

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2019–20 BUDGET ESTIMATES



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
THURSDAY, 20 JUNE 2019**

**SESSION FOUR
BUILDING AND CONSTRUCTION INDUSTRY TRAINING FUND**

Members

**Hon Alanna Clohesy (Chair)
Hon Tjorn Sibma (Deputy Chair)
Hon Diane Evers
Hon Aaron Stonehouse
Hon Colin Tincknell**

Hearing commenced at 3.29 pm

Hon SUE ELLERY

Minister for Education and Training, examined:

Mr IAN HILL

Chairman, examined:

Mr EAMON MOORE

Director, Communications and Operations, examined:

The CHAIR: On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing with the Construction Training Fund. Can the witnesses confirm that they have each read, understood and signed the document headed "Information for Witnesses"?

The WITNESSES: Yes.

The CHAIR: It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. It is also being broadcast live on the Parliament's website. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before answering the question. Agencies have an important role and duty in assisting the committee to scrutinise the budget papers, and the committee values your assistance with this.

Minister, do you have a brief opening statement?

Hon SUE ELLERY: I do. I am happy to assist the committee to assess the budget elements as they relate to the Construction Training Fund. I note there is an Eagles game. Kick-off is about five o'clock. I am hoping we can do it in a timely fashion.

The CHAIR: Noted, member. Other members may have matters of urgency as well.

Hon AARON STONEHOUSE: Minister, can you tell us what priority the McGowan government places on the proposed amendments contained within the Building and Construction Industry Training Fund and Levy Collection Amendment Bill 2017?

Hon SUE ELLERY: The amendments have been made. The house has dealt with that matter. We are in the process of rolling it out now. We place a high priority on it. Getting the resource industry to contribute to the Construction Training Fund has been something that relevant stakeholders have been pursuing, or resisting, for about 20 years, so we place a high priority on it.

Hon AARON STONEHOUSE: The bill is still before the house at the second reading speech, and it has been there for two years now.

Hon SUE ELLERY: I am sorry. I take it back. I thought you were talking about the changes to lift the exemption for the resource industry.

That bill relates to some technical changes arising out of an earlier review of the act. It is work that needs to be done, but in terms of the legislative priority of the government, it is not a high priority. I would like to get it done, but in terms of the legislative agenda, there are a whole lot of other

things that have taken a higher priority. I note that, in fact, we are on the next review of the act now, and that work is underway now.

Hon AARON STONEHOUSE: That is obviously based on the Stratton review of 2014, I presume, which, I think, much of the work of the amendments are based on. I think there were 12 specific recommendations in that review. Does the bill address each of those recommendations; and, if they are not addressed, can you explain why they are not addressed in that bill?

Hon SUE ELLERY: I am not sure of the connection to the budget. This is not a sort of open hearing on the Construction Training Fund; this is related to the budget papers. I am happy to provide a briefing to the member out of session if he would like that, but it is not related to the budget. It is not what we came here to assist the committee with.

Hon AARON STONEHOUSE: Maybe we can tie this to the budget. What impact will the Building and Construction Industry Training Fund and Levy Collection Amendment Bill 2017 have on the financial operation of the Construction Training Fund?

Hon SUE ELLERY: So, honourable member, with the greatest of respect, I am happy to assist the committee, but we did not come here with the briefing papers related to the bill. We did not come here expecting to be asked questions about the bill. I am happy to answer questions about the budget, and I am happy to offer you a private briefing if that is what you would like, but I am not in a position to answer questions about that now.

The CHAIR: We do note the offer to provide information through a briefing, and that will be noted in the hearing record.

Hon AARON STONEHOUSE: Okay. Based on that, I will yield for the moment then.

Hon TJORN SIBMA: Minister, I refer to the “Operating Revenue” table 2.1 on page 228 of budget paper No 3—the real focus of these proceedings. Can I ask, please, over the forward estimates whether a breakdown by industry or industry subcomponent is available for the indicative revenue? We have sort of \$36 million to around \$31 million; I am just interested in how that is composed and where that money is coming from.

Hon SUE ELLERY: The projections of where that money has come from?

Hon TJORN SIBMA: Yes.

Hon SUE ELLERY: Perhaps I will start and then if we cannot answer it all, I would take it on notice. About halfway down that page, some of that is the projected revenue from the exemption that has recently been lifted. We have taken a fairly conservative approach in respect to that revenue, deliberately so, because while some modelling was done, it is pretty hard to predict. Industry is happy with our approach thus far, as is Treasury, and it may well be because there are a lot of unknowns here. It is unusual for industry and Treasury to be happy about the same thing. So, there are a range of unknowns here. We have taken a relatively conservative approach. In terms of the breakdown, I think I have some in respect to our revenue forecasts. In respect to the resources industry component, as opposed to the construction industry component, estimated for 2018–19 is \$4 million; 2019–20 is \$10.6 million; 2020–21 is \$7.3 million; 2021–22 is \$3.3 million; 2022–23 is \$3.3 million as well. I am not sure if we are able to provide to balance that with what we are expecting from the construction industry—if you are able to break that down any further; if not, we will take it on notice.

Hon TJORN SIBMA: Thank you.

Hon SUE ELLERY: Okay. We will take that on notice.

[Supplementary Information No D1.]

Hon TJORN SIBMA: Can I ask, minister, whether the rate of contribution by value by a resources project is the same for the construction industry? Is it a flat rate across all sectors?

[3.40 pm]

Hon SUE ELLERY: It is 0.2 per cent.

Hon TJORN SIBMA: Flat, across.

Hon SUE ELLERY: Correct. The things that needed to be negotiated, if you like, in the colloquial language were what is in and what is out. There were negotiations around that. Frankly, I do not think we could say that is completely locked down yet, because it is very early days and I want to see how it plays out and what fits within the definitions that have been agreed so far or whether anything has been missed. It remains a work in progress.

Hon TJORN SIBMA: I will take that as a given. Is there a process for resolving claims, for example, that a certain component of an LNG processing plant, so the part of the processing stream it is attached to are included? I think we are leading into that GST birthday cake kind of example. When will industry have certainty about what is a leviable component and what is excluded?

Hon SUE ELLERY: There is a fair degree of certainty now. A working group was set up between government and industry to work through those issues. There are still some things that remain to be finally negotiated. Some elements of industry want us to look at other things, for example. One of the things that has been proposed, which I think industry has now walked away from and government has said we would not entertain, is recognising their in-house training and somehow giving them an out on the basis of what they did in-house. That is inconsistent with the policy of the exemption change that we made. There is a debate going on, for example, in oil and gas around overseas-manufactured components. We have not settled a position on that yet. We are still working through those issues.

Hon TJORN SIBMA: Will precedents be established through the course, because effectively you deal with projects as they are presented to you as companies come to file investment decisions and a break occurs? Will there be a central, I suppose, ready reckoner of things that will be in and things that will be out on a project-by-project basis?

Hon SUE ELLERY: It will not be project by project. We have set the things that have been agreed as in and out so far. As I said, there are a couple of things from the oil and gas industry that we are still working through. Not unlike when the construction fund was first set up, it is going to take us little while to understand the nature of how these projects work, what their respective parts are and how long they last. As I said before, and I do not say this to be flippant, it is a work in progress.

Hon TJORN SIBMA: I attempt to be pragmatic where I can in this chamber.

Hon SUE ELLERY: Noted!

The CHAIR: Underlined!

Hon TJORN SIBMA: I do my best! I struggle on occasion!

There are just two things I want to understand in the time available. This is a change. I take the minister's point that this is a work in progress and certain important decisions of some material consequence have not been arrived at. I also note that the government is putting together this streamlined WA approach presumably to have a bit of oversight over the approvals pipeline. What line of sight, for example, would the DG of DMIRS or the DG of environment and water also have on potential disputation in the BCITF levy fund?

Hon SUE ELLERY: To a certain extent, I need to report as the minister with responsibility for this to the JEDi cabinet subcommittee, and other ministers sit on that. I need to report there and that then reports to cabinet so minister see those reports. Otherwise, we might end up with a more formal relationship with, say, for example, the minister with responsibility for the minister with responsibility for DMIRS. We have been working really closely with them in developing the model in any event, and there is a pretty close working relationship.

Hon TJORN SIBMA: Will there be, I will not say a change, but resources industry representation on the BCITF fund? Has a decision been made?

Hon SUE ELLERY: We have already done a one-off change in membership to the board. I expressed to the resource industry that I share the view of no taxation without representation. I think it is appropriate that the industry is represented on the board. What the final version of that will look like remains to be seen. There is a review ongoing now into the act and one of the things they are looking at is the structure of the board in the new regime.

Hon DONNA FARAGHER: Since the changed arrangements how many resource companies have contributed to the fund?

Hon SUE ELLERY: I am advised that it is about 15 to date.

Hon DONNA FARAGHER: You may need to take this notice, but do you know the value that has been obtained through the contribution?

Hon SUE ELLERY: It is \$1.5 million. We are coming up to the end of the financial year, so we are anticipating more of that to flow—literally in the next few weeks.

Hon DONNA FARAGHER: I noted your comments that there are couple of elements of terminology that are perhaps being worked through, think you use the term “in a settled position”. Can I ask whether those settled positions are being worked through now or are they being looked at as part of the review that you have indicated?

Hon SUE ELLERY: They are being worked through now, so negotiations are going on now between DTWD and respective industry representatives. Those discussions are live.

Hon DONNA FARAGHER: Do you anticipate they will be resolved one way or another in a fairly short time?

Hon SUE ELLERY: Yes, I do, but I also think that we ought not get too far ahead of ourselves, and industry agrees with this as well. There may be elements that we need to tweak as we go forward. We need to bear in mind that the CTF itself is 20 years old. It took a little while it started to get really clear about what was in and was out. We might need to tweak this. Industry is relaxed about that, Treasury is relaxed about that, CTF is relaxed about that and DTWD is relaxed about that.

Hon DONNA FARAGHER: I have just had anecdotal advice that there have been some challenges in relation to the administrative requirements in terms of the actual payment of the levy from the resources sector into the fund. Is that correct; and, if so, has now been resolved?

Hon SUE ELLERY: Yes, it was certainly raised with me by industry. I mean, it is not surprising. It is a new regime and a new understanding of each other’s administrative arrangements. At the last meeting I had with industry I made a suggestion. I think they had already suggested it to CTF; I am not sure whether it has been taken up. It is about some kind of secondment—I was talking with CME—to assist if that was necessary, even for a short to medium term to make sure we got the administrative procedures right. There is a willingness to get it right.

Hon DONNA FARAGHER: With regard to the current review that is underway, can you tell me what the time frame for the completion of that review is?

Hon SUE ELLERY: It is September 2019.

Hon MARTIN ALDRIDGE: I asked a series of questions prior to hearings and one of those was question 3 about the estimate of expected revenue from the resources sector over the budget year and the full estimates. You responded approximately \$25 million, but that was this conservative approach. Who did that modelling? Did Treasury assist that modelling?

Hon SUE ELLERY: It was a combination of DMIRS, Treasury, DTWD and CTF themselves that worked on.

Hon MARTIN ALDRIDGE: Although the budget is predicated on this conservative figure, do you have a low and high in terms of what that model spat out?

[3.50 pm]

Hon SUE ELLERY: No, but the Treasury is—I would not say “relaxed”, I do not know if you would ever describe Treasury as relaxed, but Treasury is comfortable that the situation is fluid, and that as this is the beginning of the arrangements, those numbers may go up or down. Treasury understands that may happen. There are a whole range of variables that will impact that, not just, “Have we got the modelling right? Have we got what is in and what is out right? Have we got the disbursements right?”, but also the nature and volatility of the resource industry itself. So we have taken a conservative approach, but we do appreciate it may go up or down; government will adjust accordingly.

Hon MARTIN ALDRIDGE: In terms of budget reporting, it is interesting to see the lack of information. I am sure it is not on you, and it is not a criticism of you or the government minister.

Hon SUE ELLERY: Do you know why, honourable member? This is my favourite agency, because they self-fund, so they do not come asking government for money. That is why I love them so much.

Hon MARTIN ALDRIDGE: Is that the answer as to why there is a lack of budget information?

Hon SUE ELLERY: Primarily.

Hon MARTIN ALDRIDGE: Okay. There is a criticism that I have heard, and I am sure you have heard as well, that the CTF is just going to get flooded with money that they cannot spend. My response to those people has been that one of the challenges that the fund has had is riding the highs and the lows of the building construction sector, but also investing in a skills pipeline which has a much longer time frame than the highs and lows of housing and construction investment. Is there a strategy that the fund has? I mean, if they raise more than this \$25 million as forecast, in terms of going beyond the forward estimates and looking at the cycles and making some assessments and judgements around keeping money in the bank to invest in those low points of the cycles?

Hon SUE ELLERY: I might get Mr Hill or Mr Moore to make some additional comment, but the organisation is fairly nimble. Frankly, I am confident that they will be able to scale up or scale down as required. They have had to do that. You have made the point: they have had to do that in respect of the construction industry. I do not know if you want to add anything to that?

Mr Hill: I just make the point that we work very closely with our stakeholders. The controls we use tend to be defined as brutal, but if we find there is a swing up, we adjust the subsidy levels downwards. For example, in 2018, we found that the wet trades were significantly spiralling down, so we boosted; we made a decision and increased the levy by \$4 000 over and above the existing levy. We put in for a bid for two years and it started to happen, in fact. We do that because we operate on the basis of a prudent reserve all the time. It gives us that flexibility. With an additional partner coming along, which is the resource sector, we anticipate operating in exactly the same way.

The basic principle is the bucket is only so big, and it is not an equity organisation. We target the priorities and where the needs are.

Hon MARTIN ALDRIDGE: Obviously, those decisions are easy to make when you have a decent cash reserve to be able to ride some of those economic lows in the building construction cycle.

Hon SUE ELLERY: Yes, and you have a reserve.

Mr Hill: Yes, we operate on a prudent reserve of about \$10 million, because with that, there are three underlying principles there: to pay out our commitments to apprentices currently in training, to pay out redundancies to all staff, and enough money to close the fund down if ever we go bust.

Hon MARTIN ALDRIDGE: Can you tell me how the fund is going to be targeting this extra resource and whether it is going to be simply doing more of what it already does or whether it is going to expand the things that it does? Particularly, I am interested in the expansion of the scope of what it does. I know one of the criticisms that I have had from the housing and construction sector is around the way the CTF is very much focused on school leavers in terms of training, and there is not much there for adult apprenticeships. That was a point I think Hon Matthew Swinbourn made in a previous hearing today. I think that is where I have certainly had some feedback consistently—that there needs to be a greater investment focus on those adult apprentices.

Hon SUE ELLERY: I will ask Mr Hill to make some comments.

Mr Hill: If I can just say that yes, the Construction Futures Centre does target youngsters at school and school leavers, because they are the fundamental pipeline. That is where we tend to try and draw our 10 to 12 per cent replacements, which we need every year. We do not not focus on adults. “Adults” in this sector is defined as 21 years and over. We have an additional bonus paid to employers who take on adult apprentices, over and above whatever subsidy applies. The additional work which will come from the resource sector, to a large extent, is more of the same. The committee which the minister set up, which had wide representation, including the resource sector unions and the four major government organisations, unanimously agreed that all the short courses and occupational health and safety courses which are currently covered by construction training fund subsidies are adequately covered, so there is no additionality. The only thing they did pick up was sea rescue training, which could possibly be something which we would have to pick up on occupational health and safety. In regards to additional apprenticeships, with wide consultation, two new apprentices which we do not cover at the moment have been identified. Electrical industrial and mechanical fitters are the only two. But that does not mean there could not be additional ones, because there is ongoing consultation, and if additional categories are identified, we pick them up. Does that answer your question?

Hon MARTIN ALDRIDGE: Yes. The resource sector has always contributed, although in a smaller way. I think, in the 2017 annual report, about 1 per cent of the revenue was from the resources sector. How is their contribution actually collected? Who is responsible for collecting and administering the collection of the levy? Obviously local government plays a big role in terms of the residential housing market, but how does it work when it comes to the resource sector?

Mr Hill: There are two ways. We have an agreement with all local councils and local shires who do issue building permits and collect the funds for us, and remit to us on a quarterly or six-monthly basis. Where building permits are not required, we follow that up, and the payment is to us directly.

Hon MARTIN ALDRIDGE: To the CTF?

Mr Hill: Yes.

Hon MARTIN ALDRIDGE: Not to DTWD?

Mr Hill: No, it comes to us.

Hon MARTIN ALDRIDGE: The CTF manage that in circumstances where there is no building approval. In terms of resourcing of the fund—what do you call yourself? You are not an agency, are you?

Hon SUE ELLERY: Just CTF.

Hon MARTIN ALDRIDGE: The CTF is going to have to have more resources focused at processing these very complex and large projects, and I think the minister outlined earlier some of the challenges in terms of navigating the regulatory regime and settling on some of these final positions around what is in and what is out. Is there a particular internal resourcing increase for the CTF in this financial year to recognise that?

Mr Hill: There are 1.5 FTEs. We have a senior person dedicated to managing this, and, in fact, he is sitting here—Eamon Moore. This is not his primary role, but he is the go-to person for all resource sector people and has been leading all the consultation and negotiations. I forget—maybe you raised the question. There was some criticism that perhaps the knowledge held by us was not complete. I think that is a fair comment. We are in negotiations with the department of mines which, in fact, is about to advise us who we could second for 12 months. We have spoken briefly to industry. Industry are not too keen for one of the enterprises to send someone to us for six to 12 months because of a conflict of interest. This particular sector is extremely shy about sharing information —

Hon SUE ELLERY: They are competitive, it is fair to say.

[4.00 pm]

Hon MARTIN ALDRIDGE: In this financial year, you have received \$1.5 million to date, but you were expecting \$4 million.

Mr Hill: Yes.

Hon MARTIN ALDRIDGE: Are you expecting some big cheques to come in the next couple of weeks?

Hon SUE ELLERY: That is correct but, frankly, member, as I made the point earlier, we are not going to get too excited if we do not hit that \$4 million target in this financial year. We will just have to work our way methodically through and make sure we have got it all right until we get into the rhythm of exactly when the payments come in and everyone knowing what is expected of them et cetera. We are in the very early days. It may be that we hit that \$4 million in the next two weeks. It may be that we do not.

Hon MARTIN ALDRIDGE: In terms of the work that is occurring in settling some of these final positions, is there a likelihood that there will need to be a refinement of the regulations, or is it more likely that it will just be guidance provided to proponents in terms of assessing what is in and what is out?

Hon SUE ELLERY: I am not anticipating any change to the regulations. The regs are broad enough to capture anything that has been raised to date in the negotiations. It is really about reaching an agreed position. There is goodwill, much more than I anticipated there would be, to actually get to that end point.

Hon ALISON XAMON: Actually, most of the substance of the questions that I want to ask have been asked. I just wanted to get clarification around what happens with an excessive balance of funds. If I understand what was just said then, it is, effectively, retained.

Hon SUE ELLERY: There is no excess of funds ever. There is no such thing. The funds that they get, they will spend. That is why I love the agency. They pay for themselves. If there is more money coming in, they will deliver training to meet that.

Hon ALISON XAMON: And that is always done within that same annual cycle? That is what I was hearing that you are saying. I was just trying to capture that. That is what I understood. The other questions got asked by Hon Tjorn Sibma and Hon Martin Aldridge.

Hon MARTIN ALDRIDGE: On the point that Hon Alison Xamon just made, I think it was Mr Hill who earlier said that you work on having a \$10 million cash reserve. Is that likely to change with increased revenue, in terms of giving you greater ability to manage the low points of the building cycle?

Mr Hill: I could not respond with any certainty. I simply do not know, because it is an untested field at this stage in terms of the resources sector.

Hon SUE ELLERY: But it might. We might have to make adjustments accordingly to provide a stronger buffer. We might need to.

Hon MARTIN ALDRIDGE: If you raise more money in a financial year than you had expected, you are well within your rights to carry over a larger cash reserve rather than rush money out the door because you have to spend what you earn.

Mr Hill: The idea of the fund is, in fact, to spend. The idea of the fund is also to ensure that we do have a buffer to smooth out the bumps, so that in times when you have a drop in industry activity, our funding is almost counter cyclical. For example, the year before last, we were concerned about the final-year apprentices being laid off because of the downturn. So, using the reserves, we set aside a pool and advised the sector that we would pick up that year's salary to ensure they did complete their apprenticeship. There was no call on it. The sector did the right thing and met their own costs. That is an example.

Hon ALISON XAMON: I am just trying to get clarity around this. I am assuming that the \$10 million is just basically a policy position that has been taken by the CTF, which is sound. One of the things I was trying to get an understanding of is that, for example, if I look at NCVER's September quarter update for apprentices and trainees, it is showing that there is likely to be a small upturn in enrolments, but it is also anticipated that we are going to have a fairly modest increase in construction apprentices employed, so there is additional money coming in. What I am trying to get an idea of is whether there is also the capacity to be able to continue to build those reserves if necessary, or whether it is always going to be the policy position that those moneys are always spent in full—100 per cent. There is not a criticism there. It is genuinely wanting to get an understanding of that.

Hon SUE ELLERY: There is the capacity for the board to make a decision that, in the particular circumstances at the time, they need to add more to the reserve fund. They can make that decision themselves based on the circumstances in front of them, but they generally take the position —

Hon ALISON XAMON: To spend it.

Hon SUE ELLERY: — that if the industry is doing well, they need to be providing training to assist industry. But, as Mr Hill said, they try to smooth out the peaks and troughs that come in this industry. They have the capacity, if they think it is prudent, to add money to the reserve.

The CHAIR: There being no more questions, on behalf of the committee, I thank you for your attendance today. The committee will forward you the transcript of evidence, which includes the questions you have taken on notice highlighted on the transcript, within seven days of the hearing. If members have any unasked questions, please submit these via the ELS by 5.00 pm on Friday, 28 June. Responses to these questions and any questions taken on notice today are due by 5.00 pm on Friday, 26 July. If you are unable to meet this deadline, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. Once again, I thank you for your attendance today.

Thank you, minister, for your attendance for the whole day. Thank you to the staff, who have assisted in making these budget estimates hearings for this year run very smoothly. Thank you to all members who have participated joyfully and happily in the hearings. Thank you to the agencies that have also contributed their time, and to the ministers available. Thank you so much.

Hearing concluded at 4.08 pm
