THE PARLIAMENTARY STANDING COMMITTEE ON PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON WEDNESDAY 30 OCTOBER 2019.

Mr TONY FERRALL, SECRETARY, AND **Ms FIONA CALVERT**, DEPUTY SECRETARY, ECONOMIC AND FINANCIAL POLICY, DEPARTMENT OF TREASURY AND FINANCE WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Dean) - Welcome, Tony and Fiona. I think members would be known to both of you. We have our secretary Gabbie, and Ally, assistant secretary, and Hansard s also present today to record the session. It is a public session, Tony; I think I raised that with you and we discussed the fact that because it is public, if a situation arises where you would prefer to answer a question or discuss a matter in camera, we will leave that to you to advise the committee. We will then make a decision on that and move forward from there.

Thank you very much for providing us with a report on your speech or the issues you are going to touch on today; Gabbie has it up on screen as well to assist the members there.

Tony, I will leave it open to you. We can leave some time for questions or would you like to take questions on the way through?

Mr FERRALL - I am happy to do either, whichever suits the committee.

CHAIR - It might be suitable to take question on the way through, but if it looks like we are going to get close to time because we need to finish by 2.15 p.m. at the latest, we will see how we go with that. We will take questions on the way through if members are happy with that.

Tony, we will leave it up to you.

Mr FERRALL - I will go through the presentation fairly quickly. I know members have had it overnight.

Starting at page 2, the Fiscal Sustainability Report was released on 8 October. At the time I gave a briefing to the media and to the Treasurer, and also a subsequent briefing to the opposition. As members will be aware, the first FSR was published in April 2016 and in October 2018 the Public Accounts Committee initiated a review of the FSR.

When preparing additional material for the Public Accounts Committee some inconsistencies in the model were identified, and at the time I wrote to PAC and to government and opposition members. While the conclusions of the 2016 report were not altered by those inconsistencies, I indicated to PAC that I would present another report after the 2019 Budget, and that is what this report seems to do.

For context, at the PAC hearing you were also seeking to update some of the assumptions in the 2016 report and they have been updated subsequently through this report.

The 2019 report is consistent with the act but it is not a requirement of the act, so a further report will be prepared prior to June 2021.

The 2016 report used what was called the three 'Ps' approach to generating projections whereby economic growth was projected on assumptions relating to population, labour force participation and productivity, with revenue and expenditure calculated based on assumed relationships with economic growth. The 2019 report has not used the three Ps approach. Instead, a standard budgeting accounting practice has been used to ensure consistency with the Budget and to enable the model to take account of known future expenditure and revenue impacts. I think one of the comments the committee made to me previously was that it thought by using the approach used previously, it was maybe a little difficult to understand the report and it did not have comparability with budgets that you would have liked.

The report is intended to provide a long-term perspective on Tasmania's fiscal outlook and it outlines potential long-term fiscal imbalances which may arise under different scenarios. I point out that that is in the absence of any change in policy or direction. While there is no consensus among economists on a precise operational definition of fiscal sustainability, rather different studies use their own - but often similar - definitions -

> … the European Commission defines public finance sustainability as: the ability of a government to sustain its current spending, tax and other policies in the long run without threatening the government's solvency or without defaulting on some of the government's liabilities or promised expenditures.

Therefore, there is no precise point where sustainability or unsustainability can be defined and definitely differentiated. Rather, fiscal sustainability analysis is focused on examining possible future trends and projections. As indicated previously, reports of a similar nature have been published in other Australian jurisdictions and also in countries across the world.

In preparing the report, the comments raised by the committee in relation to the measures used in the 2016 report have been considered and although there is no consensus on the measures to use for fiscal sustainability, most other jurisdictions adopt a number of measures. Net debt is the most commonly used measure and that is presented in this report. That is either used as a standalone or as a percentage of economic output.

Measures used in the 2019 report are consistent with the Treasurer's Annual Financial Report and they are consistent with those reported in the state budget. Expenditure has been categorised consistent with the Australian Bureau of Statistics classification of functions of government which is used for government reporting.

To maintain continuity with the Fiscal Sustainability Report 2016, the primary balance has also been calculated for all projection scenarios, and is included as an attachment to the report. It should be noted, though, that the results are not directly comparable between the two reports because of the difference in the methodology and calculation.

Projections have been developed over a 15-year time frame, principally because there is some level of knowledge of events likely to occur in the next 15 years, but reduced certainty beyond that period. Projections over a longer term would likely follow the same trends as we see in the latter years of the 15-year period.

This is also consistent with Organisation for Economic Co-operation and Development - OECD -guidance on long-term reporting where long term is considered between 10 and 40 years. It is important to note that projections are not forecasts; they are an extrapolation of trends and they are presented in the absence of any policy change or intervention.

In preparing this report, Treasury is making no judgment regarding whether any scenario is more or less likely to occur.

The act does not actually specify whether the report is to be prepared on a general government sector or total state sector level, and projections are being prepared on a GGS level. That is consistent with the scope of the state budget and reflects the areas the state Government has direct policy control over.

In terms of the FSR model, the model has been developed over the last four months. It projects 39 inputs and of those, 28 inputs may be varied across the four scenarios. It is supported by a number of macros and programming using VBA.

The model has been subject to quite extensive quality assurance internally and effectively it uses over 20 000 unique formulas and provides capacity for over 100 000 unique projection combinations. It is a complex model even though there are only four scenarios.

In terms of the model's approach, the Treasurer's annual financial reports and the 2019-20 Budget were used as sources of data for all inputs, and the base year is 2018-19 estimated outcome.

It is not practical to project a rolling balance sheet so we did not go to the next step of projecting a full balance sheet for each of the years. Therefore, the model calculates net debt through a series of cash and accrual adjustments. The approach used has been tested against past data to ensure that it is accurate.

Going to the scenarios now, we have chosen four scenarios to cover a range of outcomes: historic trends, which could be described as business as usual; forward Estimates, which reflect the Government's current policy, as expressed in the Budget and forward Estimates; and a high expenditure and low revenue, which are the key threats to fiscal sustainability.

As noted by Ms Forrest in the *Mercury* on 16 October, the forward Estimates include the savings measures over the forward Estimates.

Ms FORREST - It's good to see you read that.

Mr FERRALL - I always read your articles.

The inclusion of the savings measures rebases each expenditure category at the lower level implied by those savings measures, but the model doesn't include any additional budget savings beyond those forward Estimates periods so there are no incremental savings beyond the forward Estimates.

Other matters included in the model are: under the historic trend - high-expenditure and low-revenue scenarios - adjustments have been made to the projections to take account of known future events; and under the forward Estimates scenario, adjustments are applied outside of the immediate budget and forward Estimates period to take account of events we know are occurring outside that period.

For example, with the Royal Hobart Hospital, under the historic trends scenario, expenditure step changes are applied from 2019-20 to 2024-25. With respect to the northern prison and the southern remand centre, in the historic trend scenario, expenditure step changes are applied from 2021-22 to 2031-32. At the end of the GST guarantee period, in all scenarios a step change of -$42 million is modelled after 2026-27, which coincides with the end of the GST guarantee period. At the end of the Mersey Community Hospital Funding Agreement, in the historic trend, forward Estimates and high-expenditure scenarios, additional SBP funding has been included from 2027-28 to reach $41 million in 2033-34, which is 45 per cent of the cost of recognised activity, so at the end of the Mersey agreement we are recognising that the activity will be partially funded by the Commonwealth as we go forward.

Ms FORREST - What year have you started that off? We're not sure how long it's going to last.

Mr FERRALL - In 2027-28.

Ms FORREST - If it doesn't make it until then, it will change, obviously?

Mr FERRALL - Obviously, it would.

Ms FORREST - With interest rates as they are it might be a bit of a challenge.

Mr FERRALL - It is still projected to make the tenth year, even with interest rate changes, but yes, it will become more challenging.

We also included the recent changes to the Australian Government funding arrangements with Housing. The Australian Government announced the Commonwealth Housing Agreement and debt totalling $157.6 million will be forgiven, so we made adjustments to that which allocated operational capital expenditure on a 50/50 basis. On that particular one, we allocated the expenditure on a 50/50 basis because we made an assumption that some of the funding would be going into built infrastructure that Housing would own and some would be paid to community groups to insure the infrastructure is built in the community groups, so we just treat it as a 50/50 basis.

Equity transfers are included in the projections and they're consistent across all scenarios. The modelling assumes the equity transfers in the 2019-20 Budget and forward Estimates will occur, including the transfer of $157.5 million for the TT-Line.

In terms of matters not included in the model, we didn't explicitly include the impact of climate change and natural disasters in the model; however, for some projections, for instance, public order and safety, they're based over a six-year prior period average and so that would, to some degree, capture events such as the recent fires so to some degree there is an implicit assumption around those changes but it's not explicitly modelled.

Mr O'BYRNE - I understand why this might have been excluded that; I think it's still a big issue for the state to confront. Did you work through those models in terms of attributing a cost to a natural disaster or a regular natural disaster every two or three years?

Mr FERRALL - No, we didn't explicitly model that at all. We would have had to make too many assumptions in respect of the costs and the periods of time they might occur. To the extent that there have been a number of significant fire events recently, the cost of those are in the previous averages that we've used, but in terms of the modelling there is no assumption that would increase as an example going forward.

Marinus and Battery of the Nation are excluded because it's not possible to identify the magnitude or timing of the potential impacts at this stage, and the impacts could be negative or positive depending on how those projects go forward.

We also haven't modelled any changes to Australian Government funding and certainly state government policies and changes to state government policy are not modelled. The projections assume no policy response over the projection periods.

In 2018 the committee asked me some questions about the capital underspend and how that was treated in the previous report. Historically there has been a fairly significant capital underspend. It's primarily a result of delays in planning design and implementation of projects. It's obviously further impacted by project submissions to things like Infrastructure Australia and timing of Australian Government funding commitments. The capital underspend in each year is rolled forward generally into the next financial year.

In the modelling we have assumed a 20 per cent capital underspend and that rolls through the modelling. That is modelled in the historic trend and the low-revenue growth scenarios. In the high-expenditure and forward Estimate scenarios we don't assume any capital underspend. We have just assumed that it rolls forward, as projected under the forward Estimates.

Ms FORREST - Very optimistic.

Mr FERRALL - In relation to scenario 1, historic trends, the average growth in revenue on historic trends is 3.3 per cent and the average growth of expenditure is 4.4 per cent. What you see at the end of the 2033-34 period is a net operating balance of negative $1.6 billion and a fiscal balance of negative $2.1 billion.

The historic trend scenario shows outcomes that are progressively worse than those experienced in the past. If you look at the past lines, they don't look like they would imply that you would see the fall-off going forward. This is primarily due to forward expenditures being adjusted to account for additional expenditure associated with major projects. In addition, it includes adjustments to some revenue lines, including GST, and returns from government businesses. When you take those into account in the projections, that is why you see that steadily worsening in historic trends.

Mrs RYLAH - But we don't see increased income from the improvement in infrastructure or the other things that will happen - is that what you're saying?

Mr FERRALL - Very little of our infrastructure generates income.

Mrs RYLAH - But there are efficiencies that the infrastructure will create?

Mr FERRALL - We haven't tried to model if there are any efficiencies coming from new infrastructure.

Mrs RYLAH - In particular from highways and all that sort of stuff.

Mr FERRALL - Even if there were efficiencies in, say, the highways, which there would be, they don't tend to have an impact on the state budget, because where our tax revenues come from doesn't tend to be driven significantly by those changes in the economy.

Mrs RYLAH - A fair point, but you get the drift.

Mr O'BYRNE - In regards to that, there is a national debate going on about road pricing and where that income is generated from. Did you, in this model, turn your mind to a change or you just worked on the basis that the net figure attributed to each state will maintain its trajectory based on the scenarios?

Mr FERRALL - We just did it based on the scenarios. We didn't try to take into account any unknown future policy changes basically.

Historic trends continuing - what the result showed is a net debt moving to about $18.2 billion, and the annual change in net debt is shown in the accompanying chart.

I have some handouts I am happy to table for the Committee which just pick up the raw numbers and the annual changes in the net debt. I think there was a question earlier about what happens under each scenario across each of the years of net debt, and what the end numbers are. The table I have presented covers that.

In scenario 2, the forward Estimates scenario, the average compound growth between the 2018-19 estimated outcome in the final projection in 2033-34 is 2.5 per cent for revenue, and 2.2 per cent for expenditure. That shows an operating balance of $520 million positive at the end of the period, and a fiscal balance of negative $77 million.

In terms of net debt, the forward Estimates scenario shows net debt of about $4.47 billion, and again the profile of the increments and changes is shown in the accompanying chart. The high expenditure scenario shows a compound annual growth in expenditure of 5.1 per cent, with revenues at 3.3 per cent.

In terms of the high expenditure scenario, we maintain the revenue growth effectively at the long-term trend. That is why we are saying they are the cases that create the extremes and the most likely pressure on fiscal sustainability. It is when you have high expenditure and normal or steady revenue growth, or you have very low revenue and normal expenditure growth. In terms of the high expenditure scenario, the net debt rises to $29 billion by the end of the period, and, again, you can see the rapidly escalating changes in net debt under that scenario.

Ms FORREST - We could have a real problem there. Look at Europe.

Mr FERRALL - The low revenue scenario shows revenue growth of 2.5 per cent, and expenditure growth of 4.5 per cent. Again, you see an operating balance towards the end of the period of $3.1 billion negative, and a fiscal balance of about $3.6 billion negative. That leads to a projected net debt of about $26 billion at the end of the period.

The summary results figures are there for each of those previous scenarios, so I do not think I need to cover those, but that gives the committee the raw figures under each of those scenarios.

The average growth over the projection period in revenue and expenditures from transactions is shown in the accompanying table as well. For the committee's interest, between 2008-09 and 2018-19 estimated outcome, revenue growth, calculated on the same basis, has been 4.1 per cent and expenditure has been 3.8 per cent. Like all these percentages you can pick different periods and you can get different outcomes.

Mrs RYLAH - So what is the historical trend based on then? It is obviously not based on that period.

Mr FERRALL - It is based on multiple periods, depending on which scenario. Primarily we have tried to take out, in some cases, abnormal changes. A good example is the GST. When GST was introduced, there was a period of the first two or three years where we had very high growth. Post that, there has been there has been much more steady growth, so in some cases we have taken those things out.

Ms FORREST - Distorting things

Mr FERRALL - Distorting things, yes.

We have tended to go for as long term as we reasonably can. There is not always data to go back to long-term trends. With things like conveyance duty we went back 18 years to come up with a long-term trend. That is a highly volatile tax and if you take a short-term period, you can get quite significant changes over the short period so we have used a very long-term trend for that.

In conclusion, the state's workforce and student population are not projected to change markedly over the projection period, meaning little impact on payroll tax or education expenses. They are largely driven by policy drivers rather than long-term trends. Under the historic trends scenario health expenditure is projected to grow at 5.8 per cent per annum, which is the average growth over the past decade. Health expenditure is a share of total general government sector expenditure, which was 25.3 per cent in 2008-09; it is 30.8 per cent in 2018-19; and it is projected to grow to 42.1 per cent by 2033-34 under the historic trend scenario.

The aging of the population along with prevalence of people with more than one health condition results in higher health costs. However, studies have shown that the primary driver of growth in health is likely to be non-demographic factors. Healthcare expenditure projections produce by the OECD to the year 2050 found that non-demographic factors were the most important drivers of increase in healthcare costs.

Mrs RYLAH - The capability, is that what you are talking about?

Mr FERRALL - No, it is things like technology. The capability of more diseases to be treated is increasing so it is not, as you might think, that it is driven by demographics. Demographics do have an impact but it is not the most significant driver.

This is consistent with previous analysis and it is also similar to the fiscal pressures we are seeing in other states and territories. By 2024-25 under the historic trend scenario a revenue increase of approximately of 10 per cent would be required to achieve a zero net operating balance and the size.

Ms FORREST - What year was that?

Mr FERRALL - By 2024-25. The size of the corrective action required after this point is projected to increase significantly. The underlying drivers of growth in health expenditure are likely to continue. Therefore using expenditure constraint alone to achieve fiscal sustainability will become increasingly challenging. That was the conclusion of the report.

Ms FORREST - In terms of those of the big picture, it is interesting talking about health expenditure; we hear it all the time - we have heard it forever. Demographics have often been cited but it is clear that there is also the ability to treat so many more things with the equipment with which they may do so.

This might be not something for you and I am happy for it to be taken to the Treasurer at a later time, but if we are not willing to have these really difficult discussions about what we do, with what you see, is there any other way of constraining this growth in a way that makes it manageable?

Mr FERRALL - I think it really is a matter of policy for government of the day so I think it is a matter for you to take up with the Treasurer. The conclusion we included in the report is that it's really very difficult to see a sustainable position if you are trying to rely on health constraints alone. It is very difficult to achieve health expenditure restraints.

Ms FORREST - We need to have a conversation around that. That is a policy question. But are there other measures within health? If we don't do something in this space, are we going to have major problems beyond 2024-25?

Mr FERRALL - If health expenditures continue at the level they have been in the past, growing at about 5.8 per cent, and if revenues are growing at about 3.3 per cent, it is only a matter of time before those dynamics cause an unsustainable position. But it is not a matter of constraining expenditure alone, there are questions around whether there can be improvements in efficiency in health. In the medium- to long-term, as is the case in other jurisdictions, there probably needs to be a debate in the community about how willing the community is to pay for the extended health services, which leads you to a revenue debate.

Ms FORREST - That is where I am going. You made it pretty clear that in the absence of any corrective action, it is all downhill or uphill, depending on whichever graph you look at. There is a bit of net debt, it is rather steep where there is no corrective action. The point was made that it becomes an even harder task if we don't act soon. Do you believe there needs to be an urgent conversation? It takes a while to make these changes. You can't start a conversation - I will use the dreadful term 'tax reform' because it frightens the pants off people - because once you start it there is a long way before anything will happen, but if we don't start that conversation pretty soon, we are going to be facing some of the scenarios we have looked at.

Mr FERRALL - That is a challenge around the country. It is not a Tasmanian challenge alone. It is almost impossible for Tasmania to go it alone in a tax debate. There have to be some more serious questions asked nationally around GST and income taxes.

Ms FORREST - Transitional arrangements, should recommendations be made, that sort of thing?

Mr FERRALL - Again, it is a policy choice for governments.

Ms FORREST - When do you think this conversation needs to start?

Mr FERRALL - A conversation is starting or has started. It has been going on for some time. If you look at reports from other jurisdictions, including New South Wales recently, if you look at reports from the Productivity Commission and the New South Wales productivity report, the conversations are starting. It is a difficult conversation for governments to have, politically.

Mrs RYLAH - This is the second sustainability report, is that right? If you compare the two reports, can you give us an overview? We are not talking the numericals, we are talking about trends and position. Are we in a better position than we were when the first report was done? How are we tracking?

Mr FERRALL - The nature of the reports is such that there is not significant difference between previous conclusions and the conclusions now. In part, that is because one was 2016 and one is 2019 and you are doing 15-year projections. It goes to the point I made at the start of the hearing, which is that there is no single point where you can say we have moved from sustainable to unsustainable. I would say the two reports show the same thing over time.

Mr O'BYRNE - Under all four scenarios it is pretty diabolical if no corrective action is taken. In answer to Ms Forrest's question about corrective action and a debate about either revenue or expenditure, you talked about Tassie not going it alone. I have noticed in recent reports you have had the New South Wales Government float some ideas, but there is a Board of Treasurers concept that has been around a while, but is that playing a role in state-federal relationships? What would be your view on that? Clearly, this report can't be seen in isolation of that conversation as well.

Mr FERRALL - That is a matter for the Treasurer and the Board of Treasurers. I don't think I can comment on the position of the collective of Treasurers in relation to Commonwealth calculations.

Mr O'BYRNE - By virtue of your report, you raised the issue; in all of the four scenarios you have painted, it is pretty grim and action needs to be taken. This report would trigger, you would think, a response from government in line with your previous answer saying that Tasmania cannot go it alone.

Mr FERRALL - It is a matter for the Commonwealth and states to decide what actions they may want to take in respect of the pressures across all jurisdictions. What is in this report is not revolutionary, in reality. The pressures from the health system have been well known and they are escalating. The challenge we have is that the revenue sources that states have are not growing at the same rate as the health expenditures. Another challenge is that if you look at expenditure growth of health at 5.8 per cent, as an example, it is difficult to see there would be any single revenue source that would grow at that rate, either. It is quite a complex challenge for the community in terms of looking at what is affordable long-term and making difficult choices in health expenditure.

Mr TUCKER - With your predictions, what would be helpful -

Mr FERRALL - Not predictions.

Mr TUCKER - the modelling, I should say. It would be interesting to see five years beforehand and see where those figures were sitting in actual figures on what has occurred.

Mr FERRALL - At any point in time you can do a set of long-term projections, which literally take a period of time and then project it without any policy intervention and you will have very positive or very negative numbers. The reality is all governments, in Tasmania and other jurisdictions, take sequential interventions against those trends. One of the points of the report is that interventions tend to be more easily taken if they are taken early than if they are taken later, and that is quite an obvious point but if you don't -

Mrs RYLAH - It is called compound interest.

Mr FERRALL - Well, it is. If governments don't take those actions early on, you see bigger swings and bigger changes, which tend to be much more disruptive for the community. Tasmania has a very solid history of acting to the economic environment it is within, and that is governments of all persuasions over a long time.

Ms FORREST - I will take you back to talk about what fiscal sustainability is. You said there is no clear definition and the OECD provides some guidance. What is, for us to look at, the most reliable - if you want to use that word - measure of fiscal sustainability as presented here?

Mr FERRALL - There is no single measure. I don't think you can pick a single measure as a measure of sustainability. I will give you an example. If you have a significant amount of debt but you have sufficient revenue to support that debt and also meet all your other recurrent costs, you are still in a sustainable position. It is only when you are in a position that you can't meet the debt servicing and meet your other recurrent costs, that debt would potentially become unsustainable. It is a question of when you start either to be unable to service any debt you've got or start to constrain or restrain your current expenditure to a point which is -

Ms FORREST - Or your capital expenditure, surely?

Mr FERRALL - Yes, capital or any of your expenditures to a point where you're reducing the capacity of the future generations to have the same level of support and services that you currently have.

Ms FORREST - On that point, wouldn't it be the case that net debt is really the better measure here? Really, when you look at the other measures, they are measuring the flows in and out, money in and out, whereas net debt actually measures the stock. When you see the stock that is left it shows you what money you have or are falling short by to meet the capital and recurrent expenditure you have committed to. This varies up and down - no government ever meets exactly what they say they are going to do with capital expenditure or recurrent. We see that every year.

Mr FERRALL - Net debt is used as a measure by many jurisdictions in terms of a fiscal sustainability measure. Some of them compare that to percentage of GST. It is quite a reasonable and appropriate measure. Debt is also a very appropriate way of getting intergenerational equity. If you have a large expensive asset that is going to provide support to the community over a long period of time, it is not unreasonable to have debt to support that asset and share the burden of the cost of that asset over a number of generations. Debt per se can be bad, but it is not always bad.

Ms FORREST - It is good to see the figures actually here in the table you have presented. To me, net debt reflects a stock measure rather than a flow measure. I wonder is it possible for you to present information with a cashflow deficit figures each year and chart them in the same way?

Mr FERRALL -The way we have presented this report the net debt is most close. Those figures you have in the increment or [inaudible] are pretty well equal to cash.

Ms FORREST - Okay. It is helpful to have that. I think that is a truer picture of what we would actually be looking at in number terms. It would perhaps make it easier for people to think 'Okay, if this is where we are going to be sitting, with a gap between what we have and what we need, which is virtually what it is, on an annual basis' -

Mr FERRALL - It is in the absence of any intervention. I do not want to labour that point, but no government would ever sit for 15 years and do nothing. There will always be policy interventions by government and changes over time.

Ms FORREST - I still feel a bit confused about the treatment of defined benefits and the differences, the normal super interest, which is part of the primary balance, which I know is removed from this situation. Just bear with me and see if there is any light you can shed on it. Normal super interest is non-interest per se, but there is rather a difference between unfunded super and the unfunded super if all members were a year older. That is what it is - it is a figure that tells you that. In some respects, you could say that is a proxy measure for what the government contributions are likely to be for that year. Is that a fair comment?

Mr FERRALL - Keep going.

Ms FORREST - If that is the case - that this is likely to be required to be paid by the government; the obligation is there - shouldn't that be included in the measure of sustainability?

Mr FERRALL - The way we have done the report, we have effectively used the actuarial assessment of the cashflows for the defined benefits super obligation. The nominal interest on super is an economic measure that goes into the financial statements. It is not the actual cash cost of the defined benefit members over time. In putting together this report, we have effectively used the actuary's assessment of the cash going out the door, which is why you end up simplistically with that direct impact on net debt, because it is the cash.

Mr O'BYRNE - What is the margin of error historically on that actuarial advice?

Mr FERRALL - I cannot tell you what it is. On the cash, it is relatively small, but you get big swings on the valuation. The valuation is done on a discount rate basis. The things that drive the cash going out the door are the assessment of how long people are likely to live and shifts between people taking pensions versus lump sums; there's a couple of other factors but they don't tend to have big movements.

Mr WILLIE - My father-in-law passed away at 96, retired at 55 on it. He got a good whack.

Ms FORREST - Just to clarify a point Tony made earlier, this additional report hasn't restarted the clock so to speak on the five-year calendar?

Mr FERRALL - No, another report must be done before June 2021; so there will be another report and that's the report required under the legislation.

Ms FORREST - Will that one contain the -

Mr WILLIE - That's a bonus report under the legislation.

Mr FERRALL - Some might call it a bonus.

Ms FORREST - Some probably don't.

Because it will have to be released by June that year, that year's budget is not going to be included?

Mr FERRALL - It wouldn't be possible.

Ms FORREST - It will only be one more budget before you are looking at producing another report?

Mr FERRALL - I haven't decided when that other report would be done. It is difficult to see it being done in the first half of the 2021 calendar year because of the budget timing so it's most likely to be done in the last half of the 2020 calendar year.

Ms FORREST - So next year?

Mr FERRALL - Yes, probably in 12 months time.

Ms FORREST - Which will factor in next year's budget?

Mr FERRALL - Yes.

Ms FORREST - It's a lot of work and it's good to see you earning the money.

It will be interesting to see because the report has made it pretty clear that there needs to be some conversations about where we go and how we deal with both the obvious issues with health expenditure, which is not new or unexpected or unique to Tasmania, and the need for that discussion more about revenue.

You ask the questions you know the answers to at times, but there are conversations going on around the country in some other jurisdictions. I know you talked about the board of treasurers but there's also the heads of Treasury secretaries, the HOT team you've told me about in the past. Does it have a role in raising these issues as the secretaries of Treasury around the nation?

Mr FERRALL -Yes, they do, and my counterparts do raise issues of a similar nature. There isn't a state budget that isn't under pressure. It's the reality of managing state budgets.

Mr O'BYRNE - The report you will do either next year or at some stage according to the act, will that be the first report where we can do a point-to-point for genuine comparison?

Mr FERRALL - You won't really be able to do a point-to-point comparison. That was my comment that for continuity we picked up the approach used in the 2016 report and did a comparison with the 2019 report, but in terms of a direct point-to-point comparison, unless we use the same methodology in the next report as we used in the 2016 report, you wouldn't get that point-to-point direct comparability.

Ms FORREST - Which is unlikely, isn't it? You haven't decided, I am sure.

Mr FERRALL - From my point of view, it's unlikely because the methodology used in the 2016 report, to be frank, didn't meet the expectations of the committee and was difficult for a number of readers to understand. The purpose of a report is for people to understand it. I wouldn't go back to a methodology, even though it is technically correct, that was not understandable.

Mr O'BYRNE - Just to clarify, the methodology you use for the next report will be different again from this report?

Mr FERRALL - No. Under the terms of the legislation the approach to the report is a matter for the secretary to determine. If I am the secretary at that point in time, it is most likely I will do a report on a similar basis to the 2019 report.

Ms FORREST - Which I must admit is more readable. It makes more sense.

Mr FERRALL - It was intended to be.

Ms FORREST - There you go. You listened to us and we appreciate that.

CHAIR - It is interesting when you look at increasing health costs and the OECD's reports about the fact that it is not going to be the aged demographic factors that are going to cause the increasing cost in health; it's going to be other issues, such as technological ones and so on. People reading these issues and looking at reports like this would find that hard to accept, wouldn't they?

I think the average person would say that the cost increases in health are going to be from people living much longer. I guess it's a growing population as well, and the demand on health services would be the driver of the expenses in that area.

Mr FERRALL - They are drivers, but not the primary drivers. That's the point: it's not that demographics doesn't have any impact, but it doesn't have as significant an impact as the other factors.

CHAIR - We are talking about the equipment and machinery and so on that's required to keep abreast of everything that's occurring. Is that the way it goes?

Mr FERRALL - Yes, and it's also the capability through changes in technology and approaches to intervene in or treat a greater number of diseases. That's growing rapidly as well.

Ms FORREST - But that has been going on for a long time. If you look at the management of micro-premature babies. Babies at 26 weeks were not even considered for resuscitation some years ago, and it's now just par for the course, at considerable expense, which you understand.

Mr FERRALL - Yes, and there is a technological component to that as well, there's a capacity to -

Ms FORREST - Absolutely there is - technological, pharmaceutical, it's all those things.

CHAIR - Are there any further questions? If there are no further questions, Mr Ferrall, is there anything you want to leave us with

Mr FERRALL - There's one thing I would like to put on the record. We had a small team within Treasury working on this report and it was quite difficult; that group worked for about three months on the project. I would like to put that on the record and thank them for all the work they did on this particular report.

Ms FORREST - As a member of the committee too, I acknowledge it was on the request of the committee that this extra work was done, in many respects. It is really gratifying to see that Treasury does take the committee seriously, and seeks to work with us to produce some information that is useful, not only to us but also to other people in the community who are interested in this.

Mr FERRALL - Thank you.

CHAIR - The committee is grateful for what has happened and the way you have gone about this. We also thank those members of your staff who were so committed during the past three months to put it all together.

We appreciate that you and Fiona came along today as well, for the report and the slides you have provided, which has made it much quicker and easier to understand. Thank you very much.

THE WITNESSES WITHDREW.