2018

THE LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT RESPONSE TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS COMMITTEE REPORT NO 2

REPORT ON ANNUAL AND FINANCIAL REPORTS 2016-2017

Presented by
Mr Andrew Barr MLA
Chief Minister

Introduction

On 26 October 2017, the 2016–17 annual and financial reports of all government agencies were referred to the relevant standing committees of the ACT Legislative Assembly.

The annual and financial reports for 2016–17, or parts thereof, referred to the Standing Committee on Public Accounts) were:

- ACT Auditor-General;
- ACT Insurance Authority;
- ACT Ombudsman;
- Icon Water Limited;
- Independent Competition and Regulatory Commission;
- Office of the Legislative Assembly;
- Chief Minister, Treasury and Economic Development Directorate; and
- State of the Service Report.

- **Response to Committee Recommendations**

Recommendation 1

2.89 The Committee recommends that the ACT Government conduct data collection and analysis on changes to stamp duty and rates in the ACT, and that the resulting data be provided to the Committee in 2018.

Government Response – Noted

Treasury undertook analysis of changes to stamp duty and rates in the ACT over the first five years of tax reform to inform the package of stage two reforms. The analysis showed that in the first five years of reform:

- inefficient taxes (conveyance and insurance duties) reduced from 24 per cent to 16 per cent of overall tax revenues;
- conveyance duty amounts reduced by more than 30 per cent for three-quarters of residential property transactions and half of commercial property transactions;
- conveyance duty charged for most residential properties in the ACT is now significantly lower than the national average, and the lowest of all jurisdictions except Queensland's rate for owner occupier properties;
- insurance duty is fully abolished, saving a household spending $3,000 on insurance each year around $300;
- average general rates increased by $452 on average above what they would otherwise have increased in the absence of tax reform; and
- the increase in general rates was greater for houses than units over the first stage of tax reform because on average units have significantly lower AUVs than houses.

More details are available at the Treasury website https://apps.treasury.act.gov.au/budget/budget-2016-2017/budget-booklets/taxreform/impacts-of-reforms-to-date-stage-1.

Treasury regularly monitors the changes to the tax system and advises the Government on the distributional impact of changes in stamp duty and rates on households. Further distributional analysis is provided through the 2018 Budget papers.

Recommendation 2

2.90 The Committee recommends that if further data collection and analysis on changes to stamp duty and rates were to demonstrate inequality in the overall burden on tax payers in the ACT, the ACT Government act to remediate or reverse such effects.

Government Response – Noted

Treasury analysis of conveyance duty and rates has not demonstrated inequality in the overall impact on tax payers. As part of the tax reform program that started in 2012-13, the Government has made the tax system fairer by making general rates and conveyance duty more progressive. While all properties have benefited from cuts to conveyance duty, the Government has cut this more quickly for lower value properties. The Government has also increased general rates at a significantly slower rate for lower value properties.

Recommendation 3

3.73 The Committee recommends that the ACT Government increase the membership of the independent advisory board for the Superannuation Liability Fund from two to three members by the end of the 2017-18 financial year.

Government Response - Not Agreed

It is considered the depth of skill and experience of the current two Board Members is sufficient to support the range of advice required from the Board. The Board is appointed in an advisory capacity only. If circumstances require in the future, there remains the option to appoint a third member.

Recommendation 4

5.39 The Committee recommends that the ACT Government ensure that the consumer protection code administered by the Independent Competition and Regulatory Commission (ICRC) be amended so that compensation is paid to electricity consumers in instances where there are multiple interruptions to electricity supply over a nominated period of time.

Government Response - Noted

The ICRC is currently reviewing the Consumer Protection Code. The ICRC is considering arrangements for system reliability payments in other jurisdictions and expects to release an issues paper in the second half of 2018. The paper will address this recommendation, as well as other issues identified in the review.

Recommendation 5

5.40 The Committee recommends that the ACT Government ensure that the consumer protection code administered by the Independent Competition and Regulatory Commission (ICRC) be amended so that compensation is automatically paid to electricity consumers by electricity suppliers in instances where interruptions to supply meet criteria for compensable interruptions to supply.

Government Response - Noted

The ICRC is currently reviewing the Consumer Protection Code. The ICRC expects to release an issues paper for consultation in the second half of 2018. The paper will address this recommendation, as well as other issues identified in the review.

Recommendation 6

7.29 The Committee recommends that the ACT Government ensure that appropriate measures are used regarding management of—and information on—the Lifetime Care and Support scheme, in view of small numbers of participants in the scheme.

Government Response - Noted
The ACT Government has been very conscious since the beginning of the operation of the LTCS Scheme to manage the scheme in an appropriate manner for its small number of participants. This is reflected in the Scheme's arrangements with New South Wales and the arrangements for the conduct and reporting of the annual participant survey.

<u>Recommendation 7</u>
8.52 The Committee recommends that the ACT government ensure that premiums paid by ACT government agencies are such that they are sufficient to cover those agencies' insurance costs and allow ACTIA to maintain a prudent capital base. The practice of ACTIA making capital returns to government would in such circumstances be unnecessary and should be discontinued.

Government Response - Noted
ACTIA insures against a number of risks on behalf of the Territory's agencies, collecting premiums on their behalf to meet expected claims costs and organising adequate reinsurance. The annual premiums, calculated by ACTIA's actuaries, are intended to fully fund the costs of insurance for each policy year and are set to cover: expected claims costs which are calculated after consideration of historical number and average size of claims, the cost of reinsurance, expenses relating to claims handling and administration of operations required to provide insurance.

The expected risks may be large, volatile and take many years to emerge. For insurance classes such as medical malpractice, claims may emerge many years after the interaction with the health system, and large property claims may arise as a result of storms and other natural catastrophes.

ACTIA is required to hold a prudent amount of capital to ensure that they are able to meet the claims costs for risk exposure they have written. A central estimate of liabilities is required; this amount may only be sufficient to meet claims costs about 50% of the time on average. Accounting and prudential standards require a risk margin to be held on top of the central estimate to increase the probability that the liability reserves are sufficient to meet claim payments.

While ACTIA is not Australian Prudential Regulation Authority (APRA) regulated, it holds a risk margin which equates to a 75% Probability of Adequacy (PoA). In the event that claims cost emerge more favourably than expected, then the capital held as a risk margin may be released. Furthermore, premiums are only one source of capital accumulation. ACTIA will earn investment income on the reserves held in its investment fund. The premiums assume a certain level of investment returns but in the event that investment performance is better than expected, this will also improve the capital position.

Balancing the need to hold prudent capital levels with the efficient use of government funds is addressed through ACTIA's capital management plan.

Recommendation 8

9.33 The Committee recommends that the ACT government progress work on the Shared Services software asset management system as a matter of urgency. The Committee recommends that the ACT government advise the Legislative Assembly of progress on the project by the end of the 2017-18 financial year.

Government Response - Agreed

A Software Asset Management tool has been piloted and collected an initial sample of data. Government-wide deployment is currently being implemented in alignment with existing technical platforms and will provide comprehensive data for analysis by the end of the 2017-2018 financial year.

Recommendation 9

10.33 The Committee recommends that the ACT government dispense with the term 'different religions' in characterising its workforce, and instead use terms which accept and presuppose workforce diversity.

Government Response - Agreed

The term 'different religions' will be removed in future State of the Service Reports.

Recommendation 10

10.36 The Committee recommends that the ACT government provide sufficient support to apprenticeships and traineeships in the ACT to prevent further decreases, and to stabilise and increase participation in apprenticeships and traineeships in the future. The Committee recommends that the ACT government report on this to the Legislative Assembly the end of the 2017-18 financial year.

Government Response - Agreed

This government is focused on ensuring that Canberra is home to an innovative, productive and safe VET sector. Since 2015, the ACT has recorded the largest increase in Australian Apprenticeships commencements in Australia. This is largely due to the success of the ACT's targeted reform activities. CIT has also been supported to undertake a comprehensive range of quality improvement activities to support the delivery of training to apprentices and trainees. A grants program to increase female participation in male dominated trades was also recently launched and the ACT continues to work with the Australian government to identify opportunities to increase and support apprenticeships and traineeships in the ACT.

The Minister for Higher Education, Training and Research will provide an update to the Assembly in due course.

Recommendation 11

10.39 The Committee recommends that the ACT government report on the use of Attraction and Retention Incentives (ARIns), and the principles used as a basis to negotiate ARIns, to the Legislative Assembly by the end of the 2017-18.

Government Response - Agreed
The Chief Minister will table the report during the June sitting period 2018.

Recommendation 12
11.37 The Committee recommends that the shared services agreement between Icon Water and ActewAGL be open to public scrutiny, and that the ACT government therefore table the current agreement in the Assembly by the end of the 2017-18 financial year.

Government Response - Noted
The Treasurer tabled copies of the information released by Icon Water Limited relating to the Icon Water Corporate Services Agreement and the Icon Water Customer Services and Community Support Agreement with ActewAGL on 20 February 2018. Certain details about the contracts have been kept confidential for commercial and legal reasons. Icon Water has also displayed on its website versions of both contracts together with background information on the development of the contractual arrangements and how they are managed.

Recommendation 13 - Not relevant for Government
12.38 The Committee recommends that the Speaker of the Legislative Assembly for the ACT swear in the ACT Ombudsman as soon as practicable after the publication of the present report.

Recommendation 14 - Not relevant for Government
13.39 The Committee recommends that the Auditor-General give wider publicity on the web-page of the Audit Office on her capacity to refer matters to the Australian Securities and Investments Commission under Section 311 of the Corporations Act 2001 (Cth), including further detail on the two instances where referrals have been made.