

# CORRECTED VERSION

## ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

### Inquiry into portability of long service leave entitlements

Melbourne — 7 December 2015

#### Members

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Ms Dee Ryall — Deputy Chair

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Mr Peter Crisp

Mrs Christine Fyffe

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Mr Don Nardella

#### Staff

Executive Officer: Ms Kerryn Riseley

Research Officer: Ms Marianna Stylianou

#### Witness

Ms Melissa Skilbeck, Deputy Secretary, Budget and Finance, Department of Treasury and Finance.

**The CHAIR** — Good afternoon and welcome, Melissa. I have to read this to you. Welcome to the public hearing for the Economic, Education, Jobs and Skills Committee Inquiry into portability of long service leave entitlements. All evidence taken at this hearing is protected by parliamentary privilege. Any comments you make outside the hearing are not afforded such privilege. Hansard is recording today's proceedings. We will provide a proof version of the Hansard transcript so you can correct any typographical errors. I would now like to invite you to make an opening statement, and the members of the Committee will then have questions.

**Ms SKILBECK** — Thank you very much. I will just make a brief statement. I am the Deputy Secretary of the Budget and Finance Division within the Department of Treasury and Finance. David Martine, the Secretary, has asked me to make this presentation on his behalf.

As you would be aware, DTF provides economic and financial resource management advice to government across all its policies, but unless the matter falls within one of our ministers' specific portfolios it is quite unusual for us to undertake direct modelling of a policy outcome. We do take a central agency oversight role. That will involve, as it would have for this matter, reviewing all the input from the lead agency where necessary, including estimated financial impacts, providing analysis and advice to our department's ministers in relation to any cabinet deliberations and, as I said, any further financial modelling should we have any particular concerns about the input from the lead agency.

In relation to our role in the development of the Community Services Long Service Leave Bill 2010, as you have covered off extensively, I am sure, the design of that scheme was led by the former Department of Human Services. I think it extended from 2003 to 2010 all up. For the development of the Community Services Long Service Leave Bill itself, the former DHS undertook stakeholder consultations, and one of the stakeholders was the Department of Treasury and Finance.

Some of the outcomes of that consultation process are covered off in a public PwC report that was commissioned by the former DHS. We have a copy of that report, as you do; it is public. The report includes the review of the actuarial work that was used to estimate the costs of the scheme. It was estimated at the time, and we understand the former DHS engaged a specialist actuary to estimate the levy required to fund the scheme on the basis of those costs.

To my knowledge the Department of Treasury and Finance did not provide any specific modelling to DHS or anyone else in relation to that work. We have made inquiries; we have undertaken searches of records and we have found no specific modelling advice. There is some other advice, but all of that is with cabinet in confidence related to the bill and its passage through the decision-making processes of government. I have not viewed that advice, but given our general role I would expect it to include costs to both employers and to the government, governance arrangements and other implementation issues; they are the sorts of things that we would usually raise.

DTF advice and some of the correspondence we have discovered coincides with the discussion in the PwC report around the various interested parties' concerns at the time, entirely consistent with those reported in the PwC report.

In relation to the modelling, we are familiar with actuarial modelling; we source quite a bit ourselves for superannuation purposes. In relation to modelling for a scheme such as the one you are investigating, it is a very complex task. As you have already discovered—and I understand from the discussion you have had with Mr Lance Wallace—some of the key data is very difficult to source, in particular industry-based data on movements of staff. There are also a large number of genuine matters that are unknown—or unknowable in some cases—in relation to how employees might respond under such a scheme. We note that the ACT scheme that exists, for example, unfortunately has not existed for quite long enough to provide some observations on that sort of behaviour.

Finally, the other matter I might note is the contextual one that with the impending introduction of the National Disability Insurance Scheme and some of the other impacts on the sector I think it is quite a difficult modelling task to undertake at the moment.

I think that is probably the extent of the summary points I can make, given our engagement in the task. Hopefully they have been helpful, and I am quite happy to take any of the questions you have, Chair.

**The CHAIR** — Melissa, thank you for that. I will start with the first question. What role did the Department play in the development of the post-2010 portable long service leave scheme for the community service sector? In particular did the Department examine and provide advice on the robustness of the two actuarial studies commissioned by the Department prior to 2010?

**Ms SKILBECK** — Chair, we have not found any such advice within department records; indeed the only advice we have discovered is the PwC public report that overviews that original work in general terms only.

**Ms RYALL** — Thanks for presenting, Melissa. Just based on the Chair's question, therefore for the bill that was put before Parliament at that time there is no evidence of what the costs would have been as a result of that except for the PwC report?

**Ms SKILBECK** — Yes. As far as we have been able to discover that is the case as I understand it. As I said earlier, not knowing the specific behaviour at the time but given our core role for any bill like that going through the decision-making processes, any of my predecessors would have asked questions around the cost both to government but also to the various cohorts within the community and would have tested those assumptions. But as the PwC report provides a fairly neat overview of the assumptions that have gone into that modelling, that would have been, I suspect, the extent of the testing. Because of the number of parameters that were not known it is really a question of how reasonable the inputs were and how reasonable the assumptions made by the previous actuaries were, and the PwC report gives a fairly good overview of that. But I am afraid I cannot give you an exact answer as to how much further or otherwise DTF went at the time.

**Ms RYALL** — I think you mentioned before that you would normally provide that information, so is that unusual?

**Ms SKILBECK** — No, we would usually test that sort of information. It is entirely usual, in fact quite necessary I think, that the lead department, the policy department closest to the issue ...

**Ms RYALL** — So DHS?

**Ms SKILBECK** — Yes, in this case that DHS would source that analysis. In part it is important to keep that separation and then we would work with them; we would consult with them and we would test both the inputs and the output. That would be my expectation if we were to do it today.

**Ms RYALL** — So you cannot find what might have been done back then?

**Ms SKILBECK** — Most of the documentation of that would, by definition, be cabinet in confidence because it would relate to the various milestones leading to legislation going into Parliament, or at least it being approved by cabinet to do so.

**Mr CRISP** — Do you know how many employees or could you estimate the number of employees in the various community services sector occupations?

**Ms SKILBECK** — I am afraid not, no. We would access, as anyone else would, some ABS statistical material and any industry-specific material that is out there. It is particularly challenging in this sector, as I suspect you would appreciate more than most, to know where to put the boundary. Obviously, just looking at the PwC report and the bill at the time, there were some decisions made to craft that boundary then. It would be a different set of decisions and challenges to make now. That is in part why I make reference to the National Disability Insurance Scheme, because while I think that sector would have formed significant material but would not have been the biggest sector of those proposed to be within the scope of the scheme in 2010, it would be one of the fastest growing sectors now—or will soon be—with the introduction of the NDIS, so that in itself would mean there would be quite a different answer now than it would have been then.

**Mr CRISP** — Would it be as difficult to separate the profit from the not-for-profit sector?

**Ms SKILBECK** — More difficult would be my judgement. I am speculating a bit now, but in policy terms one of the heartening developments over time has been a greater use of what is referred to as mainstream services, particularly in disability services, so that boundary has gotten a little greyer over time as a result.

**Mr CRISP** — While we are on this theme I would like to look at the funding of those organisations. Does the Victorian Government know how many of the community service organisations it funds?

**Ms SKILBECK** — I would have to refer that one to the Department of Health and Human Services. From a DTF perspective, we produce information we receive in Parliament by output, so we can provide that data, but the Department of Health and Human Services would have the best chance of sourcing that data.

**Mr CRISP** — When you are providing that data, could you also give us the total amount of funding the Victorian Government put into the community services sector in the 2014–15 year?

**Ms SKILBECK** — I am afraid the Department of Health and Human Services would have to do that as well.

**Ms RYALL** — I think we have asked for that.

**Ms SKILBECK** — That would be a partial response from the Department of Health and Human Services. You would need to ask a couple of other departments as well and define the scope very clearly, because several answers could be just as legitimate as the others.

**The CHAIR** — How many community services employees would you estimate have at least seven years of service in the sector?

**Ms SKILBECK** — Chair, I am afraid I cannot provide any advice on that.

**Ms RYALL** — I think that is all DHS, is it not?

**Ms SKILBECK** — They are closest to the issue, yes.

**The CHAIR** — The Committee understands that the Victorian Government departments and agencies contract out most cleaning and security services. What is the total cost to the Victorian Government of cleaning and security services? Do you have any idea?

**Ms SKILBECK** — I cannot provide that, Chair, and whether or not I could would depend on whether the accounts of all departments specifically collect that information. I will have to take that one on notice, if you do not mind.

**The CHAIR** — I do not mind at all. What would be the additional cost to government if incoming contractors were required to acknowledge workers' prior service with their previous contractor?

**Ms SKILBECK** — That would be a very difficult question to answer, I am afraid, Chair, especially not knowing the specifics of the scheme that would apply. Again, just as you have quite rightly asked for the data on longevity within the community services sector, longevity in terms of cleaning and security services I am afraid we would have no way of finding that information without an original source.

**Ms RYALL** — Perhaps some data from ABS?

**Ms SKILBECK** — Yes, that is probably best. IBIS is another source of general industry information; it is much less certain than ABS data but nevertheless a useful indicator on occasions.

**Ms RYALL** — Something we have found with almost everybody we have spoken to is a lack of data, whether it be employee data or employer data, as we have talked about, or whether any of their portable long service leave programs have actually aided in retention. Everything is anecdotal.

**Ms SKILBECK** — Yes.

**Ms RYALL** — Is that something they found doing the PwC report, do you know? Or when perhaps they may be been looking at it at that time?

**Ms SKILBECK** — Having only just read the PwC report recently, it does not come straight to mind; although implicitly I suspect it does because some of the data that they would have liked to have they could not source. That surprises me only in part. As the contractor for part of these services—and others are provided

directly from the public sector—the government as a whole would know that relationship. Going into the various businesses and knowing their employees, it does not necessarily surprise me. Particularly in the community services sector, most of those employers as service providers do not contract just with the Victorian Government, often multiple governments, multiple programs, and other services, particularly if they are in the charity sector, direct themselves. There is a limit to which we would be entitled to that information as well.

**Ms RYALL** — It seems that even in the industry groups, whether they be employer groups or employee groups, that data has not—I guess from the community services sector some have said that things are very tight. Obviously the less paperwork and things like that the better from their perspective, but collecting that data is really difficult for us to be able to ...

**Ms SKILBECK** — I can make an observation on the basis of a past life—I was a consultant for a number of years, for the Allen Consulting Group largely, and did a number of projects for the Department of Human Services in the sector. The impact of overheads on that sector, however legitimate the question and the overhead, is significant. It varies enormously depending on the scale of the business, the service provider you are talking about, their history, their structure.

**Ms RYALL** — So anything on top of that.

**Ms SKILBECK** — It is absolutely material. Yes, certainly. I think in one of the more interesting reports out very recently from the Australian Charities Commission, albeit another subset of the sector you are looking at, is a very interesting observation—the sheer variety in the sector.

**Ms RYALL** — Part of what we need to look at is the economic impact. Do you have any views on that? I know you have obviously got your department, but I am just thinking more widely.

**Ms SKILBECK** — I found coming to this issue new and looking at the public information available, the question to my mind as a policy adviser is: specifically what is the issue we are seeking to respond to? A portable long service leave scheme encourages mobility within the sector. That has costs too. The extent to which that impact offsets the impact of potentially overall retention within the sector, that is an open question in my mind. Certainly from reading, albeit only the publicly available material, I could not get a read on that question. Given we are talking about a sector that is so sensitive to additional overheads, I think the onus is particularly high to ensure that once comfortable the policy outcome will be a net benefit to the industry as a whole.

**The CHAIR** — We wrote to the Department on 13 October; we have not had any answer yet. Do you know when we can get an answer to our letter?

**Ms SKILBECK** — We can do that in writing if you like. As I understand it, the question related to undertaking modelling.

**The CHAIR** — Yes.

**Ms SKILBECK** — Yes, and we do not have the capacity to do that. If you would like to seek the Minister for Finance's view on whether he would be comfortable reallocating resources to do so, I think that is probably the best conduit.

**The CHAIR** — Any further questions?

**Ms RYALL** — You mentioned obviously the PwC report in terms of its currency. Parameters will have changed.

**Ms SKILBECK** — Yes.

**Ms RYALL** — You have got the NDIS, you have got a range of other things. So essentially you would need a full undertaking again either done by yourselves or done by an external body.

**Ms SKILBECK** — I find that one hard to answer. Certainly I would think a number of those assumptions that went into the modelling need to be tested. Then you would have a look to see whether the modelling would then need to be redone depending on how much of a change in those inputs. The sector is soon to be under

significant change if only because of the NDIS, so intuitively I would think it would require some additional work if not replicating what has been done.

**Ms RYALL** — You mentioned about the ACT scheme not having been around long enough to really gather data from.

**Ms SKILBECK** — Yes, unfortunately. As I understand it, it has existed for five years, which is only just the beginning of the entitlement period. If the world could stop for a few years and you could observe the impact on staff once they could actually access the scheme, that would obviously be an extraordinarily useful observation.

**Ms RYALL** — It would be. Things like, as I said before, retention: does it aid in retention of staff?

**Ms SKILBECK** — That is right.

**Ms RYALL** — All of those things are things that we are grappling with in this, and that absence of data across the board is really difficult.

**Ms SKILBECK** — I would note that that data has to be created, so one hopes in the ACT they are asking questions of the participants in the scheme. Otherwise you are still speculating on the motivations of those entitled to long service leave through it.

**Ms RYALL** — It is really anecdotal; everything is anecdotal it seems. You mentioned before, and I understand, that all departments are going to have costs and contracts relating to cleaning, security and things like that. Is there a way to pull it all together?

**Ms SKILBECK** — It will depend entirely on literally whether the chartered accounts of departments have a line for it.

**Ms RYALL** — And if they do not?

**Ms SKILBECK** — If they do not, then, no, I am afraid not. It would require an original survey.

**Ms RYALL** — Would it be unusual for them to not have a line item in place?

**Ms SKILBECK** — No, it would not. Again it comes down to the pragmatic as to whether a general operating expense line is sufficient, or a maintenance and operations line, or whatever is actually suitable for that business.

**Ms RYALL** — And what it includes and what it does not?

**Ms SKILBECK** — Absolutely right. Yes.

**Ms RYALL** — Thank you.

**The CHAIR** — Melissa, on behalf of the Committee, I would like to thank you very much for giving evidence. Thank you very much again.

**Ms SKILBECK** — Thank you.

**Committee adjourned.**