend policy?

**CHAIR** - Are you asking about the period prior to the election?

**Mr WILLIE** - No, during the election campaign.

**Mr ROCKLIFF** - We were in caretaker mode at that time.

**Mr CHALLEN** - Advice on those sorts of matters would not be sought from the MAIB. It would be sought from the Treasury. The minister is correct in saying it is a matter for the Treasurer. The MAIB and Treasury are in constant contact. We are talking to each other all the time and Treasury would be well appraised of our capacity to pay any particular dividend at any time. I cannot add anything useful to what the minister said.

**Mr WILLIE** - Minister, we had this dividend policy in place during the hearing last year. It is now back in place this year. Did the Government lose control of spending in the campaign and, in panic, search for ways to fund your election commitments?

**Mr ROCKLIFF** - No.

**Mr WILLIE** - Why the flip-flopping in policy?

**Mr ROCKLIFF** - Mr Willie, there has been no flip-flopping. The policy remains intact.

**Mr WILLIE** - Within a year, we have had two different positions and you have abandoned one.

**Mr ROCKLIFF** - The position is consistent year to year.

**CHAIR** - You will keep receiving the same answer. We will move on. When I first considered who would be the minister for MAIB, I was sure it would be the Treasurer because there is that close connection with Treasury. It is a financial business rather than an infrastructure business. It has historically been the case. Why the change?

**Mr ROCKLIFF** - There are two shareholder ministers for all government business enterprises. The Treasurer and I are shareholder ministers for a number of other businesses. I have five scrutiny hearings this week, which I am looking forward to. Are you saying the Treasurer should be the one shareholder?

**CHAIR** - No, in TASCORP, for example, the Treasurer is the key shareholder. That is another financial government business. MAIB is essentially a financial business. Wouldn't you agree?

**Mr ROCKLIFF** - Not in isolation. We have covered a range of areas in questioning today to demonstrate it is in a very strong financial position and the returns to the Tasmanian Government are very good. In financial terms, it is very strong and it is delivering as an insurer, but it is also fulfilling other community service obligations such as road safety, driver mentoring, some of the initiatives -

**CHAIR** - Isn't it a more financial business rather than a service delivery business?

**Mr ROCKLIFF** - The chair can add some value to this.

**Mr CHALLEN** - Fundamentally - and this is important - the MAIB does not see itself as a financial business. We are there to help people who have been injured in motor vehicle accidents and bring them back to their pre-injury state as best we can. That is the culture of the organisation and that is the way we see it. Yes, we are an insurer. That is how we deliver our business, but it is not what our culture is. Fundamentally, we are about helping people injured in motor vehicle incidents.

**CHAIR** - You are an insurer.

**Mr CHALLEN** - We most certainly are an insurer. That is how we deliver it. Philosophically, the Government Business Enterprises Act has two distinct minister roles, the portfolio minister and the Treasurer, and they are different. The only case for which the Treasurer carries both roles is TASCORP. If you look at what the minister is doing, the two acts, it is desirable to have a separation between what the Treasurer does and what the portfolio minister does, if you can.

Historically, the minister with responsibility for things like roads and infrastructure has been our minister. It has always been so. It works well for the organisation. I have regular conversations with both ministers but those conversations are about different things. I talk to Mr Rockliff about motor vehicle incidents and injuries, what we can do to help make people safer on the roads, our contributions to RSAC and our relationships with the police. I tend to talk to the Treasurer about the financial performance of the business and the prospects for tax equivalence and dividends, the things treasurers want to talk about.

**CHAIR** - That is a good thing. Minister, maybe this is more a question for Mr Challen. In his annual review of the financial position of the government business, the Auditor-General said -

In 2017-18, MAIB paid to the Tasmanian Government dividends of \$56.26m and tax equivalents of \$44.21m. MAIB recommended a \$51.43m dividend to be paid in 2018-19. Dividends were based on average net profit over the current

and four preceding years under a dividend averaging policy agreed between MAIB and the Tasmanian Government.

The table on page 9 of this current year's budget papers suggests a different pattern. The estimated outcome for dividends of \$56 million corresponds but the estimated outcome for the income tax equivalent is \$9 million, whereas the amount paid was \$44 million. It hard to understand the difference. The tax expense in the accounts was \$46 million in 2016-17, which was a similar figure to the amount paid in 2017-18; the figure was \$44 million in that year. This year, income tax equivalents were \$9.3 million. Can you explain why that is the case?

**Mr CHALLEN** - It comes down the difficulty we have in forecasting our taxable profit into the future. It is hugely affected by the performance of our investments. Investment markets are volatile and things go up and down. We tend to forecast zero tax equivalents beyond next year. On the basis of this year's financial performance, we have some capacity to forecast what tax equivalent payments we will make next year. Beyond that, it is extremely difficult so we forecast zero.

**CHAIR** - The Government does not forecast zero.

**Mr CHALLEN** - Treasury has to make its own estimates of what numbers are best put in the budget papers. They will form a view about how investment markets will go in the year ahead, which we are reluctant to do. They are accountable for the numbers they put in the budget papers, we are not. In most years, their number will probably be closer to the outcome than our number. If it is a year like the current one, our number might look a bit better. It is an endless difficulty to forecast returns based on volatile investment performance into the future. It is very difficult.

**Mr KINGSTON** - For the last financial year, the budget figures would have had three-quarters of the year of Estimates, three-quarters of the year of actual outcomes. The last quarter was not in those figures when they did the budget figures. We are reporting on our final year outcome, which we don't know until mid-August. In that last quarter, we tend to have a lot of movements, economic assumptions and other changes on investments. This year was no different. We ended up making a much larger profit than we thought we would, with good investment outcomes and some movement in economic assumptions that affect our overall financial outcome. The budget figures would only have been an estimate, with at least a quarter of the year to go, if not more, of actual returns. That is why it might have listed \$9 million and it ended up being \$44 million or whatever the case was at the end of the year.

**Mr GAFFNEY** - Rob mentioned funding earlier. It says the \$3.7 million per annum in the funding commitment extends to 30 June 2021. Do you reassess the 1 per cent of the funding or is that where you re-evaluate the programs to be funded?

**Mr CHALLEN** - The 1 per cent that goes to the foundation is specified in the act and that will sit there forever, subject to the act being amended. The \$3.7 million that goes through RSAC and to the SES are on funding agreements between us and police, State Growth and the SES. Each of them is a three-year agreement.

**Mr KINGSTON** - Three-year agreement; four-year for RSAC.

**Mr CHALLEN** - Is it three or four?

**Mr KINGSTON** - Three.

**Mr CHALLEN** - Yes, a three-year agreement, and typically what we do in the final year of the agreement is we have an external evaluation of the effectiveness of the funding and whether it is achieving its aims. In recent years, this has been undertaken by an expert, Professor Jeremy Woolley of the University of Adelaide, who researches motor vehicle incidents and road safety and those sorts of things. A very distinguished professor. He has undertaken an independent evaluation for us at the efficacy of those programs. In the eight years I have been on the board, I have seen his reports two or three times. On each occasion, he recommended we continue the funding and provided some useful recommendations on how we might obtain better value from the funding, and in each case those recommendations have been implemented. We would then go into negotiation with police, State Growth and the SES about a new funding agreement. These negotiations are usually fairly straightforward. It is mostly about what level of indexation is appropriate to make sure we are reflecting the growth in their underlying costs, which are in the main labour costs.

We have had very good relationships with all three of those bodies in my time on the board and negotiations have not been controversial.

**Mr GAFFNEY** - Thank you, I wanted to understand the process. Who does the research for the road marketing campaigns undertaken? It is very hard to know if they were effective. How do you receive feedback from the organisation about the effectiveness of some of those marketing campaigns? I am not saying it is a bad thing, but do you give them money to do more campaigns, or do you ask for feedback through some sort of process?

**Mr ROCKLIFF** - Paul is on the Road Safety Advisory Council so he can answer the question.

**Mr KINGSTON** - Thank you, minister. The Road Safety Advisory Council has a subcommittee on education enforcements. It brings together police and the marketing branch of road safety and the Department of State Growth. I chair the committee which has police, RACT and other stakeholders on it. With every campaign, there is a scope delivered by us about what message we want to achieve. By tender, State Growth has appointed a media firm to manage this. A professional media firm develops the campaign. Throughout the development of the campaign we use focus groups. For example, Real Mates has been a very successful campaign for about seven or eight years. The target audience is young men and they would meet with a group of them to see if the message is going to resonate with them. The campaign is run and at the end we have an engagement with an external firm like EMRS to do a study about whether the message was received, how much it was recalled and whether people thought it had changed their behaviour on the roads. That varies on campaigns depending on what message we are trying to put across, but what we tend to do is use the feedback from the market research to inform the next campaign. If we think we missed the mark or we want to target a different group of people, that will then reinform the next campaign.

There is considerable work in the development of each campaign, which is always followed by market research to make sure we actually delivered the message we wanted to deliver to the people we were targeting.

**Mr GAFFNEY** - One of those safety campaigns was the inattention with mobile phone use, the 'Don't be a goose, leave your phone alone'. Many of us would agree the message is not getting

through, because often you see somebody with their mobile either texting, which is amazing - I cannot even text when I am sitting still, let alone driving a car. How many accidents are attributed to inattention? Are there many when somebody has been caught texting or whatever? Is there any push to ensure that Bluetooth or whatever is used in every car or in some other way? What is the next strategy for the mobile phone problem? The message does not seem to be getting through.

**Mr ROCKLIFF** - There can be a lot of potential distractions in a motor vehicle; the mobile phone is one of those - texting, talking, changing music - and the radio is a distraction as well. There has been quite a national discussion about this between the transport ministers around the country. The Queensland state government has a body of work on distractions and, a month or two ago, it presented it to the last ministerial council. This was a discussion also in the Road Safety Advisory Council last week. There is a body of work, and Paul might be able to add to this in some way, focusing on this particular issue, including the number of passengers in vehicles with learner drivers and P1 drivers as an example. A vehicle crowded with young people can be a distraction as well. We are looking at that evidence to see if there might be a policy setting there, particularly for P1 drivers. There is a focus, which will continue, including an advertising campaign, as I understand it. Is that right?

**Mr KINGSTON** - Yes.

**Mr ROCKLIFF** - The Road Safety Advisory Council is a completely apolitical body. I know that my shadow, David O'Byrne, has met with the Road Safety Advisory Council recently. It is tripartisan in its approach and they most definitely have the brief to brief opposition members as well as government MPs, in my case being minister, on the latest campaigns.

**Mr KINGSTON** - The major cause of crashes is inappropriate speed for the conditions - not just speeding, but drug and alcohol, inattention and improperly secured seat belts are the fatal causes of accidents. Inattention is always a big part of it, but it is actually very difficult to measure. The statistics are collected from crash scenes by police when they fill out their reports. That is then used by State Growth, which is responsible for road safety policy and analysing crashes. That informs all the decisions from the Road Safety Advisory Council - not only marketing but also any potential changes to road safety laws or infrastructure that is required.

On inattention, our actual market research from the 'Leave your phone along, don't be a goose' campaign was that it got a very high recall - people actually saw it and remembered it - but it did not change their behaviour. Road safety is everybody's responsibility. Changing behaviour is very difficult and a very long process. A series of strategies is being implemented, so we are looking at a new campaign for inattention, not just for mobile phone use but also mobile phone use by pedestrians crossing lights and other distractions in the car. The minister mentioned learner drivers and peers in the car. We are looking at whether they can be restricted at certain times while they are learning.

**CHAIR** - I think it was meant for provisional drivers rather than learner drivers. Were you talking about limiting learner drivers as well?

**Mr KINGSTON** - Yes, learner drivers as well, potentially. The RSAC is looking at that as to what could be done there to make fewer distractions in the car for people learning how to drive. Also, some enforcement activity is being ramped up. At the moment, police are looking at trialling unmarked motorcycles, which will be around now checking out, being able to ride up

next to people to see if they are using their mobile phones. The police will tell you that it is very difficult to detect mobile phone use if someone has it down below their ear line. Some people are very obvious in their use of it, but a lot of people -

**CHAIR** - You can talk to Siri as well.

**Mr KINGSTON** - Yes, that is right, any sort of distraction.

**CHAIR** - You can use Siri without having to touch it, but it can still be distracting.

**Mr KINGSTON** - Correct, yes. Police are looking at trialling that now; it is out there, and an unmarked motorcycle will be able to come up next to cars at lights and check what people are doing. The intention, again, is to educate people and try to tell them what the consequences can be, but also make sure they know there is a risk they can be caught. If people think they are going to be caught, that obviously helps change behaviour. In fact, most of the market research we get back tells us that people's behaviour is most affected by if they think they will get caught doing the wrong thing. We work closely with police and the education people in State Growth to provide the carrot - the education - and the stick as well to make sure that if you have been told what to do and you do not do it, police will run some campaigns to make sure people are aware that they can be caught.

**Mr GAFFNEY** - My last question on this, Chair. It is interesting, sometimes you see the blatant ones driving and holding the mobile up, talking and driving. Have the police discussed clamping their cars? We did it with hooning and there was a big hurrah to start with about hoons, clamping their tyres for a month or a period of time. If we think about it, what they are doing on the mobile, and it is obvious to see, is even worse than hooning sometimes. I think some sort of message needs to be out there about considering that sort of action. As you said about the awareness, everyone recognises the goose, but it does not really change the behaviour. At one stage I think the community would say, 'Fair enough, clamp the car for a month'.

**Mr ROCKLIFF** - Thank you for that suggestion, Mr Gaffney. The RSAC is more than happy to come and brief Legislative Council members, either individually or collectively, if you would like to discuss that and some of the evidence and data behind the campaigns. The thing that worries me a bit also is the lack of role modelling from parents breaking the law and what their passengers and children are seeing while driving - that behaviour is then normalised. We then have young people learning to drive having witnessed their mums and dads yakking on the phone or whatever it might be, which is of real concern. Maybe we have to have a more intensely focused education campaign; the schools probably would have to play a role as well in that sense. I know they do, but we probably need to intensify that.

**Mr GAFFNEY** - I am pleased you mentioned that as Education minister because some schools on the mainland have said no mobiles at all in classrooms. Many schools here allow mobiles and teachers are forever telling kids to put their hands above the desk and stop texting. I think if there were a blanket message from the Education minister saying mobile phones are not to be used at all, we would have an uproar.

**CHAIR** - We are off on a different tangent here, I think.

**Mr GAFFNEY** - No, but I thought I would run that in.

**CHAIR** - Yes, I thought you would.

**Mr ROCKLIFF** - I am sure I will get the message.

**Mr CHALLEN** - In answer to Mr Gaffney's earlier question, I overlooked the Tasmania Fire Service. Could I give you the numbers again, just for the record? The \$3.74 million of funding we talked about earlier is split into \$2.47 million for police and \$1.27 million for State Growth. In the road rescue funding there is \$330 000 for the SES and \$270 000 for the Tasmania Fire Service. In 2017-18 we talked about the number earlier for the Injury Prevention and Management Foundation. In addition to that, there is another \$36 000 and a few dollars that goes in various other sponsorships and minor funding arrangements covering charities, road safety, injury prevention, the MAIB Metro Nightrider service, the Clifford Craig Medical Research Trust and Pollie Pedal. That is the complete collection of numbers. I apologise for leaving the Fire Service out earlier.

**Mr FINCH** - My worst example was a truck driver with a plaster cast on one arm, smoking and on the mobile phone at the same time as he was driving the truck.

However, I want to talk about road safety. You may have seen that report about the failure to reduce the state's road toll. The report showed that there was a 20 per cent rise in road deaths this year up to September. It was an RACT criticism of the circumstances. That makes us, per capita, the second worst in the country behind the Northern Territory and above the national average. Was their concern shared about that report and the increase this year?

**Mr ROCKLIFF** - There is concern, Mr Finch. It was a subject I raised in my opening statement the other day when I met with the Road Safety Advisory Council. Those increase in figures you have highlighted in Tasmania are also reflected nationally and around the world. Around 2014, there was quite a dip in injuries in the road and crash statistics. We thought the message was getting through, but it has increased since then and that is concerning. That increase is consistent with national and international trends. That does not diminish my concerns at all. This is why there is also a national discussion on the issue of road safety.

**Mr FINCH** - In an RACT report, 1213 people died on the road, nationally, in the 12 months to September and that was a slight decrease from the previous 12-month period. I am wondering whether there needs to be a review and perhaps an increase to the \$3.7 million you give to the Road Safety Advisory Council. Perhaps we need to run a harder, more expansive program to address this issue and make sure everything is being done to reduce the road toll.

**Mr ROCKLIFF** - If the Road Safety Advisory Council needed more resources, I am sure they would not be backward in coming forward to talk to me about that. Work is being done, but only on advertising and the like, to try to put the road safety message through, such as distractions. There is also a focus on young drivers and the age group from 16 to 24, when people start driving cars. Proportionally, incidents recorded are way too high and the message needs to be targeted at that group. There are also some discussions around the graduated licensing system and how that could be improved to ensure that when young people are on the roads, they are as competent, alert and attentive drivers as possible.

**Mr FINCH** - Does the Rotary Youth Driver Awareness Program need to be expanded to reach younger people? I assume that might be where that program is run. Does there need to be

more of a focus on schools to reach those bulletproof young people who will enter the driving arena at 17 or 18?

**Mr ROCKLIFF** - That is a good policy question. As I said to Mr Gaffney, I am sure schools play their part in road safety and will continue to do so. We will have a discussion with the Road Safety Advisory Council and see what is possible to ensure we provide the resource to schools to get the message through to students. My message to the Road Safety Advisory Council the other day was that, as minister, I would like to see bold ideas that can cut through with the message and to ensure all road users are in a safer environment. I am prepared to look at bold policy options, provided they are well consulted and well communicated to the general public.

**CHAIR** - Minister, we have half-an-hour. We have a number of questions to ask about the MAIB. This is quite broad and has taken a lot of time. It would be good to focus on other aspects of the MAIB.

**Mr ROCKLIFF** - The Road Safety Advisory Council is more than willing to brief individual members.

**CHAIR** - Next year would be good opportunity for the Legislative Council to have a briefing.

**Mr FINCH** - I am sure we would appreciate a bold budget, too.

**Mr WILLIE** - We've established there is a dividend policy of 50 per cent after-tax profits averaged over five years. Will the Government keep that in place for the foreseeable future?

**Mr ROCKLIFF** - Yes, that is our intention.

**Mr WILLIE** - Can you give an indication of the time line?

**Mr ROCKLIFF** - Our intention is to continue that policy.

**Mr WILLIE** - Up until the next election?

**Mr ROCKLIFF** - I will not be putting times and dates forward, but we will continue the policy as it currently stands until it is reviewed. Our intention is to continue it.

**Mr WILLIE** - If there is any change to the dividend policy, would that impact premiums?

**Mr ROCKLIFF** - My advice is it would not, but we have no intention of changing the policy at this stage. If we do at some point, it will be well communicated.

**Mr WILLIE** - The MAIB has 39 employees. Do they fall under the state Government's wages-cut policy?

**Mr ROCKLIFF** - Yes.

**Mr WILLIE** - Do you think it is reasonable that the wages of employees of a profitable government business, when productivity is high, are capped?

**Mr ROCKLIFF** - We can go into this political discussion, Mr Willie, which is probably not useful for Tasmanian taxpayers, given the importance of the scrutiny of the MAIB to the Tasmania community. The cap policy was a policy of your government. We have continued it and the policy remains.

**Mr WILLIE** - The economic times are very different, minister, and I am sure -

**Mr ROCKLIFF** - The chair informs me the MAIB voluntarily went into an enterprise agreement with their staff, which reflects the 2 per cent policy.

**Mr WILLIE** - Do you think it is reasonable that employees of a government business, which is profitable and is returning significant dividends to government, have their wages capped?

**Mr ROCKLIFF** - As I said in my opening statement, I congratulate the Chair, the CEO, the executive and all the employees of the MAIB for what is a tremendous result, financially and in delivering to the Tasmanian community as an insurer. That is reflected in what are exceptional satisfaction ratings of some 88.5 per cent, which is an extraordinary result. I commend the business on the work they do and thank all the employees very much, but the policy remains.

**Mr WILLIE** - With high satisfaction rates, you would think they deserve a pay rise.

**Mr ROCKLIFF** - It is important we maintain budget discipline, so we can provide returns to our Tasmanian community across a range of areas. It is a continuation of the previous government's policy. Strong financial budget management is important. We can return dividends and, in this case, direct dividends, as an example, to the Tasmanian community. The chair said the wages policy doesn't affect the dividend return. The dividends to the Tasmanian community, more broadly, include more investment into health, education and essential services as a result of strong financial budget discipline. This is going slightly off track, Mr Willie. The Chair is giving me the look.

**CHAIR** - What the period for the enterprise bargaining agreement - EBA? According to the chair, there has been an agreement.

**Mr KINGSTON** - It is a two-year enterprise agreement.

**CHAIR** - When was that signed?

**Mr KINGSTON** - It took effect from 1 July 2017.

**CHAIR** - It runs out next year.

**Mr KINGSTON** - This enterprise agreement will finish on 30 June 2019.

**Mr CHALLEN** - Chair, I don't think there is a link between the dividend we pay the Government and what we pay our employees. The Government has \$575 million-worth of capital in the MAIB and the dividend is the shareholder - the Government, the people of Tasmania - return on that \$575 million investment. We pay our staff what is appropriate in the market we recruit them in. When we approach an enterprise agreement, we are not thinking about how big a dividend we are paying the Government; we are thinking about what is appropriate to make sure our people are well remunerated for the excellent work they do. The fact we are able to negotiate

a voluntary enterprise agreement with them suggests they are comfortable with what they are being paid at the moment. Not that everybody would not like to be paid more, of course they would.

**CHAIR** - When will negotiations start, bearing in mind this current EBA will expire in the middle of next year?

**Mr KINGSTON** - On 30 June.

**CHAIR** - When will the renegotiations start?

**Mr KINGSTON** - Soon.

**CHAIR** - I always like to focus on the financials. The underwriting result is doing well and we accept that, and there is not a question on this. There has been a not insignificant reduction from \$39.9 million to \$22.5 million in the underwriting result, a fall of \$17.4 million. The Auditor-General made a few comments in his report where he stated -

The changes in economic assumptions relating to outstanding claims, liability, unfavourable experience in common law claims, offset partly by a reduction in costs due to favourable claims experienced in future care.

Can you, the chair or the minister provide more about what this means and what it means for the future?

**Mr CHALLEN** - The underwriting result is a reflection of a collection of things about what claims we are covering. Over time, as the incidence of claims has decreased, our underwriting result has improved. It is very volatile and fluctuates a lot from year to year. You can see this from these numbers because having one new future-care claim, often with a current day value of many millions of dollars, can have a big impact on it. If one of our existing future-care clients injured many years ago, passes away, and this happens ahead of the time the actuaries previously had assumed they would pass away, then this tends to improve.

We had little changes going on in the background that affected the underwriting result, basically reflecting the costs associated with managing clients. The big thing that affects this number is the bond rate. When we assess one of the big factors, our claims expense, we are taking estimates of our liability cashflows going out 70 and 80 years and discounting them back to a present value using the bond rate. Where there is a very long tail of liabilities, small changes in the bond rate have a big impact on this number. The actuaries discount this stream of future cashflows back to a single number and that change in the number from year to year, is the claims expense. It does not take much of a change in the bond rate to have a significant impact in the underwriting result and is what is going on here.

**CHAIR** - Does it pose a particular challenge for the future or do you think it is always the case and is going to continue?

**Mr CHALLEN** - No, it is just life, in long-tail insurance. It is a very unusual insurance and there would not be more than 50 firms in the world that do this business. We are endlessly explaining to our reinsurers the nature of the business and why these numbers fluctuate a lot. The reality is that this is a well-established, well-funded scheme. The accounting numbers are going

to fluctuate a lot because of the way the calculations are done. This is a good scheme and is financially very secure.

**CHAIR** - We will go onto your investments. There has been a big jump in investments and on page 30 it shows a significant increase on your annual report. The MAIB borrowed \$426 million via a repurchase agreement or a repo. I am not the expert in this field but, they cover short-term borrowings normally or need to meet a short-term expense. Why did the MAIB do this, what was the term of the repo and has it been repaid?

**Mr CHALLEN** - We have not borrowed anything. This is essentially hedging activity undertaken by one of our fund managers. We have an allocation of funding sitting with an external manager, essentially in fixed interest doing activity in Australian Government bonds. During the year they engaged in some hedging activity using repurchase agreements and unfortunately under the accounting standards the number came back onto our financial statements and balance sheet. The board does not think this is helpful. It makes it extremely difficult to interpret our financial statements, so at the last board meeting we have approved a new arrangement which will change the structure of the relationship between us and that fund manager. They will still go off and do their hedging activities and buy and sell repos and do all that, but because of the change in the legal relationship between us and them, we will not see this again on our balance sheet, I am happy to say.

**CHAIR** - There is no real explanation that explains that.

**Mr CHALLEN** - It is extremely difficult to understand and explain. It is a nightmare, so it is not something we want there. It just confuses the readers of a financial statement.

**CHAIR** - It is okay to be a bit confused as to why it might have been that way.

**Mr VALENTINE** - Obviously, the Government may be tempted to use an organisation like the MAIB as a cash cow. Are there predetermined metrics reached that signal a reduction in premiums is warranted? The Government might want to take extra over time, but are there any sort of situations where you are forced to consider premium reductions? Is this in the act? What brings it to the attention of the board that this needs to be considered?

**Mr CHALLEN** - Remember, we have an external regulator. The Tasmanian Economic Regulator is responsible for regulating our premiums. We go before them every four years and essentially have to justify our premiums and they set our maximum premium for the next four years. We have not charged up to the maximum premium for some years.

**Mr VALENTINE** - Roughly how much below?

**Mr KINGSTON** - Nearly every year over the last eight years, they have allowed us to increase by Australian average week lendings, which has been around 2, 3, 4 per cent. We have not had an increase in those years and have had a decrease of 7.4. Over the last 14 years we are 50 per cent less than what our maximum could have been.

**CHAIR** - What the regulator allowed for?

**Mr KINGSTON** - Allowed for if we had have done everything we could have all the way through.

**Mr CHALLEN** - To your question, Mr Valentine, the board on the advice of our actuary goes through a process in which we look at our long-term claims rate. We look at our future care costs and long-term expectations of investment returns, and the actuaries then use the information to calculate what they call a break-even premium.

**Mr VALENTINE** - You say 'long-term', is that 20 years?

**Mr CHALLEN** - Fifty years - very long-term because of that 80-year long-term tail of liabilities we have. They calculate a break-even premium and then they add a profit margin of 10 per cent and essentially how we determine our premium. This goes back to Mr Willie's earlier question: our performance in terms of returns to government is not related to our premium-setting process. The returns the Government receives are tax equivalents, basically driven by our investment performance and the dividend, which philosophically is a return on that \$575 million-worth of capital the Government has in the business. The two things are quite separate. A few years ago, we paid a large special dividend of \$100 million to the Government and if you look back, historically from time to time the MAIB has paid special dividends to government. None of those special dividends has ever affected premiums. The processes for thinking about premiums and thinking about returns to government are different processes.

**Mr VALENTINE** - Thank you for that clarification.

**Mr WILLIE** - Minister, there is a high satisfaction rate. I have been to some MAIB properties in Hobart at the invitation of providers. It is very good care. Does the satisfaction rate also take into account the care that is offered, or do you just pay out the claim and that is your responsibility done? Are there registered providers that you prefer to use past the claim payout? I am interested in that arrangement.

**Mr KINGSTON** - The survey we do now every year. We used to do it every two years, but since I have been there we have done it every year. We start with all the claimants who were finalised in that year - 1000 or more; it could be up to 2000 at times. We outsource that so it is run independently. We have asked the same questions now for 15 to 16 years, so we get a very good time line of it. That satisfaction rate covers all those claimants that were closed.

There are two issues with the MAIB. For what we call our scheduled benefits, which are our smaller injuries, most of them last two, three or four years, and then they are hopefully better and back to their pre-injury life, which is fantastic. They can have a common law payout as part of their claim, so those claims can be finalised, although all of our claims are technically still open if somebody has a recurring injury, but once they have settled on common law they are closed. There is that segment of claims that are closed and go away.

At the facilities you talk about, you would have gone to Kaleigh in Montrose or Rosetta, and that is for our lifetime care claimants, people who qualify for our lifetime care scheme, which we call Future Care, and we look after them for life.

Linking back to the chair's response before, these are people whom we will have as our claimants for many decades. Their care tends to be at the more serious end where they need to be in one of our supported accommodation facilities. A lot of people also live in their homes and we modify homes and vehicles, and send a tender care out to those homes to look after them. After

27 years of running our lifetime care scheme, we have 103 people on it, so you can see it is a rare event for people to make that scheme, but they are then looked after for life.

We work very closely with Anglicare, which is our outsource service provider for those facilities. We went out to tender for those facilities and for the attendant care back to homes 18 months or two years ago. We created a panel of four or five providers that provide that, Anglicare being one of them. Anglicare also won the tender to look after our supported accommodation facilities. We have contract management and metrics around those service providers, not only to make sure that they are providing the service we ask for at the price we ask for, but we also focus with them on outcomes for our claimants.

Those Future Care claimants are not included in our survey results, simply because we have a life with them. Most of them tend to comprise people with serious acquired brain injuries, but the interaction we have with those claimants is very high. For most of those claimants, we have a separate team of four or five staff that manages them. They know the family members and they are constantly on the phone to those claimants; they visit the supported accommodation facilities with our providers and work very closely to make sure that they have the highest quality of life that they can have, given the injuries they have sustained. There is a difference; the survey results largely relate more to scheduled benefits because they are the claimants that come and go from our scheme, which is the vast majority - 100 over 27 years; over that same time we had 3000, on average, of other schedule benefits claims, which makes up the survey result.

**Mr WILLIE** - Is there any ongoing monitoring of the service provided in those lifetime care arrangements? Do you have a team within MAIB that provides that oversight?

**Mr KINGSTON** - Yes, that team of four or five, which is our serious injury team, look after that. We also utilise expertise from case managers and rehabilitation and medical experts, and they are like our external case managers. They will keep an eye on what is happening with the provision of the services. We have those panels and they have to provide us with regular reports and have to maintain their accreditation. We use external accreditation - national accreditation - as one of the ticks to say they are providing the right sort of support.

We are very close to those lifetime care patients. I even go quite often to those facilities and talk to the people there. The families are there with them, so there is a very close connection to know what is going on. There are always issues when you have such severely injured people who need 24/7 care. I have to say that Anglicare provide a great partnership with us. Their focus is very much on the outcomes, not necessarily just the financial side of it.

I think we are very much across what is happening with most of those lives, constantly.

**Mr WILLIE** - There are some good stories, too, that I am aware of.

**Mr KINGSTON** - There are.

**Mr WILLIE** - I am aware of one person at that facility who returned to work in a supported way.

**Mr KINGSTON** - We have strong return-to-work program even for our catastrophically injured people because we know that if we can integrate them back into the community and back into their working life, their health outcomes are so much better.

**CHAIR** - To go to the outstanding claims liability, the Auditor-General made a comment on that being the largest liability that you have - and we have talked a bit about that already, particularly with the long-term care required for some claimants. We had very extensive notes about this in the financial statements, which is very helpful. Going back to our previous conversation about managing this and that a change to the discount rate can have a significant impact on the bond rate, can you provide a bit more information here about why perhaps it does not fluctuate as much as you might expect? Unfunded superannuation liability jumps around a lot more than this appears to. Is this more predictable or what is it? You have quite detailed information about how it will work into the future.

If you were looking at the previous explanation, wouldn't you expect this to jump around a bit more?

**Mr CHALLEN** - It does jump around quite a bit, actually. That is why the underwriting result tends to jump from year to year, but it has not jumped much in the last three or four years because the bond rate has not changed much.

If you think about it, we had a period after the GFC from about, say, 2010-11 for a few years where the bond rate plummeted. It had been sitting at the low sevens and it went down into the three, three-and-a-half range, where we saw big increases in our outstanding claims liability as that was a curve. Since then, mostly at the long end of the curve, the bond rate has drifted back up a little bit but not a lot. and the changes in this number in the last two or three years have been relatively modest. There is some bond rate impact going on here, but more of it really is about the underlying claims cost experience.

**CHAIR** - Are the common law claims reasonably predictable?

**Mr CHALLEN** - They tend to hang around for a long time.

**CHAIR** - Is there a time limit for them or not?

**Mr CHALLEN** - There is a time limit for initiating the claim. I think it is seven years after the incident but once a claim is initiated, it can take many years for it to be resolved. particularly if there are children involved. The courts will not resolve them until the children get at least into their late teens and often into early adulthood.

There is a claim we have settled quite recently, of young woman who is 20 or 21 years old who was very badly injured in an incident when she was two years old. That claim has been hanging around all that time. We have been paying out to support her for those years, but the claim has only recently been settled. It does take a long time for these common law claims to be settled. They tend to be on the Future Care side; they tend to be the bigger claims. They probably average \$350 000 to \$450 000, but it is not unusual for us to have them in the many millions and I have seen them at \$17 million to \$18 million.

**CHAIR** - In MAIB's case?

**Mr CHALLEN** - Yes.

**Mr VALENTINE** - What sort of span of years would that be?

**Mr CHALLEN** - The big ones tend to be young people who had very good career prospects who were very badly injured where there was somebody negligent. Unfortunately, common law fluctuates a lot and we work fairly hard to settle common law claims as expeditiously as possible. The average claim probably runs for four or five years to get it settled. It is not unusual for them to run for 10 or 12 years when children are involved.

**CHAIR** - In a different area, the tourism industry has grown. A lot of tourists are driving hire cars. I was nearly wiped out on the Midland Highway one day. I think the person went to sleep and went straight across the road in front of me. Thankfully, I was able to avoid them. Is that having an impact and is any work being done to assess the risk? I assume if they are driving registered vehicles, they are covered. How does this work with tourists?

**Mr CHALLEN** - They are covered by us if they are in a Tasmanian-registered vehicle. Under the National Injury Insurance Scheme, if they are catastrophically injured - in other words, if they become a Future Care patient - they are covered in the state in which the incident occurs. We are covering anybody in a Tasmanian-registered hire car, for instance.

**CHAIR** - Is that still the case if they visit the mainland?

**Mr CHALLEN** - If they are in a Tasmanian-registered car and not catastrophically injured, yes, we cover them. If they are catastrophically injured, the National Injury Insurance Scheme - NIIS - provisions cut in and they are covered by the state in which the incident occurred.

**CHAIR** - We hear anecdotally from tourism operators that their guests have hire cars and regularly have incidents, not serious crashes but they are sustaining injuries. Is any work being done on that?

**Mr CHALLEN** - I think the short answer is no. I may have seen a newspaper article about this about six months ago, which suggested people who drive hire cars tend to have more incidents than the average driver. That is probably combination of unfamiliar car and unfamiliar territory. There was no evidence, as I recall - I am going to be scratching to remember where this was - to suggest tourists had a worse record than hire car drivers in general.

**CHAIR** - Is it worth looking into? I know money is spent on research.

**Mr ROCKLIFF** - In terms of an advertising campaign, yes, that has been a subject for the Road Safety Advisory Council. While your question is about hire cars, we launched a campaign around 10 days ago for motorcyclists coming off the *Spirit*. Mal Campbell was part of that and part of a video presentation to get the message through. You mentioned unfamiliar territory. That is one of the big challenges we have with people coming from the mainland to visit our state.

**CHAIR** - People think they can drive around Tasmania in half a day.

**Mr ROCKLIFF** - Either that or we have a lot of corners on our roads. The west coast is an example. One of the video presentations focuses on the west coast. It is a very good, powerful promotion of the message it is trying to sell as well for Tasmania. The unfamiliar territory and the that we do not have straight roads that go forever is a challenge.

**CHAIR** - Thankfully, we have a lot of wildlife.

**Mr ROCKLIFF** - We have a lot of wildlife, as we saw today.

**Mr KINGSTON** - The Road Safety Advisory Council, going back about 18 months or so, did some research on that and used the statistics of international tourists and interstate tourists. It found that interstate tourists are the biggest risk factor, not international. Both have their difficulties and issues they have to deal with, but both statistics showed they were about the same average as Tasmanian drivers overall, over the long term. It wasn't that they were disproportionately over-represented.

A lot of work has been done through the Road Safety Advisory Council over many years, who have policy responsibility for this area, including using Bobbie the Lavender Bear from Bridstowe. That has been targeted at the Chinese tourists because it is a big issue there. The motorcycle campaign and videos are looping on the *Spirit* as people come across. There have been a range of campaigns trying to target those groups. Recently, the Road Safety Advisory Council was looking at utilising a new billboard to be erected at Hobart Airport. They have some advertising space on that for targeting tourists.

**CHAIR** - Some billboards on the west coast encouraging campervan drivers to pull over at the earliest opportunity to let people working down there get past would be helpful, too. That is something for the minister to consider.

**Mr ROCKLIFF** - I will consider that.

**CHAIR** - They just don't.

**Mr ROCKLIFF** - Yes.

**Mr WILLIE** - The Ruth road rule.

**CHAIR** - It's not just for Ruth, it is the worker road rule down there.

**Mr ROCKLIFF** - It is good to consider, as are heavy vehicles. We have allocated some funds for the Tasmanian Transport Association to identify rest areas for truckies. There will be a plan drawn up for that, which will require some considerable capital investment. That study by the TTA in the interest of heavy vehicle safety is a very welcome one.

**CHAIR** - You don't want people taking risks to pass these vehicles.

**Mr ROCKLIFF** - It is entirely appropriate because there are more female truck drivers that need appropriate rest stops.

**Mr FINCH** - I have a question about workplace environment. We have heard this morning, there are between 39 and 43 FTEs, 81 per cent of whom are female. Is that an active strategy of the MAIB or have the skill sets simply fallen that way?

**Mr KINGSTON** - To clarify the record, it is 39 FTEs, but 43 staff because we have many part-time staff. I would not say it is an active strategy we have over the longer term. We have a large number of long-serving staff at the MAIB. It provides us with great corporate knowledge and understanding of our scheme. Our average duration is well over 11 years per employee, with

female employee numbers consistently highly represented during that time. They are well represented throughout our organisation. Over half the management team is female, 60 per cent of the board is female and the executive team is 50 per cent female. When we look at recruiting staff, we want people who share our philosophy of looking after the client first and will sit in with our values. We like diversity in our staff, whether it be gender, age or other factors, and that has been an outcome of looking for that diversity over time. It has not necessarily been a strategy but we do have a good, diverse workforce.

**Mr CHALLEN** - In that sense it is deliberate. The organisation, the board and the senior staff all believe in diversity being good in the workplace, and gender balance is one of the important attributes of diversity. At the board level, it is absolutely deliberate and it is absolutely deliberate at the senior executive level. Paul and his longstanding predecessor, Peter Roach, believed in providing a good work place with a lot of diversity, with policies that made it easy for people to work part-time. It has been an attractive place for women with family responsibilities to work and what you see in those statistics is an outcome of that.

**CHAIR** - Thank you very much for your attendance today, minister, and your team.

**Mr ROCKLIFF** - Thank you, Chair, and thank you to Don, Paul, Sonia and Derek.

**CHAIR** - Thank you.

**The committee suspended at 10.33 a.m.**

# UNCORRECTED PROOF ISSUE

**Tuesday 4 December 2018 - Legislative Council - Government Businesses Scrutiny  
Committee A - Tasmanian Public Finance Corporation**

## LEGISLATIVE COUNCIL

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Tuesday 4 December 2018**

### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney  
Ms Lovell (Deputy Chair)  
Mr Valentine  
Mr Willie

### IN ATTENDANCE

**Hon. Peter Gutwein MP**, Treasurer

**Ministerial Office**

**Mr Andrew Finch**, Chief of Staff

**Tasmanian Public Finance Corporation**

**Mr Tony Ferrall**, Chair

**Mr Stephen Rochester**, Chief Executive Officer

**Mr Heath Baker**, Head of Financial Markets and Client Services

**Mr Ignacio Welch**, Chief Financial Officer

**The committee resumed at 10.47 a.m.**

**CHAIR** (Ms Forrest) - Welcome, minister and your team. If you would want to make an opening statement, we will then have questions.

**Mr GUTWEIN** - I am happy to take questions.

**CHAIR** - TASCORP is always a tidy business. It has had some different responsibilities this year dealing with the Mersey money and the TT-Line money, and other members may have questions.

When we passed the legislation regarding the Mersey Community Hospital Fund, it was designed to last 10 years to fund the operations of the Mersey Hospital and the money was provided in a lump sum. It has gone into TASCORP almost as soon as it was received. It appears that fund, in its dedicated account, has underperformed and has fallen well short of what was expected or needed.

How was the money invested? Why hasn't it achieved the returns expected and, I would argue, needed, and what does this mean for the future projections of how long it will last?

**Mr GUTWEIN** - I will start with the last part of the question first. The fund lasts into the tenth year. The projections initially used were provided in concert with the federal treasury, we utilised a 4 per cent low rate and 6 per cent high rate. I noted some comments today in the press regarding the performance over the last year. There was a forecast around \$24 million to \$25 million for the first year.

**CHAIR** - \$25.6 million was in the budget.

**Mr GUTWEIN** - It achieved around \$16 million. The first thing that needed to be done, bearing in mind the money was received at the end of last financial year ago and the corporation had it from the start of the financial year, was to develop the investment strategy, which the board did.

That took some time to ensure they had the right risk profile for the fund, but they have landed the investment now and it is achieving between 3 and 4 per cent. The fund is now achieving almost 3.2 per cent and on this basis, takes us in to the tenth year.

It is fair to say most members would recognise we are in an extraordinarily low interest rate environment, at the moment. It would be my expectation that over time, we will probably see increases in interest rates. My hope would be the fund lasting for a longer period, but at the moment, based on the risk profile to ensure the capital is absolutely secure, it will provide, based on the returns we are getting, a return at the end of the tenth year.

**CHAIR** - Do you have modelling that shows a return to the tenth year, even though there is an interest rate of 3.2 per cent still lower than your 4 per cent, which is the low-growth, low-risk proposal?

**Mr GUTWEIN** - Do we have modelling? I have advice, yes.

**CHAIR** - You have not provided the modelling to show that.

**Mr ROCHESTER** - We have not brought it with us.

**Mr GUTWEIN** - Anybody could run a 10-year period with 3.17 per cent and come to the same conclusions we have.

**CHAIR** - Okay. I have actually tried to do this and it does not appear to go that far. This is why I am interested in your modelling to show it does. A couple of questions around when it is paid. It can make a difference as to when the dividend is paid each year. For the Health department to run the Mersey, is it paid in monthly instalments at the beginning or the end of the financial year. When is it paid?

**Mr FERRALL** - At the end of the financial year.

**CHAIR** - That will help then.

**Mr FERRALL** - There are two parts to this. TASCORP does not pay it directly to the Department of Health and Human Services. The Health department receives the cash it needs through the year via the budget. TASCORP effectively pays the general government sector at the end of the year.

**CHAIR** - So you keep it for the whole year, which will have an impact. That is obviously part of the modelling that shows you are getting to 10 years.

**Ms LOVELL** - Treasurer, you have spoken about the modelling. Based on this rate we are seeing reflected in this year's statement, the actual operating profit being significantly lower than the target, if that rate were to continue, how long would the fund cover the operating costs of the hospital?

**Mr GUTWEIN** - It is important to understand the way TASCORP went about this. It was sensible - the board needed to develop an investment strategy, needed to ensure they placed the money appropriately, based on the return achieved this year in terms of the 3.17 per cent, and taking into account the timing of landing of the investments, the money will provide for a payment into the tenth year.

I would have much preferred if we could have landed the investments on 1 July last year. It was important to ensure the board took the time to come up with the appropriate strategy and consider the risk profile. They have now placed the money in such a way that it almost provides us with the same return as the cost of funds we would borrow in the market. It is a very good and safe return. Mr Ferrall might have some further points.

**Ms LOVELL** - I would be quite keen, if it is possible, to also see the modelling at some stage. Like Ruth, our modelling does not reflect the same outcome.

**CHAIR** - On that point, are you able to provide it to the committee by the end of the week?

**Mr GUTWEIN** - We can take it on notice.

**CHAIR** - We do need to report fairly promptly to the parliament.

**Mr FERRALL** - We need to look at the form and nature of what you mean by the modelling. If you look at the investments we have for the portfolio and as at 30 June, there was a range of investments, but my significant component was in residential mortgage-backed securities. That is \$473 million and those securities have various terms.

Providing you with the modelling is not simply a spreadsheet multiplying 3.17x by 3.17 and here is the answer. We have a range of maturities in our investments and a series of points at which we have to provide payments to the general government sector. Some of those securities mature at points close to the time we have to pay, but it is not identical. You have a range of components in the complexity of the modelling. It is not something we would produce, such as in a simplistic spreadsheet.

**Ms LOVELL** - Yes, I understand that. It seems a target has been set. Presumably that target was the money required to last 10 years and was not significantly higher. That target is not being met. We need to have confidence, should that trend continue, that the money will last the full 10 years and be able to cover the operating costs of the hospital.

**Mr FERRALL** - The original statements around the funding were that with a return, broadly in the 4 to 6 per cent range, it would last in the 10- to 12-year range. It wasn't as if statements were made publicly that we were at an interest rate of  $x$  and this is exactly how long it will last. There was a range. When TASCORP looked at the investment, in order to have an appropriate investment strategy with appropriate levels of risk, the reality was you could not obtain that higher end of return. As a board, we optimised with an appropriate risk framework. The board wasn't driven to get 10- or 11- or 12-years funding. We were more driven to ensure there was an appropriate level of risk and optimising or maximising the period of return, which is why we are saying we are comfortable it gets us into the tenth year. We can meet nine full-year payments. In the tenth year, we will make a partial payment of the full amount required, but we are not going to achieve the full amount in the tenth year on our current parameters.

**CHAIR** - It would be helpful to see the modelling that shows this. We don't need all the background information, but it is important to understand what assumptions are being made. It could be that you have only \$1 million left in the tenth year.

**Mr FERRALL** - To clarify for the committee, even in the tenth year, the board has made a risk-adjusted return. We have effectively said we could get more than what we believe we are currently getting, but we have made some adjustments to that tenth year to acknowledge that all portfolios have some risk. We have a risk adjustment in the tenth year. This reduces the return we are currently budgeting on, even though we are still saying it is in the tenth year. If that risk adjustment is not necessary as we go across the balance of the term, we are currently budgeting on will achieve a higher return.

**Mr GUTWEIN** - I understand the committee's interest, with the mortgage-backed securities we have and the timing as they roll out. Most reasonable people are expecting interest rates to rise over the next period. There is upside risk in the way the portfolio has been structured.

**CHAIR** - You have a mixture of terms, which you would have to have anyway because you have to pay out \$70 million-odd every year.

**Mr GUTWEIN** - You do. You could run half a portfolio for five years and keep the other in cash and draw down the cash. There are ways of managing a portfolio like this. The advice I have received is there is upside risk as we reach the tenth year. The economic climate we are in is quite positive. We may achieve the full payment in the tenth year with the potential for more, depending on what happens.

**CHAIR** - It is cumulative. If interest rates stay low, below 4 per cent or 6 per cent as per your overarching requirement return, it has potential to become a bigger challenge each year. You will need 7 or 8 per cent to achieve the same return and make it last the distance, won't you?

**Mr FERRALL** - Currently, our portfolio is structured to achieve a payment in the tenth year. I think the point the Treasurer is making is that there are some components of the portfolio that will be reinvested and that there are some components in cash. Depending on those rates or what those components are reinvested in, there is still some potential for upside in those areas.

**CHAIR** - Would this be above 6 per cent?

**Mr FERRALL** - Not above 6 per cent but above the current cash rate. I can put words into the Treasurer's mouth, but he is effectively saying we are in a low interest rate environment and we have been in that for some time. There is a reasonable probability at some point within the period the Mersey fund is operating that there will be some uplift in cash rates and other rates, which may lead to a higher return on the components we haven't locked in.

**Mr GUTWEIN** - The committee wouldn't be attempting to raise concern in the community; I know that is not your view and we all want to see a good outcome from this.

**CHAIR** - No, we simply want to see how long it is going to last.

**Mr GUTWEIN** - The tenth year or thereafter, referring to the Mersey, will simply be funded from the budget under the existing arrangements as part of state and federal health agreements. By the time we hit the tenth year, the budget is going to be somewhere between \$9 billion- and \$10 billion-worth of revenue. I expect the payment to Mersey to be around \$100 million to \$110 million. On the 55 to 45 per cent split that currently exists under the current health agreement, the state would be liable for \$60 million to 70 million. That will be a fraction of 1 per cent of the overall budget position. The budget can sustain that; it is something we can plan for and we have plenty of time to do so.

**Ms LOVELL** - Treasurer, the fund is intended to cover the operating costs of the hospital and, presumably, that includes wages. Can you confirm that?

**Mr GUTWEIN** - Yes, it pays for the operating expenses of the hospital.

**Ms LOVELL** - Was that based on an indexation rate of 3.5 per cent per year? Can we presume the current modelling is based on a 2 per cent wage policy? How long are you expecting that policy to be in place?

**Mr GUTWEIN** - The current wage policy?

**Ms LOVELL** - Yes, if this fund is intended to cover the cost of the hospital for 10 years based on that indexation rate per year, are you expecting that wage policy to be in place for the next 10 years?

**Mr GUTWEIN** - I would like to see that wage policy in place as long as it is sensible and affordable.

**Ms LOVELL** - You expect it to be in place for the next 10 years to keep up with this agreement.

**Mr GUTWEIN** - Again, you are attempting to put words in my mouth. Our wage policy is sensible, responsible and affordable. It will remain in place as long as it meets those parameters. We are currently going through wage negotiations and the Government believes the 2 per cent is reasonable and affordable.

**Ms LOVELL** - Let me frame that a different way, so I am not putting words into your mouth. Should those negotiations result in higher than 2 per cent sometime in the future? What will that mean for this modelling and the Mersey community fund?

**Mr FERRALL** - It will be irrelevant to the fund because the fund pays \$78.1 million indexed at 3.5 per cent across the forward Estimates. It will potentially have a budget impact. If there was a wage outcome above the current budgeted parameters or any other operating expenses, that would be met from the general budget. The Mersey fund directly pays an indexed return across the 10 years. That is legislated.

**Ms LOVELL** - That has been based on the current wage policy.

**Mr GUTWEIN** - No, it is based on the indexation applied by the Commonwealth to the Mersey agreement prior to taking on this current arrangement.

**Mr FERRALL** - It was at 3.5 per cent.

**Mr GUTWEIN** - One of the reasons we look to manage the budget with sensible surpluses is that we can meet any challenge that arises over time. That is sensible budget management.

**Mr WILLIE** - Minister, the secretary is saying that if there are increases above 3.5 per cent, that will be met by the Consolidated Fund, not the investment. Essentially, what we have here is a fund that will part-fund the Mersey Hospital over 10 years if there are other budget costs. Is that what you are saying?

**Mr GUTWEIN** - I do not have a crystal ball, but the cost of prosthetics could go up; the cost of other supplies and consumables could go up. We have a fund in place that will provide a 3.5 per cent indexed return, based on the initial payment of around \$78 million, for a period that takes us up into the tenth year. If there are increases in expenditure, obviously they would need to be met by the budget.

**Mr WILLIE** - It is a fund that is subsidised, in a way, by the Consolidated Fund because it is based on 3.5 per cent. If that rises, you are going to have to find the money elsewhere.

**Mr GUTWEIN** - No, it is a fund that is backed by the state Government and the Consolidated Fund. The future of the Mersey is guaranteed. We have a fund that has been established and an arrangement that is in place that will provide an ongoing guaranteed return. Under the legislation, we are expected to ensure that the index is at 3.5 per cent if other costs increase or, conversely, decrease. These are matters that will be managed by the budget, but there will always be, based on the investment strategy we have established, our indexed \$78 million at 3.5 per cent coming out of that fund, for as long as it lasts.

## UNCORRECTED PROOF ISSUE

**Mr WILLIE** - We have established that there will need to be, potentially, top-up payments across the 10 years if costs rise above 3.5 per cent - you have said that yourself.

**Mr GUTWEIN** - What we have established is that it is sensible for the government to have a strong budget position and, as with any area of expenditure, that we are in a position where, if things change, we are able to meet those changes.

**Mr WILLIE** - There may be a need to provide top-up payments across the 10 years and your language has changed, too; you are saying it will get us into the tenth year. Effectively, as you said, the last payment will be \$100 million to \$110 million, so we are potentially \$110 million short in the tenth year and there may be a requirement to fund the Mersey from the Consolidated Fund.

**Mr GUTWEIN** - I am not saying that at all. The point I was making earlier is that we are in a low interest rate environment. I see more potential for upside over the period of the 10 years than I see downside. I fully expect this to be able to fund into the tenth year and hopefully beyond that period.

If costs increase for the operation of the Mersey, the Consolidated Fund would stand behind it.

**CHAIR** - On that point, Treasurer, I want to ask an encompassing question to perhaps pick up some of these issues: if wages policy were altered so that it became 2.5 or 3 per cent rather than the cap at 2 per cent, what impact would that have? Mr Ferrall said it will not have an impact on the fund itself, but you said it would have an impact on the overall state budget. Would that then be factored into the budget or would it be done by a request for additional funding to support that or a supplementary appropriation? How would we see that?

I think what people worry about is it being hidden and not able to clearly see how it is being funded.

**Mr GUTWEIN** - Mr Ferrall has explained that we fund the Mersey out of the Consolidated Fund and then there is a payment paid annually to the Government out of TASCORP. The point I would make, and it is one I have been making regularly on wages, is that a 1 per cent increase over and above the 2 per cent costs the Government \$28 million a year.

**CHAIR** - Yes, but not just the people at the Mersey. Let us focus on the Mersey.

**Mr GUTWEIN** - There would a relative impact in terms of additional costs that would need to be met by the health system for people employed at the Mersey if there were an increase above the 2 per cent.

**CHAIR** - How would that be shown?

**Mr GUTWEIN** - At this stage, I am hopeful we will land at a sensible and affordable 2 per cent. That is probably more reasonably a question of the Health minister at Estimates.

**CHAIR** - Possibly, and you may not be able to answer this, but do you know how much it actually cost to run the Mersey last year and how much it is expected to cost this year, and the operating costs of the Mersey?

**Mr GUTWEIN** - No, I do not have that but I can explain what was provided by TASCORP in the Budget for the costs of running the Mersey, but that is a level of detail I do not have with me at the moment.

**Mr VALENTINE** - Most of it has been answered, but are there strictures placed on the operation of the Mersey based on the performance of the investment fund? Probably the answer is no, from what I have just heard.

**Mr GUTWEIN** - None whatsoever, no.

**Mr VALENTINE** - Okay. I will have other questions.

**CHAIR** - On the Mersey?

**Mr VALENTINE** - No.

**Mr WILLIE** - Minister, do you think it is reasonable to forecast 3.5 per cent growth in health spending over 10 years? When you look across the country - and health inflation can be quite damaging to government budgets - do you think it is reasonable to peg it at 3.5 per cent over that long period?

**Mr GUTWEIN** - The 3.5 per cent was chosen as a result of the previous agreement that was in place. That is my understanding. That is why that 3.5 per cent figure has been set. In health spending, I think all of us are attempting to ensure we have as efficient a health system as we possibly can. The 3.5 per cent was set as a result of the historical agreement that was in place.

**Mr WILLIE** - You just anticipate it being around that figure for the whole 10 years?

**Mr GUTWEIN** - No. The arrangement we entered into with the Commonwealth on the Mersey money was that we would invest that money and that we would return those funds to the budget for the benefit of the Mersey at the same rate of indexation previously applied.

**CHAIR** - Still sticking with the Mersey money, you talked about a roughly 3.2 per cent return. I understand from the Auditor-General's report that there are discount securities, bank term deposits and bonds. Can you give us a bit more information about the investment mix of these funds?

**Mr GUTWEIN** - I will defer to one of the experts.

**Mr ROCHESTER** - At 30 June, there was \$15 million in cash and that cash will build up over the year so we have cash in our bank account for the date of payment. It will vary. There is \$473 million currently in mortgage-backed securities with various terms, from short to quite long, out towards the 10 years. There is \$177 million in corporate bonds and floating rate notes, which gives a total at 30 June of \$665 million. As to the credit quality of those, just over 68 per cent are invested in AAA-rated investments, it is basically rats and mice spread across the remaining -

**CHAIR** - That is a Treasury term, I assume.

**Mr ROCHESTER** - There is 1.5 to 8.5 per cent in the different credit ratings down to the bottom of investment grade, which is BBB.

**CHAIR** - I look forward to the Treasury using the term 'rats and mice' in budget Estimates next year, if you could make a note of that.

**Mr GUTWEIN** - Now I am aware of it, I probably will use it.

**Mr ROCHESTER** - It is a diversified money market and fixed-interest portfolio. Going back to the original discussion of the 4 to 6 per cent, those numbers were based on portfolios containing growth assets - shares and equities - that would have generated much higher rates of return. The cash and fixed interest investments here are ones that provide a very stable return, albeit one that has to be managed.

**CHAIR** - The lower risk return?

**Mr ROCHESTER** - Yes. There is a very low risk of changes in the value of those over their life, whereas in the example of equity there was, from memory, close to an 80 per cent chance of a 30 per cent loss over the period of this investment, which is why the board came to the decision not to include them in the portfolio.

**CHAIR** - The risk is an issue here in managing that risk. Normally TASCORP takes a moderate- to low-risk approach to the investment of money because it is essentially Tasmanian taxpayers' money. Is this why this model has been chosen for this money, or are there other underlying issues?

**Mr FERRALL** - It is, but significantly, in the work TASCORP did and presented the board, if you invested in growth assets, there was a reasonable or high probability you would have years of negative return. The reality is, even though it is a 10-year payment horizon, it is a relatively short time when you are talking about investments. The scenarios we looked at showed you could reasonably expect negative returns, particularly early on in the investment period, which would then lead to a situation where you would run out of money much earlier. It amortises off quickly because, you have a lump sum of money, the return will never meet all the costs and some of the capital has to be eroded over the period. The actual investment horizon is not 10 years; it is much shorter than that.

We took an approach we needed to optimise within appropriate risk tolerance and risk parameters because, as a board, we would not want to come the Treasurer and say, 'We were investing this for 10 years, but it is year five and we had a large hit'.

**Mr GUTWEIN** - In taking the 10-year horizon, we reach the tenth year and the expectation of the size of the state budget, the size the payment ends up when it transfers back, is to be fully funded by the state without the benefit of this arrangement. Under the current state-federal health agreements, it a fraction of 1 per cent of the overall budget. We have always contemplated this provides for a period and we would move to where it would be absorbed by the state budget at that time.

**CHAIR** - On page 50 of TASCORP's annual report, under note 22, Directors' and Executives' Remuneration, under short-term incentive payments, there are management bonuses of \$114 000 and as described here, in all cases, for outstanding corporation achievements. Is there

any loss of bonuses for not achieving the outcomes of the Mersey money expectation or where bonuses given on that, even though it was significantly underperformed against the expectation of the budgeted return?

**Mr GUTWEIN** - What was in the budget was on the basis of the discussions with the federal treasury and looking at what long-term returns could have reasonably been expected depending on the mix of the portfolio. It was the 4 per cent 6 per cent set into the budget. As has been explained, the board took the time when receiving the money to make sure they landed the right portfolio with risk profile. We were not in this portfolio from day one of the financial year.

**CHAIR** - I am not criticising the board's performance overall. It says it is for 'outstanding' corporation achievements. Whether it is a key performance indicator - KPI - or not, one would expect it to fall significantly short in what was budgeted; I remind you of the numbers, \$25.6 million to 416.8 million - I would not expect to get an incentive payment for that.

How were the incentive payments affected by this and were they?

**Mr GUTWEIN** - I will defer to the chair and the CEO. The incentive payment is paid for performance across a range of areas. This is but one.

**CHAIR** - I accept that. The question is; reductions for the underperformance in the Mersey money fund?

**Mr FERRALL** - The answer is not explicitly in terms of the metric relating to the budget. From the board's perspective, implementation of the Mersey Community Hospital Fund was a very complex investment strategy. It was not a simple strategy and our view was management performed very well through the period in relation to the investment strategy. There was not an explicit, 'we have reduced the performance bonus by  $x$  because the budget was \$25 million and the outcome was \$17 million'. It was across a whole range of measures. That also included more broadly the budget performance of TASCORP as an organisation again which was counteracting the comment there was very positive. It is not a simple metric in terms of saying, 'Tick this box and you get a performance bonus' or 'Do not tick it, you do not'. You do not rationally go have you have got 90 per cent of it, so we pare it back on that basis. You take into account the whole range of factors of performance.

**Mr VALENTINE** - On a different topic, I am interested in the TT-Line payment.

**CHAIR** - Before you go to TT-Line, does anyone else have any questions on Mersey money?

**Mr FINCH** - I was interested listening to the talk about capping salaries for staff: does that apply to executives of TASCORP?

**Mr GUTWEIN** - For most government businesses, they are contracted positions. Mr Ferrall can answer more in that regard, but for most of the government businesses we need to go to the market for the necessary skills, expertise and executives. I think all cases are on contracts across their businesses.

**Mr FERRALL** - With GBEs and SOC's, you have to be cognisant of the Government's wages policy and that is the position TASCORP adopts. In relation to the CEO, the remuneration is indexed annually and all the GBEs and SOC's have been capped at or limited to 2 per cent.

**Mr FINCH** - How does the 4.85 per cent from last year to this year for the base salary work out?

**Mr FERRALL** - Depending on what was included in last year's in terms of any performance component. It could also include other changes that might have occurred in relation to the salary mix. Each GBE is set in a different band. There is a banded salary range is indexed on an annual basis. The indexation for the last few years for GBE CEOs approved by the Treasurer and the Premier, who is generally employer, has been at 2 per cent.

**Mr FINCH** - Increases such as Mr Baker, 7.54 per cent; Mr Fitzgerald, 3.78 per cent; and Mr Welch, 8.6 per cent increase are probably skewed a little bit, because of other long-term benefits. What you are saying is in their original contract, there are allowances for those increases to take place?

**Mr FERRALL** - There is a set of limitations on senior remuneration that relates to the CEO's salary. I have to remember the two tests in the GBEs and that limits it. With TASCORP, senior officer remuneration goes through a market benchmarking arrangement, we discount what is a purely market rate and strike wage increases for senior officers and other officers in TASCORP on that basis.

**Mr FINCH** - Is the market comparison with other executives of GBEs in Tasmania or do you benchmark nationally?

**Mr FERRALL** - We use what is called FIR and effectively apply a Tasmanian discount against that. In reality, we are under-market for TASCORP operatives in a national market and even in a Tasmanian market. Although there is no identical entity to TASCORP, if you look at the kind of people we need to recruit in relation to financial markets, we are below market in salaries.

**Mr VALENTINE** - That is some cost for living in paradise.

**Mr GUTWEIN** - That is the price we all pay. The percentages you raised, the component of total remuneration, Mr Rochester had total remuneration of \$390 000 last year. That was the year before, and total remuneration of \$393 000 this year.

**Mr FINCH** - Why did we have the drop in super of \$33 000 last year to \$25 000 this year?

**Mr FERRALL** - Under his contract, he has a right and entitlement to change his mix in superannuation. He has a TEC, a total employment cost. There are differing tax treatments for superannuation benefits you receive that are greater than \$25 000. At an individual level, you are probably ambivalent between taking it as superannuation or taking it as ordinary remuneration because the same tax rate tends to be applied. In one case you have it locked in super and in one case you have it flexibly. I am assuming that was the reason for the change.

**Mr ROCHESTER** - It is illegal for me to take more than \$25 000 in super. I have no choice.

**Mr FINCH** - How did the \$33 000 occur last year?

**Mr ROCHESTER** - It wasn't illegal to have \$35 000.

**CHAIR** - The rules changed.

**Mr FERRAL** - It was \$35 000 in the previous year and that was reduced to \$25 000.

**Mr FINCH** - Could we come back next year to speak with TASCORP and see increases made through contractual arrangements, again?

**Mr ROCHESTER** - The contractual arrangement relates to my total employment costs.

**Mr FINCH** - I am not speaking specifically of you but more generally, such as these executives here.

**Mr ROCHESTER** - It is the same position. The totals on the right-hand side of those columns are subject to the 2 per cent government policy limits. That is taken into account. We also test against the market in the Australian context and the Tasmanian context. As the chairman has pointed out, the remuneration strategy that operates within those frameworks is conservative. For example, taking mine to illustrate, it goes from \$390 000 to \$393 000. We have been conservative within those frameworks.

The changes in the mix are driven by individual preference and the impact of changes in law. We have no control over the change in law and it is reflected, as you saw there, in the change in the superannuation. The key for the organisation is the cost of its total employment. The mix is a function of application of law and personal choice. It is not a driver of the costs of the organisation or the way in which we operate. It is purely a reflection of those two things.

**Mr FERRALL** - In relation to the table, it also includes an accrual for annual leave, in the long-term benefits. You end up with an accrual but you can also end up with a negative in situations in which people take long leave or accrued leave benefits. That can distort the comparisons between one year and another because it can simply be an accrual of a leave entitlement. Conversely, you could find that there is a negative in there if somebody took a period of long service leave.

**Mr GUTWEIN** - If you drop out the termination or other long-term benefits, the difference between total remuneration for the executive team in 2016-17 versus the year we are exploring now is exactly 2 per cent. There might be a different mix. It has been explained in super and the tax but the total remuneration change across the organisation was right on 2 per cent.

**Mr VALENTINE** - The TT-Line investments, prepayments for the vessels, are going to a UK company because it has to be invested in the euro. Is there no way that can happen within Australia? Is there a risk associated with doing it this way?

**Mr ROCHESTER** - Like all these things, financial markets can be complex. The difficulty we are faced with future payments in the euro is that they basically have negative interest rates. To hold an amount of money to be paid in the future costs you money. That is why we split it up into two parts.

**Mr VALENTINE** - What sort of level?

## UNCORRECTED PROOF ISSUE

**Mr ROCHESTER** - It is 0.4 per cent on an annual basis because these are wholesale amounts of money. You are talking in the tens of hundreds of millions. We broke it up into two parts. The first part was the deposit, which we did as a forward foreign exchange transaction because we knew the TT-Line wanted that payment to be made on a specific date -

**Mr VALENTINE** - Is that \$80 million or \$120 million?

**Mr ROCHESTER** - It is the \$80 million. It costs money to put that in place. The cost of the negative carry for the larger payment, the \$120 million, was significant. Instead of looking at the forward foreign exchange market, we look at whether we could purchase a bond that was denominated in euros that would generate a return rather than have a cost of carry with it. A conventional business would have stuck with the foreign exchange contract because that is the traditional way of doing it, but because of our capacity in the marketplace we had the capacity to purchase a euro bond and generate a positive return out of it, which is what we did.

**Mr FERRALL** - Compared to doing this in the traditional manner, our estimate is that it is an \$8 million gain for TT-Line in undertaking the foreign currency exchange as we have.

**CHAIR** - I am sure you have read the Auditor-General's summary -

**Mr GUTWEIN** - I don't have it with me, but -

**CHAIR** - I can lend you a copy if you would like to follow along. In his report -

On 30 June 2017, TASCORP held \$40.1 million related to the TT-Line Vessel Replacement Fund or VR fund. The arrangement was structured as a bare trust. TASCORP was the trustee under the arrangement and the investor manager for the VR fund under a separate investment management agreement. While TASCORP was the investment manager of the VR Fund assets, TT-Line had beneficial ownership of the VR Fund's asset -

This is what you have been talking about, '... including exposure to all risks and rewards.'

I want to ask a couple of questions to make it clear. How did TT-Line become the beneficial owner? The dividend was paid by TT-Line to the general government initially. Did the money not really belong to the general government, as in the case of every other time a shareholder receives a dividend? It went from TT-Line to the government and the government sent the money across into this fund set up under legislation passed. How did the TT-Line become a beneficial owner of the money again, particularly when you think about a bare-based trust? The money is owned by the government and, when you read the act, it is pretty clear they used the government's money, not TT-Line's money, when it was sent to TASCORP.

**Mr FERRALL** - To be clear, funds are not in a bare trust any more.

**CHAIR** - Why were they put there in the first place?

**Mr FERRALL** - Initially, TASCORP had advice from its legal adviser to structure it in that manner and that is how it was effectively put into that bare trust.

**CHAIR** - Even though it wasn't TT-Line's money?

**Mr FERRALL** - We then subsequently reviewed that, changed it and basically moved out of the bare trust. It should not have been in a bare trust in the first place. That is the direct answer to your question. That came about because of the legal advice we had at the time from TASCORP's lawyer -

**CHAIR** - I see, legal advice is not always accurate, is it?

**Mr FERRALL** - It is not always helpful.

**CHAIR** - What you are telling me is that it should not have been done that way.

**Mr FERRALL** - Correct, and when we went through that and identified that it was structured in a way that was appropriate according to our lawyers, it was not appropriate according to how the transaction should have been structured.

**CHAIR** - They always knew it was the government's money, not TT-Line's money, at that point?

**Mr FERRALL** - I think the answer to that is yes, but maybe they did not understand it fully.

**Mr VALENTINE** - Fifty per cent of lawyers are wrong at any one time, you know that.

**CHAIR** - The legislation, as enacted, is still relevant then because it did not provide for that sort of approach. Is that what you are saying?

**Mr FERRALL** - I do not want to defend lawyers, but the legislation did not require or need a bare trust in order to meet its requirements. The advice we had earlier on from the lawyer was that this is an appropriate structure to put it in but, as I said, subsequently -

**CHAIR** - Going back to the Auditor-General's comments, as you said -

In December 2017 the bare trust was unwound. TASCORP became the investment manager for the VR fund under a separate investment management agreement. TASCORP continued to have fiduciary duties of investment manager of the VR fund's assets under the investment management agreement, while the Public Account had beneficial ownership of the VR fund's assets, including exposure to all risks and rewards.

Is TT-Line no longer the beneficial owner now, or is the Government? Who is the beneficial owner of these funds, which is effectively under the act?

**Mr GUTWEIN** - The act is quite specific in what those funds can be utilised for.

**Mr FERRALL** - To be clear around the bare trust, that was part of the challenge of it, from a legal perspective, saying it can only be utilised in a particular manner in accordance with the act.

**CHAIR** - To continue on with the Auditor-General's comments -

## UNCORRECTED PROOF ISSUE

During 2017-18, TT-Line invested \$40 million into the VR fund. In May 2018, TT-Line entered into a construction contract for the two new roll-on, roll-off ships to replace the existing *Spirit of Tasmania* vessels.

Why did TT-Line pay this dividend if it was then almost within weeks to pay the deposit? Did they not know they were going to do that?

**Mr GUTWEIN** - Going back one question when Mr Rochester was talking about foreign exchange matters, I said to this committee two years ago, I think it was, that TT-Line's role is to be very good at running ships.

**CHAIR** - Not looking after money though, apparently, according to you.

**Mr GUTWEIN** - TASCORP's role is to manage money and that is why the arrangement was put in place. As indicated in answer to a previous question, by managing the FX issues there is a beneficial upside to the TT-Line of about \$8 million.

**CHAIR** - They couldn't have done that themselves with good legal financial advice?

**Mr GUTWEIN** - Again, their role and responsibility is to run a shipping line. TASCORP's role and responsibility is to manage money on behalf of the state.

**CHAIR** - I could argue, and others might, that there is a dividend paid to government; it comes in at the top and improves the government's bottom line, goes to TASCORP and comes back as an equity transfer without a negative impact on the government's bottom line.

**Mr GUTWEIN** - You are as aware of the forward Estimates for the budget as I am. We have a sensible surplus so that even if you took the TT-Line receipts out, we would still have a sensible surplus in place.

**CHAIR** - That is not the question though.

**Mr GUTWEIN** - No, but it is the implication you are making that we have used this to improve the Government's financial position.

**CHAIR** - When it goes in and within no time at all, it comes back out -

**Mr GUTWEIN** - We have talked about this for two years. At the end of the day, the TT-Line is a shipping company and they are very good shipping company. They have some very smart people who are doing some very good things for the state in that regard. TASCORP manages money. That is why TASCORP is looking after this fund.

**Mr VALENTINE** - Why the timing for this transfer?

**Mr GUTWEIN** - When we set the fund up, when the contract would be signed and when the new ships would be provided were not clearly known at that time. The intent of the Government was to establish a fund that would enable the cash to be built up over time and managed by the appropriate people within government. A contract has been signed in the meantime and we are meeting the requirements of that contract. Just coming back to that original point, TT-Line runs ships, TASCORP manages money - it seemed sensible to ensure that arrangement was in place.

**Mr WILLIE** - TT-Line could have given the money to TASCORP to invest without the legislative lock though.

**Mr GUTWEIN** - I did say in that debate a couple of years ago about the legislation that there was no legislative lock on the Superannuation Provision Account, and one side of government spent every dollar that was in that.

**CHAIR** - Going back, you said that \$81 million was sent across to TT-Line as an equity transfer from government to facilitate the payment of the deposit. Where is that actual account? Is that account with TT-Line when the money was sent back to them to pay the deposit? TT-Line's balance sheet, when you look at their annual report - and I did go to their annual report because it is all intricately linked here, and I am sure you would be aware of those aspects, too, because you are the shareholder minister of TT-Line as well - their balance sheet shows cash of \$198 million and note (4)(d) on page 73 of their annual report shows \$141 million sitting in a non-interest bearing account. Is that the deposit money that went across and is sitting there now, or what is happening with the money now?

**Mr GUTWEIN** - The contract was signed and the deposit to be paid once all conditions precedent had been met. The reason the money would be in TT-Line's account at the end of the year was that obviously some of those conditions precedent had not been met at that particular time.

**CHAIR** - So money still sits with TT-Line?

**Mr GUTWEIN** - Until the conditions precedent are set and the contract has been signed. There are conditions precedent to be met.

**Mr ROCHESTER** - TT-Line has a forward foreign exchange contract with us and we have the obligation to pay the euro when the deposit is paid, while the contract is with TT-Line, the money is actually sitting in TASCORP-

**CHAIR** - Where is the bank account in your financial statements, or isn't it?

**Mr ROCHESTER** - It will be in cash.

**CHAIR** - It is sitting in cash in the TASCORP statements?

**Mr ROCHESTER** - Yes.

**Mr VALENTINE** - Who pays the 4 per cent for the holding?

**Mr ROCHESTER** - It is embedded in the forward price of the forward exchange contracts.

**Mr VALENTINE** - It basically comes out of the \$8 million gain?

**Mr ROCHESTER** - They are two separate transactions, but, yes, there is a cost in the forward foreign exchange contracts, and that was recognised in the pricing of those. There is a positive return out of the euro bond which will not be determined until that is actually paid in 2021.

**CHAIR** - Where is the liability if the money is sitting in cash? I notice there is a creditor's note 18 on page 45: unsettled transactions, \$139.3 million - is that where it sits in terms of TASCORP?

**Mr ROCHESTER** - It is both an asset and a liability for the two legs, yes.

**CHAIR** - That is the offsetting amount - investments in the cash and this is the other side of the -

**Mr ROCHESTER** - The obligation to make the payment on the future date.

**CHAIR** - I am just trying to trace the money.

**Mr FINCH** - I have somebody who is used to reading annual reports and they had a look through this one for TASCORP. His observation to me was that some of the costs for running TASCORP are obscure. He said he felt that wages, administration, rent - those sorts of things - were hidden. He could not find what they cost. We know there is \$6.8 million to manage it. I am wondering if I could get an opinion of whether that is wide of the mark, whether those figures are in the annual report, or whether some review needs to be done of the annual report having more detail.

**Mr FERRALL** - I disagree the accounts are obscure. They are put together in accordance with accounting standards and audited by the Auditor-General. If the Auditor General is concerned with obscurity, he would make a comment. I would disagree with your learned friend.

**Mr FINCH** - That is okay. He was really trying to find out what does it cost.

**Mr FERRALL** - Administration on page 38 of the accounts.

**Mr GUTWEIN** - I was going to refer you to note 5.

**Mr FINCH** - I had not finished what I was going to say. How much does it cost and if we made a comparison with other states, is there any benchmarking of what TASCORP does? There are corporations like TASCORP every state, is a comparison made to see we are managing figures and that our costs of running the business are comparable?

**Mr GUTWEIN** - I will let the chair answer. To come back to the issue of whether the accounts are opaque or not, for the benefit of the committee there is a breakdown of the operational costs in note 5 on page 38 showing salaries, IT and communication, legal audit and professional services, premises, travel and other expenses. Your question about benchmarking is another matter and the chair and CEO -

**Mr FERRALL** - There are similar CBA entities for all states, except for Northern Territory. Where they have are embedded, it is almost impossible to make direct comparisons. If you look at the scale of CBA in New South Wales, Victoria or even Queensland - Stephen has experience from Queensland - as compared to the scale of TASCORP. We have 16 people and Queensland has 250.

**Mr FINCH** - Twenty-five per cent of whom are female?

**Mr FERRALL** - Approximately yes. Queensland, say, 250 people. They also have a range of differing functions across different jurisdictions. They do not all operate entirely the same. We can make comparisons in a direct sense whether our salaries are similar or below. In that respect, our salaries are quite significantly below the other CBAs.

**Mr ROCHESTER** - Less than half.

**Mr FERRALL** - That is at an individual level.

**Mr FINCH** - Another suggestion, how would we go outsourcing TASCORP? Do we need to retain it as a Tasmanian entity? Could you outsource the work of TASCORP to, say, Macquarie Bank or NAB or something like that?

**Mr FERRALL** - No, because they would not be a central borrowing authority for a state. You could potentially utilise the services of another jurisdiction, but they will effectively clip the ticket for the privilege. We go to the market as the sovereign state of Tasmania and borrow domestically and in European markets. If another entity did it on our behalf, say Macquarie, they would still be doing it on behalf of the sovereign of Tasmania. If you went to another jurisdiction and Victoria acted on our behalf, apart from under the financial arrangement, I am not sure how we could even make it work.

**CHAIR** - But aren't they are a government department, not a separate standalone government business?

**Mr FERRALL** - They have a CBA. We would basically have to get them to borrow on our behalf and then they would charge us a margin that would be appropriate to our credit rating and credit risks. In an answer to your question, those things are potentially possible, but not particularly easy to implement in the current arrangements. There are some things in terms of the original financial agreement which would make it almost impossible for us not to have a CBA.

**Mr FINCH** - While I am talking about the report read elsewhere, they thought it was a very good website for TASCORP. However, I notice down the bottom there is a reference to a Melbourne IT company. Why would we outsource our IT work in this instance to a Melbourne firm?

**Mr FERRALL** - Stephen can you take you through the two main systems. They are systems we do not have an equivalent for in Tasmania. These are specific financial systems and not something our local IT firms generally support. We have to have particular systems in order the engage with the financial market, and they are not built or designed in Tasmania.

**Mr ROCHESTER** - It is as simple as that. They are very complex systems and operate in international financial environments. They have to comply with the accounting standards and settlement laws of the world. Only a handful of systems can do that and we can use some support from people in Tasmania, which we do. The systems are globally based systems used by all the players around the world.

**Mr VALENTINE** - That is not to say there are not any globally based IT experts in Tasmania, because there are.

**Mr ROCHESTER** - We use those to the extent to which we can access people with the skills needed for those systems here.

**Mr FINCH** - I still feel we might be able to attract and develop this in Tasmania.

**Mr ROCHESTER** - To the extent to which we can operate it reliably and meet those standards and quality, that would be our objective. The capacity is very limited. Our scale is so small relative to the rest of the market.

**Mr WILLIE** - Minister, I have a list of government business enterprises and state-owned companies that have borrowed from TASCORP. How many of them are operating under a letter of comfort and if there are any, can you please name who they are?

**Mr GUTWEIN** - I can provide the list. Hydro Tasmania, Tasmanian Irrigation, Tasmanian Railways, Tasracing and TT-Line have a letter of comfort.

**Mr WILLIE** - Were any of those organisations operating under a new letter of comfort in April 2018.

**CHAIR** - Why was this required?

**Mr FERRALL** - Because we went into the significant borrowing for the new vessels.

**Mr GUTWEIN** - That would have been at the time of the signing of the contract, because their borrowings will increase over time.

**CHAIR** - Is the TT-Line the only new one over this financial year?

**Mr GUTWEIN** - I am happy to give you as much detail as I can. Hydro Tasmania

**CHAIR** - If Hydro Tasmania's performance has improved, as we note, why do they still need theirs?

**Mr FERRALL** - From a TASCORP perspective, we review the requirement for letters of comfort on an annual basis. We review the performance of the company entities. With Hydro, it is something we are currently looking at and we are going through a review process.

In relation to the letters of comfort, the board position is like a banker. They look at not only a current performance, most recent performance, but also at a projected performance, and to the extent the board is comfortable the projected performance might be continuing at a better or higher trend, we would consider whether or not we needed to retain the letter of comfort. From purely a board perspective, in any entity one year of trading performance is important, but it is not the only consideration in relation to whether we would say we still want to retain a letter of comfort from the Treasurer.

**CHAIR** - As I understand, TASCORP as the lender would request a letter of comfort from the Treasurer, if TASCORP were concerned about being able to meet its obligations?

**Mr FERRALL** - In some cases the process almost happens in parallel. We have ongoing dialogue with all the entities but none of these, but if there were an entity that wanted to increase

its borrowing next year, would have a reasonable understanding of what our position would be in relation to whether we may require a letter of comfort.

**CHAIR** - Is there a benchmark, a certain gearing ratio or is it case by case?

**Mr FERRALL** - We look at them to ensure they are investment grade, from our perspective.

**Mr WILLIE** - Is it similar to property, where the security of the assets is used?

**Mr FERRALL** - We basically don't have security. We don't have a mortgage over assets. We are an unsecured lender but we base it on the performance of the entity and the projected performance.

**CHAIR** - The other letters of comfort, I cannot remember all the companies, but Irrigation Tasmania was one, and TasRail. None of those is new, so are they all being reviewed?

**Mr FERRALL** - We review them continually. We do all of them annually.

**Mr ROCHESTER** - It is an annual cycle. They can be at different times.

**CHAIR** - Is that done at this time of year? When is it done?

**Mr FERRALL** - It is spread across the year, depending on the requirements of that business.

**Mr ROCHESTER** - If they have an increased borrowing requirement part-way through the year, we will update it then rather than wait.

**CHAIR** - TasNetworks is not on the list.

**Mr ROCHESTER** - No.

**Mr VALENTINE** - Do you offer them to local government sometimes, too?

**Mr GUTWEIN** - We haven't issued any letters of comfort for local government. We do an assessment of local government borrowing. Some very strict metrics are run.

**Mr WILLIE** - Is the irrigation scheme agreement linked to the next tranche?

**Mr GUTWEIN** - That was put in place in 2015. It depends on the final capital into the next tranche and what happens at a federal level, because we will need their support for the next tranche. We will discuss that with the business as and when it arises.

**CHAIR** - Going back to TasNetworks, I understand from the budget papers, from memory, that they are looking at borrowing another \$200 million in the next year or so. Their gearing ratio is already pretty high. Will that bring them to a position of requiring a letter of comfort?

**Mr GUTWEIN** - That is a matter for the board at the time. TasNetworks' gearing ratio is in the middle of the pack when compared with like businesses, broadly speaking.

**CHAIR** - I understand, but it is still pretty high.

**Mr GUTWEIN** - They are not extended. That will be a matter for the board and TASCORP when they consider this kind of matter.

**Mr WILLIE** - How long do you think the TT-Line letter of comfort will need to be in place?

**Mr FERRALL** - The board will require it to be in place until it doesn't require it to be in place. We will do annual reviews and consider it on an annual basis, but I cannot estimate whether it will end in one, two or three years time. That is the nature of letters of comfort.

**Mr VALENTINE** - As to TT-Line's capacity to manage investments of their own, do they manage things such as that reasonably large investment of the down payment, or other investment funds that aren't so large?

**Mr ROCHESTER** - They manage their cash balances, the day-to-day cashflow.

**Mr GUTWEIN** - They do so in the same way any other business would.

**Mr VALENTINE** - They are not overtly restricted from managing their own investments?

**Mr GUTWEIN** - No. Every business would manage its cash on an ongoing basis.

**Mr VALENTINE** - I wondered whether there was a certain level they could go to in investing funds and if they have to come to you for anything more than that.

**Mr FERRALL** - No. It is important to note, when you are talking about an individual entity managing funds or borrowing, that the reason you have a central borrowing authority is because of their expertise and that there is a global or whole-of-state benefit in doing so. If you disaggregate within a small jurisdiction like Tasmania, all your investment functions and potentially all the borrowing functions allowed to individual entities, it will cost more. It also creates -

**Mr GUTWEIN** - You get a lower return.

**Mr FERRALL** - Yes. It also creates risks to the state because they are not managed and coordinated on a central basis. It is important we maintain a central borrowing investment authority in a jurisdiction like Tasmania.

**Mr VALENTINE** - Thanks.

**CHAIR** - I would like to go to the TT-Line foreign exchange risk on page 32. I assume the unsettled transactions are predominantly related to that? Is the \$139 million related to the TT-Line money or there are other things that fit into that? You talked about the account in euro and the challenges. You created a hedging arrangement to deal with some of that risk. We will come back to that one about the unsettled transactions, if you like. Has the whole amount been hedged or is it only the deposit?

**Mr ROCHESTER** - In the euro part of the foreign exchange, they all relate to TT-Line. The FX transaction has been hedged and the final payments have been hedged.

**CHAIR** - The whole lot has been hedged?

**Mr ROCHESTER** - Yes.

**CHAIR** - What is the total cost? Do we know what the total amount for the vessels will be?

**Mr ROCHESTER** - It will be €550 million.

**CHAIR** - Is the €550 million the full cost including the deposit? Has that all been hedged?

**Mr ROCHESTER** - Yes.

**CHAIR** - Is that hedging contract in TASCORP or TT-Line's name?

**Mr ROCHESTER** - We have a foreign exchange contract with TT-Line but the other half of that is our obligation to pay those euros to -

**CHAIR** - It is an account in TASCORP's name, not TT-Line's name.

**Mr ROCHESTER** - Yes. TT-Line is the counterparty. There is a contract between ourselves and TT-Line. They have given us Australian dollars and we pay the euro into their bank account. The way we have hedged that obligation to pay the euro into the nominated bank account, depending on the date, is, in the short-term, for a deposit through a foreign exchange contract we have written at the marketplace. For the final payments, we hold a euro bond that will mature prior to the date of those payments. That will then go into our euro account and we will transfer it from our euro account to the ship constructor on the date.

**CHAIR** - In the way you have managed it, you haven't had the negative impact of having the costs associated with an account in euros. When this is paid there will be a benefit of \$8 million, did you say?

**Mr ROCHESTER** - In relation to the euro bond, it will depend on the timing. Due to the negative cost of carry, it depends when the settlement date is in relation to the maturity date of the bond. The longer that date is, it will erode some of the benefit.

**CHAIR** - What is happening with the euro? I don't watch it.

**Mr ROCHESTER** - The best way of describing it, and I know this is a bit blasé, is that it is up and down. The longer term driver is the time and extent to which Europe will start to unwind its quantitative easing policies, all of which are uncertain. It is up here, down here and back up there at the moment. We cannot predict markets.

**CHAIR** - You don't know what you are going to end up with?

**Mr ROCHESTER** - No, but we know the obligation is to pay in euro and we know we hold about \$8 million to \$10 million more than that in the Australian dollar equivalent at the present time. When we get to the end of it, that will determine how much of that -

**CHAIR** - This may be a question for the TT-Line and I accept that if it is. Payment deposit is one thing but paying for the vessels is the other. If you know what you know with the euro, and

you know what it is likely to be but if it is going to be an unknown period and it could go either way, do we have a time frame for that?

**Mr ROCHESTER** - Yes.

**CHAIR** - What is that time frame?

**Mr ROCHESTER** - I would have to go back to the records for the actual date. In the forward foreign exchange contracts, the constructing body has indicated they don't want the money at the moment.

**CHAIR** - Until the completion?

**Mr ROCHESTER** - No, at the present time. They keep on deferring the date.

**CHAIR** - Because of the value of the euro?

**Mr ROCHESTER** - Yes, because they do not want to have to pay the cost of holding the euro.

**CHAIR** - Oh, right. It is a bit of a Mexican standoff, isn't it? Maybe we could have the money or something, to use it for something else.

**Mr ROCHESTER** - We have. It is sitting in the account bearing a cost.

**Mr VALENTINE** - Eight million dollars.

**CHAIR** - Potentially being eroded.

**Mr ROCHESTER** - Yes, the deposit is the relatively smaller amount and it will come to its conclusion. As for the euro bond, we are making money out of it. We are not subject to those same risks.

**CHAIR** - Going back to note 18 and your payables, the unsettled transactions, can you give us an explanation? I know part of that is the TT-Line component, but is there anything else that relates that is significant?

**Mr ROCHESTER** - No, it is just the normal ebb and flow of the business.

**CHAIR** - The difference between the 2017 \$5.5 million and \$139 million is effectively just the TT-Line money. Is that what you are saying to me?

**Mr ROCHESTER** - Yes.

**CHAIR** - Thank you, I just wanted you to clarify that.

**Mr VALENTINE** - I am obviously not an expert, but I am interested in how much offshore investment you have overall in your portfolio of investments and what percentage would be offshore.

**Mr ROCHESTER** - Pretty well close to nil.

**Mr VALENTINE** - Except for the TT-Line?

**Mr ROCHESTER** - There is the euro in the euro account. The euro bond we issued was issued by an Australian bank so I am not too sure how you classify that - a foreign currency issue.

**Mr VALENTINE** - That was the question I was asking before, why didn't we keep it within Australia to lend out, but you have confirmed that is what we have done. Thank you for that. That clarifies that.

**CHAIR** - With regard to your overall business, I know we have focused a lot of time on the Mersey money and TT-Line, but they are aberrations from past years. What is the take-up of bonds and when do you issue them?

**Mr ROCHESTER** - I suppose there are two components to this. The first and primary one is when do our individual clients want the funding? That will depend on their own particular businesses, and given that TasNetworks and Hydro are our largest borrowers, they are really the prime determinants of it. We separate the provision of the funding to our clients from when we will issue into the marketplace because we do not want to be caught with a client saying they want to issue \$200 million today and the market says no, there has been an event in America and investors do not want to buy. We will typically issue three, sometimes a bit longer in advance of customer requirements. We will hedge our funding of those on our books ourselves. It is just that cycle of what is the requirement of each customer. We have very good relations with each client. We know and understand what their funding strategies are. Then we have the conversation with the market about what the market appetite is and we basically look for windows where we can issue and get the lowest cost of funding, hold that on our books and hedge it prior to the customer or client requiring that funding. That is a cycle it goes through each year.

**CHAIR** - That is your job. Another thing that is evident is that there is a Treasury management system, which is run by a third party - Quantum, I understand - that TASCORP uses. I understand that is hosted in the Cloud. I am just interested in what sort of security there is around the management of that data and how you keep an eye on that, given that data theft is significant around the world?

**Mr ROCHESTER** - We chose the system not just because of its business application, but also because of its security characteristics. It does not operate in the Cloud in the US or environments where the Cloud would operate that would create unmanageable security issues for us. We have gone through that process. In fact, we appointed an independent assessor to review those issues, given that is not our daily bread-and-butter. As for everyone who operates IT systems, there is always a risk someone will come up with a way of compromising it and we have a constant process of going through a review of those issues.

**CHAIR** - So there is a constant security risk assessment on those aspects of your data storage?

**Mr ROCHESTER** - Yes.

**CHAIR** - Are there are covenants in place with companies that you lend to at the moment?

**Mr FERRALL** - No, we lend [inaudible].

**CHAIR** - No? This is a matter that the Auditor-General raised. There are no covenants?

**Mr ROCHESTER** - None that rings a bell immediately.

**Mr FERRALL** - With our individual clients there are -

**Mr ROCHESTER** - We have a facility agreement. Where we lend, we have a facility agreement with them that requires them to keep us informed and to meet certain requirements depending on the nature of those businesses. They may be ratios or changes in asset levels.

**CHAIR** - Have there been any breaches of any of those requirements - for example, with interest rate cover? Have you noted any breaches in the past 12 months?

**Mr ROCHESTER** - We have some issues every now and again. Some of them are volatile, but no breach.

**CHAIR** - No breaches?

**Mr FERRALL** - Our lending agreements effectively require the entities to operate within certain parameters. As Stephen said, it could have ratios and other things. We do have regular occasions where our clients come to us and say they are not operating within that parameter at this time, or they are projecting they are going to exceed that particular parameter for a period. When that occurs, the board considers it and works through whether - using your language - it is a breach in terms of something we want to take serious action on because it is a breach of concern, but it is a breach of our lending covenants effectively if they have exceeded some of those things. The answer to your question 'Are there any breaches?' would be yes, but it really depends on what action the board decides to take in relation to it. Some of them could simply be a particular metric and a particular spike or change in a -

**CHAIR** - Like a cashflow issue or something like that?

**Mr FERRELL** - Yes, but it would be a breach.

**Mr ROCHESTER** - The recent ones have been projected breaches, as distinct from actual breaches.

**CHAIR** - If they think they might be going to breach, they will let you know - is that what you are saying?

**Mr FERRELL** - Yes, because they have a requirement to keep us as their lender informed. By and large, our entities are pretty good at that and they say, 'We have looked at our cashflow over the next four months and we think there is a potential for us to breach one of those covenants in three months time.' We would consider that and say that is something we are concerned about or something we are not.

**CHAIR** - Are local governments among those businesses or organisations that fall into that category at times?

**Mr FERRELL** - No.

**CHAIR** - They are good or are essentially meeting their requirements?

**Mr ROCHESTER** - Very few of them borrow.

**Mr GUTWEIN** - Local governments have very low levels of borrowing.

**CHAIR** - Which of the government businesses or SOCs are the ones you find more likely to come with a complaint?

**Mr FERRELL** - I do not think I can say 'more likely'. I would have to take on notice those that might have advised us in the last six or 12 months because I cannot recall all of them and I do not want to try to guess them.

**CHAIR** - It would be helpful to know because it is a bit like the letter of comfort. At least they are letting you know if they might or will breach -

**Mr FERRELL** - That is the whole purpose of the covenants: we are informed by them and there is a metric where they know they need to inform their banker of a change. It is not dissimilar to what you would see in a normal banker-client relationship where a bank effectively says, 'If these things change, please inform us'. That is how we work. Our clients are better than other banking clients because they are part of Tasmania Incorporated and tend to act quite reasonably.

**CHAIR** - I want to focus on key person dependency risk at the moment, particularly with the management of the TT-Line money in foreign investments. Understanding what is obviously a complex area, is there a risk of a key-person dependency in this area or any other areas within the business, because they are specialist skills and we struggle to understand a lot of it? I know I do.

**Mr FERRALL** - The answer to that is 'yes' there are key person dependencies, because we are a very small organisation and so there are risks. That is mitigated internally by having separate teams, with back-up and support in relation to those teams. But again, when you are talking about 16 people and 'How big is the team on FX?', it is pretty small.

We do have those risks. We manage them, but it is not something you can avoid in a small organisation. Again, from a board perspective, while we have key person dependencies, we adopt a fairly rigorous approach to the risks of those dependencies. In relation to things like, say, the Mersey fund as an example, we had a third-party review of what we were attempting to do in relation to Mersey. We ensure not only the risks of an individual leaving are covered, but also the risk of an individual not knowing enough, covered by insuring we have a third-party validation of high-risk areas.

**Mr VALENTINE** - Do you have knowledge-based systems operationally in place? Like Atlassian software which helps people place their knowledge into a software system that can then be accessed by others if a person is off sick?

**Mr FERRALL** - We have very regimented and rigorous policies and procedures of what people need to do in relation to their daily activities and operations. This is covered, but in terms of the pure knowledge base -

**Mr ROCHESTER** - We are looking at it and trying to work our way through it.

**Mr VALENTINE** - Yes, that would be great.

**Mr ROCHESTER** - It would be, but because we are such a small organisation, the things that make sense for Coles, Woolies and the banks do not necessarily make sense for us. To compensate, we have, as the chairman pointed out, a very rigorous process of basic policy and process documentation.

**Mr VALENTINE** - Health IT has one.

**CHAIR** - I do not necessarily want the banks to give us too much advice at the moment.

Thank you, Treasurer, we have run out of time. I appreciate the time you have given us and the information. We will request a couple of things in writing to you, notifications for potential breaches for the lending covenants and the modelling for the Mersey money, but, other than that, we appreciate the information provided.

**Mr GUTWEIN** - Thank you.

**The committee suspended at 12.19 p.m.**

# UNCORRECTED PROOF ISSUE

**Tuesday 4 December 2018 - Legislative Council - Government Businesses Scrutiny Committee A - Aurora**

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Tuesday 4 December 2018**

#### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney  
Ms Lovell (Deputy Chair)  
Mr Valentine  
Mr Willie

#### IN ATTENDANCE

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

#### Ministerial Office

**Mr Ashley Bastock**, Chief of Staff  
**Ms Vanessa Pinto**, Senior Adviser

#### Aurora Energy

**Professor Mary O'Kane**, Chair, Aurora Energy Board  
**Mrs Rebecca Kardos**, Chief Executive Officer  
**Mr Grant Russell**, Chief Operating Officer  
**Mr Kane Ingham**, General Manager Commercial Services  
**Ms Melinda Percival**, General Manager Marketing & Product  
**Mr Chris Warr**, Manager Corporate Affairs & Stakeholder Relations

**The committee resumed at 1.15 p.m.**

**CHAIR** (Ms Forrest)- Thank you all for coming. Welcome, minister.

**Mr BARNETT** - Thanks, Chair. I am pleased to be here with Aurora Energy. It is good to be here for the GBE scrutiny hearing for Aurora Energy for the 2017-18 financial year performance and it is a pleasure to welcome our new Chair of the Aurora Energy Board, Professor Mary O'Kane.

As Energy minister, I am excited to work with Aurora Energy to implement the Government's Tasmania-First Energy Policy to drive lower power prices and to empower the people and businesses of Tasmania with the information and tools needed to manage their energy costs. Aurora Energy's role is critical in delivering our Tasmania-First Energy Policy and, most importantly, in looking after the needs of the people and businesses of Tasmania with a never-ending focus on the customer.

Tasmanians now experience the lowest regulated prices in the nation according to the Tasmanian Economic Regulator in its June report on the national comparison of standing electricity prices and that is very good news. Aurora Energy's relentless focus on reducing operating costs has supported that objective, with this year's expenditure of \$36.9 million achieving a significant saving of 10 per cent compared to 2014-15. Their business management skills have resulted in Aurora Energy delivering another year of solid performance, returning a profit after-tax result of \$13.2 million and delivering a \$23.3 million in return to the Tasmanian Government.

Aurora Energy is focused on the customer, continuously improving customer experience, responding to customer feedback received through Aurora's Voice of the Customer program, which has led to significantly above-target results for customer satisfaction and loyalty and a reduction in call wait times. Aurora Energy expanded the scope of the Yes program with close to 2000 new participants receiving support and over 900 customers successfully completing the program and back on track with managing their energy bills. This aligns with the Government's strategy to keep the price of electricity down and to empower energy consumers with the information and tools to better manage their energy use and energy accounts.

In line with looking after the needs of the people, Aurora Energy supported the Government's \$10.5 million Special Energy Bonus scheme, delivering a one-off bonus of \$125 to all pensioner concession and Commonwealth Seniors Health Card holders. Aurora Energy and the Tasmanian Government also extended the highly successful \$20 million Tasmanian Energy Efficiency Loan Scheme for another year running, providing access to over \$28 million in loans to nearly 3500 applicants since this highly success program started in 2017.

Aurora Energy's focus on customer empowerment extends to the business community as well, supporting the Government with a provision of energy rebates worth up to \$20 million to our commercial and industrial business market. In support of the Government's on-farm energy policy, Aurora launched a farm energy advocate service that offers farm business customers special advice and information on managing their energy usage and costs. Delivering innovative solutions, Aurora Energy has developed the new Pay As You Go Plus replacement product, which will utilise advanced meter technology to provide customers with greater visibility and control over their energy use. I saw that firsthand on the weekend with a trial participant in Launceston. Aurora Energy also provided support to more than 60 not-for-profit community organisations and activities, both statewide and in regional centres across Tasmania.

I acknowledge that Aurora Energy has delivered a number of these significant achievements under the guidance of its recently retired chair Caryle Demarte, and I thank Caryle for her service. Caryle maintained a core focus on serving the changing needs of the Tasmanian customers while maintaining good governance and guiding the business through a period of rapid change and evolution in the regulatory environment.

It is now my pleasure to hand over to the newly appointed Chair, Professor Mary O'Kane, who joins Aurora Energy with a wealth of experience, serving on several boards and committees in the public and private sectors, including as chair of the Australian Centre for Renewable Energy. Thank you.

**PROF. O'KANE** - Minister, Madam Chair, I am very pleased to appear before you today in my first official role, as you heard from the minister, as Chair of Aurora Energy.

As is well known, the National Electricity Market - NEM - is in a period of disruption and rapid change. Within this context, energy retailers will play a significant role in supporting their customers with new service propositions and through pricing. Aurora Energy is well placed to fulfil this function of serving customers well in this time of great change, and I am excited to be appointed chair of an energy retailer with an opportunity to make a firsthand, positive impact on its Tasmanian customers.

As an energy retailer, Aurora Energy already has a very good reputation nationally, as I found when I did my due diligence for this role. It particularly has that because of the manner in which it assists its vulnerable customers, and as an energy retailer focused on delivering exceptional service. It is one that plays a proactive role in advocating for its customers, taking national leadership on key issues affecting the Tasmanian market to ensure the interests of Tasmanian energy consumers are well represented. It is one which develops new technology to meet customer needs, and we know they are changing and will change further, by creating new products such as Aurora Pay As You Go Plus.

It is one committed to continuing to support the NEM's increasing renewable energy generation through its agreement with Goldwind, which will see the construction of a 144-megawatt windfarm at Wild Cattle Hill in the Central Highlands. It is one which supports its customers to improve energy efficiency and affordability via its continued expansion of the Your Energy Support -YES - program, an extension of the Tasmanian Energy Efficiency Loan Scheme - TEELS - in partnership with Westpac and the Tasmanian Government. It is one that works actively in the community targeting projects and programs that make a practical and positive difference in the lives of Tasmanians through community partnerships with organisations such as the Alannah and Madeline Foundation and the Smith Family.

The next phase of Aurora Energy will build on all these wonderful initiatives as the business embarks on a customer-led journey guided by its new strategy. I believe I am well placed through my experience serving on boards and committees the minister has alluded to, especially ones dealing with energy matters, as well as having been the New South Wales inaugural chief scientist and engineer for nine years, chairing the NSW Energy Security Taskforce in 2017 to keep the lights on in the summer and being a member of last year's Finkel review. Out of all that, I think I am able to assist Aurora Energy to deliver on its vision and to reimagine Tasmania's energy experience. I look forward to embracing the next phase of Aurora Energy and bringing my skills and experience in the sector to enhance both the work of Aurora Energy and, more generally, the value for customers here. Thank you.

**CHAIR** - Thank you. Would Mrs Kardos like to speak?

**Mrs KARDOS** - I will make some opening remarks. I thank you for inviting us to appear before the committee today. We are really pleased at the opportunity present on Aurora Energy's performance in 2017-18. Alongside supporting our customers and making a practical difference in the community, we have also continued to keep a focus on embedding a low-cost operating model at Aurora Energy. The 2017-18 year has been characterised by the era of change in energy more broadly. As outlined in our annual report, metering competition has been one of those significant national reform agendas. As a result of the Power of Choice metering competition we took over responsibility for metering for all new and replacement meters and we are now taking a market-led approach to advance metering across Tasmania. We also participated in the ACCC's Retail Electricity Pricing Inquiry. This was an extensive review, where 10 years detailed financial data was provided, and the ACCC found Aurora Energy to have among the lowest level of retail costs in the NEM. The ACCC also highlighted Aurora Energy's vulnerable customer program in its final report and noted to the rest of the industry, these sorts of programs have the potential to make a big impact on the lives of consumers.

In addition, we have also contributed to numerous national rule changes, regulatory reviews and policy dialogues while prudently managing significant national wholesale market risks as the NEM continues to be disrupted. It is important to note through all of this change, we have kept our focus on Tasmania. We have expanded the reach of the Your Energy Support Program, a vulnerable customer program, and have extended this to an additional 1923 Tasmanians who have challenges with energy affordability. We have now assisted more than 7600 Tasmanians since the inception of the program in November 2014. Through this we have continued to further cement our relationships with Anglicare, and now have one financial councillor who spends two days a week with us in our Hobart office. Burt is there today; he sits outside my office.

In addition, we have extended the TEELs program in conjunction with the state Government. This has seen a phenomenal take up where Tasmanians have embraced the opportunity to make energy efficient changes within their home, with the support of interest-free finance. We have continued to support the no-interest loans network of Tasmania with delivery of the Energy Saver Loan and Subsidy Program. Through our support, concession customers can have 50 per cent off the purchase and installation cost of changes to their homes in the investment of energy efficiency products. For our large business customers, we started to investigate the role we could play in the delivery of renewable energy solutions, which is best demonstrated with our partnership with SRT Logistics. They are one of our large customers and we have successfully implemented the establishment of a large solar PV pilot.

Most significantly, we also are bringing the next generation of Pay As You Go to market with Aurora Pay As You Go Plus. It is not a particularly innovative name, but the plus signifies it has all the same features we know Tasmanians love about pay as you go, but enhanced features of the control, with greater insight of when are they using energy, but also in terms of convenience and how they can pay for the energy. We continue to recognise the practical difference we can make within our community and have supported more than 60 not-for-profit community organisations, both statewide and at the community level. It is important and I draw attention to the passion and commitment of the people at Aurora Energy. They are passionate Tasmanians and really take strong responsibility for the important role they can do supporting their fellow Tasmanians. It has to be acknowledged it has been a tough and challenging year. But through all of the challenges, they have remained committed to deliver excellent customer service, demonstrated through our

above-target performance of our Voice of Customer Program. Even though it has been a tumultuous year, their continued passion and dedication is evident. We achieved a sound financial result with a profit, after tax, of \$13.2 million and delivering \$23.3 million on an accrual basis in returns to government. While this result was below budget, once you take into account the \$10.1 million for the Special Energy Bonus, we have again exceeded our financial targets for this year.

In summary, creating and delivering value to Tasmanians, while achieving sound returns for our Tasmanian shareholders, continues to be central to Aurora Energy's performance in 2017-18. As a result, we are in a good position to navigate through the emerging landscape of energy in Australia and leveraging opportunities for the advantage of Tasmanians. We will continue to retain our focus on Tasmanians and ensure we are delivering to meet their needs, not only today but also tomorrow.

**CHAIR** - Thank you. To pick up from some of your later comments. Aurora's gross margin is down and part of that is the \$10 million paid as bonus to eligible customers out of your cash would have reduced profit. Then, as you mentioned, Ms Kardos, the dividend and income tax equivalents were lower as a result. What other cost pressures are you are facing that enable you to make as good a contribution in the future back to government, with dividends and income tax equivalents, to see the ongoing picture you paint?

**Mr BARNETT** - I will ask Rebecca Kardos, the CEO, to address those aspects in your question which relates to the operational business of Aurora Energy. We are very pleased, as a government, to get the profit and the return in dividends.

**Mrs KARDOS** - As outlined, we continue on a sound financial footing. If you look at our forward outlook, the level of returns with profit after tax and returns to government does decline. That is acknowledging the increasing pressure we have as a retailer and we incur a number of costs which we then seek to retrieve from our customers and we are seeing increasing challenges. Some of the key specifics will be that as customers continue to reduce their energy use, we will see a decline in consumption and how we recover our costs is through the kilowatt hours consumed.

When you look at the financial outlook, we are still on a sound financial footing over the next four years and are confident we can continue to provide reasonable returns to government over that period.

**CHAIR** - What about the impact of solar panels and emerging battery storage? It is not a huge thing in the state at the moment, but is happening. What impact is it likely to have and what modelling is on this? I note earnings have been negatively affected by an unexpected 112 per cent increase in small-scale technology certificates, required to be acquitted for the six months to the 30 June. Can you address both of those issues, minister?

**Mrs KARDOS** - I will start with the latter. The small-scale certificates impacted our financial performance in 2017-18. However, we are able to recover this in the next price period. The price mechanism we operate in allows us to recover under-recoveries from previous years. That is an effect we had, but we are confident we will recover those costs in this financial year.

**CHAIR** - Can you explain more fully how it works, if you would not mind, for the benefit of all members and people who might be watching?

**Mrs KARDOS** - When we do our price submission to the Tasmanian Economic Regulator, we forecast what consumption will be and what the small-scale technology certificate percentage will be. These are forecasts. When the actual figure comes in there is an 'overs and unders' process within that submission that allows us, if we have over-recovered and we have the percentage too high, the following year to give that over-recovery back to customers. There is the under-recovery process as well where, if the percentage is too low, we can then recover that lost revenue in the following year. It has been embedded in the price submission process since its inception. Kane, is there anything you would like to add to that?

**Mr INGHAM** - No, that covers it. Essentially, we are able to recover higher costs that are not factored in the current pricing in the following price set.

**CHAIR** - The unexpected 112 per cent pay rise was unexpected. Why was it unexpected then?

**Mrs KARDOS** - The small-scale technology percentage is determined by the federal regulator, whose name escapes me at the moment.

**Mr BARNETT** - You are not thinking of Joe Dimasi?

**Mrs KARDOS** - No, not the Tasmanian, the federal regulator.

**Mr INGHAM** - Who sets it for the entire national market.

**Mrs KARDOS** - The uptake of solar panels was far higher than what they expected. As a result, the percentage was increased in line with that increased uptake.

**CHAIR** - So that feeds into the other without trying to use a pun.

**Mrs KARDOS** - There is that flowthrough impact and as a result we saw a significant uplift in our costs associated with that. Because that scheme operates on a calendar year, not a financial year, we saw the impact in the last financial year. As I said, we can recover that under-recovery.

**CHAIR** - That is that issue, yes. Solar panels and batteries.

**Mrs KARDOS** - Going back to solar - you are right. As more customers self-generate and meet their own energy needs, they are buying off the product we sell and that is having a slow but steady impact on our profitability. That is something we take into account in our corporate planning. In Tasmania, because our level of solar hours is far lower, the impact is not to the same extent as what you will find in south-east Queensland or the state where I was previously, in Western Australia, where the uptake is massive and it is now having a material impact on those businesses. We are not seeing that level of impact. We are seeing about 2000 new customers year on year.

**CHAIR** - That is just with solar panels, not with batteries?

**Mrs KARDOS** - Just with solar panels. Battery, as you said, yes - the price is prohibitive for the average customer today but it is likely those prices will come down and that is something in our forward planning that is a key risk. What does that mean? We support customers to have the

ability to invest and make the choices within their home on how best to source their energy needs, but we also have a responsibility to ensure we are providing a service to all Tasmanians in meeting their energy needs. We are doing that in a low-cost but also sustainable manner in the long term. We keep a really close eye on that. We have not done any specific modelling on batteries, but that is a key area for us to focus on in the years ahead.

**Mr BARNETT** - Could I add one thing to the CEO's response? There is a flip side to all of this. The flip side is in respect to electric cars. I think we had a discussion some time ago about the merit of electric cars, but the advice I have received from ARENA, the Australian Renewable Energy Agency, is that in 10 years' time an estimated 50 per cent of all cars manufactured would be electric. Of course, if that was the case or anything near it in Tasmania, you would then have an increased use of electricity because there would be a reduced use of petrol or diesel or whatever, and you would be using electricity. There is a flip side but I thought I should mention that. It is visionary, but we are talking about not that many years away. Last night I drove an electric vehicle down to Hobart from Launceston and had a great drive.

**CHAIR** - It is all downhill from there, so it is easy.

**Mr BARNETT** - It works well when it is going downhill because you do not use too much charge, but I did stop along the way for a bit of a kick along. It got me to Hobart and it was a good ride in an electric vehicle, and I enjoyed it.

**Mr VALENTINE** - I have a couple of things about electric vehicles but also about wind power that people sometimes install. Taking wind power into account, are there many domestic wind-powered generators going in and causing a bit of an issue for you in estimating your earnings?

**Mr BARNETT** - Maybe the CEO could respond. I can talk more about wind but I am not aware of an impact on Aurora Energy.

**Mrs KARDOS** - I know of some domestic wind power but it is very small. The majority of the domestic and better generation solutions are solar.

We are supporting the 144-megawatt Cattle Hill Wind Farm being built in the Central Highlands. The economics around wind farms have improved dramatically over the last few years and we are very pleased to be able to support that development.

**Mr VALENTINE** - I will go back to the electric cars. What consideration have you actually given to the implication of electric cars, given the high level of demand, the tariffs that might be used and whether those are staggered tariff times because of the load that might go into the network? You are not the network, I realise that.

**Mr BARNETT** - Yes, it is a very good question. I will finish on wind. We have the Cattle Hill Wind Farm, which is 144 megawatts, and then you have Granville Harbour. They are under construction and it is our target, by 2022, to be 100 per cent renewable and self-sufficient. The wind is helping us get there.

On your question about electric vehicles, it has been considered but it is still a fair way ahead. It is certainly in our thinking and we support them. The Minister for the Environment has done

quite a bit in this space and has a funding mechanism for the fast-charging stations. They are being rolled out across the state in different towns and cities.

I am not sure if Aurora Energy is involved in that but I will ask the CEO if she has anything further to add.

**Mrs KARDOS** - There is a government group we are participating in. The minister is correct about the timing of when they will come into the market and we start seeing adoption, and whether that then has an impact on our revenue is speculative. We can all be confident that electric vehicles are part of our future. Whether it is in the next 10 years or next five years is the debatable point.

In our financial modelling, we have made no assumptions about electric vehicle adoption at this point, but we review our models every year. Kane, is there anything further you want to take into account in our financial modelling?

**Mr INGHAM** - No. Probably the key thing is that electric vehicles will increase the amount of electricity we sell.

**Mr VALENTINE** - Clearly, that relates to the tariffs that you offer and the demand periods within those tariffs. If you get lots of electric vehicles onto the grid, say, at 5.30 at night when people go home, bang, you have a high demand. It is not so much a problem for you probably as it is for TasNetworks. Have you had conversations with them?

**Mr INGHAM** - Yes.

**Mr BARNETT** - That is a really good question and I appreciate it. We are doing a review of time of use of our tariffs. By this time next year, we will have a report and recommendations on time of use of the tariffs. For charging a car overnight, there may be a certain tariff relevant to that particular use and over time period. That review has begun and will take place over the next 12 months.

**Mr VALENTINE** - Does this look at what the actual infrastructure is capable of handling with TasNetworks? With transformers being overloaded because suddenly in a regional area such as the peninsula people are driving cars with Teslas pulling down power? Are you having those sorts of discussions?

**Mr BARNETT** - Yes, the review is being undertaken by the Tasmanian Economic Regulator and an independent objective assessment that will be done. I have every expectation they will liaise with not only Aurora Energy, but also with TasNetworks, Hydro and the key stakeholders including the city councils as to where and when people may be using electricity more often or at different times as in the use of electric cars. I have every expectation it will be considered as part of the review.

**Mr VALENTINE** - It is not far away if you look at the savings people have by going electric and the vehicle offerings different companies are producing.

**Mr BARNETT** - They are, though they still have to reduce the price of their vehicles to make it economical for consumers to use the electric vehicles, but we are heading in that direction

and Tasmania is well placed, because we have low cost electricity. We have the lowest cost electricity in Australia and are well placed to support electric vehicles.

**CHAIR** - The Government is considering a policy of trying to introduce electric cars as cars on the list government cars are drawn from. When we have a car, the turnover is 18 months - it does not take very long. When those cars start going back into the market, they will be affordable for many more people and that is when you will see the changes start. I agree with the member for Hobart, it is not actually far away. Let us assume it is not far away, because I sat across the table from TasNetworks a few years ago which said solar panels and batteries were so far off we did not need to think about it and I could not believe I was hearing it. We do not need to fall into that trap. Whereas the member for Hobart was saying there is a real risk of a surge because, they draw down a higher voltage - the kilowatt is drained at the time of a car being charged is higher, it is like a household -

**Mr BARNETT** - A fast charge.

**CHAIR** - Yes, it is almost like a household drawing down when everyone is cooking tea at once. What interactions are you having with TasNetworks? It is their infrastructure, but Aurora is going to have the potential benefit of selling the power for these users.

**Mr BARNETT** - A very good point. I absolutely acknowledge the observations of both yourself, Chair, and Mr Valentine. The Minister of Environment is very keen to progress access to and support for electric cars. Although I am Minister for Energy, I support it, absolutely. With government purchase of vehicles, generally for all government vehicles, it is a matter for Government which is reviewed from time to time. I have every expectation the review would include the merits of electric vehicles. Certainly, as Minister for Energy I can see the merit. This has to be cost effective, but there are certain principles or guidelines the Government gives the purchasing authorities. You have to meet certain guidelines and principles, and the use of electric vehicles and the merit of those will be considered in the purchase decision.

**Mr VALENTINE** - As long as you can plug them in at work, minister, which I cannot.

**Mr BARNETT** - Yes, at your work. You would be on a slow charge if you plugged yours in at your office. Not a fast charge.

**CHAIR** - The collaboration, minister, between Aurora and TasNetworks in relation to how it needs to work together?

**Mr BARNETT** - Yes, I can check with the CEO. We have regular contact and discussion about a range of things. I will check to see if the CEO wanted to add to anything already been said about liaison discussions with TasNetworks on these or other matters.

**Mrs KARDOS** - We are aware of the impact it has on the network. We have had discussions with TasNetworks and will be involved with them. They are looking at what network tariffs they need to put in place, with time frames for customers to connect in and to draw down to minimise the potential impact it could have. We will work in conjunction with TasNetworks in the design of the retail tariffs to ensure we minimise the potential impact on the network.

**Mr FINCH** - I would like to cover feed-in tariffs. I have a long letter here but I have truncated most of it and would like some detail or comment. This is from a pensioner in my

electorate who worked to futureproof her costs. She currently has a total of 39 panels with the assistance of a TEELS loan you mentioned earlier, which afforded 13 further panels to reach the restricted 10-kilowatt hours -

[TBC]

Knowing the amazing profits made by TasNetworks, Hydro and Aurora, current I am quite angry re. the following -

1. I feed into the grid now at the measly rate of 8 cents a kilowatt hour after a \$21 000 investment to ensure my electricity future.
2. I am charged 26 cents by Aurora for my usage.
3. Feed into the grid by many Tasmanian residents with solar installed is then on-sold to Victoria by Tasmania for 17.5 cents per kilowatt hour via the Bass cable.

Where is that integrity in that equation in disadvantaging Tasmanians? It would appear to me Tasmanians are subsidising Victoria. Victoria has a current feed-in rate, since 1 July 2017, of 11 cents. Tasmanians, unlike Victorians, cannot switch providers to reduce their costs so are left in the wilderness by the Tasmanian owned provider. I continue to observe the disadvantage to Tasmanians regarding electricity cost where I am aware the Victorian Government is replacing globes with LED-free of cost to all households and there is a 50 per cent rebate for the installation of solar panels to ensure their future ability to afford electricity.

She is suggesting catch-up is required quickly. Can I have some comments please, minister, from you and the CEO? I want to pass this letter on to Aurora for a reply.

**Mr BARNETT** - Thank you very much, Mr Finch. I am more than happy to respond to the letter and the concerns raised in the letter. I can understand, at least in part, where your constituent is coming from. To the constituent I will advise that it is very important to be aware, right up-front, that we have the lowest regulated electricity prices in Australia. They are not my words; they are the words of the Economic Regulator in June this year, both for residential and for business customers. That is because we have put a CPI cap over the last few years on electricity prices in Tasmania and that is planned to continue. We have a Tasmania-First Energy goal to have the lowest regulated energy prices in Australia in 2022. We are on track, but there is always more to do.

We have among the most generous concessions for vulnerable customers in Tasmania, and I would like the CEO to outline in further detail those concessions. It is important as decision-makers around this table we are aware of those concessions so we can always inform our constituents accordingly.

We have, through the budget process for commercial and industrial users, provided support through a \$20 million budget support package and another \$10 million support package for this financial year for business.

I would reject strongly the view we are subsidising Victorians, because the whole point of the Tasmania-First Energy Policy is that Tasmanians come first and we have a policy to deliver low-

cost, reliable, clean power in Tasmania. Tasmanian energy is for Tasmanians at Tasmanian prices. The whole point of our Tasmania First Energy Policy is to delink from the National Electricity Market wholesale prices in Victoria, which are very volatile and have been much higher than we have in Tasmania. The policy is to put that in place by mid-2021. By mid-2021, we can delink from the wholesale electricity prices in Victoria and provide even more security.

We are proud of our GBE energy businesses and what they do. As to the allegation they make amazing profits, this Government's position is not to make super profits from our GBE energy businesses but they do and are sustainable, profitable businesses and we expect them to continue to be so. You have heard that is the case from both the chair and CEO this afternoon. Perhaps the CEO might want to speak to that, particularly with respect to the concessions available and anything else in responding as to views of constituents.

**Mrs KARDOS** - Please forward the letter. We are more than happy to respond to the customer and respond on each of the points she raises. As the minister says, there is a \$503 concession per annum that increases in line with any increase in tariff increases, which increased by 2.05 per cent. The scheme is managed by government and we administer it on their behalf. The Tasmanian Economic Regulator, as part of the annual price comparison report, found that our regulated prices are the lowest in Australia and that we continue to be in the lowest in Australia when the concession is applied.

As to why we pay 8.5 cents for the purchase of the energy this customer produces and exports to the grid and not 26 cents, which is how much they are paying for the energy they buy from us; the key point of difference is the 26 cents includes a whole host of other things, including the wholesale energy. Wholesale energy is about 35 per cent of the cost stack. The transportation of that energy to the customer's premises is around 50 per cent. That 26 cents includes the cost of transportation, the cost of participating in renewable energy schemes, as we discussed earlier, and in market charges and involved in being in the National Electricity Market. The wholesale energy cost that customer is paying for would be in that 26 cents is somewhat equivalent to the 8.5 cents at which we are buying that energy back from that customer. That is why there is a price disparity and that is the primary reason.

The Tasmanian Economic Regulator determines what the fair and reasonable price at which we, as a retailer, should buy the energy that customer is producing. It is a very exhaustive process and they review it every three years to ensure how they determine it is correct. It is independent to us and they ensure we are paying a fair and reasonable market price, the wholesale value of that energy that customer is selling, and it has determined that it is 8.5 cents at the moment. That is why there is a key disparity.

In relation to what happens in Victoria, it is a very different market to Tasmania. It is very hard to compare the two but the key differences between the Tasmanian market and the Victoria market is that their baseload generation in Victoria is coal. In Tasmania, it is hydro. We are a renewable energy state, 90 per cent of our energy is renewable. We are in this enviable position that every state in Australia wishes they were in. I think that is a key difference. Why is Victoria paying 11 cents for that energy? They are recognising they are offsetting coal-fired energy with renewable energy by buying it from solar. We are not doing that in Tasmania.

**CHAIR** - It is Eric Reece's fault.

**Ms KARDOS** - The level of vision in investing in hydro in this state 100-odd years ago is something we should be eminently proud of. It has positioned us so well for the next 100 years. That is the key difference between Tasmania and Victoria, and that is why you will see a difference between the schemes in the wholesale value of renewable energy.

You mentioned the Victorian Energy Efficiency Target - VEET - scheme in terms of light bulbs, but we don't have a similar scheme in Tasmania. We have the Tasmanian Energy Efficiency Loan Scheme, which they don't have in Victoria. It is unique scheme. Whenever I share with my national counterparts, they are aghast we were able to put such a significant scheme together. I am so pleased your constituent has been able to participate in that scheme to invest in solar panels and we have been able to support that through interest-free finance.

**Mr FINCH** - You can hear from the letter she has been very forensic in trying to secure her future. She doesn't feel confident she has been able to do that. I realise, with the way the electricity market is throughout Australia, we might be best advantaged in Australia. That still does not mean we are not going to be subject to reviews to constantly address this issue for people like this pensioner who is worried about her future.

**Ms KARDOS** - I am more than happy to respond to the customer directly.

**Mr BARNETT** - I want to confirm through you, Chair, we would be delighted and honoured to respond to that letter and to each of the dot points, noting that she is a TEELS customer and to confirm it is an outstanding program. You said she had 39 panels and she got an extra 13. That is 52 panels that would be saving her considerable funds on her electricity bill.

**Mr FINCH** - No, it is costing her money now.

**Mr BARNETT** - If you have the solar panels, that would be reducing some of the cost. We are very pleased and proud of the TEELS program and we have the update on that today. That is \$28.8 million, nearly \$30 million approved, and over 3300 applicants in the last few years. That is a good outcome.

**CHAIR** - To go to the feed-in tariff, people are very concerned about it because it is called an overly generous scheme, and there are many others on the scheme referred to by Mr Finch. The Treasurer initiated a view of the solar feed-in tariff and I notice that has been released. You are the Minister for Energy, so I am sure you have read it. I briefly read through it yesterday. I would like your thoughts on the key findings and recommendations and potential action areas.

The first is incentivising the uptake of solar, which is assisting solar customers to make some more of their own energy generation and usage through overcoming upfront financial barriers to purchase solar battery storage. What is your view on support to purchase solar battery storage systems and adoption of solar smart storage systems that may also offer network management benefits in the future move toward a time-of-use feed-in tariff regime? The software at our place needs a little bit of attention every now and then.

Number two was equitable access to solar mechanisms to spread the benefits of solar generation more equally across the Tasmanian community. The benefits of solar installation primary are only accessible by middle and upper income homeowners. I acknowledge the opportunities TEELS presents to lower income earners, but it has still has to be funded up-front. It is a no-interest loan but they have still to pay it back.

The next is better feed-in tariffs. This will interest a lot of people; investigating the appropriateness and potential benefits of introducing time-of-use feed-in tariffs in Tasmania.

The final recommendation is minimising electricity costs, building on the successful operation and benefits TEELS has had in helping reduce costs and relieving pressures on Tasmanian households by improving the energy efficiency of households and assisting in the take up of domestic solar systems.

I am interested in your view on these four notional recommendations of this review.

**Mr BARNETT** - It is a 60-page report commissioned by the Treasurer and myself. I had an interdepartmental committee oversee it. We received some 60 submissions into the review and they were very much appreciated. That report is now a public document and the report and recommendations are noted.

The items you refer to are particularly noted. What I can say up-front is they will all be considered in the context of the next budget and future budgets. That is my first opening remark that will give you an understanding of my thinking as Minister for Energy. We support solar and use of battery wherever possible. That can occur to some degree under the TEELS program, which I have indicated already is a very successful program and is continuing through until April 2019 or until the scheme concludes. For the second point - the time-of-use tariff - a review is underway and that report will be completed by this time next year. It will be undertaken by the Economic Regulator; it is an independent objective assessment and we looking forward to that. There will be a time-of-use report and recommendation.

There was a reference to energy efficiency. We have the YES Program, which supports vulnerable Tasmanians and that helps them. We are talking about thousands of Tasmanians who are benefitted in two ways - how to manage their debt and how to be more energy-efficient in their own home. It is an excellent program. I visited with Rebecca and her team and they have people providing that advice and assistance on energy-efficiency measures to assist those vulnerable Tasmanians. There are options to support vulnerable Tasmanians further down the track. That will have to be considered in the context of the budget, such as plans for Housing Tasmania, the rollout of affordable housing and how and when it occurs. That needs to be considered in looking at the energy-efficiency measures that can be included in any part the rollout. Those discussions are ongoing with my colleague, Mr Jaensch, within Government. You highlighted some key outcomes of that report, which make a lot of sense in principle.

**CHAIR** - When can we expect a more formal response? You said it will be in the next budget. Will there be Government statements in relation to where we are headed with this? Many people wonder what is going to happen, particularly those on a higher tariff.

**Mr BARNETT** - As to this month, and in the lead-up to 31 December change that drops the tariff to 8.5 cents in accordance with the economic regulator's advice, that decision was made in 2012-13 by the previous government. All governments across Australia made recommendations to bring down to those generous feed-in tariffs, which conclude on 31 December. I made a statement on behalf of the Government a few weeks ago, to provide a 5-cent transition support for the next 12 months, from 1 January through to 31 December next year. That 5-cent premium has been and will be implemented for those on the high solar feed-in tariff. More than 30 000 people

have solar in Tasmania and about 16 000-plus of that are on the grandfathered, higher solar feed-in tariff.

**CHAIR** - This report clearly says there is no justification to continue this transitional feed-in tariff rate.

**Mr BARNETT** - This Government decided to provide a transitional arrangement for 12 months to assist with that transition.

**Mr VALENTINE** - There has to be some benefit, I suppose. People need a return on their infrastructure. It is not going to encourage people to invest in solar panels, if they are only going to get eight-and-a-half cents or similar feed-in rate.

**Mr BARNETT** - I note your observations. That has been put to me and to the Government. We have provided that transition. We have that report and its recommendations. It is under consideration by the Government and we have future budgets ahead. If you have a strong economy and you have the budget in surplus, it is not easy. The Treasurer has to make decisions -

**CHAIR** - I thought it was easier.

**Mr BARNETT** - It is not easy. It is very challenging running a government and trying to keep it in the black. We have come a long way in the last four-and-a-half years.

**Mr VALENTINE** - Could this move backfire? People may buy batteries so they can get better value out of the energy they are producing, providing you with less into the grid and buying less.

**Mr BARNETT** - They can use the Tasmanian Energy Efficiency Loan Scheme up to \$10 000. They can use that money for energy-efficiency measures and that has been used for batteries. Its most popular use is solar.

**Mr VALENTINE** - That doesn't provide you with a great deal of comfort. They're not buying your electricity.

**Mr BARNETT** - I have to act in the public interest and I want to support consumers and Tasmanians, and the best way I can help them is to reduce the cost of electricity. That is what we have done. We now have the lowest electricity prices in Australia. I am proud of that, for and on behalf of the Government. I have every intention of using all my efforts to maintain that as a top priority of this Government. That feeds into cost of living and cost of doing business.

**Mr WILLIE** - It probably won't come as any surprise that there are a number of people who have Pay As You Go in the northern suburbs. There are low rates of digital literacy in some instances. I am interested in Pay As You Go Plus - PAYG+. How will you manage households that don't have an email, may not want to get an email but who have Pay As You Go and would like to continue in the new arrangement? What products are available to them?

**Mr BARNETT** - I will ask the CEO to respond to that question.

To confirm, an extra 2000 solar panels were put on by 2000 Tasmanians in the last 12 months or thereabouts. That has happened under the 8.5 cent per kilowatt hour. The uptake is continuing in spite of the lower feed-in tariff.

**Mrs KARDOS** - That has been a key consideration in the design of PAYG+. I will ask Mel Percival, our General Manager Marketing and Product to go through how we have considered that through the entire design process of PAYG+.

**Ms PERCIVAL** - With the development of PAYG+, digital literacy has been a key consideration. As you point out, a number of customers who use this product are older and maybe less digitally literate. We have done a number of co-design processes with customer groups, Coder and 26TEN literacy elements. We now have a product we have finished trialling and it has had very good feedback from customers. The trial consisted of customers of a varying degree of literacy in the digital space. Those customers who were not digitally literate were able to use the product through digital interfaces.

One of the questions you asked was around email addresses and those customers who don't have email addresses. We recognise this product won't suit all customers and there are other options for customers who, for whatever reason, do not necessarily want to go with the new PAYG+ product. There are payment plan options that customers can opt into where they have direct debit out of their bank account monthly or fortnightly. When they receive payments, that can come off their energy account to help them control their energy costs. There is also a choice of tariffs that customers can have; they can continue to be on a time-of-use tariff, which current PAYG customers are used to, or they can go onto a type-of-use tariff - the hot water versus electricity tariff.

We have been very conscious of this. We have done customer trials with digitally less literate customers and they have been able to use the product. It is a concern for us that it is not just an electricity and PAYG issue, but digital literacy; as honourable members would know, this is a concern at a community level on the whole as more and more services move to this space.

We are also working with some of our key stakeholder groups on how we could use this product to help customers understand, through them, how to use these types of products in the future, not just for energy but for other services they may also need to use.

**Mr WILLIE** - There is no other up-front payment product unless you have an email address?

**Ms PERCIVAL** - You will need an email address for this product, yes, that is correct.

**Mrs KARDOS** - There is nothing preventing any customer today from paying in advance. We have a number of customers who are on what we call our PostPay products, on tariff 31/41, which the majority of you would be familiar with. We have a number of customers who put in place a payment arrangement where we determine what their average energy spending is over a 12-month period and they put in regular payments. We have other options for those customers where we can still give them the same level of control that they have with PAYG, but if PAYG+ customers do not have an email address and they do not want one, those are the options available to them.

**Mr WILLIE** - Are they able to monitor their own energy use going to a payment plan?

**Mrs KARDOS** - They cannot do that on PAYG today; however, PAYG+ does give that extra feature, which is one of the additional benefits of it. They cannot monitor their daily use other than how much they are topping up.

What we are able to do is predetermine what their average spending is over 12 months and help set up a payment arrangement where they can prepay effectively the same way as they are doing with PAYG today.

**Mr RUSSELL** - There are tens of thousands of customers who are already in credit at any point in time. The key point, when we find payments are behind or people are getting in strife, is how we react, and engaging with the customer to ensure that we manage their consumption to their benefit - bring it down so it becomes more affordable and work with them on what is the actual right amount to pay. There is a huge investment around that piece internally, and with customers and the energy-efficiency piece we talked about earlier, we do in-house and over-the-phone audits to bring down consumption and explain to customers what individual items are consuming and how much that is costing them. Those services are there now.

The difference from PAYG is that they will not see a dollar value each and every time they stick the card into the meter.

**Mr WILLIE** - How is the cost of the installation of the smart meters being recovered? Is there an up-front fee to people moving to PAYG+ or is that shared across the customer base?

**Mrs KARDOS** - There is no up-front fee for a PAYG customer to transition to PAYG+ or another product of their choice. We are recovering the cost of advanced meters with the change of the metering competition by recovering those costs through all our standing offer prices through the price regulations we have in place in Tasmania, just as how they are recovered today for TasNetworks.

With the transition of metering to ourselves, we are now recovering those same costs for advanced meters through the same mechanisms as TasNetworks was through the price we all pay for energy.

**Mr INGHAM** - That is not unique to PAYG. If a meter is rolled out for any customer, that is how it is recovered. It is recovered consistent with any other customer. I just wanted to clarify that.

**Mr WILLIE** - Do you have a rough idea - or you would have an exact idea, I imagine - of the cost to upgrade all the current PAYG meters?

**Mrs KARDOS** - As a result of the national rule change, we are now obliged to install an advanced meter in all new and replacement situations. If your meter breaks down tomorrow, Josh, we will be obliged to put in place an advanced meter. This is the national reform to deploy advanced meters. All we have done with PAYG+ is leverage the advanced metering technology to provide greater visibility of what the customer is using within the home and then using contemporary technology to give them the convenience to pay when they like. That was going to happen regardless of PAYG+. It just happens that we have been able to leverage that. We would have had to touch every meter and we would be obliged to put in an advanced meter as a result of those rule changes on 3 December 2017.

**Mr BARNETT** - Could I just add to that? First, it was an election commitment that there would be no sign-up fees for PAYG customers. I am just confirming what the CEO has said; that is part of our Government's policy.

Second, with respect to these meters, this is our future and we have a plan over time to roll it out across Tasmania in the forward years because we want customer empowerment so that customers know what electricity they are using and what tariff, where, when and how and at what cost. It is terrific to be able to empower customers - ordinary, everyday Tasmanians - to know more about their electricity, how they are using it, when they are using it and at what cost. From the trial - and I was with Rebecca and a customer in Launceston on Saturday- customers are already learning and benefiting from that in changing the way they use their electricity and what time they are using it. The person concerned, for example, had an issue with his hot water cylinder. He ended up getting a new hot water cylinder and that will save him money in the months and years ahead. There will be many benefits as these roll out in the months and years ahead. I am quite excited about it because it puts the customer in charge of their electricity - how they use it, when they use it and at what cost.

**Mrs KARDOS** - That was the impetus for the national rule change. By taking a market-led transition from the mechanical meters we have at the moment to advanced meters that are comms-enabled, we will be able to give customers better products and greater choice, and better ability to manage their energy needs and costs.

**Mr VALENTINE** - You do not have to have the meter readers.

**Mr WILLIE** - Notwithstanding the national reforms and the benefits of being able to monitor your own energy use, I am just trying to understand the scale of the upgrade for PAYG customers. Do you have an understanding of what that cost will be?

**Mrs KARDOS** - We will be progressively replacing every single meter in Tasmania for all 280 000 customers over the next probably 10 to 15 years. The advanced meter has a greater cost than a mechanical meter. We will see an uplift in metering charges over time as a result of that, but -

**CHAIR** - Which is passed on to the customer, I assume?

**Mrs KARDOS** - Which is passed on to the customer, but the national agenda was that additional cost will also mean we can do products like Pay As You Go Plus that gives them greater control and greater convenience. The feedback we have got from the 70 in-market trial participants is that they are really valuing that. It was interesting at the media event that the minister and I did with Malcolm Lear, our customer in Mowbray on Friday; even the cameraman said was this looks great when he checked out the app. This is the next generation of energy. Energy is not only being transformed in how we produce it, but also transformed in how we use it. We are seeing electric vehicles and technology disruption on every element of the supply chain, and metering is one of those elements. Yes, there is an uplift in metering costs that the entire national market will incur with the market-led implementation of advanced meters. We will already have put 10 000 advanced meters on since December last year. We have seen -

**Mr RUSSELL** - A 27 per cent increase in installations over a 12-month period.

**Mrs KARDOS** - We are already seeing an uplift. We offer the opportunity to customers to also sign-up to be considered. For solar customers with dogs, where access to read their meter is problematic for TasNetworks, by putting in an advanced meter with comms-enabled, we no longer need to visit the premises anymore and can read the meter remotely. There is a whole host of benefits here for customers.

**Mr WILLIE** - As a business, are you separating out the PAYG upgrades from this?

**Mr RUSSELL** - It is a good point, Josh. The issue we have and our PAYG+ is a separate meter type. It is a completely bespoke product, which is expensive. We are looking at using the standard metering installations; we have the economies of scale from using the same meter type to support the product.

**CHAIR** - The additional metering cost Rebecca spoke about, is that the cost of the unit itself or is there an ongoing additional cost in the actual metering?

**Mrs KARDOS** - The actual meter is more costly.

**CHAIR** - That is the up-front cost, once you have it, though?

**Mrs KARDOS** - The up-front cost, but also in the meter data provision aspect because we are now capturing the current mechanical meters you probably have on the majority of your homes - probably not yourself, Ruth, we capture one read every three months. We are now capturing 30-minute interval data and the management of that data provision, and there is cost associated. That 30-minute data will transition to five minutes by 2021. We will move to five-minute data intervals.

**CHAIR** - Also expect a text message from Aurora saying, 'You had better slow your usage down -'

**Mr VALENTINE** - 'because we are trying to look after you'.

**Mr RUSSELL** - It does present opportunities of giving you more transparent and timely advice.

**CHAIR** - Yes, that was slightly tongue-in-cheek, because they are going to charge you more.

**Mrs KARDOS** - Exactly. This is a good point. We are seeing disruption along the entire supply chain of energy and it is a transition challenge, but exciting because there are opportunities. The biggest thing we hear from our customers is that they do not have enough visibility of what happens and we will know at a five-minute level what is going on within the home,

**CHAIR** - What is using their energy.

**Mrs KARDOS** - Yes and what can they do, what can they change, and what can they tell their kids. We can redefine it.

**Mr BARNETT** - A little twist, on the weekend they could see when the kids were using the video and the home communication and entertainment centre.

**Mrs KARDOS** - When they should be at school.

**Mr BARNETT** - When they should be at school or somewhere else and you know what is going on and it is all on your app.

**CHAIR** - It is big brother.

**Mr BARNETT** - In one way it is, but it is big brother for your own home, so you can see what is happening in your home.

**Mr VALENTINE** - There is an app to control that where mothers or fathers can stop that.

**Mrs KARDOS** - I am going on a little technology vent here, so please forgive me. The exciting thing is that is the information, but then there is the automating of that information within the home. Then you do not require the human interaction of turning things off or changing things. We are starting to see an emergence of in-home technology around managing energy. What we are going to see over the next five to 10-plus years is a greater level of integration through data between the devices in your home and the information available to them.

**CHAIR** - I wanted to raise the largest expense item in your annual report. On page 57, IT is at over \$20 million and wages were \$20 million roughly. I am interested in the breakup of the IT costs, because it seems as if there is a lot spent on software. Over the years sitting across the table before your time, Rebecca, we have had enormous software costs associated with Aurora but also TasNetworks combined. I note the cash outlay was \$7.8 million on software, taking the total spend, including the work in progress, to \$13 million, since the transfer of Aurora Energy's assets from TasNetworks. There seems to be an ongoing large amount of money spent on software. Is this all to do with the metering or are we seeing software costing so much to this business?

**Ms KARDOS** - The key reason is we are investing in our customer care and billing system to make the changes for metering competition. We had to do a significant change and invest in the system, because we went from a single meter reader every quarter to capturing 30 minute interval data and then billing from that. That has been a significant change.

**CHAIR** - How long before it is in place and hopefully the investment costs in the software initially will reduce?

**Ms KARDOS** - You always will have an element of reinvestment in your systems. They have to be maintained, the market will change and continue to change. For example, we have new life support rules which again require us to invest to remain compliant with the National Energy Customer Framework rules we are seeing. Further changes are coming around in terms of how we treat estimated reads; there are further changes with metering. Those changes always necessitate system changes, because they have an impact on how we provide customer care and bill our customers. There will always be a level. One of the things we keep a close focus on is making sure those national rule changes, because they have a cost associated with them, have a material benefit for Tasmanians because we are in a market that is ,changing quite dynamically. We have to ensure we are getting a return on that investment. In answer to your question when will we stop investing in our billing system -

**CHAIR** - It was not that. It was: when will we see a reduction in the need?

**Ms KARDOS** - When they stop changing everything we are not in control of. We are looking at ways where we can invest in lower cost technology. For example, PAYG+ has been developed using app technology. That typically has a lower cost than changing your billing system. We are looking at using interfaces to our billing system to talk to your mobile phone and your desktop devices to see whether we can reduce the cost, because we have to remain as a low-cost energy retailer to be sustainable in this market. It is a competitive market and our biggest risk is always going to be competition.

**Mr VALENTINE** - What is the kilowatt hour charge for PAYG?

**Ms KARDOS** - PAYG will be charged under the standard tariff of tariff 93.

**Mr FINCH** - Another area of public concern is the frequency of outages, particularly in country areas. They are common. A combination of wind and rain. Could you give us some idea of the outage problem in Tasmania and also is there any way to quantify the cost of compensating country consumers for outages? How does this occur?

**CHAIR** - That is a TasNetwork question.

**Mr FINCH** - In respect of outages?

**CHAIR** - Yes.

**Mr BARNETT** - Thank you, Chair. I am than happy to help and assist. Perhaps we can speak later if you would like, Kerry, but it is an issue for TasNetworks.

**Mr WILLIE** - How many customer debts have you recorded over a 10-year period? Do you keep those records?

**Mrs KARDOS** - We monitor our credit position at any point in time. Over the last five years, since we were established as a standalone energy retailer, we have seen a decrease year-on-year. As to our debt write-offs, those debts we deem unrecoverable are at their lowest level ever. As a percentage term of revenue, it is 0.01 per cent. It is very low.

Grant's team, to whom I will hand over to shortly, does a phenomenal job. This is why the success of YES is so important. It is important to help customers to keep on top of their energy bills and to support them through a range of means. The last thing we want to do as an energy retailer is disconnect customers. It is not a good outcome for the customer and it is not a good outcome for us. Grant's team does a host of things to manage our credit position and to support customers to keep on top of their energy bills.

**Mr RUSSELL** - We would traditionally look at Plus in the last 365 days rather than 10 years. Ten years is not something we would look at. If you haven't recovered in 10 years, you are not recovering. If you haven't recovered in 365 days, you are going to struggle to recover. We have it down to about \$1.6 million of bad debt write-offs, which is significant. Over the four-year period, that is more than half of the previous total. We have invested heavily. We have about \$4.5 million under active management of YES et cetera. We don't let it get to that point.

Our cost base in debt-to-operating costs is about half the industry standard. We are performing way above the standard industry and we are keeping power on. We have reduced disconnections at the same time. It is really important that it is not one way. We have kept power on while reducing those numbers.

**Mr WILLIE** - Is the \$1.6 million a yearly figure?

**Mr RUSSELL** - That is annualised, yes.

**Mr WILLIE** - Do you have payment plans for people who find themselves in debt?

**Mr RUSSELL** - We do. We have payment plans. We have a range of mechanisms to assist people in managing their position. When you go onto YES, we set your debt aside so you are not focused on the past. We focus on bringing your current consumption behaviours to a manageable amount. After we have sorted that out, we get you consuming what is possible and practical and making it more efficient. Then we look at the debt. We put that away so you are not worrying about the debt or keeping the lights on. We manage that and then we bring consumption down to make it more affordable.

**Mr WILLIE** - Is there any talk among the GBEs at looking at some of that debt recovery collectively? I imagine that if people have a debt with Aurora, they might have a debt with TasWater and so on. Rather than having to go to all these different entities and resolve payment plans, could they come to a one-stop shop?

**Mr RUSSELL** - There are issues around privacy. We have to be mindful of customers' privacy and accounts and the different needs between different entities. However, we started with TasWater as an example in what is called a 'Thriving Communities Partnership', looking at how we can learn from each other and from what we are doing. We are probably leading the way for utilities in how we look after vulnerable people and what we can share.

There is an idea that initiated in Victoria but we are looking to bring it to Tasmania as an extension of YES. That is, working with other elements of the energy utility market to look at how we bring the pressures of affordability down and stop the fear and panic of it getting out of control.

**Mrs KARDOS** - We work really collaboratively for the various parties in this sector. There is a range of entities in the community services sector. We work with our vulnerable customer committee. That is what thriving communities is all about - how we work collaboratively together to support Tasmanians who may be having affordability issues across the scope. Grant is 100 per cent correct. Privacy is the key factor that will prevent us from sharing data but nothing prevents us from sharing what is good practice, working better together and always having a focus on ensuring Tasmanians get the best support that they can.

**Mr BARNETT** - We have 3500 vulnerable Tasmanians on the YES program. They get advice on their debt and how to manage it as well as how to be more energy efficient, which is a very good program.

**Mr WILLIE** - Some of those privacy issues could be resolved. There are NGOs operating with government and there are government departments interacting in that way and they seem to

overcome privacy issues. We have to try to make it easier for vulnerable people to resolve these situations. Having to go to all the different GBEs could be a barrier to addressing the problem.

**Mrs KARDOS** - There is a credit reporting item within the privacy guidelines and we are required to comply with that. There is specific privacy guidance around credit reporting that we have to comply with. The privacy protections are quite detailed, especially around credit reporting and that is what I was referring to.

**Mr RUSSELL** - We are working to see whether there are practical measures we can take and learnings we can take from each other. That is happening.

**Mr GAFFNEY** - I am interested in the chair's overview. I am not going to the glitches or the timing of the \$10 million - somebody else might like to ask about that. Has it happened before, that a significant sum has been returned to the \$10.1 million you mentioned at the beginning?

**Mr BARNETT** - The Special Energy Bonus?

**Mr GAFFNEY** - I suppose I have three questions. Has anything like that happened before? Second, what triggered the capacity for Aurora to give \$10.1 million to 80 000 people? Third, has that set a precedent for it to happen again?

**Mr BARNETT** - I am not aware of that happening before but it is quite possible. Second, it is done because we wanted to keep the cost of electricity down and keep it as low as possible because the cost of living and the cost of doing business are top priorities for our Government. Although we have put the CPI cap, we are now in a position of having the lowest electricity prices regulated in Australia for residential customers and business, as of June this year. There is always more to do.

The third part of your question related to a precedent, I don't think it sets a precedent but it sends a message from the Government. We want to do everything we can to keep the costs of living and doing business under control. It is happening as we speak under our Government's Tasmania-First Energy Policy. We are delivering on it and we will keep trying everything we can, hence the delinking by mid-year 2021 and our effort to continue to put a CPI cap on electricity prices between now and then.

**Mr GAFFNEY** - I will come back to that. Why did it occur in 2017 and not 2016? What was the difference in Aurora's balance sheet that it was able to provide that money last Christmas instead of the Christmas before, when people were still struggling? How did you come to the arrangement that you were going to come up with that much money? It is a significant sum - and helping people, I am not doubting that, I just want to understand what triggered Aurora being able to do that.

**Mr BARNETT** - It is triggered by government. It was a decision of the Government.

**Mr GAFFNEY** - What triggered the Government to be able to do that? Was the profit so high that they could afford to do it?

**Mr WILLIE** - There was an election.

**Mr BARNETT** - No. Let me put it this way: we always want a sustainable, profitable outcome for our energy businesses, Aurora Energy and TasNetworks, and Hydro Tasmania has delivered that. We are not looking for super-profits and we are not looking for losses. We want sustainable, profitable businesses. Within that context, the Government made a decision to support pensioners in particular and healthcare concession card holders. Over 80 000 Tasmanians benefited from that \$125 per household concession or rebate. We have delivered because the cost of business and cost of living are top priorities. That is why we delivered it.

**Mr GAFFNEY** - Therefore, this year, Aurora is not in the same financial position as it was last year to be able to offer that \$10.1 million again?

**Mr BARNETT** - We have the lowest regulated electricity prices in Australia from June this year.

**Mr GAFFNEY** - Yes, but that was not my question.

**Mr BARNETT** - It is not my words - from June this year.

**Mr GAFFNEY** - Yes, but my question is: is Aurora not in the same financial position it was in this time last year to be able to offer the benefit again? If this time next year Aurora is in the same position it was last year, will it be able to offer it again? I just want to understand -

**CHAIR** - Would they be asked to offer it again.

**Mr GAFFNEY** - Yes.

**Mr BARNETT** - Aurora has not been asked to and there are no plans at this stage in the minds of the Government to ask it to do it. It is running a sustainable, profitable business. We are pleased with the outcomes. Aurora has delivered its annual report and we are very pleased with its efforts, and I thank the team and everyone at Aurora Energy for their service.

**Mr GAFFNEY** - That is fine. My last question is slightly different. You mentioned the independent Economic Regulator. When governments interfere with that process, does the Economic Regulator not become independent? If a government steps in and says, 'This is the cap', what impact does that have? We have seen it before in the Tasmanian water industry when David Bartlett introduced a cap in 2009, which threw a spanner in the works. How do you reconcile that you have a position independent of government and yet then the Government comes in with a cap?

**Mr BARNETT** - Yes, that is a good question and that is where the Government has to try to find a balance. Our priority under our Tasmania-First Energy Policy is to deliver the lowest regulated prices for residential and business customers by 2022. We achieved that in June this year. We are very pleased, but we know there is more work to do, and it is not just for residential customers but businesses as well. We need to put that forward in our budget and in our policy initiatives, and we have a full range of those initiatives - low cost, delinking, the solar feed-in tariff; we have heard about PAYG+ - to try to get a balance to deal with cost of living and cost of doing business. We consider all those issues. We have policy priorities we put in place through initiatives and through the budget, and we make those decisions sometimes in very challenging circumstances. Frankly, we cannot make some of those investments unless we have a strong

economy and have our budget in the black. That is where we are at the moment and it is still very challenging, but we are heading in the right direction.

**Mr FINCH** - From the Aurora annual report - 61 per cent female - tick, but down on page 29, on employee engagement, the employee engagement score has gone from a high of 63 per cent down to 50 per cent, with a target of 65 per cent. Also, on the employee culture target, for improvement in constructive styles, the target was 5 per cent, but it was negative 23 per cent. Can you comment on those figures, minister?

**Mr BARNETT** - Thanks very much, Mr Finch. I will pass to the CEO to respond to those operational matters.

**Mrs KARDOS** - As I said in my opening statement, 2017-18 was a challenging year. The metering transition involved more than a hundred of our staff - that is effectively 50 per cent of our workforce.

We were working tooth and nail to deliver to the national rule change date, which was 3 December in the end. It was originally 1 December, but it was 3 December, and that required a significant effort by all our people while continuing to provide the services we provide every day. The challenge through that was that we had to make some tough choices for some of the investment in our people programs; we had to delay the deployment of PAYG+ until this coming calendar year because we needed to deploy all our resources to be ready for the new rule change when it came into effect.

The saddening thing in all that is that it did impact on our people. We employ, as I said at the beginning, more than 200 proud, dedicated, passionate Tasmanians. They do a phenomenal job but, unfortunately, through those challenging circumstances, we saw a diminishment in engagement and culture. I, as CEO, and my leadership team, are committed to working with them, ensuring that we are putting as much as focus on our people as we do our customers because it is our people who make a difference to our customers, and that is where our focus is going forward.

**CHAIR** - Thank you, minister, and your team. We have run over time, but thank you for your attendance. There are many other areas we could have gone to but time runs out.

**Mr BARNETT** - Thank you very much, Chair, for the opportunity, and thank you to our new Chair of Aurora Energy, and to Rebecca and her team, and to all members of the Legislative Council.

**The committee suspended at 2.52 p.m.**

# UNCORRECTED PROOF ISSUE

**Tuesday 4 December 2018 - Legislative Council - Government Businesses Scrutiny Committee A - Tasmanian Water and Sewerage Corporation Pty Ltd**

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Tuesday 4 December 2018**

#### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney  
Ms Lovell (Deputy Chair)  
Mr Valentine  
Mr Willie

#### IN ATTENDANCE

**Mr Doug Chipman**, Chair, Owners Representative Group  
**Dr Stephen Gumley AO**, Chairman  
**Mr Michael Brewster**, CEO  
**Mr Dean Page**, Chief Financial Officer  
**Ms Juliet Mercer**, General Manager Corporate and Community Relations

**The committee resumed at 3.04 p.m.**

**CHAIR** (Ms Forrest) - Thanks for joining us on behalf of TasWater. We know you are not actually a state-owned company or a GBE, but there is still a requirement to report to parliament. It is all recorded on *Hansard* as part of our government business scrutiny process.

Welcome, Mike. I appreciate some of your team are very new. I would appreciate if you could introduce your team to the rest of us and for the purposes of *Hansard*, and then if you would like to make an opening statement. I know the chair of the Owners Representative Group has only been in the job for a few days and he might like to make a comment from the owners' perspective.

**Mr BREWSTER** - Thanks, Ruth. Stephen is our chairman and he will provide some opening comments on behalf of the corporation. I do not know if everyone has met Stephen

Gumley. Steve, like Doug, is a week or two in, but has been on the board for a number of months. Dean Page is our Chief Financial Officer and has been here a number of times. Doug, as you say was fortunate enough, I hope in your view, to be elected Chief Owners Representative last week. I might hand over to Stephen and his opening comments.

**Dr GUMLEY** - Thank you. I appreciate the opportunity to make a few comments. First of all, about the ownership and the memorandum of understanding between our local government owners and the state Government. We welcome the passing of the amended legislation that will allow the state to become a minority shareholder in TasWater, through its \$20 million per annum equity injection. This is going to facilitate lower prices for customers and an acceleration of our capital plan as per the MOU recently endorsed by all parties.

It is pleasing TasWater remains a corporation governed by an independent skilled board of directors with oversight provided by an independent regulator and our owner councils. There are multiple sources of accountability with this structure.

Under the MOU, we envisage with government support major projects such as the Macquarie Point Sewage Treatment Plant relocation and upgrades to the Launceston combined system and possibly Freycinet sewerage system to assist the tourist industry will proceed while retaining the principle that TasWater's customers only contribute to the extent they receive a benefit. We are also working with government to develop further alternatives to make it easier for tradewaste customers to meet their environmental and commercial obligations.

The key achievements for the last year are worth noting. Importantly, there was the removal of all public health alerts impacting water supplies. They were all removed by 31 August 2018, as per the promise of TasWater two years ago. A capital investment was achieved of \$164 million versus a target of \$135 million. This means the Tasmanian community is receiving infrastructure improvements earlier. Repeatable efficiency gains of \$10 million per annum against our budget of \$5 million mean we doubled the amount of efficiency gains last year. This level of savings has enabled the business to hold increases below the maximum allowable by the Tasmanian Economic Regulator. For financial results, there was net profit after tax of \$42.7 million versus a budget of \$35 million.

We might move on to our focus for the future. We will be continuing to listen and engage with local communities, key stakeholders and customers. While we will not always be able to please everyone, and we certainly won't, we are genuine in our efforts to make TasWater a trusted and respected corporation Tasmanians will be proud of. We know we still have a long way to go, but we also strongly believe we have the plan and the people to deliver. Keeping price increases as low as possible, while delivering on our promises, is a very important aim for us. While we have come a long way in a short time, it must not be forgotten there is much to be done in order to bring our infrastructure and services up to modern day standards. Historic underinvestment goes back many decades and we have a catch-up to do for the benefit of all Tasmanians.

Delivering on the accelerated capital program is a key effort we will be making over the next couple of years and into the next decade. We are introducing a new capital delivery model to facilitate an expanded program and the key challenges will be gaining access to resources, particularly contractors, to build the new infrastructure in the forecast boom in infrastructure investment happening across the whole country. We will be continually enhancing the consistency of experience for our customers, hopefully to the point where they do not feel they

need to call us or when they do their issues are dealt with efficiently and their experience is a positive one.

We are committed to improving our data records and the integrity of our data, which is an important part of better internal efficiencies and external customer satisfaction. We wish to help support development in the state through streamlined and simplified processes developed to suit industry. While this is not always entirely in our hands, we are consulting with end-users to improve their interactions with us. This includes trade waste, where we acknowledge many customers are still struggling with the cost of compliance. Thank you very much for listening and I welcome your questions.

**CHAIR** - Does the owners' representative, Mr Chipman, wish to say a few words?

**Mr CHIPMAN** - Thank you, Chair. Very briefly, we are delighted to see the legislation finalised for the state Government to come on board as a part-owner. I am not sure whether the bill has received royal assent but it must be very close.

**CHAIR** - It has been through both Houses. It is only a matter of a day or thereabouts. It only needs to be taken to Government House.

**Mr CHIPMAN** - We are also delighted to see the MOU struck in April last year has retained its integrity in what has been introduced into constitutional changes, the shareholders' letter of expectation and that the legislation has been consistent with the original MOU. We expect the Government will be coming on board as a part-owner commencing early next year. We are looking forward to establishing that relationship and some of the protocols set up in the MOU as to meeting schedules and so on. I am also happy to take any questions.

**CHAIR** - It has been a good year for TasWater and the results are pretty good. You wonder whether you need a threat of a major takeover to put people into gear. You might like to comment. Sometimes it takes a circuitous route. The profit before tax was up \$12 million, which is a good outcome. Most of it was explained by contributed assets. Can you tell us what contributed assets means in general terms? Dr Gumley, the chair, spoke about the efficiency gains to be made. How have they impacted on the improvement in your profitability?

**Mr BREWSTER** - Perhaps our CEO can talk to the contributed assets. We are both happy to respond to the productivity gains and how they benefit the business.

**Mr PAGE** - Contributed assets have largely been driven by the development we are seeing in the state as part of subdivisions, new housing estates and even commercial properties. There would be an element of water and sewer infrastructure constructed by the developer as part of that development and, under the legislation, they gift that to us and it becomes part of our asset base. In the way the accounting works, it is recognised as an income for the business. From a regulatory asset base, there is an offset that reflects the circumstances that TasWater has not paid for that infrastructure and can't earn a return on that infrastructure as part of the regulatory price build-up.

**CHAIR** - It impacts on the regulated price.

**Mr PAGE** - No, it doesn't. Through that mechanism the customer base is not being asked to give us a return on those assets. The accounting standards have it passed through our income but,

from a regulatory pricing perspective, customers are not funding that. It is the developer who has funded it up-front.

**Mr VALENTINE** - You still have to depreciate it.

**Mr PAGE** - There is an offset. From a regulatory asset base point of view, there is an offsetting entry that brings the effective net value of that asset to zero on the day it is taken into our regulated asset base. It is depreciated through the accounting books, but we have that mechanism under the regulatory price build-up. It is recognised that TasWater has not funded it and has not paid for the infrastructure, therefore it would be inappropriate for us to receive a return on that infrastructure through our prices.

**Mr VALENTINE** - You said you treated it as an income.

**Mr PAGE** - It is the difference between our statutory accounts and the accounting standards requirements, and then how the regulatory asset base is built up for the price submissions.

**CHAIR** - Moving onto the efficiency or productivity gains, can you speak to those?

**Mr BREWSTER** - We had four major projects, which Dean can add to, that drove 90 per cent of our efficiency gains. We have learned over the years that trying to do a long tail of things usually does not bring a lot. You try to focus. We earned significant gains from reducing the costs of the service delivery arm of our business. We had some earlier benchmarking of our retail costs, our costs to serve customers, compared to the mainland. We identified significant savings in that area through Dean's leadership. We did see some gains in centralised procurement. One of the things we are trying to do is improve our procurement practice. We didn't get as many as we expected. I am trying to think, the fourth project -

**Mr PAGE** - It was under water and sewer optimisation.

**Mr BREWSTER** - That is right. This one was less focused on efficiency gains, although we got them. It was more about how we more rapidly, and without large investment, improve the performance of our water and sewage plants. We had a budget of \$5 million. The board said at the start of the year that we should be able to manage it better than that. It set us a target of \$7.8 million, and \$10 million was delivered. The benefit of those savings is that pretty much all of them are flow-on. They flow on year-by-year even though they are externally reviewed for the board. The board asks for the savings to be reviewed externally before they count them.

**Dr GUMLEY** - Yes, they can be assumed to be permanent savings, they are not flash in the pan. It is reducing your cost base.

**Mr BREWSTER** - The importance of it is because our costs are, on the other side of it, climbing rapidly. If we didn't have these savings, we would have to be asking for further increases from our customers. If you recall, we received approval from the regulator to charge a 4.6 per cent increase. The board determined, given the extent of the savings, we would go with the 4.1 per cent increase. That was largely because we were able to offset some of the increases. We built a number of additional plants last year. We are upgrading the plants. All those compliance projects add, generally, more labour, more electricity and more chemicals. In order to hold our price path, we have had a continuous focus on taking costs at the same these costs are coming in, so our customers don't feel the pain of those increased costs.

**CHAIR** - The operating cashflow coming in from the savings gives you the money to use. Is that predominantly going back into capital expenditure? It seems you have ramped up your capital program.

**Mr BREWSTER** - We certainly have in the last year. The capital program is funded out of debt and operational earnings. Some of it has gone into retained earnings for the future, some of it has gone to fund a \$164 million program against the \$136 million we had envisaged. That is the way it works. We are looking out a lot further than this year. We are always looking to how we can generate more savings because the benefit is it reduces our debt, it reduces our interest payments and gives us more room for any future headwinds.

**CHAIR** - The Auditor-General commented that TasWater has done really well in exceeding its capital expenditure program, which is not the case with all government-owned businesses, acknowledging that you are not a government-owned business. In doing that, are there challenges associated with that, such as finding the expertise you need to undertake the work, workforce shortages and so on?

**Mr BREWSTER** - Would you like to start, Stephen, and I will fill in the detail, if you like? There is a significant change in the business.

**Dr GUMLEY** - It is nation-wide. The whole eastern seaboard of Australia is taking on infrastructure projects. There is a limited engineering supply pool in the country, so it is not only a Tasmanian issue. My biggest concern is how are we going to find enough skilled people to do all the projects we have. That is going to be a challenge.

**CHAIR** - That is without Macquarie Point, without the Launceston combined system and without Freycinet.

**Dr GUMLEY** - We are working on methods of doing that. Maybe the CEO can talk about the capital delivery office as one initiative to improve our performance and get those resources.

**Mr BREWSTER** - That is exactly right, Stephen. We started the journey in January 2017, when we undertook some enhancements to our delivery process. We realised the process we had then, which was built a couple of year before, needed to be further improved, but at the same time we could see we could reliably generate \$120 million to \$130 million and deliver it on time, most of the time on budget and have the outcomes you expect. We were always going to have a problem beyond that, and at the same time we had built up a model that said we were going to be spending somewhere between \$1.5 billion and \$1.5 billion and needed a more robust model.

In January-February we kicked off a new model, a capital delivery office, deliberately designed to enable us to rapidly expand our program and to give access to resources in the planning. This is where most of the issues are, in the planning and program management phase, so we can hit the \$180 million or more in the next two years and can accommodate the Macquarie Point and the Launceston combined systems into the future.

Stephen is absolutely right. At the same time, we have been doing this, the economy has been building nationally. There is a booming infrastructure demand and the big challenge for us will be getting enough contractors nationally to come in and do the work. That is where we see the challenge.

**Mr WILLIE** - Not paying a premium in that environment?

**Mr BREWSTER** - No. The risk is we pay a premium and that is a decision that has to be made at some point, Josh - you are right. We have already planned how much we intend to spend each year and have broken it down into projects. If we suddenly find we are all good to go, but all the projects are coming in 20 per cent over the original budget then, as a board and management team, we would go back and say, 'Okay, we are not going to throw money at this, do we need to step back?' We would have to do that with the owners and the Government and say, 'Do we step back and say, no, we will do a little less, because we can see in the longer term the prices might come back?' That will be the judgment to be made as we move through the process.

**Dr GUMLEY** - We might arrive at it better by having a programmatic approach to the projects. Given where TasWater has come from, owned by 29 councils, all the projects for the last 100 years have been done 29 different ways at least and there has been very little standardisation between projects.

**Mr VALENTINE** - It used to be 46.

**Dr GUMLEY** - Or 46 different ways. You know where I am coming from. One of the ways you reduce your overall costs for a program of projects is to have more standardisation. It means you only have to design something once and then do small modifications site by site. By having a longer strategic plan with a 20-year vision, we can start bringing thinking about standardisation in, how we do it and get 80 per cent of the design done only once for that class of assets. There are programmatic ways of trying to offset what we recognise are going to time and cost pressure from this infrastructure overload in Australia.

**Mr WILLIE** - On the capital delivery offers, is it minus any UGLs become involved in that? Was that a tender?

**Mr BREWSTER** - It was an open tender to the market. UGL and CPB and WSP, which is a consulting organisation, banded together. They were one of the parties that bid in the open tender and we recently nominated them as the preferred partner.

**Mr WILLIE** - Do they have a local presence in Tasmania?

**Mr BREWSTER** - All the parties will be located here. To be successful, you have to have boots on the ground. We were not prepared to take anyone that could not make it work. It is an alliance model, so they have to deliver out of our offices with our people.

**Mr WILLIE** - There will still be flying workers in under the arrangement?

**Mr BREWSTER** - No. Some people will be coming in and relocating to this state for the duration of the CDO. This is one of the benefits, to the extent we require specialists we would not normally procure and hire ourselves because it is very expensive when you only need them for a few hours. For planning purposes, we will be able to tap into them. Yes, like any other consulting expertise, if you can get it in Tasmania, that is great, and if you cannot, you get it from somewhere else and we will bring them down.

**Mr WILLIE** - I am interested in the bigger projects. You outlined your capital expenditure program but there are projects sitting outside of that like Macquarie Point, the Launceston stormwater, Freycinet and Southern Beaches. Can you give us an indication of the costs involved in those projects, the negotiations with government and how they are going to be funded outside your capital expenditure program?

**Dr GUMLEY** - We are consistent in saying the amount of any of those projects of benefit to our customers - for example, what would have been a routine upgrade at Macquarie Point - we would have spent the money anyway. It is probably fair and reasonable TasWater pays because it would have benefited our customers.

If additional money is to be spent on projects for the benefit of the state, but not necessarily TasWater customers, one would expect the money to come from other sources.

**Mr WILLIE** - So Macquarie Point is not an upgrade, it is one of those projects outside of your customer -

**Dr GUMLEY** - It would have been an upgrade. There would have been upgrades required in the next 10 years and so with the amount we might have upgraded, there might be a year or two shuffling around when you actually spend the money and that would not make sense because TasWater customers would have had to pay it anyway, and so you can do that piece of work.

**Mr WILLIE** - So you will take the upgrade costs out of that project and spend them across the customer base? Is that what you are saying?

**Dr GUMLEY** - No, I am saying what would have been the upgrade cost, or what we would have spent anyway, is what we can distribute across the customer base because it is the normal business.

**Mr BREWSTER** - That is entirely appropriate, Josh. The order of \$40 million to \$50 million is what we would have to contribute because that is what customers would have paid in the regulated asset base. That is what customer would have paid anyway. Beyond that, it is up to the Government and we are working with Treasury and the Government to finalise a funding model.

We are also working through the next stage of funding at the moment, the fund moving out of preliminary scoping into the planning stage, which is, again, with Treasury.

Launceston knows we will not be contributing anything on the Launceston combined system, but we are working closely with Launceston City Council and the Government on moving so we will likely take accountability for delivery of the solution. The funding, as the Government has acknowledged, will come from the federal announcement and their own funding.

In terms of Freycinet, at this stage it is too early to say. We are working with Government on doing a proper pre-feasibility study. Let us make sure we absolutely know what the key issues are, engage with the community, and then when we determine the benefit to existing customers, we will contribute in proportion and the Government will contribute the balance. We are working through each of these.

Southern beaches - there is a long way to go on southern beaches. Again, it is like Freycinet. You actually have to engage with the community and make sure they actually want it too. That one probably has not gone as far as the others, but certainly Freycinet, Macquarie Point and the combined system are all progressing at this time.

**Mr WILLIE** - Your capital delivery office will be involved in those projects and the capital expenditure grant?

**Mr BREWSTER** - That is the intent. Pretty much everything, bar the last stage of our small towns program, will go through the capital delivery office. That will be the last project we have done, so the whole intent is to have it all in a one-stop shop.

**Mr WILLIE** - The capital delivery office, is there a policy to try and upskill TasWater's workforce and eventually move away from the model? Is it more of a stop-gap measure because you have this big spending program ahead of you?

**Dr GUMLEY** - Yes, it is initially a four-year contract with a possible extension to year six, but the ANS, the TasWater people, will be able to take over, apart from specialists that might have to come from the mainland, in very small quantities. We want TasWater people upskilled to be able to do this work and deliver the capability for the state for the long term.

**Mr WILLIE** - What is your policy to engage apprentices and trainees within the organisation?

**Mr BREWSTER** - We do engage trainees and have over the years. We engaged three on the west coast and have engaged graduates. Have we gone far enough with it, Josh? No.

**Mr WILLIE** - You do not impose things on contractors either to have a certain percentage of their workforce?

**Mr BREWSTER** - No, not in the contracts I can recall, Josh.

One of the things we are doing right now, and is a fair question of all government businesses, is: Where are you going with your education? How do you make it sustainable into the future beyond the CDO, for example?

One of our big tasks for next year, and we are finally ready to do it, is a workforce strategic planning exercise where we actually sit back and say, 'What does the workforce of the future look like and what does that mean in terms of how many apprentices, how many engineers, how many scientists, how many accountants and so do we really need? What is the broader mix of our workforce?. I do not think we were really in a position to do that a couple of years ago. We were more focussed on getting things moving and building the momentum, but we are finally in a position where I think we can do that.

**Mr WILLIE** - Will you work with local training providers to identify courses and things that may be needed?

**Mr BREWSTER** - We already are. We are already engaging with the university and TasTAFE, but it is early days again because if we have not done the strategic planning element of it, we are really not contributing as much as we should. Engineers Australia and I have personally

been involved as well, but it is very early days. We also have some of the larger local contractors involved, such as Stornoway.

**Mr VALENTINE** - With respect to your charging across the state, I am assuming that we are there with one flat charge across all sites in terms of water cost. Is that a correct assumption?

**Mr BREWSTER** - Very close. The legislation that formed the original corporations, the industry act and the corporations act, required us to reach uniform target tariffs across the state by 1 July 2020, the date that was set. We are still on the pathway for achieving 1 July 2022. Part of our price and service plan submission that came into effect from 1 July has us completing that transition. I think at the moment we are at 98 per cent plus in a number of water and sewerage customers that are at uniform prices across the state. We really are just dealing with the small tail of customers we are transitioning.

**Mr VALENTINE** - Your underlying profit is \$36.53 million, up by \$15.9 million, which you say it is due to higher charges and water usage. What is the split there? How much of it is attributed to higher charging and how much of it is attributed to higher water usage? I appreciate the two are a bit linked, but can you give us some understanding as to the -

**Mr BREWSTER** - If you have the annual report there, if we go to note 5 to the Financial statements, and unfortunately my version has dropped off the page numbers.

**CHAIR** - Mine too, so it is a bit hard, isn't it?

**Mr VALENTINE** - We don't know what page.

**Mr BREWSTER** - That is all right. Mike fortunately has a hard copy here with page numbers. On page 80, under note 5, we break the revenue and other income year-on-year into more detail than is provided in the summary-level financials. You can see there that the majority of our increase year on year is fixed charges and those contributed assets that we talked about earlier. Usage charges were about a \$6 million increase. That reflects that, from a pricing perspective or a cost perspective, the great majority of our operating costs are fixed. We have a very high proportion of our charges around the fixed costs to recover those fixed charges.

**Mr VALENTINE** - You slated \$140 million for projects, but it actually ended up that you spent \$164 million. What was the reason for the blowout there, or is it just extra projects that you have added in?

**Mr PAGE** - Not a blowout. We had the benefit in the last financial year of having a number of large projects that underpin the capital program - things like the 24glasses campaign that is about to address the public health alerts across the state. That was a large program that was run as a program and delivered the last 18 of those treatment plants in the financial year 2018. Also, we had the Kingborough consolidation strategy on the sewage treatment plants, which was eliminating three treatment plants and consolidating those at the Blackmans Bay site. It was a good news story. In some cases, particularly in the regional towns, they were ahead of the schedule that had been mapped out. Probably you will find that we spent more money in financial year 2018, but it means we are spending less than we would have anticipated a year-and-a-half ago in this financial year on that project. Some of it is bringing forward.

**Mr VALENTINE** - Talking about regional towns, if I might go to a specific issue that has occurred in Pioneer. You would be well aware of this one, Mike. It seems it has taken a long time to address and there are concerns about the health issues associated with it. We have been updated by individuals there who are concerned about it. I have a letter telling me that I can use Mr Tim Hanks's example and he is happy to be dealt with. He is concerned because he recently received a letter from TasWater saying -

Please find attached the report for test results taken in 2014 -

That is four years ago -

for lead in the paint of your roof at 58 Main Road, Pioneer.

Just to cut to the chase -

The sample with lead content is almost seven times the limit set out in 1997.

Quite clearly, this gentleman has been using water from that roof and yet, it is only in 2018 that they have advised that it is very significantly - seven times over - the limit of what it should be. Then there was an issue about repairing or replacing roofs at Pioneer, and this is only one. There is a number up there. Why has it taken so long? What is the status of those cases where roofs are supposed to be replaced or repaired? It seems to be taking so long and people are exposed to lead in the water.

**Mr BREWSTER** - First, they are not exposed to lead in the water. Our sampling demonstrates that.

**CHAIR** - Are you talking about recent sampling, Mike?

**Mr BREWSTER** - Yes. What happened was that we offered to anyone who wanted their roof tested back in 2014 the opportunity for us to determine the amount of lead in the paint, assuming it was a painted roof or Colorbond, against the Australian Standards.

**Mr VALENTINE** - Believe it or not, that is the roof.

**Mr BREWSTER** - Yes, I understand. We then said one of them came out significantly above the standard at that time. We had not installed the tanks and as only one came out ahead, I authorised, rightly or wrongly, that the roof be replaced at that time because we obviously did not have any tanks. We had no water, we had no water to test, and I thought I was doing the right thing.

As time passed by, as we had offered to everyone, we undertook water quality tests and it is lead in the water that matters and we have tested the roofs -

**CHAIR** - The roofs or the water off the roofs?

**Mr BREWSTER** - The water running off the roof into the gutters. We have tested the water - I should go back, sorry, there is a piece I missed. Going back to your point about Mr Hanks and I cannot recall the multiple or the exact comparison to the standard, but we

discovered off our own bat that there was an error in the readings and the customers had been incorrectly notified about six to eight months ago.

**Mr VALENTINE** - Mr Hanks?

**Mr BREWSTER** - No, all those customers we discovered. Six to eight months. We notified them that we had made an error. At that time, because we had the tanks, we were able to measure the amount of lead in water. Our position is and remains that if we determine the lead content in their tanks is greater than the standard, we will replace those roofs. I have written to them and we will also undertake a further test.

**Mr VALENTINE** - So you will replace the roofs, not coat them?

**Mr BREWSTER** - Whatever it ultimately takes. I think in the last case we replaced the roof. That is the position we have taken. The same argument was put to us, that the amount of lead in the sediments in the dam was very high. That is noted but the thing that counts is how much lead is in the actual water when you measured the water. That is the thing you work from.

**Mr VALENTINE** - Mr Hanks' issue is that he informed you the tank the sample was taken from had only recently been filled by a water carter. It wasn't representative of what was coming off his roof. He says there is no mention of that in the test results that came back. It could be that the roof is causing problems and issues.

**Mr BREWSTER** - We will re-sample; that is what we have said.

**Mr VALENTINE** - You will?

**Mr BREWSTER** - Yes. We have offered to re-sample.

**Mr WILLIE** - If we can walk through the time line a little before that. You undertook some tests on the town's water supply, and it came back that it was not potable and it had lead contamination. What year was that?

**Mr BREWSTER** - That might have been about 2011 or 2012.

**Mr WILLIE** - You undertook to supply tanks to 42 houses in the program, is that correct?

**Mr BREWSTER** - Correct.

**Mr WILLIE** - Since that time, have you tested all 42 of those properties, including the roof and paint base and the water quality of those 42 properties?

**Mr BREWSTER** - No. We tested all of the customers who asked for a test. That is what we offered to do and we provided the results of those tests. The key issue is and has been microbiological elements, *E. coli* in effect, in the tanks. We tested for that and at the request of those customers who wanted it, we also tested for lead on the roofs.

**Mr WILLIE** - Given the town's water supply was contaminated and it was TasWater's solution to supply the tanks, don't you think you have a duty of care to ensure the tanks fitted are producing potable water? You would need to test all 42 properties.

**Mr BREWSTER** - No. The solution we provided was to put in tanks, as you rightly say, and to ensure the water coming out of those tanks is safe. We didn't have to, but we offered to undertake those tests to the extent that if there is lead in the water above the Australian, we would replace that roof. This was a choice for customers. We sent it out and offered it to them. It was up to them whether they wanted the tests and that included the test of lead in the roof, the test for *E. coli* et cetera. That option is still available.

**Mr WILLIE** - Do you think that is appropriate, when TasWater fitted the tanks and is ultimately responsible for the new water supply, that you have only offered to undertake testing?

**Mr BREWSTER** - Yes. We provided the tanks. We provided the associated infrastructure and we are testing the water for those who want it to ensure that safe. Tanks are all around the state. It is not a new concept. We have given everyone brand new tanks and we have offered the testing. In addition, we have also provided a separate irrigation supply to those customers. Until a health issue is demonstrated, which we have not seen, and as long we are offering the service, which we are, I don't know where we end here, if we keep going.

**Mr VALENTINE** - With the Herrick, they put in a mini-system. Is that not an option for Pioneer, to make sure they can get potable water at the tap?

**Mr BREWSTER** - It is always an option, Rob. We could go back. This was all a timing issue. We were well advanced with Pioneer at the time we made the announcement about the 24 towns. A solution was pretty much there. If we were to go back, we would also have to ensure the customers want it. It is okay to say we will provide the water but, once they are off serviced land, they have to decide whether they want to pay for reticulated water to come back in. We would have to go back to the community. We would need to know the costs from our perspective and we would need to be convinced that is what the community ultimately wants. It was a point in time. From recollection, the majority of customers supported tanks. Admittedly, that was prior to the announcement of 24 towns.

**Mr WILLIE** - Has the Department of Health investigated Pioneer?

**Mr BREWSTER** - I have spoken to the head of the Department of Health, they are reviewing it and we welcome that. I don't know whether it is an investigation or where it is at. All I have been advised is they have been asked to look into it and we would recommend that is fine.

**Mr GAFFNEY** - How many other communities in the state have been offered a water tank? I am aware of a couple that have been offered water tanks. It is not uncommon for that to occur.

**Mr BREWSTER** - We have offered it to three, who took it up - Gormanston most recently, Mountain River in the south and Pioneer. The only differences were that we went over the meter and installed the tanks and guttering in Pioneer. It was quite a different model to the model used on the others.

**Mr GAFFNEY** - To provide the tank somewhere like Gormanston, it would be impossible to offer anything else other than that, with so few residents there. You couldn't do it, could you?

## UNCORRECTED PROOF ISSUE

**Mr BREWSTER** - The cost would be significant but we went to the community and the community overwhelmingly voted for tanks in that case, I think it was 90 per cent.

**CHAIR** - They have plenty of rain in Gormanston.

**Mr BREWSTER** - Yes, their tanks are filled on a regular basis, I am sure.

**Mr VALENTINE** - Yes they do, probably over a day.

**Mr VALENTINE** - Is there a reason contracts were signed and sent off but not co-signed for three or four months?

**Mr BREWSTER** - No, I would have to take that on notice. I am happy to write to the committee with the answer but I don't have the detail on that.

**Mr VALENTINE** - If you wouldn't mind. It is a question that has been raised.

**Mr GUMLES** - Is this general or a one-off?

**Mr VALENTINE** - No, residents had signed a number of contracts and sent them off but they had not received co-signed contracts. They are saying that those contracts were not activated for three or four months.

**Mr BREWSTER** - We will take that on notice. That would be going back a couple of years, I imagine, but I am sure we can find it.

**Mr VALENTINE** - There is the response to letters that were sent. They are saying they have sent letters and it has been 41 days but they have not received a response. I think your standard might be a 21-day response.

**Mr BREWSTER** - No, our standard is 10 days. I am happy to take that on notice. It is possible but most unlikely. We are usually efficient with those things but we may have missed a couple. I am happy to take that on notice and respond.

**Mr VALENTINE** - They remain concerned they might be being exposed to contaminated water.

**Mr BREWSTER** - Rob, I hear what you are saying but there is no evidence to support that. If the Department of Health does a review, I think that is a good thing, but we see no evidence to support that assertion at the moment.

**CHAIR** - You are maintaining water quality where customers request it.

**Mr BREWSTER** - We do not have an obligation to because they are not on serviced land but we have offered it.

**Mr VALENTINE** - They are not on what?

**Mr BREWSTER** - They are not on serviced land. When you take a tank, part of taking a tank is that you are no longer a customer of TasWater in terms of drinking water. That is the deal.

We didn't have to do this but we chose to do it to try to assist customers and give them confidence in the tanks. Ultimately, they are responsible for their roofs and for the maintenance of the tanks. We installed new equipment and if we found there was a demonstrable health issue, we would deal with it. There is no doubt of that.

**CHAIR** - On water quality, Josh.

**Mr WILLIE** - It is linked to these questions. Mr Valentine is expressing frustration and that frustration has resulted in our committee being consulted on these issues.

One of the other issues was a real-time data monitoring of water quality across the state. Do you have an indication of when that will be implemented and a time line?

**Mr BREWSTER** - That was presented to the board last week, wasn't it, Stephen?

**Dr GUMLEY** - Yes, it was last Wednesday. We had a full presentation and I was impressed with what I saw. There are just a few software tweaks now and we will be putting it live before much longer.

**Mr BREWSTER** - We will be putting it live by the end of the year, which was our commitment.

**Mr WILLIE** - The end of this year?

**Mr BREWSTER** - Yes.

**Mr GAFFNEY** - In appendix 2, which is your 25 top capital projects for the next five years, it is interesting to note that of the 25, 21 have as their driver compliance - water treatment plants, sewage treatment plants, upgrades, supply and system. There is one renewal, one improvement and two growth. When I go to appendix 1, Strategic Risks, the compliance issue comes up in two of the risk ranking - that is, 13 to 15. Is the compliance here to comply with current standards where you have treatment plants that are below the Australian environmental standard and therefore the idea is to upgrade it by 2022-23 to that level?

**Mr BREWSTER** - For sewage, the EPA sets the compliance standards, and that is to bring those plants up to meet EPA standards and improve our overall compliance. For water, it is about ensuring that we continue to meet the Australian Drinking Water Guidelines, which is our primary obligation. Most of those projects in water now are very much about risk reduction to ensure we can continue to meet compliance. On water, we are 100 per cent compliant. On sewage we are about 88 per cent.

**Mr GAFFNEY** - With the organisational risks, the second dot point where there are five strategic risks, which is a third-party risk, if somewhere somebody makes a decision to change the guidelines or the standards again, you have to respond to that. At this stage, all your compliance issues are at the standard that there is now, but that is not to say that over the next four or five years that standard could change and then that is a risk you cannot really take.

The other one is the two growth ones. One is the Kingborough Sewerage Strategy - Treatment and Network and that looks like it is \$18.2 million over the next five years. The other

growth one is the Port Sorell one. I am interested in the Port Sorell one, but I am interested in Kingston as well.

With the Port Sorell one, \$1.7 million for this financial year, that is to improve the reservoir and the network. Is the \$4.3 million in 2021-22 for the linkage from Port Sorell to Devonport? Are you still continuing that project? It was banded about some years ago that being the upgrade to connect Port Sorell to Devonport. Is that what it is for?

**Mr BREWSTER** - I would have to take that question on notice and come back to you. I believe you are correct, but I would want to be certain. I suspect when I write back, you will find you are correct, but I want to be 100 per cent certain it is because we do not invest too early. We invest in stages to minimise the impact on our customers. I suspect that is exactly what we are doing at the moment. I have been to visit the reticulation upgrades and the reservoir upgrades. When we get further growth, we will start the next project, to be just in front of it and that is when I think this section stage comes in, doesn't it, Dean?

**Mr PAGE** - Yes.

**Mr GAFFNEY** - For other members' benefits, because Port Sorell is a growth area, what they had there originally was the open sewage ponds at the end of Hawley. It now does not cater for the growth of the area so they have to do something to improve it.

I would like to have a chat with you, Mike, afterwards about other opportunities there for bike paths and gas to be connected from the airport. When you are doing that infrastructure and negotiating with all the landowners, there are three or four other types of infrastructure that could assist and be put down at the same time. I would like to have a chat.

**CHAIR** - Is that a private meeting another time, Mr Gaffney?

**Mr GAFFNEY** - No, I will talk to him later.

**Mr BREWSTER** - I am happy to have a conversation outside the meeting.

**Mr GAFFNEY** - I suppose the question is, when you do this sort of planning, what other groups do you have involved with it so that we are not reinventing the wheel, so we are saving funds through three or four other programs that might want to go ahead and use that same corridor?

**Mr VALENTINE** - Like telecommunications.

**Mr GAFFNEY** - Yes, that sort of thing.

**Mr BREWSTER** - We are getting a lot better - I will not say we are perfect - but we are getting a lot better at consultation. We have all our business cases identify the key stakeholders upfront and what their interest might be. I would expect that we would pick it up, but I cannot be certain. That is the path we take. We would identify the council as a stakeholder, potentially, and if we knew there was potential for a bike path, we would talk to them about that. We would need to engage with the council anyhow if we are making major changes to the local infrastructure.

I am more than happy to have a chat offsite. On the gas side, we were talking to Tas Gas as well about opportunities.

**Mr GAFFNEY** - On the financial side of it, it helps your bottom line if you have other groups involved contributing in that space as well. That is where I am going.

**Mr FINCH** - I want to talk about our people and culture, which is in the annual report. I found it very bureaucratic in your description of the people and your photos of people who were all about high-end achievers, leaders, university graduates, and people like that. I want to drill down a bit into the workforce that you have, the people on the ground doing the hard slog, digging the trenches, laying the pipes, doing all that sort of work. There is no mention of that here. If there is, you might point that out to me.

First, Mr Brewster, can you tell me how many employees you actually have in TasWater at this time?

**Mr BREWSTER** - At the end of 2017-18 we had 847 full-time equivalents.

**Mr FINCH** - Wow. Tell me, please, the female component of that? Do you have a percentage?

**Mr BREWSTER** - Yes, but I do not have it in front of me; it would be in the twenties, from recollection.

**Mr FINCH** - Okay. We have had Aurora here just now and we talked about employee culture and engagement. They had some KPIs that they were working towards in respect of it - and they were not reaching them; they fell very much short of it. I am wondering whether that is something that might come into your annual report. I realise the organisation is only about five years old and you have had plenty to concentrate on, but I am wondering about that culture and the people you have and the recognition of improvement of their workplace and work standards.

I see it is all about safety and zero harm. I am wondering about that personal satisfaction of working for TasWater and being a proud employee, knowing that they can develop and be highly regarded within the organisation and within the community.

**Mr BREWSTER** - First of all, I might go to the training and development. We recently held a recognition ceremony, as we do - sometimes twice a year, sometimes once a year - for all the people who graduate. When I say graduate - certificate III in water operations, business systems, right through to a Masters in Project Management - they all get recognised together. I think a year ago we had 80 people and we co-fund that, so we get some funding from TasTAFE and other learning providers. We fund the balance. Whilst I understand what you are saying, I think we do very much recognise all elements and support everyone in the business to improve their opportunities by increased learning. Only two years ago, we also won the state award for learning and development. From learning and development, we are investing heavily, because we know that is the future.

Kerry, your question around digging the trenches, we do not necessarily do a massive amount of that so much. We do repairs, et cetera, but the new work is generally put out to contractors, which is probably why you do not see as much of it.

We will go back and take your comment on board. We certainly do not want to imply there is some sort of elitist sense in our organisation; that is absolutely not where we are. We are about giving people opportunity to grow in the organisation, wherever they are from.

On your question about our measures around people and culture, yes, we did start with the leaders. We started with me and the executive team three years ago because, if you do not get the leadership to work properly, do not have the right culture or the right people, you are not going anywhere, and cannot send the right signals to your people. We then cascaded down to the next layer of leaders. The next stage for us is a statewide, whole-of-business culture survey using an international tool used by most of these organisations, the organisational styles inventory. We are committed to that. We were discussing this at today's executive team.

**CHAIR** - When do we expect the report to be available?

**Mr BREWSTER** - That is probably a year away. By the time we do the survey, et cetera, but we wanted to concentrate on leadership first, because leadership makes the most difference of the culture. If you do not get your values right, you do not get your leaders right. You can put all of your effort in to these others things, but nothing happens.

**CHAIR** - To your annual report and also relate to your corporate plan. In your annual report, some segment information, it is on page 78, but it is note 4, Operating Segments. I note sewerage net tax went up from \$10 million roughly to around \$29 million, whereas water went down from \$16 million down to \$13 million. Can you explain to me about what has happened here and how would the segments move over time and how you expect this to flush out? I want to keep a bit of levity in it.

**Mr PAGE** - There are a couple of factors at play with the operating segment note. If you went back a number of years, you would see the sewerage segment has had quite large jumps in revenue each year, or higher than the water segment, because when we were formed and as we worked through pricing service plan 1 and coming into pricing service plan 2, most of our water customers were above target charge. On 1 July 2015 they had their prices reduced straight to target tariffs, whereas most of our sewerage customers were under target charge. We might have a headline percentage increase but, because of the transition in principles, we found over the time our sewerage revenue jumped above those percentages year on year.

We are now at 98 per cent of the customer base on target tariff, so that factor will be become less and less across water and sewerage.

We amended some of the basis of how we allocate the costs for expenses, so, from an accounting perspective, as much as we can we allocate costs directly to the activity being undertaken. If it is some materials or services in relation to a sewerage treatment plant, our system will book those to that particular sewerage treatment plant. We then had some unallocated costs, corporate overheads and even network crews who work on water and sewerage assets. In the past we were allocating those on the basis of revenue. Our auditor suggested last year during the course of the annual audit we revisit the basis of that allocation, where the revenue was the most appropriate allocation basis. We did and now base it on assets and is a rebalance of the expenses. Those two factors have seen an adjustment to the net profits. It was not considered material from an audit perspective, so we have not restated the prior year's segment note to be on the same basis.

**CHAIR** - Okay. So currently water and sewerage assets are split with water assets being the larger half. Further on, how would the capex be split? While you are getting to that, with the respective backlogs require capex, when the backlog of capex is cleared, what will the split between water and sewerage assets be then?

**Mr BREWSTER** - I do not have the number in front of me, but I am happy to provide it to committee. Our focus in previous years has been on water, largely water, and sewerage second and is pretty much what our customers told us in Price and Service Plan 3.

We still have a fair bit of money in this current Price and Service Plan on water so that will still, from recollection, be the predominant spend, but will then change after this Price and Service Plan, as the sewerage projects ramp up and overtake it.

The backlog will never be fully cleared. That is important to understand. If we did, we would be over-investing in the asset. There is a certain amount of backlog you keep because fundamentally technology allows you to extend the life of a lot of assets. We are knocking the backlog down but we will never go to zero and it would not be best practice to do so.

**CHAIR** - The latest corporate plan on your website 2019-2023 and the financial forecast started on page 23 of that says a modest increase in profits after tax from \$37 million to \$47 million but this year, 2018 it was \$42.6 million. The question is, are the budgets too low or is this an aberration? If it is, what is the explanation?

You might like to also comment on the Government's contribution of \$20 million. What impact that will have. How that will change things, if it does?

**Mr PAGE** - There is a note to be made in relation to the 2018 accounts and disclosed in notes to the accounts. There was an adjustment we had to make to our depreciation this year, because with the ramp-up of the large capital program, built up our capital work in progress as we capitalised those assets. In some cases, there are some prior year depreciation, because not all of those assets were put into service in the current financial year. That adjustment saw a reduction in the financial year 2017 result and an increase in the financial year 2018 over and above what we would have predicted in our corporate plan at the time.

**CHAIR** - That basically accounts for that, or are there other factors?

**Mr PAGE** - That is why I said it looks odd we have \$43 million bottom line result this year, but anticipating reducing our profitability next year. We have now dealt with the issue and we should see we are meeting those targets.

As we go further there might appear quite modest increases, but a point Mike made earlier, the large capital program and the new treatment plants we are putting into service and the assets we are building, do come with a flow-through impact on our op-ex. You will see our operating costs continue to rise in proportion to the percentages to the revenue, as those new capital projects come into service. Off-setting that we continue to have focus on productivity to try and minimise the impact.

**CHAIR** - When the Government complete take-over was being talked about, one of the scenarios they were promoting in that threat of it being taken over had an interest cover below one, which would be a bit of a scary place to be potentially for most organisations. I notice in

your forecast here, the lowest you have is 3.2 per cent. Is this where we can generally expect it to be? That is in the out-years nearer to 2023.

**Mr PAGE** - That is on the five-year basis. We do have a long-term strategic plan and financial forecast out for the 20 years of the long-term strategic plan period. That sees us levelling out at about two-times cover around about year 10 and holding through the second 10-year period.

That is a factor of the capital program, largely in the first 10 years, being funded by borrowings or the excess of the capital program over operating cashflows. We have taken an approach of doing that in a measured way that allows us to move down to that two-times interest cover over time.

The alternative scenarios put forward at the time of the takeover discussion were around getting to that peak debt position much sooner, three or four years rather than the eight or nine years our financial modelling did it under, which is all doable. You take on extra interest costs and the compounding impact of those extra interest costs. The other thing with doing that much capital sooner is you also get the flow-through of depreciation once the assets are on your balance sheet. The approach management and the board have taken is a more measured reduction to two-times interest cover that allows us to hold that interest cover beyond the 10-year period and not end up at those low multiples you mentioned in your question.

**Dr GUMLEY** - We don't think it would be prudent to go much below the 2.0 per cent.

**Mr VALENTINE** - With respect to the completed assets you were talking about putting on your asset grid, they haven't always gone straight to the asset register, have they? That would affect this calculation.

**Mr PAGE** - In the five years of TasWater, we have lifted the capital program and it is fair to say we haven't had all of our processes well-developed at the back end. If you look at our 2018 financial year accounts, we have a work-in-progress balance of close to \$300 million or a tick over, of which we would say about \$100 million is completed projects we haven't finalised the capitalisation of and put in our balance sheet. That generates that issue if they went into service in 2018 financial year, but we don't put them in the balance sheet until the 2019 financial year, when there is a little bit of depreciation in relation to the prior year.

**Mr WILLIE** - Is that a breakdown between your civil construction area and your -

**Mr PAGE** - No, it is all at the back end. You could say in our early years at TasWater we were very focused on getting on with projects and the outcomes those projects were going to deliver. We were probably a bit quick to move onto the next project when one had finished. It isn't just around the capitalisation. In those early days, we were even updating our billing system, moving from a boil water alert and the applicable pricing for that and adjusting for the change when moving to full potable.

It is fair to say that we said the project was finished when the ribbon was cut and these things fell into abeyance. We have recognised that and now put a lot more in our project generation framework around when a project is finished and codified a checklist approach. It doesn't finish with the ribbon-cutting. It is once the billing system is updated, the assets are capitalised and when things like our geographic information system and the geospatial data is updated. We are

confident that we will deal with that backlog in the current financial year with appropriate resources and processes in place. We are now a lot more proficient at properly closing out a project.

**CHAIR** - Going back to your corporate plan, the last was in place before the MOU. Are the price caps in the MOU different from what is in the corporate plan, and if so, does it change that?

**Mr PAGE** - Yes, it does change that. When we produce our corporate plan for our owners' consideration in the first half of the next calendar year, the financial targets will reflect the MOU outcomes. I can't comment directly on what 2023 financial year will look like. We have been more focused in the MOU discussions around what the 10-year period to the 2026-27 financial year looks like. We will still be above that two-times interest cover for that period, still able to carry that interest cover through the second 10-year period and able to demonstrate or meet those long-term financial sustainability targets of the business.

**Mr BREWSTER** - It was all modelled on the way through. The fundamental issue will be what happens next year under our pricing service plan. If it had continued, we would have continued with a 4.1 per cent in the three-year period. As it stands, we will freeze prices next year and they will then be capped at 3.5 per cent until the end of the agreement period. The offset to that is the \$200 million we receive from the government. It leaves a little bit more capital. That is the trade-off. We are making customers end up with lower prices in the period. As result of it, we get \$200 million in cash.

**CHAIR** - The taxpayers are still putting the money in to fund it.

**Mr BREWSTER** - The government is putting in money, yes, and they raise their money from tax.

**CHAIR** - It has to come from somewhere.

**Mr BREWSTER** - We've still got to deliver all the projects. It is about the source.

**CHAIR** - It is about being open and transparent about how it all flows through.

**Mr PAGE** - At a high level, we are forgoing some revenue in the early years with the cost freeze next year and the capping compared to our current corporate plan. Offsetting that are the lower borrowings because of the \$20 million contribution and the interest costs that go on that money. When we come out, the profitability won't be massively different over those periods. In the 20-year outlook, it is roughly \$237 million of revenue forgone, or the customers aren't charged over the 20-year period, with that \$200 million offsetting equity injection from the Government.

**Ms ARMITAGE** - I have asked similar questions. Mike will remember I have had similar concerns with regard to tendering. Many of tendered jobs tend to go to the mainland. The latest information I have received is that TasWater had contracted out over \$1 billion to either one or more mainland firms, and for a Tasmanian firm to tender it had to have a turnover of over \$500 million. Can you tell me if that is correct?

**Mr BREWSTER** - No, we have not awarded a \$1 billion contract to anybody.

**Ms ARMITAGE** - No, no, not in one contract.

**Mr BREWSTER** - What we are talking about is the capital delivery office, which is the program management arm. What we are setting up is the program management capability for our organisation through the alliance.

**Ms ARMITAGE** - I am aware of the Tasmanian capital delivery office alliance, yes.

**Mr BREWSTER** - The reason I raise it, Rosemary, is that is what I assume you were talking about. That is the only thing that makes any sense from the perspective of the numbers you are quoting. Yes, we did set a reasonably high bar in terms of those who could bid because we are talking about oversight through our alliance of four years, averaging \$160 million to \$170 million per annum. We couldn't go with anyone who was not substantial. Having said that, without going into too much detail, Tasmanian partners were welcome to partner up. All of these ended up being consortiums and one Tasmanian company did partner up, albeit they weren't successful.

**Ms ARMITAGE** - This concern has been regularly raised with me and it is not the only one. I have raised it in many different forums. Mainland firms are getting the jobs. On many occasions, a local firm tenders but they don't get the job and it goes to a mainland firm, which then employs that very firm that did not get the original tender. The mainland firm is taking the cream off the top. I might go to the Department of Treasury and Finance assessment, which says -

It is expected that this additional employment will largely be sourced from within Tasmania. If TasWater is able to align its projects and its contracts over the five-year period to provide a sustained, high level of work for the major construction firms in the state this will encourage these firms to expand their workforce, including taking on more apprentices. It is expected the greater longer-term certainty for these businesses, the less TasWater will have to source firms from interstate for its infrastructure projects and programs.

I have been hearing it since TasWater was formed. It has not changed, the firms that come to me can't go to you because they are afraid they will get no business at all if they are seen as complaining. That is another serious issue. Can you confirm that these Tasmanians are still getting work, not simply being subcontracted from the mainland?

**Mr BREWSTER** - Tasmanian firms are getting work. We do track the percentage and I am happy to share the graphs that come to the board every month of the percentage of work that does go to Tasmanians. We cannot exclude mainland companies, and don't. What we do is, we evaluate all the tenders.

**Ms ARMITAGE** - But you are excluding Tasmanian companies?

**Mr BREWSTER** - No, Rosemary, that is not correct, I am not saying that. We are not excluding Tasmanian companies. What we are doing is we put our jobs out to public tender. We do not describe or define whether you have to be Tasmanian or mainland. We define the scope of the works and what attributes we are looking for, and how we would make our decision on employment. If a major contractor on the mainland wins it is because they have additional skills the other parties do not have, or they have some historical expertise the competitors do not have.

Having said that, where we can, we try to build expertise. An example is Stornoway, a Tasmanian firm, built all the southern plants in the regional towns. We looked at them and you would probably say they are right on the border and that is where we make the decision against other parties. We decided we needed to build expertise, and if it is close, we will generally go with a Tasmanian firm. If there is a significant difference, we will not.

The other thing I would add is when some of these bigger mainland firms come in, they do bring new expertise, because the industry is relatively new, with five years of major capital expenditure, compared to 30 years of under investment. You have to give the capability time so, yes, sometimes the locals bid to the major contractors and they gain expertise and they can use that on their CV next time through.

You are always going to have mainland contractors, and as the market heats up as it is, there is going to be more of them. Our intent is also, and this has come through in our CDO, that we must promote and support the growth of the local contracting market. When we come back out of it, we have people to deliver skills at the backend, and it is written into the contract for the capital delivery offers, and is a KPI.

**Ms ARMITAGE** - And \$1 billion though did go to a mainland firm?

**Mr BREWSTER** - No, \$1 billion did not go to a mainland firm.

**Ms ARMITAGE** - Two mainland firms?

**Mr BREWSTER** - No, it did not go to mainland firms, that is not correct.

**Ms ARMITAGE** - It is good to know, I want the facts.

**Mr BREWSTER** - I understand where you are coming from, Rosemary. Like everyone here, rightly you have the information you have, but a capital delivery, to be really clear what it is and what it is not, as this is where the confusion is coming in. The partners who win that in our alliance, they do not actually build things; we have not engaged them for that. The support we need is to manage the program and the work will then be let by the alliance partner and ourselves through the alliance to contractors. Whether they end up being mainland contractors, local contractors, has yet to be determined. It is a program management alliance because this is about the capacity to plan the works and get it out the door in a very rapid way.

The board and management were adamant from the start there would be no self-performance. This was not going to be a project management alliance. I would entirely understand your concern where you say, 'Right, we will get a partner in, here is a billion dollars' worth of work, you deliver it all, we will wipe our hands of it'. That is not what we are doing, because we have no skill at the back end.

**Ms ARMITAGE** - So I can have it right to take it back to the people who came to me, they have to have over \$500 million turnover? I know you are saying it could be a mainlander, it could be a local Tasmanian, but do you consider there would not be too many companies in Tasmania in that area that would have over \$500 million in turnover?

**Mr BREWSTER** - No, but they could have partnered and one did choose to partner. It is a substantial exercise of the management and letting of the contracts.

**Ms ARMITAGE** - So the alliance chose \$500 million? They were the ones that came up with that figure?

**Mr BREWSTER** - No, this was a public tender, where we called for expressions of interest in tender and, subsequently, tenders through the process. Anyone could bid but like in any contract, you, as an organisation, determine the financial capacity of the organisation needed to deliver that program of work.

We determined that was the size of the organisation we needed to support us in delivering this program. We would not be able to do it with a small organisation, be it the mainland or here. They did have the choice. As I said, some of them did, partnering up with locals.

**Mr WILLIE** - What is the total contract worth for the capital delivery over the four years?

**Mr BREWSTER** - If you asking about what their fee is, it depends on how many projects go through but the program itself, four years it would be -

**Mr PAGE** - About \$110 million is our estimate of the value of the contract, but managing a \$600 million capital program to be delivered over those four years.

**Mr WILLIE** - How many apprentices does TasWater have?

**Mr BREWSTER** - I will take that one on notice. We probably do not have many apprentices, but I will give you the trainee and apprentices split up because we tend to hire trainees more than apprentices these days because of the nature of the business, which is the Water and Sewerage Certificate III or IV they normally do.

**Mr WILLIE** - Rather than being grouped together, can I have the trainees and apprentices?

**Mr BREWSTER** - No, we will give you both.

**Mr WILLIE** - A local one: The Tolosa Dam in Glenorchy, how much notice did the council have from TasWater that you were going to decommission that dam?

**Mr BREWSTER** - It goes back before my time. Seven or eight years, I imagine.

**Mr PAGE** - A memorandum of understanding governs the decommissioning of that dam and that was executed by one of our predecessor firms, Southern Water. It is at least five years or five-and-a-half years.

**Mr BREWSTER** - I think it was 2011 or 2012. We are working with the council to help them through that process. At the moment we have the accountability for the dam.

**Mr WILLIE** - You still do?

**Mr BREWSTER** - We still do right now.

**Mr WILLIE** - Because you have drained it, haven't you?

**Mr BREWSTER** - We have had to drain it.

**Mr WILLIE** - Obviously because it is structurally unsound.

**Mr BREWSTER** - We drained it for two reasons: yes, it was not safe when it was full, also, we have constructed alternative water supplies, which are the two tanks over the road. We have lowered it to an interim safe level in agreement with the Dam Safety Regulator.

**Mr WILLIE** - I can tell you there is hardly anything left.

**Mr BREWSTER** - Yes. The risk you still have, Josh, is that in a day it can rain heavily, you get a lot of water flowing in and it can start to recharge. The risk is still there but not at the same level. We are carrying the risk on that dam. We have no use for the dam and we are working with the Glenorchy City Council, with Tony McMullen, to help them find a way through their master planning process and find a long-term solution for that area.

**Mr WILLIE** - I am reflecting a level of frustration in the community around Tolosa Park and having the dam in the state it is.

**Mr BREWSTER** - We understand that and so does the council. I cannot speak too much for the council, but they want to get the master planning right. They are engaging with the community to try to get something that brings the community with them. Those things take time.

We are in a position where we have had the dam for a long time and it is time we demolished it, so we are working with them to get through that as quickly as we can.

**CHAIR** - Moving from Tolosa to Waratah, I won't go into all the background detail of that but it is a slightly different issue, as I understand it. Have any decisions been made on the future of that dam from TasWater's perspective?

**Mr BREWSTER** - No. We have to complete the estimates. I have committed to completing the estimates. We will then go back and communicate. When I talk about the estimates, we wanted tighter estimates for the cost if we are to decommission it and for the cost if we were to repair it. That is the commitment we gave to the community.

We will also go back out to see if anyone is interested in taking over the dam and provide a bit more incentive - that is, the money that we would have invested in decommissioning - if that helps someone who wants to take it over.

Right now, our next step is to communicate with the community and tell them where we are at, and we will do that in due course.

**CHAIR** - Due course being what time frame?

**Mr BREWSTER** - I think the next month.

**CHAIR** - Thank you.

**Mr VALENTINE** - First, you have a new financial and asset management system. I am interested to know how that is performing and whether it is full bottle at the moment. With asset

depreciation, which you would load into the system, how do you do that? Do you do it through life adjustments on component failure? Is that how you handle the life of assets?

**Mr BREWSTER** - Do you want to do the life of assets? I will do the maximising and separate them out because we have not replaced the financial system.

**Mr PAGE** - When a project is completed and capitalised, we break it down into its lowest level possible. You might look at a water treatment plant and say it is one treatment plant, but we would look at it as a series of pumps and membranes and clarifiers.

**Mr VALENTINE** - Various classes of assets.

**Mr PAGE** - Exactly. We will take the cost base or apportion cost to each element and have a separate useful life for each of those elements, based on their design life in some cases or using standard manufacturer's expected useful lives.

If we were to have a failure of one of those pieces of equipment and we replaced it, we would recognise the new asset and the cost of that upon replacement, and we would write off any residual balance of the replaced asset when it is decommissioned or demolished.

**Mr VALENTINE** - I remember this from my Hobart City Council days that when they had a component failure - say, the expected life of that component might be 80 years and it fails at 60 years - that is put into the system and it adjusts the life of all of the components to a certain degree. That gives a better handle on exactly how long these assets are likely to last and therefore how much you are putting aside for depreciation. Do you use that system or do you use a different system for general component failure, such as a burst water main in the street or a valve or if one of your dams breaks?

**Mr PAGE** - It sounds like that is a bit more of a condition assessment that would be undertaken by our asset planning and asset strategy teams. When they undertake a condition assessment, if there is a significant change in the expected useful life, those adjustments would flow through to our asset register and adjust the depreciation appropriately.

In the case of a failure, generally, because we have taken the cost down to that lowest level or disaggregated the cost amongst all the assets, we are able to remove the specific asset from our register and replace it with the new asset.

**Mr VALENTINE** - Are the asset values you use fair values on assets?

**Mr BREWSTER** - We have two sets. The values that go into our regulatory asset base are different to what we depreciate in our statutory accounts. That is the way the system is set out.

**Mr PAGE** - The accounting books are based on fair values. Over the life of our predecessor corporations and TasWater, they have been adjusted on two occasions, based on an accounting value or a value-in-use test, specified under the Accounting Standards or available to us under the Accounting Standards. We have reduced the value of those assets twice. Those reductions do not flow through the regulatory asset books or the regulatory asset base.

**Mr VALENTINE** - What impact is a cap having on this?

**Mr PAGE** - The 3.5 per cent under the MOU? We are not at cost-reflective prices with our current pricing plans and even with pricing service plan 3, the Economic Regulator came out in their final report and confirmed that cost-reflective prices would be an 8 per cent rise or close to 8 per cent per annum increase and, as Mike mentioned earlier, we have requested a 4.6 per cent price increase as part of the plan and 4.1 per cent has been put into effect.

We were on a pathway and a transition to moving to cost-reflective prices. In our contemporaries and other jurisdictions they have, over their journeys, gone straight to those prices and resulted in double-digit price increases for customers, which has been an impost on the customer base. Through the former corporations and TasWater, we have taken that more gradual transition to manage that bill shock and that affordability issue for the customers in Tasmania. The MOU and the price outcomes there mean it will lengthen the time it will reach those full-cost reflective prices through our pricing.

**Mr VALENTINE** - Do you have any real idea how much you are losing through those unmetered connections or leakage from metered connections?

**Mr PAGE** - The small towns projects we have undertaken over the last few years have included an element of remediation of the reticulation networks. In doing those projects and looking at the reticulation networks and upgrading those, we have discovered a lot of unmetered connections. It has addressed a great number of them but it is probably folly to say we have no more unmetered connections. It is a journey of discovery. Sometimes you have to walk the line and look at all the tees off the main.

**Mr VALENTINE** - What percentage of use would have been unmetered?

**Mr PAGE** - We have had recent conversations in the business and with the board. The greater issue for us is the inconsistency between services on the ground that customers are availing themselves of and what is reflected in our billing systems. There are about 60 000 customers for whom we still need to verify and ratify the services being consumed.

**Mr GAFFNEY** - That is all of Hobart, Rob.

**Mr PAGE** - With that and experience over the five years of TasWater, there will be a number of cases in which the customer has a lower level of service, and refunds will be applicable, as well as customers who have a high level of service and will have higher costs. It is not all one-way.

**CHAIR** - I am interested in the owners' representative's perspective. You said you were pleased to see the legislation pass and the MOU effectively supported in legislation. How do you see the role of the owners' representative now? Is that likely to change? Do you believe there is enough scrutiny of the operation of the organisation? It is a bit of a rare beast that we as parliamentarians have the chance to scrutinise, normally it would be the owners' job.

**Mr CHIPMAN** - The owners have two interests. The first is that we have a healthy, profitable corporation providing efficient services to the customers. That is the most important thing. Second, the owners, because we are councils representing their local communities, are very keen to ensure our local communities are being serviced and receiving the product satisfactorily, efficiently and at as low a cost as possible. We have those two aspects and the letter of expectation reflects those two priorities. There are other subordinate priorities, such as

encouraging TasWater to encourage development within the state and there are a few other things that are more detailed. I am happy to table the shareholders' letter of expectation if that would help.

**CHAIR** - That would be helpful.

**Mr CHIPMAN** - It is available on the website. It is under the governance documents. We will have an ongoing interest in those points I have made. The shareholders obviously were intensely focused during the debate over ownership last year. There are a couple of reasons why we wanted to retain ownership. One is because we were really keen to ensure this double accountability; accountability through the councils to the local communities as well as accountability that was already in place through the GBEs. That extra level of accountability through the councils to the communities was something we really wanted to retain.

**CHAIR** - You are saying the involvement of government as a minor shareholder, not a position on the board, is an appropriate step and will it change the role of the owners?

**Mr CHIPMAN** - We think it is fantastic. There is no doubt having the state Government on board, with its influence and encouragement, is going to increase the funding into the business. This will also provide an avenue for federal funding into the business, through its lobbying and connections.

Not only is it going to be a benefit, but the commitment of the state Government will ensure TasWater is a good, healthy organisation providing services efficiently. Having them as a partner in this whole ownership model is a brilliant outcome.

**CHAIR** - It really was a good suggested outcome.

**Mr CHIPMAN** - It is a brilliant outcome.

**Mr BREWSTER** - I would add that in terms of oversight, we operate to the fullest extent possible. We operate as a public company, so we provide a quarterly report to all our owners, the CEO, the chairman and other executives present the report every quarter. If something does change, we write to the owners and let them all know. On top of this, we have the Economic Regulator and the other regulators providing oversight, particularly around our efficiency.

With the Government coming in, this has allowed from management and the board's perspective -

**Dr GUMLEY** - It might certainly improve communications.

**CHAIR** - Made them less hostile at least.

**Mr BREWSTER** - It is nice to be through that, but what it means is that we are all talking about how we improve the state together, in the room together, and this makes a difference.

**Mr VALENTINE** - It would be remiss of me not to ask about the inappropriate connections of stormwater and sewage and how Launceston is going to be addressed. That is a \$400 million effort, but there are some others across the state, certainly Hobart has some. What are you doing to detect these? Is there a program you have in place and how fast is it moving?

**Mr BREWSTER** - It is the inflow and infiltration program going since 2014. We do smoke and dye testing. That is putting dye down the pipes to see where the stormwater or the where the sewage flows and where it comes out. That helps.

We have made big inroads in Burnie courtesy of a federally funded program from the council's perspective. That enabled us to avoid a major upgrade, which saved money for our customers. St Helens is another example where we have made big inroads. We have not made as many inroads down south. It has been more difficult. It is the age-old issue of finding it, but the program has not stopped and is reported to our environmental and public health committee at least once or twice a year on progress.

Have we a long way to go? Yes, still, because it is very difficult to nail it all and largely you need the rain in the stormwater to be able to determine where it is coming from, but we have made good progress.

**Mr VALENTINE** - On the Davey Street spine, there are about 4300 houses and they do not know how many are inappropriately connected - so considerable work there.

**Mr BREWSTER** - Rosebery is the same, all those towns. You have to work your way through them. We cannot force people to disconnect either, unless we find they have illegally connected their stormwater into the sewer, so in some cases it is not straightforward.

**Mr VALENTINE** - It was done with the knowledge of councils way back.

**Mr BREWSTER** - We are not going there, Rob, not wise for us.

**CHAIR** - Well done, thanks, everyone and thanks to Doug Chipman coming at short notice. I appreciate it, and we will grill you more next time we have you here. You are still the owners' representative and we did not want to be too hard today.

**The Committee adjourned 4.45 p.m.**