

**EDUCATION AND HEALTH  
STANDING COMMITTEE**

**ONGOING DEPARTMENTAL HEARINGS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
MONDAY, 4 NOVEMBER 2013**

**SESSION ONE**

**Members**

**Dr G.G. Jacobs (Chair)**  
**Ms R. Saffioti (Deputy Chair)**  
**Mr R.F. Johnson**  
**Mr N.W. Morton**  
**Ms J.M. Freeman**

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**Hearing commenced at 10.35 am**

**Mr TIMOTHY MARNEY,  
Under Treasurer, examined:**

**Mr MICHAEL ANDREWS,  
Acting Director, Performance and Evaluation Group 2, Department of Treasury, examined:**

**Mr ALISTAIR DAVID JONES,  
Acting Executive Director, Strategic Policy and Evaluation, Department of Treasury,  
examined:**

**Ms NATASA SPASIC,  
Acting Policy Analyst, Department of Treasury, examined:**

**The CHAIR:** Thank you very much gentlemen and lady for appearing before us today. On behalf of the Education and Health Standing Committee, I would like to thank you for your appearance. The purpose of this hearing is to discuss the Department of Education's budget processes in the lead-up to this year's budget. At this stage I would like to introduce myself and the committee members. I am Graham Jacobs, to my immediate left is Rob Johnson, then Rita Saffioti and Janine Freeman, and on my right is Nathan Morton. The executive is Mat Bates and Alice Jones, and also present is Michelle from Hansard.

The Education and Health Standing Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and therefore commands the same respect given to proceedings in the house itself. Even though the committee is not asking witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as a contempt of Parliament. This is a public hearing and Michelle from Hansard will be making a transcript of the proceedings for the public record. If you refer to any document or documents during your evidence, it would assist Hansard if you could provide the full title for the record. Before we proceed I would like to ask a series of questions. Have you completed the "Details of Witness" form?

**The Witnesses:** Yes.

**The CHAIR:** Do you understand the notes at the bottom of the form?

**The Witnesses:** Yes.

**The CHAIR:** Did you receive and read the "Information for Witnesses" sheet provided with the "Details of Witness" form today?

**The Witnesses:** Yes.

**The CHAIR:** Do you have any questions in relation to being a witness at today's hearing?

**The Witnesses:** No.

**The CHAIR:** I will address a question to you Tim, as a warm-up, if you like. Can you outline the process that Treasury and the Department of Education went through to finalise the 2013–14 education budget? Could you walk us through that process?

**Mr Marney:** In broad terms? Essentially, we can work a process back from the budget cut-off of 9 July. Prior to that there were numerous meetings of the Economic and Expenditure Reform

Committee that considered the Department of Education's budget submission along with the Treasury response to that submission and advice to the EERC. Those meetings were preceded by numerous meetings between the Department of Treasury and the Department of Education over probably a four-plus-month period throughout the first half of 2013 to regularly consider its financial position, its cost and demand pressures, trends occurring in student enrolments and the like. In essence, we monitor those trends on an ongoing basis and the department then submits, as part of the budget process, its financial requests for the following financial year. Those requests are also based on agreed modelling between the Departments of Treasury and Education on the education cost and demand model. Throughout that six month period there was a lot of consideration of the key parameters within that model and the implications for the financial requirements for the Department of Education going forward.

**The CHAIR:** Tim, you just outlined the process. What was the process that led to the policy of the long service leave liability levy? How was that developed and what role did the Department of Treasury play in the development of that long service leave liability levy policy?

**Mr Marney:** The long service leave capping initiative—a decision by government—was one that applied to all agencies. It sought to bring greater discipline to the management of leave across the public sector. What we have seen in recent years is a significant blowout in the expense associated with leave liabilities. The capping of leave liabilities had two aims: firstly, to reduce that growth in expense as part of trying to contain expense growth overall; and secondly, to address longstanding difficulties we have had in getting agencies to manage their leave liabilities.

**The CHAIR:** What was the quantum of that blowout? You used the term “blowout”.

**Mr Marney:** I do not think I used the term blowout.

**Ms R. SAFFIOTI:** You did.

**The CHAIR:** You did.

**Mr Marney:** Did I? Okay. It was a blowout in the sense that growth was significantly above normal. I can take this as a supplementary to get you the data that sits behind that in terms of trends in leave liabilities.

**Ms R. SAFFIOTI:** Can I just ask about that?

**Mr Marney:** Sorry, I have not actually answered the question, but I am happy to move on. The broad policy setting and the broad decision of government was around leave liabilities and agencies managing their leave liabilities to be static from 2013 into 2013–14; so, capping them at level. In the Department of Education's case, its strategy to manage leave liabilities was to introduce a levy system, as you highlighted. Treasury was not involved in the formulation of that levy process or its approval in any form.

**The CHAIR:** Basically, there was a blowout over the cap. We have heard that that amounted to several tens of millions of dollars.

**Mr Marney:** In the Department of Education's case?

**The CHAIR:** Yes.

**Mr Marney:** Correct.

**The CHAIR:** In the case of education, I think it was in the vicinity of \$60 million.

**Ms R. SAFFIOTI:** Yes, \$57.8 million.

**The CHAIR:** Basically, you told the department that it had gone over the cap and that you gave a mandate in 2012 that all agencies, including education, would cap their leave loading liability. The Department of Education went over that, so it had to make its own arrangements to recoup that because that amount is what Treasury needed and the department overcooked it. You did not

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actually end up talking to the department about the leave loading liability program to recoup these moneys; basically you just told it how much money it had overcommitted.

**Mr Marney:** The department told us based on its actual results for 2012–13. We reminded them of the government’s decision that it needed to live within that capped level. Unfortunately, the Department of Education is not alone as the Department of Health has a similar issue.

**The CHAIR:** How the department did that was for it to decide?

**Mr Marney:** Absolutely; and it is pretty straightforward. You actually have to send people on leave.

**Ms R. SAFFIOTI:** I will follow up on that. The budget papers show that you required the department to find savings of \$57.8 million in 2012–13, but that did not happen, so in a sense, you reimbursed that by 2012–13. Is that correct?

**Mr Marney:** Essentially, that was its actual result for 2012–13, so yes, it had to be reimbursed.

**Ms R. SAFFIOTI:** So you were asking the department to find savings of \$61.9 million in 2013–14—I am reading the budget papers—\$70.2 million in 2014–15, \$77.3 million in 2015–16 and \$84.5 million in 2016–17.

**Mr Marney:** Correct.

**Ms R. SAFFIOTI:** You asked them to find savings and it was the department’s idea to introduce the long service leave liability levy.

[10.45 am]

**Mr Marney:** Correct.

**Ms R. SAFFIOTI:** When did they inform you of that levy? Have they informed you officially of that levy, or at what stage did Treasury become aware that that levy was going to be applied?

**Mr Marney:** I have to rely on advice from those closer to it, but it was, I think, after the budget cut-off period, and it continues to be a matter of debate between ourselves and the Department of Education as to whether or not it actually achieves the objective of reducing the expense associated with increasing leave liability.

**The CHAIR:** So, Tim, the cut-off was 8 July, did you say?

**Mr Marney:** It was 9 July.

**The CHAIR:** So what you are saying is that the discussion about that policy and that leave liability levy program was decided upon on before that, or after that?

**Mr Marney:** It was after that.

**The CHAIR:** So after 9 July?

**Mr Marney:** Is my understanding. However, I would have to say there is probably a range of issues that Education would have communicated to us in spreadsheet form over a period of time as to how they might live within their overall budget settings. It could well have been mentioned as part of that, but it was not seriously communicated to us until after budget cut-off.

**Ms R. SAFFIOTI:** By way of supplementary, could we get the date of the first time that the long service leave liability levy—otherwise known as “the levy”—was first communicated to Treasury from the education department?

**Mr Marney:** Yes.

**The CHAIR:** Tim, can you also tell us when that policy was finalised? You said there was a bit of toing and froing.

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**Mr Marney:** Yes. We have been advised that it is their intention to implement it, but we have not seen the final form of it. I guess you could take that as it has not been finalised yet, as far as I am aware.

**Ms R. SAFFIOTI:** Can I just go to your questions about the arrangement. What you are saying is that this new levy is revenue collection from the department internal; it does not actually impact what is being shown on the balance sheet? Is that correct? You are questioning whether the levy actually achieves the result that Treasury had asked for, which was to try to reduce the liability.

**Mr Marney:** Yes. As it stands at the moment, I cannot see how it reduces the liability on the balance sheet. If it does not reduce the liability on the balance sheet, then it has to have an expense implication as well. Those are matters that we are seeking to work through in the next few weeks. To be honest, I do not know how it works and I do not know if it can.

**The CHAIR:** Would you agree with the assessment that we previously gained from the Department of Education that in fact this leave liability levy program will only actually recoup or claw back around \$15 million—nowhere near the \$60 million?

**Mr Marney:** Again, it is still being communicated to us and we are still trying to understand it. But from what I can gather at this point, on the information we do have, the levy is really a tool to fund the backfilling of teachers who have been sent on leave. Whether or not it achieves the full amount, I remain sceptical.

**The CHAIR:** I am not a maths person, but if you have, what, 7 600 teachers at \$600 a pop, then you have a number of non-teaching staff—that is by 400—you could do that sort of maths, though, could you not?

**Mr Marney:** Yes. Again, as we are still working through how this levy is intended to work, I do not know how much it will achieve.

**The CHAIR:** Tim, with all due respect, we had a budget in August and we are now into November and we are still saying we do not know how this is going to work. You guys, being numbers people, would be very concerned about how it is going to work, because you can do your maths.

**Mr Marney:** Yes, that is a fact.

**Mr R.F. JOHNSON:** You are concerned?

**Mr Marney:** Yes, because it is not a measure that is targeted at addressing the problem directly; it is an indirect tool to try to assist with addressing it. To be honest, at this point I do not know how the mechanics of that, in a financial sense, will work. So, yes, we are concerned that they will not meet the caps that government has imposed upon them.

**Ms J.M. FREEMAN:** Just going back to the discussion, we have a letter from the director of the education department that has been made public. We asked a question about why they did not talk about the leave levy when they came to a meeting with us on 26 June, and she says —

The first reason was because the Department's budget position was still under discussion at that time. Strategies in specific form (including how to gain a funding contribution from schools for leave liability) were still under review by Government as part of the budget process.

That is why she did not talk about it in terms of that. But are you saying that it is likely that the leave liability was not even discussed with you until after the budget cut-off on 9 July?

**Mr Marney:** It was not discussed or decided formally as to how they proposed to meet their leave liability cap.

**Ms J.M. FREEMAN:** So they had not spoken to you about a leave levy—the percentage they have taken from schools in terms of the long service leave levy?

**Mr Marney:** Not in specific terms, no, but that does not mean it was not under formulation by them from June. I would expect that they have considered a whole range of different options to meet the leave liability requirements, and their broader budget settings. So it is not unusual for agencies to explore a whole range of initiatives and then come to a conclusion as to those priority ones that they are going to implement, which is when they would have then communicated to us.

**Ms J.M. FREEMAN:** Are you aware of any other discussions or any other initiatives they could have done to meet your leave liability cap that would not have meant a percentage of money was taken out of schools' budgets for a leave liability levy?

**Mr Marney:** In essence, the purpose of the leave liability cap is to ensure that those who have excessive balances of leave and continue to accrue leave, actually take leave. The primary objective of the initiative is to make people take leave. So that is —

**Ms J.M. FREEMAN:** So that is what they should have been doing, is made those people take leave so that you would have reduced the leave liability —

**Mr Marney:** That was the intended —

**Ms J.M. FREEMAN:** And that is not what the leave liability levy will do?

**Mr Marney:** The purpose of the policy was to have people take leave and wind down that liability on the balance sheet. I am not sure what the leave liability levy will do in that respect. As I stated earlier, I do not know how it is actually going to impact on the balance sheet.

**Ms R. SAFFIOTI:** Can we just go through the mechanics of it? So, for example, in 2013-14 there is the \$62 million saving—\$61.9 million—written into the budget papers. So that is a reflection of capping the long service leave liabilities at 2012 levels. Now, the agency can either do two things —

**Mr Marney:** Sorry; at end of June 2013 levels?

**Mr Andrews:** Correct.

**Ms R. SAFFIOTI:** Sure.

So the agency can do two things. The most clear process would be to encourage enough staff to take their long service leave liability, and that will achieve the \$62 million reduction in your liability, and that will achieve the outcome. But the agency has outlined to us that that is not what they are doing; they are going through to try to identify savings or revenue—in a sense that long service leave liability—to achieve that \$62 million. Now what they have presented to us is that of that \$62 million, they think they can get about \$15 million through a levy. I know it sounds a bit odd, but anyway. They are going to get back to us on the other savings to make up that \$62 million. Have they informed you or have they communicated with you how they are going to achieve that \$62 million?

**Mr Marney:** No. So at this point it sounds like I have to write in \$47 million.

**Ms R. SAFFIOTI:** Of additional revenue?

**Mr Marney:** Of additional expense.

**Ms R. SAFFIOTI:** Expense.

**Mr Marney:** But I assume that as part of our ongoing discussions with them, they will present to us how they are going to seek to achieve that \$47 million. Obviously, if it is clear to me that that is unlikely, it will either be clearly disclosed in the midyear review as a risk, or government will take a decision to address what part of that liability does not look like it will be reduced.

**The CHAIR:** I think the member for Hillarys will talk something about this, but it seems that after the budget process, the education department went and asked for another \$80 million and got it. So the question is, you already knew that they were going to be \$45 million adrift, and yet they still get

another \$80 million, justifying to you that because of student numbers and growth they need it. I will go to the member for Hillarys.

**Mr R.F. JOHNSON:** Tim, it concerns that within, literally, 11 days of the budget being brought down, the education department comes to you as the Under Treasurer and asks for another \$80 million for what they predict as the increase in student enrolments. Is it not fair to say that they should have a much better handling of the number of students that they are likely to get enrolled prior to this? It just seems incredible that they bring a budget down on 8 August, and then on 19 August they come cap in hand to you as the Under Treasurer and ask you for another \$80 million. I find that incredible. I know it is spread over two financial years; I will ask you to explain that in more detail in a moment if I can. But just to satisfy me, does this mean that the budget surplus for both that year and the predicted one for the next year are \$40 million down in each year compared with the surplus that has been stated?

**Mr Marney:** In absolute terms relating to that item alone, yes, expenses are inflated by \$40 million per year.

**Mr R.F. JOHNSON:** Which means that the budget surplus was not as great as was announced on the budget day of 8 August?

**Mr Marney:** Correct.

**Mr R.F. JOHNSON:** So that is \$40 million. Are there other areas that actually, in true essence, have the same effect as what we have seen here that would affect the truth of the budget surplus?

**Mr Marney:** Well, the budget surplus as at 8 August was true. So to say the “truth of the budget surplus”, I would have to take difference with that statement. There was a subsequent decision by government that increased expense for education. There have been a few other such decisions by government since 8 August which impact on the surplus as published on 8 August.

**Mr R.F. JOHNSON:** What are they, Tim; can you tell us?

**Mr Marney:** I think most of those have been communicated publicly. It is things such as the changes to the 457 visa holder dependants arrangements. So those sorts of —

**Mr R.F. JOHNSON:** We are coming to that one in a moment, obviously.

**Mr Marney:** I am sure you will. I thought I would just get in first!

**Mr R.F. JOHNSON:** That is fine.

**Mr Marney:** The changes to the feed-in tariff scheme that were announced as part of the budget as well. But as is always the case, there are always a multitude of moving parts in both expenditures and revenues throughout the year which impact on the budget aggregates. Those will be consolidated and brought to account as part of the midyear review process.

**Mr R.F. JOHNSON:** Just to follow on, is it not fair to say that the education department should have a better handle on the projected and expected number of student enrolments prior to when they eventually come to you, 11 days after the budget, to ask for more money? Surely, they would have had some indication of the increased number of student enrolments before the budget? Would you agree with that?

**Mr Marney:** Well, they do have an indication, and that is what our cost-and-demand modelling is intended to do. What we have seen in the last couple of years is very peculiar patterns in student enrolment growth in the second semester in particular. Normally, we would get reasonable growth in the first semester in the public school system, and zero or declined enrolments in the second semester. The last two years have seen quite substantial growth in the first semester, and again substantial growth in the second semester. So, there is something happening in the public school system that is quite peculiar, and it is difficult to forecast that accurately. The budget was predicated on, if you like, a historic or norm second semester enrolment growth, and when Education

undertook its census process, which occurred after the budget cut-off date, that process revealed that enrolment growth was higher than expected. As a point of technicality, the Department of Education did not come to me asking for money; a submission was made by the minister to cabinet for additional funds.

[11.00 am]

**Mr R.F. JOHNSON:** Can I ask if there were any other matters discussed at that final EERC meeting on 19 August in relation to education?

**Mr Marney:** Not that I am aware of. You are testing my memory a little bit; I am happy to take that on supplementary information. My recollection is that was the only item.

**The CHAIR:** Tim, does it seem rather strange to you that we do cost–demand modelling six months before the budget—we do all that process—then we have the budget and then 12 days later they say, “Oh, well, look, there’s increased student demand now and we need some more money”? The moneys that were allocated for increased student enrolment, did they satisfy you that they were truly an allocation for increased student demand and increased student enrolments? Do you get those figures and they say, “This is how many more students we have got than we predicted; this is why we need X number of dollars”?

**Mr Marney:** Yes, we do get that data shared with us by the Department of Education and that was based on their census conducted in the first week of semester 2. It showed higher enrolments than the cost-and-demand model was suggesting. That model was updated throughout the first half of 2013; so it is not as though we struck the estimates in March and then blindly held to those. We were using the best data we had, but the education census for the first week of semester 2 threw up enrolment growth that was much higher than predicted.

**The CHAIR:** How much more was that?

**Mr Marney:** It was about 3 000 students more than what we expected.

**Ms J.M. FREEMAN:** I will just go back to an answer you had for the member for Hillarys about the impact on the budget finalised surplus that was published in the budget. You said changes to 457s and changes to feed-in tariffs. To my mind those were both with Minister Collier. Were there any other ministers who had such a major impact on the budget surplus post-budget?

**Mr Marney:** The education matters, so there were two of them, were a fairly substantial impact. As you pointed out, that is in Minister Collier’s portfolio. The changes made to the feed-in tariff arrangements were actually in Minister Nahan’s portfolio. From my memory, those are the three major matters immediately post-budget that were of material impact.

**The CHAIR:** We would like to move on to 457s. When I was watching budget estimates in the upper house, it came up that someone got the figures awfully wrong in estimating the number of 457 students. In a space of time it went from 8 000 to 4 000 or 4 500. It was really difficult to decide how this came about. Would it be fair to say that the Department of Education gave Treasury—you—the figures? What role did you play in that 457 policy?

**Ms R. SAFFIOTI:** If you can go through the process for us: Whose idea it was? Whose numbers was the budget predicated on? What has been the outcome?

**Mr Marney:** The issue was first raised as an option that required further investigation.

**The CHAIR:** Who raised that?

**Mr Marney:** It was raised by Treasury as part of a broad consideration of options around revenue and cost-recovery issues, which is a normal part of the start of any budget process. That is pretty much where Treasury’s involvement in the process started and ended.

**The CHAIR:** When would that be?

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**Mr Marney:** That was probably in June—around June. From that point on the derivation of revenue estimates and numbers to which the arrangements would apply sat largely with the Department of Education, is my understanding.

**Ms R. SAFFIOTI:** Can I just follow that up because that is quite different to the evidence given by both the minister and the department in the upper house committee process. I am not paraphrasing. They said Treasury drove the process; that at an officer-to-officer level, there was some discussion. It was basically a Treasury-run process in the estimates after an officer-to-officer discussion, and that was pretty much Education's involvement. In relation to the actual submission—given how the process works—who brought in the submission that calculated how many students were affected and how much revenue was being collected?

**Mr Marney:** Those estimates would have been presented to EERC by Treasury, after Treasury requesting input from the Department of Education as to what those numbers were. The critical variable is how many students. The actual dollar amount was fixed and set, so that is pretty straightforward. Really, the revenue estimates were dependent on the estimated number of students. Those estimates of the number of students were provided to Treasury by the Department of Education.

**Ms R. SAFFIOTI:** Through that process they would have been signed off by the DG or by some senior person or even the minister—the estimates?

**Mr Marney:** I would have assumed that if they had not signed them off, they would have been informed.

**Ms R. SAFFIOTI:** Just to follow up from that, it is an administrative item in the education section of the budget papers. As I understand, Education is going to administer it but revenue is collected by Treasury—is that correct?

**Mr Marney:** Education would administer and collect.

**Ms R. SAFFIOTI:** And collect?

**Mr Marney:** Yes.

**Ms R. SAFFIOTI:** And that is submitted to this consolidated fund or is it going to be netted off the education?

**Mr Marney:** Yes, it is the same outcome.

**Ms R. SAFFIOTI:** We just want to clarify how these numbers got so wrong, because basically it is part of the fiscal action plan; it is a significant number. This section of the budget papers that estimated the amount of revenue, was this driven, as I normally understand, by Education in consultation with Treasury? Would it have been signed off by both the minister and the director general?

**Mr Marney:** I think it goes back to your previous question on who signed off on the numbers that were provided to Treasury. My understanding is that came from the deputy chief finance officer in Education. Again, my expectation would have been that he would have cleared those numbers through his director general. Whether the DG informed the minister or not, I do not know. But the numbers in the fiscal action plan are based on the information provided to us by the Department of Education.

**Ms R. SAFFIOTI:** To clarify, the Department of Education knew what the policy was?

**Mr Marney:** Yes.

**Ms R. SAFFIOTI:** They knew it was going to be a new payment for the children of 457 holders who had not yet been given another visa.

**The CHAIR:** Permanent citizens.

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**Ms R. SAFFIOTI:** Yes. So, Education knew the content and the policy?

**Mr Marney:** Yes, government had actually taken a decision to implement it and that had been communicated to the minister and to the department for them to provide the further information to enable the numbers to be incorporated.

**Ms R. SAFFIOTI:** Sure. Just on following this, the director general of the department said that there was no —

**Ms J.M. FREEMAN:** The director general said —

I do not think there was any formal request for information. I think Mr Roach was asked for some information from Treasury.

She gave that in evidence to us.

**Mr Marney:** Whether you define it as formal or informal, the information was requested; the context of the request was known.

**Ms R. SAFFIOTI:** Just to confirm, the policy decision to implement the new levy would have been taken through the EERC process and then through to cabinet, given that it was a policy decision of the budget?

**Mr Marney:** Correct.

**Ms R. SAFFIOTI:** So this policy decision was widely known, in particular by the Minister for Education, through the cabinet process. It would have been —

**Mr Marney:** Correct—should have been.

**Ms R. SAFFIOTI:** Should have been.

**Ms J.M. FREEMAN:** Can I just go back. The evidence given to us was —

It was no more formal than seeking some information about the numbers of 457 students and whether other states charge; they do. I think it is New South Wales and one other.

Mr Roach said, “It is the ACT.” And Ms O’Neill said —

As I said before, we were asked some information at officer level from Treasury. We were not involved in a policy development ...

There was a sense when we were getting information that it was just a general discussion. But what you are saying is that they would have known it was going to be a concrete policy and that they were delivering numbers that were about to deliver on an income?

**Mr Marney:** That would be my expectation, but whether or not they knew, I cannot tell you what they knew and they did not know.

**Ms J.M. FREEMAN:** Does that show that they were not taking the budget process seriously?

**Mr Marney:** No, probably if anything, it shows that there may have been a breakdown in communication between the budget process and cabinet deliberations. I do not know. There is obviously a gap in information if it is not understood that that is what it was for. But I would have thought if you were asking for how many 457 visa dependent children are in the system and what other jurisdictions charge for those children, then it would be pretty self-evident what that was going to be used for. But it is not a policy that was initiated by Education, so they may not have had the full context.

**Ms R. SAFFIOTI:** Our impression—I do not normally do this sort of stuff in committee—was that Education is not across the budget. That is our impression, from all of us, I would suspect. Our general impression is that they were not across the budget and they do not own the budget and that pretty much it is Treasury’s budget, and, loosely, they will refer to it when they have to come into a committee—that is about it. I am not asking you to comment on that because it is just a flippant

comment. In relation to this whole reform process—to the whole sort of change in this education reform—was Treasury aware of this in the lead-up to the budget process?

**Mr Marney:** We were aware that to live within the forward estimates there were significant changes required to the education funding model that would represent a break from past practice in terms of the application of fixed formulas. That would be required in order to live within the expense limits set as part of the budget. So, yes, we were aware that there was a range of reforms required. The nature of those reforms, we were probably not as aware, but, certainly, the implications of the parameters, we were fully aware.

**Ms R. SAFFIOTI:** My impression is that you set the budget as normal, as regular budget papers, because it does not actually talk about major reform a lot; it talks about individual savings. You set the budget as normal, the budget is brought down, includes few savings, frankly, and then post-budget we are told that the whole budget had been predicated on a new reform process. To me, that is not the case; your budget process was normal. This budget has not been predicated on the new reform model; it is the old model, knowing that there will need to be changes in the future, given the amount of cost pressures in the system.

**Mr Marney:** Correct, but it was clear at the time of the budget that those expense limits set, in order for Education to live within those, they would need to change the way they were doing things.

**Ms R. SAFFIOTI:** When was the reform process first—when was it mentioned in the budget process, or was it mentioned post-budget process, or once the numbers were set, it was like, “You guys really need to go away and think about how you do your business?”

**Mr Marney:** It was an iterative process throughout the formulation of the budget: What are the numbers? What are the implications for the way they do business and the extent of reforms and the timing thereof?

**Ms R. SAFFIOTI:** Just one last question on the budget setting. The last question I have got on the budget setting is in relation to savings, so the spending changes—particularly the ones in brackets where you have got significant public sector workforce reform, the capping of leave liabilities—significant savings that need to be generated by Education to deliver those. We have seen their failure to deliver the efficiency dividend over the past years. Have they given you a breakdown of how they are achieving those numbers? Obviously, not the long service leave. Have they given you a breakdown on how they are going to achieve the savings that are listed?

[11.15 am]

**Mr Marney:** Yes; they have presented to EERC and, in turn therefore, cabinet, an implementation plan to live within its overall expense but, as you said, the implementation of the capping of leave liability is something that remains under active consideration.

**The CHAIR:** Getting back to the 457 visa payment scheme; it has now been announced by government that we are having some changes to that. We have delayed its implementation; it talks about reduction of \$4 000 to \$2 000 for second and subsequent children and then the possible hardship provisions. Where are we going with this? We have delayed it. Are you confident we have some real hard figures around this, moving forward, or is this another continued debacle of pulling out figures and you have no idea of where this is going? How much revenue is that possibly going to bring in when it is all actually finalised?

**Mr Marney:** Obviously, I cannot offer you an opinion as to whether it is a debacle. However, I can update you on the status of the consideration of the numbers upon which the initiative is based. We are seeking from the Department of Education a firm estimate of the number of 457 visa holder-dependent children in the system and, given the announcement by government of the, if you like, scaled charging arrangement associated with siblings and the revenue to be collected from that measure we need to know sibling numbers as well.

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**The CHAIR:** Another body of work.

**Mr Marney:** Yes. It is a fine level of detail on a level of detail we are struggling to get in the first place. There is an amount of work to be done in that space that falls with the Department of Education, obviously, and we are awaiting confirmation of how many students these arrangements are applicable to.

**The CHAIR:** Under the original plan, as in the budget, what figure was that going to?

**Ms R. SAFFIOTI:** Revenue.

**The CHAIR:** Yes; \$8 million or \$9 million?

**Mr Andrews:** Across the forward estimates?

**The CHAIR:** Yes.

**Mr Marney:** The original budget settings were based on the application of the fee to 8 600 students and it raised in revenue around \$120 million over the forward estimates period.

**Mr R.F. JOHNSON:** Over four years.

**Mr Marney:** Yes.

**Ms J.M. FREEMAN:** Is that comparable to how much is raised in the ACT and New South Wales? Has anyone looked at what is raised there? Obviously, the \$8 000 has not played out; it is \$4 000, but at the time did anyone go away from Treasury and say, “That seems a bit rich considering what they get in New South Wales with a population substantially more than ours”?

**Mr Andrews:** I guess the work done in terms of the comparator against the two jurisdictions that charge for 457 visas, my understanding is that New South Wales charges \$4 500 per student and it has a hardship provision. The ACT charge is a lot higher; it is about \$12 000 per student. They have different mechanisms by which they charge. They need to be supported or, I guess, sponsored when they come across. In actual the totality of what it raises—no; that work has not been done.

**Mr Marney:** The New South Wales arrangements apply to broader visa holder classes than just 457 visas.

**Mr R.F. JOHNSON:** Obviously this has become a debacle. Those are my comments, not yours. Before it became a debacle in relation to 457 visas, this would have been brought to an EERC meeting—yes?

**Mr Marney:** Correct.

**Mr R.F. JOHNSON:** Can you tell me which meeting that was?

**Mr Marney:** I cannot remember offhand. I will have to get back to you.

**Mr R.F. JOHNSON:** It would have been prior to the budget, obviously.

**Ms R. SAFFIOTI:** Before 9 July.

**Mr R.F. JOHNSON:** Before 9 July.

**Mr Marney:** It was considered at EERC on two occasions. The first would have been when it was first suggested by Treasury in a broader cost and revenue paper. The second would have been the finalisation of the budget in late June, early July.

**Mr R.F. JOHNSON:** Who attended those EERC meetings, apart from the director general of education? Very often the minister attends EERC meetings with their director general, CEO or whatever.

**Mr Marney:** My recollection is on the latter consideration. It would have been the director general and the minister, but I would have to confirm that because it was a matter that was considered in

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among a range of other tissues so it may have been that it was just EERC and Treasury presenting a whole range of issues.

**Ms R. SAFFIOTI:** Just to confirm: EERC minutes would have gone to cabinet.

**Mr Marney:** Correct.

**Ms R. SAFFIOTI:** The minister would have seen them through the cabinet process. And I understand that they would have been circulated to the DGs of the relevant departments—the cabinet minutes—normally.

**Mr R.F. JOHNSON:** Cabinet decisions are.

**Ms R. SAFFIOTI:** Cabinet minutes normally are for affected agencies. That is how it used to be.

**Mr Marney:** Because it was in the final wrap-up of the budget, I cannot guarantee that was the case.

**Ms R. SAFFIOTI:** But the first one?

**Mr Marney:** But it would definitely have been sent from EERC to cabinet for finalisation of budgets. So it would have been aware of that. Awareness would have been there at that point, I think. I will correct this if I am wrong, but I am pretty sure that when matters proceed through EERC and decisions are taken, there is communication between the Treasurer and the relevant ministers as to those decisions such that they can be aware of what is going on and what they have to implement. And as part of the drafting of the budget papers, those matters would have been communicated to the minister's office and the director general.

**The CHAIR:** Can you just give us the dates of those meetings?

**Mr Marney:** I would have to provide that as supplementary, but that is fine.

**Ms R. SAFFIOTI:** With this change, how was it communicated to you that, "Hang on, 8 600 is wrong and it is actually 4 500 we think." How was that communicated? Who figured it out?

**Mr Marney:** The changes that were made to the scheme and the number to which it was applicable were matters that were undertaken by the Department of the Premier and Cabinet and the changes to the parameters and the estimate of the numbers to which it was applicable were communicated to me post the announcement of those changes.

**Ms R. SAFFIOTI:** Who figured out that the 8 600 was wrong?

**Ms J.M. FREEMAN:** Was it the department or Treasury?

**Ms R. SAFFIOTI:** It must have been someone in education who figured out that they had given you the wrong numbers.

**Mr Marney:** I was not directly involved, so I do not know precisely, but the Department of the Premier and Cabinet and the Department of Education worked together on the amendments to the scheme, so I can only assume it was part of that process. I have to be perfectly honest and say we are still, given the changes to the scheme, in a situation in which we do not know exactly how many students it will apply to.

**Ms R. SAFFIOTI:** You have no concrete idea today how much revenue this proposal will raise.

**Mr Marney:** At this point in time, because we do not know how many students it applies to, I will not be able to give you an accurate figure of the revenue estimate. Obviously, we are hoping to achieve that prior to publication of the midyear review. But if education is unable to establish precisely how many students it applies to, obviously, I cannot make a revenue estimate.

**The CHAIR:** The other thing is, for the new program proving forward, when it is finally implemented in 2015, the challenge will be under the hardship provisions how many students in there will be eligible for hardship provisions and, therefore, making the calculation of who will be

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obviously exempt from the payment and who will be eligible to make the payment and how you will come to a final figure. If the education department cannot even get the numbers right; this is another challenge.

**Mr Marney:** Yes; setting the criteria for the hardship provisions is the first step and then trying to understand how many students will fall within those provisions is another body of work.

**Ms R. SAFFIOTI:** Was the change in the 457 policy a decision of the Department of the Premier and Cabinet and the education department working together on a changed proposal communicated by the Premier; so Treasury has not been involved directly in that process?

**Mr Marney:** Essentially, the Department of the Premier and Cabinet took over carriage of finetuning the policy to address the concerns and the implementation of the policy that was subsequently considered by cabinet. It was approved by cabinet and then communicated publicly. My recollection is that the Premier announced that his department would deal with the issues when it became a problem and subsequent to cabinet decision the Premier announced the changes to the scheme.

**Ms R. SAFFIOTI:** You were not asked to provide advice on the potential cost or impact on the budget?

**Mr Marney:** Not as I recall.

**Ms R. SAFFIOTI:** So we still do not have any clear indication of the impact on the budget.

**Mr Marney:** At this point in time there is uncertainty as to the budgetary effect.

**The CHAIR:** We have probably another five minutes on this particular part of the inquiry. I would like you to comment on this quote —

While the Department of Education has this scheme detailed in its budget papers, money —  
In this 457 area —

— will be collected by Education and Training International, overseen by the Department of Training and Workforce Development. The money will not be kept in the Department of Education or by the Department of Training and Workforce Development, but instead transferred to Department of Treasury, to go into consolidated revenue.

Is all that a fair statement?

**Mr Marney:** I am not sure whether it is actually being transferred and, quite frankly, I am not particularly au fait with that level of logistics. It may be that it is an appropriation offset and the money is retained. Either way, the funds are not for education to spend. That is the outcome.

**Ms R. SAFFIOTI:** On the origins of this charging policy, is one of the reasons the levy was thought of is because each year the department has come in saying, “We’ve got all these 457 kids in schools and it’s putting enormous pressure on our school system.” Is that why Treasury thought, “Hang on”?

**Mr Marney:** That was one of the reasons given for their expense pressure.

**Ms R. SAFFIOTI:** Given they got the numbers totally wrong, basically it was a false explanation for their expense. They are 100 per cent wrong are they not?

**Mr R.F. JOHNSON:** Dead wrong.

**Ms R. SAFFIOTI:** They are wrong by a huge amount, so it was a false explanation of some of their expense pressures. Basically, these guys are not 457 holders. They made a massive mistake?

**Mr Marney:** It was a justification for their ongoing expense pressures. Whether or not that was a robust justification or a neat ex-post rationalisation, I am not quite sure. Given we do not know precisely what the numbers are, it is hard to tell.

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**Mr R.F. JOHNSON:** So that it is absolutely crystal clear, did the proposal to charge the 457 parent visa holders of children attending our state schools, initiate from the Department of Education —

**Mr Marney:** No.

**Mr R.F. JOHNSON:** — or from Treasury?

**Ms R. SAFFIOTI:** Treasury.

**Mr R.F. JOHNSON:** You guys in Treasury thought education might be able to charge some money for these 457 visa-holding children. If that was the case, Tim, did you also set the figure?

**Mr Marney:** Consistent with the member for West Swan's previous statement, the issue was raised numerous times by education as a source of cost pressure. So in trying to address the cost pressures across the budget, Treasury, in a paper that canvassed many issues, raised this issue. It did not go any further than that.

**Mr R.F. JOHNSON:** It was initially raised by education among a lot of areas that could alleviate cost pressure. Is that what you just said?

**Mr Marney:** No; it was initiated by Treasury as a means of addressing one of the areas that education had raised as a source of cost pressure. The first —

**Mr R.F. JOHNSON:** That is what I am saying, Tim. Am I right in saying that they raised it initially as one of the areas of cost pressure?

**Mr Marney:** Yes.

**Mr R.F. JOHNSON:** You picked on that one. You saw that one as a possibility to get those extra funds in, and then you took it forward.

**Mr Marney:** Can we just park that?

**Mr R.F. JOHNSON:** I want to make it quite clear what I am saying as well, Tim. I am saying that my interpretation of what you just said was that education put forward to you a few areas of cost pressures they believed could be looked into or cost pressures that were affecting them. Am I right in saying then that you took those into account and you came forward with the initial proposal to charge 457 visa holders for the children?

[11.30 am]

**Mr Marney:** Education had raised it on a number of occasions with us as a problem. It did not provide a solution to that problem. The first that government saw of this policy proposal was a paper from Treasury which floated a possible solution to that problem, being to charge a fee that represented part of the costs of educating the dependants of 457 visa holders. Education raised a problem but did not provide a solution; Treasury flagged a possible solution with government.

**Ms J.M. FREEMAN:** Who drove the actual implementation of it?

**Mr Marney:** Government asked Treasury to come back with some firm numbers, if you like, on the number of students and the cost—the fee-charging options.

**Ms J.M. FREEMAN:** “Government” being the Department of the Premier and Cabinet?

**Mr Marney:** No, government as in cabinet.

**Ms J.M. FREEMAN:** One of the things you said was that either way, the funds were not to fund Education, and you said that Education saw it as a significant cost—these students of 457 workers. If it was a significant cost pressure for Education, why is it that the funds are not going back into funding and Education? What happens in the Australian Capital Territory and New South Wales? Do the funds go back into Education?

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**Mr Marney:** In essence it is covered off by the fact that Education received an additional \$1.2 billion as part of the budget. This initiative was to raise \$120 million on the one hand; so on one hand you taketh away, and with the other you giveth \$1.2 billion.

**Ms R. SAFFIOTI:** But given what has happened now, that there is a massive mistake, if you had reduced your injection and let them keep the money, then Education would have borne the risk and not the consolidated fund? If you knew that, would you have changed your approach?

**Mr Marney:** They would have borne the risk and sent a request to me within seconds! As you know, who wears the risk gets a bit notional at the end of the day.

**Ms R. SAFFIOTI:** But given it is sort of a user-charge, technically it should have been raised and retained by the department.

**Mr Marney:** Yes, in which case we would cut their appropriation by the estimated amount of that revenue.

**Ms R. SAFFIOTI:** It would have been cleaner, though.

**Mr Marney:** Yes. And look, to be honest, I will have to give you supplementary information on the exact mechanism of collection and transfer to consolidated fund, because I am not sure that that is not the case.

**Ms R. SAFFIOTI:** It might be netted?

**Mr Marney:** Yes.

**Ms R. SAFFIOTI:** They retain the revenue netted.

**Ms J.M. FREEMAN:** You did not answer my question: what happens in the ACT and New South Wales? Does Education get to keep the money?

**Mr Marney:** We would have to take that as a supplementary question.

**Mr R.F. JOHNSON:** What is the make-up of the EERC these days—am I correct in saying it is Colin Barnett, Buswell, Nahan, Grylls, Day and Marmion?

**Mr Marney:** Correct.

**Mr R.F. JOHNSON:** Any others?

**Mr Marney:** That is it.

**Mr R.F. JOHNSON:** That is the lot? Okay.

**The CHAIR:** Thank you very much, Tim, Alistair, Michael and Natasa. We will just take a little break for now, and then we will have a closed decision in a few minutes, so we will just retire for the moment and maybe we could call you back in a few minutes to do the closed session until lunch. Thanks very much.

**Hearing concluded at 11.33am**

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