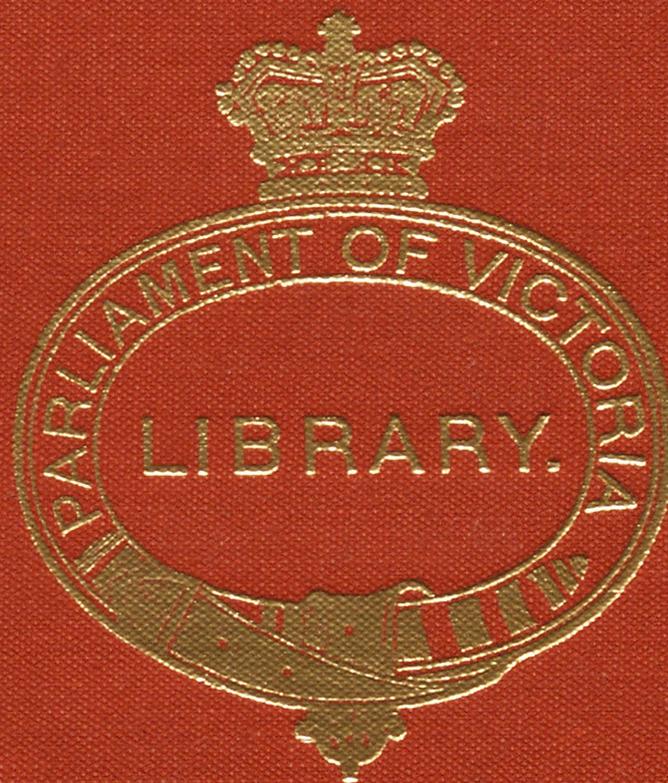


VICTORIA

MINUTES
OF THE
PROCEEDINGS
OF THE
LEGISLATIVE
COUNCIL

—
VOL. 2
SESSION
1982-85





28367
42



MINUTES OF THE PROCEEDINGS
OF THE
LEGISLATIVE COUNCIL OF VICTORIA

SESSION 1982-85

VOLUME 2

DOCUMENTS ORDERED TO BE PRINTED

iii
VOLUME 2
CONTENTS

Place

GENERAL INDEX APPEARS IN VOLUME 1

REPORTS FROM PARLIAMENTARY COMMITTEES -

ECONOMIC AND BUDGET REVIEW COMMITTEE -

D.9	Dry Docking and Repair Facilities in the Port of Melbourne	1
D.10	First Report - Improving Government Management and Accountability - A review of the <u>Audit Act 1958</u>	2
D.18	The Proposals Contained in the Local Authorities Superannuation (Amendment) Bill (No. 2)	3
D.19	The Proposals Contained in the State Employees Retirement Benefits (Amendment) Bill	4
D.20	The Proposals Contained in the Hospitals Superannuation (Amendment) Bill (No. 2)	5
D.30	Matters Raised in the Education Department by the Auditor-General	6
D.31	Royal Southern Memorial Hospital	7
D.32	Review of Superannuation in the Victorian Public Sector	8
D.36	Summary of Victorian Public Sector Superannuation Schemes	9

ECONOMIC AND BUDGET REVIEW COMMITTEE

DRY DOCKING AND REPAIR
FACILITIES IN THE PORT OF MELBOURNE

A REPORT TO PARLIAMENT

ON

*The need for improved docking
and repair facilities in the
Port of Melbourne and the
feasibility of providing such
facilities.*

Ordered to be Printed

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS OF
THE LEGISLATIVE COUNCIL

Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:
- (a) The Honourables P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS OF
THE LEGISLATIVE COUNCIL

Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS OF THE
LEGISLATIVE ASSEMBLY

Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-
- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

PREFACE

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees) Act 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire into and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers.

TERMS OF REFERENCE FOR THE INQUIRY INTO DOCKING AND REPAIR FACILITIES

His Excellency the Governor of the State of Victoria by and with the advice of the Executive Council thereof has by Order made on 7 September 1982 approved, in accordance with the Section 4F(a) (ii) of the Parliamentary Committees Act 1968, No. 7727 (as amended) that the Economic and Budget Review Committee inquire into, consider and report to the Parliament on :

"The need for improved docking and repair facilities in the Port of Melbourne and the feasibility of providing such facilities"

and report within six months of this day.

Committee Members

Mr. B.J. Rowe, M.P. (Chairman)
Hon. D.K. Hayward, M.L.C. (Deputy Chairman)
Hon. B.P. Dunn, M.L.C.
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Hon. A.J. Hunt, M.L.C.
Mr. A. McCutcheon, M.P.,
Mr. P.J. McNamara, M.P.
Mr. J.I. Richardson, M.P.
Hon. G.A. Sgro, M.L.C.
Mr. A.J. Sheehan, M.P.

Dock Inquiry Sub-Committee Members

Hon. D.K. Hayward, M.L.C. (Chairman)
Mr. P.M. Gavin, M.P.
Mr. A. McCutcheon, M.P.
Mr. P.J. McNamara, M.P.
Mr. G.A. Sgro, M.L.C.

Staff

Mr. D.A. Shand (Director of Research)	Mr. A.G. Hemming
Mrs. E. Barbian (Secretary)	Mrs. C.E. Morgarella
	Ms. K. Day

Consultants

Acknowledgements and thanks are due to the Monash University Centre of Policy Studies, and particularly to Mr. R. Clarke and Dr. K. Trace, who prepared the Cost-Benefit Study the Committee commissioned from the Centre during Stage 1 of the Inquiry, and who also processed much of the statistical data for the Committee's own Report.

CONTENTS

Preface	
Chairman's Introduction	1
Summary, Conclusions and Recommendations	3
<u>CHAPTER 1: Introduction</u>	6
1.1 Background	6
1.2 Structure of the Inquiry	7
<u>CHAPTER 2: The Demand for Dry Docking Facilities In the Port of Melbourne</u>	8
2.1 Introduction	8
2.2 Pattern of Demand	9
2.3 Trends in the Use of the A.J. Wagglen	11
2.4 Centre of Policy Studies Demand Forecast for the Proposed Mel- bourne Dry Dock	14
2.5 Review of the Centre's Demand Forecast	18
2.5.1 Non-Trading Vessels	18
2.5.2 Defence Vessels	18
2.5.3 Coastal Vessels	20
2.5.4 Overseas Vessels	24
2.5.5 The Committee's Revised Overseas Demand Forecast	28
2.6 Summary and Conclusion	30
<u>CHAPTER 3: The Capital Cost of a New Dock</u>	32
3.1 Introduction	32
3.2 Choice of Dry Dock	32
3.2.1 Types of Dry Dock	32
3.2.2 Cost Estimates	34
3.2.3 Construction within Victoria	35

3.3	Choice of Dock Site	37
3.4	A Repair Berth	38
3.5	Installation Costs of a Floating Dock	39
3.6	Summary and Conclusion	40
<u>CHAPTER 4:</u>	<u>Financial Implications and Possible Non-Quantifiable Benefits</u>	42
4.1	Introduction	42
4.2	Financial Profitability of a New Dock	42
4.3	Financial Implications for the State Government	44
	(a) Government Operation of a Dock	44
	(b) Private Operation of a Dock	45
4.4	Cost and Benefits for Victoria and Australia	46
4.5	Possible Unquantified Costs and Benefits	47
4.6	Summary and Conclusion	49
<u>CHAPTER 5:</u>	<u>Employment Implications</u>	51
5.1	Introduction	51
5.2	Existing Direct Employment in the Docking and Repair Industry	51
5.3	Employment Implications of Dock Closure	52
5.4	Skills Retention	54
5.5	Direct Employment Created by a New Dock	55
	5.5.1 Employment in the Dock	55
	5.5.2 Employment by Ship Repairers	55
5.6	The Employment Multiplier	56
5.7	Some Qualifications	58
5.8	Job Subsidy Comparisons	59
5.9	Summary and Conclusion	61

<u>CHAPTER 6:</u>	<u>Management of a Dry Dock</u>	63
6.1	Introduction	63
6.2	The Current Management Arrangement	63
6.3	Management by a Government Organisation	66
6.4	Private Management	67
6.5	Joint Venture or Co-operative Management	68
6.6	Competitive Tendering for Private or Co-operative Management	68
6.7	Summary and Conclusion	72
<u>CHAPTER 7:</u>	<u>Short Term Decisions Concerning the A.J. Wagglan</u>	73
<u>APPENDIX</u>	I: List of Witnesses at Public Hearings	76
	II: List of Submissions	77
	III: Submissions and Comments in Response to the Port of Geelong Authority's Submission	78
	IV: Organisations and Persons from whom minor submissions and other information was received	79
	V: Persons and Organisations with whom the Committee held discussions in Melbourne and Interstate	80
	<u>EXTRACTS OF THE PROCEEDINGS</u>	82

CHAIRMAN'S INTRODUCTION

The major task of the Committee under its terms of reference has been to estimate the need for a new dry dock in the Port of Melbourne. In this study, the Committee has provided its assessment of:

1. The demand for a new dry dock in the Port of Melbourne.
2. The capital cost of such a dock.
3. The overall financial cost to the Government of both Government and non Government operation of a new dock.
4. The overall economic costs and benefits to Victoria of such a dock.
5. The employment implications of a new dock and of not replacing the existing dock.
6. The value of a new dock as a defence facility, as an emergency facility and as a generator of additional trade for the Port of Melbourne.

Establishing this assessment has been a difficult task requiring judgements about future events such as the future size of the coastal shipping fleet, movements in Australian and overseas ship docking and repairing costs, the reaction of competing Australian docks to a new dock in Melbourne and the success of Australian trade unions in persuading more overseas trading vessels to dock in Australia.

Nevertheless, the Committee is confident it has made the best possible estimates of the relevant factors in the circumstances. The Committee is confident that this is a constructive and professional report which fully addresses the Committee's terms of reference.

In examining the terms of reference the Sub-Committee, comprising the Hon. D.K. Hayward, M.L.C., the Hon. G.A. Sgro, M.L.C., Mr. P.M. Gavin, M.P., Mr. P.J. McNamara, M.P., and Mr. A. McCutcheon, M.P., met 34 times and held six public hearings. In addition it conducted inspections of dry docks in Melbourne, Sydney, Newcastle and Brisbane. It also travelled to Canberra for discussions with various Federal authorities.

The Committee gave consideration to the national implications of any dry dock proposal, but notwithstanding recognition of the need to develop national strategies for and co-ordination of ship repair facilities, the Committee felt that Melbourne had the best location and enjoyed cost advantages over the other dry docking facilities available in Australia.

On the basis of all this information, the Committee has come to a recommendation that the A.J. Wagglan dry dock should be replaced with a larger dry dock in the 27,000 tonne range located at the Webb Dock site.

The Committee wishes to express its thanks to the many individuals and organisations who made submissions either in writing or by appearing in person before the Committee.

As Chairman, I would also like to record my personal thanks to the Sub-Committee, and in particular to the Chairman, the Hon. D.K. Hayward, for their dedication, as well as the assistance received from the Committee's staff.

B.J. ROWE, M.P.

Chairman.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The Committee has no doubt that Melbourne is the natural and best location in Australia for a major commercial ship repair facility. This was clearly borne out in evidence presented to the Committee which highlighted Melbourne's position as Australia's largest container port and its significance as a terminal port. The evidence also indicated that:

- a Melbourne dock would be better located in relation to shipping routes than any other dock to capture dockings by coastal and overseas liner vessels.
- its docking and repair costs are generally lower than Brisbane and Newcastle, its reliability is better and its level of industrial disputation is lower and this competitive advantage can be expected to continue.

This evidence suggests that Melbourne is a superior site for a major commercial ship repair industry to either Newcastle or Brisbane. However as these two ports also have development plans, the Committee believes that if at all possible, consultations should be convened by the Commonwealth Government with the three States in order to develop national strategies and co-ordination of repair facilities at all three ports, and to identify the special market segments which each port might profitably develop.

The Committee suggests that the following guidelines should form the basis of any decision that the Government makes with respect to replacing the A.J. Wagglan dock:

- the ship repair industry, including the dry dock facility itself, must be organised and managed so as to be commercially competitive.
- the dock should offer high quality workmanship at a competitive price, in a competitive time, and with guaranteed delivery.
- all parties to the industry should have a say in the policy decisions and management of the dock, and in the winning of its market share.
- all parties should benefit from the successful operation of the dock.

RECOMMENDATIONS:

The Committee accepts the findings of the study, namely, that a new 27,000 tonne dry dock will achieve at least a 60 per cent occupancy rate, will create employment for approximately 500 people on a long term basis, at a nett cost to the Government of between \$6M and \$10M. The Committee therefore recommends:

1. That the A.J. Wagglan dry dock be replaced with a larger floating dry dock.
2. That the replacement dock should be in the 27,000 tonne range, and be fitted and equipped for fast and efficient docking, cleaning and repair work.
3. That the selection of the replacement dock should include the consideration of
 - a. currently available secondhand docks of suitable specification, and
 - b. the calling of tenders for the construction of a new dock, from both local and overseas contractors.

4. That the site for the location of the dock should be that recommended by the Port of Melbourne Authority, at Webb Dock.
5. That the management arrangements should be developed by the Government, in consultation with the maritime unions, the repair industry, and other vitally concerned bodies.

CHAPTER 1 : INTRODUCTION

1.1 Background

The current Melbourne dry dock, the A.J. Wagglen, was installed at its present site in August 1975 as a temporary measure following the closure of the old graving dock to allow construction of the Johnston Street Bridge.

Initially a study group had recommended in 1973 that the Victorian Government purchase a 15,000 tonne floating dock to handle vessels up to 30,000 tdw, but since construction and installation of a new dock would have delayed building of the Bridge too long, it was decided to purchase a second-hand dock, which could be installed more quickly.

The A.J. Wagglen, was subsequently purchased overseas and the full capital and installation costs were paid by the Victorian Government. The operators of the previous dock, Duke & Orr Dry Dock Pty. Ltd., were given the right to manage the new dock under a profit sharing agreement with the Government.

At the time the Government recognised that replacement of the A.J. Wagglen, which was 20 years old when purchased and which has a lifting capacity of only 8,000 tonnes, would have to be considered after 1980 if the trend towards larger ships continued. This trend was confirmed when between 1975 and 1982, 39 Australian vessels were replaced by vessels too large to fit the dock and a further three were enlarged beyond the dock's capacity.

As a result of the dock's declining occupancy rate because of its small size it will not be financially viable to the dock operator in the very near future.

The Government therefore referred the matter for investigation to the Economic and Budget Review Committee.

1.2 Structure of the Inquiry

The Committee considered it was important to obtain an objective, independent assessment of the "need for improved docking and repair facilities in the Port of Melbourne" to provide a rational basis for discussion with interested parties from the shipping and repair industry.

For Stage I of the Inquiry the Committee therefore commissioned the Monash University Centre of Policy Studies to prepare a cost-benefit study for circulation to all parties involved in the Inquiry, including interested members of the public.

The Report "Dry Dock Facilities in the Port of Melbourne: A Cost-Benefit Study" was published in December 1982 and submissions were invited from interested groups and from the public.

For Stage II, six public hearings were conducted to hear evidence both in response to the Centre's Report and on additional issues. Lists of witnesses, written submissions and persons with whom discussions were held are given in Appendices I to IV.

The Sub-Committee conducting the Inquiry held 34 meetings and travelled to Sydney, Newcastle, Brisbane and Canberra to hold discussions with organisations involved in the shipping industry and to look at docking and repair facilities in other States.

CHAPTER 2: THE DEMAND FOR DRY DOCKING FACILITIES IN MELBOURNE

2.1 Introduction

The demand for dry dock facilities arises from the regular survey and routine maintenance required by vessels and from vessel breakdown or damage. The rules of the classification societies set an upper limit to regular maintenance docking frequencies. At times vessels may be docked more often - for example, to save fuel costs by removing marine growth from vessel hulls. Obviously, breakdown damage related demand for dry docks and ship repair facilities is more difficult to predict.

The future demand for dry docking facilities in the Port of Melbourne will depend on many factors, including the future size of the Australian coastal fleet, the ability of Australian docks generally to compete for dockings by ships trading between Australia and overseas, and the competitiveness of Melbourne compared with the Newcastle or Brisbane dry docks. In spite of the difficulties of forecasting demand for Melbourne facilities, on these forecasts hinge the economic and financial viability of a new dock, and the employment implications.

The Committee's assessment of the likely future demand is as follows :

TABLE 1: FORECAST DEMAND FOR A 27,000 TONNE FLOATING DOCK
IN THE PORT OF MELBOURNE

Year	Projected Days Occupancy
1	228
2	232
3	234
4	236
5	238
6-20	240

This forecast is based on the more optimistic end of a range of possible demand forecasts developed by the Committee, but the Committee considers the above forecast realistic given good dock management which will ensure the competitiveness of a future Melbourne dry dock.

This Chapter explains the basis of the Committee's forecast of demand. It begins by discussing the pattern of demand for Australian ship repair facilities, and then outlines trends in the use of the A.J. Wagglen. Demand forecasts prepared late in 1982 for the Committee by the Centre of Policy Studies are presented, and then analysed in the light of information subsequently presented to the Committee. Although this study presented forecasts for the A.J. Wagglen, 15,000, 20,000 and 27,000 tonne docks, to facilitate analysis the Committee has concentrated on the 27,000 tonne dock.

2.2 Pattern of Demand

Surveys carried out by the Commonwealth Department of Transport and Construction (DOT) suggest that, for Australia as a whole, repairs carried out in dry docks generate more than half of the total repair revenue. Discussions with ship repairers suggest that around 40 per cent of revenue of (Melbourne's) ship repair companies is generated by dry docking.

Although Department of Transport studies indicate that Australia has excess dry docking capacity, it should be pointed out that there are sectors of demand that are not being catered for by existing Australian facilities.

This is especially so in respect of likely demand from overseas vessels. With a larger dry dock, vessels on the North Europe and North America routes would be able to dock in the Port of Melbourne. At present, these vessels are unable to be serviced because of the inadequacies and smallness of the A.J. Wagglen.

Reference to Australia-wide excess capacity also assumes that existing facilities at Newcastle and Brisbane would be able to compete with a new dry dock in Melbourne. This ignores Melbourne's growing role as the Australian port where overseas vessels are more likely to be carrying their highest load thereby being better-placed for dry docking. It also ignores the cost advantages enjoyed by the Port of Melbourne compared with other Australian ports.

To the extent that Brisbane and Newcastle are able to expand their overseas market, it is likely that they will be seeking demand from different sectors of the market to that of Melbourne.

DOT surveys also provide information on the pattern of demand for Australian dry docks, which can usefully be analysed by considering vessel trades and their "degree of captivity" to Australian facilities:

- A. Trading Vessels:
 - (i) Coastal
 - (ii) Overseas:
 - (a) Australian Flag
 - (b) Overseas Flag.
- B. Non-Trading Vessels
- C. Defence Vessels.

The DOT surveys show that Australian flag vessels are by far the major users of Australian dry docks. Few overseas owners use Australian dry docks except for emergencies, and Australian owners operating in overseas trades generally dock outside Australia. More than 75 per cent of dry dock revenue is generated by Australian flag vessels employed in coastal trades and from non-trading vessels.

The Committee has found it extremely difficult to determine the likely international competitiveness of a Melbourne dock; the cost information it received was generally short term in nature and based on individual dockings, which may not be representative. However, Australia's limited capture of overseas vessels does appear to be explained by its generally higher docking and ship repair charges,

and by the at times relative unreliability of Australian facilities. The picture is not uniform, though, and evidence presented before the Committee suggests that the price disadvantage is not so large in relation to Northern European and North American docks, so that any additional overseas demand is more likely to come from vessels trading exclusively between Australia and these countries.

In contrast, the Australian coastal trading fleet is a highly captive market for Australian dry docks, owing to the substantial diversion costs associated with the nearest overseas docks. However, the number of vessels in the coastal trading fleet is declining quite rapidly (from 125 in the early 1970's to 81 in 1982), so that the demand for Australian facilities is also diminishing.

Non-trading vessels include service vessels owned by port authorities and/or state governments (dredges, floating cranes etc.), as well as pilot cutters, lighthouse tenders and similar vessels. High diversion costs normally make these vessels captive not only to the Australian ship repair industry but to the dock in the state in which they operate.

Naval demand for ship repair services is influenced by the specialised equipment on naval vessels; expertise may on occasion be required which would not be available from commercial ship repairers. For this reason, dockings have usually taken place in naval dockyards in Melbourne or Sydney, although commercial dockyards are occasionally used.

2.3 Trends in the Use of the A.J. Wagglan

Confidential information provided to the Committee suggests that Melbourne is fully competitive with other Australian ports with regard to docking costs, repair costs and, more importantly, is generally superior in time taken for repairs and the level of industrial disputation. It was also generally agreed in evidence that Melbourne cost levels and reliability are superior to those of Newcastle and Brisbane.

For example, Mr. Wijsbeek, of the Union Steamship Company of New Zealand Limited, commented that:

"From my own experience, the industrial climate in Melbourne is more stable than in other parts of Australia" (Transcript, p. 207).

Table 2 shows the pattern of use of the current dry dock since 1975-76, and this indicates that, with one exception, the dock has been occupied for less than 50 per cent of the year. Moreover, dock occupancy is gradually declining, particularly owing to the significant decline in the number of coastal vessels using the dock.

Amongst coastal vessels, regular users of the dock are primarily vessels for which Melbourne is a terminal port. In addition the dock is used by some vessels routed through Bass Strait, including occasional dockings by the BHP fleet carrying bulk commodities between Whyalla and Port Kembla/Newcastle. The dock has also attracted regular custom from several South Australian based vessels, including the "Troubridge" (the Adelaide-Kangaroo Island ferry).

TABLE 2

A.J. WAGGLEN DRY DOCK: SUMMARY OF SHIPS DOCKED AND PERIOD OF DOCK
OCCUPANCY AND IDLENESS

1975-76 TO 1981-82

Year	Australian Ships				Overseas Ships		Total		Days Per Year	
	Trading Ships	Dock- ings	Non-Trading Ships	Dock- ings	Ships	Dock- ings	Ships	Dock- ings	Dock Occupied	Dock Empty
1975-76 (8 mnths)	10	10	4	4	1	1	15	15	92	157
1976-77	16	17	4	4	3	3	23	24	182	183
1977-78	18	20	4	4	3	3	25	27	185	180
1978-79	11	13	5	5	11	11	27	29	165	200
1979-80	10	11	8	9	6	6	24	26	162	204
1980-81	11	11	8	8	4	4	23	23	138	227
1981-82	9	9	5	5	4	4	18	18	154	211
TOTALS	85	91	38	39	32	32	155	162	1078	1362

Source: Duke & Orr Dry Dock Pty. Ltd.

The dock's small size has precluded docking by the Australian flag overseas trading fleet; the only regular foreign flag customers have been vessels trading between the Pacific Islands and Australia; for example, the "Coral Chief" and the "Papuan Chief". The A.J. Wagglen has attracted, on average, five non-trading (including defence) vessel dockings per year since 1976-77; however, only three naval vessels have been docked (the Kembla being docked twice in 1979-80) since 1975.

2.4 Centre of Policy Studies Demand Forecasts for the Proposed Melbourne Dry Dock.

In its 1982 report for the Committee, the Centre of Policy Studies prepared demand forecasts for the A.J. Wagglen and new docks of 15,000 tonne, 20,000 tonne and 27,000 tonne capacity respectively. Given the limited available evidence, a range of demand scenarios was developed relating to different rates of growth of dock use by coastal, overseas and naval vessels. Non-trading and naval dockings were assumed to be 26 days for each of the docks. The scenarios for coastal and overseas vessels are presented in Table 3.

TABLE 3

CENTRE OF POLICY STUDIES DEMAND FORECASTS
NUMBER OF DAYS FORECAST OCCUPANCY PER YEAR FOR EACH CLASS OF VESSEL

Coastal Vessels

Year	Low Demand 1.				High Demand 2.			
	A.J. Wagglen	15,000t	20,000t	27,000t	A.J. Wagglen	15,000t	20,000t	27,000t
1	48	99	102	114	54	111	117	129
2	42	93	96	108	51	108	114	126
3	36	87	90	102	48	105	111	123
4	30	81	84	96	45	102	108	120
5	24	75	78	90	42	99	105	117
6	18	69	72	84	39	96	102	114
7	18	69	72	84	39	96	102	114
8	18	69	72	84	39	96	102	114
9	18	69	72	84	39	96	102	114
10-20	18	69	72	84	39	96	102	114

1. 72% capture of available market, less 2 vessels per year for 5 years.
2. 83% capture of available market, less 1 vessel per year for 5 years.

Continued/..

TABLE 3 - Continued.

Overseas Vessels

Year	Low Demand				High Demand			
	A.J. Wagglen	15,000t	20,000t	27,000t	A.J. Wagglen	15,000t	20,000t	27,000t
1	27	47	50	54	27	54	61	68
2	27	50	54	58	27	61	68	76
3	27	54	58	61	27	68	76	83
4	27	58	61	65	27	76	83	90
5	27	61	65	68	27	83	90	97
6	27	65	68	72	27	90	97	104
7	27	65	68	72	27	90	97	104
8	27	65	68	72	27	90	97	104
9	27	65	68	72	27	90	97	104
10-20	27	65	68	72	27	90	97	104

Continued/..

TABLE 3 - Continued

TOTAL DAYS FORECAST OCCUPANCY FOR EACH SIZED DOCK

Year	Coastal: Low Demand Overseas: Low Demand Non-Trading: Static			Coastal: High Demand Overseas: High Demand Non-Trading: Static			Coastal: Low Demand Non-Trad: Static	Coastal: High Demand Non-Trad: Static
	15,000t	20,000t	27,000t	15,000t	20,000t	27,000t	A.J. Wagglen	
1	172	178	194	191	204	223	101	107
2	169	176	192	195	208	228	95	104
3	167	174	189	199	213	232	89	101
4	165	171	187	204	217	236	83	98
5	162	169	184	208	221	240	77	95
6	160	166	182	212	225	244	71	92
7	160	166	182	212	225	244	71	92
8	160	166	182	212	225	244	71	92
9	160	166	182	212	225	244	71	92
10-20	160	166	182	212	225	244	71	92

2.5 Review of the Centre's Demand Forecasts

The assumptions underlying the Centre's projections are specified in detail in its Report (pp.4.20-4.25). Many of these assumptions have not been queried during the public hearings; we therefore discuss only those which have proved controversial.

2.5.1 Non-Trading Vessels

The Centre's projection of 19 days annual dock occupancy by non-trading vessels appears generally accepted, although the Port of Geelong Authority did indicate that:

"Port development plans include provision for the up grading of the slip in 1983 and progressive increases over the next 8 years in the size of vessels able to be handled at the facility by the installation of a synchro-lift or floating dock" (Submission, p.2).

While a floating dock would not be installed in Geelong should one go ahead in Melbourne, the imminent expansion of Geelong's slipway could place some additional competitive pressure on Melbourne's dock with respect to non-trading vessels. However, the Committee does not see this as sufficient reason to alter the original forecast.

2.5.2 Defence Vessels

The Centre's demand scenarios assumed one naval docking per year (of 7 days) while a sensitivity test was conducted, which showed that regular dockings by the FFG destroyers after 1985 would improve the viability of a new dock significantly. However, a subsequent communication from the Department of Defence indicated that such a favourable situation is extremely unlikely.

"It is difficult to predict the potential for Defence usage of the proposed dock. As you are aware, an order for construction of the follow-on destroyers of the FFG type is being considered for the Williamstown Naval Dockyard (WND). Facilities have already been established at Garden Island Dockyard for the maintenance of these ships. WND might therefore not be involved in subsequent refitting of FFG type ships, particularly if it gains an on-going ship-building program.

Should WND gain an order for two follow-on destroyers, each ship might use the proposed dock once during construction for a period of about two weeks, possibly about 1988 and 1991 respectively.

Other defence use of the proposed dock might occur on an unscheduled basis, possibly at the total rate of once per two year period. In some circumstances, it is possible that a higher rate of Defence useage might occur.

Should the Victorian Government decide to go ahead with a new dock or shiplift, it might then contact this Department for consideration of how specific defence requirements might be accommodated. At that time it may also be appropriate to seek more general Commonwealth support for the project." (Communication from Mr. G.P. Temme, Acting First Assistant Secretary, Policy Co-ordination, Department of Defence, February 14, 1983).

This information questions the Centre's projection of one naval docking per year. However, the Committee considers the original forecast can reasonably remain.

2.5.3 Coastal Vessels

Three assumptions underlying the Centre's coastal demand projections appear to be controversial. First, it was assumed that a new Melbourne dock would capture the same proportion that it currently does of its potential market (between 72 and 83 per cent depending on how the market is defined) but that this potential market would be larger because a new dock would accommodate larger vessels. Given a coastal fleet which is declining in numbers, this assumption implied that a new Melbourne dock would draw away vessels currently docking in Newcastle or Brisbane. This possibility was disputed by representatives of the Newcastle State Dockyard.

"If Melbourne moves to a larger dock, which has already been mentioned this morning, Melbourne may not and probably is unlikely to maintain the cost competitiveness that they face at present, particularly with labour conditions. Overheads will develop and so on.

In addition, it is significant that at the State dockyard in Newcastle, substantial moves are being made at present to lower the cost of ship repair work. To achieve this, a complete overhaul of the overhead structure was carried out and we restructured our total management arrangement. Numbers are down so that the overhead components will be lower and significant advances have been made in renegotiating labour conditions. We have a team of experts from Hitachi arriving at the end of this week from Japan to conduct a complete overhaul or review of ship repair businesses and to make recommendations to help us attack our costings. They will help us examine the market costs and all aspects of it." (Mr. J. Kelly, General Manager, State Dockyard, Newcastle, Public Hearings, February 17, 1983, pp.139-40.)

A similar comment was made by the representative of the Brisbane Dockyard:

"MR. MORGAN. The Melbourne expectation of achieving 72 to 83 per cent of the additional ships that could be docked in a bigger dock was far too optimistic. Of the ships they are getting now, a lot are captive to the Bass Strait area and they are not subject to a great deal of competition with the northern dockyards. I cannot see either Newcastle or ourselves quietly sitting back and watching Melbourne take 72 or 80 per cent of business that we share at the moment. I do not believe it would eventuate." (Mr. D. Morgan, Manager of Dock Yard, Port of Brisbane Authority, Public Hearings, February 21, 1983, pp.178-179.)

Predictions of coastal demand depend on predictions of future competitive conditions, which are difficult to make. If a major price cutting war were to follow installation of a new Melbourne dock this would limit the capacity of the new dock to attract additional captive business, or alternatively, reduce its profit margin. Duke & Orr's position on the source of additional business for a new dock is not altogether clear, as this exchange illustrates:

"MR. McCUTCHEON." This submission Mr. Shorten made to the Committee on page 7 discusses where the additional shipping will come from and it makes the statement it will not be seeking to take the shipping from other ports such as Newcastle and Brisbane. However, a lot of the shipping you have just outlined is currently being docked in Brisbane and Newcastle so there is a contradiction there in one sense.

MR. SHORTEN: That is why I have been pushing for overseas flag ships. There is definitely a market for flag ships." (Transcript, p.51).

Likely increased competition from interstate dockyards suggests that the Centre's high coastal demand forecast may be difficult to achieve, particularly since this forecast assumed that Melbourne would win 83 per cent of its potential market on a regular basis. Currently only 73 per cent of Melbourne's potential market docks there regularly, so that underlying the Centre's forecast is the assumption that Melbourne's competitiveness will improve considerably. While the Committee believes that a new Melbourne dock will retain its current favourable competitive position, it is possible that the responses of other dockyards may prevent the capture of 83 per cent of the potential market.

The second controversial assumption relates to the future rate of decline in the coastal fleet. The Centre's low rate of decline scenario assumed that the coastal trading fleet suffers a net decline of one vessel per year for the next five years*, while the high rate of decline scenario assumes a net decline of two vessels per year over this period. Since this projection was prepared, five BHP ships, three of which could have used a replacement dock, have been laid up, so that the base from which the projections have been made is too high. Once again, if anything this suggests the Centre's high demand forecast may be optimistic.

To derive some idea of the implication of this possible rate of decline, Table 4 indicates demand for a new 27,000 tonne dock, if a further three vessels (in addition to the five originally assumed in the Centre's forecasts) were to leave the coastal fleet over the next five years - specifically in years 3, 4 and 5. These figures can be contrasted with the Centre's original high demand forecasts in Table 3.

*(from the 48 coastal vessels assumed to make up its potential market)

TABLE 4

NUMBER OF DAYS COASTAL VESSEL OCCUPANCY FOR A 27,000 TONNE DOCK GIVEN SMALLER COASTAL FLEET SIZE

Year	
1	122
2	122
3	119
4	116
5	113
6-20	113

The third criticism relates to the Centre's assumption that average duration of docking by coastal vessels is 7.5 days. Discussions with Captain J.W. Spiers of Associated Steamships Pty. Ltd. indicated that the six product tankers managed by this company, which would fit into the postulated replacement dock, could well be laid up for as much as 25 days during a refit. However, it seems likely, after discussions with other Australian dockyards, that tankers would spend around the same time in dry dock as other coastal vessels, but with more extensive and lengthy work being undertaken by ship repairers outside the dry dock. The additional net revenue for ship repairers is in a sense attributable to the dry dock, and consequently should be counted as a benefit of the dock. Tests with the Consultants' model have suggested that this marginally improves the return on investment in a dock.

In the light of the above discussion of these three assumptions, the Committee has adopted the Centre's high demand forecast, although it recognises that competitive pressures would make the achievement of 83% of the potential market quite difficult.

2.5.4 Overseas Vessels

The Centre's projections in addition to the overseas vessels already docking in the A.J. Wagglan, were as follows:

"Low Overseas Use Scenario: Assumes that in the first year of the dock's operation

- the 15,000 tonne dock attracts 2 additional overseas vessels
 - the 20,000 tonne dock attracts 3 additional overseas vessels
 - the 27,000 tonne dock attracts 4 additional vessels.
- It is further assumed that each sized dock attracts 1 further additional vessel per year for a period of five years. Demand then stabilises.

High Overseas Use Scenario: Assumes that in the first year of the dock's operation

- the 15,000 tonne dock attracts 4 additional overseas vessels
- the 20,000 tonne dock attracts 6 additional overseas vessels
- the 27,000 tonne dock attracts 8 additional overseas vessels.

It is also assumed that each sized dock attracts 2 further additional vessels per year for five years. Demand then stabilises.

The Centre's forecasts were criticised as both too low and too high. Mr. Kelly, of the Newcastle State Dockyard, suggested that any impact of the ACTU campaign would be shorter lived than suggested by the Centre's forecast:

"the ACTU section is the main stimulus for that (i.e., increased demand from overseas vessels, to offset the loss of recently laid up BHP ships) at present

and this is likely to be countered by cost on Australian shipping lines. It is anyone's argument just how far the ACTU action can bring it back. I certainly do not believe it will last very long." (Transcript, p.134).

Mr. Morgan, of the Port of Brisbane Authority, pointed out that some overseas governments impose penalties on their shipowners if they dock overseas:

"I understand the American Government imposes a penalty on American shipping lines docking overseas which is paid to the Government. I am not aware it is then paid back to the dock yards in any form. I understand, although I have no hard evidence, that Japan has strong restraints. I think all of the eastern nations have strong restraints on any of their vessels docking in overseas ports" (Transcript, p.174)

On the other hand, the supplementary submission from the ship repair employers and shipping unions suggested that the Centre's forecasts were far too low. This submission segments shipping by trade; it accepts that Melbourne is likely to remain uncompetitive with Asian countries such as Singapore, Korea and Japan, but argues that Melbourne can attract dry docking by vessels in the North American and European trades. It argues that there are about 200 vessels trading between Europe and North America and Australia which currently dock in Europe or North America, that these vessels dock every two years (i.e. 100 of them dock each year), and that Melbourne will capture 20 per cent of these dockings apparently on grounds of "equity", - the UNCTAD 40-40-20 Code of Conduct for Liner Conferences,

and the success of the ACTU campaign in securing a "fair share" of additional ship repair work.

The Committee accepts that, in assessing the viability of a new Melbourne dock, it is the long term competitiveness of different docks which is important, and the evidence* was not conclusive on this point. Nevertheless, it does seem that current price disparities between Australian and Asian docks are so large as to indicate a long term Asian advantage, although the picture is less clear in the cases of North European and North American docks.

The Committee recognizes that there are a number of reasons for believing that the unions'/employers' approach will lead to an overstatement of demand for a Melbourne dry dock. Firstly, while it is eminently sensible to divide dockings by trades, it does not follow, as the submission acknowledges, that all vessels in the North American and European trades are engaged only in those trades, and are not able to dry dock in, for example, Singapore or Korea. The submission makes some allowance for this, in effect, by assuming that 50 per cent of vessel tonnage visiting Melbourne is currently dry docked in Europe or North America.

However, further analysis by the Committee suggested that 74 liners are trading solely between Australia and North America and North Europe. If Australia were to capture 25 per cent of this market, 14 additional vessels, requiring 5.6 additional dockings per year, would come to Australia (assuming a 30 month docking frequency). Table 5 shows, alongside the Centre of Policy Studies' projections, the dock occupancy which would result, given a 9 day average docking, in the extremely unlikely event that Melbourne, rather than Newcastle or Brisbane, were to capture all of these dockings.

*As discussed in section 2.2

TABLE 5

NUMBER OF DAYS OCCUPANCY PER YEAR FOR OVERSEAS VESSELS

Year	Centre of Policy Studies Projections								Adjusted Employers'/ Unions' Projection
	A.J. Wagglen	Low Demand			A.J. Wagglen	High Demand			
		15,000t	20,000t	27,000t		15,000t	20,000t	27,000t	
1	27	47	50	54	27	54	61	68	77
2	27	50	54	58	27	61	68	76	77
3	27	54	58	61	27	68	76	83	77
4	27	58	61	65	27	76	83	90	77
5	27	61	65	68	27	83	90	97	77
6	27	65	68	72	27	90	97	104	77
7	27	65	68	72	27	90	97	104	77
8	27	65	68	72	27	90	97	104	77
9	27	65	68	72	27	90	97	104	77
10-20	27	65	68	72	27	90	97	104	77

Secondly, the Union/ship repairers' submission assumes a docking frequency of 2 years, compared to the Centre's 2.5 years. Since many vessels are already docked every 30 months, and since improved paints and other technological developments seem likely to lengthen docking frequencies in the longer term, assuming a longer interval between dockings seems appropriate in a 20 year projection.

Thirdly, the selection of a 25 per cent share of potential dockings is based on assertions as to what is "equitable" and "fair", particularly under the proposed UNCTAD Code of Conduct for Liner Conferences. However, what is regarded as "fair" by the Australian ship repair industries may not influence shipowners who must compete with other shipowners who do not face the burden of higher repair costs in Australia. Ultimately, the joint submission's assumed market share is based on an optimistic assessment of the success of the ACTU campaign.

2.5.5 The Committee's Revised Overseas Demand Forecast

In the light of subsequent discussion, the Committee decided to amend the overseas demand forecasts by analysing the "core" of 74 vessels which trade solely between North America and Europe and Australia. The Committee considers that, based on the evidence submitted since the Centre's report, Melbourne would be marginally competitive with certain docks in North America and Northern Europe. There would also be some degree of success from the ACTU campaign, particularly with respect to Australian owned ships.

Based on the assumptions (which, if anything, err in favour of the dock) that:

- Australia will capture 25% of the above core vessels
- Melbourne will capture two thirds of these overseas dockings in Australia
- Overseas vessels currently using the Melbourne dock for 27 days each year will continue to do so
- Docking frequency is 2.5 years
- Average duration of docking is 9 days

the Committee estimated that demand by overseas vessels for a new Melbourne dry dock would be 73 days per year in the first year of its operations and that this would increase to 100 days per year at the start of the sixth year, because the Committee assumed that overseas shipowners on receiving satisfactory treatment would become more willing to dock in Australia.

Table 6 contains the Committee's estimates of demand by overseas vessels for a 27,000 tonne Melbourne dry dock.

TABLE 6

FORECAST DEMAND BY OVERSEAS VESSELS
FOR A 27,000 TONNE DRY DOCK

Year	Forecast Days Occupancy
1	73
2	80
3	85
4	90
5	95
6-20	100

2.6 Summary and Conclusion

The Committee's assessment of the likely future demand for a new dry dock is as follows:-

TABLE 7
FORECAST DEMAND FOR A 27,000 TONNE FLOATING DOCK
IN THE PORT OF MELBOURNE

Year	Projected Days Occupancy
1	228
2	232
3	234
4	236
5	238
6-20	240

This forecast is based on the following general assumptions.

- concerning coastal vessels
 - that a new Melbourne dock will win a higher percentage of its market on a regular basis than the current dock
 - that the rate of decline of the coastal fleet will be at the lower rate of decline in the scenarios presented by the Centre of Policy Studies.
- concerning overseas vessels
 - that a new dock will remain generally uncompetitive with overseas docks except North American and European docks. Additional dockings will come from ships which presently dock in North America or Northern Europe and from the ACTU campaign to persuade overseas

shipowners to have a portion of their dockings carried out in Australia

- that Melbourne will capture 2/3 of these new overseas dockings.

CHAPTER 3 : CAPITAL COST OF A NEW DOCK

3.1 Introduction

This Chapter compares the capital costs of several possible alternative dry docks. The alternatives chosen are not exhaustive and if it is decided in the future to install a new dry dock, more detailed study would be necessary to choose the best alternative.

Section 3.2 outlines three alternative dry dock installations and provides estimates of their costs. Section 3.3 considers the costs of installing these alternatives at a particular site.

3.2 Choice of Dry Dock

3.2.1 Types of Dry Dock

Although there are many variations in design, dry docks may usefully be split into three broad categories. Graving docks are actually sunk into the ground, and the water is evacuated when the ship has entered. Floating docks of the pontoon type comprise a number of pontoons which can either be bolted or welded to the side walls. Docks of caisson, or box, design have a continuous bottom caisson and welded side wings. When the water is removed from this structure, its natural buoyancy gives it a "lifting capacity", determined largely by the dock's dimensions.

One advantage of the pontoon type of dock is that individual pontoons can be detached and docked inside the remaining structure, permitting "self-docking" when cleaning and painting is required. However, because of the gaps between the pontoons, this kind of dock has a lower lifting capacity than a box-type dock of equal size. This could be overcome by increasing the pontoon weight and, consequently,

capital cost. One manufacturer, at least, suggests that box-type docks are more economic, particularly as improvements in construction techniques and paints have reduced the required frequency of docking.

A third type - the Synchrolift dock - involves floating the ship onto a platform which is then raised to ground level by winches; since the ship can be transferred to land, multiple docking is possible (Overseas Study Group (1973)).

The Committee has considered only floating docks. There seem to be no suitable sites within the Port of Melbourne for synchrolift docks, which require either considerable areas of land with solid rock foundation or very expensive pile driving and site stabilisation.

There is more controversy over the feasibility of a graving dock. A preliminary study of a possible graving dock in Webb Dock, which is the site analysed in this report, was undertaken by a member of the ship repair industry. The dock would have sheet pile walls, and would be constructed simultaneously with a ship repair berth; the side wall of the dock would in any event have to be strengthened, so it could be made into a lay-up berth at little additional cost.

Proponents of this type of dock argue that it would be constructed with Australian labour and materials, would be less costly to maintain (in particular because less dredging is required), that it would allow crane facilities to be shared by the dry dock and a lay-up repair berth, that the dock could be lengthened if necessary, and that it would provide superior working conditions for the ship repairing companies.

Its opponents argue that overseas experience with sheet pile graving docks is limited, that continual pumping to evacuate water would be necessary, that piles would have to be sunk extremely deep to support the weight of a ship, and that working conditions for painters and cleaners are inferior in a graving dock. In addition, the cost of graving dock installation is sunk, both literally and financially, while floating docks can be resold for use in a different location.

There is disagreement about the ability of the land at Webb Dock to support a graving dock without reinforcement, and consequently there is disagreement about the costs of construction. Costings so far undertaken for a graving dock are only preliminary, and these estimates would escalate if the P.M.A.'s assessment of the site proves correct. The time and expense needed to resolve these questions prevented consideration of graving docks in this study, but the Committee's judgement is that a floating dock is likely to be cheaper and more desirable.

3.2.2 Cost Estimates

In addition to continuing the operation of the A.J. Wagglan, the Centre's report to the Committee considered three alternative floating docks, with lifting capacities of around 15,000 tonnes (190 metres overall length, 34 metres internal width, and permitting 8 metres docking draught of ships), 20,000 tonnes (200 metres by 34 metres, 8 metres docking draught) and 27,000 tonnes (250 metres by 38 metres, 8 metres docking draught) respectively.

Eight construction companies and brokers were approached to supply cost estimates for new docks of the above sizes, together with certain ancillary equipment determined in discussion with Mr. W.R. Shorten, General Manager of Duke and Orr

Dry Dock Pty. Ltd. One of these companies was Australian but was unwilling to reply in the time available for the report. Hence the cost figures refer to fully imported docks.

Firms were asked to quote for self-docking designs, but as indicated above, one respondent suggested that box-type docks may be more economic. This will require further consideration if it is decided to install a replacement dock.

The delivered cost estimates vary considerably; between \$13 million and \$36 million for a 15,000 tonne dock, \$16 million and \$41.0 million for a 20,000 tonne dock and \$18 million and \$48.0 million for a 27,000 tonne dock. In this analysis the Committee has taken the cheapest quoted alternative.

A second-hand dock has not been fully considered at this stage. One reason for this is that the second-hand market is "thin", making it difficult to obtain representative cost estimates. Moreover, operating costs of a used dock could be higher than for a new dock, so that it is far from certain that a second-hand dock would be the more economic choice overall. Nevertheless, this possibility should certainly be further explored if a decision is made to proceed with a replacement dock.

3.2.3 Construction within Victoria

It was also suggested to the Committee that a dock could be built in Melbourne, possibly using pre-stressed concrete as the primary construction material. Mr. A. Eddie, of Connell, Eddie and Associates, suggested that sufficient expertise is available in this country to construct such a dock, and he

indicated that such docks were currently being used in Genoa, France and the Soviet Union. He argued that the operating characteristics and operating costs of such a dock would in general be no different from a steel dock, but that it would be a little deeper and would therefore incur additional installation costs. On the other hand, maintenance costs of a concrete hull should be lower. Unfortunately, Mr. Eddie was only able to present very rough cost estimates, of between \$18 to \$28.5 million, which implied a cost penalty for local production of up to \$10 million. It was also suggested that the minimum installation period would be between 21 and 24 months, compared with around 15 months for an imported dock. This could be a serious disadvantage in the light of the required relocation of the A.J. Wagglan to make way for the Webb Dock rail link.

Mr. Eddie also considered that a steel floating dock could be constructed in Victoria and the Committee received other expert advice confirming this. Such work is essentially a steel fabrication task and does not require ship building facilities.

The Committee accepts that constructing either a steel or concrete floating dock in Victoria appears a feasible proposition. This should be carefully considered if a decision is made to obtain a replacement dock.

Construction within Victoria would also provide some additional employment, albeit temporarily, but it is not possible to estimate with any reasonable accuracy how much this might amount to.

3.3 Choice of Dock Site

The Committee has considered only the site at Webb Dock, largely since it was only for this site that detailed planning had been completed. This site is also favoured by the PMA as the only feasible site and the Authority cannot foresee an alternative use for the area of water which would be taken up by a floating dock. Nor is movement of ships in and out of a dock at this site likely to interfere with traffic into and out of Webb dock or other parts of the Port of Melbourne.

A number of late requests were made to the Committee to have its terms of reference extended to include the Port of Geelong as an alternative dock site. The exclusion of Geelong as a possible dock site was particularly criticised by the Port of Geelong Authority, whose General Manager, Mr. N.G. Samuels, argued that a new floating dock could readily be accommodated in Geelong.

The Authority has done preliminary studies on a possible new synchrolift facility at Geelong and has also given some thought to a new 35,000 tonne floating or graving dock. The Authority expects to be able to operate a new dock on a commercial basis without Government subsidy, and argues that Geelong possessed a suitable site and pool of skilled ship repair labour.

Unfortunately there was insufficient time to evaluate Geelong's proposal, which in any case is only at a very preliminary stage. However, the suitability of Geelong as a site was raised by the Committee with those who gave evidence and the submission of the Port of Geelong Authority was widely circulated for comment. The Committee's conclusion after considering the views of respondents is that Melbourne is the preferable site because of the additional steaming time required for vessels using Geelong and because of the location of most ship repair companies in Melbourne.

However, if, as discussed in Chapter 6, operation of a new dock were thrown open to public tender, it would be appropriate to invite the Port of Geelong Authority to submit a bid which could be considered on equal terms with all other bids.

3.4 A Repair Berth

There have been suggestions that a new repair berth and commercial repair facility should be constructed next to the proposed floating dock in Webb Dock. Currently Melbourne does not have a separate repair berth; but some repairs can be performed at normal berths. The PMA recently (August 1982) indicated that construction of a repair berth and associated buildings and amenities in Webb Dock would cost around \$22 million. Since some of the dredging costs included in this estimate would be required in any event, although at a later date, for the development of Webb Dock, the repair berth construction costs would probably be in the order of \$15-20 million (in 1982 dollars).

Few facilities are likely to be shared between a floating dock and a repair berth. A repair berth is not necessary for the operation of a dry dock, although it could reduce the average duration of dock occupancy. This benefit would become more significant as dock occupancy rates increase; however, it seems likely that there will be spare capacity in the dock for some years. Since dry dock costs are not heavily dependent on those of a repair berth, the two investments could be treated separately.

It also seems unlikely that a repair berth would attract significant additional revenue. Running repairs, which make up a significant proportion of total ship repair revenue, would continue to be performed at normal commercial berths. Some major repairs, which do not require dry docking but which are too large to be undertaken at normal berths, could be attracted to a ship repair

berth. However, ship repairers generally do not expect significant additional demand from this source, and any forecast is uncertain in the absence of experience with a repair berth in Melbourne.

Finally, pressure on floating dock capacity, and consequent demand for a repair berth from this source, is unlikely to be strong for some years. Ship repairers do not appear to consider a repair berth a high priority. For example, Mr. Saville, of Amalgamated Marine Engineers, Pty. Ltd., indicated that:

"In the Port of Melbourne there are plenty of berths available which a ship can go to after it comes out of dock to complete (work) if it is required ... it would be better to postpone to a later date the building of a repair berth and the facilities on it"
(Transcript, p.101).

The Committee accepts this view, and has therefore not considered investment in a repair berth.

3.5 Installation Costs of a Floating Dock

According to the PMA, if a floating dock were located at the Webb Dock site it would not be necessary to reclaim additional land, extend protective walls or bring forward construction of other parts of Webb Dock. It would be necessary, however, to dredge the location of the floating dock to a depth of 15 metres to allow a docking draught of 8 metres, and to dredge a short approach channel, specific to the floating dock, to 11.2 metres. The cost of this was estimated in August 1982 at \$7.19 million, for an area 200 x 45 metres to 15 metres deep. For the largest floating dock (250 x 48 metres), dredging costs would be \$7.63 million (\$435,000 higher); for the smallest dock (190 x 45 metres) they would be \$6.85 million (\$345,000 lower). Because of existing dredging commitments, the PMA would prefer to undertake this work

over two years; a faster operation would mean additional delay costs on other jobs.

The PMA has estimated that an additional \$691,000 (in 1982 dollars) would be required for amenities, buildings and storerooms, and a further \$276,000 to provide access to Williamstown Road, irrespective of the size of the floating dock. In addition, a row of approach dolphins, which have not yet been costed by the PMA, but which might cost up to \$1 million, would be required to mark the entrance to the dock. In total, therefore, site preparation costs for a new dock are probably between \$8 million and \$9 million.

3.6 Summary and Conclusion

The capital cost of a new imported floating dock at the Webb Dock site, is likely to be:

\$20 million for a 15,000 tonne dock (\$13 million plus \$7 million installation cost)

\$23 million for a 20,000 tonne dock (\$16 million plus \$7 million installation cost)

\$26 million for a 27,000 tonne dock (\$18 million plus \$8 million installation cost)

A floating dock is likely to be cheaper and more desirable than a graving dock.

Melbourne is the preferable site for a dock, although the Committee has noted a late claim from the Port of Geelong to be considered as the site for a new dock.

The Webb Dock site is the most suitable site for a Melbourne dry dock.

Investment in a repair berth associated with a new dock is not justified at this stage.

A second-hand dock would probably require a lower initial capital outlay, but could have offsetting disadvantages in terms of operating costs.

It would be possible to construct either a concrete or steel floating dock in Victoria although the cost penalty for local construction could be as high as \$10 million.

The possibility of constructing a dock in Victoria should be carefully investigated as one option if a decision is made to obtain a new dock.

CHAPTER 4 : FINANCIAL IMPLICATIONS AND POSSIBLE NON QUANTIFIABLE BENEFITS.

4.1 Introduction.

The two preceding chapters have outlined the financial costs and benefits of a new 27,000 tonne floating dock. On this basis, this Chapter outlines the possible financial returns to Victoria of such an investment. Possible non-quantifiable benefits and costs, and divergences between the returns to Victoria and to Australia, are also discussed.

4.2 Financial Profitability of a New Dry Dock

The current operating margin of the dock operator comes from two major sources of revenue :

- (a) dock hire charges
- (b) net of materials and variable labour costs from work below the waterline.

Ship repair companies currently pay only a very small amount for the use of the dock (\$40 per day), but an increase of this contribution could provide an additional future source of revenue.

The projected operating profits of the dock operator can be used to estimate a real (i.e., adjusted for inflation) rate of return on the capital costs of a new dock, as specified in Chapter 3. Since there is considerable uncertainty about both costs and revenue, the percentage rates of return which are the outcome of these estimates should be considered as a broad indication of project viability, and not as precise figures.

The forecast financial return is very sensitive to different assumptions concerning the operating margin of the dock. The Centre of Policy Studies assumed in its report that the absolute current margin (i.e. revenues, including dock hire charges, net of materials and variable labour costs) earned each day the existing dock was occupied would remain unaltered (in real terms) during the life of a new dock.

Expansion of the margin, it was argued, would be prevented by competitive pressures. Mr. Shorten, however, argued that this ignored the larger size of ships which would use a new dock, and the potential for economies of scale. He suggested that a substantially larger operating margin per day might exist in the future, even if the margin per square metre of wetted surface area fell.

Judgements concerning the size of the operating margin are based on a number of factors (the size of ships likely to use a new dock, the extent of unit savings in labour costs in a new dock and the strength of competitive pressure) which are very uncertain. This uncertainty highlights an important advantage in calling competitive tenders to operate a new dock (in the way outlined in Chapter 6); viz., the onus of establishing revenue forecasts is shifted to potential dock operators, who may be more likely than this Committee to possess the necessary information.

It appears to the Committee that the daily operating margin is likely to rise above current levels, owing to the increase in the average size of vessel which would use a new dock. On the other hand, the Committee feels that the figure suggested by Duke and Orr may be a little optimistic, since a new dock would most likely be faced by strong competition from other Australian and overseas docks many of which are government subsidised. As a first approximation, it has therefore assessed the implications of weighted average daily margins (i.e. on current users of the dock and new vessels, and inclusive of dock hire charges) of between \$8,200 and \$9,600; these figures lie within the range bounded by the current margin and that suggested by Duke and Orr.

On this basis, the real rate of return on investment in a 27,000 tonne dock would be between around 0.2 per cent and 2.3 per cent. These figures, it should be noticed, make no allowance for revenue from a charge on ship repairers for use of the dock. Imposition of such charges would increase the return on investment in the dock.

4.3 Financial Implications for the State Government

(a) Government Operation of a Dock.

If a new dock were to be operated by a Government organisation, outlays would be incurred and revenues received over the dock's life. To place these outlays and receipts, which will occur in different time periods, in comparable terms, they must be discounted at the appropriate rate of interest. Through this procedure, one can compare the present (i.e. discounted) value of the stream of future net receipts with the present value of necessary capital outlays. The discount rate is equivalent to the required rate of return on any project. The present value of the State Government's net financial outlays can then be found by subtracting the present value of future returns (net of operating costs), at a particular discount rate, from the present value of necessary capital outlays. Since the present value of future net returns varies with the operating margin, Table 8 shows the results for different assumed levels of operating margins. It is again assumed that no charge is levied on ship repairers for use of the dock; application of such a charge would reduce the State Government's financial outlay.

TABLE 8: PRESENT VALUE OF STATE GOVERNMENT FINANCIAL
OUTLAYS VARIOUS DOCK OPERATING MARGINS
(1982 \$ Million)

Discount Rate (%)	5	10	15
Assumed Operating Margin			
\$8,200	-9.8	-14.3	-16.2
\$9,600	-5.7	-11.5	-14.1

Table 8 shows that the overall cost to the Government varies with the required rate of return. The Government has, however, stated that a 5 per cent real return on capital should be earned by

statutory business authorities on their investments. Given this interest rate, the Table suggests that, under the Committee's selected operating margins, the present value of the State Government's net outlays, if it owned and operated the dock, could lie roughly between \$6 million and \$10 million. In other words, the overall cost to the Government over 20 years, after allowing for operating profits generated by the dock, would be between \$6 million and \$10 million in present value terms.

(b) Private Operation of a Dock

Table 8 can also be used to gain some idea of the possible initial State Government capital contribution or subsidy which would be required to induce a private firm to meet the full costs of installing and operating a dock, in exchange for full retention of operating profits. It is likely that the private pre-tax rate of discount (or rate of return required to encourage investment) would be higher than that required by the Government if it operated the dock, to reflect the fact that private firms face (Commonwealth) taxes which would not be imposed on a state enterprise. For this reason, private real pre-tax required rates of return are likely to lie between about 10 per cent and 15 per cent.

Table 8 shows that this range of discount rates, together with the assumed range of operating margin, suggests that the initial capital subsidy required to induce involvement in this project by a private firm could lie between about \$11 million and \$16 million. However, if private firms' cost and demand projections differ from those of the Committee, the necessary subsidy would lie outside this range. Also important, this range does not indicate the ultimate financial cost to the State Government since a proportion of the taxes paid by the firm will return to the State, by way of direct taxes and as reimbursement from the Federal Government as an offset against its initial capital outlay.

Indeed, while it might appear that a state enterprise would impose a lower financial cost on the State than would any non-government operation, this ignores both the return of taxes via Commonwealth grants and expenditure and, more importantly, the implications for the Federal system of state encroachments into areas previously managed by private enterprise, in order to evade Commonwealth taxes.

Comparisons between the cost to Government under Government as opposed to private operation should therefore be made carefully.

4.4 Costs and Benefits for Victoria and Australia.

Table 8 does not indicate the full commercial returns to Australia of a new dock, because it excludes the net benefits of this investment for ship repairers. Information did not permit precise estimation of the costs of ship repair, particularly since all Melbourne ship repair companies do a large part of their work outside the dry dock - either running repairs at normal berths or non-marine work. Overheads will be recovered in these various activities according to what each market will bear and it is not clear what proportion will be recovered in the dry dock. On the other hand, to ignore overheads would be to understate costs. The Consultants' Report therefore assumed that ship repairers' total costs make up 95 per cent of total revenues; i.e., that the proportion of taxable income to total revenue is roughly equivalent to that of Australian manufacturing as a whole. This assumption was not questioned during the public hearings. If ship repairers' net revenues (i.e. after deduction of their costs) are included as part of the return on capital invested in a new dock, the internal real rate of return on this investment increases to between 2 per cent and 3.8 per cent.

To then estimate the costs and benefits for Victoria, as opposed to Australia as a whole, it is necessary to add transfers from the rest of Australia to Victoria and subtract transfers in the reverse direction. In the case of a private dock operator, corporate income tax is the major transfer from Victoria to the rest of

Australia, although this may be indirectly, partially or wholly offset by Commonwealth grants to, or expenditure in Victoria. In the case of a State operated dock, company tax would not be paid. Clearly, under either State or private enterprise, the net benefits to Victoria of a new dock will be reduced to the extent that there is a net outflow of revenues to the rest of Australia.

4.5 Possible Unquantified Costs and Benefits

In addition to the financial costs and revenues associated with a new dock, there may be some costs and benefits which are not reflected in the financial data.

(a) Job Retention and Creation

The important aspect of employment is discussed in the next chapter.

(b) Defence Benefits

It is possible a new Melbourne dock could improve Australia's defence capability by diversifying its repair facilities. The Department of Defence, however, indicated that:

"While a new dry dock or shiplift in Melbourne would be a defence asset, it could not command priority for funding at the current time" (letter from Mr. G.P. Temme, Acting First Assistant Secretary, Policy Co-ordination, Commonwealth Department of Defence, February 14, 1982).

A Melbourne dock is not necessary for naval vessels, nearly all of which are docked or repaired in naval dockyards. The contribution of a new dock to defence does not therefore appear significant. Although such a facility would be an undoubted asset in repairing damaged ships in a time of war, this must be regarded as a low probability situation.

(c) Value of an Emergency Facility

There is clearly some value in having a dock in the event of a major emergency such as substantial damage to a ship which would otherwise sink before it could get to an alternative dock, or could be in substantial difficulty with a longer haul to another dock. Only one such emergency has happened in Melbourne in recent times. While the Committee considers the dock has value as an emergency facility it does not consider this a significant factor.

(d) Increasing Trade - through the Port of Melbourne

It was also suggested to the Committee that a new dock would attract additional business to the Port of Melbourne and that this should be regarded as an additional benefit of the project. The Committee considers that availability of a dock is unlikely to be a significant factor in vessels entering a particular port, cargoes being the relevant factor. This also appears to be the view of the Port of Melbourne Authority.

(e) Other Possible Costs

The financial data may also understate some costs of the project. For example, to the extent that a significant porportion of incremental demand reflects union pressure overseas shipowners who would otherwise not dock in Victoria may pass on part of the increased costs in shipping rates. To the extent that overseas shipowners absorb the costs, income will have been transferred from foreigners to Australians, implying a net gain to both Australia and Victoria. If the cost increase is passed on however, the situation is more complex.

The increased cost of shipping implies a lower f.o.b. price for Australian exports, which may lead to a reduction in production of some exported goods. The magnitude of such costs and transfers for Victoria and Australia is very difficult to estimate; but inability to quantify them does not mean that they do not exist.

In addition, increased Victorian dock occupancy would occur partly at the expense of the Newcastle and Cairncross docks. While any increased surplus for a Victorian dock is a net gain to Victorians, from the national point of view it is not a net benefit.

(f) Social Benefits and Costs

- (i) Clearly there is great difficulty in evaluating, in cash terms all costs and benefits involved with the project.
- (ii) The financial data does not fully explore the range of social benefits that may accrue from the project: many of which may come to fruition over the future.
- (iii) The analysis assumes that a dollar is of equal value to all its recipients and that society benefits equally no matter how the benefits of a project are distributed. Thus no account is taken either of the individuals or of the geographic areas which most directly benefit from the project.

4.6 Summary and Conclusion

1. The net cost of the Government operating a dock, assuming the Government requires a 5 per cent real rate of return, is projected to be between \$6 million and \$10 million in present value terms over the 20 year life of the project. Given the estimated cost of a 27,000 tonne dock of \$26 million, the project would provide a real rate of return to the Government of between 0.2 per cent and 2.3 per cent.

2. For private operation, assuming the operator required a rate of return of 10 per cent the required subsidy from Government would be between \$11.5 and \$14 million, and between \$14 million and \$16 million for a 15 per cent required rate of return.

CHAPTER 5: EMPLOYMENT IMPLICATIONS

5.1 Introduction.

If a new dry dock is purchased, a number of people will be directly employed to operate it and to repair ships in it. In addition, there will be indirect effects on employment, as income generated in the dock is spent elsewhere in the economy. Determining the number of such jobs is extremely difficult. It requires judgments concerning, for example, the proportion of employment in the ship repair firms which is dependent on the existence of a dry dock, the number of jobs indirectly associated with the ship repair industry, and the number of equivalent full-time jobs represented by the significant number of casual employees in the industry.

5.2 Existing Direct Employment in the Docking and Repair Industry

Table 9 indicates permanent employment in the various ship repairing firms and in the dry dock itself. Since only around 40 per cent of ship repairers' revenue is earned in the dry dock itself (the proportion fluctuates between companies and varies between years), only a proportion of this employment is dependent on the existence of a dry dock, as will be discussed in the next section.

TABLE 9
EMPLOYMENT IN THE SHIP REPAIR INDUSTRY - MARCH 1982

Firm	No. of Permanent Employees
Duke & Orr Dry Dock Ltd.	32
<u>Ship Repairers</u>	
Amalgamated Marine Engineers Pty Ltd	75
Buchanan & Brock Ship Repair Pty Ltd.	56
V.F. Harris (Vic) Pty Ltd.	70
T.J. Prest & Sons Pty Ltd.	8
United Ship Services Pty Ltd.	30
Kevin Waters Pty Ltd.	10
John Butcher Pty Ltd.	<u>3</u>
Total	<u>284</u>

The industry (in particular Duke & Orr, T.J. Prest and United Ship Services) is also a substantial employer of casual staff. These three firms operate a "pick-up centre" for casual employees which has on its books 130 painters and dockers, 17 shipwrights and 50 workers in other trades. These numbers do not, of course, indicate equivalent full-time jobs. However, evidence presented to the Committee by the firms involved suggests that the dock currently provides about 30 "full-time equivalent" casual positions, 20 of which are provided by Duke & Orr, 7 by United Ship Services, 2 by T.J. Prest and 1 by John Butcher.

5.3. Employment Implications of Dock Closure

In the absence of a dry dock, all 32 permanent and 20 casual jobs in Duke & Orr would disappear. The impact on ship repairers' employment of the closing of the dry dock is extremely difficult to judge. A joint supplementary submission of the unions and ship repairers appears to argue (p.4), that total employment by ship repairers is directly dependent on dry dock work, so that 249 permanent ship repairing jobs would be lost in the absence of a dock. It is also possible that the ship repair companies would diversify, as they have already started to do, with a lesser loss of jobs. The actual outcome would depend on company responses to the market situation.

Buchanan and Brock Ship Repair Pty. Ltd. suggested that in the absence of a dock its employment might fall from 56 to about 20. V.F. Harris (Vic.) Pty. Ltd. forecast a reduced staff of 10-15 (i.e. a loss of 55-60 jobs), although this company currently earns only around 25 per cent to 30 per cent of its revenue through dry dock work. Amalgamated Marine Engineers Pty. Ltd. suggested that its employment might drop to 27, with 48 jobs lost. Mr. Shorten of Duke & Orr suggested that, if there were no dock, employment in the ship repair industry would fall to about 90 overall, implying a loss of about 160 permanent positions.

It is very difficult to estimate with any degree of accuracy the number of ship repairing jobs which would be lost if a dock were absent. The Committee does feel, however, that the view outlined above is an extreme position and that the best estimate of the immediate loss of permanent ship repairing jobs will be between 100 and 150 permanent positions.

In addition, up to 10 "full-time equivalent" casual positions in ship repairing firms would be lost. When these 110-160 positions are added to those in Duke & Orr, it appears that between 162 and 212 full time positions in total would be lost in the event of dock closure.

Table 10 which shows the proportionate distribution of employees in the ship repairing industry between various skills, gives some indication of the types of jobs and skills which might be lost.

TABLE 10
DISTRIBUTION OF SKILLS OF PERMANENT EMPLOYEES
IN MELBOURNE'S SHIP REPAIR INDUSTRY - MARCH 1983

Type of Skill	Porportion of Workforce %
Management/Working Directors	5
Office Staff	8
Supervisors	5
Shipwrights	4
Scaffolders/Riggers	7
Yardman/Drivers	2
Fitters	19
Turners	1
Boilermakers	17
Storemen	1
Trades Assistants	9
Carpenters/Joiners	3
Painters and Dockers	5
Canvas Workers	0.5
Plumbers	5

Con't.

Table 10 Continued

<u>Type of Skill</u>	<u>Proportion of Workforce %</u>
Machinists	3
Gritblasters and Spray Painters	1
First Aid Attendant	0.5
Crane Drivers	1
Dogman	1

Source: Various Ship Repairing Companies.

The table suggests that a significant proportion (at least 50 per cent) of the industry's staff possess skills (boilermaking, fitting and turning, plumbing, carpentry etc.) which might reasonably be expected to be in demand elsewhere in the economy when conditions improve, so that it is either the relatively unskilled employees, or those with skills specific to the industry, who might find it difficult to secure alternative employment.

Painters and dockers currently employed on a casual or permanent basis can be regarded as having skills specific to the industry and could be expected to find difficulty in seeking alternative employment. A further factor is that a significant number of all existing employees are over 50 years of age, which reduces their chance of re-employment. Moreover, there are no redundancy agreements in the industry.

5.4 Skills Retention

Mr. Halfpenny, of the Amalgamated Metals, Foundry and Shipwrights Union, was one of the several witnesses who appeared to argue that the ship repairing industry merited Government assistance to preserve skills:

"the docking and ship repair industry is a very valuable source for developing and retaining skills of many employees"
(Transcript p.80)

It is clear from Table 10 that a range of skills are required and developed in this industry. However, the argument concerning retention of skills has not been very clear to the Committee. If a new dock is purchased or constructed it will employ people in the docking and ship repair industry. There will thus be a demand for these skills.

Arguments put before the Committee for Government subsidy to retain skills appeared to be more arguments for a Government subsidy to avoid unemployment, rather than arguments to retain skills per se. However, it might be argued that in the absence of such a subsidy such skills will not be available if a demand for them reoccurs in the future.

There seems little doubt that the ship repairing industry would survive, albeit on a smaller scale, if no dock existed, so that many ship repairing skills would not be completely lost. Nonetheless, the Committee notes that a number of skills listed in Table 10 would be lost in the absence of a dry dock.

5.5 Direct Employment Created by a New Dock

5.1 Employment in the Dock

After discussion with Mr. Shorten, of Duke & Orr, it appears that permanent dock staff would increase by 5, to a total of 37 for a 27,000 tonne dock. It was also suggested that daily wage costs in a new dock would increase by up to 70 per cent, implying up to 14 additional "full-time equivalent" casual positions.

5.2 Employment by Ship Repairers

Just as it is difficult to estimate current levels of ship repair employment dependent on the dry dock, so are predictions of ship repair employment associated with a new dock. It is first necessary to estimate current employment by ship repairers in the dock.

In the absence of better information, the Committee assumes that the estimate of 100-150 ships repairers' jobs which might be lost in the absence of a dock also represents current employment by ship repairers in the dock. (This may be an overestimate since some of those who might lose their jobs in the absence of a dock might currently work predominantly outside the dock.) How employment might increase from this base if a new dock were installed is very uncertain.

For example, some proportion of increased dry dock work might be handled by the existing workforce, but with reduced idle time and non-marine work. On the other hand a new dock will handle larger ships, with a consequent increase in work for ship repairers. However, it is possible that ship repairers' employment on dock related work could increase from its current assumed level of between 100 and 150 by as much as one and a half times the projected increase in dock occupancy. In the case of a 27,000 tonne dock, this would imply total permanent dock employment by ship repairers of between 200 and 300. In addition, full time equivalent casual employees of ship repairers would increase from 10 to 15.

In summary, a 27,000 tonne dock is expected to employ 37 permanent and 34 casual staff, while ship repairers would employ in the dock between 200 and 300 permanent staff, as well as 15 casuals. The Committee therefore concludes that between 286 and 386 direct full time jobs would be associated with a new 27,000 tonne dock, given the Committee's demand forecasts. This implies between 124 and 174 additional jobs.

5.6 The Employment Multiplier

When employees at the dock spend their incomes, they demand goods and services and so create employment in those industries. In addition, expenditures by the dock lessee and by ship repairers on other inputs, such as materials, fuel and power, and motor

vehicles will generate demand for the products of a wide range of industries and so stimulate employment in them. When employees in these industries spend their incomes, this in turn will create additional demand and hence employment.

This is referred to as the multiplier effect. It applies to the present direct employment, any loss of employment through closing of the dock and any new employment from a new dock. These indirect effects on their own would suggest that there is a positive employment multiplier associated with the dry dock. On the other hand, any increased taxation necessary to finance losses in the dry dock would withdraw spending power from Victorians. This would lower demand for consumption of goods in Victoria and thus reduce production and employment.

Using the estimates of costs in their Report, and an input-output model of the Victorian economy, the Committee's consultants have estimated an employment multiplier of around 1.5. If direct employment in a new dock were between 286 and 386, a multiplier of 1.5 would imply total employment (direct plus indirect) of between 429 and 579.

The joint union/industry submissions argued that an employment multiplier of 3 was appropriate. This submission suggested that current direct dock related employment was 250 (compared with the Committee's estimate of 162-212) but also that it "might rise to 450 on a less rigorous but nevertheless justifiable basis". However, no supporting evidence for this last statement, which seems inconsistent with statistics provided by the employers, was provided. The submission suggested that an additional 200 to 350 new jobs would be created by a new dock, and that, given an employment multiplier of 3, between 400 and 700 additional indirect jobs would be created by a new dock.

There are, however, serious weaknesses in the submission's approach. Firstly, its estimates of current and additional direct employment in the dock seems high, in particular, it implies that

virtually all ship repairers' employment is attributable to the dock. Secondly, the submission provides no empirical justification for its employment multiplier, while the Committee's consultants' estimate is based on an input-output model of the Victorian economy. Thirdly, the submission does not appear to take into account the negative indirect impact on employment of any increase in taxation or re-allocation of expenditure which might be required to finance the dock.

For these reasons, the Committee finds it difficult to accept the submission's assertions in relation to indirect employment. While it recognises that precision is not feasible in this area it accepts the figure presented by the Centre of Policy Studies as being approximately correct, so that total employment (direct plus indirect) generated by a new dock is likely to lie between 429 and 579. This is an increase of between 186 and 261 jobs.

5.7 Some Qualifications

While the Committee has provided employment numbers to assist analysis of alternative actions, these numbers should be interpreted with caution.

Firstly, while some jobs in the dock itself will clearly be lost if the A.J. Wagglan is not replaced, this would not necessarily mean a net loss of employment in Victoria. Financing a new dock may require either increased taxation or reduced Government expenditure in other areas. If a dock were not purchased funds would be available for investment in alternative, more profitable, projects which would themselves create employment.

Similarly, the additional jobs associated with a new dock do not necessarily represent additional employment in the economy as a whole. They are simply the number of jobs likely to be created by particular streams of spending by employees and firms. A stream of spending would also be generated by alternative investments and would create employment in alternative areas.

Secondly, the Committee has concentrated on Victorian employment. To the extent that a new Melbourne dock would win away existing work from the Newcastle and Brisbane docks, employment could well fall in these States, so that the net gain in Australian employment would be less than indicated in this Chapter.

5.8 Job Subsidies Comparisons

In Chapter 4 it was suggested that the present value of the subsidy required to sustain a 27,000 tonne dock could be somewhere between \$6 million and \$10 million, if operated by a Government organisation, assuming a real required rate of return of 5 per cent, and between \$11 million and \$15 million in the case of a private operator. Table 11 implies that the subsidy by the taxpayer per direct job, at this rate of discount, is between \$15,500 and \$52,000. This is set out below. This cost obviously declines as the dock becomes more profitable; indeed if it was commercially viable the subsidy per job would be zero.

TABLE 11
SUBSIDY PER JOB ACCORDING TO TYPE OF MANAGEMENT

	Government Operation	Private Operation
Cost per direct job	15,544-34,965	28,497-52,447
Cost per job including indirect employment	10,362-23,310	13,998-34,965

The figures in the table have been arrived at by taking the total number of direct jobs (286-386) and the total of direct and indirect jobs (429-579) and calculating a job subsidy for Government operation (cost \$6-\$10 million) and for private operation (\$11-\$15 million). In each case the low and high points have been taken in the sense that the low point is the cheapest cost figure divided by the highest number of jobs in the range, whilst the high point reflects the highest cost figure divided by the lowest job figure in the range.

It will be clear from the above table that the cost per direct job is in the range of \$15,500-\$35,000 under Government operation and \$28,400 to \$52,400 under private operation. The following examples give an indication of Government job creation guideline figures applied in other areas.

The Commonwealth Government using Input-Output Tables from the National Accounts utilises a rule of thumb figure of \$22,000-\$25,000 per direct job in the Community Services Sector. These figures are updated every six months.

The Victorian Ministry of Economic Development in an exploratory internal discussion document has commenced with a \$30 per week per job subsidy figure. Projecting this figure forward for 10 years and then discounting the cash flows back to present value terms using what is understood to be a 15% rate of discount, a figure of \$7,000 is obtained. As the average manufacturing job multiplier is 1 to 3.2, the Ministry would pay an overall subsidy figure of \$20,000-\$23,000 per direct job created in the manufacturing sector, provided other guidelines are met.

The Committee's estimate of the cost per direct job for a new dry dock of between \$15,500 and \$52,400 is difficult to evaluate in comparison with these figures but the Committee is unable to produce any more precise figures.

The Employment Initiatives Program administered by the Victorian Ministry of Employment and Training is not a strictly realistic comparison with the Dry Dock subsidy figures since the schemes under the Program are of a definite temporary duration (average 22 weeks) and are aimed at a specific group who are perceived as having special needs - those who have been unemployed for six months or more. The average annual subsidy of \$22,000 per job created which reflects social criteria (for example particular attention is paid to disadvantaged groups) and the cost of establishing suitable frameworks (for example,

supervision does not appear to be a valid figure for comparison against a long term commercial venture

5.9 Summary and Conclusion

1. Current direct employment in the ship repairing industry is 284. The work involved in a further 30 full-time positions is divided amongst 197 casual employees.
2. Between around 132 and 182 permanent direct jobs would be lost through closure of the existing dock. In addition, around 30 "full-time equivalent" casual positions would disappear.
3. Between around 81 and 106 indirect jobs would be lost in the event of dock closure.
4. Accepting the lower employment multiplier of 1.5, between around 124 and 174 direct jobs, and 62 and 87 indirect jobs would be created by a new 27,000 tonne dock.
5. There is no adequate basis for comparing the cost per direct job of between \$15,000 and \$35,000 for Government operation and between \$28,000 and \$52,000 for private operation under this project, with cost per job criteria developed for other Government programmes. The higher figure for private operation reflects the need to account for the payment of tax and the assumed requirement of a higher rate of return on capital invested.
6. If a decision is made to proceed with a 27,000 tonne dock, total direct and indirect employment attributable thereto is estimated to be between 429 and 579 people, based upon a multiplier of 1.5.

These results are summarised in Table 12.

TABLE 12
EMPLOYMENT IMPLICATIONS OF ALTERNATIVE DOCK PROJECTS

	Direct	Indirect	Total
Jobs lost through dock closure.	162-212	81-106	243-318
Additional jobs created with a new 27,000 tonne dock.	124-174	62- 87	186-261
Total retention plus creation of employment with a 27,000 tonne dock.	286-386	143-193	429-579

CHAPTER 6: MANAGEMENT OF A DRY DOCK

6.1 Introduction

The ability of any new dock to attract business will depend substantially on:

- its cost competitiveness in terms of its level of charges
- its competitiveness in terms of time taken
- its ability to complete jobs within agreed times, i.e. reliability
- its ability to maintain harmonious industrial relations
- the quality of its work.

Shipowners look for a package of these factors which minimises their total docking cost, and any risk of delays.

From the Government's point of view, if it is to subsidise this industry it is important to find an arrangement for managing the dock which promotes maximum operating efficiency, minimises and clearly delineates any Government contribution and is equitable as between different parties.

This Chapter discusses the advantages and disadvantages of alternative arrangements in terms of their impact on the factors determining the viability of a new dock, and on the interests of the Government. The problem is to find a management arrangement which is regarded as equitable, but which does not reduce incentives for efficiency. The Committee has not fully developed its opinions on the most appropriate management arrangements. It considers the Government should establish a working party to consult with workers, employers and shipowners before any firm decision is made by the Government.

6.2 The Current Management Arrangement

The A.J. Wagglan is owned by the State Government, which in 1975 spent more than \$5.6 million on its purchase and installation,

and operated by Duke & Orr Dry Dock Pty. Ltd., whose lease on the dock runs until 1985. The terms of the lease are subject to review every three years. Duke and Orr's investment in the enterprise, apart from normal working capital, is approximately \$60,000 worth of equipment. The State Government earns a return on its investment (though it is insufficient to fully service capital) through a profit sharing arrangement, under which the State receives 50 per cent of the first \$30,000 of profit before tax and 40 per cent of the balance of operating profit, with the remainder accruing to Duke and Orr. Any losses are to be borne in full by Duke and Orr. Profit is defined as gross revenue from the floating dock, less all operating and overhead expenses (but excluding depreciation of the dock); the State Government also pays 50 per cent of the dock's insurance premiums (about \$20,000 p.a.). The total net return to the Government under the agreement since 1975 has been slightly less than \$400,000, consisting of \$34,493 in 1977, \$130,444 in 1978, \$84,362 in 1979, \$63,765 in 1980, \$105,676 in 1981 and \$81,889 in 1982. The Government also receives a small (approximately \$11,000 per annum) charge levied on ship repairers using the dock.

The Government may review Duke and Orr's dock hire charges and if there is disagreement the matter is to go to arbitration.

This profit sharing procedure has two major problems:

- (1) It reduces the dock operator's incentive to maximise reported profits. Of each \$1 of additional operating profit beyond the first \$30,000, the dock operator first returns 40 cents to the State Government. After company tax of 46 per cent, 32.4 cents of the extra \$1 of profit remains with the operator. When this profit is distributed to the owners of Duke and Orr, they face income tax, possibly at the highest marginal rate of 60 per cent, so that of the

initial extra \$1 of operating profit, only 13 cents is received by the shareholders. This extremely small share in profits must weaken the shareholders' incentive to ensure that operating profits (and the return to the State Government) are maximised. There may be less incentive to restrain costs if the consequent increase in operating profit accrues largely to the various Governments.

Close monitoring of the activities of the dock operator by the State Government could assist in this situation, and the agreement with Duke and Orr provides for the Director of Finance and the Auditor-General to have access to the Company's books of account. This right has not been exercised. Moreover, close monitoring could be very costly and in the future it would seem more sensible to pursue agreements which provide an incentive structure under which less monitoring is necessary.

- (2) While projections of operating profits are uncertain, it seems possible that, excluding capital servicing, a replacement dock would generate considerable operating profit. For example, evidence presented to the Committee by Duke and Orr, suggested a possible level of annual operating profit, excluding amortisation of the capital cost of the dock. If the current arrangement continues, investment by this company would be around \$250,000 (Transcript, p.223). If the existing agreement were continued based on this possible level of profit the dock operator would receive an extraordinarily high return on his investment, far higher than is necessary to induce the company to participate in the project. Apparently recognizing this, two of the Company's directors indicated their willingness to accept a smaller share of operating profit or to consider different financial arrangements (Transcript, p.229). However, if, the Company's share of profits under any agreement were to fall, for example, as low as

10 per cent, the Company's owners would ultimately receive (after tax) only 3 cents from each additional dollar of profit. The incentive to maximise reported profit is likely to be very weak in these circumstances. Thus the dock could be operated less efficiently, and the financial outlay required of the State Government could be greater, than would be the case under alternative arrangements.

Recognising these two fundamental weaknesses of profit-sharing arrangements, the Committee recommends that if a replacement dock is to be operated by private interests the Government explore alternative arrangements, some of which will be outlined in this chapter. In the Committee's view the existing profit sharing arrangements should not be continued for a new dock.

6.3 Management by a Government Organisation

Management of a new dock could be undertaken by a Government organisation, as at the Newcastle State Dockyard and Queensland's Cairncross Dock. The Newcastle Dockyard is controlled by the N.S.W. Maritime Services Board, a State statutory authority. It enjoys relative financial autonomy but its staff are public servants and management must observe public service staffing controls. The Brisbane dock is operated by an autonomous State Government authority, the Port of Brisbane Authority. Closer to home, the Geelong Slipway is operated by the Port of Geelong Authority, a State statutory authority. If the Government wishes to minimise the outlay required to support this project, it must encourage the dock's management to pursue normal commercial objectives in a competitive environment. While it is doubtful whether public service (i.e. departmental) structures foster such behaviour, it is possible that a statutory authority structure would be suitable, provided there was freedom from public service staffing controls and a reasonable degree of financial autonomy. This would require either a new statutory authority being

established just to run the dock or the dock being taken over by an existing organisation such as the Port of Melbourne Authority.

Although that Authority has no wish to extend its operations into this area the Committee considers such an arrangement could have the following advantages:

- it would ensure that planning and management is undertaken by an organisation with full knowledge of future port and shipping developments, and with facilities for promoting the dock as part of the port facilities.
- under Government policy directives it could enable innovative forms of worker participation in management to be developed, with improvement in cost competitiveness, time taken for jobs, reliability of performance and industrial relations.

The option of management by the Port of Melbourne Authority should therefore be carefully considered, as should possible operation by a new Government authority.

6.4 Private Management.

Historically, management of dry dock services in Melbourne has rested in private hands. The view of the current dock operator is that Government operation is not viable, because:-

"hour-to-hour decisions have to be made at various times. It is felt that the Public Service system would not have sufficient flexibility to allow this to be done. A private company does have this flexibility" (Duke & Orr Amalgamated Dry Docks Ltd., Submission, 8.2.83, p.2).

However, this argument does not distinguish between departmental operation compared with operation by a relatively autonomous authority.

Arguably, in a situation of strong competition between Australian docks and with full profit retention by a private dock operator, efficient operation would be better encouraged than under Government operation. However, with a taxpayers' contribution to capital costs full retention of profits would not be equitable.

The Committee is firmly of the view that the existing dock operators, Duke & Orr Dry Dock Pty. Ltd. should not automatically have the right to operate a new dock. This does not imply any dissatisfaction with their operation of the existing dock, but reflects the Committee's view that any automatic rights are inequitable in the case of a facility partly financed by taxpayers.

6.5 Joint Venture or Co-operative Management

It would also be possible for the dock to be managed by a Government or private sector joint venture or a co-operative of interested companies and relevant workers or unions. Co-operative or joint arrangements between parties which may have competing interests might create difficulties. On the other hand worker or union involvement in management might be expected to significantly improve efficiency through providing an incentive to workers for improved productivity and work practices.

6.6 Competitive Tendering for Private or Co-operative Management

An equitable and efficient arrangement could be to allocate the right to operate a dock by some process of competitive tendering. A number of alternatives might be considered.

First, an auction could be held, with the successful bid being the one which requires the smallest initial subsidy from the State Government to make it worthwhile to install and operate the dock. The successful bidder would own the dock, with the Government providing only an initial subsidy. Bidders might include Duke & Orr, ship repairers, trade unions or consortia of repairers and unions.

If a new 27,000 tonne dock were to generate an annual operating profit excluding depreciation on the dock of say \$2 million and assuming a 20 year dock life and a required real rate of return on capital of between 10 and 15 per cent, such a stream of earnings would be worth, in present value terms, somewhere between \$19 million and \$12.5 million (i.e. a rate of return of 10 per cent on an initial investment of \$19 million). These figures are considerably higher than those estimated in the Report prepared by the Centre of Policy Studies. However, it is the perception of revenues by potential dock operators which would be relevant to bidding. Other factors would enter into bidding, such as arrangements with the Government and expected resale value. Nevertheless, if Duke & Orr's estimate is accurate, it is possible that the stream of expected future earnings could be worth as much as \$19 million to a potential dock operator, depending on the operators required rate of return on capital. Since the capital costs (including site preparation) of a new 27,000 tonne dock are likely to be around \$26 million, a bidder in this auction might be expected to request a subsidy of around \$7 million if his required real rate of return on capital was 10 per cent.

It would be possible for the Government to contribute a certain amount by way of equity capital and thus share in any subsequent profits. However, in this situation a private operator would require a greater initial subsidy for having to share the profits, and the problem of lack of incentive discussed before would remain.

The auction procedure has a number of advantages:

- (1) It is equitable. It gives all parties the right to bid for the right to operate the dock. This could include co-operatives of unions and ship repairers.
- (2) It will give the Government a clear picture of the required subsidy, whereas under the current profit sharing arrangement the extent of the subsidy can only be calculated at the

end of the project's life. Using this information, the Government can then decide whether the advantages of the dock (job creation, skills retention, etc.) are worth the expenditure.

- (3) An auction would publicise the extent of the required subsidy, which it is reasonable for the public to know.
- (4) A competitive auction may minimise the contribution required from the State Government. However, it could still be difficult to limit the Government's financial involvement in that there might be pressure for additional Government financial assistance should the operator's forecast prove too optimistic. However, this problem would arise with all of the management options.
- (5) As the dock operator retains all operating profits, incentives for efficiency are increased.
- (6) It would be possible to leave choice of dock size, technology, supplier etc. to the bidder, who may be better informed than the State Government.
- (7) The major unions and the ship repairing companies have indicated approval of competitive tendering (Transcript, p.93 and p.101).
- (8) Since the dock operator would own the dock, he may have a greater incentive to maintain it than under the current profit sharing agreement.

Nevertheless there are problems with this procedure:

- (1) There may not be enough bidders to generate independent bids. It is difficult to know whether this would be a problem in this case, but the difficulty will be minimised if bids are requested from as wide a field as possible.

Moreover, the Government has now been given an indication in confidence of the dock's value to at least one likely bidder, and this will assist the formulation of a reserve price. The Government can, if it wishes, not proceed if bids are unsatisfactory.

- (2) The Government would also need to consider whether to specify a term of operation of the new dock. If it does not, the successful bidder might find it commercially sensible to close the dock before the Government desires (although it might, in such an instance, sell the dock to another Victorian operator). On the other hand, if a time period is specified, this will increase the risks faced by bidders and consequently increase the initial subsidy required from the State Government.
- (3) The Government would be required to provide some millions of dollars within a short period, which it might find detrimental to its overall budgetary position. This problem could be overcome by borrowing money and spreading the interest and principal payments over time; the capital requirement would in any event be smaller than under the State management or profit sharing arrangements discussed earlier. Alternatively, an interest subsidy to the dock operator could possibly be considered.
- (4) If potential bidders anticipate Government assistance in addition to the Government's initial outlay if their profit projections prove too optimistic, the incentive for efficient operation, which is the main advantage of an auction, will be significantly reduced.
- (5) Should the financial results be better than forecast the Government having provided significant finance for the facility would not share in these higher than forecast profits, but this argument also applies in reverse. If profits were less than forecast the State would not receive the return

it expected when agreeing to make a capital contribution.

6.7 Summary and Conclusion

1. The existing profit sharing arrangement should not be continued for any new dry dock.
2. The existing dock operators Duke & Orr Pty. Ltd. should not have any automatic right to operate any new dry dock.
3. Should it decide in principle to acquire a new dry dock the Government should examine the possibility of operation by:
 - (a) a Government statutory authority;
 - (b) a privately owned company;
 - (c) a joint venture or co-operative arrangement involving some or all of Government, interested companies, relevant workers and unions.
4. For those options which do not involve Government alone operating a new dock, the Government should give consideration to calling competitive tenders for the operation of the dock.

CHAPTER 7: SHORT TERM DECISIONS CONCERNING THE A.J. WAGGLEN

In terms of the Committee's reference from the Government this Report looks at what is essentially a long-term issue of whether a new floating dock should be obtained or whether the A.J. Wagglen should cease operations and not be replaced.

However, there is a need for a decision on what to do with the A.J. Wagglen in the short term, given the Government's recent decision to construct a new rail link to the Webb Dock, which will require the A.J. Wagglen to be moved from its existing location. This relocation will need to be completed by early 1984 to enable construction of the new rail link to proceed.

There are three alternatives:-

- (a) close down the A.J. Wagglen forthwith;
- (b) relocate it close to its existing site in the river on a temporary basis. The cost would be \$3.4 million. Reclamation works of \$1.9 million would still be required for the rail bridge project even if the A.J. Wagglen were not relocated or closed down. The net cost attributable to the relocation of the A.J. Wagglen is therefore \$1.5 million;
- (c) relocate it at the Webb Dock site at a cost of \$8-9 million. This cost of relocation is the same as the cost of site preparation for a new 27,000 tonne dock.

Alternative (b) would involve considerable expenditure for very limited benefits and should be rejected. This might involve the payment of some compensation to Duke & Orr as the present agreement runs until 1985.

The Committee does not consider the cost under alternative (c) is justified, if the A.J. Wagglen is not to be replaced, based on its view that the A.J. Wagglen should not continue in operation beyond the short term. The Centre of Policy Studies' report in examining this option concluded:-

"Capital costs apart, our projections suggest the dock will not be economically viable from 1983 onwards. This is an important result, since it suggests that relocation of the A.J. Wagglen to make way for the Webb Dock rail link, at a cost of more than \$3 million, would involve investment in a venture which would require continual, and increasing, state subsidisation."...."Relocation is uneconomic, since it would involve investment of an additional \$3 million in a project which will not even recoup operating costs, let alone this capital outlay."
(Report page. 5.10)

The Committee endorses this view.

The choice between the alternatives (a) and (c) therefore depends on the long-term decision about the acquisition of a new dock.

Summary and Conclusion

1. Should the Government decide against a new dock the A.J. Wagglen should be closed down forthwith.
2. Should it decide to acquire a new dock the Wagglen should be relocated to the Webb Dock site. This would be subject to the proviso that the Government should be satisfied that Geelong is not a suitable site for locating a dock.
3. Should the Wagglen continue operations in the meantime, the Government should closely monitor its financial results, as provided in the agreement with Duke & Orr Dry Dock Pty. Ltd.

Committee Room

6 May, 1983

APPENDIX 1

LIST OF WITNESSES

PUBLIC HEARINGS - FEBRUARY-MARCH, 1983.

ALLEN, J.D., Port of Geelong Authority.
ANGLISS, P.R., Duke & Orr Dry Dock Pty. Ltd.
BICKNELL, J., Australian National Line.
COX, R.B., State Dockyard, Newcastle.
DIX, R., Federated Ship Painters & Dockers Union.
EDDIE, A.G.F., Connell Eddie & Associates.
GREENAWAY, R.
HALFPENNY, John, Amalgamated Metals, Foundry & Shipwrights Union.
HALLIDAY, J., Duke & Orr Dry Dock Pty. Ltd.
HARRIS, B., V.F. Harris (Vic.) Pty. Ltd.
KELLY, J., State Dockyard, Newcastle.
McKANE, M.J., Rippleside Ship Repairs.
MORGAN, D.H., Port of Brisbane Authority.
MURRAY, J., Amalgamated Metals, Foundry & Shipwrights Union.
SAMUELS, N.G., Port of Geelong Authority
SAVILLE, K., Amalgamated Marine Engineers Pty. Ltd.
SHORTEN, W.R., Duke & Orr Dry Dock Pty. Ltd.
SPIERS, J.W., Associated Steamships Pty. Ltd.
WAGGLEN, A.J., Ports & Harbors Division, Public Works Department.
WHITE, N.J., Ports & Harbors Division, Public Works Department.
WIJSBEEK, K., Union Steamship Company of N.Z. Ltd.
WILSON, F.M., Port of Brisbane Authority.
WILSON, Roger, Seamen's Union of Australia.

LIST OF SUBMISSIONS

MAJOR SUBMISSIONS WERE RECEIVED FROM:

AUSTRALIAN CHAMBER OF SHIPPING
CONNELL EDDIE & ASSOCIATES
DELOITTE HASKINS & SELLS
DUKE & ORR DRY DOCK PTY. LTD.
GEELONG REGIONAL COMMISSION
R.L. GREENAWAY
JOINT COMMITTEE REPRESENTING SHIPPING UNIONS & SHIP REPAIRERS
McILWRAITH McEACHARN OPERATIONS PTY. LTD.
MINISTRY OF TRANSPORT
PORT OF BRISBANE AUTHORITY
PORT OF GEELONG AUTHORITY
PORT OF MELBOURNE AUTHORITY
PORTS & HARBORS DIVISION, PUBLIC WORKS DEPARTMENT
STATE DOCKYARD, NEWCASTLE

SUBMISSIONS AND COMMENTS IN RESPONSE TO THE
PORT OF GEELONG AUTHORITY'S SUBMISSION,

WERE RECEIVED FROM :

ADAMS, B., J.P., Mayor of the City of Geelong.
AUSTRALIAN INSTITUTE OF MARINE POWER ENGINEERS.
DUKE & ORR DRY DOCK PTY. LTD.
GEELONG CHAMBER OF COMMERCE
GEELONG REGIONAL COMMISSION
HARRIS, I.V., V.F. Harris (Vic.) Pty. Ltd.
HENSHAW, D.E. (The Honourable), M.B.E., M.L.C., Geelong Province.
MERCHANT SERVICES GUILD OF AUSTRALIA
PORTS AND HARBOURS DIVISION, Public Works Department
WIJSBEEK, K., Resident Engineer, Union Steamship Company of
New Zealand.

CORRESPONDENCE RECEIVED BY THE COMMITTEE.

MINOR SUBMISSIONS, COMMENTS AND WRITTEN INFORMATION.

AUSTRALIAN COUNCIL OF TRADE UNIONS
B.M.G. RESOURCES LIMITED
CLARK AND STANDFIELD BARROW SHIPBUILDING WORKS
COLUMBUS OVERSEAS SERVICES PTY. LTD.
COMMERCIAL BUREAU (AUSTRALIA) PTY. LTD.
DAEWOO CORPORATION, Korea.
DEPARTMENT OF DEFENCE
DEPARTMENT OF THE PREMIER
FLENDERWERFT AKTIENGESELLSHAFT, WEST GERMANY
MISTUBISHI AUSTRALIA LIMITED
MITSUI & CO (AUSTRALIA) LIMITED
SHIP TECHNOLOGY UNIT, VICKERS COCKATOO DOCKYARD PTY. LTD.
VICKERS COCKATOO DOCKYARD PTY. LTD.
WESTFARMERS TRANSPORT PTY. LTD.

*Names of persons and organisations already listed in
Appendices I, II, III and V have not been repeated here.

THE COMMITTEE HELD DISCUSSIONS WITH THE FOLLOWING
PERSONS AND ORGANISATIONS IN VICTORIA AND INTERSTATE

- ACHILLES, A., M.A.N.- GHH (Sydney)
- AGGARWAL, C., Shipping and Development Branch, Department of
Transport and Construction, Canberra.
- BAXTER, A., Peacock & Smith.
- BENNETT, R., Port of Melbourne Authority.
- BICKNELL, J., Australian National Line.
- BOLTON, C.R., President, Australian Ship Repairers Group.
- BOWEN, L., Executive Director, Australian Chamber of Shipping.
- CAMPBELL, R., Manager, Ship Technology Unit (Vickers Cockatoo)
- COLE, G., Vickers Cockatoo.
- COX, R.B., State Dockyard, Newcastle.
- CRANE, J., Australian National Line.
- DIX, R., Federated Ship Painters & Dockers Union.
- FUJIMORI, Mitsubishi (Australia) Ltd.
- HARRIS, V.F., V.F. Harris Pty. Ltd.
- HINES, M., Marine Operations, Shell Co. of Australia.
- HOGGETT, K.J., Secretary, Port of Brisbane Authority.
- HOLTHOUSE, D.G., Director, Fleet Maintenance, Department of Defence.
- JANSEN, J.A.C., Nedlloyd Australia.
- JONES, P., Seabridge.
- KELLY, J., Manager, State Dockyard, Newcastle.
- LIGHTFOOT, L.G., President, Australian Chamber of Shipping;
Blue Star Line.
- LOUDON, A., C.S.R.
- MORGAN, D., Manager, Cairncross Dockyard, Brisbane.
- NEWING, E., A.C.T.A.
- PORTER, D., Principal Surveyor, Lloyds Register.
- READ, D.J., Dockyard Services Division, Department of Defence
Support.
- RENSHAW, P., Assistant Secretary, Shipping & Development Branch,
Department of Transport & Construction, Canberra.

APPENDIX V CONT'D.

ROGER, J.S., Shell Co. of Australia.
SAVILLE, K., Amalgamated Marine Engineers.
SHEARMAN, N., Fleet Operations, B.H.P.
SHORTEN, W.R., Duke & Orr Dry Dock Pty. Ltd.
SMITH, R., Nedlloyd Australia.
SMITH, R., Command Operations, Royal Australian Navy.
TURNER, D., Acting First Assistant Secretary, Sea Transport Policy
Division, Department of Transport and Construction,
Canberra.
WAGGLEN, A.J., Ports and Harbors Division, Public Works Department.
WATANABE, I., Mitsubishi (Australia) Ltd.
WATSON, T., Federated Iron Workers Union.
WEAVEN, G., A.C.T.U., Ship Repairers Group.
WEBSTER, J., Overseas Containers Australia Pty. Ltd.
WHITE, N.J., Ports & Harbors Division, Public Works Department.
WOOD, D.D., First Assistant Secretary, Defence Industry & Material
Policy Section, Department of Defence.
WRIGHT, R.E., Chief Executive Officer, Defence Industry & Material
Policy Section, Department of Defence.
YANDELL, T.C., Production Director, Vickers Cockatoo Dockyard.
YEAYS, A., Acting Manager, Port of Brisbane Authority.

EXTRACTS OF THE PROCEEDINGS

The following extracts from the Minutes of the Proceedings of the Committee show Divisions which took place during the consideration of the draft Report.

FRIDAY, 6 MAY, 1983

No. 1.

2.2 Pattern of Demand

"Surveys carried out by the Commonwealth Department of Transport and Constructions (DOT) suggest that, for Australia as a whole, repairs carried out in dry docks generate more than half of total repair revenue. Discussions with ship repairers suggest that around 40 per cent of revenue of (Melbourne's) ship repair companies is generated by dry docking. The DOT surveys also indicate that Australia has excess dry docking capacity; for example, in 1981-82 Australia's major commercial dry docks were occupied for only 49 per cent of the year. The A.J. Wagglens occupancy rates were 50 per cent in 1976-77, 51 per cent in 1977-78, 45 per cent in 1978-79, 44 per cent in 1979-80, 38 per cent in 1980-81 and 42 per cent in 1981-82."

Amendment proposed - That all the words and expressions after "docking" where first occurring be omitted with the view of inserting in place thereof:

"Although Department of Transport studies indicate that Australia has excess dry docking capacity, it should be pointed out that there are sectors of demand that are not being catered for by existing Australian facilities.

This is especially so in respect of likely demand from overseas vessels. With a larger dry dock, vessels on the North Europe and North America routes would be able to dock in the Port of Melbourne. At present, these vessels are unable to be serviced because of the inadequacies and smallness of the A.J. Wagglens.

Reference to Australia-wide excess capacity also assumes that existing facilities at Newcastle and

Brisbane would be able to compete with a new dry dock in Melbourne. This ignores Melbourne's growing role as the Australian port where overseas vessels are more likely to be carrying their lightest load thereby being better-placed for dry docking. It also ignores the cost advantages enjoyed by the Port of Melbourne compared with other Australian ports.

To the extent that Brisbane and Newcastle are able to expand their overseas market, it is likely that they will be seeking demand from different sectors of the market to that of Melbourne."

(Mr. J.D. Harrowfield)

Question - That the words and expressions proposed to be omitted stand part of the paragraph - put.

Committee divided.

AYES, 3

Hon. D.K. Hayward
Mr. P.M. Gavin
Hon. J.V.C. Guest

NOES, 4

Mr. J.D. Harrowfield
Mr. B.J. Rowe
Mr. A.J. Sheehan
Hon. G.A. Sgro

And so it passed in the negative.

Question - That the words and expressions proposed to be inserted be so inserted - put.

Committee divided.

AYES, 4

Mr. J.D. Harrowfield
Mr. B.J. Rowe
Mr. A.J. Sheehan
Hon. G.A. Sgro

NOES, 3

Hon. D.K. Hayward
Mr. P.M. Gavin
Hon. J.V.C. Guest

And so it was resolved in the affirmative.

FRIDAY, 6 MAY, 1983

No. 2.

2.5.3 Coastal Vessels

7. "In the light of the above discussion of these three assumptions, the Committee has adopted the Centre's high demand forecast."

Amendment proposed - That the following words be added to sub-paragraph 7:

"Although it recognises that competitive pressures would make the achievement of 83 per cent of the potential market quite difficult."
(Hon. D.K. Hayward)

Question - That the words proposed to be added be so added - put.

Committee divided.

AYES, 5

Mr. P.M. Gavin
Hon. J.V.C. Guest
Hon. D.K. Hayward
Hon. A.J. Hunt
Mr. B.J. Rowe

NOES, 3

Mr. J.D. Harrowfield
Hon. G.A. Sgro
Mr. A.J. Sheehan

And so it was resolved in the affirmative.

FRIDAY, 6 MAY, 1983

No. 3.

4.5 Possible Unquantified Costs and Benefits

"In addition to the financial costs and revenues associated with a new dock, there may be some costs and benefits which are not reflected in the financial data."

[Sub-paragraphs (a) - (d) inclusive not printed.]

"(e) Other Possible Costs

The financial data may also understate some costs of the project. For example, to the extent that a significant proportion of incremental demand reflects union pressure, overseas shipowners who would otherwise not dock in Victoria may pass on part of the increased costs in shipping rates. To the extent that overseas shipowners absorb the costs, income will have been transferred from foreigners to Australians, implying a net gain to both Australia and Victoria. If the cost increase is passed on however, the situation is more complex. The increased cost of shipping implies a lower f.o.b. price for Australian exports, which may lead to a reduction in production of some exported goods. The magnitude of such costs and transfers for Victoria and Australia is very difficult to estimate; but inability to quantify them does not mean that they do not exist.

In addition, increased Victorian dock occupancy would occur partly at the expense of the Newcastle and Cairncross docks. While any increased surplus for a Victorian dock is a net gain to Victorians, from the national point of view it is not a net benefit."

Amendment proposed - That after sub-paragraph (e) there be inserted the following sub-paragraph:

"(f) Social Benefits and Costs

- (i) Clearly there is great difficulty in evaluating, in cash terms, all costs and benefits involved with the project.
- (ii) The financial data does not fully explore the range of social benefits that may accrue from the project, many of which may come to fruition over the future.

- (iii) The analysis assumes that a dollar is of equal value to all its recipients and that society benefits equally no matter how the benefits of a project are distributed. Thus no account is taken either of the individuals or of the geographic areas which most directly benefit from the project.
- (iv) Furthermore, in the financial analysis, estimates have been made of the wages which will actually be paid. In a situation of unemployment this overestimates the social cost of creating new employment. That should be calculated on the basis of the "shadow price" of wages. This will be less than the actual wages, net of tax, paid and will approach zero as unemployment increases. Correcting future labour costs to account for this requires that estimates be made of future unemployment and the source of labour for the project. Making such estimates is beyond the scope of this study nevertheless it is a factor which should be taken into account." (Mr. A.J. Sheehan)

Motion made and question - That the sub-paragraphs be considered seriatum - (Hon. A.J. Hunt) - put.

Committee divided.

AYES, 4

Hon. D.K. Hayward
 Hon. A.J. Hunt
 Mr. P.M. Gavin
 Hon. J.V.C. Guest

NOES, 4

Mr. J.D. Harrowfield
 Mr. B.J. Rowe
 Mr. A.J. Sheehan
 Hon. G.A. Sgro

And the numbers being equal the Chairman cast his vote with the "Noes".

And so it passed in the negative.

Further amendment proposed - That sub-paragraph (f)(iv) be omitted. (Hon. J.V.C. Guest)

Question - That the sub-paragraph proposed to be omitted stand part of the paragraph - put.

Committee divided.

AYES, 3

Mr. J.D. Harrowfield
Mr. A.J. Sheehan
Hon. G.A. Sgro

NOES, 5

Hon. D.K. Hayward
Hon. A.J. Hunt
Mr. P.M. Gavin
Hon. J.V.C. Guest
Mr. B.J. Rowe

And so it passed in the negative.

Sub-paragraphs (f)(i)-(iii) were inserted.

FRIDAY, 6 MAY, 1983

No. 4.

MOTION MADE: That the Economic and Budget Review Committee recommends that the Victorian Government does not make an investment in a larger dry dock in the Port of Melbourne and that consideration be given to alternative means of providing adequate compensation and retraining for those whose employment is dependent on the existing dry dock."

(Hon. D.K. Hayward)

Question - That this motion be agreed to - put.

Committee divided.

AYES, 3

Hon. J.V.C. Guest
Hon. D.K. Hayward
Hon. A.J. Hunt

NOES, 5

Mr. J.D. Harrowfield
Mr. P.M. Gavin
Mr. B.J. Rowe
Mr. A.J. Sheehan
Hon. G.A. Sgro

And so it passed in the negative.

No. 5

Amendment proposed - That the following words and expressions be inserted to precede Chapter 1.

- "1.1 In the end no conclusion or recommendation of this Committee or decision by the Government will be wholly satisfactory without consideration of the national implications of any dry dock proposal.
- 1.2 The implications for each port of the other port development proposals and possible defensive strategies against competition at each of the existing ports which have major dry docks, namely Melbourne, Newcastle and Brisbane, are so weighty that a consultation between Governments before any major investment decision is vital.
- 1.3 Cut-throat price competition might be of net benefit to Australia as a whole if Australian shipping reaped all the benefits. When the proposal is to service foreign shipping, that argument is unsustainable, both for the States involved and the nation as a whole.
- 1.4 Apart from direct effects on Victoria's public finances caused by unco-ordinated decisions in other ports the question of national interest cannot be ignored even on the narrowest view of Victoria's interests, for, ultimately, the Victorian taxpayer and citizen will be bearing his substantial share of national losses.
- 1.5 The Committee therefore considers that consultations and studies should be directed to the possibility of new investment and a division of specialised market segments being arranged between the three ports in question, with the aim of establishing a profitable dry-docking industry in Australia.
- 1.6 The possible arrangements to be considered would include the closing down of one or more of the dry docking facilities and the payment of compensation by or on behalf of those favoured by such an improvement to their competitive position.
- 1.7 The implications for Commonwealth-State financial relations and for the national interest in allocation of resources are such that it would probably be appropriate to involve the Commonwealth Government in any such consultations and studies at some stage.

- 1.8 Notwithstanding the Committee's view of the need for consultations with other Governments it has arrived at conclusions concerning the correct approach for the Victorian Government to adopt if it is to make an investment in or grant a subsidy for the replacement of the A.J. Wagglan dry dock.

Conclusion in Favour of the Auction

- 2.1 There is considerable uncertainty surrounding the costs, numbers to be employed in the dock and the demand for the dock facility. For example, on the demand side, adopting an 83 per cent figure as Melbourne's winnable share of its potential coastal market reflects arguable assumptions about the lack of cost cutting and improved performance on behalf of the Newcastle and Brisbane docks. Thus, given the broad range of possible outcomes, an auction provides a test between the private operator estimates given during public hearings, the Consultants' Report (Stage 1 of the Inquiry) and the Committee's chosen range of outcomes.
- 2.2 There are difficulties in comparing the cost of Government operation and private operation by focusing on two different rates of return, which necessarily make the latter less attractive. A private enterprise operation which combined built-in incentive structures and predictions of higher dock usage than utilised by the Committee could generate a different stream of revenues and costs which could lead to a lower Government subsidy input under private operation than estimated in the Committee's Report following a 10-15 per cent rate of return hypothesis.
- 2.3 Whilst it is acknowledged in the Management Chapter that there are problems with an auction both in terms of independent bids and the anticipation of Government assistance leading to optimistic projections, the Committee suggests the appropriate mechanism is to ascertain what value the market places on the stream of operating profits generated from a new dry dock given the uncertainty concerning the forecasts.
- 2.4 In a competitive tendering situation, the lowest bid would yield a market assessment of the subsidy required. The successful bidder would have total responsibility for buying and installing the dock and would keep all the operating profits. Given that the dock will not yield a commercial rate of return the bidder will be seeking a contribution to the capital cost (which the Government could borrow and thereby spread the payments over time). The successful bidder

would therefore minimise the capital contribution from the Government.

In this context, it should be noted that the Government does not need to know the rate of return the bidders require, nor what figure the bidders believe they can install the dock for, nor what stream of profits they expect. All of these factors can be expected to vary in individual assessments for a bid. The Government is solely interested in the capital contribution it is required to make. Having received the bids, or bid, the question is whether the lowest required contribution has a sufficiently attractive value of net intangible benefits for the Government to proceed. For example, it may accept a valuation of \$5 million but not \$15 million.

- 2.5 The rate of return rule of 5 per cent would no longer apply. The rate of return is zero because the capital contribution is a straight subsidy. The job subsidy would be a one off figure, calculated by dividing the capital subsidy contribution by the total number of direct and indirect jobs retained and created (the Committee estimates 429 to 579). This of course assumes that the successful bidder believes those numbers of employees to be required.

Arguments about the appropriate size of the employment multiplier (1.5 to 3) do not affect the rate of return calculations used in the Committee's analysis. Higher forecasts on the numbers likely to be employed would be reflected in a lower subsidy per job retained and created for any given auction bid.

- 2.6 It should be stressed that an auction is a complex process and considerable thought will be required in formulating terms under which bids are made. For example, the terms may specify the size of the dock, whether the dock could be second-hand or not, its location, the length of operation of the dock, or the minimum number of people to be employed. The more conditions placed in the terms, the more the auction process will be constrained and the lower the amount of money bidders will be prepared to invest in the dock (and therefore the higher the subsidy needed from the Government).

An auction conducted under a co-operative basis would severely distort the tendering process since not only would a further constraint be placed upon it by way of a profit sharing arrangement, but a bidder's optimal strategy would be to depress his own capital contribution thereby making the Government bear all the risk

and to stress the profit sharing aspect thereby encouraging a cost padding situation.

The Committee considers that the Department of Management and Budget would be the appropriate arm of Government to organise and conduct the tender process. The Department would also be in a position to reassess the multiplier figure it deemed warranted for this sector of the Victorian economy, which would effect its recommendations as to whether the lowest bid for capital contribution to the dry dock should be accepted on the basis of social benefits such as employment numbers.

- 2.7 Notwithstanding the proposed auction process, the Committee believes it has examined all the major economic and social factors relevant to a dry dock in Melbourne, in the time available, as well as the possible management alternatives." (Hon. J.V.C. Guest)

Question - That the words and expressions proposed to be inserted be so inserted - put.

Committee divided.

AYES, 4

Mr. P.M. Gavin
Hon. J.V.C. Guest
Hon. D.K. Hayward
Hon. A.J. Hunt

NOES, 4

Mr. J.D. Harrowfield
Mr. B.J. Rowe
Mr. A.J. Sheehan
Hon. G.A. Sgro

And the numbers being equal, the Chairman cast his vote with the "Noes".

And so it passed in the negative.

FRIDAY, 6 MAY, 1983

No. 6

Amendment proposed - That the following words and expressions be inserted to precede Chapter 1.

"SUMMARY, CONCLUSION AND RECOMMENDATIONS

The Committee has no doubt that Melbourne is the natural and best location in Australia for a major commercial ship repair facility. This was clearly borne out in evidence presented to the Committee which highlighted Melbourne's position as Australia's largest container port and its significance as a terminal port. The evidence also indicated that:

- a Melbourne dock would be better located in relation to shipping routes than any other dock to capture dockings by coastal and overseas liner vessels.
- its docking and repair costs are generally lower than Brisbane and Newcastle, its reliability is better and its level of industrial disputation is lower and this competitive advantage can be expected to continue.

This evidence suggests that Melbourne is a superior site for a major commercial ship repair industry to either Newcastle or Brisbane. However, as these two ports also have development plans, the Committee believes that if at all possible, consultations should be convened by the Commonwealth Government with the three States in order to develop national strategies and co-ordination of repair facilities at all three ports, and to identify the special market segments which each port might profitably develop.

The Committee suggests that the following guidelines should form the basis of any decision that the Government makes with respect to replacing the A.J. Wagglan dock:

- the ship repair industry, including the dry dock facility itself, must be organised and managed so as to be commercially competitive.
- the dock should offer high quality workmanship at a competitive price, in a competitive time, and with guaranteed delivery.
- all parties to the industry should have a say in the policy decisions and management of the dock,

and in the winning of its market share.

- all parties should benefit from the successful operation of the dock.

Recommendations

The Committee accepts the findings of the study, namely, that a new 27,000 tonne dry dock will achieve at least a 60 per cent occupancy rate, will create employment for more than 500 people on a long term basis, at a nett cost to the Government of between \$6M and \$10M. The Committee therefore recommends:

1. That the A.J. Wagglan dry dock be replaced with a larger floating dry dock.
2. That the replacement dock should be in the 27,000 tonne range, and be fitted and equipped for fast and efficient docking, cleaning and repair work.
3. That the selection of the replacement dock should include the consideration of:
 - (a) currently available secondhand docks of suitable specification, and
 - (b) the calling of tenders for the construction of a new dock, from both local and overseas contractors.
4. That the site for the location of the dock should be that recommended by the Port of Melbourne Authority, at Webb Dock.
5. That the management arrangements should be developed by the Government, in consultation with the maritime unions, the repair industry, and other vitally concerned bodies." (Mr. B.J. Rowe)

Question - That the words and expressions proposed to be inserted be so inserted - put.

Committee divided.

AYES, 4

Mr. J.D. Harrowfield
Mr. B.J. Rowe
Mr. A.J. Sheehan
Hon. G.A. Sgro

NOES, 4

Mr. P.M. Gavin
Hon. J.V.C. Guest
Hon. D.K. Hayward
Hon. A.J. Hunt

And the numbers being equal, the Chairman cast his vote with the "Ayes".

And so it was resolved in the affirmative.

ECONOMIC AND BUDGET REVIEW COMMITTEE

FIRST REPORT TO THE PARLIAMENT

IMPROVING GOVERNMENT MANAGEMENT
AND ACCOUNTABILITY

A REPORT TO PARLIAMENT ON A
REVIEW OF THE AUDIT ACT 1958

Ordered to be printed

MELBOURNE

F.D. ATKINSON GOVERNMENT PRINTER

1982 - 1983

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P., Chairman.
Hon. D.K. Hayward, M.L.C., Deputy Chairman.
Hon. B.P. Dunn, M.L.C.
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Hon. A.J. Hunt, M.L.C.
Mr. A. McCutcheon, M.P.
Mr. P.J. McNamara, M.P.
Mr. J.I. Richardson, M.P.
Hon. G.A. Sgro, M.L.C.
Mr. A.J. Sheehan, M.P.

REVIEW OF AUDIT ACT

SUB-COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P., Chairman of the Sub-Committee.
Hon. B.P. Dunn, M.L.C.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Mr. J.I. Richardson, M.P.

STAFF

Director of Research - Mr. D.A. Shand.
Secretary - Mrs. E. Barbian.
Stenographer - Miss K. Day.

PREFACE

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees) Act 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire into and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers.

TERMS OF REFERENCE

FOR THE INQUIRY INTO THE AUDIT ACT 1958

On 6 October, 1982, His Excellency the Governor of the State of Victoria, by and with the advice of the Executive Council thereof, referred to the Economic and Budget Review Committee the following matter:

"To review the Audit Act 1958 to determine its adequacy and relevance in providing the framework for financial management and accountability in the Victorian Government."

CONTENTS CONT'D.

3.5	Format and Terminology in Annual Reporting	...	...	...	42
3.6	The Role of Ministers in Annual Reporting	...	...	...	43
3.7	Parliament's Consideration of Annual Reports	...	...	...	44
3.8	Desired Timeliness of Annual Reports	...	...	...	44

CHAPTER 4: Audit of Government – External Auditing

4.1	Introduction	...	...	...	...	...	...	47
4.2	4.2.1	Scope of the Audit Function	...	...	...	...	...	48
	4.2.2	The Committee's View	...	...	...	...	...	49
	4.2.3	The Present Situation in Victoria	...	...	...	...	...	50
	4.2.4	Efficiency and Effectiveness Auditing	...	...	...	...	...	51
4.3		Form of Audit Report on Financial Statements	...	...	...	...	...	57
	4.3.1	Statutory Authorities	...	...	...	...	...	57
4.4		Departmental Financial Statements	...	...	...	...	...	57
4.5	4.5.1	Organisations to be Audited by the Auditor-General						58
	4.5.2	Private Sector Involvement	...	...	...	...	...	59
	4.5.3	Access to Financial Statements and Records of Government Organisations	...	...	...	...	...	61
	4.5.4	Audit of Public Hospitals and Local Government	...	...	...	...	...	61
4.6		The Need for a New Review Organisation	...	...	...	...	...	63
4.7		Internal Audit	...	...	...	...	...	68
		Appendix 1: List of Submissions	...	...	...	...	...	71
		Appendix 2: List of Organisations and Persons giving Evidence	...	...	...	...	...	73
		Appendix 3: Extracts from the Proceedings	...	...	...	...	...	75

CHAIRMAN'S INTRODUCTION

This Report recommends significant changes to improve management and accountability in State Government organisations. It concludes that at present responsibilities of Government managers are inadequately defined, that mechanisms for reporting to Parliament in the discharge of responsibilities are inadequate and that there is a need for a new efficiency and effectiveness audit function in the Victorian public sector.

In carrying out its Inquiry the Committee has traversed a broad area of Government management. As explained in more detail in paragraph 1.3 of the Report the Committee considered that a review of the Audit Act necessarily involved more than a review of detailed audit and accounting procedures; it required an examination of the whole process of accountability in Government. The Committee's work, extending over some seven months, has given it many valuable insights into Victorian public sector management.

The Committee has had extensive discussions with Government managers and with interested private sector organisations, including chartered accounting firms. It has also drawn on the work of the previous Public Accounts and Expenditure Review Committee which originally commenced an inquiry on this topic in 1981, but which did not complete it due to the intervention of the State Election in March 1982 and the subsequent changes in the structure of Parliamentary Committees. I must record my Committee's appreciation of the valuable work done on this issue by the previous Committee, under its Chairman Mr. D.J. Mackinnon, in particular the publication of a discussion paper in October 1981.

The Committee wishes to express its appreciation of the co-operation it received from individuals and organisations who made submissions or gave evidence during the course of the Inquiry. I should like to express my personal thanks to the other members of the Audit Act Sub-Committee for the time and energy they devoted to this Inquiry.

The Committee considers this Report is a constructive document. Implementation of its recommendations would place Victoria ahead of any other Australian Government in the accountability of Government organisations to Parliament.

B.J. ROWE, M.P.

Chairman.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS OF THE

LEGISLATIVE COUNCIL

Friday, 2 July 1982.

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:

- (a) The Honourables P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS OF THE

LEGISLATIVE COUNCIL

Thursday, 20 October 1982.

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS OF THE

LEGISLATIVE ASSEMBLY

Thursday, 1 July 1982.

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-

- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

CHAPTER 1.
INTRODUCTION AND SUMMARY

1.1 Background to the Report

In preparing this report the Committee has drawn to some extent on the work of the previous Public Accounts and Expenditure Review Committee which before the prorogation of the previous Parliament in March 1982 had commenced but not completed a review of the Audit Act 1958. That Committee published a discussion paper on this topic in October 1981, setting out its preliminary views and suggesting some possible options. It used this discussion paper as the basis for receiving written submissions and holding public hearings.

This Committee has had extensive discussions with permanent heads, particularly the new ones appointed since the previous Committee's discussion paper. It has had extensive discussions with the Auditor-General, the Chairman of the Public Service Board and the Director of Finance and other officers of the Department of Management and Budget. It has also spent considerable time in discussions with a number of private accounting firms and with representatives of the professional accounting bodies. A full list of individuals and organisations who made submissions is attached as Appendix 1.

1.2 Recent Developments in Financial Management and Accountability in the Victorian Government.

This Report is presented at a time when significant changes in financial management and accountability are underway in the Victorian Government.

Major developments include:

- The implementation of programme budgeting in all departments, requiring them to identify objectives and performance measures for all programmes, and requiring financial reporting on the basis of programmes.
- A direction to departments by the Treasurer that they prepare comprehensive audited financial statements showing receipts and payments from all sources, in place of the previous fragmented financial reports prepared by Treasury.

- the introduction of a senior executive service for senior management in the public service under which salary is based on regular assessed performance.
- New legislation covering the State Electricity Commission which establishes a model for the structure of statutory authorities and the designation of responsibilities as between the Minister and the authority. The State Electricity Commission (Amendment) Act 1982 provides amongst other things for the Commission to operate in accordance with criteria established by the Minister with respect to efficiency, economy, safety and reliability, lists other objectives the Commission must achieve, requires the Commission to establish measures by which achievement of objectives may be measured, provides for the holding of an annual general meeting open to all members of the public and provides for the publication of directives given by the Minister.
- New legislation to establish the new structure of water bodies recommended by the Public Bodies Review Committee. The Water and Sewerage Authorities Restructuring Bill 1982 provides for the objectives of the new water bodies.

1.3 The Scope of this Report

The existing Audit Act is misnamed. Apart from providing for the role of Auditor-General as the external auditor of the State Government and its organisations, it covers matters of financial administration. For example, the Act includes provisions governing the collection and payment of public monies and rules concerning the protection of public property. Its scope therefore goes beyond audit matters and this Report covers a much wider area than that of audit.

The present Act applies only to what may loosely be described as the "budget sector" of the State Government, covering mainly departments or ministries. It does not, in general, apply to the financial procedures of statutory authorities.

Other legislation also covers financial management matters. For example, the Public Account Act 1958 provides for the format of the Public Accounts by establishing various separate funds and providing some rules for the use of these funds. The annual Appropriations and Works and Services Acts also provide various rules concerning the financial operations of the State, as does the Constitution Act.

In approaching its reference the Committee has attempted to concentrate on what it sees as the fundamental issues of financial management and accountability in the Victorian public sector, rather than be overly concerned with such detailed matters as Governor's Warrants, surcharge provisions or prescribed format of accounting documents. Rather, the Committee has chosen to examine financial management in a broad sense. It sees financial management as covering value for money questions as well as the concept of financial control or adherence to rules and budgets. It considered that there is a financial management thread to all management responsibilities and activities and that deficiencies in financial management are at the heart of deficiencies in Government management generally; or, putting it another way, that steps to improve financial management necessarily involve steps to improve management generally in the Victorian public sector.

The Committee has been concerned to examine the legislative framework for needed improvements in financial management. Thus it has not examined issues such as reforms to the budgetary process (involving programme budgeting etc.), since these do not require any legislative changes and are currently being implemented in departments in any case. Nor has the Committee sought to examine the complex issue of improving the understandability of the Government's budget documents or other financial reports covering Government operations as a whole. Likewise the upgrading of financial management staff and reforms to the existing computerised, mechanised or manual accounting systems within Government organisations are not addressed in this Report.

The Committee regards its work in the review of the Audit Act as a first step, to establish the legislative framework for improvements in financial management and accountability. It proposes to review developments in these other areas when the current reforms being introduced by the Government have been in operation long enough to be evaluated.

1.4 Summary of Report

The general theme of this Report may be summarised as follows:

- (a) The designation of responsibilities of permanent heads of departments or ministries and Boards or Commissioners of statutory authorities is unclear and inadequate. Clear designation of managerial responsibilities is vital to any improvement in management generally, and thus in financial management.
- (b) There is inadequate provision for reporting to Parliament, and thus the public, by Government organisations - both departments and statutory authorities. Clear, standardised and relevant annual reports containing all matters relating to the discharge of management's responsibilities are needed, with emphasis on performance reporting rather than the description of past happenings.
- (c) The role and organisation of external audit in the Victorian public sector needs changing. The emphasis must shift from financial and compliance auditing under which the main concern is with regularity or propriety, to questions of value for money. In particular, performance measures in each annual report should be attested. The Committee sees the restructuring of the Auditor-General's Office into a new Office of Evaluation and Review, as the appropriate organisational structure for this expanded audit approach.

Thus the Report suggests new legislation to cover all Government organisations, whether departments or statutory authorities, specifying managerial responsibilities, reporting and auditing requirements. The Committee considers that having all three aspects of accountability in the same Act reinforces their inter-relationship and is preferable to having a separate Act covering each. A new Government Management and Accountability Act is the legislation envisaged.

1.5 Summary of Recommendations

1.5.1 (Chapter 2: Responsibilities of Government Managers)

(2.1.9)

- (a) The Committee recommends the following designation of managerial responsibilities of permanent heads, Boards or Commissioners of statutory authorities be provided in a new Government Management and Accountability Act:
- (i) Achieving the objectives set for the organisation by the Minister, Government or legislation, and ensuring that these objectives are understood at all levels in the organisation;
 - (ii) Developing adequate mechanisms to monitor progress towards achieving these objectives;
 - (iii) The development of adequate budgeting, accounting and other information systems, including the development of accounting and other procedural manuals;
 - (iv) The development of adequate forward planning mechanisms, including the development and maintenance of corporate plans;
 - (v) Efficiency and economy of operations and the avoidance of waste and extravagance;
 - (vi) Containing expenditure within budgeted or appropriation limits;
 - (vii) Observance of all relevant financial management legislation, regulations and rules;
 - (viii) The adequacy of internal controls and checks including adequate mechanisms for monitoring the efficiency of the organisation;

- (ix) The development and maintenance of an adequate internal audit function;
- (x) Regular reviews of fees and charges and the proper collection of all monies due to the organisation or collected for Government by the organisation; and
- (xi) The adoption of efficient and effective personnel policies, in particular, staff development programmes and the maintenance of harmonious industrial relations within the organisation.

(2.2.4)

- (a) The Government should study in detail how the principle of sanctions or rewards in relation to performance can be applied throughout the Victorian public sector.
- (b) The Government should closely monitor the impact on managerial performance of its new senior executive service with a view to applying this on a wider basis throughout the Victorian public sector should it be seen to be effective.

1.5.2 (Chapter 3: Annual Reporting by Government Managers)

(3.3.6)

The Committee recommends that the management of all Government organisations (permanent heads in the case of departments and Commissioners or Board members in the case of statutory authorities), should be required by legislation to present an annual report, including financial statements, to Parliament on the exercise of their responsibilities and other necessary background information on the organisation, its operations during the year and its future plans.

(3.4.2.8)

- (a) Financial reporting standards for statutory authorities should be prescribed by the Treasurer. In prescribing these standards the Treasurer should carefully consider the Committee's suggested information requirements set out in paragraph 3.4.2.2.

- (b) The Treasurer should be authorised to grant exemptions from these reporting requirements, subject to him reporting any such exemption and the reason for it to Parliament.
- (c) The various requirements in the separate Acts establishing statutory authorities governing the keeping of accounts and preparation of financial statements should be replaced by the following standard provision:
- (i) The organisation shall cause to be kept proper accounts and records of its transactions and affairs;
 - (ii) The organisation shall at the end of the financial year prepare financial statements which give a fair view of the financial transactions and state of affairs of the organisation, based on financial reporting standards for statutory authorities prescribed by the Treasurer;
 - (iii) The statements shall be signed by two Commissioners/Directors/Board members and the principal finance or accounting officer, who shall state that in their view the statements give a fair view based upon prescribed financial reporting standards for statutory authorities prescribed by the Treasurer; and
 - (iv) The financial year shall end on 30 June.
- (d) The Treasurer should be authorised to exempt any authority from the standard balance date of 30 June, subject to the reasons for this being reported to Parliament.
- (e) The proposal by the two professional accounting bodies that a public sector accounting standards board should be established to carry out research into and recommend standard financial reporting practices for all Australian Government agencies should be supported as a longer term project.

(3.4.3.3)

The legislation should require permanent heads of all departments to prepare and certify with the principal finance or accounting officer a comprehensive departmental financial statement, in accordance with standards prescribed by the Treasurer. The Treasurer should formally advise Parliament of the standards he prescribes.

(3.4.4.7)

The Treasurer should prescribe standards for performance and narrative information disclosure for all annual reports using as a basis the Committee's suggestions set out in paragraphs 3.4.4.2 - 3.4.4.6 above.

(3.5.2)

In prescribing standards for financial statements and narrative or performance reporting, the Treasurer should ensure that, as far as possible, a standardised format and terminology is adopted.

(3.6.3)

Ministers should give consideration to attaching separate statements to the annual reports of departments and statutory authorities containing information on their role in the operation of the organisation during the year, including such matters as objectives or policies laid down by the Minister or the Government or directives given to the organisation.

(3.8.2)

- (a) Annual reports should be required to be presented to the Minister by 30 September (i.e. within three months of the end of the reporting year), and the Minister should be required to table them in Parliament within one month of this; or, if Parliament is not sitting, with either the Speaker of the Legislative Assembly or the President of the Legislative Council. All such reports should be printed and be publicly available as soon as they are tabled or lodged with the Speaker or President.
- (b) Should an annual report be late, the relevant Minister at the due date should table a statement in Parliament giving reasons for the lateness and indicating when the report is expected to be available.

- (c) In due course, a full list of late annual reports should be published by Parliament.

1.5.3 (Chapter 4: Audit of Government - External Auditing)

(4.2.4.9)

- (a) The scope of external audit in the Victorian public sector should be expanded to cover efficiency and effectiveness issues as well as traditional financial and compliance audit.
- (b) The nature of this efficiency and effectiveness audit function should be as follows:
 - (i) Once such measures are in place, the audit of reported efficiency and effectiveness measures in terms of their validity, accuracy and adequacy (as a measure);
 - (ii) Reports on cases where money has been expended without due regard to economy and efficiency;
 - (iii) Reports on cases of inadequacy in the organisation's own mechanisms for monitoring efficiency and effectiveness; and
 - (iv) On a selective basis, and at the discretion of the review organisation (but with provision for the Government or Parliament to formally request such a review), major studies of the efficiency or effectiveness of any Government organisation or programme.
- (c) The Government should allocate the necessary additional financial and staffing resources for this to take place.

(4.3.2)

- (a) The audit report on financial statements of statutory authorities should report on:
 - (i) Whether proper accounts and records have been kept;

- (ii) Whether the statements have been prepared in accordance with standards prescribed by the Treasurer for financial statements for statutory authorities, so as to present fairly the financial position and financial results;
- (iii) Whether the statements have been prepared on a basis consistent with the previous year; and
- (iv) Cases where financial management control systems are not in operation within the organisation.

(4.4.2)

The audit report on departmental financial statements should report on:

- (a) Whether the statements are in accordance with the departmental records.
- (b) Whether proper accounts and records have been kept.
- (c) Whether the statements have been prepared in accordance with standards prescribed by the Treasurer for departmental financial statements so as to present fairly the financial position and financial results.
- (d) Whether the statements have been prepared on a basis consistent with the previous year.
- (e) Cases where financial management control systems are not in operation in the department.

These recommendations are supported by the Auditor-General.

(4.5.5)

- (a) The Auditor-General should be the auditor of all State Government organisations and should take over responsibility for the audit of all such organisations he does not currently audit, including the State Bank, public hospitals and any subsidiary companies established by Government organisations.
- (b) The Auditor-General should be given the additional resources necessary to undertake this work.
- (c) The Auditor-General should be encouraged to use the expertise and resources of private accounting firms as his agents or as resources for any of his audit activities, but with the Auditor-General accepting ultimate responsibility for the standard of this audit work.
- (d) The Auditor-General should be given by legislation the right of access to the financial statements and records of non-government organisations receiving Government funds through grants, subsidies or loans to the extent necessary to ascertain that such funds have been used for the purposes for which they were given.
- (e) The Government should give the Committee a reference to "inquire into and report on the adequacy of present arrangements for local government accounting, reporting and auditing and to recommend any necessary changes".

(4.6.9)

- (a) The Auditor-General's Office should be restructured into a new Office of Evaluation and Review to undertake the expanded audit function recommended by the Committee. It should receive the additional resources it requires for this task and recruit staff from various backgrounds.

- (b) An expert Task Force comprising representatives of the present Auditor-General's Office, the Department of the Premier and Cabinet, the Public Service Board, the Department of Management and Budget and representatives of the accounting profession should be set up to oversee this restructuring.
- (c) The Director-General of Evaluation and Review should exercise all the powers conferred on the Auditor-General. The Director-General should be an office holder under the Crown, independent of, but reporting to Parliament, not subject to direction by either the Parliament or the Government and be subject to removal only by a vote of both Houses of Parliament and appointed for a term of seven years with provision for reappointment.
- (d) The Director-General should have the same powers as are conferred on the Auditor-General concerning the power to call for accounts, documents, explanations etc. as thought necessary and to require persons to appear before him.
- (e) The Office of Evaluation and Review should receive a one line or block appropriation in the Budget, with freedom to determine its own allocation of the total funds allocated. The Director-General should present his annual budget requests to the Committee as well as to the Government so that Parliament is aware of his perceived needs and the Government's response to them.
- (f) There should be maximum provision for movement of staff between the Office of Evaluation and Review and the rest of the public sector and for the interchange of staff with private accounting firms.

- (g) The new Act should provide for the appointment by the Treasurer of an independent external auditor to carry out an annual financial and compliance audit of the Office of Evaluation and Review and to undertake an efficiency and effectiveness audit of the Office in the same way as it is recommended that the Office carry out efficiency and effectiveness audits of other Government organisations. The independent auditors should report directly to Parliament.

(4.7.6)

- (a) That the new legislation specify the development and maintenance of an adequate internal audit function as a management responsibility.
- (b) That the Department of Management and Budget, with the assistance of the Public Service Board, urgently institute a programme for the upgrading of the internal audit function throughout the Victorian public sector. In particular this programme should pay attention to:
- (i) Developing an adequate career path and adequate grading within the organisation for internal auditors;
 - (ii) Catering for the internal audit needs of smaller organisations;
 - (iii) Ensuring that the scope of internal audit is as broad as management's responsibilities, i.e. goes beyond financial and compliance issues;
 - (iv) Ensuring the independence of the internal audit function from line operations and its direct reporting to top management; and
 - (v) Ensuring adequate staff training and development programmes are instituted.

2.1 Responsibilities of Government Managers

2.1.1 Clear designation of responsibility for government managers, whether permanent heads of ministries or departments, or Boards or Commissioners of statutory authorities, is a first step in improving financial management in Government. In an accountability system the designation of responsibility carries with it a duty to report on the exercise of this responsibility. Thus the nature of the designated responsibility determines the content of the report. As discussed later, whatever claims concerning performance in terms of responsibilities are made in a report will need some testing, checking or attestation. This brings in the role of audit as the third link in an accountability chain.

A clear statement of responsibilities is thus fundamental to any system of accountability. Unless the responsibilities of managers are clearly stated, performance may be inadequate in that:

- Certain tasks may not be carried out because it is unclear who is supposed to attend to them.
- If it is not clear what is expected of them, managers will not be motivated to work towards the objectives or desired ends of the organisation.

2.1.2 The Board of Inquiry into the Victorian Public Service known as the Bland Committee after its Chairman, Professor Sir Henry Bland, in its first report in 1974 stated "The primary function of a permanent head is managerial. It is to so organise his department, devise the necessary apparatus and harness its personnel resources as to ensure that its functions are discharged in the most effective, efficient and economical manner" (Para.9.51). The Committee strongly supports this view of the permanent head as a manager. However, not all the managerial role is clearly described by the statement. The permanent head's role is also to work towards or implement policy objectives laid down by the Government, the Minister and legislation.

He or she must also maintain the organisation so that it is able to adapt to external changes. The permanent head also has other non-managerial functions such as advising the Minister on policy and other issues. Financial management, which includes financial control or ensuring adherence to budget, as well as efficiency, economy and effectiveness of operations is a major part of the management role.

2.1.3 In discussing the responsibility of permanent heads it is also necessary to consider the role of Ministers. This Report is not the place to attempt a definitive statement on the complex issue of Ministerial responsibility. However, under the Westminster system the Minister in theory accepts full responsibility for the actions of his permanent head and department. Thus designating certain managerial responsibilities for a permanent head does not detract from Ministerial responsibility. The Minister is ultimately responsible to Parliament for ensuring that the permanent head adequately carries out his managerial responsibilities.

In practice, which decisions relating to departmental operations are made by the permanent head and which are made by the Minister will vary between differing Ministers and permanent heads and cannot be prescribed by legislation. However, it is most important in any reporting to Parliament (discussed in Chapter 3), that decisions made by the Minister be clearly identified. Only in this way can an annual report be an adequate mechanism of accountability.

2.1.4 There is no reference in the Audit Act 1958 to any responsibilities of permanent heads for financial management or management generally. Nor does the Public Service Act 1974 designate any specific responsibilities of permanent heads for efficiency and effectiveness although the permanent head is responsible for "the general working" and the "transaction of business" of the department (Section 23). This is not to suggest that permanent heads may not receive duty statements, or, where contracts of employment exist, statements of responsibilities in these contracts. However, these tend to be rather general.

For statutory authorities there is little consistency between provisions in the various legislation establishing the authorities. Boards or Commissioners typically have other wider responsibilities than permanent heads in determining policies, although the extent of this depends on the balance of responsibilities between them and the Minister which varies between authorities.* The responsibilities of the Boards or Commissioners in terms of the type of goods or services to be provided and the overall objectives of efficiency and effectiveness are in some cases stated in the legislation. However, generally there is no clear statement of the managerial responsibilities of the Board or Commissioners. (The State Electricity Commission under its new legislation is an exception to this.) Although initial managerial responsibility may rest with the chief executive of the authority rather than the Board or Commissioners, they must exercise ultimate managerial responsibility.

Thus existing legislation is almost completely silent on the managerial responsibilities of permanent heads or Boards or Commissioners of statutory authorities.

- 2.1.5 The Committee discussed with a number of permanent heads their views on the existing provisions in the Public Service Act. Almost without exception they considered them vague and inadequate, although there were a number of different prescriptions to remedy this. For example, the Director of Consumer Affairs described the existing provisions as "inadequate and relatively meaningless". The Auditor-General described them as "too vague" and the Director of Finance agreed that they were "unclear and inadequate".

It is sometimes argued that even if there is no explicit statement in legislation or elsewhere of these managerial responsibilities, nevertheless this responsibility is well understood and accepted. The Committee does not accept this view. The Committee considers that there is significant evidence of the failure of a number of permanent heads and Boards or Commissioners to either understand or

*The lack of a standard approach is outlined in a 1981 report to the Public Bodies Review Committee on Ministerial Responsibility and Public Bodies in Victoria by Donald P. Gracey.

interest themselves in managerial issues, including financial management issues. Some appear to be concerned only with service delivery with little or no regard to either financial control or value for money. For example, a written submission from the Director-General of Education stated "I am concerned lest there be too much stress placed on financial management in a department such as Education. Proper financial management is essential but the meeting of needs within defined and accepted policies is paramount. My role as a financial manager is not as important as my role as educational leader."

The Committee considers that this view reflects a failure to understand that service delivery involves allocating scarce funds between alternative uses, and that funds must be carefully allocated and expenditure monitored in relation to these alternative uses. It notes that the Department of Education's spending in 1982/83 will be in the vicinity of \$1,800 million.

Some other permanent heads also do not appear to perceive themselves as necessarily responsible for the maintenance of adequate management systems, obtaining value for money or for ordinary financial control.

Although different organisations will require different emphases it is important that permanent heads and Boards or Commissioners perceive themselves as managers of scarce resources and provide leadership for the organisation in the development of financial and personnel management systems. For example, responsibility for ensuring financial control or developing a new accounting system is not a matter which can be entirely delegated to a finance officer or chief accountant. Ultimate responsibility rests with the permanent head or Boards or Commissioners.

- 2.1.6 Responsibility and accountability must be clearly contrasted with control. New designations of responsibility do not of themselves involve any loss of autonomy or freedom to make decisions by Boards, Commissioners of statutory authorities or by permanent heads. They do however imply a duty to report on the exercise of the responsibilities so that their performance can be monitored.

No accountability system based on designation of responsibilities can function adequately unless managers are given adequate authority to exercise these responsibilities. The Committee received a number of complaints from permanent heads concerning what they saw as excessive controls placed upon their managerial decision making powers. It is of course impossible for permanent heads to be given a free hand in all matters of resource determination and allocation. For example, the overall level of resources to be applied to a particular ministry or department must remain a Government decision. Some of these complaints were based on the view that they would be held responsible for poor performance caused by lack of resources which was outside their control. This reflects a misunderstanding. It is the responsibility of managers to maximise outputs or benefits from the resources they are given, and proper evaluation will be on this basis. The Committee has noted the additional authority over certain staffing matters recently delegated to permanent heads by the Public Service Board. The Board has "freed up" the personnel classification system by increased delegation with various delegation packages to apply to different departments. The Board will monitor the exercise of this responsibility. The Committee supports such moves towards increased responsibility of permanent heads.

2.1.7 It is necessary to consider the appropriate legislative framework for specifying managerial responsibilities. The previous Committee's discussion paper recommended that the financial management responsibilities of Government managers be set out in a Financial Management and Accountability Act. Financial management responsibilities were seen as covering both financial control and responsibility for obtaining value for money. Other general management responsibilities relating to such questions as developing adequate planning structures, developing sound personnel policies (including staff development), and maintaining harmonious industrial relations were not considered. A number of differing views were expressed to the Committee on the appropriate legislative framework. The Chairman of the Public Service Board considered that splitting a statement of general management responsibilities from financial management responsibilities might weaken the overall statement of responsibilities. The Committee agrees with this comment. He also suggested that it might be appropriate to specify

responsibilities in regulations rather than through legislation, but considered the Public Service Act should contain these provisions, since that Act creates the position of permanent head.

Because this is an appropriate matter for Parliament to determine, the responsibilities should be contained in legislation rather than regulations. As discussed in paragraph 3.4.2.2 the Committee considers that it would be desirable to specify all managerial responsibilities in the one piece of legislation. A new Government Management and Accountability Act is the appropriate vehicle as, unlike the Public Service Act such an Act would also apply to statutory authorities.

2.1.8 The Committee has considered the desirable content of a statement of managerial responsibilities. From its view of what would constitute a well managed and properly accountable organisation it has developed the following list of managerial responsibilities. It recognises that not all can be given equal priority.

2.1.9 Recommendations

- (a) The Committee recommends the following designation of managerial responsibilities of permanent heads, Boards or Commissioners of statutory authorities be provided in a new Government Management and Accountability Act:
 - (i) Achieving the objectives set for the organisation by the Minister, Government or legislation, and ensuring that these objectives are understood at all levels in the organisation;
 - (ii) Developing adequate mechanisms to monitor progress towards achieving these objectives;
 - (iii) The development of adequate budgeting, accounting and other information systems, including the development of accounting and other procedural manuals;

- (iv) The development of adequate forward planning mechanisms, including the development and maintenance of corporate plans;
- (v) Efficiency and economy of operations and the avoidance of waste and extravagance;
- (vi) Containing expenditure within budgeted or appropriation limits;
- (vii) Observance of all relevant financial management legislation, regulations and rules;
- (viii) The adequacy of internal controls and checks including adequate mechanisms for monitoring the efficiency of the organisation;
- (ix) The development and maintenance of an adequate internal audit function;
- (x) Regular reviews of fees and charges and the proper collection of all monies due to the organisation or collected for Government by the organisation; and
- (xi) The adoption of efficient and effective personnel policies, in particular, staff development programmes and the maintenance of harmonious industrial relations within the organisation.

2.2 Sanctions and Rewards for Government Managers

2.2.1 An important aspect of any system of accountability whereby persons are given responsibilities and called to account for the exercise of those responsibilities is a system of sanctions or rewards for achievement or non-achievement of targets or objectives. This matter was raised in the previous Committee's discussion paper which merely concluded that the issue of sanctions and rewards required further study as to its practicability.

2.2.2 The following forms of sanction presently exist in the Victorian Public Service:

- The power given to the Auditor-General under Section 36 of the Audit Act to surcharge any officer with any deficiencies, assets or loss of moneys, or when a person fails to properly account for such moneys. This provision is a dead letter. In any case it is not an appropriate role for the Auditor-General, being an administrative matter which would be better handled through the Department of Management and Budget. However, the Committee considers that such a provision is unlikely to have any significant impact on managerial performance and would be better abolished.
- The power to dismiss or demote under the Public Service Act. This appears to apply only in extreme cases.

2.2.3 Most of the senior Government managers appearing before the Committee considered that peer group pressure and self assessment or achievement of personal standards were the most significant existing pressures on senior managers to perform adequately. However, the Committee notes the increased use of contract appointments for permanent heads and other top management of statutory authorities. It also notes the recent introduction of the senior executive service applying to certain senior public service staffing positions under which salary levels for these managers are linked to regularly assessed performance, although security of tenure is not directly affected. This is the first such scheme in Australian Government. The Committee strongly supports these moves to link rewards with performance. It notes that such a system requires clear designation of responsibility and a valid system of measuring and reporting performance and is thus entirely consistent with the general thrust of the Committee's report. However, adequate time must be allowed for the effectiveness of this particular approach to be fully assessed.

2.2.4 Recommendations

- (a) The Government should study in detail how the principle of sanctions or rewards in relation to performance can be applied throughout the Victorian public sector.

- (b) The Government should closely monitor the impact on managerial performance of its new senior executive service with a view to applying this on a wider basis throughout the Victorian public sector should it be seen to be effective.

CHAPTER 3
ANNUAL REPORTING BY
GOVERNMENT MANAGERS

3.1 Introduction

An important part of any accountability mechanism is a formal and standardised system of reporting by Government managers on the discharge of the responsibilities given to them. Clearly, such reports would cover financial information as well as non-financial information relevant to their performance. An annual report to Parliament is only one of a number of possible reporting mechanisms. Others include information submitted to Parliament in conjunction with the estimates or included in the Appropriation Bill, information given in appearances before Parliamentary Committees and external reports on the organisation's activities e.g. Report of the Auditor-General. From the point of view of the public there is also an annual general meeting which is provided for in the State Electricity Commission (Amendment) Act 1982. However, an annual report is particularly important as it provides the best mechanisms for a comprehensive and public overview of the organisation's activities.

3.2 Background

The previous Committee's discussion paper suggested that a new Financial Management and Accountability Act should require all departments and statutory authorities to present an annual report to Parliament. It suggested that standards should be laid down for annual reports covering timeliness, format and content. It also suggested that detailed financial reporting standards should be prescribed.

The Public Bodies Review Committee in its third report to Parliament on the Audit and Reporting of Public Bodies (1981) identified major deficiencies in public body reporting. These covered both financial statements and the non-financial aspects of reporting. It recommended that all public bodies prepare annual performance and financial reports to Parliament and provided specimen reports indicating the possible form and content of such reports.

3.3.1 Requirement to Prepare an Annual Report to Parliament.

For statutory authorities the legislation establishing the authority almost invariably requires the preparation of an annual report, generally expressed as a requirement to present annual financial statements and an annual report. The actual legislative provisions are very varied. The only exception among the major authorities is the Board of Works which is required only to present financial statements to Parliament. Although it does prepare a separate annual report this is not specifically a report to Parliament. In general, Ministries or departments set up by statute are required by their legislation to prepare an annual report to the Minister for tabling in Parliament. Generally, there is no requirement to present financial statements, these presumably being considered unnecessary in view of information on departmental revenues and outlays contained in the Treasurer's Statement. However, 11 Ministries or departments are not required by law to prepare an annual report to Parliament. Although some do of their own volition prepare an annual report (e.g. Agriculture, Local Government, Public Works), these reports are not directly designed to meet Parliament's needs. However, in some cases various constituent parts of a department or Ministry may report to Parliament separately. The present annual reporting position concerning departments or Ministries is set out in Table 1.

Table 1.

DEPARTMENTS OR MINISTRIES NOT REQUIRED BY LAW TO PRESENT
AN ANNUAL REPORT TO PARLIAMENT

AGRICULTURE	Prepared first annual report in 1979/80 but not specifically for Parliament nor tabled there.
ARTS	Victorian Council of the Arts reports on most matters concerning the Ministry, and various component parts of the Ministry, e.g. Film Victoria and State Library, report separately to Parliament.
CONSERVATION	Various component parts of Ministry such as National Parks Service, Fisheries and Wildlife Division etc. report separately to Parliament.

HOUSING	The Housing Commission reports to Parliament.
LAW	An Annual Report has never been prepared.
LOCAL GOVERNMENT	Prepared first Annual Report to the Minister in 1979/80, but not specifically for Parliament nor tabled there.
POLICE AND EMERGENCY SERVICES	Report of Police Department presented by Governor's Command. State Emergency Service does not report.
PREMIER & CABINET	Various component parts report, e.g. Auditor-General, Public Service Board.
PUBLIC WORKS	Annual Review prepared for last 2-3 years but not tabled in Parliament.
TRANSPORT	Statutory authorities under the Ministry submit annual reports to Parliament. The Ministry itself has never reported to Parliament.
WATER RESOURCES	Water Resources Council produces annual proceedings but not tabled in Parliament.

3.3.2 Whose Report?

For statutory authorities it is clear that the report is a report of the Board or Commissioners of the organisations to the Minister for tabling in Parliament. The annual report is signed by them. For departments or Ministries the legislative requirement as to who is to report is less clear cut. In some cases the legislation requires the permanent head or a designated officer to report (e.g. the Director of Consumer Affairs). However, in other cases there is a requirement that the department or Ministry report, which leaves it unclear as to whether it is the permanent head or the Minister who is reporting. For example, there is a statutory requirement for the Minister of Education to present an annual report to Parliament each year and his report is tabled under the heading "Education Department of Victoria:Annual Report". A further example of confusion is the Housing Commission which presents an annual report signed by members of the Commission, yet the report is entitled "Ministry of Housing:Annual Report".

3.3.3 Timeliness

Some statutes lay down no time requirement as to the preparation and tabling of reports. However, there is commonly a requirement for the organisation to present its report to the Minister within a particular period of time and for him to then table it in Parliament within a particular period of time. In some cases there is merely a requirement that reports be presented as soon as practicable. The following lists the more common requirements:

<u>REQUIREMENT</u>	<u>NUMBER OF ORGANISATIONS</u>
1. Report to Minister, and table in Parliament as soon as practicable or no time limit specified.	19
2. Report to Minister before 30 September, and table in Parliament within three weeks.	11
3. Report to Minister before 30 September, and table in Parliament within 14 days.	9
4. Report to Minister by 31 October/ 1 November, and table in Parliament within three weeks.	4
5. Report to Governor-in-Council as soon as practicable after 31 March, and table Report, no time limit specified.	5

A survey of annual reports undertaken by the Committee indicated that for the year ended 30 June, 1981, 48 organisations had their annual reports tabled within three months of the end of the reporting year, 17 within three months to six months, 21 within six to nine months and 32 more than nine months after the end of the reporting year. Examples of lateness included the Victorian Institute of Marine

Sciences whose 1978 annual report was tabled in September, 1980, the previous State College of Victoria whose 1979 annual report was tabled in March, 1981, the State Superannuation Board whose 1981/82 report had not been tabled by 31 March, 1983, the Victorian Dairy Industry Authority whose 1980/81 report was tabled in March, 1983, and Deakin University whose 1979 annual report was tabled in April, 1981. Lateness in the tabling of reports is not always the fault of the reporting organisation. Delay can be caused by the Minister's delay in tabling or by Parliament not sitting for a period of time.

3.3.4 Content

There is great variety in the statutory requirements and in existing practices. Statutory authorities are generally required to present both an annual report and financial statements. The statements which must be prepared are prescribed, i.e. an income and expenditure account, statement of assets and liabilities etc., rather than the details of information which must be disclosed.

There is also a great variety of requirements as to the "truth and fairness", "truth and correctness", "correctness", etc. required of these financial statements. In a few cases there is a requirement that financial statements be in a form prescribed by the Auditor-General or by the Minister.

By direction of the Treasurer a comprehensive financial statement is now prepared by each department, but the standards laid down are general and are restricted to information on cash receipts and payments. Moreover, they are published as a separate document not as part of the departmental annual report.

Common types of requirements for the narrative section of the annual report include "report on the activities of the Board", "report on the operation of the Act", "report on all proceedings under the Act and all matters coming within the scope of the Board", etc. In only a few cases has the requirement been expressed more specifically. For example, the Minister of Education must report on the condition of schools and accommodation, recruiting and training of teachers, standards of education, courses of study, enrolments,

special activities, transport and other services provided for pupils, etc. Apart from these requirements there are no detailed requirements for the form and content of annual reports, including financial statements. Thus, as expected, the annual reports show great variety in form and content. Generally, they are descriptive statements about the organisation's past activities. They contain little discussion of organisational or programme objectives, effectiveness of programmes or efficiency measures and very little reference to future developments and issues.

3.3.5 Summary of the Present Situation

Thus at the present time:

- (a) A number of organisations, mainly departments and ministries, are not required to report to Parliament annually and do not do so.
- (b) There is a great variety in the existing legislative provisions requiring statutory authorities to prepare financial statements.
- (c) For departments or ministries, in some cases the legislation requires the organisation to present an annual report to Parliament which does not make it clear whether it should be a report by the permanent head or Minister.
- (d) There is great variety in the requirements as to the timeliness of presentation of annual reports and financial statements, and a substantial number do not reach Parliament until over nine months after the financial year has ended.
- (e) There are no standards governing the form and content of either the annual financial statements or the annual report itself, except in the case of departmental financial statements where the requirements are prescribed by the Treasurer.

3.3.6 Recommendation

The Committee recommends that the management of all Government organisations (permanent heads in the case of departments, and Commissioners or Board Members in the case of statutory authorities), should be required by legislation to present an annual report, including financial statements, to Parliament on the exercise of their responsibilities and other necessary background information on the organisation, its operations during the year and its future plans.

Desired Content of Annual Reports

3.4.1 It is useful to discuss financial reporting separately from the narrative part of the annual report. In discussing financial reporting a distinction must be drawn between statutory authorities and departments because of the different basis of financial reporting required from departments to meet Parliamentary appropriation requirements. The Committee is aware of the difficulties in distinguishing between statutory authorities (a loose term), and departments, given the variety of structures in the Victorian public sector. Some organisations are subject to Parliamentary appropriation or control over their expenditure yet operate free from public service staffing controls. Others have relative financial autonomy yet are subject to public service staffing controls. In any case, some may be subject to detailed Ministerial control and some not. The Committee's concept of a statutory authority is a government organisation which is not subject to detailed Parliamentary appropriation of its expenditure and which enjoys relative financial autonomy, regardless of staffing controls, ie. the Committee's emphasis is on financial accountability to Parliament.

3.4.2 Statutory Authority Financial Reporting

3.4.2.1 The Committee has considered the information it considers statutory authority financial statements should disclose and the general deficiencies of existing financial statements.

Although the situation varies significantly between authorities, some of the more common deficiencies are:

- (a) The use of only cash flow accounting by some authorities, meaning that no information on costs of activity nor a statement of assets and liabilities is provided.
- (b) No breakdown of costs or revenues on a functional, programme or activity basis.
- (c) Varying treatment of such accounting issues as recognition of liability or long service leave, superannuation costs, depreciation etc.
- (d) The disclosure in the balance sheet of many separate "funds" with no indication as to what they represent, their purpose or what restrictions they represent on the use of assets, ie. whether they are committed or available liquid funds.
- (e) No statement of sources and application of funds indicating changes in the financial structure of the organisation (eg. policies on financing of capital assets, debt redemption etc. These can have an impact on pricing policy and are not necessarily disclosed by the income statement and balance sheet.).
- (f) A confusing "capital" section of the balance sheet under which the nature or source of past long term financing of the organisation is not clearly disclosed.

3.4.2.2 The Committee considers that statutory authority financial statements should disclose the following information:

- (a) Costs of operations, both in total and on a programme or activity basis and the extent to which costs by revenues where applicable (as an indication of profits and overall pricing policy). This would require a proper definition of costs and revenues and the use of full accrual accounting.
- (b) How any cash funds advanced from the Government budget have been utilised. This requires cash flow financial statements and also classification of outlays by programme or activity.
- (c) The level of resources currently invested in the organisation. This requires the use of accrual accounting and the presentation of a statement of assets and liabilities.
- (d) The financial position of the organisation. Apart from the importance of determining solvency by examining the relationship of assets to liabilities it is important to determine the extent to which the organisation holds uncommitted liquid funds as opposed to funds which are invested in needed fixed and current assets. This would also require the nature of any "reserves" to be clearly explained.
- (e) How funds generated by profits by operations have been used, e.g., returned to the Government, used to finance additional fixed assets or repay debt. This requires a properly prepared statement of source and application of funds.
- (f) Generally, the financial policies being followed by the organisation, such as pricing policy (requiring some segregation of profit results on different types of programmes or services), and policy on the financing of capital assets (also requiring a statement of source and application of funds).

- (g) Requirements imposed by Government through financial targets, payments by way of dividends, interest on Government advances or capital repayments and other financial obligations on, or financial concessions given to, the particular authority.
- (h) Financial results compared with budget or targets.
- (i) The accounting principles used in preparing the statements (e.g. cash, modified accrual, full accrual accounting), and whether private sector accounting standards have been observed and if not, why not.

These information requirements were widely accepted in submission and evidence to the Committee and the previous Committee. The only major objections were to requirement (h) - comparing financial results with budget or targets. Notwithstanding the fact that authorities quite reasonably amend budget figures during the year to take account of changed circumstances, which might effect the validity of any comparison, the Committee considers there is value in comparing actual results with original budget figures as an indication of the ability of the organisation to reasonably forecast its costs and revenues (if applicable).

3.4.2.3 Very little of the information suggested above is required to be disclosed by Australian accounting standards or the Companies Act. Thus the Committee does not agree with claims made by some private sector accountants that all that is needed to improve these financial statements is that they should observe Australian accounting standards and relevant Companies Act requirements. Private sector accounting standards have been developed on the assumption that the major requirement of users of the financial statements is information on profits and financial position. Thus the standards (and Companies Act requirements), are silent on many of the above requirements. The Committee accepts that private sector accounting standards can be relevant to Government organisations but considers that they are not

sufficient. It supports as a long term approach the proposal by the two professional accounting bodies to establish a public sector accounting standards board to carry out in-depth research and recommend standard reporting practices for all Australian Government agencies.

3.4.2.4 However, there is a need to prescribe some standards at least as interim measures. The Committee considers that the Treasurer should prescribe detailed financial reporting standards for all statutory authorities. This would cover such questions as the deemed applicability of various individual Australian accounting standards. Thus the Act itself would not lay down the form and content of the financial statements but would give authority to prescribe this to the Treasurer (along the lines given under the Commonwealth Audit Act to the Minister for Finance). In discussions with the Committee there was some disagreement with this proposal from those who considered that the Treasury did not have adequate expertise to do this and was too occupied with economic and budgeting matters to deal adequately with financial reporting questions. Among the proposals made to the Committee was one to establish a statutorily independent position of Controller General, possibly heading a separate Department of Finance which would take over Treasury accounting functions in the same way as the Commonwealth Department of Finance was split off from the Commonwealth Treasury in 1976. The Committee considers that with the significant emphasis on upgrading financial management in the new Department of Management and Budget which has absorbed the Treasury, such a step is not necessary. It notes the establishment of a Comptroller-General position in the Department, albeit without statutory independence.

While the Committee considers the reporting standards should be prescribed by the Treasurer, Parliament has a vital interest in these standards, as the financial statements are reports to Parliament. The Committee would closely monitor the Task Force's work in formulating prescribed financial reporting standards and would make its views known to the

Treasurer before the standards were promulgated. It would maintain a continuing watch on the adequacy of these standards and report its views to Parliament.

It would not be appropriate for the Auditor-General to prescribe financial reporting standards, as this might compromise his independence in terms of reporting whether or not the required standards have been adhered to. However, he should be consulted on the proposed standards and invited to comment to the Treasurer before they are promulgated.

3.4.2.5 Once these reporting standards are promulgated all statutory authorities should be required by legislation to observe them unless there are particular reasons to justify an exemption by the Treasurer, such as the organisation being in competition with a private firm not subject to such detailed disclosure requirements and where disclosure might effect its competitive position. The Treasurer should inform Parliament of any exemption he grants and the reasons for the exemption. The Treasurer should also formally advise Parliament of the standards he prescribes.

3.4.2.6 There is also a need for standard legislative requirements governing the keeping of accounts and the preparation of financial statements incorporating the requirement to observe these standards, to supercede the variety of differing provisions in individual Acts. The Committee considers these should be as follows:

- (a) The organisation shall cause to be kept proper accounts and records of its transactions and affairs;
- (b) The organisation shall at the end of the financial year prepare financial statements which give a fair view of the financial transactions and state of affairs of the organisation, based on financial reporting standards for statutory authorities prescribed by the Treasurer;

(c) The statements shall be signed by two Commissioners/ Directors/Board members and the principal finance or accounting officer, who shall state that in their view the statements give a fair view based upon prescribed financial reporting standards for statutory authorities prescribed by the Treasurer; and

(d) The financial year shall end on 30 June.

These standard provisions were supported in submissions and evidence by the Department of Management and Budget and the Auditor-General.

3.4.2.7 A number of statutory authorities maintain a different balance date to the normal one of 30 June. As recommended in paragraph 3.4.2.6 this should be a standardised reporting date for statutory authorities unless there are reasons for the Treasurer to exempt them from this. The Treasurer should report any such exemption to Parliament along with reasons for the exemption. Under its terms of reference this Committee would review such exemptions and report to Parliament if necessary.

3.4.2.8 Recommendations

(a) Financial reporting standards for statutory authorities should be prescribed by the Treasurer. In prescribing these standards the Treasurer should carefully consider the Committee's suggested information requirements set out in paragraph 3.4.2.2.

(b) The Treasurer should be authorised to grant exemptions from these reporting requirements, subject to him reporting any such exemption and the reason for it to Parliament.

(c) The various requirements in the separate Acts establishing statutory authorities governing the keeping of accounts and preparation of financial statements should be replaced by the following standard provision:

- (i) The organisation shall cause to be kept proper accounts and records of its transactions and affairs;
 - (ii) The organisation shall at the end of the financial year prepare financial statements which give a fair view of the financial transactions and state of affairs of the organisation, based on financial reporting standards for statutory authorities prescribed by the Treasurer;
 - (iii) The statements shall be signed by two Commissioners/Directors/Board members and the principal finance or accounting officer, who shall state that in their view the statements give a fair view based upon prescribed financial reporting standards for statutory authorities prescribed by the Treasurer; and
 - (iv) The financial year shall end on 30 June.
- (d) The Treasurer should be authorised to exempt any authority from the standard balance date of 30 June, subject to the reasons for this being reported to Parliament.
 - (e) The proposal by the two professional accounting bodies that a public sector accounting standards board should be established to carry out research into and recommend standard financial reporting practices for all Australian Government agencies should be supported as a longer-term project.

3.4.3 Departmental Financial Reporting

- 3.4.3.1 As mentioned in paragraph 3.4.1 the Committee has considered departmental financial reporting separately from financial reporting by statutory authorities because of the need for

departments to report in accordance with the Parliamentary appropriation format. While the issue of financial reporting standards for statutory authorities has recently received a great deal of attention from Governments, Parliamentary Committees, the accounting profession and academics, almost no attention has been paid to financial reporting by departments. In principle, departmental financial statements should provide the same type of information suggested above for statutory authorities, where applicable, although there would be difficulties in adopting any form of accrual accounting because of the cash basis of Parliamentary appropriations.

- 3.4.3.2 As mentioned, there is no legal requirement for departments to prepare financial statements for inclusion in their annual report. However, for 1981/82 for the first time, by direction of the Treasurer, departments have prepared comprehensive financial statements covering all their transactions regardless of whether they are financed through consolidated fund, Works and Services account or other trust funds. Notes to the statements provide information on reasons for variations of expenditure from original estimates and explanations of any unusual items. These departmental financial statements have been published together in a separate document. Each statement is signed by the principal accounting officer and by the permanent head certifying that in their opinion the financial statements are an accurate summation of the receipts and payments for each department for the year, although for 1981/82 the Auditor-General made certain qualifications because of inadequacy of notes accompanying the financial statements.

While these statements are informative they have certain limitations. Because of the cash basis there is no information provided on asset holdings, nor on full costs of operations. The Committee considers this type of information should be disclosed, as should expenditure on a programme basis and the level of future financial commitments. Under its terms of reference the Committee proposes to further

monitor these financial statements and may make suggestions for improvements to the Treasurer. It would exercise a continuing overview of the standards prescribed. The Committee also considers that these financial statements should also be included in each department's annual report as well as in a separate consolidated document covering all departments. The Committee is firmly of the view that there should be a legislative basis for these financial statements rather than their being prepared by direction of the Treasurer.

3.4.3.3 Recommendation

The legislation should require permanent heads of all departments to prepare and certify with the principal finance or accounting officer a comprehensive departmental financial statement, in accordance with standards prescribed by the Treasurer. The Treasurer should formally advise Parliament of the standards he prescribes.

3.4.4 Narrative and Performance Reporting for all Government Organisations.

3.4.4.1 The annual report must include information relevant to the discharge of responsibilities of the permanent heads or Board or Commissioners of statutory authorities, discussed in Chapter 2. This information should be specific rather than general and supported by quantitative data wherever possible. It can be expected that the move to programme budgeting in Government departments will facilitate reporting of information on the costs and outputs of various programmes.

Apart from such accountability information the annual report must contain general background information about the work of the organisation to enable readers to fully understand the reported accountability information. Information about the future plans and programmes of the organisation is also necessary.

3.4.4.2 Legislation governing annual reporting should include a requirement that certain standard background and performance information prescribed by the Treasurer be disclosed. The Committee has studied the information requirements prescribed by the Australian Institute of Management for the section of its annual report award scheme dealing with Government organisations and has found them a valuable input into its discussion. The Committee considers that the following information should be disclosed, although it does not put this forward as a definitive or exhaustive list. It is based on the Committee's view of what information a Member of Parliament would wish to obtain without having to search elsewhere or to contact the organisation.

3.4.4.3 General Background Information

- (a) Details of the legislation establishing the organisation and defining its objectives and functions.
- (b) Description of the nature of activities or functions carried out by the organisation with a summary of its aims and objectives including any relevant comment on the relationship of its responsibility with other Government organisations operating in the same policy area.
- (c) Description of the operating or administrative structure of the organisation including the names of Board or Commission members where appropriate and key personnel together with the areas of responsibility and/or an organisation chart. For statutory authorities the qualifications and experience of each Board or Commission member should be given. Details of the total and type of staffing resources and skills employed by the organisation.
- (d) A statement of relationships with the Government, e.g. Government powers of direction over the organisation and the content of any existing directions or require-

ments, the extent of the authority enjoyed by the permanent head or the Board members or Commissioners. (This would be a responsibility statement listing issues affecting the organisation's operations which can be determined by permanent heads or Boards or Commissioners and those which are determined by Ministers or Government, including staffing and financial decisions).

3.4.4.4 Performance Information

- (e) A detailed statement of objectives of the organisation and of various programmes indicating who set the objectives; a list of relevant effectiveness measures.
- (f) In the case of statutory authorities, details of any directives made by the Minister during the year.
- (g) Details of effectiveness and efficiency review mechanisms.
- (h) A list of key efficiency measures relevant to the organisation's activity.
- (i) Explanation of trends revealed in the effectiveness and efficiency measures.
- (j) Any external reviews carried out of the organisation, their conclusions and the organisation's response, including the effects of administrative review mechanisms (Ombudsman, Appeals Tribunals etc.).
- (k) Review of operations during the year including:
 - Key statistics indicating changes in the organisation's workload, staffing, expenditure etc.
 - Information on other environmental factors which have effected the work and performance of the organisation during the year.
 - Information on any changes in objectives, policies, systems, procedures, organisational structure, etc.

which have taken place during the year, the reasons for them and the impact of such changes.

- Details of any major projects undertaken during the year.
 - Details of any major legislative changes affecting the organisation (in terms of its objectives, structure, funding or other aspects).
-
- (l) Discussions of the impact of the organisation on the physical environment and on the social environment, and their relationship to Government policies.
 - (m) Description of recruitment, staff training and other staff development programmes.
 - (n) Comment on employee and trade union relations including measures of time lost through accidents and industrial disputes.
 - (o) Description of marketing or promotional activities where appropriate.
 - (p) Description of the basis of and methods used for setting prices charged for goods and services, where appropriate, and details of any review of charges during the year.

3.4.4.5 Information on the Future

- (q) Future prospects for the organisation: Likely demands for new services, other factors which may require re-assessment of the organisation's objectives or alter the workload placed on the organisation. Possible future changes in the environment in which the organisation operates and the impact this could have on policies and operations.

- (r) Planned future programmes, projects or actions together with comment on any demand this may create for additional resources.
- (s) Details of research and development activity being undertaken, where relevant.

3.4.4.6 Other Information

- (t) Indication of other sources of information on the activities of the organisation. List of publications issued by the organisation during the period. An indication of addresses and telephone numbers to contact should further information be required.
- (u) A summary five year statistical table setting out key financial, performance and other statistics.

Because of Parliament's vital interest in these reports, the Committee, under its terms of reference, would monitor the formulation of these standards, report to Parliament on their adequacy and exercise a continuing overview of the standards.

3.4.4.7 Recommendation

The Treasurer should prescribe standards for performance and narrative information disclosure for all annual reports using as a basis the Committee's suggestions set out in paragraphs 3.4.4.2 - 3.4.4.6 above.

3.5 Format and Terminology in Annual Reporting

- 3.5.1 There is a need to ensure comparability of information contained in annual reports, including the financial statements. For this reason the Committee is concerned that in prescribing reporting standards for financial statements and narrative or performance reports that there should, as far as possible, be a standardised format and terminology.

3.5.2 Recommendation

In prescribing standards for financial statements and narrative or performance reporting, the Treasurer should ensure that, as far as possible, a standardised format and terminology is adopted.

3.6 The Role of Ministers in Annual Reporting

3.6.1 As previously stated, the Committee considers that for all departments or ministries there should be an annual report from the permanent head to Parliament through the Minister. This is a report on the exercise of the management responsibilities given to the permanent head by legislation plus other background information and information on the future, necessary to develop a proper understanding of the activities of the department during the year. It would be desirable for the Minister to add also for transmission to Parliament information on his or her role in the operation of the department during the year. This would include objectives he or she or the Government set for the department during the year, policies laid down during the year or other policy decisions made by him or her.

3.6.2 Boards or Commissioners of statutory authorities, because of the greater responsibility they have for the operations of the decisions in programmes, would report on a wider range of matters including the effectiveness of the organisation. However, for statutory authorities also it is desirable that the Minister attach to the annual report information on policy decisions made by him or the Government, including any directives given to the authority.

3.6.3 Recommendation

Ministers should give consideration to attaching separate statements to the annual reports of departments and statutory authorities containing information on their role in the operation of the organisation during the year, including such matters as objectives or policies laid down by the Minister or the Government or directives given to the organisation.

3.7 Parliament's Consideration of Annual Reports

3.7.1 While requiring all Government organisations to report to Parliament annually through the Minister and prescribing standards for the content of both the financial statements and the rest of the annual report is necessary to improve the accountability of these organisations to Parliament, it may not be sufficient. There is need for a mechanism for Parliament to adequately consider these reports. The Parliamentary Committees Act 1968 as amended by the Parliamentary Committees (Joint Investigatory Committees) Act 1982 allows a joint investigatory committee to consider and report to Parliament on any annual report or document relevant to the functions of that Committee tabled in Parliament. It is also possible for the Committees to call Ministers as well as permanent heads and Board members or Commissioners of statutory authorities. Thus there is adequate provision for joint investigatory committees to peruse and further examine matters raised in annual reports of departments or statutory authorities, including financial issues, if these are included as part of the annual report. However, if Committees are to carry out this role it is essential that they receive the resources necessary to perform this role.

3.8 Desired Timeliness of Annual Reports

3.8.1 The Committee considers there should be a standard provision replacing the present multitude of different provisions concerning the time within which each annual report should reach the Minister and the time within which the Minister should table the report in Parliament (or present it to the Speaker or President as discussed below).

The Committee makes the point that if the organisation has adequate internal reporting mechanisms, including mechanisms to monitor performance, the preparation of the annual report should not need to be a lengthy exercise. In other words, timely external reporting is based on good internal reporting.

However, bearing in mind the reasonable time necessary to obtain audited financial statements, the Committee considers annual reports including audited financial statements, should reach the Minister no later than three months after the end of the reporting year, i.e. by 30 September. The Minister should then be required to table the report, adding his own report, within one month. This compares more than favourably with the Companies Code requirements of audited financial statements being available to shareholders within six months of the end of the financial year.

If Parliament is not sitting there should be provision that the receipt by either the Speaker of the Legislative Assembly or the President of the Legislative Council be sufficient for the report to be made available to the public. All annual reports should be printed and be available to the public as soon as they are tabled or lodged with the Speaker or President.

Should an annual report not be tabled in Parliament or handed to the Speaker or President within the required time, the relevant Minister, at the due date, should table a statement in Parliament (or with the Speaker or President if Parliament is not sitting), indicating the reason for the lateness and indicating when the report is expected to be available. There should also be provision for a full list of the organisations to be published, in due course. The Committee intends to review, under its terms of reference, cases of late annual reports.

3.8.2 Recommendations

- (a) Annual reports should be required to be presented to the Minister by 30 September (i.e. within three months of the end of the reporting year), and the Minister should be required to table them in Parliament within one month of this; or, if Parliament is not sitting, with either the Speaker of the Legislative Assembly or the President of the Legislative Council. All such reports should be printed and be publicly available as soon as they are tabled or lodged with the Speaker or President.

- (b) Should an annual report be late, the relevant Minister at the due date should table a statement in Parliament giving reasons for the lateness and indicating when the report is expected to be available.

- (c) In due course, a full list of late annual reports should be published by Parliament.

CHAPTER 4
AUDIT OF GOVERNMENT
EXTERNAL AUDITING

4.1 Introduction

4.1.1 The importance of audit in achieving accountability in Government was discussed in Chapter 2. In short, responsibility (and thus accountability) carries with it a duty to report. Such reports should be subject to audit or attestation by an external independent person to ensure that the information is objective and reliable. Thus the primary objective of external audit is to express an opinion on the reliability or truth and fairness of information reported by an organisation. The revised Act must therefore provide for role and powers of an audit organisation. This approach is preferred to having a separate Auditor-General Act as for example in Canada, since having accountability, reporting and auditing requirements in the same Act reinforces the fact that they are merely part of the one system.

4.1.2 A lack of understanding of the role of external audit was shown by a number of permanent heads and Commissioners and Board members of statutory authorities, both in evidence and in written submissions. For example, a number doubted that any external person could adequately review their performance because of the specialised and technical nature of their activities, and that therefore there could not be any useful external efficiency audit. This viewpoint is unacceptable to the Committee since it implies that there cannot be any proper system under which they might be called to account. A number also considered that external audit interfered with the exercise of their responsibility. This view totally misunderstands the attestation role of audit. In no way does it reduce their decision making powers and thus their accountability. It is because of their responsibility that an audit of reported accountability information is necessary.

4.1.3 Many witnesses, in discussing the role of the Auditor-General, also failed to appreciate the need to preserve his independence by not having him responsible for prescribing management systems he must evaluate. This was also reflected in the failure of many submissions to understand the distinction between management improvement or consultancy activities (carried out for example by the Management Consultancy and Effectiveness Review Divisions of the Public Service Board), which are action orientated reviews with substantial participation by staff of the organisation concerned; and external audits which are independent attestations or evaluations not prescribing detailed remedies (as this may affect the auditor's independence if he must subsequently evaluate systems which he prescribed). Whereas the primary objective of external audit is to express an opinion on the reliability or truth and fairness of information reported by the organisation, the primary objective of management reviews is to make specific recommendations for improving performance. While an external audit report should provide constructive comments, it is not part of the management process for implementing changes.

4.2 Scope of the Audit Function

4.2.1 At issue here is the extent to which the Auditor-General should be involved in efficiency and effectiveness auditing as well as traditional financial and compliance auditing.

The distinction between different types of audits may be made clearer by the following United States General Accounting Office classification of audits:

- (a) Financial and compliance: This form of audit determines whether financial operations are conducted with propriety, (legality and honesty), whether financial reports are presented fairly and whether the agency subject to audit has complied with the applicable laws and regulations;

- (b) Economy and efficiency: This determines whether an agency is managing or utilising its resources (personnel, property, space and so forth), in an economical and efficient manner, and seeks to reveal the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organisational structures; and
- (c) Programme results (or effectiveness review): This determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorising body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost.

4.2.2 The Committee's View

The Committee considers that any audit or attestation function ought to cover the full range of matters for which permanent heads or Boards or Commissioners are responsible for and are required to report on. This reflects its view of the necessary inter-relationship between responsibilities, reporting and auditing. Thus auditing extends beyond regularity and compliance issues into efficiency and effectiveness issues. As will be discussed, the Committee considers that the dominance of financial regularity and compliance issues in Government auditing is no longer appropriate. It sees emphasis on value for money questions covering both efficiency and effectiveness of Government organisations as of greater concern. Recognising the multi-disciplinary skills required to carry out such audit or evaluation and the accounting based nature of the Auditor-General's office staff, it considers that a new Office of Evaluation and Review should be established to develop this new audit or evaluation function. The Auditor-General's office should continue its present financial and compliance audits and eventually be absorbed by the new Office of Evaluation and Review. This is discussed later.

4.2.3 The Present Situation in Victoria

The present Audit Act does not define the scope of audits to be carried out by the Auditor-General. It does define the content of the audit report on the Treasurer's statements (Section 47) and indicates in other sections certain of the matters which he should examine. Under Section 47 he must "explain the statement in full" showing where it agrees or differs from the Treasurer's records, report where prescribed forms have not been used where defaults have been made in sending accounts or accounting for monies or stores, in payments passed without adequate vouchers, on unsatisfied disallowances or shortages or on proceedings taken against any person under the Act.

Section 33 requires him to take such steps as he deems necessary to satisfy himself that all stores have been properly accounted for and that the regulations in respect of the control and stocktaking of stores have been duly observed. Section 35(1) also requires him to ascertain that public monies have been applied or charged to any service or purpose only for which they were legally available and that expenditure has been duly authorised or duly vouched and certified. Under Section 48 he may recommend methods for the better collection or payment of monies and the better control of stores.

The general thrust of these provisions is that the Auditor-General is to carry out a financial and compliance audit only (although Section 48 could be interpreted as authorising a form of efficiency auditing), and until recently this has been the way in which he has operated. However, in his financial and compliance audit the Auditor-General has in some cases commented on cases of weakness in management or internal controls.

Further, the Auditor-General has recently commenced studies of a number of Government activities using the "comprehensive audit" approach. Comprehensive auditing combines elements of traditional financial compliance and regularity audit with in-depth reviews of management control systems designed to promote economy, efficiency and effectiveness of operations. This auditing approach is discussed later.

The various separate Acts setting up statutory authorities which provide for the Auditor-General to audit their financial statements refer only to an audit of the financial statements, i.e. a financial and compliance audit, although some of the Acts confer on him as auditor of that organisation the same powers that he has in the audit of the public accounts.

4.2.4 Efficiency and Effectiveness Auditing

4.2.4.1 Efficiency and effectiveness auditing has been widely discussed in the public sector. So far, explicit efficiency audit powers have been given to the Commonwealth Auditor-General and the South Australian Auditor-General. The Queensland Auditor-General has an implicit efficiency audit role through the requirement that he report on cases where the duties of accountable officers, which include responsibility for efficiency, have not been properly carried out. An efficiency audit function has been given to the N.S.W. Public Service Board.

In Australia no independent organisation outside the executive, such as the Auditor-General's Office, has been given an explicit effectiveness review or auditing role. Effectiveness reviews are carried out in a number of Commonwealth departments, the Department of the Prime Minister and Cabinet, the N.S.W. Premiers Department and the Victorian Public Service Board. These reviews are internal, presumably because in examining the appropriateness of various Government activities or programmes to Government objectives they may be reviewing decisions made by Ministers.

4.2.4.2 There are a number of possible approaches to efficiency auditing. These include:

- a selective report commenting on the adequacy of management systems and procedures in part or all of an organisation. (This is the general approach of the Commonwealth Auditor-General and the N.S.W. Public Service Board);

- a report expressing an opinion on the validity and accuracy of efficiency measures contained in a performance report from an organisation;
- a report expressing an opinion on the overall level of efficiency of the organisation; and
- a report expressing an opinion on the adequacy of the organisation's own mechanisms for reviewing its efficiency, or reporting by exception on cases where the mechanisms are inadequate.

The same classification could be made of approaches to effectiveness auditing.

These approaches are not mutually exclusive. The first approach involves large scale selective or ad hoc efficiency reviews. It would often include the fourth approach. The second also involves the fourth, in that reviewing and testing internal and other arrangements for efficiency review may be part of the task of forming an opinion on reported efficiency measures (i.e. it is a review of efficiency monitoring mechanisms akin to an auditor's review of internal control before expressing an opinion on financial statements prepared by the organisation). The third may be an extension or the outcome of either of the first two approaches. Both the second and third approaches give some difficulties because of methodological problems in measuring efficiency. The third in particular appears to go well beyond the bounds of professional standards based on objective measures on which an auditor might be able to rely.

4.2.4.3 The Committee considers that Parliament, and thus the public, should receive independent advice on the efficiency and effectiveness of Government organisations. Chapter 3 of this report recommended that departments, statutory

authorities and Ministers should account to Parliament through an annual report for matters for which they are responsible including efficiency and effectiveness of operations. It sees some independent review of such matters in these annual reports as an essential mechanism of proper accountability to Parliament. The precise nature of such an independent review must now be considered.

4.3.4.4 The Auditor-General supported the proposal that he review and report on the validity, accuracy and adequacy (as a measure), of reported efficiency and effectiveness measures.

He considered that he should be given powers similar to those of the Canadian Auditor-General. The Canadian approach to efficiency and effectiveness auditing is known as comprehensive auditing. It involves an assessment of the adequacy of management control systems to ensure due regard to economy and efficiency, and an assessment of the adequacy of procedures employed to measure and report on the effectiveness of the organisation's programmes. Thus it is based on evaluating systems or monitoring mechanisms rather than on evaluating results or outputs in relation to inputs. Thus the Canadian Auditor-General is required to report on cases where the procedures employed by an organisation to measure and report on the effectiveness of its programmes are not adequate. This does not involve any questioning of Government policies or Ministerial decisions. Standards against which to evaluate systems to achieve efficiency and monitor effectiveness have been developed in Canada. A comprehensive audit is done selectively rather than annually for each organisation. The Auditor-General thus reports on an "exception" basis i.e. reporting on cases where the systems and procedures are inadequate, rather than annually expressing an opinion as to whether they are adequate.

4.2.4.5 The Chairman of the Public Service Board's view was that it is for Parliament to decide what information on performance it wishes in annual reports to Government organisations. His view was that whatever is reported must also be audited or attested in some way. Assuming that Government organisations are required to report efficiency and effectiveness measures, the Auditor-General would attest these claims of efficiency and effectiveness. Effectiveness being a measure of the extent to which organisational or Government objectives are being achieved, an effectiveness audit would not necessarily involve questioning the policy behind the objectives. He considered the Auditor-General should not undertake in-depth studies of organisational efficiency or effectiveness, this function being adequately covered by the Public Service Board and Department of the Premier and Cabinet.

4.2.4.6 The Committee accepts this basic model that whatever information is required to be included in annual reports by departments, statutory authorities or Ministers, whether covering efficiency or effectiveness matters, should in some way be audited or attested so as to ensure its objectivity and reliability. At the same time the Committee accepts that it will take departments and statutory authorities some time to develop adequate measures of efficiency and effectiveness which could be audited or attested. However, the move to programme budgeting in State Government departments will greatly facilitate this. It is apparent that a significant number of departments and statutory authorities are developing or have developed such measures. As a long term objective therefore, the Committee considers that the validity, accuracy and adequacy (as a measure), of reported efficiency and effectiveness measures should be reported on, but in the meantime the approach may need to be restricted to the adequacy of steps being taken by the organisation to develop such measures. This would involve a comment rather than an attestation at this stage.

4.2.4.7 The Committee agrees that the Auditor-General should report on:

- cases where money has been expended without due regard to economy and efficiency;
- cases of inadequacy in the departments' or statutory authorities' own mechanisms for maintaining and monitoring efficiency and effectiveness.

This approach recognises that such reviews or audits are on a cyclical basis. Rather than review each organisation every year and comment in a positive sense on whether, for example, mechanisms for maintaining and monitoring efficiency and effectiveness are adequate, it involves reporting on an exception basis on cases on inadequacy. However, the Committee considers this should be in addition to the auditing of reported efficiency and effectiveness measures.

4.2.4.8 There should also be provision for major ad hoc or in-depth studies of the efficiency or effectiveness of any Government organisation or programme to be undertaken, where it is desirable for Parliament and the public to receive an independent review of some activity. This role cannot be adequately performed by the Public Service Board, since it is not completely independent of the procedures and systems included in the evaluation; nor, as part of the Executive, can its report be readily made public. For the review organisation to maintain its independence the selection of such areas for study should remain with it. However, there should be provision for Parliament or the Government to request such reviews to be carried out. If the Government or Parliament also had the power to direct the review organisation carrying out such studies, this could mean in practice that Government or Parliament determined the areas to be examined. The Committee envisages this review power being sparingly used, in view of the high cost and limited coverage of any review activity based largely on such an approach, as evidenced by the Commonwealth Auditor-General's approach to efficiency auditing. It does not see this

role as detracting in any way from the Public Service Board's role in reviewing and promoting the efficiency and effectiveness of Government organisations, as part of the Executive.

4.2.4.9 Recommendations

- (a) The scope of external audit in the Victorian public sector should be expanded to cover efficiency and effectiveness issues as well as traditional financial and compliance audit.
- (b) The nature of this efficiency and effectiveness audit function should be as follows:
 - (i) Once such measures are in place, the audit of reported efficiency and effectiveness measures in terms of their validity, accuracy and adequacy (as a measure);
 - (ii) Reports on cases where money has been expended without due regard to economy and efficiency;
 - (iii) Reports on cases of inadequacy in the organisation's own mechanisms for monitoring efficiency and effectiveness; and
 - (iv) On a selective basis, and at the discretion of the review organisation (but with provision for the Government or Parliament to formally request such a review), major studies of the efficiency or effectiveness of any Government organisation or programme.
- (c) The Government should allocate the necessary additional financial and staffing resources for this to take place.

4.3 Form of Audit Report on Financial Statements

Consideration needs to be given to the appropriate form of the audit report on the new financial statements to be prepared by statutory authorities and departments to be spelled out in the legislation.

4.3.1 Statutory Authorities

Chapter 3 of this report outlined the considerable variations in the requirements relating to financial statements of individual statutory authorities, and thus the form of the Auditor-General's report. It recommended a standard financial reporting requirement for statutory authorities.

4.3.2 Recommendations

- (a) The audit report on financial statements of statutory authorities should report on:
 - (i) Whether proper accounts and records have been kept;
 - (ii) Whether the statements have been prepared in accordance with standards prescribed by the Treasurer for financial statements for statutory authorities, so as to present fairly the financial position and financial results;
 - (iii) Whether the statements have been prepared on a basis consistent with the previous year; and
 - (iv) Cases where financial management control systems are not in operation within the organisation.

4.4 Departmental Financial Statements

4.4.1 The form of the Auditor-General's report on the new departmental financial statements is an opinion as to whether they are an accurate summation of the receipts and payments for each department for the

year. The Committee has recommended in Chapter 3 that there should be a legislative requirement for such statements to be prepared in accordance with standards prescribed by the Treasurer. Thus the form of the audit report should also be amended to report on whether the financial statements are in accordance with these standards. The standard form of audit would therefore state whether proper accounts and records have been kept.

4.4.2 Recommendations

The audit report on departmental financial statements should report on:

- (a) Whether the statements are in accordance with the departmental records.
- (b) Whether proper accounts and records have been kept.
- (c) Whether the statements have been prepared in accordance with standards prescribed by the Treasurer for departmental financial statements so as to present fairly the financial position and financial results.
- (d) Whether the statements have been prepared on a basis consistent with the previous year.
- (e) Cases where financial management control systems are not in operation in the department.

These recommendations are supported by the Auditor-General.

4.5 Organisations to be Audited by the Auditor-General

4.5.1 The present Audit Act provides for the Auditor General to audit:

- All transactions of the public account, meaning financial statements prepared by the Treasurer on the Consolidated Fund and Trust Fund.

- The books of accounts of every receiver of revenue, collector of impost, sub-collector and paymaster (meaning Government departments), and of every public authority.

While the latter provisions might be expected to cover all public authorities, strangely, the present Act defines public authority as an organisation the accounts of which the Auditor-General audits either by law or at the request of the Treasurer. Thus in practice the Auditor-General derives his power to audit the financial statements of statutory authorities from the individual Acts establishing such authorities. He audits all public authorities except:

- (a) The State Bank.
- (b) Public hospitals.
- (c) School councils.
- (d) Various subsidiary companies established mainly by statutory authorities (which generally have their own auditor appointed under the Companies Act), and
- (e) Local Government units.

With a private accounting firm he is the joint auditor of the Gas and Fuel Corporation. The Water Industry Restructuring Bill provides for him to be the external auditor of the new water boards. (Previously he audited waterworks trusts and private accounting firms as licensed municipal auditors audited sewerage authorities.)

4.5.2 Private Sector Involvement

A number of suggestions were made by private accounting firms that they should be able to undertake the external audit of statutory authorities. The Committee considers it an important principle, from Parliament's point of view, that the Auditor-General should be responsible for auditing all Victorian Government bodies, whether departments or statutory authorities, and that this should be specifically provided for in the revised Act.

This should include the State Bank, Gas and Fuel Corporation and public hospitals. Having one single external audit organisation enables consistency of auditing standards and methodologies to be adopted and enables the organisation to provide an overview and to evaluate within a comparative framework. It also means that Parliament can deal with one auditing organisation from which it receives an audit review of all Government organisations in the one report. Moreover, the Auditor-General is truly independent of the organisations being audited because of his statutory appointment. He does not need to negotiate with the organisation over fees or any other aspect of the audit before appointment, all of which can compromise his independence.

(In view of the relatively small amount of resources involved in their operations the Committee does not consider the Auditor-General should audit school councils. This would be a misallocation of scarce audit resources.)

Having the Auditor-General responsible for the audit of all Government organisations is not to suggest that private accounting firms do not have the necessary competence or expertise to carry out such external audits. Indeed, the Committee sees considerable value in using more private sector resources in Government auditing. Apart from assisting in overcoming the staff shortage in the Auditor-General's Office, it should bring additional perspectives and expertise. The Committee therefore favours giving responsibility to the Auditor-General for all Government auditing, with him contracting out or delegating portions of his external audit work to private accounting firms, depending on his staffing levels and work loads; or employing private accounting firms to work with his own officers on a "mixed team" approach. The Auditor-General has authority to do this under the existing Audit Act and this provision should be retained. However, responsibility for this audit work and for reporting to Parliament would rest with the Auditor-General. Such an agency approach was favoured by the two professional accounting bodies in a joint submission to the Committee. This approach is being followed for the new Water Boards. The Auditor-General has already advertised for interested private accounting firms to register their interest with him.

4.5.3 Access to Financial Statements and Records of Non-Government Organisations.

The Auditor-General raised with the Committee the issue of his having access to the financial statements and records of non-government organisations receiving substantial amounts of Government funds by way of grants, subsidies or loans. Some of these organisations are listed in Appendix A-I of his 1980/81 annual report, and include a large number of charitable and community organisations. At present, he has no legal right of access to ascertain whether the funds given by the Government have been used for the purpose for which they were given. It is of course, possible for such grants to be given on condition that the Auditor-General have access but this has not been done. The Committee agrees that the Act should give the Auditor-General the right of access to the accounts and records of any organisation in receipt of Government money and that this right should be made clear to all organisations at the time they receive the funds. This would not involve the Auditor-General auditing their financial statements but merely giving him a right of access to ascertain, if he considers it necessary, that such funds have been properly used for the purposes for which they were given. It would not involve him reviewing the efficiency and effectiveness of the expenditure of the funds by the recipient organisation.

The Committee also considers that it is essential for individual departments administering such grant programmes to establish proper review mechanisms, and for the Auditor-General to examine the adequacy of such mechanisms.

4.5.4 Audit of Public Hospitals and Local Government

The Committee did not examine in depth the question of public hospital audits or local government audits. Hospital audits are carried out by private accounting firms who are employed by the board of each hospital. However, there is provision for the Auditor-General to carry out an audit of any public hospital at his discretion, but this has happened only occasionally in special circumstances. There is no mechanism to overview the quality and consistency of

such audits except for the normal professional requirement that Australian accounting and auditing standards be observed. Several private accounting firms commented that they undertake hospital audits to a certain extent on an honorary basis, in that they incur a loss because of low audit fees. Although the Committee accepts that public hospital auditors take their professional and legal responsibilities as auditors seriously, it considers such a situation could reduce the general quality of hospital audits.

In view of the substantial amount of Government monies allocated to public hospitals the Committee considers the Auditor-General should audit public hospitals, using private accounting firms as his agents in the same way as is proposed for the new water and sewerage authorities.

It will take some time before the Auditor-General will be in a position to undertake such a role. In the meantime, the right of access to the financial records of organisations receiving Government money would apply to public and private hospitals.

Local government audits are undertaken by licensed municipal auditors, who are licensed by the Municipal Auditors Board after passing specified examinations. Their appointment and fee are determined by the Minister for Local Government. The Committee has considerable reservations about the need for such specialised treatment for local government audits and about the adequacy of the present audits.

The Committee's view is that in view of the substantial resources used by the local government sector, there is a strong case for the Auditor-General to be responsible for local government audits, as occurs in Queensland and New Zealand, but again, using private accounting firms as his agents if he wishes. In this way Parliament might be better assured of the adequacy and consistency of local government auditing. The Committee recognises that this may be a controversial issue. The Committee considers that it should be given a reference to "inquire into and report on the adequacy of present arrangements for local government accounting, reporting and auditing and to recommend any necessary changes".

4.5.5 Recommendations

- (a) The Auditor-General should be the auditor of all State Government organisations and should take over responsibility for the audit of all such organisations he does not currently audit, including the State Bank, public hospitals and any subsidiary companies established by Government organisations.
- (b) The Auditor-General should be given the additional resources necessary to undertake this work.
- (c) The Auditor-General should be encouraged to use the expertise and resources of private accounting firms as his agents or as resources for any of his audit activities, but with the Auditor-General accepting ultimate responsibility for the standard of this audit work.
- (d) The Auditor-General should be given by legislation the right of access to the financial statements and records of non-government organisations receiving Government funds through grants, subsidies or loans to the extent necessary to ascertain that such funds have been used for the purposes for which they were given.
- (e) The Government should give the Committee a reference to "inquire into and report on the adequacy of present arrangements for local government accounting, reporting and auditing and to recommend any necessary changes".

4.6 The Need for a New Review Organisation

- 4.6.1 In recommending a new or expanded external audit function covering efficiency and effectiveness of Government organisations, the Committee sees emphasising efficiency and effectiveness, or "value for money" reviews, as more important than the existing emphasis on financial and compliance auditing.

The present Auditor-General's Office conducts audits which are largely financial and compliance based, although an element of management systems evaluation has always been present; and, as noted, the Auditor-General has commenced a series of comprehensive audit studies which involves an assessment of the adequacy of management control systems to ensure due regard to economy and efficiency of the adequacy of procedures to measure and report on the effectiveness of the organisation's programmes.

This does not go as far as the Committee's recommended approach to efficiency and effectiveness auditing, which also envisages auditing of published efficiency and effectiveness measures and of (a limited number of), major ad hoc efficiency and effectiveness studies on a selective basis.

- 4.6.2 The skills required to carry out such audits are multi-disciplinary. A background in accounting, economics, management or operations research would all be relevant to such studies. This has been illustrated by the recruitment of such specialists into the Efficiency Audits Division of the Commonwealth Auditor-General's Office. The Committee favours an integrated approach to such audits, rather than having financial compliance audits being undertaken separately from efficiency and effectiveness audits, as has been the case in the Commonwealth Auditor-General's Office. Such audits would therefore be carried out by a multi-disciplinary team. The separate approach does not enable an overview of the performance of the organisation to be obtained, nor does it take advantage of the aspects of auditing common to both financial compliance and efficiency auditing viz. the review of internal control mechanisms.
- 4.6.3 The Committee considers that the Auditor-General's Office should be restructured into a new Office of Evaluation and Review, headed by a Director-General, to undertake this expanded audit function. This new or restructured organisation will require additional resources to carry out this function, and will need to recruit new staff of varying backgrounds. The Committee favours this restructuring being overseen by an expert task force comprising representatives of the present Auditor-General's Office, the Department of the Premier and Cabinet, the Public Service Board, the Department of Management and Budget and representatives of the accounting profession.

- 4.6.4 The Director-General of the Office of Evaluation and Review would exercise all the powers conferred on the Auditor-General. The Committee considers that the existing constitutional position of the Auditor-General as an office holder under the Crown, independent of but reporting to the Parliament, should remain with the new position of Director-General of Evaluation and Review. He should not be subject to direction by Parliament or the Government and be subject to removal only by a vote of both Houses of Parliament. Along with retaining the existing powers to call for accounts, documents, explanations etc. as he thinks necessary, (Section 39), and to require persons to appear before him, and appointing him by legislation as the Auditor of all Victorian Government organisations and treating his salary as a special appropriation not subject to annual vote by Parliament, this will be sufficient to ensure his independence and authority.
- 4.6.5 The Audit Act provides for the Auditor-General to retain office until the age of 65. The Committee considers that the Director-General should be appointed for a term of seven years, with provisions for reappointment. This would be sufficient time for each Director-General to have an impact in the position, yet provide for some turnover in the position as the evaluation and review needs change. To provide flexibility and to not exclude worthwhile appointees the Committee does not favour prescribing in legislation required qualifications for the position.
- 4.6.6 The Committee considers it important that there should be regular movement of staff between the Office of Evaluation and Review and the rest of the public sector. This will ensure that the Office's staff retain an understanding of managerial issues and problems, and at the same time develop a role for the Office as a training ground for improved financial management in the public sector. Consistent with its view expressed in paragraph 4.5.2 the Committee would also strongly favour the development of staff interchanges with private accounting firms.

4.6.7 A further submission suggested that the Auditor-General should be able to determine his own financial allocation. The Committee considers such a proposal to be unrealistic. It does however support the idea of the new Office of Evaluation and Review receiving a one line or block appropriation in the Budget with freedom for the Auditor-General to determine his own allocation of these funds. It also considers he should present his budget and staffing requests to the Committee as well as to the Government each year, so that Parliament is fully aware of his perceived resource needs and the Government's response to them.

4.6.8 The Committee considers that some provision should be made for a regular independent review of the efficiency and effectiveness of the Office of Evaluation and Review and for an independent external auditor to carry out an annual financial and compliance audit. The present Audit Act makes no provision for any external audit of the Auditor-General's Office, although it would be possible for this Committee under its terms of reference to undertake a review of the Office's efficiency and effectiveness. Section 48 of the Commonwealth Audit Act provides for an independent auditor to carry out both a financial and compliance and an efficiency audit of the Commonwealth Auditor-General's Office. Under the efficiency audit function the quality and adequacy of the audit work is reported on. Because of the need for all government organisations to be held accountable and be periodically reviewed by an independent outside source the Committee favours a similar provision for the Office of Evaluation and Review, with the independent auditor being appointed by the Treasurer and reporting directly to Parliament. The independent auditor would audit the efficiency and effectiveness of the Office of Evaluation and Review in the same way as that Office audits the efficiency and effectiveness of other Government organisations.

4.6.9 Recommendations

- (a) The Auditor-General's Office should be restructured into a new Office of Evaluation and Review to undertake the expanded audit function recommended by the Committee. It should receive the additional resources it requires for this task and recruit staff from various backgrounds.

- (b) An expert Task Force comprising representatives of the present Auditor-General's Office, the Department of the Premier and Cabinet, the Public Service Board, the Department of Management and Budget and representatives of the accounting profession should be set up to oversee this restructuring.
- (c) The Director-General of Evaluation and Review should exercise all the powers conferred on the Auditor-General. The Director-General should be an office holder under the Crown, independent of, but reporting to Parliament, not subject to direction by either the Parliament or the Government and be subject to removal only by a vote of both Houses of Parliament and appointed for a term of seven years with provision for reappointment.
- (d) The Director-General should have the same powers as are conferred on the Auditor-General concerning the power to call for accounts, documents, explanations etc. as thought necessary and to require persons to appear before him.
- (e) The Office of Evaluation and Review should receive a one line or block appropriation in the Budget, with freedom to determine its own allocation of the total funds allocated. The Director-General should present his annual budget requests to the Committee as well as to the Government so that Parliament is aware of his perceived needs and the Government's response to them.
- (f) There should be maximum provision for movement of staff between the Office of Evaluation and Review and the rest of the public sector and for the interchange of staff with private accounting firms.
- (g) The new Act should provide for the appointment by the Treasurer of an independent external auditor to carry out an annual financial and compliance audit of the Office of

Evaluation and Review and to undertake an efficiency and effectiveness audit of the Office in the same way as it is recommended that the Office carry out efficiency and effectiveness audits of other Government organisations. The independent auditors should report directly to Parliament.

4.7 Internal Audit

4.7.1 The importance of internal audit in any discussion of the Audit Act is:

- It is an important tool of top management to ensure that the organisation is operating in line with top management responsibilities and objectives. Thus it plays an important role in an accountability mechanism.
- The quality and scope of internal auditing influences the size of the external audit task, as discussed below.

4.7.2 It is clear to the Committee that, in general, Government managers have given insufficient priority to developing an adequate internal audit function and have failed to appreciate its importance as an aid to management. Since 1977 the unsatisfactory situation concerning internal audit in both departments and statutory authorities has been referred to by the Auditor-General in his main report. At present only 11 departments and 13 out of 25 major statutory authorities have an internal audit function, and many are inadequate. For example, in many cases:

- It is limited to financial and compliance issues. Thus it does not aid management in monitoring efficiency and effectiveness.
- The internal auditor has line responsibilities as well as the internal audit role and is thus not independent of the operation he is evaluating.

- The internal auditor does not report directly to or have adequate access to top management, and thus top management does not receive a completely independent evaluation of the organisation's performance.
- The internal auditor is lowly graded. Thus people of inadequate training may occupy the position, and possess inadequate authority to obtain the information needed in such a function.

In his 1981/82 main report the Auditor-General noted that an internal audit function had not yet been established in the following Ministries or departments: Agriculture, Arts, Labour and Industry, Police and Emergency Services, and Water Resources. He noted that no action had been taken to overcome weaknesses in the internal audit function in Community Welfare Services, Housing and the Country Roads Board. Steps to establish an internal audit function had commenced in the Education Department, the Health Commission and the Forests Commission.

- 4.7.3 The development of an adequate internal audit function has important implications for external audit. With a highly developed internal audit function the work of the external auditor in detailed checking and review is lessened. Under a "system based" approach he will spend more time evaluating the quality of the internal audit function as part of the management control systems to determine the extent to which he can rely on it and thus on reported financial and performance information.
- 4.7.4 The development of adequate internal audit is primarily a responsibility of the management of each organisation. For this reason the Committee has recommended in Chapter 2 that this be specified in the new Act as a managerial responsibility. The Committee considers that in an adequate internal audit function, its scope must be as broad as management's responsibilities and thus go beyond financial and compliance issues, that the internal auditor must report to top management and be otherwise fully independent of line operations.

4.7.5 However, there is a need for a co-ordinated development plan for internal audit in the Victorian public sector, to develop guidelines, job descriptions, procedures, and training materials and to plan to meet the requirements of those organisations which are too small to have their own internal audit function. This is appropriately a role for the Department of Management and Budget, with assistance from the Public Service Board. The Auditor-General should be consulted and assist in an advisory role, but not to the extent that his independence in assessing the quality of internal audit is compromised. The Committee has noted the establishment of an Internal Audit Division within the Department of Management and Budget to carry out this task, which it considers should be treated as a matter of urgency.

4.7.6 Recommendations

- (a) That the new legislation specify the development and maintenance of an adequate internal audit function as a management responsibility.
- (b) That the Department of Management and Budget, with the assistance of the Public Service Board, urgently institute a programme for the upgrading of the internal audit function throughout the Victorian public sector. In particular this programme should pay attention to:
 - (i) Developing an adequate career path and adequate grading within the organisation for internal auditors;
 - (ii) Catering for the internal audit needs of smaller organisations;
 - (iii) Ensuring that the scope of internal audit is as broad as management's responsibilities, i.e. goes beyond financial and compliance issues;
 - (iv) Ensuring the independence of the internal audit function from line operations and its direct reporting to top management; and
 - (v) Ensuring adequate staff training and development programmes are instituted.

LIST OF ORGANISATIONS AND PERSONS
MAKING SUBMISSIONS IN RELATION TO THE
AUDIT ACT REVIEW INQUIRY

AGRICULTURE, Department of.
ARTHUR YOUNG & COMPANY.
ARTS, Ministry for.
AUDITOR-GENERAL
AUSTRALIAN SOCIETY OF ACCOUNTANTS.
BUILDING INDUSTRY LONG SERVICE LEAVE BOARD.
COMMUNITY WELFARE SERVICES, Department of.
CONSERVATION, Ministry of.
CONSUMER AFFAIRS, Ministry of.
COOPERS & LYBRAND, Chartered Accountants.
COUNTRY FIRE AUTHORITY
COUNTRY ROADS BOARD.
CROWN LANDS & SURVEY, Department of.
ECONOMIC DEVELOPMENT, Ministry for
EDUCATION DEPARTMENT.
EMPLOYMENT AND TRAINING, Ministry of.
FORESTS COMMISSION OF VICTORIA.
GAS & FUEL CORPORATION OF VICTORIA.
HERCOK, A.V.V.
HEALTH COMMISSION OF VICTORIA.
HOUSING, Ministry of.
IMMIGRATION AND ETHNIC AFFAIRS, Ministry of.
INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA.
INSURANCE COMMISSIONERS OFFICE.
LABOUR AND INDUSTRY, Department of.
LATROBE VALLEY WATER & SEWERAGE BOARD.
LOCAL AUTHORITIES SUPERANNUATION BOARD.
LOCAL GOVERNMENT DEPARTMENT.
MELBOURNE & METROPOLITAN BOARD OF WORKS.
MELBOURNE & METROPOLITAN TRAMWAYS BOARD.

APPENDIX 1 CONT'D.

MELBOURNE FIRE BRIGADES BOARD
METROPOLITAN FIRE BRIGADES SUPERANNUATION BOARD
MINERALS AND ENERGY, Department of.
MOTOR ACCIDENTS BOARD.
PLANNING, Department of.
PORT OF MELBOURNE AUTHORITY.
PORTLAND HARBOR TRUST COMMISSIONERS.
PROPERTY AND SERVICES, Department of.
PUBLIC WORKS DEPARTMENT.
ROAD SAFETY & TRAFFIC AUTHORITY.
RURAL FINANCE COMMISSION.
STATE BANK.
STATE ELECTRICITY COMMISSION OF VICTORIA.
STATE RIVERS AND WATER SUPPLY COMMISSION.
STATE SUPERANNUATION BOARD OF VICTORIA.
TOTALIZATOR AGENCY BOARD
URWICK INTERNATIONAL PTY. LTD.
VICTORIAN EGG MARKETING BOARD.
VICTORIAN RAILWAYS.
YOUTH, SPORT & RECREATION, Department of.

LIST OF ORGANISATIONS AND PERSONSGIVING EVIDENCE

ARTHUR YOUNG & CO., Chartered Accountants.

AGRICULTURE, Department of.

Dr. D.F. Smith, Director-General.
Mr. W.D. Young, Assistant Director-General.

AUDITOR-GENERAL, Office of the.

Mr. B.J. Waldron, Auditor-General.
Mr. A.M. Meggs, Assistant Auditor-General.
Mr. F. Belli, Chief Director of Audit.

CONSUMER AFFAIRS, Ministry of.

Mr. J.O. Miller, Director.

COOPERS & LYBRAND, Chartered Accountants.

Mr. F. South, Partner.

EDUCATION DEPARTMENT

Mr. N.G. Curry, Director-General.
Dr. L.W. Shears, Director-General.
Mr. B.J. Joy, Assistant Director-General (Finance).
Mr. N. Brown, Director of Finance.

GAS & FUEL CORPORATION

Mr. A.H. Gayleard, Administration Manager.
Mr. R.R. Edwards, Chief Accountant.

HEALTH COMMISSION

Dr. G. Trevaks, Chairman.
Mr. A. Clifford, Director of Finance
Dr. R.B. Scotton, Director of Planning & Research.
Mr. P.J. Daly, Director of Personnel Services.

HOUSING, Ministry of.

Dr. R. Gilbert, Acting Director and Chief General Manager.
Mr. J.D. Cullen, General Manager, Finance and Administration.

INSTITUTE OF CHARTERED ACCOUNTANTS
IN AUSTRALIA, Government Accounting
and Discussion Group.

Mr. E. McL. Holmes, Senior Lecturer,
University of Melbourne.

Mr. G. MacMillan, Secretary (also
Management Consultant with
Touche Ross Services).

MELBOURNE & METROPOLITAN
BOARD OF WORKS

Mr. A.H. Croxford, Chairman.

Mr. M.J. Wright, Treasurer.

Mr. N.B. Smith, Assistant Engineer-
in-Chief (Development, Invest-
igations and Research).

MINERALS & ENERGY, Department of.
PLANNING, Department of.

Dr. E.W. Russell, Secretary.

Mr. D. Yencken, Secretary.

PRICE, WATERHOUSE, Chartered Accountants.

Mr. A. Fotheringham.

Mr. A. Grummet.

Mr. M. Maguiness.

PUBLIC SERVICE BOARD

Dr. R.B. Cullen, Chairman.

Mr. A. Phillips, Secretary.

Mr. J. King, Principal Consultant.

Mr. N. Walker, Senior Consultant.

PUBLIC WORKS DEPARTMENT

Mr. D.J. Little, Director-General.

Mr. P. Lynn, Director of Admin-
istration.

Mr. P. Trott, Senior Internal
Auditor.

STATE ELECTRICITY COMMISSION

Mr. J.C. Trethowan, Chairman and
General Manager.

Mr. R.E. Hurley, Assistant General-
Manager (Administration).

Mr. A. Windmill, Internal Auditor.

TREASURY

Mr. I.G. Baker, Director of Finance.

Mr. H.J. Hopkins, First Assistant
Director of Finance.

EXTRACTS FROM THE PROCEEDINGS

The following extracts from the Minutes of the Proceedings of the Committee show Divisions which took place during the consideration of the Draft Report:

THURSDAY, 21 APRIL, 1983.

Paragraph 1.5.3

- "(a) The scope of external audit in the Victorian public sector should be expanded to cover efficiency and effectiveness issues as well as traditional financial and compliance audit.
- (b) The nature of this efficiency and effectiveness audit function should be as follows:
- (i) Once such measures are in place, the audit of reported efficiency and effectiveness measures in terms of their validity, accuracy and adequacy (as a measure);
 - (ii) Reports on cases where money has been expended without due regard to economy and efficiency;
 - (iii) Reports on cases of inadequacy in the organisation's own mechanisms for monitoring efficiency and effectiveness; and
 - (iv) On a selective basis and at the discretion of the review organisation (but with provision for the Government or Parliament to formally request such a review), major studies of the efficiency or effectiveness of any Government organisation or programme.
- (c) The Government should allocate the necessary additional financial and staffing resources for this to take place."

Amendment proposed - That after sub-paragraph (c) there be inserted the following sub-paragraph:

- (d) "That the above recommendation concerning new audit functions should be restricted to Government Departments and certain classes of statutory authorities. That the audit organisation should not be given broad powers to review the efficiency and effectiveness of statutory authorities which

have boards representing the interests of those they service and where finance on which the authorities operate comes substantially from those persons. Examples of such organisations are the Grain Elevators Board, Water Trusts and Sewerage Authorities. That in such cases interests of those served by the authorities is safe-guarded by their own scrutiny and that of the Boards representing them. Any inquiry into efficiency and effectiveness in the public interest should only be initiated by the relevant Minister and not by an external organisation as proposed by these recommendations."

(Hon. B.P. Dunn)

QUESTION - That sub-paragraph (d) proposed to be inserted be so inserted - put.

The Committee divided.

AYES, 2

The Hon. B.P. Dunn

Mr. P.J. McNamara

NOES, 5

The Hon. J.V.C. Guest

Mr. J.D. Harrowfield

The Hon. D.K. Hayward

Mr. B.J. Rowe

The Hon. G.A. Sgro.

And so it passed in the negative.

QUESTION - That paragraph 1.5.3 stand part of the report - put.

The Committee divided.

AYES, 5

The Hon. J.V.C. Guest

Mr. J.D. Harrowfield

The Hon. D.K. Hayward

Mr. B.J. Rowe

The Hon. G.A. Sgro.

NOES, 2

The Hon. B.P. Dunn

Mr. P.J. McNamara

And so it was resolved in the affirmative.

Paragraph 4.2.4.9

- "(a) The scope of external audit in the Victorian public sector should be expanded to cover efficiency and effectiveness issues as well as traditional financial and compliance audit.
- (b) The nature of this efficiency and effectiveness audit function should be as follows:
- (i) Once such measures are in place, the audit of reported efficiency and effectiveness measures in terms of their validity, accuracy and adequacy (as a measure);
 - (ii) Reports on cases where money has been expended without due regard to economy and efficiency;
 - (iii) Reports on cases of inadequacy in the organisation's own mechanisms for monitoring the efficiency and effectiveness; and
 - (iv) On a selective basis, and at the discretion of the review organisation (but with provision for the Government or Parliament to formally request such a review), major studies of the efficiency or effectiveness of any Government organisation or programme.
- (c) The Government should allocate the necessary additional financial and staffing resources for this to take place."

Amendment proposed - That after sub-paragraph (c) there be inserted the following sub-paragraph:

- "(d) That the above recommendation concerning new audit functions should be restricted to Government Departments and certain classes of statutory authorities. That the audit organisation should not be given broad powers to review the efficiency and effectiveness of statutory authorities which have boards representing the interests of those they service and where finance on which the authorities operate comes substantially from those persons. Examples of such organisations are the Grain Elevators Board, Water Trusts and Sewerage Authorities. That in such cases interests of those served by the authorities is safe-guarded by their own scrutiny and that of the Boards representing them. Any inquiry into efficiency and effectiveness in the public interest should only be initiated by the relevant Minister and not by an external organisation as proposed by these recommendations."
- (Hon. B.P. Dunn)

QUESTION - That sub-paragraph (d) proposed to be inserted be so inserted - put.

The Committee divided.

AYES, 2

The Hon. B.P. Dunn

Mr. P.J. McNamara

NOES, 5

The Hon. J.V.C. Guest

Mr. J.D. Harrowfield

The Hon. D.K. Hayward

Mr. B.J. Rowe

The Hon. G.A. Sgro.

And so it passed in the negative.

QUESTION - That paragraph 4.2.4.9 stand part of the report - put.

The Committee divided.

AYES, 5

The Hon. J.V.C. Guest

Mr. J.D. Harrowfield

The Hon. D.K. Hayward

Mr. B.J. Rowe

The Hon. G.A. Sgro.

NOES, 2

The Hon. B.P. Dunn

Mr. P.J. McNamara

ECONOMIC AND BUDGET REVIEW COMMITTEE

A REPORT TO PARLIAMENT

ON

THE PROPOSALS CONTAINED IN THE
LOCAL AUTHORITIES SUPERANNUATION
(AMENDMENT) BILL (NO. 2).

Ordered to be Printed

P R E F A C E

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees) Act 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire into and report to the Parliament on any proposal, matter or thing connected with public sector / or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated fund or other Budget Papers.

TERMS OF REFERENCE FOR THE INQUIRY INTO THE PROPOSALS CONTAINED IN THE LOCAL AUTHORITIES SUPERANNUATION (AMENDMENT) BILL (NO. 2)

The following resolution was passed by the Legislative Council on 13 September 1983 and a similar resolution by the Legislative Assembly on 14 September 1983:

"That the proposals contained in the Local Authorities Superannuation (Amendment) Bill (No. 2) be referred to the Economic and Budget Review Committee for inquiry, consideration and report not later than 3 October 1983."

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Hon. D.K. Hayward, M.L.C. (Deputy Chairman)
Hon. G.P. Connard, M.L.C.
Hon. B.P. Dunn, M.L.C.
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Mr. A. McCutcheon, M.P.
Mr. P.J. McNamara, M.P.
Mr. J.I. Richardson, M.P.
Hon. G.A. Sgro, M.L.C.
Mr. A.J. Sheehan, M.P.

SUPERANNUATION INQUIRY SUB-COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Hon. D.K. Hayward, M.L.C.
Mr. A. McCutcheon, M.P.
Mr. G.A. Sgro, M.L.C.

STAFF

Administration

Mrs. Elke Barbian, Secretary.
Miss Karen Day
Mrs. Muriel O'Gorman
Mr. Phillip Rhodes

Research

Ms. Helen Silver, Director of
Research.
Mr. Andrew Hemming
Mr. Ron McDonald
Mr. Paul Belin
Ms. Catherine Jones

C O N T E N T S

PREFACE	...	...	...	...	...	...	...	...	...	i - v
<u>CHAPTER 1:</u>	Introduction and Summary	...	...	...						1
<u>CHAPTER 2:</u>	Local Authorities Superannuation Scheme									3
	2.1 Outline of Local Authorities									1
	Superannuation Scheme	...	...							3
	2.2 Amendments to the Local									
	Authorities Superannuation Act 1958									3
<u>CHAPTER 3:</u>	Conclusion	...	...	...	...	...				17
<u>APPENDIX I:</u>	Scheme Outline	...	...	...	...	...				19
<u>APPENDIX II:</u>	List of Submissions	...	...	...	...					23
<u>APPENDIX III:</u>	Terms of Reference Superannuation Inquiry									24
<u>APPENDIX IV:</u>	Extracts of the Minutes and Votes of the									
	Legislative Council and the Legislative									
	Assembly	...	...	...	...	...	...			26

1.1 The Committee is currently undertaking an investigation into all Victorian public sector superannuation schemes. Thirty seven (37) separate and different superannuation schemes have been identified so far. Each of these schemes has a different origin and operates under separate management, which often takes direction from either an independent Board or from Government Authorities.

A number of schemes are set up under their own complex legislation which differs in form and content from any other superannuation legislation. This means that it is difficult to determine the impact of even a minor change to one scheme let alone the implications for a range of other schemes.

The current Amendment Bill for the Local Authorities Superannuation scheme is a prime example of this problem. The Bill is difficult to interpret due to the complex language used and because the topic itself is of a very specialised nature.

The information supplied to Parliament on this Bill by itself, was not sufficient for an informed decision to be made on whether the amendments should be passed. Hence, the Committee felt it necessary to consider specialist advice and submissions, and to hold discussions with key individuals before it could make a detailed assessment of the likely implications of this Bill.

The Committee believes the legislative problem is part of the broader problem of the existence of such a multitude of different schemes. Overall, there has existed no satisfactory central mechanism for determining policy and monitoring changes to public sector superannuation schemes in Victoria. This situation resulted in numerous problems, a significant one being a pattern of "leap frogging" of benefit changes between different schemes in the so-called "interest of compatibility of benefit structures".

1.2 The following discussion considers the proposed amendments to the Local Authorities Superannuation Act and, where possible, seeks to indicate their impact. An outline of the current Local Authorities Superannuation scheme is provided in Appendix I.

In commenting on the present Bill, the Committee emphasises that it does so without prejudice to any principles and proposals it may recommend in its future reports to the Parliament on superannuation.

1.3 In summary, the Committee believes the passing of the Bill will not affect its consideration of the broader Terms of Reference on superannuation (see Appendix III) at this point in time.

2.1 Outline of Local Authorities Superannuation Scheme

The Local Authorities Superannuation Scheme was established in 1947 and has been amended a number of times. Membership is compulsory for all permanent employees of local authorities. As at June 1982 there were 24,500 contributors to the Local Authorities Superannuation Fund. The scheme provides both a lump sum and pension benefit. Members are able to commute part of their pension to increase their lump sum entitlement. There are separate contributions by employers and employees for the pension and lump sum benefits. The lump sum benefit is fully funded and the pension benefit is only partially funded. A partially funded scheme in this case is one where the employees' contributions towards pension entitlements are paid on a regular basis into a separate fund. The employers pay a percentage of salary estimated to meet their share of pension costs over each three year period. The reasons for this method of funding the scheme are historical. Amongst other things, this method of funding has led to the establishment of several separate funds within the one scheme which makes the administration and accounting of the scheme particularly complex and cumbersome.

2.2 Amendments to the Local Authorities Superannuation Act 1958

The following section outlines the proposed amendments and their likely impact on this and other schemes. Most of the amendments concern both the lump sum and pension aspects of the scheme.

LOCAL AUTHORITIES SUPERANNUATION (AMENDMENT)BILL (No. 2)Major Amendments and Their Impact

Clause 1 1.(1) This Act may be cited as the Local Authorities Superannuation (Amendment) Act 1983.

- (2) In this Act the Local Authorities Superannuation Act 1958 is referred to as the Principal Act.
- (3) The several provisions of this Act shall come into operation or be deemed to have come into operation as follows:
- (a) Section 5 shall be deemed to have come into operation on 2 August 1982;
 - (b) Section 7 shall be deemed to have come into operation on 1 March 1983;
 - (c) Section 8 shall be deemed to have come into operation on 1 June 1982;
 - (d) Section 11 shall be deemed to have come into operation on 1 March 1980; and
 - (e) The remaining provisions shall come into operation on a day or days to be fixed by proclamation of the Governor in Council published in the Government Gazette.

Clause 1 contains the customary provisions for the short title and the commencement of the various clauses of the Bill. The reasons why several of the provision have been made retrospective are given below:

Clause 3(a) Section 5 commences from 2 August 1982 and concerns the pension amounts payable to spouses of retired members. This item was overlooked in the legislation effective from 2 August 1982 and is therefore backdated to that date.

Clause 3(b) Section 7 refers to interest to be added to pension resignation benefits payable. This is backdated for practical convenience to the beginning of the Board's current financial year which is 1 March 1983.

Clause 3(c) Section 8 refers to retrenchment benefits and is backdated to 1 June 1982 to take into account specifically employees retrenched from the Port of Portland Authority.

Clause 3(d) Section 11 refers to interest to be added to refunds of contributions to be made to employees incorrectly brought into the Scheme. This is backdated to 1 March 1980 to cover Kindergarten Assistants incorrectly brought into the Scheme.

Clause 3(e) refers to all remaining provisions and the date or dates on which they will become effective.

Clause 2. In section 1 of the Principal Act after the expression "Division 6A - Maternity Leave, ss. 11JGA-11JGAB." there shall be inserted the expression "Division 6B - Re-employment of Retrenched Persons, s. 11JGB."

This clause inserts a new Division 6B into the Principal Act dealing with the re-employment of retrenched persons. Clause 11 details this amendment.

Clause 3. In Section 3(1) of the Principal Act after the interpretation of "Prescribed" there shall be inserted the following interpretation:

"Retrenchment" means the compulsory termination of the services of a permanent employee for the reason that in the opinion of the Board his service or position is not necessary or for the reason that the work for which he was engaged is finished or for the reason that the quantity of work has diminished and has rendered necessary a reduction in staff".

This amendment simply defines "retrenchment". Previously there was no retrenchment benefit provided in the scheme. Clause 8 details this provision. The definition of "retrenchment" adopted is consistent with that in Section 34 of the State Employees Retirement Benefits Act 1979.

Clause 4. In section 11IG (2) of the Principal Act for the expression "other than on attainment of 65 years" there shall be substituted the expression "prior to the 60th birthday".

This clause deals with deferred pension benefits. These exist where a person retires before the accepted retirement age. The member's pension benefit is retained in the fund and is payable at an age specified by the fund. Clause 9 deals with deferred lump sum benefits.

At present a person in the Local Authorities Superannuation scheme who is over the age of 30 and under 60 who leaves Local Government employment is faced with the option of deferring his/her pension entitlements to age 65. Previously, the Local Authorities Superannuation Act 1958 provided for the payment of deferred retirement pension benefits at age 60. Legislation was introduced in the Local Authorities Superannuation (Amendment) Act 1982 to make deferred benefits payable for lump sums and pensions at age 65. In a submission to the Committee the Local Authorities Superannuation Board agreed that the Board originally wished to have the deferred pension and lump sum benefits payable at age 60. However, examination of the S.E.R.B. Act on which the amendment was based revealed that the S.E.R.B. deferred benefit was payable from age 65. It should be noted that the State Superannuation Scheme makes deferred pension benefits payable at age 60.

The current amendment seeks to permit the Board to pay deferred pension benefits at age 60. In a submission to the Committee the Department for Local Government explained that:

"The amendment was requested by the Local Authorities Superannuation Board and the Municipal Officers' Association of Victoria. In addition, some 39 contributors to the scheme petitioned the Minister for Local Government indicating their concern about the loss of benefits as a result of amendments made to the Act in 1982."

If the amendment is passed it will make the age at which deferred pension benefits are payable the same as for the early retirement pension benefit. An early retirement pension benefit is a pension that is payable to a person who retires after a specified age, generally 60, which is before the compulsory retirement age. In the Local Authorities Superannuation scheme a person who retires between 60 and 65 can immediately take all his/her pension entitlements at a reduced rate. The amount of the pension payable is discounted in the same manner as applicable to the State Superannuation scheme. The Committee wishes to draw attention to the relatively generous basis which the State Superannuation scheme has adopted in this respect. For example, the Commonwealth Superannuation scheme grants a pension at age 60 which is 90% of the pension payable at age 65. The corresponding percentage for the State Superannuation scheme is 95%.

Overall the alteration to age 60 involves an increase in the cost of providing deferred pension benefits, but this is less than the increase in cost which occurs when a member remains in Local Government employment and opts for early retirement at age 60. The Local Authorities Superannuation Board has informed the Committee that it currently has only 24 persons out of a membership of 25,000 who have applied for deferred benefits.

The Committee has noted in its deliberations that there has been no consideration of including a means test or employment restriction on the payment of deferred pension benefits before age 65. Nor has any consideration been given to the appropriateness of paying increased benefits to those persons who have already left Local Government employment and taken the option of a deferred benefit. The Committee has noted the Local Authorities Superannuation Board's figure that the change will only effect 24 persons in the immediate future.

Clause 5. At the end of section 11IJ(1)(a) of the Principal Act there shall be inserted the following words:

"and where any reductions have been made under section 11IHAB, 11IHAC or 11IR or indexation has not been effected in accordance with a request under section 11IV(4), two-thirds of any additional amounts that would have been payable had the reduction or request not been made;"

This refers to the level of spouse pension payable where either a reduction of pension or commutation of pension to lump sum had been undertaken by the spouse's deceased husband/wife.

The current amendment is required to correct a situation which has resulted from amendments made last year to the Local - Authorities Superannuation Act 1958 which inserted 11IHAB and 11IHAC into the Act. These previous amendments allowed a pensioner to convert part of his/her pension to a lump sum amount in order to retain the Commonwealth pension fringe benefits. For example, if a pensioner is entitled to a Local Authorities' pension of \$100 per week and converts part of that pension to a lump sum he/she would still receive a Local Authorities' pension of say \$70 per week.

The previous amendments had the effect that the spouse of the pensioner would have only been entitled to two-thirds of the reduced rate of pension (two-thirds of \$70 per week). This change was never the intention of the Local Authorities Superannuation Board.

The current amendment therefore is required to ensure that where a pensioner dies after conversion has occurred, the spouse should receive two-thirds of the notional pension entitlement and not two-thirds of the reduced pension payable at the date of death. This addition merely clarifies the original intention and confirms the calculation processes which have been adopted in the handful of cases which have arisen to date.

A similar amendment is being requested by S.E.R.B. and the Hospitals Superannuation scheme.

Clause 6. After section 11F(2)(a)(iii) of the Principal Act the word "and" is repealed and after section 11F(2)(a)(iv) the following subparagraphs shall be inserted:

- "(v) the Cash Management Account established under the Public Accounts Act 1958;
- (vi) the State Development Account established under the Public Account Act 1958; and
- (vii) the Local Government Investment Service Fund established under the Municipal Association Act 1907."

The Local Authorities Superannuation Board holds a legal opinion which suggests that it can make investments in the above Accounts and Funds and it has already done so. Consequently, this amendment merely seeks to clarify present practices.

The Committee noted that at 30 June 1982, the Local Authorities Superannuation Board has invested a substantial proportion (80%) of its funds in loans to Local Governments and other public securities. The Committee will be investigating the investment policies of the Local Authorities Superannuation Board as part of its broader Terms of Reference.

Clause 7. For section 11IL of the Principal Act there shall be substituted the following section:

- "11IL (1) A pension contributor who ceases to be a permanent employee without becoming entitled to benefits under this Division otherwise than under section shall be entitled to be paid-
- (a) an amount by way of benefits equal to the contributions made by him under this Division; and
 - (b) interest at the prescribed rate per annum calculated on the

amount of those contributions during each year or that part of a year ending on 28 February 1983.

- (2) For the purposes of sub-section (1) the prescribed rate per annum shall in relation to a financial year be-
 - (a) until the rate for the year ending on 28 February 1984 is determined such rate per annum as is determined by the Board;
 - (b) as from the determination of the rate per annum for a financial year under sub-section (3) that rate; and
 - (c) until a rate per annum for a financial year has been determined by the Board the rate per annum that was determined for the last preceding financial year.
- (3) The Board shall as soon as practicable after the end of the year ending on 28 February 1984 and after the end of each succeeding financial year determine the prescribed rate per annum on actuarial advice having regard to the results achieved by the investments of the Fund during the last preceding financial year less such percentage of the earnings on the investments that the Board on actuarial advice determines should be retained in the Fund to meet the contingent liabilities of the Fund in respect of death and disability benefits.
- (4) Immediately on the determination of the prescribed rate for a year contributors shall for the purpose of this section be credited with interest as at the end of the last preceding financial year at the prescribed rate on the amount of their contributions and accrued interest if any."

This clause increases resignation benefits by adding interest to the employee's pension contributions, less a charge assessed by an Actuary for the employer's share of death and disability cover. Currently, the Local Authorities Superannuation scheme upon resignation pays a refund of pension contributions with no interest added and a refund of lump sum contributions with interest added. The Local Authorities Superannuation scheme divides the resignation benefit into two types of accounts - pension contributions and lump sum contributions.

In a submission to the Committee the Local Authorities Superannuation Board stated that the amendment was proposed at the Board's request to bring the Local Authorities Superannuation scheme into line with S.E.R.B. and the Hospitals Superannuation scheme.

The provisions in the Bill specify how interest is to be calculated and paid to persons who resign in the interim period before the yearly interest rate is determined by the Board's actuary.

The original clause in the Bill was amended in the Legislative Assembly after advice received from Parliamentary Counsel indicated that the clause did not completely address the matter of how interest payments were to be prescribed and paid to persons resigning prior to the end of the Board's financial year on 28 February.

This amendment is to be operative from 1 March 1983, the beginning of the Board's financial year.

Clause 8. Section 11JLA of the Principal Act is amended as follows:

- (a) Before the word "Notwithstanding" there shall be inserted the expression "(1)"; and
- (b) After sub-section (1) there shall be inserted the following sub-sections:

"(2) Where the services of a permanent employee are terminated because of retrenchment such employee is entitled to a benefit calculation in accordance with section 3(1)(aa) of the Superannuation Benefits Act 1977.

(3) For the purposes of determining whether a permanent employee has been retrenched the Board shall have access to such records of the employing authority as the Board considers necessary to satisfy itself as to whether retrenchment has occurred".

This clause will enable the Board to pay retrenchment benefits. Clause 3 defines retrenchment and therefore indicates the circumstances under which this benefit will be available.

At present the Local Authorities Superannuation Scheme does not make any distinction for pay out purposes between a contributor who resigns from his employment and one whose employment is terminated on account of retrenchment.

In a submission to the Committee the Local Authorities Superannuation Board has indicated that the amendment was introduced at the request of the Port of Portland Authority, the Municipal Officers' Association and the Municipal Employees' Union. Furthermore, the submission from the Department for Local Government has argued that a further delay will substantially disadvantage those persons retrenched by the Port of Portland 18 months ago.

This amendment is backdated to 1 June 1982 to take into account retrenchments which occurred from the Port of Portland Authority. The current amendments to S.E.R.B. allow for the introduction of an equivalent retrenchment benefit to that offered by the Local Authorities Superannuation scheme.

The amendment may involve either costs or benefits to the scheme compared to the cost of continued employment by Local Government. This will depend on the actual ages and period of membership of those persons retrenched.

The Committee has noted that this method of dealing with retrenchment, as part of superannuation provisions, absolves the individual employing authority from the liability of making compensation for retrenchment. This effectively distributes the cost across all Local Authorities which are contributing to the Local Authorities Superannuation scheme.

Clause 9. In section 11JLB of the Principal Act for the expression "upon attaining the age of 65" there shall be substituted the expression "having attained the age of 60".

This clause provides for payment of deferred lump sum benefits at age 60 instead of age 65. In the Local Authorities Superannuation scheme a person can defer his/her lump sum entitlements till the age of 65 if he/she is over the age of 30 and under the age of 60. This amendment is required to match the corresponding provision for deferred pension benefits (refer Clause 4 for detailed discussion). The amendment makes the deferred benefits payable for those who resign consistent with the Local Authorities early retirement benefit (and the early retirement benefit under the State Superannuation scheme).

Clause 10. In section 11JN(1) of the Principal Act there shall be substituted for the word "disability" the words "disability, retrenchment".

This is a consequential amendment arising from the introduction of retrenchment benefits.

Clause 11. After Division 6A of Part I. of the Principal Act there shall be inserted the following Division:

"DIVISION 6B - RE-EMPLOYMENT OF RETRENCHED PERSONS.

11JGB (1) Where a permanent employee has been retrenched but within two years of such retrenchment again becomes an employee of an

Authority he may repay all or part of any moneys received by him pursuant to Divisions 3,5, or 7.

- (2) Subject to sub-section (3) a permanent employee who under sub-section (1) repays moneys received by him pursuant to Divisions 3, 5 or 7 shall upon such repayment be credited with such number of years of service as an actuary determines is the appropriate number of years of service represented by the amount repaid.
- (3) Where benefits received by a permanent employee pursuant to Divisions 3, 5 or 7 were not calculated solely by reference to years of service, and where such employee repays any moneys pursuant to sub-section (1), his future entitlement to benefits pursuant to this Act shall be adjusted by the Board on the basis recommended by an actuary."

This amendment inserts a new Division 6B into the Principal Act which deals with breaks in service. The amendment will allow a retrenched employee to pay to the Board all or part of any benefits received upon retrenchment if he/she is re-employed by an Authority within two years and be credited with appropriate years of service for the calculation of scheme benefits.

The Local Government submission stated that the amendment was requested by the Municipal Officers' Association and the Water Restructuring Task Force because of the possibility of several of the smaller water and sewerage authorities (which are authorities within the meaning of the Local Authorities Superannuation Act) being restructured.

Similar provisions are made in the S.E.R.B. schemes.

The Committee notes that under this provision a former employee may not be able to buy back the full equivalent of his/her past service.

Clause 12. After section 30 of the Principal Act there shall be inserted the following section:

"30A Where the Board determines that any person not being a permanent employee has been contributing to any fund established pursuant to this Act, the Board shall-

(a) cancel any contract then in existence or deemed to be in existence for benefits between the Board and such person; and

(b) refund an amount equal to-

(i) the contributions made by such person together with an amount being interest at a rate specified by the Board on actuarial advice, to such person; and

(ii) the contribution made to any fund established pursuant to this Act by any Authority in respect of such person, to such Authority".

This amendment allows the Board to refund any contribution paid with interest where an employee has been incorrectly brought into the scheme.

The amendment is designed to overcome a specific problem which arose when a group of Kindergarten Assistants contributed to the scheme although they were not actually employees of the Local Authority. The amendment was requested by the City of Broadmeadows and the Municipal Association of Victoria. The amendment is backdated to 1 March 1980.

Clause 13. After section 11JA(2) of the Principal Act there shall be inserted the following sub-sections:

"(3) Where the actuarial investigation referred to in sub-section (1) reveals a surplus

in the Employees' Fund the Board may transfer from the Employees' Fund to the Authorities' Fund such amounts as are recommended by an actuary.

- (4) Where the actuarial investigation referred to in sub-section (1) reveals a deficit in the Employees' Fund the Board may transfer from the Authorities' Fund to the Employees' Fund such amounts as are recommended by an actuary".

This amendment enables the Board to transfer a surplus in the Employees' Fund to the Authorities' Fund and also provides for the transfer of funds out of the Authorities' Fund into the Employees' Fund should a deficit occur in the latter.

The Department of Local Government stated briefly that at present pensions are paid out of two funds. These are the Authorities' Fund (raised by a levy imposed on the employing authority) and the Employees' Fund (raised by a 2½% contribution from the employee's salary). A current actuarial investigation has revealed a surplus in the Employees' Fund and the Local Authorities Superannuation Board is seeking the amendment to allow an easy transfer of surplus funds to the Authorities' Fund.

The present provision of Section 11JD of the Principal Act has the same ultimate effect as the proposed amendment, however the former is administratively cumbersome, since if an adjustment is required it is necessary to adjust each individual pensioner file (currently 5,000).

The amendment was proposed at the request of the Local Authorities Superannuation Board's Actuary.

- 3.1 The amendments to clauses 4, 5, 7 and 8 make improvements to scheme conditions which carry some cost to the employer. Taken in isolation these provisions have much to be said for them and the Committee raises no objection. However, the Committee notes that any new provisions which provide additional benefits or incur additional costs to the employer may make overall reform harder to achieve if that is ultimately what the Committee recommends. The remaining amendments are of simple machinery type which also bring the Local Authorities Superannuation scheme, the State Employees Retirement Benefits Fund and the Hospital Superannuation scheme closer together.
- 3.2 In total the Committee can find no fundamental technical reason for opposing the amendments. The Committee considers that in all the circumstances the changes will not prejudice any proposals the Committee may make in addressing its Terms of Reference in relation to public sector superannuation.

APPENDIX I

SCHEME OUTLINE

LOCAL AUTHORITIES SUPERANNUATION FUND

As at May 1983

Based on Information provided by the
Government Actuary's Office & the L.A.S.B.

1. OVERVIEW

1.1 Fund Administrator: Local Authorities Superannuation
Board,
15 Queens Road,
MELBOURNE 3004

Tel: 267 1444

1.2 Scheme Style

Benefits are provided as a combination of lump sums and pensions and are partially integrated with social service benefits at low wage levels. Employees and employer authorities may elect to have contracts for higher than the minimum lump sum benefit level.

For 30 years service a fully indexed pension of 25% of adjusted final salary and a lump sum of at least three times adjusted final salary is provided.

2. ELIGIBILITY

2.1 Membership of the scheme is compulsory for all permanent employees of local authorities except for the City of Melbourne. Other employees must join after one year's continuous service.

Female employees may join a special category "Class 3" without medical examination.

3. CONTRIBUTIONS

3.1	<u>Employee</u>	<u>Employer</u>
Lump Sum Retirement and death benefits	3.5%	3.5%
Disability benefits	-	1.25%
Pension benefits	2.5%	2.59%
Addition required for minimum lump sum provision	-	0.95%

In addition, extra benefits may be provided through increased contributions on agreement with employees. The minimum total extra contributions are 3% of salary.

Lower pension benefit contributions are provided for employees receiving less than 1.5 times the minimum wage.

4. BENEFITS

4.1 Retirement Benefits

Class 1 and 2 members:

Normal retirement age is 65 (male and female). Members can opt for early retirement after age 60. Late retirement after age 65 is also permitted, but no contributions are payable after age 65.

Retirement benefits consist of both lump sum and pension:

- (a) The lump sum at age 65 is the endowment assurance amount, with accrued bonuses, bought by payments of 7% of wages and salary applied on an annual premium basis. Salary increases are in effect catered for by way of incremental annual premium policies.

There is a minimum lump sum benefit of 10% of salary for each complete year of membership up to a maximum of 30 years - this guarantee is unfunded. On early retirement the actuarial reserve is payable subject to the minimum lump sum provisions.

- (b) The pension benefit is 25% of salary for 30 years service with pro-rata benefits for shorter service. Pensions are CPI indexed.

Partial commutation to a lump sum is permitted where entitlements to social security fringe benefits can be proved. The initial commutation is for a period of between 2 and 5 years at rates determined by the Fund Actuary.

Class 3 Members:

For each member a separate account is maintained which contains the employee's contributions and employer's contributions in respect of retirement and death lump sum benefits less administration expenses plus interest earnings.

On age and early retirement the member gets a lump sum equal to the credit in the account (subject to the minimum lump sum provision) and the pension benefit described above.

4.2 Death Benefits

Class 1 and 2:

On death basic lump sum and pension benefits are payable. The lump sum consists of the endowment assurance benefit including bonuses subject to the minimum lump sum benefit provision. A pension is payable to the spouse.

Class 3:

The lump sum part of the death benefit consists of the credit in the account subject to minimum lump sum benefit provisions, except that benefits payable for Class 1 and 2 for prospective years of membership are excluded.

4.3 Disability Benefit

Class 1 and 2:

On disability (continuous or recurring due to injury, ill health or infirmity) a lump sum equal to the endowment assurance benefit including bonuses subject to the minimum lump sum benefit provisions, is payable in instalments at the Board's discretion. A pension of 25% of salary is also payable for service, including prospective service to age 65, of at least 30 years. Pro-rata benefits are paid for shorter service.

Class 3:

Lump Sum Disability Benefit:

Endowment assurance benefits at a reduced scale.

Pension Disability Benefit:

A lump sum of 8.75% of the total salary received since 1.3.61 or from the commencement date in the scheme if employed after 1.3.61.

4.4. Spouse Pensions

Spouse benefits are a pension of two-thirds the pension paid to a deceased pensioner spouse, or two-thirds of the pension which would have been payable if the deceased contributor had reached retirement age (65) on his date of death. On a contributor's death the legal representative (usually the spouse for a married contributor) may expect to receive the lump sum payable. Male spouses must show dependancy to receive a pension.

4.5 Children's Pensions

Children's pensions of \$650 p.a. are provided for. Orphans' pensions are at the double rate.

4.6 Resignation Benefits

Class 1 and 2:

On resignation the contributor receives the actuarial reserve held for his endowment assurance lump sum benefits (interest included), plus his past contributions for pension benefits.

Class 3:

On resignation a lump sum equal to the credit in the account including interest up to the withdrawal date, plus past contributions for pension benefits.

On transfer to another local authority benefits may be transferred. Temporary breaks in service are permitted.

A deferred retirement benefit is available instead of the cash resignation benefit, on resignation after age 30.

5. INVESTMENT

5.1 Investments are made direct by L.A.S.B. in loans to local authorities, statutory authorities and in real estate mortgages and ownership of property.

6. RESTRICTIONS

6.1 Short Service:

Short service members have the lump sum benefit reduced by the lesser amount purchased by annual contributions payable over a shorter period of service.

Pension benefits are reduced pro-rata for less than 30 years service.

6.2 Substandard Health:

All applicants must undergo a medical examination which assigns them one of classification 1, 2A, 2B, 2C or 2D depending on medical condition. With the exception of Class 1, members suffer successively greater reductions in the death benefit as impairment worsens. On disability retirement impaired persons receive reduced lump sum and pension benefits to offset the cost of the extra risk, the most impaired class (2D) receiving only lump sum benefits.

APPENDIX II

LIST OF SUBMISSIONS

The Committee requested and considered submissions from the following organisations:

LOCAL AUTHORITIES SUPERANNUATION BOARD
(Mr. D. McLean, Superannuation Manager)

The Committee also held discussions with Mr. McLean.

LOCAL GOVERNMENT DEPARTMENT
(Mr. G.C. Pentland, Permanent Head)

MEETINGS

The Superannuation Sub-Committee met on six occasions to discuss the proposed amendments to the Local Authorities Superannuation Act 1958 and this report.

INQUIRY INTO VICTORIAN PUBLIC SECTOR

SUPERANNUATION SCHEMES

TERMS OF REFERENCE

A. The adequacy of present provisions for the management of all Victorian public sector superannuation schemes, including:-

- (a) structure and management of schemes;
- (b) representation of contributors;
- (c) actuarial assessment and valuation;
- (d) reporting to Government and contributors, and contributors' access to information; and
- (e) auditing requirements.

in terms of the efficient operations of these funds and the protection of the interests of contributors and the Government.

B. Whether uniform provisions for the management of schemes are feasible and desirable, and if so what these might be.

C. Whether the existing administration of schemes is efficient and administrative costs are reasonable.

D. Whether the current organisational structure of superannuation schemes in the Victorian public sector is the most suitable having regard to:-

- (a) differences in the financial independence of various agencies and authorities involved;
- (b) possible benefits from reduction of duplication and economies of scale; and
- (c) any disadvantages from competition between schemes.

and whether a reduction in the number of separate schemes is feasible and desirable.

E. Whether the terms and conditions governing eligibility for membership of various schemes are reasonable in comparison with other schemes in Australia and whether these terms and conditions are equitable between different employees.

F. The appropriateness of the current benefits, having regard to:-

- (a) the needs of contributors, superannuants and beneficiaries;
- (b) comparable benefits for public sector employees in other States and in the Commonwealth Government and those prevailing in the private sector, also having regard to any differences in salary packages and to the role of the superannuation in the recruitment and retention of Victorian Government employees; and
- (c) vesting.

and including the reasonableness of provisions governing breaks in service, resignation, early retirement, ill health retirement, retrenchment or redundancy.

- G. The adequacy of portability and preservation arrangements between schemes, and between them and other Australian superannuation schemes.
- H. The suitability of the present basis of Government funding of the various schemes including the funding of administrative costs, and the future financial implications for Government of existing basis of funding.
- I. Whether the existing investment powers and pattern of investments of these schemes is optimal from the point of view of contributors and of the Government; and whether existing arrangements provide the most efficient mechanism for maximising the investment income of the schemes.
- J. Future options for public sector superannuation, including new relationships between public sector and private sector superannuation schemes.
- K. The adequacy of the existing legislative and regulatory framework for the operation of schemes and the appropriate legislative framework for any recommended changes in the structure and operation of schemes.

APPENDIX IV

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:

- (a) The Honourable P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS
OF THE LEGISLATIVE ASSEMBLY
Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-

- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Tuesday, 14 June 1983

14. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable Evan Walker moved, by leave, That the Honourable A.J. Hunt be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable G.P. Connard be added to such Committee.

Question-put and resolved in the affirmative.

ECONOMIC AND BUDGET REVIEW COMMITTEE

A REPORT TO PARLIAMENT

ON

THE PROPOSALS CONTAINED IN THE

STATE EMPLOYEES RETIREMENT BENEFITS (AMENDMENT) BILL

Ordered to be Printed

P R E F A C E

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees) Act 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire into and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated fund or other Budget Papers.

TERMS OF REFERENCE FOR THE INQUIRY INTO
THE PROPOSALS CONTAINED IN THE
HOSPITALS SUPERANNUATION (AMENDMENT BILL (NO. 2)
AND THE
STATE EMPLOYEES RETIREMENT BENEFITS (AMENDMENT) BILL

On 20 September 1983, the Legislative Assembly and the Legislative Council passed resolutions referring the proposals contained in the Hospitals Superannuation (Amendment) Bill (No. 2) and the State Employees Retirement Benefits (Amendment) Bill to the Economic and Budget Review Committee for inquiry, consideration and report.

Note: The Committee is dealing with these Bills in two separate reports. This report covers the State Employees Retirement Benefits (Amendment) Bill.

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Hon. D.K. Hayward, M.L.C. (Deputy Chairman)
Hon. G.P. Connard, M.L.C.
Hon. B.P. Dunn, M.L.C.
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Mr. A. McCutcheon, M.P.
Mr. P.J. McNamara, M.P.
Mr. J.I. Richardson, M.P.
Hon. G.A. Sgro, M.L.C.
Mr. A.J. Sheehan, M.P.

SUPERANNUATION INQUIRY SUB-COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Hon. D.K. Hayward, M.L.C.
Mr. A. McCutcheon, M.P.
Hon. G.A. Sgro, M.L.C.

STAFF

Administration

Mrs. Elke Barbian, Secretary.
Miss Karen Day
Mrs. Muriel O'Gorman
Mr. Phillip Rhodes

Research

Ms. Helen Silver, Director of
Research.
Mr. Andrew Hemming
Mr. Ron McDonald
Mr. Paul Belin
Ms. Catherine Jones
Mr. Rod Overall.

C O N T E N T S

PREFACE	...	...	...	...	...	...	...	...	i - vii
<u>CHAPTER 1:</u>	Introduction and Summary	..	...	...	...	...	...	...	1
<u>CHAPTER 2:</u>	State Employees Retirement Benefits (Amendment) Bill	...	...	...	...	...	...	...	2
	2.1 Outline of State Employees Retirement Benefit Scheme	...	...	...	...	...	...	...	2
	2.2 Amendments to the State Employees Retirement Benefits Act 1979	...	...	...	...	...	...	...	2
	2.3 Proposed Additional Amendment to the State Employees Retirement Benefits (Amendment) Bill - School of Mines and Industries Ballarat Ltd.	...	...	...	...	...	...	...	21
<u>CHAPTER 3:</u>	Conclusion	...	...	...	...	...	...	...	22
<u>APPENDIX I:</u>	Scheme Outline	...	...	...	...	...	...	...	23
<u>APPENDIX II:</u>	List of Submissions	...	...	...	...	...	...	...	27
<u>APPENDIX III:</u>	Terms of Reference Superannuation Inquiry	...	...	...	...	...	...	...	28
<u>APPENDIX IV:</u>	Extracts of the Minutes and Votes of the Legislative Council and the Legislative Assembly	...	...	...	...	...	...	...	30

1.1 The Committee is currently undertaking an investigation into all Victorian public sector superannuation schemes. Thirty seven (37) separate and different superannuation schemes have been identified so far. Each of these schemes has a different origin and operates under separate management, which often takes direction from either an independent Board or from Government Authorities.

On completion of its Inquiry the Committee may wish to recommend a number of changes to some or all of the schemes. Apart from the particular changes incorporated in the present Bill the Committee therefore needs to consider the possible overall implications of this Bill for all public sector superannuation schemes.

1.2 The following discussion considers the proposed amendments to the State Employees Retirement Benefits (Amendment) Bill and, where possible, seeks to indicate their impact on other schemes. An outline of the contributions and benefits of the current scheme is provided in Appendix 1.

In commenting on the present Bill, the Committee emphasises that it does so without prejudice to any principles and proposals it may recommend in its future reports to the Parliament on superannuation.

1.3 In summary, the Committee believes the passing of this Bill will not affect its consideration of the broader Terms of Reference on superannuation (see Appendix III).

CHAPTER 2: STATE EMPLOYEES RETIREMENT BENEFITS (AMENDMENT) BILL

2.1 Outline of State Employees Retirement Benefits Scheme

This scheme was established in 1979. It applies to over 11,000 employees of Departments, Boards, Commissions etc. who are not officers within the meaning of the Superannuation Act 1958. Membership is compulsory after completion of 12 months service with the exception of certain employees who are covered by separate provisions in the Act. The scheme provides both lump sum and pension benefits. Members are able to commute part of their pension to increase their lump sum entitlement. The scheme is partially funded. The Employees' contributions are accumulated in an investment fund and their share of benefit payments are met from the fund as required. The employing organisations pay a percentage of salary estimated to meet their share of benefit and administration costs over each three year period.

2.2 Amendments to the State Employees Retirement Benefits Act 1979.

The following section outlines the proposed amendments and their likely impact on this and other schemes. Most of the amendments concern both the lump sum and pension aspects of the scheme.

STATE EMPLOYEES RETIREMENT BENEFITS (AMENDMENT) BILL

- Clause 1. (1) This Act may be cited as the State Employees Retirement Benefits (Amendment) Act 1983.
- (2) In this Act the State Employees Retirement Benefits Act 1979 is called the Principal Act.
- (3) Subject to sub-section (4), the several provisions of this Act shall come into operation on a day or the respective days to be fixed by proclamation or successive proclamations of the Governor in Council published in the Government Gazette.
- (4) Section 2 shall be deemed to have come into operation on 1 March 1983.

Clause 1 contains the customary provisions for the short title and the commencement of the various clauses of the Bill.

Clause 1 (3) refers to the date or dates on which several of the provisions shall become effective. Clause 1 (4) refers to the "joining date" from which temporary teachers become members of the State Employees Retirement Benefits (S.E.R.B.) fund.

This is backdated to 1 March 1983.

Clause 2 2. Section 2 of the Principal Act is amended as follows:

(a) In sub-paragraph (ii) of paragraph (b) of the interpretation of "Adjusted final salary" after the words "Average Weekly Earnings (Melbourne) Index" (where twice occurring) there shall be inserted the words "or such other similar index as the Treasurer on the recommendation of the Government Actuary from time to time determines that is";

(b) In the interpretation of "Permanent employee" in paragraph (a) after the expression 'interpretation of "employee"' there shall be inserted the expression "or an employee who is an employee by virtue of the Order in Council dated the fifteenth day of February 1983 made under this Act".

In the S.E.R.B. scheme benefits are based on a measure called Adjusted Final Salary. The formulae to determine the Adjusted Final Salary involves the "Average Weekly Earnings (Melbourne) Index". This Index is no longer published by the Australian Bureau of Statistics and it is therefore necessary to prescribe a new index for use in the calculation of the level of benefits.

Clause 2 Paragraph (a) will allow the Treasurer on the recommendation of the Government Actuary to determine from time to time that a similar index published by the Commonwealth Statistician be used in the calculation of Adjusted Final Salary.

Clause 2 Paragraph (b) reduces the amount of past service recognised for benefit purposes of temporary teachers in the S.E.R.B. fund who are employed under the Education Services

Act 1982. Temporary teachers were brought into the scheme by an Order in Council introduced on 15 February 1983. This Order in Council nominated the "joining date" to be 1 March 1983 and made temporary teachers eligible for admission to the scheme on completion of two years of service.

In Paragraph (b), the interpretation of "permanent employee" is amended to allow persons employed under the Education Services Act 1982 to become "permanent employees" once they have completed two years of service at which time they become eligible to join the S.E.R.B. scheme.

Under the current provisions of the State Employees Retirement Benefit Act, of the two years required as a qualifying period for temporary teachers, one year is recognised for benefit purposes on retirement. For example, if a temporary teacher with 20 years' past service joined S.E.R.B. under the current provisions, the two initial years of service would be considered the required qualifying period for joining the scheme. For benefit purposes however, nineteen of the past twenty years service would be recognised as past service on retirement. The proposed amendment reduces the recognition of past service in the example case to eighteen years.

To cite another example, currently a temporary teacher who commenced employment on 1 March 1983 would on retirement be entitled to benefits from 1 March 1984 (e.g. recognition of one year of qualifying service). The proposed amendment would make retirement benefits payable from 1 March 1985.

In all cases in the Principal Act, except one, the current definition of "permanent employee" specifies a qualifying period of one year of service. The proposed amendment will make the treatment of temporary teachers consistent with that of temporary public servants. Temporary public servants require two years of service to qualify for admission into the S.E.R.B. scheme and this two year qualifying period is not recognised as past service for benefit purposes.

Clause 3.

3. (1) In section 20(1) of the Principal Act, for the words "part-time or intermittent service of not less than

half the service of an ordinary employee" there shall be substituted the following paragraphs:

- ' (a) part-time service of at least fifteen hours in each week; or
- (b) intermittent service of an average of at least fifteen hours in each week.'

(2) In section 20 (5) of the Principal Act for the words "half the service of an ordinary employee" there shall be substituted the expression "15 hours in each week".

The present provisions of the Act require part time and intermittent employees to be employed for not less than half the the service of an ordinary employee. An "ordinary employee" means a permanent employee who is employed on a full time basis throughout a year. The S.E.R.B. submission to the Committee stated that it is difficult to interpret the term "ordinary employee". The Clause therefore seeks to alter the part-time eligibility criteria to being a person who is employed at a rate of at least fifteen hours per week. The amendment will allow a consistent starting point for determining which employment groups should be eligible for the scheme. Currently, due to the differences in full time hours worked by "ordinary employees", there are variations across employment groups as to who is eligible to join S.E.R.B. on a part-time basis. For example, some "ordinary employees" work thirty eight hours full time and therefore, under the current provisions of the Act, at this work place employees would only be subject to the provisions of the Act if they worked nineteen hours or more per week.

The Committee has noted that no estimates are available of the expected increase in cost from this amendment. This is due to a lack of data on the numbers of persons eligible to join the S.E.R.B. scheme under the current amendment. Although the managers of the S.E.R.B. fund have stated in discussions that they do not expect the numbers to be substantial the Committee believes that it is not satisfactory for the Fund or the Government that exact data is unavailable. This limits the ability of the Committee and the Fund to comment on the cost of the proposed amendment and further allows no consideration of the extra administrative burden that the change may cause.

The Committee is concerned that individuals affected by the amendment will not be given any opportunity to elect not to join the S.E.R.B. scheme. These will be current "employees" who have (perhaps for some years) been working at least 15 hours per week but less than half-time. The general principle adopted under the S.E.R.B. scheme is that when individuals are brought in by an Order in Council they can elect not to join within three months of becoming eligible.

The Committee has further noted that the amendment does not provide a joining date. This means that individuals who become eligible to join S.E.R.B. under the current amendment will not obtain benefits or recognition of past service as a permanent employee for the period from 1 July 1980 to the date from which they commence to contribute towards the Fund. The same individuals would be entitled to recognition of past service for any period before 1 July 1980. This is provided for under Section 40 (2) of the Act which states:

"(2) Entitlements under this Part shall be determined on the basis that a person is deemed to have been a continuous contributor for a period or an additional period equal to the number of completed years not exceeding 30-

(a) for pension entitlements, any period prior to 1 July 1980 or prior to four months after the joining date (as the case requires) during which he was a permanent employee in continuous employment; and

(b) for lump sum entitlements, one-half of any such period -

and the number of such completed years shall be calculated by deducting the number of completed years of continuous service under sub-section (1) from his total years of service.";

The lack of recognition for past service from 1 July 1980 is inconsistent with previous situations when new members were brought into the Fund.

The Committee believes an amendment to the Principal Act is required to overcome the anomalies referred to. However, on the broader principle of full recognition of back service the Committee reserves its opinion.

The Committee is also concerned about those persons who may be unaware that they have become eligible to join S.E.R.B. as a result of the current amendments. As indicated the S.E.R.B. scheme is compulsory and therefore these persons could be faced with substantial arrears of contributions at some time in the future. This problem relates to the lack of exact data on the numbers eligible to join S.E.R.B. The "payment of arrears of contributions" is dealt with in detail in Clause 4.

Overall, the Committee notes the amendment raises the issue of whether schemes should be voluntary or compulsory. This issue will be dealt at length within the broader Terms of Reference.

Clause 4. 4. (1) In section 24 of the Principal Act, after sub-section (4) there shall be inserted the following sub-sections:

'(4A) Where any arrears in the contributions of a member come to the notice of the Board and it appears to the Board that the arrears are due solely to the failure of the member's employer to comply with sub-section (1), the Board shall send a notice to the member requiring that he make an election under sub-section (4B)

(4B) Upon receipt by a member of a notice sent under sub-section (4A), he shall within 30 days notify the Board that he elects to pay the whole or a part or none of the arrears.

(4C) A member who fails to comply with sub-section (4B) shall be regarded as having elected to pay none of the arrears.

(4D) Upon the making of an election under sub-section (4B) the period of service in respect of which arrears are paid shall be taken into account as contributory service for the purpose of calculating benefits.

(4E) Where a member elects under sub-section (4B) to pay the whole or a part of the arrears the Board may permit the arrears to be paid by him in such instalments and at such intervals as the Board approves taking into account the member's circumstances.'

(2) In section 25 of the Principal Act, after sub-section (1) there shall be inserted the following sub-section:

'(1A) The obligation of an employer to make payments to the Board under this section shall not be affected by the non-payment of contributions by a member to whom the Board has sent a notice under section 24(4A).'

(3) In the Principal Act -

(a) in section 25A, sub-section (2) shall be repealed; and

(b) after section 40(4) there shall be inserted the following sub-section:

"(4A) Notwithstanding sub-section (4) any period in respect of which a member does not pay his contributions by reason of the operation of section 24 (4A), (4B) or (4C) shall be taken into account in calculating benefit entitlements under this Act as if it were service as a permanent employee before he became a contributor."

This Clause introduces provisions for members who have arrears of contributions on account of the failure of the employer to deduct contributions. The S.E.R.B. scheme is compulsory for those individuals covered by the provisions of the Act. However, individuals who are brought into the scheme by an Order in Council or came in when the Act was put into effect can elect not to join within three months of becoming eligible. The Board has discretion to extend this period. Where an employer neglects to deduct a member's contributions at the appropriate time experience has shown that the member has often met with hardship when he or she has had to make up the arrears. The purpose of these amendments is to relieve the member of such hardship.

The amendment will make provision for a member who has arrears of contributions arising from the failure of his or her employer to deduct the contributions at the due time, to elect to pay

the whole or a part or none of the arrears. The benefits will be reduced for any period in respect of which contributions are not paid. The further amendment, Clause 4 (2) makes it clear that the employer is still obliged to pay the employer's contributions, regardless of whether a member does or does not elect to make contributions for the period in question. If the employer was relieved of this obligation, he may be encouraged to conveniently overlook deducting contributions.

From discussions with the Hospitals Employees Federation (No. 2) Branch, the Committee has concluded that there are likely to be substantial numbers of staff who are currently unaware that they are eligible to join the S.E.R.B. Scheme. The S.E.R.B. Board has stated that they cannot be certain that they have picked up all persons eligible to join S.E.R.B. The Committee believes the Treasurer should ensure that there are responsible persons in each Department and Statutory Authority who have the duty of notifying individuals of their eligibility at the time of their recruitment.

- Clause 5. 5. (1) In section 34 of the Principal Act -
- (a) after the word "member" there shall be inserted the expression "who has not attained the age of 60 years";
 - (b) after the words "is finished" there shall be inserted the expression "(except in the case of the expiration of a contracted period of service or the completion of a contracted task)"; and
 - (c) before the expression 'shall be deemed to be "retrenchment" there shall be inserted the words 'or the voluntary termination of service by a member who has not attained the age of 60 years which in the opinion of the Board is effected in anticipation of such a compulsory termination as aforementioned.'
- (2) After section 34 of the Principal Act there shall be inserted the following sections:
- '34A. A member who is retrenched may elect to receive -

- (a) a lump sum equal to three and one-half times the total amount of contributions paid or payable by him to the Fund;
- (b) benefits payable under section 37; or
- (c) deferred retirement benefits payable under section 38.

34B. Where a member who is retrenched elects to receive a lump sum under paragraph (a) of section 34A and does not subsequently make a repayment under sub-section (5) of section 21A, the Board may require the employer to pay into the Fund a sum determined actuarially representing the employer's liability in respect of the benefit so paid to the member.'

(3) In the case of a member who was retrenched before the commencement of this section, the payment to that member by the Board of any benefits other than or in addition to those to which the member was entitled at the time shall be deemed to have been lawful.

(4) In section 21A (5) of the Principal Act, before the expression "Section 37" there shall be inserted the expression "section 34A or".

This Clause allows members who are retrenched to elect to receive a lump sum equal to $3\frac{1}{2}$ times their contributions to the Fund, as an alternative to the other benefits provided under the Scheme. This benefit is the same as that currently provided under the State Superannuation Scheme and the Local Authorities Superannuation Scheme.

The Superannuation Benefits Act 1977 was amended in 1982 to provide benefits to employees who are retrenched. The State Employees Retirement Benefits Board, which is not subject to the Superannuation Benefits Act, has been paying retrenchment benefits equal to three and half times contributions to former contributors by means of ex-gratia payments. The amendment will enable the Board to pay retrenchment benefits similar to those prescribed in the Superannuation Benefits Act.

Depending on the actual ages and the period of membership of persons to be retrenched this amendment may involve either cost or savings to the scheme compared to continued employment by the Authority and/or Department. The provisions in Section 34B recognise that an unforeseen liability for which no specific actuarial provision has been made may arise out of a retrenchment.

The provisions in Clause 5 (2) give the S.E.R.B. Board the discretion in determining who pays for the employer's contribution towards a retrenchment benefit. In this sense it is attempted to prevent a situation where an employer might retrench a number of workers and then seek to pass on the cost of the retrenchment benefits to all contributing employers of the S.E.R.B. scheme. The amendment therefore enables the Board to decide that an employer who is retrenching workers on a large scale will have to pay the full employer cost of these retrenchments. It therefore recognizes a situation where an employer may be "wound-up" (e.g., Holmesglen Constructions) which previously resulted in large numbers of members being retrenched without an obligation on the part of the employer to meet the retrenchment costs.

The Committee notes that this will therefore assist in preventing individual employers from using the retrenchment provisions provided by the superannuation scheme as a method for reducing the cost of staff reductions to themselves. However, the Committee also notes that in most cases the cost of retrenchment will be spread across all the employers contributing to the S.E.R.B. scheme, and in this sense will be absolving the individual employing authority of the liability for providing compensation for retrenchment.

Clause 5 (4) results from the amendment to provide retrenchment benefits. Some former contributors who received retrenchment benefits may become re-employed in the public sector. Should they again become contributors to the Fund,

they would be eligible to have prior service recognised for the purpose of calculating benefits if they repay the re-trenchment benefits received.

Clause 6. 6. Section 26 of the Principal Act is amended as follows :

(a) In sub-section (1), for the interpretation of "Minimum wage" there shall be substituted the following interpretation:

'"Minimum wage" means the sum of \$144.80 together with such further amount as is from time to time declared under sub-section (2) by Order of the Governor in Council published in the Government Gazette to be the amount by which the minimum wage payable to an adult person in Victoria has increased since 30 June 1981'; and

(b) In sub-section (2) -

(i) for the expression "30 June" (where twice occurring) there shall be substituted the expression "1 December";

(ii) the words "having regard to any awards of the Australian Conciliation and Arbitration Commission" shall be repealed; and

(iii) for the expression "1 January 1979" there shall be substituted the expression "30 June 1981."

In Clause 6 Paragraph (a), the interpretation of "Minimum Wage" is amended. Currently, the rate at which members contribute to the Fund is based on "minimum wage" awards of the Australian Conciliation and Arbitration Commission for adult male persons in Melbourne. The Australian Conciliation and Arbitration Commission determined the minimum wage as a State Award, on a regular basis (about every six months) up to 7 May 1981, when the minimum wage set for Victoria was \$144.80. No such Awards have been made in Victoria since that date.

The amendment will allow more frequent updating of contribution rates by enabling the Governor-in-Council to declare a

"minimum wage" figure from time to time. It is envisaged that suitable Bureau of Statistics publications will be used for this purpose.

Clause 6 Paragraph (b) amends the date from which an alteration to the minimum wage will be effective. The rate at which members contribute to the Fund is related to the minimum wage, and this rate is adjusted each year based on the member's salary as at 1 March. It is, therefore, better to update the minimum wage at 1 December (just three months prior to the date when it becomes effective).

Clause 7.

7. In section 41A(1) of the Principal Act, after the expression "section 39" there shall be inserted the expression ",40 or 41".

The Act currently provides that a person who has 30 years of contributory service and retires on reaching the age of 65 can commute part of the fortnightly pension entitlements into a lump sum. This conversion takes place under conditions approved by the Treasurer and it effectively allows pensioners to become eligible for Commonwealth social security pensions.

This Clause extends the opportunity of converting part of a pension entitlement to a lump sum to those members who retire after age 60, irrespective of their length of service. The S.E.R.B. Board has stated that this amendment remedies an oversight which occurred when the Act was previously amended to provide members who retire at age 65, after having contributed to the Fund for at least 30 years with the option of converting part of their pension to a lump sum. The Board has also stated that the Actuary will do the calculations for the conversion to ensure there is no increase in the cost to the Fund.

Clause 8.

8. In Section 54 of the Principal Act -

- (a) in paragraph (b) of sub-section (1), for the words "an interim pension" there shall be substituted the words "interim disability payments";
- (b) in sub-section (2), for the words "a further interim pension" there shall be substituted the words "further interim disability payments"; and
- (c) for sub-section (3) there shall be substituted the following sub-section:

" (3) An interim disability payment granted under sub-section (1)(b) or sub-section (2) shall be payable fortnightly at a rate equal to one half of the salary of the member immediately prior to the determination."

The Board has the power to grant an interim disability pension for a maximum period of 12 months to a contributor seeking retirement on the grounds of ill health. An interim disability pension is paid to a member who is suffering from an illness when the Board is unsure of what the member's long term state of health is likely to be. This pension is equal to one-half of the contributor's salary. If during the 12 months period the contributor dies, his or her spouse would receive two-thirds of the interim disability pension. This benefit is substantially higher than the pension benefit payable in all other cases to the spouse of a deceased contributor or pensioner, which equals two-thirds of one-quarter of the contributor's salary (assuming 30 years membership).

The amendment to the Act will make the benefits payable to the spouse of a deceased contributor or pensioner consistent in all cases - that is two-thirds of one quarter of the contributor's salary (assuming 30 years membership).

Clause 9.

9. (1) In section 2 of the Principal Act, after the interpretation of "Member" there shall be inserted the following interpretation:

' "Pensioner" means a person receiving or presently entitled to receive a pension under this Act.'

- (2) In section 45 (6) of the Principal Act -
- (a) in paragraph (a), after the word "receiving" there shall be inserted the words "or entitled to receive"; and
 - (b) in paragraph (b), for the words, "five years" there shall be substituted the words "three years".

Sections (1) and (2) (a) address problems which have been experienced in the administration of the Act in relation to the definition of a "pensioner" and a person "receiving" benefits. The amendments clarify both definitions.

Section (2) (b) refers to the fact that Section 45 of the Principal Act is discriminatory in that it provides that where a pensioner marries after his or her retirement, the spouse will become entitled to benefits on the death of the pensioner only if the marriage took place 5 years or more prior to the pensioner's death. This provision is modelled on the State Superannuation Scheme. In the case where a pensioner is living with a "dependent person" the prescribed period for the relationship is 3 years. Section (2) (b) makes both situations consistent at three years.

Superannuation provisions which enable rights to be created after retirement whether by marriage or otherwise raise important issues which the Committee will address in relation to its broader Terms of Reference on public sector superannuation.

The proposed amendment is supported by the Committee at this stage only because it is anomalous and wrong that married persons should be currently discriminated against compared with persons in de facto relationships who are unable to marry.

The Committee has noted that the definition of dependent person as set out in Section 46(1) of the Principal Act means

a de facto spouse is only recognised for benefit purposes if there is a legal bar to marriage. The Committee believes this definition does not conform with equal opportunity principles.

Clause 10.

10. After section 43 of the Principal Act there shall be inserted the following section:

"43A. (1) In sections 44, 45 and 47 "prescribed rate" means the sum arrived at by multiplying \$650 by $\frac{A}{B}$ where A is the consumer price index number for the quarter ended 30 June or 31 December (whichever is the later) prior to the death of the pensioner or member and B is the consumer price index number for the quarter ended 30 June 1982.

(2) In this section "consumer price index" means the all groups consumer price index for Melbourne published by the Commonwealth Statistician.'

The Principal Act currently prescribes that benefits may be paid to the children of deceased contributors or pensioners. Each child initially only receives the \$650 per annum and this amount is updated at six monthly intervals in accordance with movements in the C.P.I. The amendment means that a child will now receive the \$650 plus any C.P.I. increases since 30 June 1982 thereby up-dating the base rate of pension. The additional cost to the Fund from the increase was not provided.

Clause 11.

11. (1) In section 44(1) of the Principal Act for the expression "rate of \$650" there shall be substituted the words "prescribed rate".

(2) In section 45 of the Principal Act, for sub-section (1)(a) there shall be substituted the following sub-section:

"(a) to the spouse of the deceased pensioner if the spouse married the deceased pensioner before the retirement of the deceased pensioner, during the life of the spouse a pension equal to -

(i) two-thirds of the pension payable to the deceased pensioner at the time of his death; or

- (ii) in the case of a deceased pensioner who has under section 41A or section 42 converted part of his pension entitlement to an equivalent entitlement by way of a lump sum payment, two-thirds of the pension that would have been payable to the deceased at the time of his death if he had not so converted part of his pension; (whichever is the greater) together with a sum equal to the balance of any lump sum held in an account in the deceased pensioner's name in the Fund."

(3) In section 45(1) of the Principal Act for the expression "rate of \$650" there shall be substituted the words "prescribed rate".

(4) For section 47 of the Principal Act there shall be substituted the following section:

"47. (1) Where a member or pensioner dies and is survived by a child of himself or of a former spouse being a child who-

- (a) is under the age of eighteen years; or
- (b) is not less than eighteen years of age and not more than 25 years of age and who in the opinion of the Board is a full-time student -

and at the time of the death of the member or pensioner no person is entitled to benefits under section 44(1)(a) or section 44(1)(b) or section 45(1)(a) on the death of the member or pensioner there shall be paid to such person as the Board directs on behalf of the child an addition to the pension payable in respect of the child under section 44 or section 45 of a pension at the prescribed rate per annum."

Sections (1), (3) and (4) of Clause 11 are consequential to Clause 10 and will provide for regular increases in the base rate for children's and orphan's pensions according to movements in the Consumer Price Index. Currently, the Act provides for periodical updating of all pensions, once they are granted, but makes no provision, in the case of these pensions, for the updating of the base rate of the pension itself. This base rate has remained at \$650 per annum per child since the commencement of the Act.

The Committee has noted that the State Superannuation Board and the Hospitals Superannuation Board do not provide for C.P.I. adjustments to children's pensions.

The provision of children's pensions raises issues concerning the role of superannuation in providing dependants' assistance which the Committee will deal with in the broader Terms of Reference on public sector superannuation.

Clause 11 (4) re-words Section 47 of the Principal Act in order to prevent an orphan child from being eligible for a pension under Section 44 or 45 of the Act in addition to the benefits conveyed by Section 47.

Clause 11 (2) refers to the level of spouse pension payable where either a reduction of pension had occurred or a commutation of pension to a lump sum had been undertaken by the spouse's deceased husband/wife.

Currently, a pensioner can convert part of his/her pension to a lump sum amount in order to retain the Commonwealth pension fringe benefits. For example, if a pensioner is entitled to a S.E.R.B. pension of \$100 per week and converts part of that pension to a lump sum he/she would still receive a S.E.R.B. pension of say \$70 per week.

The Act currently has the effect that the spouse of the pensioner would have only been entitled to two-thirds of the reduced rate of pension (two-thirds of \$70 per week).

The amendment enables the spouse of a deceased pensioner who has converted part of his pension entitlement to a lump sum, to receive two-thirds of the pension that would have been payable to the deceased had the conversion not taken place. This clarifies the original intention and matches a similar amendment to the Local Authorities Superannuation Act.

The Committee notes that the new section is marked Section

47 (1) notwithstanding the fact that there is no Section 47(2) in the Principal Act.

Clause 12.

12. After section 70 of the Principal Act, there shall be inserted the following section:

" 70A. Pensions or other benefits under this Act shall not be in any way assigned charged or passed by operation of law to any person other than the pensioner or beneficiary, and any money payable out of the Fund on the death of a member or pensioner or other beneficiary shall not be assets for the payment of his debts or liabilities."

As the Act currently stands it is possible for a contributor to the Fund to assign the benefits that will be payable on his or her retirement or death to a third party such as a financial institution, perhaps as security for a loan. This means that if the contributor dies, the financial institution has a claim on the benefits instead of those persons who may be dependent upon the contributor. The amendment provides that persons cannot assign any of the benefits that they may receive under the Act to another party.

The Committee notes that this also means that the contributor cannot assign any benefits that he/she may receive under the Act to the Victorian State Government. The Superannuation Act 1958 contains the same clause. This amendment is also a standard provision which appears in most superannuation schemes.

The Committee recognises that the above provision is customary in superannuation schemes designed to provide for "needs". Apart from any argument in favour of or against these paternalistic provisions the amendment ensures that the employer's intention for superannuation is maintained - which is that superannuation entitlements are preserved for the retirement needs of the individual and for the needs of dependants. The Committee however is concerned that the amendment will reduce an individual's flexibility in determining his/her lifetime

arrangements. Whether this could be achieved by way of an exemption at the discretion of the Trustees and employer is a question on which the Committee will seek evidence as part of its wider Inquiry. At present it remains an open question as does the whole issue of "paternalism" in the provision of superannuation.

Clause 13.

13. (1) In section 69 (2) of the Principal Act, for the expression "\$20" there shall be substituted the words "one-fifth of a penalty unit".

(2) In section 72 (e) of the Principal Act, for the expression "\$100" there shall be substituted the words "one penalty unit".

The Act currently prescribes monetary penalties in the event of employees making false disclosures to the Board in regard to regulations and for refusal to supply information to the Board. The amendment replaces the monetary penalties with those penalty units that may be prescribed by the Governor-in-Council from time to time.

Clause 14.

14. Notwithstanding anything contained in this Act a person who was entitled to a pension under section 44 (1)(c) or section 45 (1)(b) or section 47 of the Principal Act as in force immediately before the commencement of this Act shall so long as he is entitled to a pension under one of those sections be entitled to a pension at the rate that he would have been entitled to receive if this Act had not been passed.

The new provisions in Clauses 10 and 11 relating to children's pensions, specify that the base rate of pension will be \$650 per annum, multiplied by any increase in the Consumer Price Index since 30 June, 1982. The new base rate of pension will thus be paid only to future pensioners, together with six monthly C.P.I. increases (already provided for in the Act). This Clause 14 has the effect of allowing the Board to continue paying existing pensions to children at a base rate of \$650

per annum (or \$1,300 per annum in the case of 'double' orphans), without having to re-calculate the base rate and, accordingly, make adjustments to payments made since 30 June 1982.

The S.E.R.B. Board has argued that the Clause has been inserted for the purpose of easing administration.

2.3 Proposed Additional Amendment to the State Employees Retirement Benefits (Amendment) Bill - School of Mines and Industries Ballarat Ltd.

The Committee understand the Treasurer is considering a further amendment to the Act which would allow the admission to the S.E.R.B. scheme of employees of The School of Mines and Industries Ballarat Ltd. Currently, these employees are not eligible for admission as the institution has been established under The Companies Act. Non-teaching employees of all other TAFE colleges have been admitted to the S.E.R.B. scheme and in the circumstances the Committee recommends the Act be amended accordingly.

CHAPTER 3:

CONCLUSION

3.1 The amendments in Clauses 5 and 11 make minor improvements to scheme conditions which carry some cost to the employer. The amendment in Clause 3 should have an additional amendment so that employees will receive any benefits in respect of service that they may have had as a "permanent employee" between 1 July 1980 and the date that contributory service commenced.

Overall, taken in isolation these provisions have much to be said for them and the Committee raises no objection. However, as the Committee noted in the case of the Local Authorities Superannuation Act amendments, any new provisions which provide additional benefits or incur additional costs to the employer may make overall reform harder to achieve if that is ultimately what the Committee recommends. The remaining amendments do raise questions of principle but do not involve substantial costs.

3.2 In total the Committee can find no fundamental technical reason for opposing the amendments. The Committee considers that in all the circumstances the changes will not prejudice any proposals the Committee may make in addressing its Terms of Reference in relation to public sector superannuation.

APPENDIX I

SCHEME OUTLINE

STATE EMPLOYEES RETIREMENT BENEFITS SCHEME (AS AT MARCH 1983)

INFORMATION PROVIDED BY THE GOVERNMENT ACTUARY'S OFFICE

1. Scheme Overview

1.1 Administrator : State Employees Retirement Benefits Board,
35 Spring Street,
MELBOURNE. 3000

Tel : 651 3599

1.2 Scheme Style : Benefit Promise Lump Sum and Pension Combined

2. Eligibility

2.1 Compulsory for Road Construction Authority employees who are not in the State Superannuation Board Scheme and "exempt" employees of Victorian Government Departments after 12 months service if under age 57. Membership is optional if aged between 57 and 65.

2.2 Other groups of employees are brought in by "Order-in-Council". It then becomes compulsory for all those employed thereafter.

3. Contributions

3.1 Employee Contributions:

A percentage of salary ranging between 3½% for employees receiving minimum wage or less, up to 6% for those receiving at least 1½ times the minimum wage.

3.2 Employer Contributions:

Determined by the Actuary, and designed to eventually meet all employer share of outgoings, including administration. Currently this is 7.62% of salary.

3.3 Scheme is not funded but operates on pay-as-you-go basis, - similar to State Fund, except that the employer contribution is assessed as shown in 3.2 above instead of being collected for individual cases. Currently the Fund is in deficit, as the level of contributions for employers has not been sufficient to meet the lee-way caused by payment of retrospective benefits etc.

4. Benefits

Benefits (except on retrenchment) are reduced by the amount of any gratuity paid to member.

4.1 Retirement

On normal retirement at age 65, after 30 years contributory service, a lump sum of 3 times Adjusted Final Salary plus an annual pension of 25% of Adjusted Final Salary, fully indexed.

On early retirement between ages 60-64, the normal retirement pension is reduced by 1% for each complete year by which 65 exceeds the retirement age.

On late retirement:

(a) between ages 65 and 66 :

the benefit he would have received at 65 plus interest on lump sum part.

(b) after age 66 :

Benefit same as in (a) except pension is at a higher rate for age determined actuarially.

On reaching age 70, pensioner may apply for conversion of part of his pension to a lump sum at a rate determined actuarially.

4.2 Death

Benefits as under are payable:

On death of a married contributor before age 65 :

The lump sum the contributor would have received at age 65 plus a spouse pension of 2/3 of the prospective pension at age 65, after reducing the benefits on account of prospective service, by the percentage applicable to the member's medical classification, if below A.

On death of a married contributor after age 65 :

Benefits as above calculated as if he had retired on date of death.

On death of a married pensioner :

A spouse benefit of 2/3 of pension that the pensioner was receiving on his death and if he was a disability pensioner, the balance of any lump sum.

On death of single contributor :

Lump sum is payable, to his estate.

On the death of a contributor or pensioner :

Benefits are payable to children who are under the age of 18 years or full-time students who are not more than 25 years of age.

4.3 Disability

- a temporary pension of 50% of salary may be payable for 6 months with possible extension of another 6 months.

or a normal disability benefit of a lump sum and pension after allowance for prospective service to age 65, and reducing the benefits on account of prospective service by the percentage applicable to the member's medical classification if this is less than A. The lump sum may be held, paid in full or in instalments with interest until age 65, at the Board's discretion.

- disability pension may not be commuted.

- benefits may be altered or cease on changes of extent of disability.

4.4 Spouse Pension

Full spouse pension is payable (subject to a Court direction to pay part to a de-facto spouse) if marriage occurred prior to a contributor's retirement or if it occurred prior to a disability pensioner reaching age 60,

or at least 5 years before a pensioner's death in which case the spouse's pension may be reduced if more than 5 years younger than the deceased.

Spouse pension is subject to an income test after one year of payment and may not be converted to a lump sum.

4.5 Children

payable on death of a contributor or pensioner :

\$650 per year per child if spouse is alive,

\$1300 per year per child if double orphaned.

These pensions are indexed.

4.6 Resignation or Withdrawal

Refund of contributions with interest less cost of member's share of death and disability cover, or

if contributor's age is between 30 and 60 an option of deferred benefit payable at age 65 or death is available.

Retrenchment

Any gratuity payable is not deducted from resignation benefit.

5. Investments

Investments may be made on Trustee securities, loans guaranteed by Victorian Government, mortgages and properties in Victoria etc..

6. Restrictions

6.1 Short Service

If the contributory service is less than 30 years, the retirement benefits payable are reduced proportionately.

6.2 Substandard health

All members are medically examined and classified at entry.

In the event of death before retirement or disability before age 60, the benefits for future service (to age 65) will be reduced according to the classifications B,C, D and E.

However on death due to traumatic bodily injury, this benefit reduction may not apply.

The Board may reduce the classification to a lower level if contributor fails to disclose details of his medical history.

APPENDIX II

LIST OF SUBMISSIONS

The Committee requested and considered submissions from the following organisations:

State Employees Retirement Benefits Board

- (Mr. S.G. Belcher, Assistant Manager)

Second Reading Speech

Notes on Clauses

MEETINGS

The Superannuation Sub-Committee met on three occasions to discuss the proposed amendments to the State Employees Retirement Benefits (Amendment) Bill.

The Committee also held discussions with the Hospital Employees' Federation of Australia No. 2 Branch and the State Employees Retirement Benefits Board.

APPENDIX III

INQUIRY INTO VICTORIAN PUBLIC SECTOR

SUPERANNUATION SCHEMES

TERMS OF REFERENCE

- A. The adequacy of present provisions for the management of all Victorian public sector superannuation schemes, including:-
- (a) structure and management of schemes;
 - (b) representation of contributors;
 - (c) actuarial assessment and valuation;
 - (d) reporting to Government and contributors, and contributors' access to information; and
 - (e) auditing requirements.

in terms of the efficient operations of these funds and the protection of the interests of contributors and the Government.

- B. Whether uniform provisions for the management of schemes are feasible and desirable, and if so what these might be.
- C. Whether the existing administration of schemes is efficient and administrative costs are reasonable.
- D. Whether the current organisational structure of superannuation schemes in the Victorian public sector is the most suitable having regard to:-
- (a) differences in the financial independence of various agencies and authorities involved;
 - (b) possible benefits from reduction of duplication and economies of scale; and
 - (c) any disadvantages from competition between schemes.

and whether a reduction in the number of separate schemes is feasible and desirable.

- E. Whether the terms and conditions governing eligibility for membership of various schemes are reasonable in comparison with other schemes in Australia and whether these terms and conditions are equitable between different employees.
- F. The appropriateness of the current benefits, having regard to:-
- (a) the needs of contributors, superannuants and beneficiaries;
 - (b) comparable benefits for public sector employees in other States and in the Commonwealth Government and those prevailing in the private sector, also having regard to any differences in salary packages and to the role of the superannuation in the recruitment and retention of Victorian Government employees; and
 - (c) vesting.

and including the reasonableness of provisions governing breaks in service, resignation, early retirement, ill health retirement, retrenchment or redundancy.

- G. The adequacy of portability and preservation arrangements between schemes, and between them and other Australian superannuation schemes.
- H. The suitability of the present basis of Government funding of the various schemes including the funding of administrative costs, and the future financial implications for Government of existing basis of funding.
- I. Whether the existing investment powers and pattern of investments of these schemes is optimal from the point of view of contributors and of the Government; and whether existing arrangements provide the most efficient mechanism for maximising the investment income of the schemes.
- J. Future options for public sector superannuation, including new relationships between public sector and private sector superannuation schemes.
- K. The adequacy of the existing legislative and regulatory framework for the operation of schemes and the appropriate legislative framework for any recommended changes in the structure and operation of schemes.

APPENDIX IV

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:

- (a) The Honourable P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS
OF THE LEGISLATIVE ASSEMBLY
Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-

- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Tuesday, 14 June 1983

14. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable Evan Walker moved, by leave, That the Honourable A.J. Hunt be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable G.P. Connard be added to such Committee.

Question-put and resolved in the affirmative.

ECONOMIC AND BUDGET REVIEW COMMITTEE

A REPORT TO PARLIAMENT
ON
THE PROPOSALS CONTAINED IN THE
HOSPITALS SUPERANNUATION (AMENDMENT) BILL (NO. 2)

Ordered to be Printed

P R E F A C E

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees) Act 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire into and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated fund or other Budget Papers.

TERMS OF REFERENCE FOR THE INQUIRY INTO
THE PROPOSALS CONTAINED IN THE
HOSPITALS SUPERANNUATION (AMENDMENT) BILL (NO. 2)
AND THE
STATE EMPLOYEES RETIREMENT BENEFITS (AMENDMENT) BILL

On 20 September 1983, the Legislative Assembly and the Legislative Council passed resolutions referring the proposals contained in the Hospitals Superannuation (Amendment) Bill (No. 2) and the State Employees Retirement Benefits (Amendment) Bill to the Economic and Budget Review Committee for inquiry, consideration and report.

Note: The Committee is dealing with these Bills in two separate reports. This report covers the Hospitals Superannuation (Amendment) Bill (No. 2).

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Hon. D.K. Hayward, M.L.C. (Deputy Chairman)
Hon. G.P. Connard, M.L.C.
Hon. B.P. Dunn, M.L.C.
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Mr. A. McCutcheon, M.P.
Mr. P.J. McNamara, M.P.
Mr. J.I. Richardson, M.P.
Hon. G.A. Sgro, M.L.C.
Mr. A.J. Sheehan, M.P.

SUPERANNUATION INQUIRY SUB-COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Hon. D.K. Hayward, M.L.C.
Mr. A. McCutcheon, M.P.
Hon. G.A. Sgro, M.L.C.
Mr. P.M. Gavin, M.P.

STAFF

Administration

Mrs. Elke Barbian, Secretary.
Miss Karen Day
Mrs. Muriel O'Gorman

Research

Ms. Helen Silver, Director of
Research
Mr. Andrew Hemming
Mr. Ron McDonald
Mr. Paul Belin
Mr. Rod Overall.

C O N T E N T S

PREFACE	...	...	...	...	...	...	...	...	i - vii
<u>CHAPTER 1:</u>	Introduction and Summary	..	...	...	...	...	...	...	1
<u>CHAPTER 2:</u>	Hospitals Superannuation (Amendment)								
	Bill (No. 2)	..	...	...	...	...	...	...	2
	2.1 Outline of Hospitals Superannuation Scheme	...	...	...	...	...	...	...	2
	2.2 Amendments to the <u>Hospitals Superannuation Act 1965</u>	...	...	...	...	...	...	...	2
<u>CHAPTER 3:</u>	Conclusion	...	...	...	...	...	...	...	23
<u>APPENDIX I:</u>	Scheme Outline	...	...	...	...	...	...	...	25
<u>APPENDIX II:</u>	List of Submissions	...	...	...	...	...	...	...	29
<u>APPENDIX III:</u>	Terms of Reference Superannuation Inquiry								30
<u>APPENDIX IV:</u>	Extracts of the Minutes and Votes of the Legislative Council and the Legislative Assembly	...	...	...	...	...	...	...	32

1.1 The Committee is currently undertaking an investigation into all Victorian public sector superannuation schemes. Thirty seven (37) separate and different superannuation schemes have been identified so far. Each of these schemes has a different origin and operates under separate management, which often takes direction from either an independent Board or from Government Authorities.

On completion of its Inquiry the Committee may wish to recommend a number of changes to some or all of the schemes. Apart from the particular changes incorporated in the Hospitals Superannuation (Amendment) Bill (No. 2) the Committee therefore needs to consider the possible overall implications of this Bill for all public sector superannuation schemes.

1.2 The following discussion considers the proposed amendments to the Hospitals Superannuation (Amendment) Bill (No. 2) and, where possible, seeks to indicate their impact on other schemes. An outline of the contributions and benefits of the current scheme is provided in Appendix 1.

In commenting on the present Bill, the Committee emphasises that it does so without prejudice to any principles and proposals it may recommend in its future reports to the Parliament on superannuation.

1.3 In summary, the Committee believes the passing of this Bill, apart from clauses 9(2) and 9(3), will not affect its consideration of the broader Terms of Reference on superannuation (see Appendix III). For reasons which are explained on pages 16 to 18, the Committee unanimously recommends that clauses 9(2) and 9(3) should not stand as part of the Bill.

2.1 Outline of Hospitals Superannuation Scheme

The Hospitals Superannuation Scheme was established in 1965 and has been amended a number of times. Membership is voluntary for employees of both public and private hospitals. As at June 1982 there were 9,100 contributors to the scheme. It provides both a lump sum and pension benefit. Members are able to commute part of their pension to increase their lump sum entitlement. There are separate contributions by employers and employees for the pension and lump sum benefits.

The lump sum benefit is fully funded and the pension benefit is only partially funded. The employees' contributions towards pension entitlements are paid on a regular basis into a separate fund. The employers pay a percentage of salary estimated to meet their share of pension costs over each three year period. The reasons for this method of funding the scheme are historical. Amongst other things, this method of funding has led to the establishment of separate funds within the one scheme which makes the administration and accounting of the scheme cumbersome. One of the more curious results is that different actuaries report separately to the Hospitals Superannuation Board on the two aspects of the Scheme.

2.2 Amendments to the Hospitals Superannuation Act 1965

The following section outlines the proposed amendments and their likely impact on this and other schemes. Most of the amendments concern both the lump sum and pension aspects of the scheme.

HOSPITALS SUPERANNUATION (AMENDMENT) BILL (NO. 2)
Amendments and Their Impact

Clause 1.

1. (1) This Act may be cited as the Hospitals Superannuation (Amendment) Act 1983.

(2) In this Act the Hospitals Superannuation Act 1965 is called the Principal Act.

(3) Subject to sub-section (4) the several provisions of this Act shall come into operation on a day or the respective days to be fixed by proclamation or successive proclamations of the Governor in Council published in the Government Gazette.

(4) Section 6(4) shall be deemed to have come into operation on 22 December 1981.

Clause 1 contains the customary provisions for title and commencement. Clause 6(4) has been made retrospective to 22 December 1981 to correct an error in amendments taking effect from that date.

Clause 2.

2. In section 3 of the Principal Act in the interpretation of "retrenchment", after the words "ten years' employment" there shall be inserted the words "with that institution or any other institution".

The amendment is to provide retrenchment benefits to employees who have ten years service with participating institutions in the Hospitals Superannuation Scheme, as opposed to the current requirement of at least ten years service with the participating institution from which the employee is retrenched.

Under the current provisions in the Act a person could have been employed by different participating institutions, (Hospitals) and at the same time been a contributor to the Hospitals' scheme for 20 or 30 years and still not be entitled to retrenchment benefit. A retrenchment benefit would only be payable if a person's services are terminated by an institution where he or she has been employed continuously for more than ten years.

The Committee has noted that the State Superannuation Scheme, the State Employees Retirement Benefits Scheme, and the Local Authorities Superannuation Scheme do not require any length of service to be completed before a contributor is

eligible for a retrenchment benefit.

The Committee has also noted the actual retrenchment benefit made in the Hospitals' scheme differs slightly from that in the State Superannuation Scheme, the State Employees Retirement Benefit Scheme and the Local Authorities Superannuation Scheme. In the latter three schemes the retrenchment benefit is $3\frac{1}{2}$ times the member's contributions to the Fund. In the Hospitals' scheme the retrenchment benefit is a lump sum of 10% of Adjusted Final Fund salary for each completed year of membership, plus the return of the member's contributions towards the pension benefit ($2\frac{1}{2}\%$ of salary), with interest from 1/7/81.

Depending on the actual ages and the period of membership of persons to be retrenched, the Hospitals' retrenchment benefit will either be more or less generous than that offered by the State Superannuation Board. The Hospitals' retrenchment benefit is more generous than the State Superannuation Board's as the number of years of service increases.

The Committee has noted that there is no provision for an individual who receives a retrenchment benefit under the Hospitals' scheme to pay back this benefit, if he or she is re-employed by an institution participating in the Hospitals Superannuation Scheme, and chooses to rejoin the scheme. In the Local Authorities Superannuation Scheme, for example, an individual who has received a Local Authorities' retrenchment benefit may repay this benefit if re-employed by a Local Authority.

The Hospitals Superannuation Board have stated that retrenchments are rare and therefore they expect the cost of the amendment to be minimal. In the last two financial years only five retrenchment benefits have been paid.

The Committee notes that the cost of retrenchment of Hospitals

scheme members will be spread across all the employers contributing to the Hospitals' scheme, and in this sense will be absolving the individual employing authority of the liability for providing compensation for retrenchment.

The Committee also notes the provision or extension of retrenchment provisions for only those employees who are members of the voluntary Hospitals scheme has important industrial relations implications.

Clause 3.

3. In section 6(1) of the Principal Act, for the words "Governor in Council" there shall be substituted the word "Minister".

Administrative difficulties are currently being encountered by the Board in the employment and payment of staff of the Board.

The Act currently specifies that the Governor-in-Council shall fix the salaries payable to all staff of the Board. This effectively means that when staff are appointed to the Board and are eligible to be paid an increment or there is a Public Service pay rise, the Governor-in-Council has to approve of these matters. It is proposed that the Treasurer, as the responsible Minister, will be responsible for these approvals.

The Board has requested the amendment with a view to streamlining administrative procedures and ensuring that the appointment of new staff is not delaying unduly.

Clause 4.

4. Section 28 of the Principal Act is amended as follows:

(a) After sub-section (1) there shall be inserted the following sub-section:

"(1A) Notwithstanding anything in paragraph (a) of sub-section (1), if a contributor resigns and resumes employment with a participating institution within a period of 4 weeks he shall be deemed to have continued as a contributor and no benefits shall be payable upon such resignation.";

(b) In sub-section (2) -

(i) after the expression "sub-section (1) there shall be inserted the expression "or in sub-section(1A)";

(ii) after paragraph (a) there shall be inserted the following paragraph:

"(ab) notifies the Board of his intention to continue as a contributor;"

(iii) in paragraph (b), for the words "two months" there shall be substituted the words "six months"; and

(iv) for paragraph (c), there shall be substituted the following paragraph:

"(c) during the time he is not employed by a participating institution pays to the Board -

(i) contributions at the same rate as would be applicable from time to time if he had continued to be employed by a participating institution at the Fund salary that he was in receipt of immediately before he ceased to be employed by the participating institution;

(ii) supplementary contributions at the rate applicable from time to time in relation to the Fund salary that he was in receipt of immediately before he ceased to be employed by the participating institution; and

(iii) payments and levies at the rate at which the participating institution by which he was last employed would have been required to make if it had been a Class A institution in respect of persons who are in receipt of a Fund salary equal to the Fund salary that he was in receipt of immediately before he ceased to be employed by the participating institution";

(c) In sub-section (3) -

(i) after the expression "sub-section (1)" there shall be inserted the expression "or in sub-section (1A)";

- (ii) in paragraph (b), for the expression "two months" there shall be substituted the expression "six months"; and
- (iii) for paragraph (c) there shall be substituted the following paragraph:

"(c) between the time when he ceased to be employed and the time when he dies or becomes disabled pays to the Board -

 - (i) contributions at the same rate as would be applicable from time to time if he had continued to be employed by a participating institution at the Fund salary that he was in receipt of immediately before he ceased to be employed by a participating institution;
 - (ii) supplementary contributions at the rate applicable from time to time in relation to the Fund salary that he was in receipt of immediately before he ceased to be employed by a participating institution; and
 - (iii) payments and levies at the rate at which the participating institution by which he was last employed would have been required to make if it had been a Class A institution in respect of persons who are in receipt of a Fund salary equal to the Fund salary that he was in receipt of immediately before he ceased to be employed by the participating institution"; and
- (d) After sub-section (3), there shall be inserted the following sub-sections:

"(4) Where a contributor who is deemed by sub-section (2) to have continued to be a contributor is not again employed by a participating institution due to circumstances other than his death or disability he shall be deemed to have ceased to be a contributor as at the date he ceased to be employed by a participating institution and in addition to any other benefit payable to him he shall be paid a refund of all money paid by him under paragraph (c) of sub-section(2).

(5) Where a contributor who is deemed by sub-section(2) to have continued to be a contributor is again employed by a participating institution the Board shall determine the additional benefit, if any, to be provided as a consequence of the compliance by the contributor with paragraph (c) of sub-section(2)."

Paragraph (a) is intended to clarify the provisions of this section and to ensure that, when a contributor transfers from one participating institution to another, his or her membership of the Hospitals Fund will continue.

The Board has received Crown Solicitor advice that the current wording of section 28 could provide contributors with the opportunity to voluntarily withdraw from the Fund without resigning from their employment. The amendment will remove any possibility of voluntary withdrawal.

Paragraph (b) sub-paragraphs (i) and (ii) are consequential to (a).

Paragraph (b) sub-paragraph (iii) extends the period which a contributor may continue to be a contributor, while being employed by an institution which is not participating in the Hospitals Superannuation Scheme, without the specific approval of the Board.

The present wording of the Act was designed to ensure that a member who was not employed by a participating institution was required to pay his or her own and the employer's share of contributions. Subsequent amendments to the Act since 1970 have introduced a pension scheme and an Additional Payments Fund which mean higher payments by employers participating in the scheme. The proposed amendment in sub-paragraphs (iv) will take into account these previous scheme changes and will allow for higher payments and for variations in contributions which may occur from time to time. The amendment therefore will ensure the principle remains that a member who is not employed by a participating institution, is required to pay his or her own and the employer's share of contributions.

Paragraph (c) sub-paragraph (i) are consequential to (a).

Paragraph (c) sub-paragraph (ii) are consequential to (b).

Paragraph (c) sub-paragraph (iii) is consistent with that inserted in (b) (iv).

Paragraph (d) adds two new sub-sections (4) and (5) to section 28 of the Principal Act to cater for the contributor who ceases to be employed by a participating institutions and who elects to continue both his/her own and his/her employer's contributions. Sub-section (4) provides for a termination benefit if a person is not re-employed by a participating institution before leaving the Hospitals' scheme. Sub-section (5) provides for recognition of any contributions made to the Hospitals' scheme when a person ceased to be employed by a participating institution, if he/she is re-employed by a participating institution.

Clause 5.

5. Section 30 of the Principal Act is amended as follows:

(a) After sub-section (4), there shall be inserted the following sub-section:

"(4A) In the case of a contributor who is absent on leave without pay other than on account of ill-health, an election under sub-section (4) may be made only if the period of the leave is greater than four weeks.";

(b) In sub-section (9), the expression ", and the disability benefits shall be calculated as though the contributor died on the date of his retirement" shall be repealed;

(c) After sub-section (9), there shall be inserted the following sub-section:

"(9A) Where a contributor makes an election under paragraph (a) of sub-section (4) the period for which the leave was granted shall not be taken into account when determining the period of the contributor's service for the purposes of calculating benefits under this Act."; and

(d) For sub-section (11), there shall be substituted the following sub-section:

"(11) Where a contributor makes an election under paragraph (c) of sub-section (4) he shall have the same entitlements to benefits under this Act as he would have had if he had paid contributions at the rate which would have been

payable by him if he had not taken the leave and had continued to work at the salary payable to him on the date on which the leave commences and for the purposes of calculating those benefits the period for which the leave was granted shall be taken into account in determining the total period of the contributor's service."

Section 30 of the Principal Act relates to persons who are on leave without pay and is primarily directed at persons who are on maternity or study leave. As the Act currently stands all persons who are on leave without pay, whether this be one day or one year, have a number of alternatives in relation to paying contributions. The addition of sub-section (4A) is to provide that persons who are on leave without pay, other than sick leave, will pay full contributions, unless they are absent for a period in excess of four weeks.

The amendment will ensure that leave without pay will be limited to longer periods such as for maternity and study leave.

Under the current wording of section 30 (9) a person who is to receive a disability benefit has the benefit calculated as if he/she had died. This is despite the fact that he/she may have been assigned a medical classification for the purpose of determining disability benefits. The amendment is to provide that the disability benefit will be appropriate to the person's assigned medical classification. The Board has noted the present wording of the Act would result in higher costs.

The amendment to section 30 (11) is to correct a drafting error made in the 1981 amending Act. It will allow a contributor on leave without pay who pays his/her own and the employers contributions, at a rate of three and half times past salary, to have this period recognised as service for benefit purposes. Such leave is not recognised under the current legislation. Service will not be recognised for persons who are not paying any contributions. The Principal Act was not clear on this issue.

The Board has indicated the change would result in greater consistency with the State Employees Retirement Benefits (Amendment) Act 1981.

The Committee has noted that the amendment to section 30 is not retrospective.

Clause 6.

6. (1) In section 31(1) of the Principal Act -
 - (a) before the words "a participating institution" there shall be inserted the words "other than on account of ill-health"; and
 - (b) the expression "(whether or not the contributor is absent on leave without pay or with reduced pay)" shall be repealed.
- (2) In section 32(1) of the Principal Act -
 - (a) before the words "a participating institution" there shall be inserted the words "other than on account of ill-health"; and
 - (b) the expression "(whether or not the contributor is absent on leave without pay or with reduced pay)" shall be repealed.
- (3) In section 32A(1) of the Principal Act -
 - (a) before the words "a participating institution" there shall be inserted the words "other than on account of ill-health"; and
 - (b) the expression "(whether or not the contributor is absent on leave without pay or with reduced pay)" shall be repealed.
- (4) In section 6 (4) of the Hospitals Superannuation (General Amendment) Act 1981 for the expression "35ZFB" there shall be substituted the expression "35ZB".
- (5) In section 35ZB(4) of the Principal Act after the words "leave without pay" there shall be inserted the words "other than on account of ill-health".

The amended wording is designed to correct two errors made in the Hospitals Superannuation (General Amendment) Act 1981. The particular provisions that caused problems were those to do with ill-health leave of absence.

Under clause (6) sub-clauses (1), (2), (3) and (4) are required to ensure that the employer's contribution is paid during a period of leave of absence due to ill health. Also they are required to remove contradictory statements, for example, sub-section (1) of section 31 states inter alia that:-

"except in the case of a contributor who is absent on leave without pay a participating institution Class A shall pay to the Board in respect of each of its employees who is a contributor (whether or not the contributor is absent on leave without pay or with reduced pay)-----"

Clause 6 (4) is designed to correct an error made in the Hospitals Superannuation (General Amendment) Act 1981 which refers to section 35ZFB (4). This sub-section does not exist. The reference should have been to section 35ZB(4). This has been made retrospective to 22 December 1982.

Clause 7.

7. In section 34 of the Principal Act the expression "as calculated in accordance with the provisions of this Act in force immediately before the commencement of the Hospitals Superannuation (Amendment) Act 1980 and" shall be repealed.

Section 34 of the Principal Act provides a terminal benefit subsidy for some employees.

A terminal benefit subsidy is paid by the Hospitals and Charities Commission to the Board when a contributor or a former contributor becomes entitled to a retirement, retrenchment or death benefit. There are two categories of employers, Class A, (government institutions), and Class B, (private hospitals), contributing to the Fund.

The amendment is designed to ensure that the Government subsidy in respect of Class "A" institutions does not exceed 20% of the total benefit. The provisions of Regulation 8(1)(d) which refers to terminal benefit subsidies in respect of Class

"B" institutions indicates these will not exceed 20% of the total benefit. The terminal benefit subsidy for Class "B" institutions is paid by a levy on all private hospitals.

Section 5 of the Hospitals Superannuation (Amendment) Act 1980 introduced the words:

"as calculated in accordance with the provisions of this Act in force immediately prior to the commencement of the Hospitals Superannuation (Amendment) Act 1980 and ..."

This amendment would result in some instances, in a terminal benefit subsidy, in the case of Class 'A' institutions, to be in excess of 20% of the total benefit. Consequently, the current amendment is required to restore consistency between Class 'A' and 'B' institutions.

Clause 8.

8. (1) In section 35A(1) of the Principal Act in the interpretation of "Minimum wage" -

- (a) for the expression "\$82.80" there shall be substituted the expression "\$144.80";
- (b) for the word "Melbourne" there shall be substituted the word "Victoria"; and
- (c) for the expression "1st day of January, 1976" there shall be substituted the expression "30th day of June, 1981"

(2) In section 35A(2) of the Principal Act -

- (a) the words "having regard to any awards of the Australian Conciliation and Arbitration Commission" shall be repealed; and
- (b) for the expression "1st day of January 1976" there shall be substituted the expression "30th day of June 1981"

(3) In section 35F of the Principal Act, after the words "Average Weekly Earnings (Melbourne) Index" (where twice occurring) there shall be inserted the words "or such other similar index as the Treasurer on the recommendation of the Government actuary from time to time determines that is".

(4) In section 35I of the Principal Act, after the words "Average Weekly Earnings (Melbourne) Index" (where twice occurring) there shall be inserted the words "or such other similar index as the Treasurer on the recommendation of the Government Actuary from time to time determines that is."

In the Hospitals' scheme benefits are based on a measure called Adjusted Final Fund salary. The formulae to determine Adjusted Final Fund Salary involves the "Average Weekly Earnings (Melbourne) Index." This Index is no longer published by the Australian Bureau of Statistics and it is therefore necessary to prescribe a new index for use in the calculation of pensions.

Clause 8 paragraphs (3) and (4) enable the Treasurer on the recommendation of the Government Actuary to determine from time to time that a similar index published by the Commonwealth Statistician be used in the calculation of pensions.

Clause 9.

9. (1) Section 35FA of the Principal Act is amended as follows:
 - (a) In sub-section (3) for the expression "sub-section (1)" there shall be substituted the words "this section";
 - (b) In sub-section (1), after the word "receiving" there shall be inserted the words "or entitled to receive";
 - (c) in sub-section (5), after the word "receiving" there shall be inserted the words "or entitled to receive";
 - (d) For sub-section (9) there shall be substituted the following section:

"A pension contributor who is receiving a pension pursuant to this Part and who has been granted an application pursuant to sub-section (5) shall not be granted a further application pursuant to sub-section (5) until the period of time in respect of which the last preceding application of the pension contributor was granted has elapsed"; and

(e) After sub-section (9) there shall be inserted the following sub-section:

"(10) the provisions of this section shall apply to and in relation to the spouse of a deceased pension contributor and to the pension entitlement of that spouse in the same manner and to the same extent and subject to the same conditions as they apply to a pension contributor in relation to his pension entitlement."

(2) In section 35A of the Principal Act, the words "or whose husband is alive but not wholly or substantially dependent on the pension contributor" shall be repealed.

(3) Section 35o of the Principal Act shall be repealed.

The amendments to clause 9(1) refine the language of the Principal Act.

Clause 9(1)(a) seeks to ensure that spouse entitlements should not be affected by commutation of pensions to lump sums undertaken by the spouse's deceased husband/wife.

A pensioner can convert part of his/her pension to a lump sum amount in order to retain the Commonwealth pension fringe benefits. For example, if a pensioner is entitled to a Hospital's pension of \$100 per week and converts part of that pension to a lump sum he/she would still receive a Hospital's pension of say \$70 per week. The Principal Act currently has the effect that the spouse of the pensioner would have only been entitled to two-thirds of the reduced rate of pension (two-thirds of \$70 per week).

The amendment under clauses 9(1)(b) and 9(1)(c) are to enable a retiring member to commute his or her pension immediately upon retirement, before payments have commenced. Under the current provisions commutation is only available to persons already receiving pension payments. This may penalise a person as they might not be eligible to receive full or partial Commonwealth Social Security benefits, if they are already receiving a Hospitals' pension.

Clause 9(1)(d) will allow pensioners to make more than one application to commute their pension. The Principal Act currently allows only one application for a maximum of five years. A person who retires before the age of 65 may under the current provisions suffer financially by not being able to commute for a period longer than five years.

Clause 9(1)(e) is to enable spouses to commute their pensions under the same conditions as other pensioners.

The amendment in (2) is consequential on that in (3) and thus subject to the following comments.

The amendment in clause 9(3) is designed to remove a dependency or means test for a widower's benefit. The amendment would allow widowers to have the same level of benefit as widows. The present provision of section 350 means that a widower's benefit is subject to proof of dependence on the deceased.

The Economic and Budget Review Committee is currently considering the whole question of discrimination in superannuation provisions. Submissions by the Equal Opportunity Board to the Committee, and the Premier's reference to the Committee on the legislative proposals to bring superannuation under the Equal Opportunity Act, and other papers, have made the Committee aware of the need to examine discrimination broadly and thoroughly.

In the general sense, the Committee supports the view that whatever benefits are provided by superannuation should conform with equal opportunity principles. With this in mind, the Committee has examined the general principles under which pension schemes were established earlier this century. These principles were generally framed to meet the needs of contributors and their dependants. Consequently, these general conditions gave rise to pensions for widows on the basis that:

- (1) most long term contributors were male;
- (2) most contributors were married; and
- (3) most wives of contributors were engaged in home duties rather than employment.

In such circumstances the needs of the wife of a male contributor who died before, or after, retiring age were fairly obvious and a widow's pension was a natural provision. Such a benefit was however relatively costly and most if not all of the cost was borne by employers. Employers normally sought to moderate that cost:

- (1) by making a widow's pension cease on remarriage;
and
- (2) by either ignoring widowers altogether or alternatively requiring that a widower must be dependent (as the Hospitals Scheme currently does).

With the changes in social arrangements which have occurred over the past 20 years, the premise for a widow's pension now corresponds far less to reality than it did in the past. It is now more common for families to have two incomes and, in some cases, for females to provide the only income for the family. Marital status is no longer a reliable indicator of "need".

Notwithstanding this, a superannuation scheme that provides a widow's pension but not a widower's or does so with a dependency test, is contrary to equal opportunity principles.

In these circumstances, to conform with equal opportunity principles the choice is between calling for the abolition of spouse benefits, applying non-discriminatory dependency or means tests, and assuming dependency for all spouses. The State Employees Retirement Benefits Superannuation scheme, for example, is non-discriminatory in that it applies a means test to all spouse benefits.

At the same time the cost of superannuation is one of the major issues faced by the Committee and this raises a series of questions about the provision of a spouse's pension, for example:

- (1) Is it reasonable for a widower of 50 who is earning a salary to be eligible for a spouse's pension from his deceased wife's superannuation scheme?
- (2) Is it reasonable for a widow of 50 who is earning a salary and who may herself be a member of a superannuation scheme to be eligible for a widow's pension as if she was not in employment?
- (3) Is it reasonable for a widower of 70 who has a good pension in his own right to receive a further pension from his wife's superannuation scheme?

These are questions which the Committee will be addressing as part of its Inquiry.

In the circumstances and pending further examination of these questions by the Committee in pursuing its wider Terms of Reference, we consider that clauses 9(2) and 9(3) should not be proceeded with for the present.

The Committee also notes that questions of interpretation of section 350 were to be referred to the Crown Solicitor's Office earlier this year but no answers have been received to date.

Clause 10.

10. In section 35J(1) of the Principal Act, for the expression "\$442" there shall be inserted the expression "\$650".

The amendment is to bring the benefit for the child of a deceased contributor into line with that already payable to the child of a deceased pensioner. The benefit for the latter has been \$650 per annum since the passing of the Hospitals Superannuation (General Amendment) Act 1981. The benefit for the child of a deceased contributor is currently \$442 per annum.

The Board has stated the amendment is the result of an omission in the 1981 Amending Act to the Hospitals Fund. There was no estimate of the expected increase in cost that this amendment would entail.

Clause 11.

11. For section 35M of the Principal Act there shall be substituted the following section:

"(1) A pension contributor who ceases to be a contributor without becoming entitled to benefits under this Part otherwise than under this section shall be entitled to be paid -

- (a) an amount by way of benefits equal to the contributions made by him under this Part: and
- (b) interest at the prescribed rate per annum calculated on the amount of those contributions during each year or that part of a year after the year ending on 30 June 1983.

(2) For the purposes of sub-section (1) the prescribed rate per annum shall in relation to a financial year be -

- (a) until the rate for each year is determined such rate per annum as is determined by the Board; and
- (b) as from the determination of the rate per annum for a financial year under sub-section (3) that rate per annum.

(3) The Board shall as soon as practicable after the end of the year ending on 30th June 1984 and after the end of each succeeding financial year determine the prescribed rate per annum on actuarial advice having regard to the results achieved by the investments of the Fund during the last preceding financial year less such percentage of the earnings on the investments that the Board on actuarial advice determines should be retained in the Fund to meet the contingent liabilities of the Fund in respect of death and disability benefits.

(4) Immediately on the determination of the prescribed rate for a year pension contributors shall for the purpose of this section be credited with interest as at the end of the last preceding financial year at the prescribed rate per annum on the amount of their contributions and accrued interest if any."

This clause which is applicable in the case of resignation adds interest to the employee's pension contributions less a charge for death and disability benefits. It replaces a section intended for the same purpose and inserted by the Hospitals Superannuation (General Amendment) Act 1981 but which has been found to be unworkable. The provision is consistent with that already in the State Employees Retirement Benefit Fund. The Local Authorities Superannuation Fund has recently introduced a similar benefit on resignation.

The Committee notes the amendment is not made retrospective.

Clause 12.

12. In section 35U of the Principal Act, after sub-section (3) there shall be inserted the following sub-sections:

"(4) Where the Board -

(a) is in receipt of a request in writing from a pensioner that his pension not be increased in accordance with the provisions of sub-section (3); and

(b) the Board is of the opinion that it would not be in that pensioner's best interests to increase his pension in accordance with the provisions of sub-section (3) -

it shall not increase such pension pursuant to sub-section (3) unless and until such request is revoked.

(5) A pensioner who has been granted a request made under sub-section (4) may revoke such request at any time."

These are new sub-sections to section 35U of the Principal Act. The amendments will provide the Board with discretionary powers to alter pensions when these are increased by C.P.I. adjustments.

Many persons in receipt of a pension under the Principal Act are also in receipt of benefits under the Commonwealth Society Security Act. However, the increase in benefits that occurs when Hospitals' pensions are adjusted in accordance with movements in the Consumer Price Index may mean that pensioners become ineligible for Commonwealth Social Security fringe benefits.

The amendment is to allow pensioners to elect not to have their Hospitals' pension increased.

This provision accords with the Local Authorities Superannuation Scheme.

The Board has stated the amendment will lead to a reduction in costs to the Fund.

Clause 13.

13. In section 47(2) of the Principal Act -

- (a) after the word "interest" there shall be inserted the words "at the prescribed rate"; and
- (b) the words "at the rate of six per centum" shall be repealed.

When employers are late in forwarding contributions to the Fund they are charged a penalty at the rate of 6 per cent per annum. In view of the current high interest rates it is necessary to increase the interest chargeable on outstanding payments to a level which will give employers an incentive to pay contributions promptly. The amendment makes this possible.

Current proposals are to use the maximum long term public loan rate set by the Australian Loan Council. The Board has stated that the amendment will lead to a reduction in costs.

CHAPTER 3:

CONCLUSION

- 3.1 The amendments in clauses 2 and 10 make minor improvements to scheme conditions which carry some cost to the employers. Apart from clauses 9(2) and 9(3) the remaining amendments are of simple machinery type which will improve the operation of the Hospitals Scheme.
- 3.2 The Committee's earlier comments on clause 9(2) and 9(3) indicate its belief that this amendment raises points of principle which should be thoroughly explored by the Committee before clause 9(2) and 9(3) is passed by the Parliament.
- 3.3 Otherwise the Committee has no fundamental technical reason for opposing the amendments, Clauses 1, 2, 3, 4, 5, 6, 7, 8, 9(1), 10, 11, 12 and 13, and considers that the changes will not prejudice any proposals the Committee may make in addressing its Terms of Reference in relation to Public Sector Superannuation.

Committee Room, 9th November, 1983.

APPENDIX I

SCHEME OUTLINE

HOSPITALS SUPERANNUATION FUND SCHEME (AS AT MARCH 1983)

INFORMATION PROVIDED BY THE GOVERNMENT ACTUARY'S
OFFICE

1. Scheme Overview

1.1 Administrator : Hospital Superannuation Board,
691 Burke Road,
CAMBERWELL
G.P.O. 3124, MELBOURNE.

1.2 Scheme Style:

Benefits are provided in both lump sum and pension form.

Lump sum part - On retirement on or after age 60,
3 times adjusted final Fund salary.

Pension part - On retirement at age 65, a fully
indexed partially commutable pen-
sion of 25% of adjusted final Fund
salary.

2. Eligibility

All full time employees (except trainee nurses) of par-
ticipating institutions (mainly hospitals, elderly people's
and children's homes) who are under age 65 may apply to
join.

3. Contributions

3.1 Members contributions:

Lump sum part - 3½% of salary

Pension part - 2½%

Supplementary contributions are allowed.

3.2 Employer contributions:

Lump sum part - 3½% of salary

- plus a levy of ½% of salary

- plus for class "B" instituion
employees: 1% of salary.

Pension part - 3.91% of salary for current three
year period.

Pension part - 1/120 of adjusted final Fund salary for each complete year of membership to age 65 (maximum 30 years).

4.4 Spouse pension equal to 2/3 of members prospective or notional pension is payable on death in service or in receipt of pension respectively.

4.5 Children's pension:

Lump sum part - \$156 p.a.

Pension part - \$442 p.a. on death of a contributor or \$650 p.a. on death of a pensioner.

Orphan's pension:

Lump sum part - \$312 p.a.

Pension part - \$884 p.a. on death of a contributor or \$1300 p.a. on death of pensioner.

4.6 On resignation:

Lump sum part - return of member's contributions with 6% compound interest.

Pension part - return of member's contributions plus interest from 1/7/81.

An alternative deferred lump sum benefit equal to member's account balance (being member and employer contributions less management charges and charges for death and disability cover, plus interest), accumulated with interest payable at age 60 for males 55 for females is available.

An alternative deferred pension benefit may be payable at 60 or 65 depending on circumstances.

On retrenchment:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership.

Pension part - return of member's contributions plus interest from 1/7/81.

Marriage Benefit: (female members only)

If a married female member resigns

- a lump sum benefit equal to member's account balance at the time of marriage plus the member's resignation benefit subsequent to her marriage.

3.3 Lump sum part is funded.

Pension part is based on the pay-as-you-go-basis.

4. Benefits

4.1 On age retirement at 65:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership (maximum 30 years).

Pension part - $1/120$ of adjusted final Fund salary for each complete year of membership (maximum 30 years).

For early retirement at age 60 or after, the pension part is reduced by 5% at age 60 reducing linearly to zero at age 65.

Provision for females to retire early after age 55 is made for lump sum part.

Commutation of up to 30% of pension is allowed from age 70. Commutation of retirement pension before age 68 is also allowed provided certain conditions are met.

Supplementary contributions are returned with interest. The rate credited for the year 1982 was 9%. This is payable when leaving the fund for any reason.

4.2 On death in service:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership to age 65 (maximum 30 years).

Pension part - Spouse pension equal to $2/3$ of member's pension assuming member died at age 65 for years of membership calculation (maximum 30 years).

On death while in receipt of pension:

Lump sum part - Nil.

Pension part - Spouse pension equals $2/3$ of what husband's indexed pension would have been without any commutation.

4.3 On disability retirement:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership to age 65 (maximum 30 years).

5. Investments

Investments may be made on Trustee securities, loans guaranteed by Victorian Government, mortgages and properties in Victoria etc., and through the life offices.

6. Restrictions: Short service/Poor health

Members with less than 30 years service have their lump sum and pension benefit reduced on a pro-rata basis.

Also for -

Lump sum part - poor health members are classified into categories 2,3,4,0 for death benefits and categories B,C,D,0 for disability benefits. Their death and disability benefits are reduced according to a scale based on the combination of categories.

Pension part - poor health members are classified either as limited or service contributors. Their death and disability benefits are reduced.

APPENDIX II

LIST OF SUBMISSIONS

The Committee requested and considered submissions from the following organisations:

HOSPITALS SUPERANNUATION BOARD

DEPARTMENT OF MANAGEMENT & BUDGET

PARLIAMENT OF VICTORIA

Second Reading Speech

Notes on clauses.

MEETINGS

The Superannuation Sub-Committee met on three occasions to discuss the proposed amendments to the Hospital Superannuation (Amendment) Bill (No. 2).

The Committee also held discussions with staff and members of the Hospitals Superannuation Board.

APPENDIX III

INQUIRY INTO VICTORIAN PUBLIC SECTOR

SUPERANNUATION SCHEMES

TERMS OF REFERENCE

A. The adequacy of present provisions for the management of all Victorian public sector superannuation schemes, including:-

- (a) structure and management of schemes;
- (b) representation of contributors;
- (c) actuarial assessment and valuation;
- (d) reporting to Government and contributors, and contributors' access to information; and
- (e) auditing requirements.

in terms of the efficient operations of these funds and the protection of the interests of contributors and the Government.

B. Whether uniform provisions for the management of schemes are feasible and desirable, and if so what these might be.

C. Whether the existing administration of schemes is efficient and administrative costs are reasonable.

D. Whether the current organisational structure of superannuation schemes in the Victorian public sector is the most suitable having regard to:-

- (a) differences in the financial independence of various agencies and authorities involved;
- (b) possible benefits from reduction of duplication and economies of scale; and
- (c) any disadvantages from competition between schemes.

and whether a reduction in the number of separate schemes is feasible and desirable.

E. Whether the terms and conditions governing eligibility for membership of various schemes are reasonable in comparison with other schemes in Australia and whether these terms and conditions are equitable between different employees.

F. The appropriateness of the current benefits, having regard to:-

- (a) the needs of contributors, superannuants and beneficiaries;
- (b) comparable benefits for public sector employees in other States and in the Commonwealth Government and those prevailing in the private sector, also having regard to any differences in salary packages and to the role of the superannuation in the recruitment and retention of Victorian Government employees; and
- (c) vesting.

and including the reasonableness of provisions governing breaks in service, resignation, early retirement, ill health retirement, retrenchment or redundancy.

- G. The adequacy of portability and preservation arrangements between schemes, and between them and other Australian superannuation schemes.
- H. The suitability of the present basis of Government funding of the various schemes including the funding of administrative costs, and the future financial implications for Government of existing basis of funding.
- I. Whether the existing investment powers and pattern of investments of these schemes is optimal from the point of view of contributors and of the Government; and whether existing arrangements provide the most efficient mechanism for maximising the investment income of the schemes.
- J. Future options for public sector superannuation, including new relationships between public sector and private sector superannuation schemes.
- K. The adequacy of the existing legislative and regulatory framework for the operation of schemes and the appropriate legislative framework for any recommended changes in the structure and operation of schemes.

APPENDIX IV

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:
- (a) The Honourable P.D. Block, B.P. Durn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS
OF THE LEGISLATIVE ASSEMBLY
Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-
- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Tuesday, 14 June 1983

14. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable Evan Walker moved, by leave, That the Honourable A.J. Hunt be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable G.P. Connard be added to such Committee.

Question-put and resolved in the affirmative.

ECONOMIC AND BUDGET REVIEW COMMITTEE

A REPORT TO PARLIAMENT

ON

MATTERS RAISED IN THE EDUCATION DEPARTMENT

BY THE

AUDITOR-GENERAL OF VICTORIA

Ordered to be Printed

P R E F A C E

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees) Act 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire into and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated fund or other Budget Papers.

TERMS OF REFERENCE

To inquire into matters raised in the letter by the Auditor-General of 7 July 1983 and any other matter arising therefrom and to report to the full Committee.

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Hon. D.K. Hayward, M.L.C. (Deputy Chairman)
Hon. G.P. Connard, M.L.C.
Hon. B.P. Dunn, M.L.C.
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Mr. A. McCutcheon, M.P.
Mr. P.J. McNamara, M.P.
Hon. J.H. Ramsay, M.P. (From 6 March, 1984)
Mr. J.I. Richardson, M.P. (Till 6 March, 1984)
Hon. G.A. Sgro, M.L.C.
Mr. A.J. Sheehan, M.P.

SUB-COMMITTEE MEMBERS

Mr. P.J. McNamara, M.P. (Chairman)
Hon. G.P. Connard, M.L.C.
Mr. P.M. Gavin, M.P.
Mr. A.J. Sheehan, M.P.

STAFF

Ms. Helen Silver, Director of Research
Mrs. Elke Barbian, Secretary
Mr. Graeme George, Acting Secretary
Mrs. Muriel O'Gorman
Ms. Anne Ruck
Mr. Jacques Collard

C O N T E N T S

PREFACE (iii)

CHAIRMAN'S INTRODUCTION (xi)

CHAPTER 1: INTRODUCTION

- | | | |
|-----|---|---|
| 1.1 | Follow-up of Auditor-General's Report ... | 1 |
| 1.2 | Background to the Case | 1 |

CHAPTER 2: PREVIOUS REPORTS AND THE CURRENT INQUIRY

- | | | |
|-----|---|---|
| 2.1 | Auditor-General's Report 1979/80 | 4 |
| 2.2 | Inquiry by the Public Account and Expenditure
Review Committee (1981) | 5 |
| 2.3 | Inquiry by the Economic and Budget Review
Committee (1983) | 5 |
| 2.4 | Records obtained | 6 |
| 2.5 | Hearings | 6 |

CHAPTER 3: KEY ISSUES CONCERNING THE RENTAL ARRANGEMENTS - LEGISLATION, PRINCIPLES AND EVIDENCE

- | | | |
|-----|---|----|
| 3.1 | Payment of monies into the Consolidated Fund | 8 |
| 3.2 | Tendering Procedures | 9 |
| 3.3 | Agreements and Arrangements Concerning the
Use of Property by the Education Department | 12 |
| 3.4 | Conclusion | 14 |

CHAPTER 4:

THE COMMITTEE'S INVESTIGATION

4.1	Introduction	...	...	...	...	...	15
4.2	Role and Responsibilities of Departmental Officers	...	...	...	...	...	15
4.3	Responsibility for the Second Informal Agreement	...	...	...	...	...	17
4.4	Who Actually Entered into the Agreement?						19
4.5	Who Determined the Rent Level?	...	...				19
4.6	Specific Payments	...	...	...	...		20
4.7	Procedures for Arranging Works and Payment of Accounts in Lieu of Rent	...	...	...			21
4.8	Files and Procedures	...	...	...	...		23
4.9	Conclusion	...	...	...	...	...	23

CHAPTER 5:

SUMMARY AND RECOMMENDATIONS

5.1	Summary	...	...	...	...	...	25
5.2	Recommendations	...	...	...	...		26

APPENDIX I:

DOCUMENTATION OF MAIN DEVELOPMENTS IN CHRONOLOGICAL ORDER	29
---	-----	-----	-----	----

APPENDIX II:

EVIDENCE OBTAINED AT PUBLIC HEARINGS	40
--------------------------------------	----

APPENDIX III:

SPECIFIC DELEGATIONS	80
----------------------	-----	-----	-----	----

APPENDIX IV:

DETAILED JOB SPECIFICATIONS	...			83
-----------------------------	-----	--	--	----

APPENDIX V:

EXTRACTS OF THE MINUTES AND VOTES OF THE LEGISLATIVE COUNCIL AND THE LEGISLATIVE ASSEMBLY	86
---	-----	-----	-----	----

- (i) an unofficial agreement was entered into by officers of the Education Department without documented approval by the Minister;
- (ii) the diversion of monies from the Consolidated Fund under the informal rental agreement meant that individual officers of the Department were determining the priorities of expenditure without the approval of the Minister;
- (iii) there were no officers of the Education Department prepared to accept responsibility for the situation that arose at the Preston Regional Office and the Committee received contradictory evidence of who was aware of, involved in, and acted on, the agreement;
- (iv) no proper mechanism existed within the Education Department to ensure that correct procedures were implemented and followed in this case;
- (v) a number of senior Education Department officers were unaware of the requirements of the Audit Act 1958 and related Treasury regulations; and
- (vi) that payments were made to organisations outside the Education Department for which there may have been a conflict of interest.

The Committee's Inquiry proved to be far more difficult than originally envisaged given the lack of documentation and the contradictory evidence given at the hearings. The Committee's major response to the serious deficiencies found was, in respect to the Education Department, to recommend :

- (i) that adequate mechanisms, procedures, control and monitoring systems should be implemented within the Department to manage the regional offices;

(x)

CHAIRMAN'S INTRODUCTION

This report is concerned with a detailed investigation of an informal rental agreement between tenants of an Education Department property at Dawson Street, Brunswick and officers of the Department.

In brief, the rental arrangements meant that the tenants would remain in occupation of the property, provided they would pay for renovations and other concerns as directed by the Department (or certain Departmental officers) rather than following the correct path of making rental payments to the Consolidated Fund after the appropriate approval process. An amount of \$102,329 was diverted in this way.

The Committee investigated the matter at the request of the Auditor-General who wrote to myself, as Chairman of the Committee on the issue in July 1983. The Committee undertook the investigation as a result of the powers vested in the Committee from the Parliamentary Committees Act 1968 Section 4F.(2), that is;

" (2) The Economic and Budget Review Committee may, in addition to the powers and duties conferred or imposed on it by sub-section (1), inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers."

This section, which gives the Committee power to initiate its own investigations as it deems to be necessary, is an important aspect of its traditional role of pursuing public accountability.

The above arrangements were a serious breach of the provisions of the Audit Act 1958, the then existent Public Accounts and Stores Regulations 1958 and the Education Act 1958. In this sense, the Committee felt the arrangements represented a complete negation of the principle of Parliamentary control over Government expenditure.

The Committee, from its investigations, found that :

- (ii) that senior officers of the Education Department need to be made aware of their responsibilities and their accountability for actions on behalf of the Department; and
- (iii) that an investigation should be undertaken into the registry system.

The Committee, in respect to the individual officers involved, found that :

- (i) that Mr Barwick as Assistant Director-General of Building had not fulfilled his responsibilities in not formalising the arrangement and in being, at least aware, of the unofficial agreement; and
- (ii) Mr Roscholler as Regional Director of the Preston Regional Office failed to fulfil his responsibilities.

As Chairman, I would like to thank members of the sub-Committee, and in particular to the Chairman, Mr P. McNamara M.P., who conducted this difficult and sensitive inquiry with a great deal of integrity and thoroughness.

The Committee wishes to express its thanks to the individuals who appeared before the Committee. I also wish to acknowledge the contributions made to this Inquiry by staff of the Committee.

B.J. ROWE, M.P.,

CHAPTER I: INTRODUCTION

1.1. Follow-up of Auditor-General's Report

Under the powers vested in the Economic and Budget Review Committee in the Parliamentary Committees Act 1968, the Committee each year investigates a number of matters raised in the Auditor-General's Reports. As a general rule, Departments and other bodies covered in these Reports are questioned on particular issues and asked to submit explanations of what action has been taken to rectify the situation. Where replies are not satisfactory a more detailed investigation is carried out by the Committee.

The present inquiry and report arose from a matter initially raised in the 1979/80 Auditor-General's Report in relation to the Preston Regional Office of the Education Department. As the matter involved a serious breach of Audit legislation and the principles of accountability in the government sector the Committee considered it necessary to investigate and report on the case in some depth.

1.2 Background to the Case

On 20 February 1978, the Honourable L.H.S. Thomson M.P., then Minister of Education, authorised the purchase of the 15 acre property in Dawson Street Brunswick (known as Miller Rope Works) for the sum of \$3.85 million. The property was urgently required to transfer the Brunswick Technical School from its present cramped conditions. The property was also to be used for a wide range of other purposes:

- (a) the re-location of the Preston Regional Office;
- (b) to accommodate a State artist studio;
- (c) in conjunction with the State artist to accommodate a visual and impressive art complex to permit the re-establishment of a film unit, TV unit, music and art production groups;
- (d) to accommodate the reverse garbage truck;
- (e) to make provision for a branch of education stores;

- (f) to provide space for a work education centre for the northern suburbs; and
- (g) to accommodate a senior special development (retarded) school.

When the Education Department took possession of the property on 15 June 1978 the contract stated vacant possession. In fact, a number of private firms and other organisations were still on the premises. One of these was Dreamspun Blankets, a subsidiary of James Miller Holdings Limited (known as Miller Rope Works). This Company was in receivership and was later taken over by Warrnambool Woollen Mills.

Correspondence during the period of negotiation between the Company and the Minister of Education confirmed that Dreamspun could remain on the premises until the Company was able to decentralise to Geelong subject to certain conditions.

It is the "rental" arrangements that were made and the agreements that were reached with which this report is concerned.

Very little documentation of the arrangements existed within the Department but from what correspondence was available the Committee understands :

- (a) that Mr. N.J. Barwick, the then Assistant Director-General (Building) of the Education Department was the principal negotiator for the Department in the purchase and "rental" or "leasing" arrangements;
- (b) that at least two agreements were reached between representatives of the Department and Dreamspun (Warrnambool Woollen Mills);
- (c) that the first agreement was referred to in a letter dated 15 May 1978 by the then Minister of Education to the Receivers and Managers of the James Miller group of Companies (Miller Rope Works) which permitted certain manufacturing operations of the Company to remain on the site rent free until the end of 1978;

- (d) that a second "unofficial" agreement by officers of the Education Department was entered into towards the end of 1978 which permitted the Company to continue operations beyond 31 December 1978 on a "rental" basis of \$1 per square foot per annum;
- (e) that the second agreement provided for the agreed rental, which under legislation was due to the Consolidated Fund, to be paid 'in kind' by the Company, meaning that the Company was to carry out on site maintenance and development works or pay for other items for the Department in lieu of rent; and
- (f) that this second agreement remained in force until Dreamspun vacated the premises in June 1980.

CHAPTER 2: PREVIOUS REPORTS AND THE CURRENT INQUIRY

2.1 Auditor-General's Report 1979/80

The irregularities concerning the arrangements between the Education Department and Dreamspun were referred to in the Auditor-General's Report 1979/80.

"Part of the Department's premises in Dawson Street, Brunswick which are used as the Preston Regional Office was leased to a private firm from June 1978 to May 1980.

No formal lease agreement was entered into and the Department apparently agreed that the firm would pay various expenses of the Preston Regional Office in lieu of paying rent. During 1979/80 the firm paid in excess of \$66 140 for expenses, including various renovations of the premises. After vacating the premises \$42 110 was received by the Department in June 1980 as final settlement of rental payable.

The Department has by entering into such an arrangement avoided the requirements of the Audit Act and the Public Account and Stores Regulations in relation to the proper accounting for moneys collected and the payment of certain expenses.

The departmental file relating to this lease was not available when requested by audit."⁽¹⁾

The matter was further investigated in early 1981 by the Auditor-General's office and was reported in an Audit Report dated 12 March 1981. This report was referred to the Treasurer and Treasury officers further investigated the matter but a formal reply was not made by the Education Department until October 1982. The 1981 report by the Auditor-General again points out that instead of making rental payments to the Department which would be payable into the Consolidated Fund, the Company would pay directly on behalf of the Department certain costs of renovating the building. An amount totalling \$102,329 was diverted in this way.

The Auditor-General also pointed to other unsatisfactory features in the arrangement including the lack of proper documentation of the arrangement and apparent underpayment of rent by the tenant. The arrangement with Warrnambool Woollen Mills therefore constituted a serious breach of the provisions of the Audit Act 1958 and the then existing Public Account and Stores Regulations 1958.

2.2 Inquiry by the Public Accounts and Expenditure Review Committee (1981)

The previous Public Accounts and Expenditure Review Committee commenced an investigation into this matter as part of its follow up of the 1979/80 Auditor General's Report to Parliament. This Committee was in the process of arranging public hearings with the relevant departments and other witnesses for late February 1982 when State Elections in that year led to a change in Government and a reconstitution of the Committee.

2.3 Inquiry by Economic and Budget Review Committee (1983)

In July 1983 the Auditor-General wrote to the Chairman of the Economic and Budget Review Committee requesting that this Committee continue the investigation commenced by the previous Public Accounts and Expenditure Review Committee because in his view the matter represented a complete negation of the principle of Parliamentary control over government expenditure.

Following the request by the Auditor-General the Economic and Budget Review Committee on 17 August 1983 appointed a Sub-committee of four members to deal with the investigation. The Sub-committee was to consist of the following members - Mr. P.J. McNamara, M.P., (Chairman), Mr. P.M. Gavin, M.P., the Honourable G.P. Connard, M.L.C., and Mr. A.J. Sheehan, M.P.

The Terms of Reference for this Sub-committee are:

"to inquire into matters raised in the letter by the Auditor-General of 7 July 1983 and any other matter arising therefrom and to report to the full Committee."

2.4 Records Obtained

All available records concerning the rental arrangements for the Preston Regional Office were obtained from the Education Department, the Preston Regional Office, The Public Works Department, the Department of Management and Budget and Warrnambool Woollen Mills.

In the Education Department and at the Preston Regional Office proper files were only kept for the initial purchase of the property. Except for occasional letters, later negotiations and agreements were not well documented nor was a proper file kept at either head office or the regional office. This was substantiated by evidence received at public hearings. Adequate written documentation was also lacking in the other departments and in the offices of Warrnambool Woollen Mills.

In the Public Works Department records related to early minor works and supplies costing less than \$1,000 at the Preston Regional office site were destroyed subject to disposal schedules in operation at the time. (These schedules were amended in late 1979.) Documentation of the involvement of the Public Works Department in carrying out site repairs, maintenance and development works or in tendering processes is therefore lacking but from what evidence is available it appears that the Public Works Department had little involvement in site works carried out under the agreement with Warrnambool Woollen Mills after 1979.

2.5 Hearings

Hearings were held with the following persons :

29 September 1983 (In Camera Hearing)

1. Mr. R. G. RITCHIE, Executive Director, Personnel and Resources, Education Department.
Mr. A. MIEZIS, Director of Facilities, Education Department.
2. Mr. N. J. BARWICK, Director General, Youth Sport and Recreation, (formerly Assistant-Director General (Building), Education Department).

4 October 1983

1. Mr. J. ROSCHOLLER, Assistant Director of Operations, Northern Metropolitan Region (formerly Regional Director of the Preston Regional Office).
2. Mr. R. WILLIAMS (formerly) Sales Manager, Warrnambool Woollen Mills, formerly Manager, Dreamspun Blankets, Brunswick.

10 October 1983

1. Mr. J. CARRUTHERS retired, formerly at the Miller Rope Works site for the Education Department.
2. Mr. H. WRIGHT Senior Administrative Officer, Tullamarine Region, formerly Preston Regional Office, Education Department.

14 March 1984

1. Mr. N.J. BARWICK, Executive Consultant, Public Service Board.
2. Mr. J. ROSCHOLLER, retired.

CHAPTER 3: KEY ISSUES CONCERNING THE RENTAL ARRANGEMENTS
- LEGISLATION, PRINCIPLES AND EVIDENCE

3.1 Payment of monies into the Consolidated Fund:

The Audit Act 1958 states that all fees and moneys received by officers in the public sector, on behalf of the Government unless prescribed otherwise, are payable to the Consolidated Fund. Section 11 (Eleven) of the Audit Act 1958 reads:

"11. (1) All fees and sums of money which by any Act are payable to any person whomsoever holding any office or place in the public service shall when no other mode of appropriating or applying them is prescribed by law form part of the Consolidated Revenue; but when any mode of appropriating or applying any part of any such fee or sum of money is so prescribed and no mode of appropriating or applying the residue is so prescribed such residue shall be paid into the Consolidated Revenue.

(2) Every receiver of revenue or collector of imposts or sub-collector to whom any public moneys are legally payable who wilfully or negligently omits to receive or collect such moneys shall be liable to a penalty of not more than twice the amount of the money so omitted to be received or collected."

The previous audit investigation by the Auditor-General's Office and the current inquiry into the rental arrangements between the Education Department and Warrnambool Woollen Mills clearly established that appropriate financial systems and accounts were not set up within the Education Department for receiving and accounting for all monies due to the Consolidated Fund from the rental arrangement. Furthermore, the second "informal" agreement made between the Education Department and Warrnambool Woollen Mills provided for payment of monies for rent due to the Consolidated Fund to be redirected to pay for activities and/or works requested by the Department. This second agreement therefore constitutes a breach of the Audit Act 1958.

It is important to note here that appropriate accountability and the payment of all revenues due to the Consolidated Fund are a cornerstone in the financial management of the government sector. This is re-inforced by Sections 89 and 90 of the Constitution Act 1975:

"89. All taxes imposts rates and duties and all territorial casual and other revenues of the Crown in right of the State of Victoria (including royalties) which the Parliament has power to appropriate shall form one Consolidated Revenue to be appropriated for the public service of Victoria in the manner and subject to the charges hereinafter mentioned.

90. The Consolidated Revenue shall be permanently charged with all the costs charges and expenses incidental to the collection management and receipt thereof such costs charges and expenses being subject nevertheless to be reviewed and audited in such manner as shall be directed by any Act of the Parliament."

Considered in the above light the second "informal" agreement therefore appears to be a breach of the Constitution Act 1975.

3.2 Tendering procedures

The Treasury Regulations 1981 which replaced the Public Account and Stores Regulations 1958 set out the appropriate tendering procedures to be applied if expenditure exceeds \$200. Section 84 states:

"84. (1) Where any stores, services or works not on contract for a specified period are required the following procedures shall be adopted:

- (a) (i) if the estimated amount to be expended exceeds \$200 at least three quotations shall be obtained (if practicable);
- (ii) where oral quotations have been obtained, the officer receiving them shall record the quotations and certify as to the details;

- (b) where the estimated cost exceeds \$500 each quotation obtained under this regulation shall be in writing unless the Treasurer approves otherwise;
- (c) where the amount to be expended does not exceed \$200 a person appointed in writing by the Permanent Head in the form P contained in the Schedule to the regulations may authorize the expenditure;
- (d) notwithstanding the provisions of Regulation 79 of these regulations if the amount to be expended does not exceed \$2000 the Permanent Head or his deputy or a person approved in writing by the Treasurer may authorize the expenditure;
- (e) (i) if the amount to be expended exceeds \$2000 a requisition in the form Z contained in the Schedule to the regulations shall first be considered by the Minister administering the Department and, if approved by him, submitted to the Board;
 - (ii) if the Board considers that the stores, works or services to which the requisition relates are necessary and suitable it shall give a direction as to the purchase;
 - (iii) if in the opinion of the Chairman of the Board, the stores, works or services to which the requisition relates are required before the next scheduled meeting of the Board he may give a direction as to the purchase; provided that any such direction shall be submitted as soon as possible to the Board for confirmation."

The second agreement, by providing for Warrnambool Woollen Mills to carry out certain works and meet expenditure in lieu of rent, resulted in a breach of the above provisions. Table 1 lists all payments made by the Company in lieu of rent and indicates whether Ministerial or other approvals were obtained. Of the total amount expenditure by the Company in lieu of rent, 59.6% or \$60,954.31 received no appropriate approval.

TABLE 1
 PAYMENTS MADE BY WARRNAMBOOL WOOLLEN MILLS IN LIEU OF
 RENT DUE TO THE CONSOLIDATED FUND

	PAYMENTS MADE TO	AMOUNT	APPROVAL ?
May 1979	A.& R. Smith	600-00	No Approval.
May 1979	A.M. International	18,732-00	No Ministerial Approval
June 1979	A.& R. Smith	1,840-28	No Approval
June 1979	Greg. Manger	482-85	No Approval
June 1979	A. Borthwick & Sons	20,000-00	Approval Received (a)
July 1979	J. Harrison	60-00	No Approval Required
July 1979	W. Smith	336-80	No Approval
Aug. 1979	A. Borthwick & Sons	13,375-00	Approval Received (a)
		8,000-00	Approval Received (a)
Sept.1979	M. Jansz	1,920-00	No Approval
Sept.1979	Superstyle Tublar Manufg.	4,040-00	No Ministerial Approval
Oct. 1979	Gestetner Pty.Ltd.	2,400-00	No Ministerial Approval
Oct. 1979	Haminex Trading	891-00	No Approval
Nov. 1979	Coffex -Coffey Pty.Ltd.	750-00	No Approval
Dec. 1979	Hilwill Cleaning Service	6,000-00	No Ministerial Approval
Dec. 1979	P.T.Lynch	7,000-00	No Ministerial Approval
Dec. 1979	Vic. Youth Theatre Assoc.	400-00	No Approval
Feb. 1980	R.& B. Schultz Pty.Ltd.	9,725-00	No Ministerial Approval
Feb. 1980	Hanimex Pty.Ltd.	104-50	No Approval Required
Mar. 1980	A.& R. Smith	256-50	No Approval
Mar. 1980	A. Borthwick and Sons	2,480-00	No Ministerial Approval
Apr. 1980	Heidelberg Y.M.C.A.	2,074-00	No Ministerial Approval
Apr.1980	G. Manger (Electricians)	592-58	No Approval
May 1980	G. Manger (Electricians)	269-00	No Approval
	TOTAL	\$102,329-51	

(a) Mr Barwick approved this work to be undertaken.

Table 1 shows that appropriate approvals where required were obtained in only two instances. If an expenditure is less than \$2,000, approval can be obtained from the Permanent Head or by the appropriate delegation. In cases where expenditure is greater than \$2,000, Ministerial approval is required.

An earlier investigation by the Auditor-General also established that for 13 of the 23 items listed in Table 1 no quotations were obtained. In addition for 9 payments no invoices were available for audit inspection at the Preston Regional Office and in other instances only photo copies of invoices were on record.

3.3 Agreements and Arrangements Concerning the Use of Property by the Education Department:

At the time of the rental agreement, the Education Act 1958, Section 20 stated on the area of responsibility for entering into an agreement or arrangement between the Education Department and another person or body as follows:

" 20A. (1) The Minister may enter into an agreement or arrangement, on such terms as the Minister thinks fit, with any person (including any other responsible Minister of the Crown) or body -

(a) for or in relation to the use of any real or personal property for the purposes of this Act; or

(b) for or in relation to the use, for the benefit of the community, or any part of the community, of -

(i) any lands vested in the Minister;

(ii) any lands of the Crown reserved for any educational purpose (whether or not vested in trustees or jointly in the Minister of Lands and trustees); or

(iii) any equipment or materials used for the purposes of any State school.

(2) Without limiting the generality of sub-section (1), an agreement or arrangement under this section may provide

for-

- (a) the development, construction, improvement, renovation or repair of any property to which the agreement or arrangement relates; and
- (b) the provision of services or performance of work in connexion with the use of any such property.

(3) For the purpose of carrying out an agreement or arrangement under sub-section (1), the Minister may perform all such acts and exercise all such powers, functions and authorities as, in the opinion of the Minister, are necessary or expedient to carry out the terms of the agreement or arrangement.

(4) A responsible Minister of the Crown or public statutory body is hereby authorized and empowered notwithstanding anything to the contrary in any other Act to enter into an agreement or arrangement under this section with the Minister and to do or suffer anything necessary or expedient for carrying the agreement or arrangement into effect.

(5) An agreement or arrangement made under this section shall be of full force and effect notwithstanding anything to the contrary in any Act or law relating to Crown lands."

From correspondence with the Minister of Education, the Committee has determined that over the period 1977 to 1980 there were specific delegations authorized in regard to a range of matters concerned with the building and accommodation matters and these are set out in Appendix 3. The Committee is concerned that none of these delegations would permit either the Assistant Director General (Building) or the Regional Director to enter into a leasehold arrangement to the value of \$287.03 per day. In fact, the approved delegations do not permit any person representing or acting on behalf of the Minister of Education to enter into such an arrangement. In this sense, this means the second "unofficial" agreement is a breach of the Education Act 1958.

3.4 Conclusion

The relevant provisions of the various Acts and Regulations discussed in the previous sections jointly prescribe the manner in which all monies and accounts/invoices received must be recorded, accounted for and presented for inspection and auditing. The Auditor-General's and the Committee's investigation established that monies due and accounts/invoices received were not properly recorded or accounted for, that proper tendering procedures were not followed in many instances and that, in general, records of transactions were seriously lacking.

FROM THIS THE COMMITTEE MUST CONCLUDE THAT APPROPRIATE PROCEDURES FOR RECEIVING REVENUE, FOR CALLING TENDERS, AND FOR KEEPING ACCOUNTS AND RECORDS WERE NOT IMPLEMENTED IN RELATION TO THE SECOND AGREEMENT. THE COMMITTEE IS THEREFORE MOST CONCERNED THAT APPARENTLY NO PROPER MECHANISM EXISTED WITHIN THE EDUCATION DEPARTMENT TO ENSURE THAT CORRECT PROCEDURES WERE IMPLEMENTED AND FOLLOWED AT REGIONAL OFFICE LEVEL. THE COMMITTEE IS FURTHER CONCERNED THAT THERE WAS AN UNOFFICIAL AGREEMENT ENTERED INTO BY OFFICERS OF THE EDUCATION DEPARTMENT WITHOUT DOCUMENTED APPROVAL BY THE MINISTER.

CHAPTER 4: THE COMMITTEE'S INVESTIGATION

4.1 Introduction

The Committee's initial investigations clearly established that an unofficial rental agreement did exist between the Education Department and the Dreamspun later Warrnambool Woollen Mills. The Committee sought to establish four major issues :

- (A) Who was responsible for the second agreement?
- (B) Which individual(s) entered into the second 'rental' agreement on behalf of the Education Department?
- (C) Who set the rent level for the second agreement?
- (D) Which individuals accepted payment of monies under the second agreement?

The Inquiry involved the consideration of documented evidence and hearings. The process of investigation proved to be far more difficult than the Committee originally envisaged given the lack of documentation and the contradictory evidence given at the hearings.

The detailed evidence, both in the form of documents and hearings, is supplied in Appendix I and II. Appendix I uses documents placed in chronological order to explain the main developments of the two "rental" agreements. Appendix II takes relevant evidence given at hearings on the key issues. These two Appendices therefore illustrate the Committee's major evidence and the difficulty in establishing a clear case of responsibility. Below is the Committee's major findings based on the evidence set out in Appendix I and II.

4.2 Role and Responsibilities of Departmental Officers:

The Committee believed it was worthwhile to identify the major persons involved, their positions and relevant broad responsibilities involved at the time. To establish this, the Committee requested the Minister of Education to

supply detailed information on responsibilities and delegations of certain key officers. The information supplied on job responsibilities was confusing and highly uninformative, this was especially the case for the Regional Director of Education.

THE COMMITTEE BELIEVES, IF IT HAS NOT ALREADY DONE SO, THAT THE EDUCATION DEPARTMENT SHOULD IMMEDIATELY CLARIFY THE RESPECTIVE RESPONSIBILITIES OF THE REGIONAL DIRECTOR OF EDUCATION AND THE ADMINISTRATIVE OFFICER(S) IN REGIONAL OFFICE(S).

The detailed responsibilities of the officers at the time of the incidents is in Appendix No. 4.

<u>PERSON</u>	<u>TITLE</u>	<u>BROAD RESPONSIBILITIES</u>
Mr. N.J. Barwick	Assistant Director General (Building)	<ul style="list-style-type: none"> . To assist in formulation of policies regarding capital works; . General oversight of all aspects of the Department's building operations.
Mr.J.N.Roscholler	Regional Director of Education (RDE), Preston Regional Office	<ul style="list-style-type: none"> . To approve requisitions for works and services which are identified in priority by the appropriate authority or as authorised by the appropriate authority within regional budget allocations for maintenance and minor renovation works and to P.W.D. to the value of \$10,000.
Mr. H. Wright	Administration Officer to RDE	<ul style="list-style-type: none"> . Same as above except for works and services to P.W.D. to the value of \$4,000,

The Committee would accept that on the basis of evidence that the direct and overall responsibility for building operations within the Education Department lay with the Assistant Director General (Building). This was stated by Mr Barwick as follows:

"... if you traced the line of responsibility for building activities in the department or overall building function through to the office of the Director-General the building function was my responsibility ..." (2)

4.3 Responsibility for the Second Informal Rental Agreement

The Committee attempted with eight separate hearings to establish a clear case of responsibility for the the second informal rental agreement. The result of these hearings was a clear demarcation between the evidence of Mr. Barwick who denied all knowledge at the time of the second agreement and Mr. Roscholler's, Mr. Carruther's and Mr. Wright's evidence which inferred quite strongly that not only was Mr. Barwick aware of these agreements but also authorized their occurrence.

The Committee's position, given the previous statements on Mr. Barwick's overall responsibilities, is clearly set out by the Chairman in evidence to Mr. Barwick ...

" ... This was a major purchase of several millions of dollars and, I assume when the department handles that amount of money, it would have wanted to obtain access to the property and develop it to the stage that was required as quickly as possible. That was an area under your responsibility. The Government had paid several millions of dollars and you would have wanted to get value for that money. Dreamspun and Warrnambool Woollen Mills then stayed on the site for a longer period than anyone expected them to. As the director in charge of this initial purchase, I would assume you would have followed up the matter to ensure that the department obtained access to the property and probably you would have asked why it had not obtained access. If you did not do that, it would certainly have been the responsibility of officers of the department to seek remuneration for the lack of access because it was clearly in contravention of the original expectation of the purchase." (3)

Given this position, it is worthwhile to note Mr. Barwick's answer to this

" ... Generally I stayed in touch with Mr Roscholler concerning how matters were proceeding, but not with the detail of activity that the Committee is seeking. I cannot advise the Committee about any

arrangement or informal agreement with the companies after the dates on which the department has said they could stay on site rent free."(4)

However, in evidence on two separate occasions, Mr. Roscholler stood by his statement that Mr. Barwick both was aware and determined the basis of the second arrangement (note Appendix II pages 46, 47, 52 and 53).

" THE CHAIRMAN: Was he (Mr Barwick) the person who advised you of that policy?"

MR ROSCHOLLER: "Yes, the policy being instead of a low rental being paid to Consolidated Revenue, the Warrnambool Woollen Mills could call for tenders for jobs that needed doing on site. We had a run-down site in terms of factory and office space and it was a case of seeking the assistance of the Warrnambool Woollen Mills, Mr. Mal Williams, in terms of upgrading or maintaining equipment. He would call quotes and effect payment."(5)

Further contradictory statements on this issue were made to the Committee. Some of these concerned a number of specific payments to the Y.W.C.A. and others. The details of these are on pages 53, 54, 67, 68 and 69.

IN CONSIDERING THIS EVIDENCE, THE COMMITTEE STILL FINDS IT EXTREMELY DIFFICULT TO BELIEVE THAT MR. BARWICK WAS NOT AWARE OF PAYMENTS MADE BY A PRIVATE COMPANY, IN EXCESS OF \$100,000, IN LIEU OF RENT. THE COMMITTEE IN ACCEPTING THIS SITUATION FURTHER BELIEVES THAT UNDER THESE CIRCUMSTANCES THERE IS A STRONG POSSIBILITY THAT MR BARWICK WAS INVOLVED IN THE DEVELOPMENT OF THE POLICY OF THE PAYMENT OF WORKS AND SERVICES IN LIEU OF RENT.

THE COMMITTEE, ON THE BASIS OF THIS SITUATION, BELIEVES THAT MR. ROSCHOLLER WAS NEGLIGENT IN TERMS OF HIS DUTIES AND RESPONSIBILITIES IN UNDERTAKING THE TASK, AND NOT DOCUMENTING THE SITUATION FOR HIS OWN OFFICE'S AND THE EDUCATION DEPARTMENT'S PROTECTION.

4.4 Who Actually Entered into the Agreement?

The Committee found on the evidence that there was only one clear statement of the unofficial rental agreement (refer Appendix I page 30). From evidence the Committee has determined Mr. Wright wrote this draft agreement on the instructions of Mr. Roscholler. The draft agreement appears to have not been officially authorised and was made after Warrnambool Woollen Mills actively sort clarification of their position. At the time of this letter, a number of payments had already been paid.

The Committee was unable to establish whether Mr. Barwick was aware of this letter dated 22 August 1979. The Committee believes the letter was an attempt by the Regional Office and the private company to establish some basis for the unorthodox agreement.

4.5 Who Determined the Rent Level?

The Committee in dealing with this issue was initially faced with clear contradictory evidence from both Mr. Barwick and Mr. Roscholler. This evidence was tested under oath and both officers made the same statements. Thus the Committee heard :

"MR. ROSCHOLLER: As I stated before, Mr Barwick agreed with the idea of the dollar-a-square-foot agreement, even though a mistake was made and the measurement was under-estimated." (6)

and further on ...

"THE CHAIRMAN: Mr. Roscholler appears to be firmly of the opinion that you agreed with the proposal of a dollar-a-square-foot. How do you think Mr. Roscholler would have got that idea?

MR. BARWICK: I am sorry, I cannot enlighten you on that.

THE CHAIRMAN: You are saying straight out that Mr Roscholler has misled this Committee?

MR. BARWICK: No. I am simply saying I cannot enlighten you on how Mr Roscholler formed the opinion that I was conversant with the proposal to charge a dollar per square foot as rental. I repeat as I think as plainly as I can: The intention of the head office was that in purchasing Millers we would not charge a rental."(7)

THE COMMITTEE BELIEVES THAT IT IS IMPOSSIBLE ON THE EVIDENCE TO ESTABLISH WHO DETERMINED THE LEVEL OF RENT, HOWEVER, THE COMMITTEE WOULD AGAIN REFER TO EARLIER STATEMENTS ON PAGE 18.

4.6 Specific Payments

The Committee is extremely concerned at a number of specific payments made to outside organisations by Warrnambool Woollen Mills in lieu of rent. These payments were not justified on any grounds as they were made to organisations for projects completely outside the Education Department. Further the Committee found in the evidence that some of the officers involved had direct interests in these organisations. The Committee however, does not feel these activities involved any deliberate deception on behalf of the officers. These payments were made to the Victorian Youth Theatre Association (\$400) and Heidelberg Y.M.C.A. (\$2,074). Evidence to the Committee revealed that a formal request to the Education Department for funds for the Y.W.C.A. project had been rejected.

In the cases of these two payments, the Committee was faced with completely contradictory evidence. The only documented evidence were two letters requesting the payment of these monies and these clearly involve Mr. Roscholler. The Committee was not able to determine whether Mr. Barwick was aware of these payments although in evidence to the Committee, Mr. Roscholler stated:

"...THE CHAIRMAN: That still raises a point. It does not explain the payments to the YMCA and the youth group and others.

MR ROSCHOLLER: I have explained that. I have no doubt in my mind that I discussed these with Mr Barwick. As I said before, so far as the

display that was put on at the rope works is concerned, Mr Barwick was an integral part of that and very interested in it.

We asked. "How do we cope with the refreshments for the children?" So, naturally, we discussed this with him.

So far as the YMCA is concerned, he and I were both involved in this with the Minister at the time, Mr Thompson, in trying to raise, \$50,000 to put into the early building. In both those cases I spoke to Mr Barwick. I asked, "How can we help? Seeing that the department could not help, I wanted to know how could we provide funding."(8)

However, Mr. Barwick's response in separate hearings to Mr. Roscholler's assertions on this issue was ...

"THE CHAIRMAN: Was Mr. Roscholler correct in asserting that you were aware of the arrangements?

MR BARWICK: I would have to say, "No." "(9)

THE COMMITTEE IS CONCERNED THAT UNAPPROVED PAYMENTS WERE MADE TO ORGANISATIONS FOR PROJECTS OUTSIDE THE EDUCATION DEPARTMENT. THE COMMITTEE BELIEVES MR ROSCHOLLER WAS CERTAINLY AWARE OF THESE PAYMENTS. GIVEN THE LACK OF DOCUMENTED EVIDENCE THE COMMITTEE IS UNABLE TO DETERMINE IF MR BARWICK APPROVED THESE PAYMENTS.

4.7 Procedures for Arranging Works and Payment of Accounts in Lieu of Rent:

From evidence presented to the Committee it is evident that no formal or regular procedures were followed, in the dealings with Warrnambool Woollen Mills, for tenders or other expenditure and that no attempt was made to account in an appropriate manner for the transactions between the respective parties.

It appears that appropriate tendering procedures were carried out in only a few instances, such as the Canteen renovations carried out by Borthwick & Sons. In other instances, it appears that tenders were not called and

contractors or services were arranged by the Regional Office. Accounts would then be forwarded to either Mr Roscholler, Mr Wright or directly to the company. Where the account was received by the Regional Office, Mr Wright on instructions by Mr Roscholler would instruct Mr Williams to organise the payment. On other occasions the company would receive and pay the account direct or be instructed by Mr Wright to make out a cheque for a specified sum to a particular person or company and forward the cheque to the Regional Office.

In the case of the specific payments made to the Heidelberg Y.W.C.A., Mr Wright submitted a request in writing to Warrnambool Woollen Mills and indicated the cheque, for the Heidelberg Y.W.C.A., should be handed to Mr Roscholler. How the Y.W.C.A. actually received the cheque could not be established as no receipt or record of the transaction other than the letter appears on file.

THE COMMITTEE IS EXTREMELY CONCERNED AT THE UNUSUAL PROCEDURES ADOPTED FOR THE HANDLING OF PAYMENTS UNDER THE SECOND AGREEMENT WITH THE WARRNAMBOOL WOOLLEN MILLS. THERE APPEARS TO HAVE BEEN NO APPROPRIATE PROCEDURE INSTITUTED FOR THE TENDERING OF WORKS NOR FOR DOCUMENTATION OF PAYMENT.

Given the circumstances the Committee was most concerned to hear Mr Roscholler, in evidence, state that -

"I had not had any experience with those sorts of things up until that point but I assumed that as the Premier, the Minister of Education, Mr Thompson at the time and Mr Barwick were working closely on the development of the site that whatever came back to us would have been satisfactory. I do not know the Treasury regulations." (10)

When asked by the Committee whether Mr Roscholler considered the on-site transactions normal departmental practices he indicated that he would have to guess "at what happens in other areas of the system" (11) and that he "continued on from what was already in operation when we arrived on site". (12)

The Committee understands from Mr Ritchie that often, when the Department acquired property for the purpose of providing school accommodation it tended to happen that while the premises were awaiting renovation or occupation the Minister of the day might make interim arrangements. Mr Ritchie did advise that the tendering procedures adopted under the agreement were not normal departmental procedure.

THE COMMITTEE, IN GENERAL, IS MOST CONCERNED THAT THERE APPEARS TO HAVE BEEN NO INTERNAL MONITORING MECHANISM WITHIN THE EDUCATION DEPARTMENT TO ENSURE NORMAL DEPARTMENTAL PROCEDURES WERE FOLLOWED.

4.8 Files and Procedures

Throughout the Inquiry, the Committee has been hampered by a lack of documented evidence. In hearings, the Committee heard a number of conflicting statements as to why no files were kept.

The Committee believes responsibility, in an overall sense, for ensuring proper procedures for maintenance of records lay within Mr Barwick's office.

The Committee was concerned at the evidence Mr. Wright presented on the issue which indicates there was a deliberate attempt to ensure that limited information was maintained.(13) In an overall sense, the Committee feels the Education Department should be required to ensure all proper files are raised when required and are maintained.

THE COMMITTEE, AS A RESULT OF ITS INQUIRIES BELIEVES THE APPROPRIATE GOVERNMENT AGENCY, SHOULD UNDERTAKE AN INVESTIGATION OF THE EDUCATION DEPARTMENT'S REGISTRY SYSTEM TO ENSURE THAT IT IS PROPERLY STRUCTURED AND MAINTAINED.

4.9 Conclusion

From its investigation, the Committee believes there was no intention to deliberately misallocate Education Department funds. The decision to allow Warrnambool Woollen Mills to undertake work in lieu of rent which although not legal did, except in two cases, directly benefit the Education Department.

The Committee feels part of the problem stems from the fact that the Preston Regional Office was not allocated sufficient finances in 1978-79 to cope with their relocation. In general, the Committee believes there was a fundamental error made in late 1978 by senior officers of the Education Department, in particular Mr. Barwick, when it was found Warrnambool Woollen Mills would be required to extend their occupancy of the Preston Regional Office site beyond the original date agreed by the Minister. At this time, senior officers of the Education Department should have taken one of three actions that is :

1. extend the original agreement with the Minister's approval; or
2. negotiate a new rental agreement; or
3. make Warrnambool Woollen Mills vacate the premises.

The Committee has found that none of the above actions were taken.

THE COMMITTEE BELIEVES MR. BARWICK, AS THE RESPONSIBLE OFFICER, SHOULD HAVE INVESTIGATED THE SITUATION WITH RESPECT TO THE OCCUPANCY BY WARRNAMBOOL WOOLLEN MILLS OF THE PRESTON REGIONAL OFFICE, AT THE END OF 1978 AND DETERMINED THE APPROPRIATE ACTION.

CHAPTER 5: SUMMARY AND RECOMMENDATIONS

5.1 Summary

The Committee's investigation into the rental arrangements at the Preston Regional Office of the Education Department as discussed in this report without doubt establishes serious irregularities in the financial and administrative management of this site between 1978 and 1980. It also confirms the breaches of the Audit Act 1958, the Public Account and Stores Regulation 1958 and the Constitution Act 1975 referred to by the Auditor-General in his reports. The Committee also believes in the case of the second agreement there was a breach of the Education Act 1958.

Considering the evidence given by witnesses at the Hearings, the Committee is critical of the attitude of the senior officers of the Education Department who were involved in this matter. There existed a lack of understanding and acceptance of the responsibility and accountability of senior management, particularly in the case of Mr Barwick. There also appeared to exist a lack of knowledge of the provisions of the Audit Act 1958, the Constitution Act 1975 and the Public Accounts and Stores Regulations 1958 which applied to this situation. The Committee is also most concerned with the apparent lack of any formal structure and mechanism in the Education Department for delegation of responsibility, authority and accountability in relation to the Regional Office. This applies in particular to the position and role of the Regional Director which appeared to have never been formally defined. Mr Roscholler appears to have operated without being given formal or adequate and correct directions as to his responsibilities in relation to the agreements and with respect to the administration of the Regional Office in general. He subsequently failed to ensure that proper procedures were followed and that his staff received correct instructions.

Although the Committee recognises that Mr. Roscholler may have operated under difficult conditions, by being the most senior level public servant in charge on site it would have been nonetheless his responsibility to inform himself and his staff adequately as to the correct procedures, and to follow them wherever possible. Particularly, as the Committee understands from evidence by Mr Wright that he pointed out some of the irregularities resulting

from the agreement to Mr Roscholler. This situation placed Mr. Wright in a position where he was forced to take actions he knew to be incorrect and this, as the Committee understands from discussions with Mr. Wright, resulted in considerable stress on him which continues while he is still employed at the same offices. It also has, Mr. Wright believes, affected his career opportunities within the Department.

The Committee was impressed by the manner in which Mr Wright presented evidence at the hearing. The Committee is extremely concerned that there should be any suggestion that inappropriate pressure had been placed on Mr Wright, as he has acted in a commendable manner under very difficult circumstances. The Committee would accept the need to review Mr Wright's position to ensure his career has not been adversely affected by his involvement with the events under review.

Since the Education Department involved a private company in arrangements which the company knew to be incorrect the Committee is most concerned how such actions must reflect on the activities of the Education Department and on the public sector in general.

5.2 Recommendations

WITH RESPECT TO THE EDUCATION DEPARTMENT IN GENERAL, THE COMMITTEE RECOMMENDS -

1. THAT THE EDUCATION DEPARTMENT TAKE APPROPRIATE ACTION TO ENSURE THAT ADEQUATE MECHANISMS, PROCEDURES, CONTROL AND MONITORING SYSTEMS ARE IMPLEMENTED WITHIN THE DEPARTMENT FOR THE MANAGEMENT OF REGIONAL AND DISTRICT OFFICES.
2. THAT THE EDUCATION DEPARTMENT PROVIDE MORE SPECIFIC JOB SPECIFICATIONS FOR ADMINISTRATIVE OFFICERS OF THE DEPARTMENT AT ALL LEVELS AND THESE OFFICERS, PARTICULARLY AT SENIOR LEVELS, BE PROPERLY INSTRUCTED AS TO THEIR RESPONSIBILITIES AND ACCOUNTABILITY FOR ACTIONS ON BEHALF OF THE DEPARTMENT AND THE GOVERNMENT.

- 3 THAT APPROPRIATE POLICIES FOR THE OCCUPANCY ARRANGEMENTS OF EDUCATION DEPARTMENT PROPERTIES BE DEVELOPED.
4. THAT AN APPROPRIATE AGENCY UNDERTAKE AN INVESTIGATION OF THE EDUCATION DEPARTMENT REGISTRY SYSTEM TO ENSURE ALL RECORDS ARE MAINTAINED AND FILES ARE RAISED AS REQUIRED.

WITH RESPECT TO THE INDIVIDUAL OFFICERS INVOLVED, THE COMMITTEE CONCLUDES-

1. THAT MR BARWICK DID NOT FULFILL HIS RESPONSIBILITIES AS ASSISTANT-DIRECTOR GENERAL OF BUILDING IN ENSURING APPROPRIATE ACTION WAS UNDERTAKEN, IN LATE 1978, TO PLACE WARRNAMBOOL WOOLLEN MILLS OCCUPANCY OF THE PRESTON REGIONAL OFFICE ON A FORMAL BASIS.
2. THAT GIVEN THE VERBAL EVIDENCE THE COMMITTEE BELIEVES MR BARWICK WAS AT LEAST AWARE OF THE UNOFFICIAL RENTAL ARRANGEMENT AND, IN THIS SENSE, DID NOT ADEQUATELY FULFILL HIS RESPONSIBILITIES AS ASSISTANT-DIRECTOR GENERAL OF BUILDING.
3. THAT MR ROSCHOLLER, AS REGIONAL DIRECTOR, ALSO FAILED TO FULFILL HIS RESPONSIBILITIES IN NOT ASSURING APPROPRIATE AUDIT AND EDUCATION DEPARTMENT PROCEDURES WERE ADOPTED; AND RECOMMENDS,
 1. MR WRIGHT'S POSITION SHOULD BE REVIEWED BY THE PUBLIC SERVICE BOARD TO DETERMINE WHETHER HE HAS BEEN MISTREATED AND TO ENSURE HIS CAREER HAS NOT BEEN ADVERSELY AFFECTED.

Committee Room, 28 March, 1984.

NOTES

- (1) Auditor-General Report 1979-80, p.94.
- (2) Minutes of Evidence, Wednesday 14 March, 1984, Page 16.
- (3) Minutes of Evidence, Wednesday 14 March, 1984, Page 12.
- (4) Minutes of Evidence, Wednesday 14 March, 1984, Page 12.
- (5) Minutes of Evidence, Wednesday 14 March, 1984, Page 31.
- (6) Minutes of Evidence, Wednesday 14 March, 1984, Page 7.
- (7) Minutes of Evidence, Wednesday 14 March, 1984, Page 7.
- (8) Minutes of Evidence, Wednesday 14 March, 1984, Page 38.
- (9) Minutes of Evidence, Wednesday 14 March, 1984, Page 14.
- (10) Minutes of Evidence, 4 October 1983, page 87.
- (11) Ibid page 87.
- (12) Ibid page 87.
- (13) Refer Pages 72-73.

APPENDIX I

DOCUMENTATION OF MAIN DEVELOPMENTS IN CHRONOLOGICAL ORDER

The documents and excerpts of letters included in this Appendix came from files obtained from the Education Department and Warrnambool Woollen Mills. Only letters and quotations relevant to this inquiry are exemplary of a particular type of correspondence or transaction are included. Emphasis (underlining) has been added by the Committee where appropriate.

On 30 September 1977 Mr. Barwick wrote to the Minister of Education recommending the purchase of the Millers Rope Works site -

"A review of accommodation requirements has been made to determine whether it would be advisable to deal with the Receiver for Millers Rope Works on the whole 15 acre property. You will recall that we are in doubt about the wisdom of purchasing the $4\frac{3}{4}$ acre property known as Millers Holdings as a replacement for Brunswick Technical School. I believe there are sufficient valid users for the whole property to be purchased and, with your approval, I will arrange for negotiations to begin formally with Messengers Baker and Suttie, the authorised agents for the Receiver (Poulton)".

The letter proceeds to discuss the various bodies that were intended to be facilitated on the site and further discussed prices, the value of the site and Mr Barwick's intention to involve the office of the Valuer General in the purchase. The letter then states

"in negotiations with Millers I propose to offer them the opportunity to have Dreamspun Blankets, one of their viable companies, stay on site at a low rental, until they are in a position to decentralise to Warragul or Geelong. This could be seen as an alternative to State government decentralisation aid, and as a way of maintaining employment which would otherwise be lost. Some components of the storage would be able to be sub-let while arrangements are being made to develop the space and this would further offset the capital outlay".

On 1 March 1978 Mr. Brian Baker of the estate agents acting for the Receivers and Managers wrote to the Director General of the Education Department. This letter is marked to the attention of Mr. Barwick and sets out the purchase price, deposit and the completion of the purchase. Under point 4. " Vacant Possession." it reads as follows:-

"It is agreed that vacant possession of the whole property (with the exception of those areas occupied by Dreamspun) will be given on settlement. It is agreed that the areas occupied by Dreamspun will be allowed to remain in their occupation without formal lease but rent-free until 31st December, 1978. The Purchaser will be responsible for the payment of rates and taxes (if any) on an apportioned basis."

The last paragraph in the same letter reads -

"I confirm that we have agreed that there will be no publicity whatsoever surrounding this agreement and that any future statements to the media will be co-ordinated with Mr. Poulton, the Receiver/Manager."

On 15 May 1978 the then Minister of Education, Mr. Thompson, wrote to Messengers Poulton and Crawford, Receivers and Managers of the James Miller Group of Companies to confirm the purchase arrangements.

"While the contract for the purchase of the above-mentioned properties provides for vacant possession to be given to me at settlement, I confirm that it has been agreed that certain manufacturing operations of the Miller Companies may remain on the properties on a rent free basis as long as until the end of 1978."

Later in the letter, the Minister further advises the Receivers and Managers -

"The best possible arrangement between us will be achieved if we do not attempt to negotiate and execute formal leases and, instead, my officers will co-operate with you, and each party will keep the other informed of its plans and progress in achieving the target".

The letter ends -

"If any substantial problems occur, I shall be pleased if you will contact Mr. Barwick directly."

On 22 August 1978 an "unofficial" agreement was drawn up. This agreement remained unsigned on the file of the Education Department. The same agreement typed on a different typewriter appears again on the records of the Warrnambool Woollen Mills office. The agreement in these records appears to have been signed by Mr. Harry Wright**. This was confirmed at the public hearing by Mr. Williams but was later denied by Mr Harry Wright.

*(UNOFFICIAL AGREEMENT)

22nd August 1978

Mr. M. Williams,
Manager,
Dreamspun Woollen Mills,
29 Dawson Street,
BRUNSWICK.

Dear Sir,

re: Occupancy Agreement for "The Rope Works" Site

As agreed you are currently occupying 104.837 square feet at the rate of \$1.00 per square foot per annum.

The above figure divided by the number of days in a year, makes a daily occupancy rate of \$287.03.

The monthly charge calculated on this formula is -

January	31 days	\$8897.93
February	28 days	\$8036.84
March	31 days	\$8897.93
April	30 days	\$8810.90

May	31 days	\$8897.93
June	30 days	\$8610.90
July	31 days	\$8897.93
August	31 days	\$8897.93
September	30 days	\$8610.90
October	31 days	\$8897.93
November	30 days	\$8610.90
December	31 days	\$8897.93

As at the end of July a balance of \$14946.00 is due.

This figure represents a carry over of \$5948.07 from last financial year plus the month of July \$8897.93.

The occupancy agreement will remain the same as last financial year and the agreed amount will be used as requested by myself in necessary maintenance and upgrading of the "Rope Works" site or for any other purpose that may benefit the Region.

I would appreciate it if you could expedite the attached final payment for A.D. Borthwick and Son's for the upgrading of the Canteen area and express my thanks for your continued co-operation.

Yours faithfully,
 *(unsigned)"

* This heading appeared on the Education Department records only.

On 16 October 1978, Mr. Williams, Manager of Dreamspun, wrote to the Education Department in a letter marked for the attention of Mr. J. Carruthers. In this letter, Mr. Williams advised that the Company would not be able to vacate the premises by the end of 1978 and requests to stay on at the premises. His last paragraph reads -

"Should the management committee see their way clear to allow us to stay in occupancy until June 1979, we would, of course, be prepared to co-operate with you in any way possible and would appreciate the chance to sit with you and discuss the terms of occupancy should you give our proposal your favourable consideration."

On 23 October 1978, Mr. Williams again wrote to Mr. J. Carruthers on the subject of Dreamspun's tenancy at 29 Dawson Street Brunswick -

"The following represents an attempt by the writer to summarise our discussions, both formal and informal held over the past few weeks with regard to Dreamspun's continued occupancy at certain areas of 29 Dawson Street, Brunswick.

It is my understanding that we have the approval of the Education Department to occupy the following areas until June 1978 subject to the conditions listed below"

The letter then proceeds to set out provisions in the areas of Office, Production, Stores, Telephones/Telex, Power, Notice, Service Charges, Charge to the Northern Regional Office of the Education Department.

"We have agreed to forward a sum of money to the above at a rate proportionate to the area we occupy and equivalent to \$1 per square foot per annum, (\$56,000).

I understand that no formal agreement will be signed and that business will be done on the basis of a gentleman's agreement and that you will advise me as to the method of payment in the very near future. We have already commenced production in the mill and hope to move into our new office within the next two weeks."

On 30 April 1979, Mr. Harry Wright drafted the following letter to be mailed out to tenderers -

"Contractors notified to submit tenders for the renovation of Canteen

J. Mazzetti	27 Londen Avenue, Balwyn.
L.W. Heuzinkvelb	442 Glenfern Rd, Upwey.
R.E. Schultz	Memorial Drive, Plenty.
R. & E. Singer	28 Clyde Street, Glen Iris.
G. McCarthy	13 Ware Street, East Ringwood.

DATES:

- A. Inspection by Contractors. May 7. 8. 9th
- B. Quotes Received Until May 21st 1979 2 P.M.
Addressed to M. WILLIAMS,
MANAGER,
WARRNAMBOOL WOOLLEN MILLS,
29 DAWSON ST,
BRUNSWICK.
- C. Notification of Acceptance May 22nd 1979.
- D. Completion 4 weeks.
- C. Payments . Minimum Progress Payments. \$5,000.

R.L."

On 1 May 1979, Mr. L.J. Gowan, Chief Finance Officer of the Public Works Department wrote to Mr. D. Knipe, Deputy Co-ordinator of Works. Exerpts of this letter are printed below -

"You recently requested me to obtain details of funding arrangements of the Education Department's project at the former Miller's Rope Works, Brunswick."

I have discussed this matter with Mr. M Hayman-Danker, Senior Project Architect, who is this Department's representative on the Site Committee. Whilst Mr. Hayman-Danker's knowledge of the funding arrangements is somewhat limited, not being assisted I think by an Education Department willingness to speak openly on the subject, the following points seem pertinent:-

- "1. Mr. N. Barwick, Director-General, Education Department indicated at a meeting on 31 January, 1979, with Mr A Morton Assistant

Director of Buildings (Works) and Mr Hayman-Danker that "external consultancy funds were available".

2. It does appear that funds are being made available for various works to be undertaken on the Rope Works site eg. the refurbishing of a canteen.
3. The mechanism through which funds are being provided is not entirely clear. It is thought, however, that the Department has leasing income in excess of \$ 100,000 per annum in respect of leased buildings on the site. It is understood that the lessees are Dreamspun Blankets and the Warrnambool Woollen Mill. It is believed that as part of purchase arrangements these leases were to be continued despite the change of ownership.
4. It seems, but I am unable to confirm, that the Education Department may have entered into an arrangement with the Warrnambool Woollen Mill whereby the lease amount was reduced on the basis of the Mill paying for refurbishing of the canteen. In effect the contract for canteen refurbishing is in the name of the Warrnambool Woollen Mill.
5. The Site Committee comprises Mr J N Roscholler, Regional Director of Education, Mr G Lees, Principal, Brunswick Technical School, Mr G Ranard, Councillor, Brunswick City Council, Mr T. Morans, Senior Planning Officer, Planning Services Division, Education Department, Mr D Hughes, Special Services Division, Education Department, Mr B Thomas, Site Co-ordinator (a former School Principal) and Mr M Hayman-Danker. There is no finance expertise on the Committee. Mr Hayman-Danker has raised questions as to the matter of the funding but these have not been answered.
6. In respect of the State Artist I also understand that it is desired to relocate this officer on another area of the site despite the fact that \$ 40,000 has been spent with his initial accommodation at the Rope Works.

It is not possible to compile a full account of what is really happening financially at the former Rope Works without questioning the Education Department on this matter.

This letter bears a hand written foot note -

"ADGF(b) / Any action
Please keep source confidential"

On 8 May 1979, Mr. Williams wrote a memo to Mr. D.A. Jenkins and Mr. L. Adams -

"PAYMENT TO BE MADE AGAINST "RENT" TO EDUCATION DEPARTMENT

I have received the attached list of contractors authorised by the Education Department to tender for work to be done on the site at Dawson Street, Brunswick.

Russell Lambert has made the authorisation and it is understood that when the tenders are accepted and eventually accounts received, we will make the payments and such amounts will be credited against our account for "Rent".

Obviously I will need to work very closely with yourselves and Russell Lambert and would appreciate any advise you would care to offer on the matter."

On 11 May 1979, Mr. I.G. Baker, Director of Finance at the Treasury, wrote to Mr. B.J. Joy, Assistant Director General of Finance of the Education Department -

"I refer to Treasury letters of 9 October and 15 December 1978 requesting details of the program of development for the next three years at the former Millers Rope Works property purchased by the Department.

While no reply has been received approval has been requested to employ cleaners and a groundsman at the property.

It is understood that the property covers an area of some 15 acres, with a multiplicity of buildings including some occupied by a manufacturing company. In these circumstances, particularly because of the size and complexity of the property, it is necessary to have details of the likely recurrent costs flowing from the development of this site before any proposal for additional funds to service the property is submitted to the Treasurer. Such an assessment would, of course, need to take into account details of any revenue which has been received, or will be received, from any companies which have used the site since its purchase by the Department.

On receipt of the above information the matter will be submitted to the Treasurer for his consideration."

On 31 May 1979, Mr. Harry Wright wrote to Mr. Williams -

"I acknowledge receipt of cheque number 011474 made out to A-M International to the value of \$18732.00.

This cheque represents part payment of the agreement between this office and yours for the occupation of Dreamspun on the Miller's Rope Works site."

On 11 July 1979, Mr Harry Wright wrote to Mr M. Williams -

"Could you please make out a cheque to Mrs W. Smith for the value of \$336.80, and debit the amount against the agreed amount for occupancy rates for the 1978/79 financial year.

Could you also please give a statement of amounts paid and of the balance due."

According to the records kept at Warrnambool Woollen Mills, the following record of payment of accounts in lieu of rental at 29 Dawson Street Brunswick was made for the period May to August 1979 -

"May 1979	A. & R. Smith	600.00
	A.M. International	18,732.00
June 1979	A. & R. Smith	1,840.28
		(No Invoice)
	Greg Manger	482.85
	A. Borthwick & Sons	20,000.00
July 1979	W. Smith	336.80
	J. Harrison	60.00
August 1979	A. Borthwick & Sons	8,000.00
		<u>\$50,051.93"</u>

On 19 September 1979, Mr. Harry Wright wrote to Mr. Williams -

"re: Occupancy Agreement

Could you please arrange payment to Mr. J. Jansz for the amount of \$1920.00 for work to the front entrance garden.

This figure is to be debited against our earlier agreement."

On 14 December 1979, Mr J.N. Roscholler Regional Director of Education wrote to Mr M.R. Williams -

"Thank you for your letter of the 6th December, 1979....

This is to confirm that we require a clear vacating of the area you now occupy by April 30th, 1980."

On 12 February 1980 Mr. Harry Wright wrote to Mr. M. Williams -

"re: Occupancy Agreement

Please arrange payment of the two attached accounts to+

Mr. R. Schultz	\$ 9725.00
Hanimex Pty. Ltd	\$ 104.50 and debit against the balance owing.

As these accounts are over-due I would appreciate it, if you could arrange payment this week."

On 10 April 1980 Mr. M. Williams wrote to Mr. Harry Wright -

"As mentioned during our recent discussions, we have vacated some of the premises previously occupied by us at 29 Dawson Street, Brunswick.

Effective from Thursday 3rd April, the areas marked N 24, 25 and 26, which approximates to 33,590 sq ft. (see attached drawing), will be available for use by the Education Department.

Would you please make the necessary adjustments to our occupancy agreement to compensate for the reduced area occupied."

On 11 April 1980, Mr. Harry Wright, S.A.O. Northern Metropolitan Region wrote to Mr. M.R. Williams, Manager of Dreamspun -

"re: Tenancy at Brunswick

Could you please pay the Heidelberg Y.M.C.A. an amount of \$2074.00 and debit this against our agreement.

Could this cheque be handed to the Regional Director Mr. J. Roscholler."

On 30 May 1980, Mr. L.A. Adams, Controller of Warrnambool Woollen Mills, wrote to the Education Department -

"We enclose our cheque for \$42,110.69 to finalize occupancy charge for premises at 29 Dawson Street, Brunswick as per attached summary."

May, 1979	A.&R. Smith	600-00
" "	A.M. International	18,732-00

June 1979	A.&R. Smith	1,840-28
" "	Greg. Manger	482-85
" "	A. Borthwick & Sons	20,000-00
July 1979	T. Harrison	60-00
" "	W. Smith	336-80
Aug. 1979	A. Borthwick & Sons	13,375-00
" "	" " "	8,000-00
Sept. 1979	M. Jansy	1,920-00
" "	Superstyle Tublar Manufg.	4,040-00
Oct. "	Gestetner Pty. Ltd.	2,400-00
" "	Haminex Trading	891-00
Nov. 1979	Coffex - Coffey Pty. Ltd.	750-00
Dec. "	Hilwill Cleaning Service	6,000-00
" "	P.T. Lynch	7,000-00
" "	Vic. Youth Theatre Assocn.	400-00
Feb. 1980	R.&B. Schultz Pty. Ltd.	9,725-00
" "	Hanimex Pty. Ltd.	104-30
March 1980	A.&R. Smith	256-50
" "	A. Borthwick and Sons	2,480-00
April "	Heidelberg Y.M.C.A.	592-58
" "	Greg Manger	2,074-00
May 1980	Greg Manger	269-00
		<hr/>
		\$102,329-31
		<hr/>
	Rental due to 30/6/79	56,000-00
	Rental due to 16/5/80	88,440-00
	<u>Balance owing \$42,110-69</u>	<u>\$144,440-00</u>

On 2 June 1980 in a letter marked confidential, Mr. John Roscholler Regional Director of Education wrote to Mr. B.J. Joy, Assistant Director General of Education (Finance, Education Department) -

"Attached is the cheque from the Woollen Mill finalising the arrangements made with this firm."

The letter bears "received" stamps marked "A.D.G.-Mr. JOY, ADG (B)", a stamp marking that the cheque was banked on 3 June 1980 and a foot note explaining -

"Warrnambool Woollen Mill (Dreamspun Blankets) have been occupying some space at Northern Metropolitan Region (Millers Rope Works) - this cheque is for rent up to the end of May when they moved out."

From the initials it cannot be clearly identified who wrote that foot note.

On 20 February 1981, Mr. Roscholler replied to Mr. Morton as follows -

"re: Inquiry into "Lease Arrangements at Preston Regional Office

Your letter of the 6th February, 1981 received.

My responses to the issues raised are brief, but to the point. I suggest that you discuss the "issues" with Mr Barry Joy, Assistant Director-General of Education

(Finance) and Mr. Neville Barwick. I believe they are in the best position to make authoritative, detailed comments about the issues in focus.

And so my answers to the four questions are as follows -

Q.1. Why was no formal lease entered into by the Department?

Answer: This was a decision of the Office of the Director-General of Education. Mr. Barwick, the former Assistant Director-General of Education (Building) in a letter (dated 30th September, 1977 copy attached) to the former Minister of Education, Mr. L.H.S. Thompson spoke of his view with regard to allowing Dreamspun Woollen Mills to remain on the "Millers Rope Works" site at a low rental until they were ready to move (decentralise) to Warrnambool or Geelong. Mr. Barwick also mentioned the possibility of sub-letting storage whilst arrangements were being made to develop the space on this site, thus off-setting further capital outlay.

I believe the nature of the tenure offered the Dreamspun organisation resulted from the uncertainty on its part as to when it would be able to move off the site as quickly as possible without seriously disrupting its manufacturing and distribution processes. The Education Department did not urgently require the space it occupied. The firm finally vacated the site on the 16th May, 1980.

Q.2. Will the Department account for the money received from the firm?

Answers: No monies have been received by the Northern Metropolitan Regional Office from any firm given temporary occupancy of the "Miller's Rope Works site".

The Office of the Director-General of Education and auditors from the Auditor-General's office already have details of the payments made by Dreamspun Woollen Mills for work done on "Miller's Rope Works" site for the Education Department.

I understand that the arrangement made with the Dreamspun organisation was a gentleman's agreement, which was authorised and operated, in this way, on the authority of Mr. Barwick simply regarded it as a way the Dreamspun organisation could put money into Education Department property in recognition of the assistance the department had afforded it in allowing it to remain on site pending its future movement.

Q.3. Will the Department forward the file to the Committee for examination?

Q.4. To what extent has the Department avoided the requirements of the Audit Act, and the Public Account and Stores Regulations?

Answers to Qs. 3 and 4+ The office of the Director-General of Education alone has the authority to answer these questions.

This letter was marked confidential and had the following attachments.

1. "The unofficial occupancy agreement made with the Dreamspun organisation on 22nd August, 1979," to which was added:

"Dreamspun agreed that the unofficial occupancy agreement remain the same for the 1979-80 financial year with the agreed amount being used to carry out necessary maintenance and upgrading on "The Rope Works" site or for any other purpose that may benefit the region."

2. "Accounts paid by Warrnambool Woollen Mill (the Dreamspun organisation)". These were listed in detail and bore the following comment:

"A cheque for \$42,110-69 was forwarded to the Office of the Director-General of Education on the 2nd June, 1980. This was the outstanding funding available under the terms of the unofficial agreement. A receipt for this amount was received from the Education Department on the 5th June, 1980 for this amount."

On 17 June 1981 Mr. D.A. Thomas, Assistant Director General, Finance Budget wrote to Mr. Joy, Assistant Director General of Finance, Education Department -

"I refer to previous correspondence concerning the former Miller's Ropeworks property and to the media release issued by the Minister of Educational Services, the Honourable Mr. Lacy, on 6 May 1981.

The request for details of the likely recurrent costs and revenue received, or to be received, from companies which have used the site since its purchase by the Department is still outstanding..."

On 7 September 1981 Mr. Joy replied to Mr. Thomas -

"In your letter of June 17, 1981 you asked for information about the former Miller's Ropeworks property which is now the site of our Northern Metropolitan Regional Office.

As far as I am aware, there is presently no income being obtained from the property but I have asked our Regional Director to confirm that and also to let me have any other information he may have about the revenue and costs associated with the present and likely future use of the property.

The only previous income from the site was that received from Warrnambool Woollen Mills, a division of Dunlop Australia Ltd., which paid \$42,110.69 on vacating the premises at the end of May 1980. Prior to that period of rental the company had paid for the maintenance of all of the buildings as agreed at the time of the property being purchased by the Education Department."

On 18 February 1982, Mr. Stewart Morton wrote a memo to the Assistant Executive Director of Facilities regarding the inquiry by the Public Accounts and Expenditure Review Committee. The following paragraphs are excerpts of this letter -

"Since the site was purchased, it has never been clearly stated as to who is directly responsible for the management of the property. The Region, because it occupies part of the site is obviously involved, and had some dealings with the tenant in negotiations in relation to projects that could be undertaken in lieu of the payment of rental. The Region has not, however, seen as its responsibility the total management of the site, and a number of individuals have variously been involved from time to time. Two of the key participants are no longer with the Department. I refer to past Assistant Director-General, Mr. N.J. Barwick, and Mr. John Carruthers, an ex High School Principal.

Because of lack of clarity as to responsibility for this project, the records are incomplete, and defy any logical rationalization."

The Auditor General's questions revolved around the propriety of the Department receiving income from the rental of premises and, instead of paying the proceeds into Consolidated Revenue, appropriating such proceeds in its own way. In

retrospect, what has taken place appears quite irregular. However, given the history of the situation in relation to the solvency of the Company, the temporary nature of the original agreement and the condition of the buildings, it is understandable that the decision taken at various times might not have appeared so irregular when they were taken."

APPENDIX II

EVIDENCE OBTAINED AT PUBLIC HEARINGS

Since the evidence obtained from witnesses at the public hearings covers over 100 pages of transcripts only relevant key statements by witnesses on the key issues of the inquiry are quoted in this section. Emphasis was added (underlining) by the Committee. Page and paragraph numbers in brackets refer to page and paragraph numbers in the full transcript of evidence. The dates of the hearings are those stated on page 7 except in the case of Mr. Barwick which was taken on the 14 March 1984 and Mr. Roscholler whose evidence is quoted from 4 October 1983 unless otherwise stated.

1. Answers to Questions related to the persons involved in the initial agreement with Dreamspun/Warrnambool Woollen Mills.

MR. CARRUTHERS (Page 7 - Para 9): "I do not know of any rental agreements with Dreamspun. All I know is they were there when I arrived, and I know they were anxious to stay there. I was given instructions by John Roscholler to indicate they would probably have to move. Then, from memory, I think they were given an extension to finish off the year's run. I cannot remember whether it was going to be May or June. I could not categorically state that is the case. I do not know of any actual agreements which were ever made."

(Page 12 - paras 12, 13 and 14) - "The entry for 26 October 1978 in my diary reads:

- Phoned Neville Barwick and asked for interview re promises to tenants.
Saw Neville at 2.30. Results:
- (a) No answer re ownership of boilers,
 - (b) Dreamspun and Westwool to undertake work to value or rent,
 - (c) Discontinue Wormald's services."

(Mr. Carruthers was in the habit of keeping a detailed dairy. He presented this diary at the public hearing and referred to it frequently).

MR. ROSCHOLLER (Page 3 - Para 7). "Before we moved over there, Mr. John Carruthers was the link man between Mr. Barwick, Assistant Director-General (Building), the building operations division of the Department and the on-site Dreamspun or Warrnambool Woollen Mills representative.

(Page 3 - Paras 8, 9 and 10). "Mr. Carruthers stayed there for a few (months). He was not well and he left and Mr. Russell Lambert took his place. The title they afforded there was co-ordinator of the operation; the changeover from mills to the Education Department.

Mr Lambert was there for some time. I am not sure how many months; he was a secondary school principal as well. Eventually he left, after a few months - in 1979, I think. We did not get a co-ordinator from then on.

Therefore, that is when the senior administration officer of our department, Mr Harry Wright, was the person who became virtually the link person between our office as distinct from the Department and I think it was Mr Williams of Dreamspun who was the on-site manager."

(The Chairman : We have Mr. Carruthers, Mr. Lambert, Mr. Williams all of whom are familiar with the initial agreement. You would have been also and Mr. Barwick).

(Page 3 - para 14). "Yes, and Mr. Wright. I had little to do with it at all."

MR WRIGHT: (Page 3 - para 9). "As I see it, when we came into the Millers Rope Works site the Regional Director was asked to come in to act as caretaker or look after this education facility, which was Millers Rope Works. He was advised a co-ordinator would be attached to that office to administer or co-ordinate the sale, whatever it was, that went on with Millers Rope Works. My role was not to change; I was still to administer the region, furniture, etc. John Carruthers came and took over that job."

(Page 3 - para 11). "I am not quite sure, but I know he liaised direct with Neville Barwick and the Regional Director. They were the two people I knew he directly associated with."

(Page 4 - para 2). "He was briefed by Neville Barwick."

(Page 4 - paras 4 & 6). "It is just an understanding. If somebody said "Say this under oath" I could not say this, but it was Neville Barwick -there was no one else - to my knowledge, anyway. When we moved into the regional office I did not know it was being purchased until we moved in."

"It is a long time ago, but I think John Carruthers stayed in the office for a period of four to six weeks and then was off on sick leave. At that time there was no one, and John Roscholler asked me, on certain occasions, to act as a link person. That is why I became involved."

(Page 10 - para 1). "I know that John Carruthers and Mal Williams met and I know that John Carruthers also met with Neville Barwick but I do not know as to whether or not these issues were discussed."

MR WILLIAMS: (Page 3 - paras 8 & 9). "The management committee, as I understand it, was referred to only by John Carruthers. I thought at this stage Mr Barwick was involved and people from the Education Department. I never met with such a committee. My negotiations were made only with Mr. Carruthers."

"I did come into a building somewhere up here and spoke to someone from the Education Department. Does Mr Swanson sound right?"

(The Chairman: Who attended the meetings when you resolved those conditions?)

(Page 5 - para 13). "The very early ones were basically talks with John Carruthers who related them back through Mr John Roscholler and Neville Barwick. I never got involved with Mr John Carruthers at the beginning. I am trying to recall when I met Mr John Roscholler. I think it was when he came out to Brunswick and that was the first time we had discussions."

(Page 6 - para 2). "And Swanson or whatever the chap's name is up here. That was around October. We said, "This is where we have got to."

(The Chairman: How was Mr Barwick involved at the beginning?)

(Page 9 - para 15). "Just in the initial letter that I wrote. Because of the initial contact, I assumed people I knew passed information on to Mr Barwick. I did not know they did this, it was an assumption."

(Page 11 - paras 6 & 8). "The beginning of the arrangement was with us trying to cement our position through discussions as I said before with John Carruthers and later with Harry Wright, Mr Roscholler and so on. It was formalized only because I wrote the letter to try to summarize the agreement. The administration at Dawson Street advised us of where the moneys should be directed."

"I can only go back as far as the September because I was not involved prior to that. My understanding was that there was some discussion held between Jim Poulton of Peat, Marwick Mitchell & Co. who was the receiver and, I think, Alex McPherson, who is the director of Millers and Mr Barwick who all came to some sort of arrangement to allow us to stay on. At Warrnambool we were not aware of the complete details of the arrangements, therefore, we further pursued them to try to clarify the situation. That is how we became involved."

2. Answers to Questions related to the persons involved in the second informal agreement with Dreamspun/Warrnambool Woollen Mills

MR CARRUTHERS: (Page 5 - para 2)I telephoned Neville Barwick and asked for an interview re promises to tenants as the various tenants were telling me certain arrangements had been made with Barwick. I did not know what the arrangements were, and I telephoned Neville Barwick to ask what was the situation with these people."

(Page 6 - para 5) (Mr. Connard: "Around about 2 October it was, in fact, yourself who suggested to Dreamspun that they apply for a lease?)"

(Page 6 - para 6). "At the instigation of John Roscholler."

(Page 6 - para 8). "I saw Roscholler at Preston regional office at 11 o'clock and, as a result of that, I did certain things. It was rather a difficult situation as Roscholler did not quite know who or what I was at this stage. He was becoming my tenant, and he was a regional director and I was a high school principal on secondment. I was told officially the next day John Roscholler was running the place."

(Page 7 - para 9). "I do not know of any rental agreements with Dreamspun. All I know is they were there when I arrived, and I know they were anxious to stay there. I was given instructions by John Roscholler to indicate they would probably have to move."

Then, from memory, I think they were given an extension to finish off the year's run. I cannot remember whether it was going to be May or June. I could not categorically state that is the case. I do not know of any actual agreements which were ever made."

(Page 7 - para 13). "I am hazy about this now. I was told by various people they had agreements with Neville Barwick, but nobody told me what these agreements were, and that is why I fronted up to Neville Barwick and asked what the position was. The only answer I got was they were going to do something in kind; there would be no cash."

(Page 11 - para 4). (Mr. Connard: "I revert to the conference or meeting which you had with Mr. Barwick on 26 October 1978 after your return to work. I am wondering if, at the time, that was a matter for discussion with Mr Barwick.")

(Page 11 - para 5). "This is John Roscholler's work, that is my recollection."

(Page 11 - para 7). "I think that John Roscholler did not like to meet the tenants and I was the office boy, I went between the two."

(Page 11 - para 9). "No, they were probably your discussions with me. John Roscholler would tell me the conditions under which Dreamspun would stay. I would go to Mr Williams' office and say, "John Roscholler is happy to have you here under the following conditions".

(Page 11 - para 12). "(The Acting Chairman: Do you say that the basis for the arrangement for Warrnambool Woollen Mills, as a tenant, to meet the cost of certain site works and other expenditure incurred on this site goes back to Mr Barwick's suggestion?")

(Page 11 - para 13). "Yes".

(Page 12 - paras 12, 13 & 14). "The entry for 26 October 1978 in my diary reads:

Phoned Neville Barwick and asked for interview re promises to tenants.

(a) No answer re ownership of boilers,

(b) Dreamspun and Westwool to undertake work to value of rent,

(c) Discontinue Wormwald's services.

That is the information that I obtained from Mr Barwick."

Mr. Barwick was queried on this aspect of Mr. Carruthers' evidence and he responded as follows -

(Page 3 - para 5) MR BARWICK: "I cannot immediately respond. I have some difficulty recollecting whether such a conversation ever took place - I do not recall it. As I indicated at the first hearing, the understanding I had of the matter was that rent would not be

charged. The Recollection I have of those days is that a company, in seeking to say "thank you" for the extended period that it was permitted to remain on site, offered to expend a figure in the order of \$27 500, and that is about all I can tell you."

(Page 3 - para 6) (THE CHAIRMAN: "Are you saying that that conversation could not have taken place or it may have taken place and you cannot recall it?")

(Page 3 - para 7) "I simply cannot recall it. The initial dealings with Mr Carruthers were for the sake of establishing an on-site presence that would enable the day-to-day activities of settling into a regional office occur. It was also arranged that the Public Works Department would be on site and from that point on, the day-to-day activities of a head office were extremely slight."

(Page 3 - para 8) "My concern was to look at the over-all development of the property for the future of schooling, and I simply cannot recall these sorts of detailed dealings beyond the matter of the \$27 500."

(Page 3 - para 9) (THE CHAIRMAN: "Apart from your over-all responsibility for those matters, the conversation could have taken place?")

(Page 3 - 10) "I think that I would recall it if it did occur."

(Page 3 - para 11) (THE CHAIRMAN: "You are saying it certainly did not take place?")

(Page 3 - para 12) "No, I am not saying that. I am saying that I would recall the conversation if it took place, and I do not recall it."

(Page 4 - para 1) (THE CHAIRMAN: "The item noted in the diary of Mr Carruthers is the first indication of a movement away from what is set down in the Acts under which you should be operating. Do you think at any time that you may have indicated to Mr Carruthers to operate in a manner where Dreamspun and Westwool would undertake work at value of rent?")

Page 4 - para 2) "Can you tell me to what that diary entry refers? Does it refer to the matter of the \$27 500 that I am familiar with or does it concern some other matter? If it refers to the matter that I have dealt with in evidence before the Committee previously, then I am aware of it. If it refers to something else surrounding an informal agreement that places the on-site companies in a position of an informal agreement for which they pay rent, I am not aware of it."

(Page 4 - para 3) "I am quite familiar with the arrangements that took place to the extent that I can recollect them surrounding a company undertaking to carry out work to the value of \$27 500 for which it was agreed that they would call tenders and for which the Public Works Department would supervise. Beyond that, the existence of the informal agreement and the concept of the rent for any figure for any area was something that I became familiar

with when the papers were forwarded to me just prior to giving evidence before the Committee on the last occasion.

(Page 4 - para 4) (THE CHAIRMAN: "You mentioned the matter of the \$27 500; that was a matter that you authorized. Will you explain that to the Committee?")

(Page 4 - para 5) "It was an offer by an on-site company that was in the process of staying on site longer than was anticipated. Work was identified by the Public Works Department as being of value to the Education Department and it was of value to the company to do it. The Education Department requested that if the company proceeded that way, the Public Works Department would supervise it and call tenders for the work."

(Page 4 - para 6) "At that stage, the concept of rent did not exist. No informal agreement existed that I was aware of and nor was there any intention to charge rent."

(Page 4 - para 7) (THE CHAIRMAN: "When did that take place?")

(Page 4 - para 8) "I am sorry, I do not remember. It was some years ago as I have not been with the Education Department for a considerable number of years. I imagine it was towards the end of 1978, or perhaps a little after.

(Page 4 - para 9) (THE CHAIRMAN: "It would have been in the period after the initial agreement expired?")

(Page 4 - para 10) "As I mentioned on the last occasion I was before the Committee, the initial agreement had a certain notional status about it. Members of the Committee will undoubtedly have papers indicating either in my recommendation to the Minister at the time or in the letter that was forwarded to Millers Rope Works that rent would not be charged and that the Education Department would seek to assist the company to trade out of its difficulties, and that was being done in a number of different ways. While it was expected that the company would be off the site by a certain time and no intention of charging rent up until that time existed, a relationship had not been established with the company regarding whether rent would be charged if the company stayed on after the specified time. No degree of formality existed; we were on about purchasing the site and assisting the company to trade out of its difficulties.

(Page 5 - para 2) (THE CHAIRMAN: How did the matter of the \$27 500 first arise?)

(Page 6 - para 1) "As I recall, it was a proposal that I was acquainted with at the regional level. There was an on-site company. The day to day dealings were such that the company had said, "Look, we are going to stay on longer. We are grateful for the assistance we have been given by the State Government. We are prepared to renovate some of this property that we are still occupying", and my response generally was, "Okay, let's use P W D and call tenders".

(Page 6 - para 2) (THE CHAIRMAN: "The regional office suggested that procedure and you accepted it?")

(Page 6 - para 3) "Yes."

(Page 6 - para 4) (THE CHAIRMAN: "the Warrnambool Mills were allowed to carry on on the site without paying rent but they were paying virtually in kind so that that payment was virtually taken as rent?")

(Page 6 - para 5) "No, it was not from my point of view nor from my offices' point of view. It was taken as a gesture from the company in just the manner I have described. At that stage there was no concept that they were paying rental. There was no assessment that the \$27 500 represented a rental equivalent. It was a company simply saying to us, "We are prepared to undertake work on this property because we have overstayed the notional period that we were originally told we ought to vacate by." I do not even know at this stage whether the figure of \$27 500 arose from the discussions on site with the P W D supervisors who might have advised them that if they needed to fix or maintain some part of the building that it would cost that amount and that would then form an appropriate order of gratitude but there was no concept that there was a rental. There was no idea that there was a fixed period or any leasing or any assessed value per area of size."

MR ROSCHOLLER: (Page 3 -para 7). "Before we moved over there, Mr John Carruthers was the link man between Mr Barwick, Assistant Director-General (Building), the building operations division of the department and the on-site Dreamspun or Warrnambool Woollen Mills representative."

(Page 3 - para 13). (The Chairman: "We have Mr Carruthers, Mr Lambert, Mr Williams, all of whom are familiar with the initial agreement. You would have been also and Mr Barwick?")

(Page 3 - para 14). "Yes, and Mr Wright. I had little to do with it at all."

(Page 4 - para 2). "This is where one runs into problems when there is a lack of paper work that comes out to our office. Most of the communications were oral."

(Page 7 - para 3). "The Building Operations Division would have to be the authority in our department. As I said earlier, whatever needed to be done that group very rarely came out to the site. We had to report through our co-ordinator or Neville Barwick regarding what we considered needed doing. That is why paper never appeared and, therefore, I have to guess a bit."

(Page 10 - para 2). (The Chairman: "Was Mr Barwick familiar with that agreement?")

(Page 10 - para 3). "Yes."

(Page 10 - para 4). (The Chairman: "When the Committee had Mr Barwick in last week he said that there was not any agreement that

he knew of and any amounts that the Warrnambool Woollen Mill was paying, were just payments by a grateful tenant to the department. Were you advised by a similar statement?"

(Page 10 - para 5). "I know that the payments made were to indicate gratitude to the department for allowing Dreamspun to stay on the site. He told me that himself. Was he saying that there was not an agreement?"

(Page 10 - para 6). ("The Chairman: "He said there was not an agreement and that any arrangements made must be made on a local level, at the regional office.")

(Page 10 - para 7). "As I stated before, Mr Barwick agreed with the idea of the dollar-a-square-foot agreement, even though a mistake was made and the measurement was under-estimated. Yes, work that had to be done was determined at a local level and not by Mr Barwick. We put it to the co-ordinator, Harry Wright, to take the matter up and have it authorized."

(Page 16 - para 12). "I would only be repeating what I already said on this matter. I am certain of a communication with Mr Barwick. It was over five years and nothing much was written. One has to rely on memory. Therefore, I must be hesitant in indicating approval, in fairness to people."

(Page 17 - para 1). "Overall, I regarded my role as not stepping outside the direction that Mr. Barwick and Mr Thompson gave us and working in arrangements in work or equipment acquisition. In the light of that and the money involved, we tend to regard any money that was available in this informal agreement to be working within the scope of that. We thought sensibly, making sure that we used what was available to us, quite legitimately. I was quite inexperienced in this business."

MR WRIGHT: (Page 3 - para 5). "No, not at that time. The administration of the changeover from Warrnambool Woollen Mills was being done by John Carruthers. He was appointed to the regional office, and it was his job to negotiate."

(Page 3 - para 11). "I am not quite sure, but I know he liaised direct with Neville Barwick and the regional director. They were the two people I knew he directly associated with."

(Page 4 - para 4). "It is just an understanding. If somebody said "Say this under oath" I could not say this, but it was Neville Barwick - there was no one else - to my knowledge, anyway. When we moved into the regional office I did not know it was being purchased until we moved in."

(Page 4 - para 6). "It is a long time ago, but I think John Carruthers stayed in the office for a period of four to six week and then was off on sick leave. At that time there was no one, and John Roscholler asked me, on certain occasions, to act as a link person. That is why I became involved."

(Page 10 - para 1). "I know that John Carruthers and Mal Williams met and I know that John Carruthers also met with Neville Barwick but I do not know as to whether or not these issues were discussed."

(Page 20 - para 4). (The Chairman: "Would you say that Mr Barwick was aware of the arrangement that was going to occur with the rental payments?")

(Page 20 - para 5). "Without an absolute doubt. Neville Barwick signed the specification which was prepared by the Public Works Department inspector on that very issue."

MR WILLIAMS: (Page 3 - para 8 & 11). "The management committee, as I understand it, was referred to only by John Carruthers. I thought at this stage Mr Barwick was involved and people from the Education Department. I never met with such a committee. My negotiations were made only with Mr. Carruthers."

"Vague discussions were held. Nothing was agreed and it was referred back to Mr. Carruthers. That was the beginning of negotiations."

(Page 4 - paras 11 & 13). "No, I never met Barwick."

"I think it was the Swanson chap. I am not one hundred percent sure at this stage. The general discussions came out with Mr Carruthers and later with Harry Wright and a few other people were summarized in the 23 October letter. I could not get anything official at that stage."

(Page 5 - para 3). "That was it. I never got anything in writing -to my knowledge - to say that we were to go ahead on that basis. I got verbal agreements."

(Page 5 - para 5). "It came back later on April 30, 1979, Mr Harry Wright. It was getting around to first payments at that stage in the area. It was agreed and we took it, because they allowed us to stay on, that the agreement was accepted."

(Page 5 - para 6). (The Chairman: "Was Dreamspun content about having no formal agreement.")

(Page 5 - para 7). "We were asked to be content."

(Page 5 - para 8). (The Chairman: "You had no option virtually?")

(Page 5 - para 9). "We had no option. We had to stay there. As long as we considered we were covering ourselves and we were operating as far as we were concerned within the confines of the agreement representatives of the Education Department had made and we had confirmed in writing our understanding of the agreement, we considered we were, within the bounds of everything, to go ahead."

(Page 5 - para 13). "The very early ones were basically talks with John Carruthers who related them back through Mr John Roscholler and Neville Barwick. I never got involved with Mr.

John Carruthers at the beginning. I am trying to recall when I met Mr John Roscholler. I think it was when he came out to Brunswick and that was the first time we had discussions."

(Page 6 - para 1). (The Chairman: "How many people did you talk to? - you spoke to Carruthers and Roscholler.")

(Page 6 - para 2). "And Swanson or whatever the chap's name is up here. That was around October. We said, "This is where we have got to."

(Page 9 - para 10). (The Chairman; "Earlier you mentioned that only three or four people, you thought, were aware of this arrangement.")

(Page 9 - para 11). "People that I knew were aware of it, yes."

(Page 9 - para 12) (The Chairman: "So Mr. Roscholler, Mr Wright, Mr Carruthers and Mr Barwick?")

(Page 9 - para 13). "Yes, I assume Mr Barwick because he was at the very beginning of the arrangement. I only assume that; the others I know of."

(Page 9 - para 14). (The Chairman: "How was Mr Barwick involved at the beginning?")

(Page 9 - para 15). "Just in the initial letter that I wrote. Because of the initial contact, I assumed people I knew passed information on to Mr. Barwick. I did not know they did this, it was an assumption."

(Page 13 - para 11). (Mr. Connard: "What occurred was that the original Ministerial agreement was for an occupancy of about six months, which was to expire at the end of 1978. About half way through that agreement you perceived that you would have an enormous problem and therefore initiated discussions.")

(Page 13 - para 12). "We had to go on and lock ourselves into that arrangement at least until June of the following year. It then became clear to us that the building was not proceeding at anything like the speed it was supposed to proceed. I refer to Warrnambool. Therefore, we renegotiated."

(Page 14 - para 1). (The Chairman: "Is there any written acknowledgment of that?")

(Page 14 - para 2). "The only acknowledgement we have is the letter. The second agreement to which Harry Wright was a signatory, which actually itemizes the dollars, is the only written acknowledgement we have. That was the second agreement in the second year."

(Page 14 - para 3). (The Chairman: "Did it seem strange that there was no formal agreement?")

(Page 14 - para 4). "Yes".

(Page 14 - para 5). (The Chairman: "Obviously, Dreamspun and Warrnambool Woollen Mills were endeavouring to get something formalized.")

(Page 14 - para 6). "We were trying to cover ourselves. We did not want to be caught high and dry. To be quite honest, we could not afford to be."

3. Answers to Questions related to Authority - Who was responsible for and who gave authority to whom in the matter of the first and second agreements, tenancy conditions and work authorisations in lieu of rent. Who did persons report to?

MR CARRUTHERS: (Page 2 - para 8). "On 25 September 1978, I reported for duty after sick leave, and I met Neville Barwick, Assistant Director-General of Buildings, at Treasury Place at 9 a.m. He asked me to take on the job and told me what was involved. He said that I was to directly report to him and not to anyone else. He said that various people will be sending in submissions for me to read. He said a committee, to which I was to give advice about the various submissions, would be formed, and that I could do most of this work at home. I never did that because I never read the submissions. I spent all of my time either at Miller Rope Works or at Nauru House."

(Page 3 - para 1). (The Acting Chairman: "Were you under the direct control of Mr Barwick?")

(Page 3 - para 2). "Yes, I reported directly to him. On 25 September 1978 I arrived at Nauru House at 10.30 a.m. I met mentor Tony Moran, chief planning officer, who was my guiding light. At the time I had no idea about what was going on; I was a high school principal. However, Mr Moran gave me the Miller file which took me a day and a half to read. The following morning, 26 September 1978, I continued reading the file and in the afternoon I visited Mr. George Lees, Principal of the Brunswick Technical School and I also met Mr Freedman, the State artist."

(Page 3 - para 8). "On 3 October I visited head office at Treasury Place and met Andy Miezis - I do not know his official position -but he handled the money. He told me that Miller Rope Works was now a regional responsibility, in other words, my responsibility for running the rope works finished on 3 October."

(Page 4 - para 9). "On 18 October Harry Wright and I spoke to Neville Barwick when we discovered the auctioneer was going to sell the boilers. There was a big auction held and it was our understanding the two massive boilers were the property of the Education Department. I found the auctioneer had them listed for sale, and we contacted Neville Barwick to let him know the auctioneer was going to sell his boilers."

(Page 4 - paras 2 & 3). "On 6 October I telephoned John Roscholler and he was not in. Harry Wright who was the chief public servant in the Department, said I should act in the name of the Department and he would tell John Roscholler what I was doing."

On 9 October I told Mrs Bilston - there was a house and property and there was a husband and wife - I do not know whether there were any children - living there. The husband had been employed by Millers Rope Works but was no longer employed by them. This was all done on John Roscholler's say-so, as he was now in charge, so I saw Mrs Bilston and said, "You might have to leave the house very soon". "

(Page 5 - para 4). "Larry Foley of Westwool telephoned Harry Wright, the public servant in the Preston region in my absence, and said he would like to pay rent. Neville Barwick said "The conditions are the same as for Dreamspun" which, presumably, means do work instead of pay rent."

(Page 5 - para 11). (The Acting Chairman (Mr Gavin): "You reported to Neville Barwick and you were not entirely certain of what your function was, were you?")

(Page 6 - para 1). "It was very vague. Everything was spoken, and there was nothing in writing. The only thing I was told that had any sort of definition to it was what I was told by the staffing officer that I would receive submissions which I would assess and put into some priority order and make recommendations to a committee."

(Page 6 - para 3). (Mr. Connard: "It was Mr Roscholler who orchestrated those committees, was it?")

(Page 6 - para 4). "Yes."

(Page 6 - para 5). (Mr. Connard: "Around about 2 October, it was, in fact, yourself who suggested to Dreamspun that they apply for a lease?")

(Page 6 - para 6) "At the instigation of John Roscholler."

(Page 6 - para 9). (Mr. Connard: "Who did you see yourself, in a broader sense, as reporting to?")

(Page 6 - para 10). "Neville Barwick up until 3 October and after that John Roscholler."

(Page 6 - para 12). "Andy Miezi I think it was, who told me. I asked him, and he told me Millers Roper Works is a regional responsibility. That was on 3 October."

(Page - para 13). (The Acting Chairman (Mr Gavin): "Then you reported to Mr Roscholler?")

(Page 6 - para 14). "Yes, he was then running the place."

(Page 12 - paras 12, 13 & 14). "The entry for 26 October 1978 in my diary reads:

Phoned Neville Barwick and asked for interview re promises to tenants.

Saw Neville at 2.30. Results:

- (a) No answer re ownership of boilers,
- (b) Dreamspun and Westwool to undertake work to value of rent,
- (c) Discontinue Wormald's services.

This is the information that I obtained from Mr Barwick."

(Page 15 - para 5) (Mr Connard: "In terms of your general perception, who was responsible for the site development, general repairs and maintenance and monitoring the occupation of Dreamspun on the premises?"

(Page 15 - para 6). "John Roscholler had complete control of the whole place."

MR ROSCHOLLER: (Page 4 - para 3). (The Chairman: "From where did they (communications) come?"

(Page 4 - para 4). "Via Neville Barwick. The two co-ordinators, particularly Mr Harry Wright, the senior administrative officer. That was the sort of role he had to perform."

Page 4 - para 5). (The Chairman: "On whose behalf was Mr Harry Wright acting? From where did he get his direction?"

(Page 4 - para 6). "We all took our directions. I took my direction from the office of the director-general - Mr Barwick's office. That is where the authority came from for the whole of this changeover type of operation."

(Page 4 - para 7). (The Chairman: "that is where the staff at the regional office took their authority; from Mr Barwick?"

(Page 4 - para 8). "Yes."

(Page 6 - para 4) (The Chairman: "The leasing agreement and the manner in which different site works and expenditure were paid by the tenant instead of putting money directly into the Consolidated Fund.")

(Page 6 - para 5). "Yes, part of what you say is correct. As far as I am concerned that work that needed to be done, whether it was maintenance, upgrading or replacement, we naturally had to decide on site what had to keep the place together. This - under Mr. Barwick's direction - was something that the PWD had to supervise. The woollen mills had to ask for quotes under Mr Barwick's direction and the PWD had to supervise all the work that was of a building nature."

(Page 6 - para 6). (The Chairman: "So you are convinced or satisfied in your own mind that any of these arrangements were done with the approval of Mr Barwick but the payment for the various site works, instead of putting money into the Consolidated Fund, was done with the approval of Mr Barwick."

(Page 6 - para 7). "Yes, I am not in any doubt about that."

(Page 6 - para 8). (The Chairman: "That is for all the works that were carried out?"

(Page 6 - para 9). "Yes, That was the basis of what we were able to do. We were not able to get money from the department and this was an opportunity to get the place in working order and functioning."

(Page 7 - para 3). "The Building Operations Division would have to be the authority in our department. As I said earlier, whatever needed to be done that group very rarely came out to the site. We have to report through our co-ordinator or Neville Barwick regarding what we considered needed doing. That is why paper never appeared and, therefore, I have to guess a bit."

(Page 12 - para 12). "As I said before, as the Minister and someone from the Office of the Director-General initiated the operation, I accepted it."

(Page 14 - para 6). (Mr. Rowe: "I am not sure of your responses to earlier questions on payments made by Warrnambool Woollen Mills and other organizations, such as the Heidelberg YMCA. Who determined what organization would receive payment? Are there any criteria? You mentioned that you considered it was favourable as the Heidelberg YMCA previously sought money from the Education Department and had been refused, if I understood it correctly. Who determined those organizations?"

(Page 14 - 7). "That is the only organization of which I am aware, apart from the firms that carried out work or provided equipment and so on. It is perhaps a side issues, but Mr Thompson and Mr Barwick and I, to a certain extent from involvement in the development of the Heidelberg YMCA knew that the Minister authorized \$50 000 to go into the YMCA. The idea was to help it develop the complex. Buses were also to be provided, but the stage of providing buses was not reached. Mr Barwick had a personal interest, as I do, in the operation of the YMCA. That is how I would have sought his permission to have the information service funded in that way."

(Page 14 - para 9). "As you know,, he was a councillor on the Heidelberg City Council before entering the department. This was one of his interests as he was especially interested in community affairs, as was the Minister and Mr Thompson. That is how the interest and the effort to fund came about."

(Page 15 - para 3). "No, we tried to get the money through the building operations division, through Neville Barwick, who could have authorized it but we were unable to do so. It was a matter of the accounts being submitted to the Warrnambool Woollen Mills and Mr Barwick's authority in being paid through a cheque, which apparently was hand delivered. I am not sure how the cheque came back, but they would have a record of that. Mr Bob Nicholson is still the manager there and knows about the matter."

(Page 15 - para 4). (The Chairman: "Another one listed is the Education Department northern metropolitan regional office for

rope works at Brunswick to the Victorian Youth Theatre Association catering for lunch for 1200 children at a cost of \$400. It does not sound like much of a lunch! Can you recall that case?"

(Page 15 - para 5). "Yes."

(Page 15 - para 7). "Once again, the department could not fund it. Approval would have been granted by Mr Barwick to authorize payment for the lunch."

(Page 16 - para 10). "Yes. My job was to open a new office and to get education mobile in administrative terms. It was fortuitous that we were continuing with the take over of the site from Miller Rope Works, which was expedited by Mr Barwick and the building operations division. We floated into that situation and we considered my job clearly outside that because I knew nothing of that sort of business."

The Committee questioned Mr. Barwick on Mr. Roscholler's and other witnesses perception of his involvement and the following evidence was stated :

(Page 9 - para 4) THE CHAIRMAN: "Both Mr Roscholler and Mr Carruthers appeared to believe that you were deeply involved in the day-to-day operations and the transfer of the property from Dreamspun to the Education Department, even down to where an item was coming up for a clearance sale and they felt that you should be advised that it was part of the sale. If both these officers believed you should have been informed of a matter as small as the auction of a couple of boilers, surely it would be fair to assume when looking at payments in excess of \$100 000 from Dreamspun and Warrnambool Mills to the Education Department, that you should have been aware of these matters?"

(Page 9 - paras 5, 6 and 7) MR BARWICK: "I can recall this incident and they were not small boilers. They were quite large boilers on the site. The auctioneer was acting on behalf of the receiver. I can recall a concern being expressed from the regional office, that in proceeding to auction off those goods and chattels on site that we had not bought, there was a concern on whether the boilers were ours or not.

As I recall, the boilers were not part of the items that were listed on the description of the property we had bought and so we had no control over whether the auctioneer disposed of them or not because there were lots of other containers and spinning machinery and that sort of thing. At this stage I cannot recall the details of that conversation, other than that I remember the details of that conversation, other than that I remember acting on whether those boilers were part of the description of the property we had bought. Clearly it was the auctioneer's task to obtain as much within the receivership exercise as he could.

The connection that you have just made between being asked about a concern that was phoned through from the site about an auction taking place and any assumption about an informal rental agreement, that was a matter that was drawn to my attention, and

they were not small boilers. As I recall, I asked whether they were part of the description of the property that we had bought and I think they were not and I think ultimately they were sold."

(Page 10 - para 1) THE CHAIRMAN: "Taking up that point again, while you say they were large boilers, we have advice here on a matter that is really quite small compared with looking at a payment in excess of \$100 000 - a quite massive payment to the Education Department, which you say you knew nothing about. However, when it comes to the matter of a clearing sale, Mr Carruthers feels as though he has to consult you immediately to determine the attitude of the Education Department. Mr Roscholler said that your office was where the authority came from for the whole of this changeover and type of operation. He was referring not only to the boilers at that stage but also to all other matters in the changeover. He said your office is fully aware of every matter that arose. If those two officers were prepared to consult on all of these minor matters, it appears strange to the Committee that when a payment of more than \$100 000 is involved they did not feel it necessary to contact your office."

(Page 10 - para 2) MR. BARWICK: "Mr Chairman, again you have to put these matters in some time frame. I would need some advice, but as I recall, the auction of the on-site goods and chattels that we had not bought occurred at a reasonable time after the purchase. What you are referring to is a \$100 000 exercise surrounding some informal agreement, which must have occurred considerably later. In the early stages of purchasing the property and entering the agreement with Millers and the receiver, I was much more involved in a day-to-day sense and there was not the on-site presence of the P W D and others."

(Page 10 - para 3 and Page 11 - para 1) THE CHAIRMAN: "These matters both occurred about the same time the second agreement was entered into at the end of 1978 - the sale of the boilers on 18 October 1978. Therefore, it is within the space of a month or two."

(Page 11 - para 2) MR BARWICK: "I was involved in the exercise of buying and obtaining the property. We then set about establishing the on-site capacity to handle the property and my day to day involvement in that declined significantly. It is not a day to day involvement of the Office of the Director-General."

(Page 11 - para 3) THE CHAIRMAN: "Surely it must be the responsibility of the Director-General?"

(Page 11 - paras 4 & 5) MR BARWICK: "It is undoubtedly the responsibility of the Director-General, but there are divisions for building operations, secondary education and a wide range of activities in a department such as the Education Department. The expectations would be that one would not become involved, in a small group such as the Office of the Director-General, in that sort of exercise. I can recall the boiler matter and I was involved in advising them that we needed to check whether that was part of the description of the property that we had purchased."

So far as any proposal for an informal agreement or arrangement that we would charge rental was concerned, we had indicated to the companies that they could stay on the site rent free until the end of 1978, so that had clearly not arisen."

(Page 12 - para 2) THE CHAIRMAN: "... With regard to the comments made by Mr Roscholler that you were the person that everyone dealt through and there were continuous verbal comments concerning why action was not taken to resolve the matter of access, if access could not be gained for a number of reasons, mainly to help the company, why was some remuneration not obtained by the department?"

(Page 12 - para 3) MR BARWICK: "The Education Department operated on the basis of an Office of the Director-General instead of having one person and there were four assistant Directors-General and a Director-General, and each of the assistant Directors-General had a responsibility for a functional area of the department: Curriculum, personnel, building and finance. Below the level of the Office of the Director-General were a range of divisions, one of which was the building operations division. In that division there was building liaison officer who was seen as the co-ordinator of the activities relating to each of the regions.

(MR WRIGHT: (Page 4 - para 6). "It is a long time ago, but I think John Carruthers stayed in the office for a period of four to six weeks and then was off on sick leave. At that time there was no one, and John Roscholler asked me, on certain occasions, to act as a link person. That is why I became involved."

(Page 4 - para 10). "I acted, at all times, under directions from John Roscholler."

(Page 4 - para 12). "Whatever John Roscholler asked to be done I would either negotiate or ask for it to be done."

(Page 5 - para 15). "I said "At some stage there is going to be a co-ordinator appointed", as at all times I had been told at some time a co-ordinator would be appointed; I was just doing it as a liaison, a link person."

(Page 8 - para 12). "I was given directions by John Roscholler. I did not negotiate any agreement whatsoever. I applied to the situation what had previously been arranged. I queried the rate of \$1 per square foot, I do not believe it was the correct rate."

(Page 10 - para 17). "John Roscholler was the only person who had the authority to authorize any payment from Warrnambool Woollen Mills."

(Page 11 - para 3). (The Chairman: From whom do you think he was getting his direction?")

(Page 11 - para 4). "Neville Barwick. He often complained that he could not get through to him on certain issues. Some issues would stay in the balance awaiting direction."

(Page 11 - para 5). (The Chairman: "Were these accounts for Warrnambool Woollen Mills authorized by Neville Barwick?")

(Page 11 - para 6). "I could not say, I think so. If somebody asked me to say that I would say I would not know."

(Page 11 - para 7). (The Chairman: "The regional director, Mr Roscholler, knew all about it and he authorized them, did he?")

(Page 11 - para 8). "Yes, without a doubt."

(Page 13 - para 11). (Mr. Gavin: "You are saying the regional director authorised all those?")

(Page 13 - para 12). "The situation as it existed was that no person in that regional office made a decision without reference to John Roscholler, and he was the only person who could make decisions regarding that."

(Page 13 - para 13) (Mr. Gavin: "In relation to the Heidelberg YMCA, would Mr Barwick have been aware those accounts were paid?")

(Page 13 - para 14). "I think so, but that is as much as I can say. I honestly thought John Roscholler was liaising with Neville Barwick in nearly all cases."

(Page 16 - para 6) (The Chairman: At any stage did you have any direct discussion with Mr Barwick or receive any direction over the telephone from him?")

(Page 16 - para 7). "I can recall I spoke on one occasion to Neville Barwick on the issue."

(Page 16 - para 9). "Yes, to a function at the then regional office relating to an International Year of the Child thing. They wanted to use the site for a series of disadvantaged children, bringing them on site, and the place was unusable. We had to clean it up, and I think we spoke about having it fixed and something like we could have it fixed using this money Warrnambool has as it would be a legitimate charge because it is on site. He said "All right, do it that way". He asked whether any records were being kept and I said "Not to my knowledge", and he said something to the effect "Good, keep it that way". That is the only time I spoke to him on an issue, but it was just between him and I."

(Page 20 - para 4). (The Chairman: "Would you say that Mr Barwick was aware of the arrangement that was going to occur with the rental payments?")

(Page 20 - para 5). "Without an absolute doubt. Neville Barwick signed the specification which was prepared by the Public Works Department inspector on that very issue."

(Page 20 - para 8). (The Chairman: "Yes. Was Mr Barwick specifically aware of the fact that the payment would come off rent?")

(Page 20 - para 9). "Yes I make the assumption that he must have been aware of it."

(Page 21 - para 12). "Yes, with the inspector of works whom I asked to work on my behalf. I did not want to work in any instance in isolation and after all I obtained authority from Neville Barwick to proceed."

(Page 21 - para 13). (The Chairman: Could you clarify for the Committee whether or not Mr Barwick was aware that the payment for that would be taken for rent for the Warrnambool Woollen Mills.)

(Page 21 - para 14). "Mr DeWever, the inspector of works, was aware of it and that is why he asked Mr Barwick to sign it personally. I am sure that he did it as a favour to me because he said, "I do not want to do it on my own." He said that if something blows up then he did not want to do anything in isolation."

The Committee questioned Mr Barwick about the lack of records and his response was as follows -

(Page 19 - para 3) MR CONNARD: "The Committee is asking about the lack of records. When Mr Wright was asked whether there were any records being kept he said, "Not to my knowledge" and that Mr. Barwick said, "Good, keep it that way." That is the crux of the question. It indicates to the Committee that if the Committee is to believe Mr Wright, you were quite aware and indeed endorsed the fact that no records were being kept."

(Page 19 - para 4) "I can only say that we have no records at my office."

(Page 19 - para 5) MR CONNARD: "Mr Roscholler also advised the Committee that all the records were sent from the regional office to your office and that was the reason no files were kept at the regional office."

(Page 19 - para 6) "I can only say that we have no records at my office."

(Page 19 - para 7) MR CONNARD: "Were any records sent to your office?"

(Page 19 - para 8) "Not that I can recall. I have to stress that these are the sorts of records that I would not have sought to have kept in my office."

MR WILLIAMS: (Page 6 - para 3). (The Chairman: "Members of the department on that level obviously would not be making a decision in their own right; were they reporting back to someone?")

(Page 6 - para 4). "As I understand, they were reporting back to Neville Barwick."

(Page 6 - para 5). (The Chairman: "That is where you believe everything was being confirmed?")

(Page 6 - para 6). "Yes. I had written a letter to Mr Barwick in September, the others came after that and as a result of that all of the discussions grew out of that, with Carruthers as the spokesman."

(Page 8 - para 7). (The Chairman: "Who suggested this was a good way to show your appreciation.")

(Page 8 - para 8). "I think it came from a lot of people out of that area. The main people I dealt with were Harry Wright and another young chap, and through them, John Roscholler. They were the only three I dealt with. Basically it was through Harry as the senior administrator."

(Page 9 - para 15). "Just in the initial letter that I wrote. Because of the initial contact, I assumed people I knew passed information on to Mr Barwick. I did not know they did this, it was an assumption."

4.

Answers to Questions related to why there was no official agreement and who drew up and signed the second unofficial agreement?

MR CARRUTHERS: (Page 10 - para 13). "I was aware of them afterwards. I am sure that John Roscholler spoke to me about them but I did not have anything to do with the drawing up of the conditions. I would simply talk about them over morning tea."

(Page 10 - para 14). (The Acting Chairman (Mr Gavin): "You were not aware of the reason why there was no official agreement?")

(Page 11 - para 1). "I have no knowledge of any official agreement."

MR ROSCHOLLER: (Page 4 - paras 10 & 11). "It is my understanding that this stemmed from the Minister Thompson originally, possibly on the suggestion of Mr Barwick that in order to help the Warrnambool Woollen Mills group close down and become decentralized to Geelong and Warrnambool, it was preferable not to enter into any formal lease but to come to some mutual arrangement between our department and the Warrnambool Woollen Mills so that the mills would not be disadvantaged.

In fact, the previous Liberal Government would be able to assist in the sort of decentralized movement in this way. Of course, as you probably know, the problem was that those periods when the mill was to get out became extended and extended."

MR WRIGHT: (Page 10 - para 3). "No, I do not know why no official agreement was made, of course, I have an opinion."

(Page 10 - para 4) (The Chairman: "Were you aware of the occupancy agreement for the rope works site as outlined in the draft letter to Mr Williams?")

(Page 10 - para 5). "Yes, I drafted that letter on behalf of John Roscholler."

(Page 10 - para 6) (The Chairman: "Was the letter ever signed or sent?")

(Page 10 - para 7) "I do not know, I do not think so. That was the letter I was referring to at the time when their initial agreement of tenancy was rapidly coming to an end. He asked me to go down there and I said, "That is how I see it, it is up to you, not to me."

(Page 10 - para 8) (The Chairman: You are not aware as to whether or not this letter was actually sent or signed?")

(Page 10 - para 9). "No, I could not say, I would definitely say that Mal Williams had seen it."

(Page 10 - para 11). "Because he stayed on after that time; he stayed on during that period."

(Page 10 - para 13). "It may have been sent."

(Page 20 - para 11). "I know that those at Warrnambool Woollen Mills are business people and I do not believe that they would have entered into any gentleman's agreement. They would have wanted something in writing."

MR WILLIAMS: (Page 5 - para 6) (The Chairman: "Was Dreamspun content about having no formal agreement.")

(Page 5 - para 7). "We were asked to be content."

(Page 5 - para 8) (The Chairman: "You had no option virtually?")

(Page 5 - Para 9). "We had no option. We had to stay there. As long as we considered we were covering ourselves and we were operating as far as we were concerned within the confines of the agreement representatives of the Education Department had made and we had confirmed in writing our understanding of the agreement, we considered we were, within the bounds of everything, to go ahead."

(Page 5 - para 10). (Mr. Connard: "Was it after talking to them and in the absence of any correspondence coming from them that you drew up the memo of the 23rd and, in the absence of a reply, you assumed it was accepted?")

(Page 5 - para 11). "Accepted, because it was accepted verbally. We have nothing on record to my knowledge or that I recall. I kept as complete a record as I could."

(Page 7 - para 7). "Yes. On 22 August 1979. That is the agreement."

(Page 7 - para 8). (The Chairman: "Is that agreement signed?")

(Page 7 - para 9). "It has not come through, but it was signed."

(Page 7 - para 10). (The Chairman: "Who signed the agreement?")

(Page 7 - para 11). "Harry Wright."

(Page 14 - para 5) (The Chairman: "Obviously, Dreamspun and Warrnambool Woollen Mills were endeavouring to get something formalized."

(Page 14 - para 6). "We were trying to cover ourselves. We did not want to be caught high and dry. To be quite honest, we could not afford to be."

5. Answers to Questions related to the basis of the agreement for rent to be charged to Warrnambool Woollen Mills at the rate of \$1 per square foot per annum and the basis of the arrangement for Warrnambool Woollen Mills to meet certain costs and carry out works in lieu of such rent.

MR. CARRUTHERS: (Page 5 - para 3). "I saw Neville Barwick at 2.30 in the afternoon and the results of my interview were, first, there was no answer to the ownership of the boilers; this issue was still undecided. Secondly, Dreamspun and Westwool were to undertake work to the value of the rent. No figure was mentioned as to what the rent should be, but they were going to do it in kind rather than cash. The third thing was to discontinue the services of Wormald, the fire people."

(Page 5 - para 4). "Larry Foley of Westwool telephoned Harry Wright, the public servant in the Preston region in my absence, and said he would like to pay rent. Neville Barwick said "The conditions are the same as for Dreamspun" which, presumably, means do work instead of pay rent."

(Page 10 - para 7). "I did not know what was going on so I had to confront Mr Barwick. I said to him, "I am hearing these stories, what is the position?". He said the position is as I told you and they were going to do work in lieu of rent. There was nothing specific as to what work they were going to do."

(Page 10 - para 10) (The Acting Chairman (Mr Gavin): What do you mean by "drawn up"?)

(Page 10 - para 11). "I cannot swear to it but I think John Roscholler drew up the conditions."

(Page 11 - para 10). (The Acting Chairman (Mr Gavin): "You are not aware of the basis on which the rent of \$1 per square foot was determined?"

(Page 11 - para 11). "No."

(Page 11 - para 12) (The Acting Chairman (Mr Gavin): "Do you say that the basis for the arrangement for Warrnambool Woollen Mills, as a tenant, to meet the cost of certain site works and other expenditure incurred on this site goes back to Mr Barwick's suggestion?"

(Page 11 - para 13). "Yes."

(Page 12 - paras 12, 13 & 14). "The entry for 26 October 1978 in my diary reads:

Phoned Neville Barwick and asked for interview re promises to tenants.

Saw Neville at 2.30. Results:

- (a) No answer re ownership of boilers,
- (b) Dreamspun and Westwool to undertake work to value of rent,
- (c) Discontinue Worwald's services.

That is the information that I obtained from Mr Barwick."

MR ROSCHOLLER: (Page 5 - para 4). "Via Neville Barwick. The two co-ordinators, particularly Mr Harry Wright, the senior administrative officer. That was the sort of role he had to perform."

(Page 5 - para 6). "We all took our directions. I took my direction from the office of the Director-General - Mr Barwick's office. That is where the authority came from for the whole of this changeover type of operation."

(Page 10 - para 9). "That was the basis of the arrangement, as I indicated before. Projects to embrace all works and equipment were handled, as I understood it, by Mr Williams receiving the quotes - eventually when the work was done to satisfaction. I think DeWever was a public works inspector."

(Page 10 - para 10). "If the work was okayed, for example, authority would be given to Mr Williams to pay whatever account came through, whether it was Schultz or anyone else."

(Page 10 - para 11) (The Chairman: What rent, if any, was deducted? Was rent deducted to pay for this work from the agreement?")

(Page 10 - para 12). "The payments made were not known to us as "rent". It was an informal agreement; I am sorry but that is how it is."

(Page 11 - para 4). "My basic understanding was that early in the piece although a low rental might have been considered, it faded out and became this informal agreement to pay accounts. I cannot add anything more to that."

(Page 11 - para 9). "Yes, we did not collect any moneys, we just submitted accounts. Therefore, they were not in the nature of rent, as I understand it."

(Page 11 - para 13). "No, it was all in line with the informal arrangement that was made. The Warrnambool Woollen Mill suggested that it would be prepared to pay for any building operations or equipment needs that we might have. The initiative came from them."

(Page 12 - para 11). "I considered myself to be in a fortunate position to have access to funding for carrying out work and to obtain equipment that otherwise we would not have been able to obtain through the Education Department which had a lack of funds. Regardless of the issue of consolidated revenue and

payments into that, that was the way I have always regarded the arrangement."

(Page 16 - para 8). "Mr. Wright. All the detailed work, such as the movement of requests for anything to be done are handled by him. If Mr Carruthers and Mr Landford measured the site, it would have gone through Mr Wright, to the Warrnambool Woollen Mills and then to Mr Barwick."

(Page 16 - para 11). (The Chairman: "The regional office had nothing to do with negotiations of the lease agreement for the 100,000 square feet in the agreement to pay various accounts in lieu of rent. They were matters negotiated directly with Mr Barwick and the Warrnambool Woollen Mills or some other intermediary.")

(Page 16 - para 12). "I would only be repeating what I already said on this matter. I am certain of a communication with Mr Barwick. It was over five years and nothing much was written. One has to rely on memory. Therefore, I must be hesitant in indicating approval, in fairness to people."

MR WRIGHT: (Page 5 - para 7). "No, of 1979. There was the initial agreement to stay on site at \$1 per square foot, and an amount of \$50,000-odd was mooted. That covered a set period of time."

(Page 5 - para 8) (The Chairman: Was that for a twelve month period?")

(Page 5 - para 9). "I am not sure."

(Page 5 - para 10) (The Chairman: It was not \$1 per square foot for twelve months, it was just \$1 per square foot for five or six months?)

(Page 5 - paras 11, 12 & 13). "Yes, something like that; I do not know. From October to say March, or October until June.

That period of time expired, and Warrnambool Woollen Mills had not shifted off site and they came to the regional director and asked for an extension of time. I presume they then liaised with Neville Barwick and he said "Yes, you can have an extension of time".

At that time John Roscholler said "Go down and have a look and see what you can arrange". I spoke to Mal Williams and said "I am not happy with the amount of money you have struck off the top of your head; I want to have the area measured". I had it measured up and it came to 104,837 square feet. I said "That is the rate you should be charged at".

(Page 5 - para 16). "They had 104,837 square feet and I said "That is the rate I think you should be charged at". I told the then regional director, and he presumably agreed to it, and I said that the best way to calculate it would be to divide it by 365.75, which calculates the daily rate, and apply that to the month and that would give you the exact amount. It was clearer to me than the initial agreement."

(Page 6 - para 1) (The Chairman: "You are convinced that area you measured was the correct area they occupied throughout the period.")

(Page 6 - para 2). "It was correct. I had it verified by two others."

(Page 6 - para 3) (The Chairman: "Did they contribute an amount as per that agreement in that area?")

(Page 6 - para 4). "They were prepared to."

(Page 8 - para 12). "I was given directions by John Roscholler. I did not negotiate any agreement whatsoever. I applied to the situation what had previously been arranged. I queried the rate of \$1 per square foot, I do not believe it was the correct rate."

(Page 8 - para 13) (The Chairman: "How was that rate arrived at?")

(Page 8 - para 14). "I have no idea."

(Page 8 - para 15) (The Chairman: You do not know if any real estate consultants were asked to comment?)

(Page 8 - para 16) "No."

(Page 8 - para 17) (Mr Gavin: "What figure was he given?")

(Page 8 - para 18). "I had not been involved and I was not prepared to become involved. I think it was over \$3."

(Page 9 - para 1) (Mr Gavin: "Was that per square foot?")

(Page 9 - para 2) "I think he spoke about a movement amount etcetera etcetera. I told Mr Barwick that I thought it was Government policy to decentralize. It was then a gentleman's agreement - and I have seen a letter to this effect - to help Warrnambool Woollen Mills to decentralize, and these are the sorts of arrangements that were made."

(Page 10 - para 14) (The Chairman: "What was the basis for the arrangement? How did you reach the arrangement for Warrnambool Woollen Mills, as a tenant, to meet the cost of certain site works and other expenditure incurred on this site?")

(Page 10 - para 15). "They were handed an account and they were asked either to pay it or to organize payment of it."

(Page 19 - para 5) (Mr Gavin: I revert to the letter dated 22 August 1979. The second last paragraph states:

The occupancy agreement will remain the same as last financial year and the agreed amount will be used as requested by myself in necessary maintenance and upgrading of the "Rope Works" site or for any other purpose that may benefit the Region."

(Page 19 - para 8). "I drafted that letter and there is no doubt about that. I drafted it on behalf of John Roscholler and I gave it

to him but as to what he did with it then it was entirely up to him. I would not sign it. I drafted it because he asked me to do that very thing."

(Page 20 - para 11 & 13). "I know that those at Warrnambool Woollen Mills are business people and I do not believe that they would have entered into any gentleman's agreement. They would have wanted something in writing."

"I am certain that it was specified. Warrnambool Woollen Mills would have been happy with the \$1 per square foot."

(Page 21 - para 6). "Yes. I think it was \$59,000, I am not sure how it was arranged or what the square footage was. It may not have been wrong, however, it does appear that it was wrong. It was possibly negotiated on a given area. No one from the Education Department was looking after the Warrnambool Woollen Mills account when John Carruthers moved. I believe that they expanded and they did not have either a liaison person or a contact person. They expanded within this large building in order to occupy more area. When I was asked to go down, they had then expanded to occupy this area."

(Page 21 - para 7) (The Chairman: "The initial area could have been correct at the time?")

(Page 21 - para 8). "I have a feeling it was, I do not know."

(Page 21 - para 9). (The Chairman: "There was no quibble by Warrnambool Woollen Mills when you advised them of the area that they were occupying?")

(Page 21 - para 10). "I mentioned to them that the rate was too low and that if they wanted to argue about it then they could argue with the regional director. I told them what they should be paying and they immediately agreed to it."

MR WILLIAMS: (Page 5 - para 3). "That was it. I never got anything in writing - to my knowledge - to say that we were to go ahead on that basis. I got verbal agreements."

(Page 5 - para 5). "It came back later on April 30 1979, Mr Harry Wright. It was getting around to first payments at that stage in the area. It was agreed and we took it, because they allowed us to stay on, that the agreement was accepted."

(Page 7 - para 16) (The Chairman: You understood that any of those accounts that you said came through from time to time would pay part of the rent?")

(Page 7 - para 17). "Yes, they were written against a calculated rent figure on that official agreement."

(Page 7 - para 18). (The Chairman: "\$1 a square foot?")

(Page 7 - para 19). "\$56,000 was the first figure. You see a pencilled figure on Carruthers letter. We subtracted from there in that note that is being copied now."

(Page 7 - para 21 & page 8 - para 1). (The Chairman: "Those amounts, it was not just Warrnambool Woollen Mills being a generous occupier and paying various accounts out of the goodness of their own heart, it related to a specific agreement that you had either verbally - you see we cannot find much documentation - between Warrnambool Woollen Mills and the department. There was a specific amount you were responsible for?")

(Page 8 - para 2). "Yes. They were down as donations in the books."

(Page 8 - para 12). "When Borthwicks did renovations, they were paid by us directly as owners. That is how I believe it was done. We were requested to do so."

(Page 8 - para 13) (The Chairman: "All those amounts were deducted from the amount of rent owing?")

(Page 8 - para 14) "Yes."

(Page 11 - para 10). "Yes, we negotiated a fair rent which was a dollar a square foot. We paid it to the Education Department which, in this particular case, was the Northern Metropolitan Region's office. We believe we were paying a fair rent to the people who owned the building."

(Page 11 - para 12). "The measurement was taken from drawings which were done by James Miller and Co. prior to their demise. The drawings were standard blueprints which were done by the Miller's draftsmen, two or three years earlier."

(Page 12 - para 1). "They said it is there, the scale of the drawing, and you can check the calculations. We said we would pay a dollar a square foot which worked out to \$56,000 for the first period, which was not a full 12 months. In the latter letter, the amount came to approximately \$100,000 for the full period."

(Page 12 - para 2) (The Chairman: "Was there any disagreement between the department and the firm that the area was correct?")

(Page 12 - para 3) "Not really".

(Page 12 - para 8) (Mr. Rowe: "Was it a market rent?")

(Page 12 - para 9). "I do not think so."

(Page 13 - para 2). "I would not know, but it was less than we would have to pay. We were happy to pay the dollar per square foot. I know there were higher figures than that, but they were for smaller areas in say, the Dandenongs at \$2 per square foot. The bigger the area in factory size, the smaller the dollar per unit foot."

(Page 13 - para 7) (The Chairman: "The Minister gave approval that the premise would be leased on a rent-free basis until 31 December 1978. The second agreement on a dollar per square foot basis seems to intrude into that arrangement. What was the reason that it was authorized to be rent free, but that you then paid rent?")

(Page 13 - para 8). "We tried to offer something that would make it more attractive for us to be allowed to stay on. If we had to move, it would have meant that we would have gone out of business. We offered an extra two or three months."

(Page 14 - para 2). "The only acknowledgment we have is the letter. The second agreement to which Harry Wright was a signatory, which actually itemizes the dollars, is the only written acknowledgement we have. That was the second agreement in the second year."

6. Answers to Questions related to the mechanism of arranging works and payment of accounts in lieu of rent. Who called Tenders? Was Public Works involved?

MR ROSCHOLLER: (Page 6 - para 5). "Yes, part of what you say is correct. As far as I am concerned that work that needed to be done, whether it was maintenance, upgrading or replacement, we naturally had to decide on site what had to be kept together. This, under Mr Barwick's direction, was something that the PWD had to supervise. The woollen mills had to ask for quotes under Mr Barwick's direction and the PWD had to supervise all the work that was of a building nature."

(Page 6 - para 11). "I had not had any experience with those sort of things up until that point but I assumed that as the Premier, the Minister of Education, Mr Thompson at the time and Mr Barwick were working closely on the development of the site that whatever came back to us would have been satisfactory. I do not know the Treasury regulations."

(Page 7 - para 7). "We asked the Building Operations Division - I cannot be definite on this as to whether we asked Mr. Barwick for the way that this might be done, but certainly what we had to do, from memory, was to put a formal request to either the Office of the Director-General or the Building Operations Division for \$25,000 coming from the department's normal funding of things like this to carry out the works."

(Page 7 - paras 10 & 11). "I cannot help much more, except that at that stage Mr Wright our senior administrative officer was attending, being a link person as far as I was concerned and as far as the department was concerned with Mr Williams of Warrnambool Woollen Mills.

Mr. Williams was responsible for obtaining the necessary firms to do the job and, therefore, the accounts would have been submitted, to the best of my knowledge, to Mr Williams and paid."

(Page 8 - paras. 1 - 17 (inc.)). (The Chairman: "The Committee has a copy of a letter written to Mr Williams, the Manager of

Dreamspun, signed by Harry Wright asking for his cheque to be handed to you as the Regional Director. Is that the normal procedure? There is a cheque payable to the Heidelberg YMCA for \$2074."

"No, that was most unusual.

(The Chairman: "What was the normal procedure?")

"I am trying to remember what that \$2074 was for."

(The Chairman: "It was for a list of items: filing cabinets, stationery, chairs, and about half of it was for the salary of a typist.")

"From memory, that was an information centre. I am associated with the Heidelberg YMCA. In fact, my wife is on the Board of Directors and I am involved in many ways.

We could not get the money from the Education Department to allow this project to go ahead so, on my behalf, this was put to the Warrnambool Woollen Mills to see if they would pay for this, and they agreed."

(The Chairman: "We have a memo of yours which asks: "Harry, would you arrange to pay this account through Dreamspun? When will it be through?" Signed, "JNR.")

"That is right. I cannot be absolutely certain, but I think I discussed this with Neville Barwick. This was rather different to the work that went on on site, therefore, I am almost certain that I would have discussed it with Mr Barwick to get his approval."

(Mr Rowe: "You say you think you discussed it with Mr Barwick?")

"Yes. I am not certain."

(Mr Rowe: You have no more definitive statement to make?)

"No. It would be unfair to say definitely - in deference to Mr. Barwick - that I discussed it with him. I did not operate without his approval. I am almost certain that is the course I would have followed."

(The Chairman: "On 11 April 1980 a request was made by Mr Wright to Mal Williams of Dreamspun to pay the"Heidelberg YMCA an amount equal to \$2074 and debit this against our agreement." I assume that was paid?")

"Yes."

(The Chairman: "Have you any further details of other payments that were made?")

"Do you mean to any firm?"

(The Chairman: "Yes, of a similar nature.")

"No, there was nothing like that. That was a special case. It would have been discussed."

(The Chairman: "That cheque was handed to you, was it? Harry Wright suggested the cheque should be handed to the regional director, Mr Roscholler.")

"Certainly it got to the YMCA."

(Page 10 - para 8) (The Chairman: "On a memo dated 11 January 1979, a request for work to be carried out on Miller Rope Works has been made by A. DeWever I.O.W. (a) Central Region. Authorization for this work was made by Mr Barwick. This authorization invited Warrnambool Woollen Mill to call local quotes and to set up contracts directly. Were you aware of this arrangement?")

(Page 10 - paras 9 & 10). That was the basis of the arrangement, as I indicated before. Projects to embrace all works and equipment were handled, as I understood it, by Mr Williams receiving the quotes - eventually when the work was done to satisfaction. I think DeWever was a public works inspector.

If the work was okayed, for example, authority would be given to Mr Williams to pay whatever account came through, whether it was Schultz or anyone else."

"Yes, we did not collect any moneys, we just submitted accounts. Therefore, they were not in the nature of rent, as I understand it."

(Page 11 - para 13). "No, it was all in line with the informal arrangement that was made. The Warrnambool Woollen Mill suggested that it would be prepared to pay for any building operations or equipment needs that we might have. The initiative came from them."

(Page 14 - para 7). "That is the only organization of which I am aware, apart from the firms that carried out work or provided equipment and so. It is perhaps a side issue, but Mr Thompson and Mr Barwick and I, to a certain extent from involvement in the development of the Heidelberg YMCA knew that the Minister authorized \$50,000 to go into the YMCA. The idea was to help it develop the complex. Buses were also to be provided, but the stage of providing buses was not reached. Mr Barwick had a personal interest, as I do, in the operation of the YMCA. That is how I would have sought his permission to have the information service funded in that way."

(Page 14 - para 9). "As you may know, he was a councillor on the Heidelberg City Council before entering the department. This was one of his interests as he was especially interested in community affairs, as was the Minister and Mr. Thompson. That is how the interest and the effort to fund came about."

(Page 15 - para 3). "No, we tried to get the money through the building operations division, through Neville Barwick, who could have authorized it but we were unable to do so. It was a matter of

the accounts being submitted to the Warrnambool Woollen Mills and Mr. Barwick's authority in being paid through a cheque, which apparently was hand delivered. I am not sure how the cheque came back, but they would have a record of that. Mr Bob Nicholson is still the manager there and knows about the matter."

MR WRIGHT: (Page 12 - para 3) (Mr Connard: "When work was being done by someone and an account was raised for it, how did the account get to Warrnambool Woollen Mills? In order to reach them, did it go through your hands as administrative officer?"

(Page 12 - para 3). "In some cases, yes."

Page 12 - para 4) (Mr Connard: "I want to be clear in my own mind on this. As work was done, that general account would be raised and sent to the department so that, under instruction, you would have sent it to Warrnambool Woollen Mills with the knowledge that they would pay for it. If that assumption is correct, were any receipts given to the department? How would you know that that work had been done and that it had been paid for?"

(Page 12 - para 5). "In all cases prior to work of any kind proceeding, reference was made to the regional director. An estimate would have been obtained and work would have been done. Possibly the accounts would have been directed to the regional director then handed to me and I would have taken them back. However, in some cases, they did not go through me, they went directly to Warrnambool Woollen Mills."

(Page 13 - para 1). (The Chairman: "Not all the accounts which were paid by Warrnambool Woollen Mills were for matters carried out on site, were they?"

(Page 13 - para 2). "No."

(Page 13 - para 6). "I think there were three paid to Heidelberg YMCA and one paid for an in-service for a teacher to attend some sort of function at, I think by coincidence, Warrnambool."

MR WILLIAMS: (Page 8 - para 2). "Yes, they (payments) were down as donations in the books.

(Page 8 - para 9). (The Chairman: "All of the accounts that were paid - did you forward those cheques to the department and they forwarded them on or did you pay them directly?"

(Page 8 - para 10). "What I did, and I think you can see on a few accounts, I requested our accounting section to pay them and they were paid to the northern region."

(Page 8 - para 12). "When Borthwicks did renovations, they were paid by us directly as owners. That is how I believe it was done. We were requested to do so."

(Page 9 - para 2). "We paid the contractor. I would have to check with our office but that is how I understand it was done."

(Page 9 - para 5). "Warrnambool answered a letter in relation to an electrostat plate maker, which was to the value of \$87,232. We were asked to ask that company to supply to the Melbourne Metropolitan Regional Office such a copying machine and we would pay for it. The Borthwick tenders were brought into us, to me and it was the northern district which accepted such a tender and forwarded the accounts.

(Page 10 - paras 1 - 18 inc.) (The Chairman: "The Committee has a copy of a letter referring to work carried out on a canteen. The memo is signed by Mr Barwick for the sum of \$28,450. Are you familiar with making that payment to the Borthwicks?")

"\$28,250 was his quoted price. We made two payments to Mr Borthwick: One for \$20,000 in June 1979; and the other for \$8,000 in August 1979."

(The Chairman: "Are you aware that that payment was authorized by Mr Barwick?")

"No, I am not."

(The Chairman: "For your information, it was. The inter-departmental memo also states that you were asked to call for local quotes. What was that procedure? Were you required to meet some guidelines set in the Public Service?")

"To my knowledge, we did not issue any tenders; it was issued under the letterhead of the Education Department to be addressed to me. I gathered them together and gave them to Harry Wright to make a decision. I had nothing physically to do with it."

(The Chairman: "Were you just given the final account?")

"Yes."

(The Chairman: "You had nothing to do with the selection?")

"Not at all".

(The Chairman: "On 11 April 1980, a request was made by Mr Wright to you to pay the Heidelberg Y.M.C.A. an amount of \$2074 and debit this against the agreement. Was that paid? The letter was from the Education Department and signed by Mr. Harry Wright.")

"I remember going to the Heidelberg Y.M.C.A. but I cannot find anything to verify it with my papers. I have quickly looked through and I cannot find a record of it but that does not mean that it was not paid."

(The Chairman: "One can assume that it was paid. The letter is addressed to you and it states:

"Could you please pay the Heidelberg Y.M.C.A. an amount of \$2074.00 and debit this against our agreement.

Could this cheque be handed to the Regional Director, Mr J. Roscholler."

The letter is signed by Mr Harry Wright. Can you recall any details of that account?")

"I can remember something going to the Heidelberg Y.M.C.A., but I cannot find verification of it in my papers."

(Mr Rowe: "Do you normally receive receipts for those sorts of things?")

"No, we usually use the cheque as a receipt."

(The Chairman: "Did the Education Department provide receipts for any cheques that you handed over?")

"Not to my knowledge, unless they went directly to the mill. I did not receive any personally. It was sent to the mill on 11 April so I assume that it was paid."

7. Answers to Questions related to departmental practices and procedures and whether procedures at Preston Regional Office were within normal departmental practice.

MR ROSCHOLLER: (Page 6 - para 11). "I had not had any experience with those sorts of things up until that point but I assumed that as the Premier, the Minister of Education, Mr Thompson at the time and Mr Barwick were working closely on the development of the site that whatever came back to us would have been satisfactory. I do not know the Treasury regulations."

(Page 12 - para 14). "I am not in a strategic position in that I do not work closely with head office or with the affairs of the rope works to really know about that. It would be a value judgment. I would rather not guess at what happens in other areas of the system."

(Page 13 - para 1). "No, this is the first time I have been in such a position. We were put there to be caretakers of the place and were asked by Mr Barwick to move over there from the Preston office. We were to look after the place and in doing so, we inherited certain land, buildings and people who were co-ordinating affairs and who were continued on from what was already in operation when we arrived on site."

MR WRIGHT: (Page 11 - para 14) "I advised the Regional-Director that it was not only unusual but it was contrary to all regulations that ever existed."

(Page 11 - para 15). (Mr. Gavin: "What was his response to that?")

(Page 11 - para 16). "Neville Barwick said it was okay."

(Page 13 - paras 15 & 16). (Mr. Connard: "Had this been a normal situation that the department itself was going ahead and doing improvements on the property and the accounts being paid by

whoever, would they pass through your hands with a recommendation to the regional director?

In a normal situation, if you were in a school somewhere and you pursued all the correct procedures, where would those accounts go to? To your specific office?"

(Page 14 - para 1). "No, we had a distinctly different administration function than that. The Public Works Department did most of our work and we used it as our accountant. We would not see the accounts; they would go direct through its own administrative procedures. We might raise the issue of the work, but that would be our extent of it."

(Page 21 - para 14). "Mr DeWever, the inspector of works, was aware of it and that is why he asked Mr Barwick to sign it personally. I am sure that he did it as a favour to me because he said, "I do not want to do it on my own." He said that if something blows up then he did not want to do anything in isolation."

MR WILLIAMS: (Page 8 - para 6). "I found out since - I believe it was, as I understand it, all monies had to go through the Consolidated Fund or whatever and this was a way of channeling them into the local area. I found that out since."

8. Answers to Questions related to records - why were no proper files kept on agreements and transactions?

MR CARRUTHERS: (Page 13 - para 4). "John Roscholler would do that (keep files) . From memory, I wrote a few letters when I was at Miller Rope Works and I would have my own copies of any letters that I wrote. Russell Lambert took over from me and I never saw those files again. I do not know what happened to them."

MR ROSCHOLLER: (Page 7 - para 5). "Certainly not in our office. Whatever papers did come in in the way of information from Dreamspun we moved them back into head office and they became part of the head office file. It was an operation of informality. I saw it at the Office of the Director-General, and building operations were the ones responsible for carrying out and authorizing all of the work, otherwise it would have been a duplication of files."

MR WRIGHT: (Page 8 - para 7) (The Chairman: "Were any minutes kept on the file of those discussions with Warrnambool Woollen Mills?"

(Page 8 - para 8). "Not to my knowledge."

(Page 8 - para 9) (The Chairman: "Were they verbal agreements?"

(Page 8 - para 10). "Yes, I believe that would be the case."

(Page 16 - para 9). "Yes, to a function at the then regional office relating to an International Year of the Child thing. They wanted to use the site for a series of disadvantaged children, bringing them on site, and the place was unusable. We had to clean it up, and I think we spoke about having it fixed and something like we could

have it fixed using this money Warrnambool has as it would be a legitimate charge because it is on site. He said "All right, do it that way". He (Mr. Barwick) asked whether any records were being kept and I said "Not to my knowledge", and he said something to the effect "Good, keep it that way". That is the only time I spoke to him on an issue, but it was just between him and I."

(Page 17 - paras 4 - 10). "I kept some notes, but I did not keep a file, as such, because when I had an inquiry I used to refer it to John Roscholler. As far as I was concerned, the area was his responsibility at any given time."

(The Chairman: "Could you understand why he did not keep a file?")

"I am not so sure he did not."

(The Chairman: "I do not think we have been provided with one, and I think he advised us there was not a file on the matter. Is that normal procedure within the department?")

"No, quite to the contrary."

(The Chairman: "Do you think it is rather because of the dubious nature of the way the payments were made it was better to keep the matter secretive?")

"There is no doubt."

9. Answers to questions related to the Education Department's Inquiry into the Preston Regional Office following the Auditor-General's Report and the Inquiry by the Public Accounts and Expenditure Review Committee.

MR WRIGHT: (Page 14 - paras 4 - 17) (The Chairman: "We are advised there was an internal inquiry by the Education Department in February 1982. Were you involved in that inquiry?")

"Yes."

(The Chairman: "What were the recommendations of that inquiry?")

"I do not know; I never saw them."

(The Chairman: "Do you know who else was involved?")

"Yes, Arthur Dale."

(The Chairman: "What was his role?")

"He was the inquirer. He was nominated by Stewart Morton, the Acting Director or Director of Facilities at the time, to investigate the issue."

(The Chairman: "He is still with the department?")

"His report, and he, are still with the department, yes."

(The Chairman: "Who else was called as a witness?")

"I do not know. Arthur Dale visited me and asked similar questions to what I am being asked now. He asked me to visit Mal Williams with him, and we discussed similar issues. I do not know what happened to the report.

(The Chairman: "Did he formally or informally advise you what would be the result of the inquiry? You must have had some conversation. He would have advised the purpose of the inquiry?")

"I think he said something to the effect it was pointing squarely at the very senior office of the department, something of that nature."

(Page 15 - paras 2 - 9) (The Chairman: "Was he happy with the action the department took?")

"I think Arthur was not in a position to that. He just handed his paper to the Director-General and that was the end of it as far as he was concerned."

(The Chairman: "Who was in that position at the time?")

"He handed it to Stewart Morton. I have asked for a copy, but have not been able to get it."

(The Chairman: "It was up to Mr Morton to take appropriate action?")

"I think he was acting on directions from Dr Currie, and I think Dr Currie was following on directions from the audit office as to questions being unanswered."

(The Chairman: "The audit section of the Education Department?")

"No, I do not think so. I think it would be the external department."

10. Answers to questions related to the occupancy on site by other Departments and bodies and the basis of their occupancy.

MR CARRUTHERS: (Page 5 - para 4). "Larry Foley of Westwool telephoned Harry Wright, the public servant in the Preston region in my absence, and said he would like to pay rent. Neville Barwick said "The conditions are the same as for Dreamspun" which, presumably, means do work instead of pay rent."

MR ROSCHOLLER: (Page 13 - paras 2 - 10) and (Page 14 - para 1).

"No, this is the first time I have been in such a position; it is a most unusual position. We were put there to be caretakers of the place and were asked by Mr Barwick to move over there from the Preston office. We were to look after the place and in doing so, we inherited certain land, buildings and people who were co-ordinating affairs and who were continued on from what was already in operation when we arrived on site."

(The Chairman: "I understand a number of other Government departments are also in the area that was purchased by the Education Department. Were there any arrangements made by the Education Department with those other departments? Did the other departments pay anything in the way of rent?")

"As far as I know, no other Government departments paid anything to the Education Department or to the Government generally."

(The Chairman: "Did any of those Government departments carry out any works for the Education Department?")

"I am not certain as to whether they did."

(The Chairman: "What about capital works or maintenance works?")

"I am not certain. We regarded them as other Government offices and the whole site was endangered in that people were encroaching on it and there was vandalism. Various things were stolen and we regarded this as a service to other Government departments and as a group of people looking after the site for us.

When we moved in all sorts of things disappeared from the site such as machinery and so on. They went wheeling past my window with monotonous regularity. That was one of our roles as caretaker, so when other Government departments came on site, we were pleased to give them access. We were especially pleased with the Police Department, which was interested in the site at one stage.

For one reason or another, the Police Department backed off and the Education Department came in. We just happened to be lucky enough to get the site, therefore, we co-operated with them. It seemed to be a good arrangement to have the police on site."

11. Answers to Questions related to the role of the Management Committee in the on-site development and agreements.

MR CARRUTHERS: (Page 6 - paras 1 - 4). "It was very vague. Everything was spoken, and there was nothing in writing. The only thing I was told that had any sort of definition to it was what I was told by the staffing officer that I would receive submissions which I would assess and put into some priority order and make recommendations to a committee.

The committee did meet, and I recollect that Mr Roper, the present Minister for Health, was there on one occasion. That was after John Roscholler had taken over the place."

(Mr Connard: "It was Mr Roscholler who orchestrated those committees, was it?")

"Yes."

(Page 7 - para 14, Page 8 - paras 1 & 2). (The Acting Chairman (Mr Gavin): "Could we ask questions about the three letters? The first letter is dated 11 October and addressed to you. You made some

reference to the concept of a committee, and you were 'not sure about it. I gather that is what the management committee is as referred to in this letter?")

"Yes, I can recollect this now, but it is just now I can recall it."

(Page 9 - paras 1 - 10). "I would not have got that until I resumed duty on 16 October. There was a meeting held at the rope works on Tuesday, 17 October, at 9 a.m. I seem to recall Mr Roper attending that meeting."

(The Acting Chairman (Mr Gavin): "That was the management committee?")

"Yes".

(The Acting Chairman (Mr Gavin): "Do you know how it was set up or who was on it?")

"John Roscholler was on it, Mr Roper was there and I think, from memory, the principal of the Brunswick Technical School."

(The Acting Chairman (Mr Gavin): "Is that Mr Lees?")

"Yes, I was there but I am afraid that I cannot recall anyone else's name. There were other people present but I do not know who they were."

(The Acting Chairman (Mr Gavin): "Did he report to Mr Roscholler?")

"He was the chairman."

(The Acting Chairman (Mr Gavin): "I presume that he reported to Mr Barwick.")

"I do not know what he did, the place was his."

(Page 13 - paras 5 - 14). (Mr Connard: "I revert to the management committee which surfaces in one of the letters. You made a comment earlier that, on 17 February 1978, you indicated Mr Roscholler scheduled a meeting with Tom Roper and yourself. From memory, did that management committee meet regularly?")

"I think I was off ill when one of the meetings was held. I remember only the meeting that I attended."

(Mr Connard: "Were minutes circulated of the results of the meeting?")

"I think so, Tony Moran, the chief planning officer, was a representative on it."

(The Acting Chairman (Mr Gavin): "What was the role of the management committee? Do you know if it was the management committee's function to look over Miller Rope Works or did it have a wider function?")

"John Roscholler laid down the terms of reference of this committee although I could not tell you what they were."

(The Acting Chairman (Mr Gavin): "Did you actually see them?")

"I actually heard them at the meeting, I am pretty sure that minutes were published afterwards."

(Mr Connard: "Can you recall if the committee met more than once?")

"I cannot say, it was more than twice, I am pretty sure they met twice. I cannot recall having made a note of it. As I said before, I was off ill for a month and if anything happened while I was away then I would not have made a note in my diary."

(Page 13 - para 1) "No, this is the first time I have been in such a position; it is a most unusual position. We were put there to be caretakers of the place and were asked by Mr Barwick to move over there from the Preston office. We were to look after the place and in doing so, we inherited certain land, buildings and people who were co-ordinating affairs and who were continued on from what was already in operation when we arrived on site."

MR WRIGHT: (Page 7 - paras 1 - 15). "The management committee was something quite distinct from that which you might be discussing today. The committee was formed to manage the whole of the rope works site and to determine its future."

(The Chairman: "Do you know who set up that committee?")

"Neville Barwick and John Roscholler, it went for fourteen months."

(The Chairman: "Is that so far as you know? The committee obviously functioned.")

"I was the executive officer on it."

(The Chairman: "How frequently did it meet?")

"Once a month, it might have been more than that, but it was at least once a month."

(Mr Gavin: "Do you know who was on it?")

"The Regional-Director, a Public Works Department representative, an architect who was appointed by the Public Works Department, the project co-ordinator, a technical schools division representative, a secondary schools division representative, a Brunswick City Council representative and myself as minute secretary."

(Mr. Gavin: "Do you know who the city council representative was?")

"Yes but I cannot think of his name at the moment, he is active in the council."

(The Chairman: "You were the minute secretary?")

"Yes."

(The Chairman: "Where are the records of those minutes?")

"John Roscholler should have them. Everybody was given a copy. Every minute was minuted and a set of minutes was posted. I do not think that that committee played much of a role in this particular agreement."

(Page 7 - para 17). "I think that this was very early in the piece. I do not think that Mal Williams was aware that the committee was excluded from this agreement."

(Page 8 - paras 4 & 6). "Neville Barwick's division was to set up, what could be called, a post-primary education complex to amalgamate the Brunswick Technical School and the Brunswick High School. The department had the problems of redeveloping the site as a replacement for the Brunswick Technical School and the Brunswick East High School and it was the committee's role to solve such problems."

"It was directed through John Roscholler and Neville Barwick."

APPENDIX III

SPECIFIC DELEGATIONS FROM THE MINISTER OF EDUCATION IN REGARD TO BUILDING AND ACCOMMODATION MATTERS WERE:

a) ADG (BUILDING)

WORKS PROGRAMMING AND BUDGETING

1. Approval of Works Plans and Draft Works Programs.

LANDS, PROPERTY AND ACCOMMODATION

2. Approval of acquisition by negotiation of land required for education purposes or works described on approved Works Plans on a Works Program to the value of \$200,000.
3. Authorise exchanges of land and property with municipalities or statutory bodies or organisations as a means of acquisition of land and property for education purposes to the value of \$250,000.
4. Authorising the sale of Departmental property other than school sites or school equipment and authorising a grant to a school of an amount equal to that received from the sale of property for school improvements, on the recommendation of the Regional Director to the value of \$5,000.
5. Authorising sale of small portions of sites resumed by C.R.B. for road widening purposes to the value of \$25,000.
6. Granting easements over Departmental sites to the value of \$5,000.
7. Entering into leasehold arrangements and approval of rent payable in respect of property leased for education purposes to the value of \$100 pw.
8. Fixing of rent for Departmental property other than houses to the value of \$50 pw.
9. Authorising the erection of party fencing at no cost to the adjoining owner/s in accordance with Departmental policy to the value of \$5,000.

WORKS AND SERVICES

- 10 Approve requisitions for works and services which are identified in priority by the appropriate authority (Regional Priorities Review Committee or approved Works Plan or Works Program) :-
- (a) Within regional budget allocations for maintenance and minor new works (or within the forward commitment level for the time being approved by the Assistant Director-General (Building)), and in accordance with Departmental policy.
- (b) To P.W.D. for works identified in priority on a Works Plan or Works Program or as authorised by the appropriate authority to the value of \$500,000.

- 11 Endorsing P.W.D. recommendations for acceptance of tenders where recommended tender exceeds estimate on requisition by more than 20% but less than 50%. (Financial delegation applies to variation or difference between tender and estimate.) to the value of \$100,000.
12. As above, but in excess of 50% variation to the value of \$100,000
13. Authorising expenditure for urgent works paid by the Education Department and charged to the Public Works Department Vote to the value of \$10,000.
14. Authorise requests to P.W.D. for the variation of the scope of work or type of materials on contracts to the value of \$25,000.

BUILDING ADMINISTRATION

15. Authorising school committees in writing via the Regional Director in accordance with Departmental policy, for works in accordance with approved master planning, to:-
 - (a) invite tenders and enter into contracts for works and services;
 - (b) enter into agreements with private consultants for services;
 - (c) reduce the prescribed period for lodging of tenders;
 - (d) arrange for work to be undertaken by the Council of any municipality or by a statutory body without inviting public tenders;
 - (e) vary the scope of work or type of materials in contracts to the value of \$250,000 (Delegation applies to value of contract)

Commission consultants for services relating to planning, design or research of facilities relating to land or buildings within available funds to the value of \$50,000.

b) REGIONAL DIRECTOR OF EDUCATION

WORKS AND SERVICES

Approve requisitions for works and services which are identified in priority by the appropriate authority (Regional Priorities Review Committee or approved Works Plan or Works Program) :-

- (a) Within regional budget allocations for maintenance and minor new works (or within the forward commitment level for the time being approved by the Assistant Director-General (Building)), and in accordance with Departmental policy.
- (b) To P.W.D. for works identified in priority or a Works Plan or Works Program or as authorised by the appropriate authority to the value of \$10,000.

c) ADMINISTRATION OFFICER TO RDE

WORKS AND SERVICES

Approve requisitions for works and services which are identified in priority by the appropriate authority (Regional Priorities Review Committee or approved Works Plan or Works Program) :-

- (a) Within regional budget allocations for maintenance and minor new works (or within the forward commitment level for the time being approved by the Assistant Director-General (Building), and in accordance with Departmental policy.
- (b) To P.W.D. for works identified in priority on a Works Plan or Works Program or as authorised by the appropriate authority to the value of \$4,000.

APPENDIX IV

DETAILED JOB SPECIFICATIONS

A) DETAILS CONCERNING POSITION OF ASSISTANT DIRECTOR-GENERAL (BUILDING) OF EDUCATION, VICTORIA

The Education Department administers some 2,200 schools of various types and is responsible for the education of some 620,000 pupils. It has a capital works program which is currently of the order of \$120,000,000 per year, which figure includes special grants from the Federal Government.

Requirements for school buildings are provided by the Education Department and the buildings are planned, tenders called, contracts let and building supervised and payments made by the Public Works Department.

In some cases, the Public Works Department arranges for private architects to prepare documentation.

The Assistant Director-General obtaining this position will have as his particular field:

- (a) Supervision of the preparation of an annual building program co-ordinating in priority order projects required by the five divisions of the Education Department.
- (b) Liaison with the Public Works Department on all aspects of the building program including new schools and replacement and extension of schools and the maintenance of school buildings.
- (c) To assist with submissions for State and Commonwealth funds for school buildings.
- (d) The allocation to divisions of capital funds available to the Department.
- (e) Liaison with Commonwealth authorities in regard to Commonwealth grants programs and the allocation of funds to specific projects according to priority.
- (f) Overall supervision of rates at which capital funds are spent and of cost control.
- (g) To assist in formulation of policies regarding capital works.
- (h) Co-ordination of the work of Committees concerned with -
 - (i) Improvement of school design and furniture design;
 - (ii) Selection and purchase of school sites.
- (i) General oversight of all aspects of the Department's building operations.

Any further specific enquiries should be made in writing and will be answered promptly.

B) REGIONAL DIRECTOR OF EDUCATION

1. Establishing, maintaining and developing the regional office as a viable, functional educational and administrative unit in regard to areas of responsibilities, total staff (professional and public service), space, furniture and equipment.
2. Communications with Education Department central offices and branches, other government agencies, state politicians, municipal and shire councils and school communities.
3. Building
 - 3.1 Capital Works with the Building Liaison Officer.
 - 3.2 Maintenance and Minor New Works with the Regional Administrative Officer (Building).
 - 3.3 Relocatable classrooms, School Council "Minor Contracts" and Total Budgetting System with the Regional Education Officer (Building).
 - 3.4 Furniture with the Regional Senior Administrative Officer.
 - 3.5 Forward planning and community involvement in relation to the provision of primary, high and technical schools.
4. Pre-School Education matters with the Pre-School Adviser (Health Department).
5. Primary Education matters with the six district inspectors. General items of importance with the Liaison Inspector.
6. Supplementary Grants operations with the Regional Co-ordinator, his assistant, executive officers, Area Committee Chairmen and the State Co-ordinator.
7. School Council operations with the Regional Senior Administrative Officer.
8. Special Education matters with the Assistant Director of Special Services (Special Education).
9. Investigation of complaints against schools with the Regional Senior Administrative Officer.
10. Chairman, Steering Committee of Regional Demonstration Unit.
11. Chairman, Regional Language-Reading Project with the Teacher Education Officer.
12. Liaising with principal, teacher and parent/community organisations.

C) STATEMENT OF JOB RESPONSIBILITIES
ADMINISTRATIVE OFFICER CLASS (C2)

1. To assist the S.A.O., and, in his absence, to assume his duties.
2. Finance (Advance Account)
 - 2.1 Cheques relating to the account are signed by the R.D.E. but all aspects regarding this account including:-
 - 2.1.1 preparation of cheques
 - 2.1.2 banking records
 - 2.1.3 reimbursement claims
 - 2.1.4 monthly reconciliations
 - 2.1.5 budget control (in conjunction with the S.A.O. and R.D.E.) would come under the duties of the C2 officer.
3. Regional Office Official Account.
4. Travel and personal expenses both Regional Office staff and Area Committees and Supplementary Grants.
 - 4.1 This task involves the checking of claims and the preparation of cheques and the subsequent reimbursement from Accounts Branch.
5. Regional Reserve Furniture Fund and Equipment Fund.
 - 5.1 The C2 officer would be responsible for validation of claims in conjunction with the necessary criteria and allocation of these funds with the R.D.E. and S.A.O. to maintain a budget control.
6. To monitor and control all typing requests.
7. To exercise a control of the funds regarding the Maintenance and Minor Capital Works Program, and urgent works in conjunction with the R.D.E. and Admin. Officer (Buildings)
 - 7.1 To gauge the commitment rate and ensure that all funds are spent in conjunction with the Buildings Admin. Officer.

APPENDIX V

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:
- (a) The Honourable P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS
OF THE LEGISLATIVE ASSEMBLY

Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-

- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Tuesday, 14 June 1983

14. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable Evan Walker moved, by leave, That the Honourable A.J. Hunt be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable G.P. Connard be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS OF THE
LEGISLATIVE ASSEMBLY

Tuesday, 6 March 1984.

5. ECONOMIC AND BUDGET REVIEW COMMITTEE - Motion made, by leave, and question - That Mr Richardson be discharged from attendance on the Economic and Budget Review Committee and that Mr Ramsay be appointed in his stead.

(Mr Fordham)-put and agreed to.

D. No 30-~~\$~~4.30

ECONOMIC AND BUDGET REVIEW COMMITTEE

REPORT OF THE INQUIRY INTO
THE ROYAL SOUTHERN MEMORIAL HOSPITAL

Ordered to be Printed

P R E F A C E

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees) Act 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire into and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers.

TERMS OF REFERENCE OF THE INQUIRY INTO THE ROYAL SOUTHERN MEMORIAL HOSPITAL

On 30 August 1983, the Governor-in-Council approved of the Terms of Reference of the Inquiry.

1. To inquire into, report and recommend on the structure, organisation and management of the Royal Southern Memorial Hospital, with particular reference to:
 - (a) procedures relating to selection, appointment, supervision and review of personnel establishment, as well as rates of remuneration of non-medical staff;
 - (b) rates of remuneration, methods of payment and hours worked by all medical personnel;

- (c) methods by which reports are prepared, the contents of reports and the execution and reporting back of decisions to the Board of Management;
 - (d) standards and effectiveness of internal and external auditing procedures; and
 - (e) methods of reporting and the contents of reports made to the Health Commission of Victoria.
2. To make recommendations if necessary concerning any incorrect payment to any officer or employee of the Royal Southern Memorial Hospital.
3. To inquire into, report and recommend on the role of the Health Commission of Victoria in monitoring the activities of Public Hospitals with particular reference to;
- (a) information systems;
 - (b) reporting;
 - (c) budgeting controls; and
 - (d) comparisons with appropriate monitoring systems developed elsewhere.

The Committee is required to report to Parliament on Items 1 and 2 of the Terms of Reference by 31 December 1983 and Item 3 by 30 June 1984, respectively, if Parliament is then sitting or if the Parliament is not then sitting within seven days after the next meeting of Parliament.

As it was not possible for the Committee to report by 31 December 1983, the Governor-in-Council on 6 March 1984, approved of an extension to 29 March 1984 if Parliament is sitting or within seven days of the next sitting.

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Hon. D.K. Hayward, M.L.C. (Deputy Chairman)
Hon. G.P. Connard, M.L.C.
Hon. B.P. Dunn, M.L.C.
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Mr. A. McCutcheon, M.P.
Mr. P.J. McNamara, M.P.
Hon. J.H. Ramsay, M.P. (From 6.3.1984)
Mr. J.I. Richardson, M.P. (Till 6.3.1984)
Hon. G.A. Sgro, M.L.C.
Mr. A.J. Sheehan, M.P.

INQUIRY INTO THE ROYAL SOUTHERN MEMORIAL HOSPITAL

SUB-COMMITTEE MEMBERS

Mr. A.J. Sheehan, M.P. (Chairman)
Hon. G.P. Connard, M.L.C.
Mr. P.M. Gavin, M.P.
Mr. B.J. Rowe, M.P.

S T A F F

R E S E A R C H

Ms. H. Silver, Director of Research
Dr. I.A.G. Brand
Miss V. Pepe

ADMINISTRATION

Mrs. E. Barbian, Secretary
Mr. G. George, Acting Secretary
Miss M. Pace

CHAIRMAN'S INTRODUCTION

This report recommends significant changes in the management practices of the Royal Southern Memorial Hospital (R.S.M.H.). The Committee has found serious deficiencies in the following areas of the R.S.M.H. :-

- (i) payments made to medical and non-medical staff;
- (ii) personnel and industrial relations policy;
- (iii) administration and use of the medical trust funds;
- (iv) reporting procedures to both the Board and the Health Commission;
- (v) internal control procedures and financial management; and
- (vi) external audit undertaken for the Hospital.

The Committee's major response to the serious financial and management deficiencies found has been to recommend :-

- (i) the replacement of the Board of Management at the R.S.M.H.;
- (ii) the investigation by the Crown Solicitor of two payments made to the staff at the Hospital and the role of the trustees of the Medical Purposes (Pathology) trust;
- (iii) a detailed review of the sessional allocation for visiting specialists;
- (iv) a more comprehensive external audit be instituted and appropriate internal audit control be established; and
- (v) more informative and comprehensive reporting mechanisms both within the Hospital and to the Health Commission.

The Committee saw the specific inquiry into the R.S.M.H. as a micro study of the second stage of its terms of reference which requires the Committee to investigate the role of the Health Commission with particular reference to reporting mechanisms, budgeting controls and information systems. Notwithstanding this, the Committee was concerned to investigate the deficiencies at the R.S.M.H. given it had a total budget in 1983/84 of \$12.5 million.

As a result of the initial study, the Committee has made a number of wider recommendations which will be pursued as part of the third term of reference. These include the following areas :-

- (i) The need for an overall review of the monitoring systems of the Health Commission's Public Hospitals' budget which is in excess of \$1 billion;
- (ii) The need for a study of the source and use of medical trust funds under the control of hospitals. These funds are estimated to be in excess of \$30 million;
- (iii) A study of the market for radiologists in Victoria. As salaries account for approximately 80 per cent of the operating expenditure of hospitals and medical staff make up a significant proportion of this amount, the Committee was concerned that radiologists as a group have been paid by community standards at extremely high remuneration levels. An example of this situation is seen at the R.S.M.H. where the radiologist was paid \$155,400 for the year ended 30 June 1983. The Committee notes the current cost of training radiologists is borne by the taxpayer but on the other hand the shortage of radiologists has meant substantial occupational rent has accrued to this group.

As Chairman, I would also like to record my personal thanks to the other members of the sub-Committee, and in particular to the Chairman, Mr. A.J. Sheehan, for the time and energy they devoted to this Inquiry.

The Committee wishes to express its thanks to the individuals and organisations who made submissions either in writing or by appearing in person before the Committee.

I wish to acknowledge the contributions made to this Inquiry by the staff of the Committee. In particular Helen Silver, Director of Research of the Committee, who co-ordinated the Inquiry and was directly involved in the preparation of this report. I also wish to thank Dr. Ian Brand who was employed as an adviser to the Committee and provided a valuable source of knowledge and experience of Health and Hospital administration. Vita Pepe played an integral role in the primary research for the report. Margaret Pace was responsible for the timely and accurate typing of this report.


B.J. ROWE, M.P.,

Chairman.

CONTENTS

PREFACE	(i) - (viii)
CONTENTS	(ix) - (x)
SUMMARY OF RECOMMENDATIONS	(xi) - (xx)
CHAPTER ONE - BACKGROUND TO TERMS OF REFERENCE	1 - 3
CHAPTER TWO - THE ROYAL SOUTHERN MEMORIAL HOSPITAL	4 - 7
CHAPTER THREE - PERSONNEL MANAGEMENT ISSUES	8 - 11
CHAPTER FOUR - RATES OF REMUNERATION, METHODS OF PAYMENT AND HOURS WORKED - NON-MEDICAL STAFF	12 - 15
CHAPTER FIVE - RATES OF REMUNERATION, METHODS OF PAYMENT AND HOURS WORKED - MEDICAL PERSONNEL	16 - 40
CHAPTER SIX - REPORTING TO THE BOARD OF MANAGEMENT	41 - 44
CHAPTER SEVEN - AUDIT AND INTERNAL CONTROL	45 - 53
CHAPTER EIGHT - REPORTING TO THE HEALTH COMMISSION	54 - 58
CHAPTER NINE - TRUST FUNDS	59 - 69
CHAPTER TEN - ROLE OF THE BOARD, HEALTH COMMISSION AND HOSPITAL ADMINISTRATION	70 - 79

CHAPTER ELEVEN - ACTION TO RECOVER INCORRECT PAYMENTS	80 -81
CHAPTER TWELVE - ADDITIONAL MATTER AND CONCLUSION	82 - 84
APPENDIX 1 - SPECIAL PURPOSES FUND (MEDICAL)	1/1 - 1/5
APPENDIX 2 - SUBMISSIONS RECEIVED AND PUBLIC HEARINGS	2/1 - 2/2
APPENDIX 3 - EXTRACTS OF THE MINUTES AND VOTES OF THE LEGISLATIVE COUNCIL AND THE LEGISLATIVE ASSEMBLY	3/1 - 3/2

SUMMARY OF RECOMMENDATIONS

CHAPTER 3 - RECOMMENDATIONS - PERSONNEL MANAGEMENT

1. THAT THE FINANCE COMMITTEE OF THE BOARD OF MANAGEMENT BE RE-NAMED THE FINANCE AND STAFF COMMITTEE.
2. THAT THE FINANCE AND STAFF COMMITTEE ENSURES THAT REGULAR REPORTS ARE SUBMITTED ON IMPORTANT MATTERS RELATING TO STAFF INCLUDING INDUSTRIAL RELATIONS.
3. THAT THE BOARD GIVE HIGH PRIORITY TO IMPROVING STAFF RELATIONS AND TO CONTINUE TO UPGRADE THE QUALITY OF PERSONNEL MANAGEMENT IN THE HOSPITAL.

CHAPTER 4 -RECOMMENDATIONS - NON MEDICAL PERSONNEL

1. THAT THE INTERNAL CONTROL AND INTERNAL AUDIT PROCEDURES RELATING TO SCRUTINY OF TIME CARDS, USE OF MANUAL TIME RECORDING AND CLAIMS FOR PAYMENT BE CONTINUALLY REVIEWED.
2. THAT ADVICE TO THE PAYMASTER ON CHANGES IN RATES OF PAY, ALLOWANCES OR JOB CLASSIFICATION BE SPECIFIED AND PROPERLY AUTHORISED.
3. THAT LEAVE RECORDING BE EXAMINED TO ASSESS THE NEED FOR DUPLICATED DEPARTMENTAL RECORDS AND TO UTILISE THE COMPUTER LEAVE RECORDING SYSTEM AVAILABLE WITH THE PAYROLL PACKAGE.
4. THAT A REVIEW OF THE POSITIONS PAID ABOVE THE NORMAL GRADINGS BE CARRIED OUT TO CONFIRM THEIR CURRENT JUSTIFICATION SO THAT NEW APPOINTMENTS ARE MADE AT THE CORRECT LEVEL.

5. THAT THE BOARD ENSURE EACH STAFF MEMBER COMPLETES A TIME RECORD AS REQUIRED BY THE INDUSTRIAL RELATIONS ACT 1979 (S.81).

CHAPTER 5 - RECOMMENDATIONS - MEDICAL PAYMENTS

1. THAT THE BOARD OF MANAGEMENT CONCERN ITSELF WITH THE ISSUES INVOLVED IN THE PAYMENT OF MEDICAL STAFF.
2. THAT A DETAILED REASSESSMENT OF THE SESSIONAL ALLOCATION FOR VISITING SPECIALISTS BE CARRIED OUT BY THE HEALTH COMMISSION, WITH PARTICULAR ATTENTION TO ON-CALL REQUIREMENTS AND THE INTEGRATION OF ADMINISTRATIVE AND CLINICAL SESSIONS.
3. THAT THE BOARD OF MANAGEMENT IN ASSOCIATION WITH MANAGEMENT ESTABLISH APPROPRIATE EXCEPTION REPORTING MECHANISMS TO PROVIDE ADEQUATE OVERSIGHT OF LEVELS OF PAYMENT TO MEDICAL STAFF.
4. THAT APPROPRIATE INTERNAL CONTROLS AND INTERNAL AUDIT PROCEDURES BE INTRODUCED TO CHECK THAT PAYMENTS OF SESSIONAL AND FEE-FOR-SERVICE CLAIMS ARE PROPERLY MADE OUT AND AUTHORISED.
5. THAT ALL PAYMENTS FOR VISITING MEDICAL STAFF WITH THE EXCEPTION OF FEE-FOR-SERVICE PAYMENTS BE MADE THROUGH THE PAYROLL SYSTEM WITH A SINGLE APPEARANCE FOR EACH MEDICAL STAFF MEMBER.
6. THAT ALL DISCUSSIONS RELATING TO MEDICAL PAYMENTS AT THE DIVISIONAL COMMITTEE BE PROPERLY MINUTED AND INCLUDED IN BOARD REPORTS.
7. THAT THE POLICY ON RE-CALL PAYMENTS FOR PATHOLOGISTS BE REVIEWED.

8. THAT THE NEED FOR SESSIONAL ALLOCATIONS FOR PATHOLOGY CONSULTANTS BE REVIEWED WHEN THE NEW DIRECTOR OF PATHOLOGY IS APPOINTED AND, IN THE MEANTIME, ALL SESSIONAL PAYMENTS BE MADE TO THE APPROPRIATE UNIVERSITY DEPARTMENT.
9. THAT TRANSFERS FROM OPERATING ACCOUNT FOR FEE-FOR-SERVICE PAYMENTS BE RELATED TO EXPENDITURE LEVELS AND BE MADE VIA A SUSPENSE ACCOUNT RATHER THAN BY ROUTINE TRANSFER TO A RESERVE ACCOUNT SO THAT THE OPERATING ACCOUNT REFLECTS ACTUAL COSTS.
10. THAT ACTION BE TAKEN BY THE HEALTH COMMISSION TO REVIEW THE GROUPING OF HOSPITALS NOT INCLUDED IN THE SESSIONAL MEDICAL OFFICERS AWARD TO ENSURE THAT APPROPRIATE MEDICAL PAYMENTS ARE BEING MADE.
11. THAT THE ECONOMIC AND BUDGET REVIEW COMMITTEE CONDUCT A DETAILED STUDY INTO THE MARKET FOR RADIOLOGISTS AND RECOMMEND POSSIBLE POLICY SOLUTIONS.
12. THAT THE HEALTH COMMISSION AS QUICKLY AS POSSIBLE ASSESS THE COSTS OF THE CAULFIELD COMMUNITY CARE CENTRE AND ITS ROLE INCLUDING THE ORGANISATION APPROACH OF THE CENTRE.

CHAPTER 6 - RECOMMENDATIONS - REPORTS TO BOARD

1. THAT CONTINUING ATTENTION BE GIVEN TO PROVIDING SELF SUFFICIENT INFORMATIVE MINUTES WHICH INCLUDE ALL DATA NECESSARY TO INTERPRET THE BASIS AND CONTENT OF DECISIONS.
2. THAT THE BOARD MINUTES INCLUDE AS ATTACHMENTS IMPORTANT REPORTS WHICH RELATE TO DECISIONS MADE.

3. THAT ANY MAJOR CAPITAL COMMITMENTS APPROVED INCLUDE DETAILS OF TENDERS RECEIVED AND ACCEPTED TOGETHER WITH A NOTE OF THE VALUE OF REJECTED TENDERS.
4. THAT A MAJOR REVIEW OF THE HOSPITAL BUDGETARY PROCESS BE CARRIED OUT TO DEVELOP SYSTEMS WHICH PROVIDE PERFORMANCE OBJECTIVES AND STANDARDS, GREATER RESPONSIBILITY AND FLEXIBILITY FOR BOARDS OF MANAGEMENT AND IMPROVED MONITORING OF PERFORMANCE. THE COMMITTEE INTENDS TO UNDERTAKE THIS REVIEW IN ITEM 3 OF ITS TERMS OF REFERENCE.
5. THAT STAFF REPORTING INCLUDE OVERTIME AND ANNUAL AND LONG SERVICE LEAVE OUTSTANDING MORE THAN SIX MONTHS.

CHAPTER 7 - RECOMMENDATIONS - INTERNAL CONTROL

1. THAT THE HEALTH COMMISSION, IN CONJUNCTION WITH THE AUDITOR-GENERAL, PREPARE AN APPROPRIATE PROGRAMME OF INTERNAL AUDIT FOR HOSPITALS, INCLUDING THE NECESSARY AUDIT STAFF.

7.4.1 TIME RECORDING

1. THAT THE USE OF TIME CHECKING BE EXTENDED TO REDUCE MANUAL TIME RECORDING AS FAR AS PRACTICABLE.
2. THAT FOR VISITING MEDICAL STAFF, A WRITTEN CLAIM FOR PAYMENT BE PREPARED AND SIGNED BY THE INDIVIDUAL.
3. THAT ALL CLAIMS FOR PAYMENT BE AUTHORISED BY A SENIOR OFFICER AND UNAUTHORISED OR SELF-AUTHORISED CLAIMS BE REJECTED.

4. THAT AS FAR AS PRACTICABLE, ALL SALARIES AND WAGES CLAIMS BE PAID THROUGH THE PAY SYSTEM EXCEPTING FEE-FOR-SERVICE CLAIMS AND SPECIFIED PAYMENTS WHERE INCLUSION ON THE PAYROLL IS NOT APPROPRIATE.
5. THAT USE OF THE PAYROLL COMPUTER BASED LEAVE SYSTEM BE INTRODUCED.
6. THAT ALL CLAIMS FOR SESSIONS OR FEE-FOR-SERVICE PAYMENTS BE AUTHORISED BY THE RELEVANT DIVISIONAL HEAD AND APPROPRIATE SYSTEMS BE INTRODUCED TO VERIFY THE CORRECTNESS OF THE CLAIM.
7. THAT THE RETENTION PERIOD OF TIME CARDS, LEAVE APPLICATIONS AND OTHER PAY DOCUMENTATION BE REVIEWED AND EXTENDED.

7.4.2 PURCHASING AND SUPPLY SYSTEMS

1. THAT ALL REQUESTS FOR SUPPLIES BE AUTHORISED BY SPECIFIED PERSONS IN PARTICULAR IN THE CATERING DEPARTMENT.
2. THAT PURCHASE ORDER FORMS BE NUMBERED AND BE SUBJECT TO NUMBER CONTROL.
3. THAT REQUISITIONS BE SUBJECT TO NUMBER CONTROL AND PROCEDURES ESTABLISHED TO ACCOUNT FOR CANCELLED REQUISITIONS. PROCEDURES SHOULD ENSURE THAT ALL REQUISITIONS ARE ENTERED ON THE REQUISITION SUMMARY.
4. THAT THE SYSTEM FOR PROCESSING REQUISITIONS BE TIGHTENED TO PROVIDE IMPROVED CONTROL OF CUTOFF FOR ACCOUNTING AND STOCK RECORDING PURPOSES.
5. THAT THE ACCURACY OF COMPUTER STOCK RECORDING BE IMPROVED SO AS TO PROVIDE AN ACCURATE BASIS FOR ROUTINE SPOT STOCKCHECKS.

7.4.3 PAYMENT SYSTEM

1. THAT A CREDITORS PAYMENT SYSTEM PROCEDURE MANUAL BE DEVELOPED.
2. THAT ENTRY OF NEW CREDITORS INTO THE SYSTEM BE PROPERLY CONTROLLED AND AUTHORISED.
3. THAT SUPPORTING DOCUMENTATION FOR INVOICE PAYMENT AND AUTHORISATION BE MORE COMPREHENSIVE. IN PARTICULAR, DELIVERY DOCKETS SHOULD BE ATTACHED TO SUPPLY INVOICES.
4. THAT SUPPLIES OF CHEQUES FOR MANUAL PREPARATION BE SUPERVISED BY A RESPONSIBLE OFFICER OF THE HOSPITAL.
5. THAT INVOICES AND CHEQUE REQUISITIONS BE CANCELLED MORE EFFECTIVELY ON PAYMENT WITH DETAIL OF CHEQUE NUMBER AND AMOUNT ENTERED ON THE CHEQUE REQUISITION.
6. THAT ALL PURCHASE ORDERS AND ACCOUNTS BE PROCESSED THROUGH THE NORMAL SUPPLY PROCEDURE INCLUDING PATHOLOGY AND RADIOLOGY ACCOUNTS CURRENTLY PROCESSED WITHIN THE DEPARTMENT.

7.4.4 ASSETS REGISTER

1. THAT THE ASSETS REGISTER CONTINUE TO BE DEVELOPED AS QUICKLY AS POSSIBLE AND THEN BE RECONCILED TO THE GENERAL LEDGER.
2. THAT DEPRECIATION CHARGES ULTIMATELY BE CALCULATED USING THE ASSET REGISTER.

7.4.5 PATIENTS ACCOUNTS

1. THAT THE PROCEDURE FOR WRITING OFF PATIENTS ACCOUNTS BE FORMALISED AND PROCEDURES FOR APPROVAL OF WRITE OFFS BE ESTABLISHED.

2. THAT THE DEBTORS CONTROL ACCOUNT BE MORE REGULARLY RECONCILED WITH THE DEBTORS LEDGER. AT PRESENT THE FREQUENCY OF BALANCING IS UNSATISFACTORY.
3. THAT CONTROL OF ADJUSTMENTS TO THE DEBTORS LEDGER VIA COMPUTER INPUT BE IMPROVED. ACCESS TO A COMPUTER TERMINAL PERMITS ALTERATIONS TO BALANCES. THIS REQUIRES BASIC CHANGES TO THE SYSTEM.
4. THAT THE INTERNAL CONTROL PROCEDURES BE SUPPORTED BY INTERNAL AUDIT ACTION TO PROVIDE PERIODIC VERIFICATION THAT PROCEDURES ARE BEING FOLLOWED AND THAT ACTION IS TIMELY.

7.5 RECOMMENDATIONS - EXTERNAL AUDIT

1. THAT A MORE COMPREHENSIVE AUDIT BE COMMISSIONED WITH AUDIT GUIDELINES SPECIFIED, INCLUDING THE FOLLOWING MATTERS WHICH ARE IMMEDIATELY RELEVANT TO THE ROYAL SOUTHERN MEMORIAL HOSPITAL (R.S.M.H.):-
 - (a) A COMPREHENSIVE INTERNAL CONTROL REVIEW.
 - (b) VERIFICATION OF RATES AND AMOUNTS OF PAY.
 - (c) ATTENTION TO COMPLIANCE WITH HEALTH COMMISSION CIRCULARS.
 - (d) PROVISION OF COMPREHENSIVE MANAGEMENT REPORTS TO THE BOARD.
 - (e) REVIEW OF EFFECTIVENESS AND ACCURACY OF COMPUTER INPUT AND OUTPUT ESPECIALLY IN RELATION TO FINANCIAL MATTERS.
 - (f) REGULAR REVIEW OF BALANCING OF CONTROLS.
 - (g) REVIEW OF TRUST ACCOUNT TRANSACTIONS WITH PARTICULAR ATTENTION TO COMPLIANCE WITH TRUST CONDITIONS.

2. THAT WITH THE APPROVAL OF THE AUDITOR-GENERAL GUIDELINES FOR AUDIT OF HOSPITALS BE DEVELOPED AND DISTRIBUTED TO BOARDS OF MANAGEMENT AND AUDITORS.
3. THAT THE STANDARD OF AUDITS IN THE GENERAL HOSPITAL FIELD IN RELATION TO THE GUIDELINES BE REVIEWED TO ENSURE THAT THEY ARE MEETING THE NEEDS OF THE BOARDS OF MANAGEMENT.

CHAPTER 8 - RECOMMENDATIONS - HEALTH COMMISSION REPORTING

1. THAT PROVISION BE MADE FOR CLOSER CONSULTATION BETWEEN HEALTH COMMISSION STAFF AND HOSPITAL STAFF, INCLUDING REGULAR VISITS BY COMMISSION STAFF.
2. THAT THE COMMISSION MONITOR ESTABLISHMENT DATA AND POSITION GRADING THROUGH COMPUTER ANALYSIS OF HOSPITAL COMPUTER FILES.
3. THAT MATTERS IN THIS CHAPTER RELATING TO ALL HOSPITALS BE TAKEN UP IN ITEM 3 OF THE TERMS OF REFERENCE.

CHAPTER 9 - RECOMMENDATIONS - TRUST FUNDS

1. THAT THE POLICY IN RELATION TO PRIVATE PRACTICE INCOME BE REVIEWED TO PROVIDE A MORE RATIONAL ARRANGEMENT. THIS IS CURRENTLY UNDER CONSIDERATION BY THE MINISTER OF HEALTH.
2. THAT A WIDESPREAD STUDY OF THE SOURCES AND DISPOSITION OF RESERVES AND TRUSTS UNDER THE CONTROL OF HOSPITALS GENERALLY BE UNDERTAKEN TO CLARIFY ACCEPTABLE PROCEDURES AND PROVIDE BETTER CONTROL OF THESE SUBSTANTIAL RESOURCES. THE COMMITTEE INTENDS TO UNDERTAKE THIS REVIEW IN ITEM 3 OF ITS TERMS OF REFERENCE.

3. THAT THE HOSPITAL CEASE THE TRANSFER OF OPERATING FUNDS AND INCOME TO CAPITAL ACCOUNTS AND RESERVES.
4. THAT THE ROLE OF THE TRUSTEES IN THE SPECIAL PURPOSES (PATHOLOGY) TRUST AT R.S.M.H. BE EXAMINED BY THE CROWN SOLICITOR.

CHAPTER 10 - RECOMMENDATIONS

1. THAT THE HEALTH COMMISSION:-
 - (a) IMPROVE INFORMATION AVAILABLE TO BOARD MEMBERS AND PROVIDE ADVICE AND SUPPORT IN DISCHARGING THEIR RESPONSIBILITIES.
 - (b) THOROUGHLY ASSESS THE VALIDITY OF THE CONCEPT OF AN OPEN HOSPITAL AS ESTABLISHED AT R.S.M.H. TO DETERMINE WHETHER IT SHOULD CONTINUE OR REVERT TO A CONVENTIONAL MODE.
 - (c) THOROUGHLY ASSESS THE VALIDITY OF THE "MEDICAL MODEL" AS USED IN THE CAULFIELD COMMUNITY CARE CENTRE AS COMPARED TO CONVENTIONAL CENTRES AND DETERMINE FUTURE ACTION.
 - (d) REVIEW THE CASE FOR SEPARATION OF THE COMMUNITY CARE CENTRE FROM THE HOSPITAL MANAGEMENT AND BOARD.
 - (e) INVESTIGATE THE ADVANTAGES OF AMALGAMATING R.S.M.H. AND CAULFIELD HOSPITAL.
 - (f) ENDEAVOUR TO EXPAND THE ACCREDITATION PROCESS TO PROVIDE IMPROVED ASSESSMENT OF MANAGERIAL AND ADMINISTRATIVE PROCEDURES.
2. THAT THE PRESENT BOARD OF MANAGEMENT BE REPLACED.

CHAPTER 11 - RECOMMENDATIONS - RECOVERY OF INCORRECT PAYMENTS

1. THAT THE FOLLOWING MATTERS BE REFERRED TO THE CROWN SOLICITOR FOR AN OPINION AS TO WHETHER RECOVERY OF THE PAYMENTS SHOULD BE PURSUED:-
 - (a) PAYMENTS ABOVE THE AWARD CONDITIONS MADE TO PROFESSOR NAYMAN.
 - (b) TERMINATION PAYMENTS MADE TO THE FORMER MANAGER, MR. STITFOLD.

CHAPTER 12 - RECOMMENDATIONS - OUTPATIENT SERVICES AT THE ROYAL SOUTHERN MEMORIAL HOSPITAL

1. THAT THE PRIVATE CONSULTING ROOMS BE LEASED TO THE DOCTORS AT NORMAL COMMERCIAL RATES.
2. THAT THE HEALTH COMMISSION REASSESS THE ROLE OF THE HOSPITAL, IN PARTICULAR TO ESTABLISH WHETHER IT SHOULD HAVE AN OUTPATIENTS DEPARTMENT.

CHAPTER ONE

BACKGROUND TO TERMS OF REFERENCE

1.1 INTRODUCTION

On 4th July, 1983, at the request of the Secretary of the Hospitals Division of the Health Commission of Victoria, Dr. I. A. G. Brand visited The Royal Southern Memorial Hospital (R.S.M.H.).

His terms of reference were:-

1. To advise on the establishment of appropriate procedures to settle grievances and to generally improve the industrial relations environment.
2. To review and advise on ways and means of improving communications between management and staff.
3. To examine management, personnel and supervisory procedures with a view to ensuring that standards of discipline are improved.
4. To assist and advise in the review of the management and organisational structure to achieve the above objectives.

Dr. Brand discovered a number of matters which he believed were of urgent importance, and prepared an interim report dated 7th July, 1983, to the Director of the Hospitals Division.

A second report to the Director of the Hospitals Division was dated 25th July, 1983, in which Dr. Brand recommended, inter alia, that the Chief Executive Officer be sent on eight weeks leave and that a competent administrator be placed in the hospital for this period.

Accordingly, the Board requested the Chief Executive Officer to proceed on leave and Mr. G. T. J. Henry was appointed Acting Chief Executive Officer of the hospital.

Mr. Henry made interim reports dated 22nd August, 1983, and 5th October, 1983, and a subsequent report dated 2nd November, 1983, to the Board of Management and to the Director of the Hospitals Division of the Health Commission of Victoria. These reports covered actions which had been taken in regard to Dr. Brand's recommendations and other matters which had come to Mr. Henry's attention which he believed required further investigation or corrective action by the Board of Management.

As a result of these reports, on 30th August, 1983 the Government referred the question of the management of The Royal Southern Memorial Hospital to the Economic and Budget Review Committee.

On 8th September, 1983, the full Committee appointed a Sub-Committee of four members to deal with this investigation.

The Sub-Committee consists of the following members:-

- Mr. A. J. Sheehan, M.P., (Chairman)
- The Honourable G. P. Connard, M.L.C.
- Mr. P. M. Gavin, M.P.
- Mr. B. J. Rowe, M.P.

1.2 TERMS OF REFERENCE - ECONOMIC AND BUDGET REVIEW COMMITTEE

1. To inquire into, report and recommend on the structure, organisation and management of The Royal Southern Memorial Hospital with particular reference to:-
 - (a) procedures relating to selection, appointment, supervision and review of personnel establishment as well as rates of remuneration of non-medical staff;
 - (b) rates of remuneration, methods of payment and hours worked by all medical personnel;
 - (c) methods by which reports are prepared, the contents of reports and the execution and reporting back of decisions to the Board of Management;

- (d) standards and effectiveness of internal and external auditing procedures; and
 - (e) methods of reporting and the contents of reports made to the Health Commission of Victoria.
2. To make recommendations if necessary concerning any incorrect payment to any officer or employee of The Royal Southern Memorial Hospital.

On receiving the terms of reference the Committee called for submissions by public advertisement in the daily press and by notices widely distributed within The Royal Southern Memorial Hospital.

Nine submissions were received and the Committee held hearings, both in public and in camera.

A consultant was appointed to conduct a study based on the Committee's terms of reference into The Royal Southern Memorial Hospital (Mr. R. S. Sims of Parkhill Lithgow & Gibson, a firm of chartered accountants).

The Committee has carefully considered the report from the Consultant, the reports by Dr. Brand and Mr. Henry, the nine submissions made to the Committee, and the transcripts of the hearings. This report of the Economic and Budget Review Committee is the outcome of these considerations.

In writing the report the Committee has considered each of the terms of reference separately and made recommendations, where necessary. The Committee as a result of its findings has decided to deal with two extra issues that are not specifically stated in its terms of reference, but are intimately connected. These are the special purposes funds, and the outpatient services.

CHAPTER TWO

THE ROYAL SOUTHERN MEMORIAL HOSPITAL

2.1 GENERAL BACKGROUND

The Royal Southern Memorial Hospital (R.S.M.H.) is a community hospital located at Caulfield, a suburb of Melbourne, on a site shared with the Caulfield Hospital, which is separately managed, and the Caulfield Community Care Centre, which is responsible to the Board of Management of The Royal Southern Memorial Hospital.

R.S.M.H. has 111 beds with an average daily occupancy of about 81% and an average stay of about 8 days. There are specialist medical units in surgery, medicine, anaesthetics and community care. In the year ended 30th June, 1983, 56% of inpatients were private or compensable patients, the remainder being hospital (standard or public) patients. The total operating expenditure in the 1983-84 year was \$12,848,131.

The hospital was established in 1968 and available beds increased from 48 to 84 in the 1976/77 year and to 110 in 1977/78. There is still one unoccupied ward. R.S.M.H. is classified as a teaching hospital affiliated with Monash University.

R.S.M.H. was set up to function in a novel and experimental way. The concept originated in the Hospitals and Charities Commission to endeavour to integrate the services of the hospital into an overall community health service. Considerable planning and consultation were carried out to develop procedures and staffing patterns to directly involve community doctors and paramedical services in hospital treatment and follow-up action on discharge.

The development of the community care work resulted in the formation of the Caulfield Community Care Centre. There was also a new approach here in that the director of the Centre was a doctor and a more medically oriented approach was used with active participation by general practitioners. In comparison, many other community health services have a more social service than medical bias and nearly all are under non-medical managers.

In addition, Brighton Hospital was placed under the nominal control of the Board of R.S.M.H., although it was largely administratively independent, and had its own Committee of Management.

2.2 ORGANISATION STRUCTURE

The organisation chart of the hospital (see Table 2.1) is unusual compared with other hospitals in that it has medical records, pharmacy, supply and library responsible to the Manager for administrative matters and responsible to the Medical Director on matters of medical policy. Such dual responsibility is likely to create confusion, and is not optimal.

At the time of Dr. Brand's first visit the Manager was Mr. D. H. Stitfold and the part-time Medical Director was Professor J. Nayman. Professor Nayman was also Chief of Surgery. Professor Nayman resigned as Medical Director on 21st August, 1983, and Mr. Stitfold resigned from 31st December, 1983.

2.3 COMMITTEE STRUCTURE

The Committees which report directly to the Board are:-

- Executive Committee
- Finance Committee
- Coordinating Committee
- Divisional Committee
- Community Care Centre Committee
- Medical Advisory Board.

2.4 CONTEXT OF THE REPORT

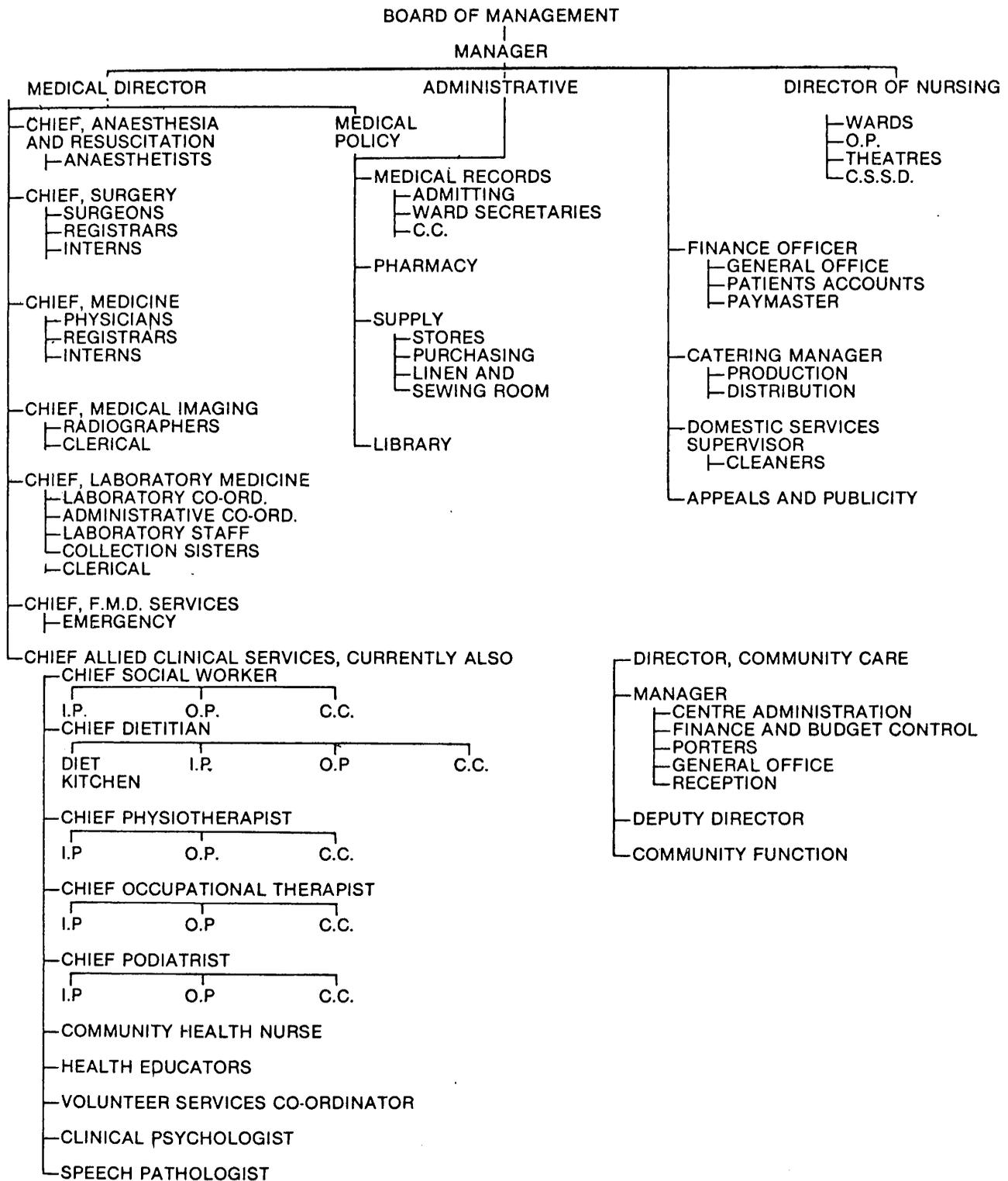
Dr. Brand and Mr. Henry made a number of recommendations in their reports.

In regard to the individual terms of reference of this Inquiry many of the problems identified have been or are being resolved as a result of these recommendations. The Committee throughout the report will identify those problems which have been resolved.

The Committee has largely concerned itself with matters in the hospital from June, 1982 to the present time.

TABLE 2.1

ORGANISATION CHART
THE ROYAL SOUTHERN MEMORIAL HOSPITAL
JUNE 1981



THIS CHART ILLUSTRATES LINES OF COMMUNICATION NOT ORDER OF SENIORITY.

(1) The Royal Southern Memorial Hospital Handbook "You, Your Job and Your Hospital".

CHAPTER THREE

PERSONNEL MANAGEMENT ISSUES

3.1 BACKGROUND

For a number of years R.S.M.H. has had industrial relations problems, and in 1982 there was a serious dispute in the catering department of the hospital. As a result of this dispute, a report was prepared by the Assistant Director (Industrial Relations) of the Personnel Division of the Health Commission which made the following comments, among others:-

"It is clear that the Manager of the hospital could have acted more forcibly over the years to try to eliminate these problems which he admits have been occurring in this hospital in the past 16 years. This to me appears totally inexcusable.

"Cooks and others have all given examples where in their respective opinions the Manager has failed to act either on one side or the other to eliminate or resolve some of the impasses which have occurred. It is inherent that the Manager:-

- (a) Become much more forcible in his approach to the problems; and
- (b) establish a well structured grievance procedure to allow access to both parties to review the problems currently existing. To that extent I strongly recommend that he discuss with his staff at all levels within the kitchen a desirable grievance procedure which might be implemented to solve disputes as they occurred rather than to allow them to snowball into insoluble disputes" (1).

(1) Report to Director of Personnel, HCV, dated 11th June, 1982, Page 11.

A year later Dr. Brand was unable to find any evidence that the Manager or the Board of Management took any significant notice of these comments. The Board still had not concerned itself in any effective way with the personnel problems of the hospital. Management had drawn up a grievance procedure but few of the staff knew of its existence, despite a copy being pinned to the board in the cleaners' locker room, while the shop stewards interviewed in Dr. Brand's inquiry did not know of the grievance procedure.

3.2 INDUSTRIAL SCENE AND PERSONNEL MANAGEMENT

Following the catering dispute in 1982 a part-time personnel officer was appointed, but as the Committee notes in Dr. Brand's report (1) she freely acknowledged that she had no experience whatever in industrial relations. Acting on Dr. Brand's advice a full-time professional personnel officer with experience in industrial relations was appointed by the Manager in August, 1983.

During the time there was no effective personnel manager, selection and appointment of senior staff was the responsibility of the Manager. The Director of Nursing and Medical Director were involved in the appointment of senior staff in their respective areas. The Sims report noted that the supervision of nursing staff was effective, but there was little administrative supervision of non-medical or medical staff (2). The review of personnel establishment was left solely in the hands of the Manager who had no professional skills in the area, and the Board of Management appears to have taken little interest in these matters.

- (1) Dr. I. A. G. Brand, Report to Director of the Hospitals Division, dated 7th July, 1984, page 2.
- (2) Mr. R. S. Sims, Report dated January, 1984, page 7.

3.3 THE IMPLICATIONS OF INADEQUATE PERSONNEL PRACTICES

Before Dr. Brand's initial visit industrial relations were characterised by confrontation, bitterness and poor communication particularly in the catering and cleaning areas. There were no formal personnel policies, none relating to selection, appointment and supervision of staff, or any form of executive manual. While these were prepared shortly after Dr. Brand's visit, the Committee has noted with concern that the hospital has been very slow to formally adopt them and institute a comprehensive personnel management system.

The Committee has been advised that other hospitals of a similar size, for example, Fairfield Hospital, have a full-time personnel officer experienced in industrial relations with well established personnel policy and procedure manuals. These include the hospital's policy in relation to selection, appointment and supervision of staff.

In his report to the Committee Mr. Sims stated that, "... authority on personnel matters was delegated to departmental heads with inadequate control" (1). Personnel records, apart from those needed for pay purposes were decentralised, non-uniform and often incomplete.

The Committee notes that at R.S.M.H. the only review undertaken by the Board of the personnel establishment was in relation to actual numbers compared with the number approved by the Health Commission. This was closely monitored for budgetary control purposes.

The Committee considers that the Board's lack of attention to the development of adequate personnel practices in the hospital was a direct cause of the poor industrial relations and of the laissez-faire attitude at senior levels towards staff management.

(1) Mr. R. S. Sims, Report dated January, 1984, page 7.

However, the Committee has noted that the situation has improved since the personnel manager was appointed in August 1983 in that:-

- (a) A policy manual has been prepared, although the hospital has been very slow to formally adopt it.
- (b) Uniform procedures are being established for staff contracts and personnel records.
- (c) There is greater consultation and improved communications with staff.
- (d) Personnel files are being built up.

Given the poor industrial relations history at the hospital and the slow promulgation of the personnel policy manual, the Committee believes greater attention should be given, especially by the Board, to personnel matters. The Finance Committee of the Board of Management should be renamed the Finance and Staff Committee. This new Committee should concern itself with all matters relating to staff including industrial relations. The Board should give these a high priority.

3.4 RECOMMENDATIONS - PERSONNEL MANAGEMENT

1. THAT THE FINANCE COMMITTEE OF THE BOARD OF MANAGEMENT BE RE-NAMED THE FINANCE AND STAFF COMMITTEE.
2. THAT THE FINANCE AND STAFF COMMITTEE ENSURES THAT REGULAR REPORTS ARE SUBMITTED ON IMPORTANT MATTERS RELATING TO STAFF INCLUDING INDUSTRIAL RELATIONS.
3. THAT THE BOARD GIVE HIGH PRIORITY TO IMPROVING STAFF RELATIONS AND TO CONTINUE TO UPGRADE THE QUALITY OF PERSONNEL MANAGEMENT IN THE HOSPITAL.

CHAPTER FOUR

RATES OF REMUNERATION, METHODS OF PAYMENT AND HOURS WORKED -

NON-MEDICAL STAFF

4.1 BACKGROUND

The rates of pay for non-medical staff at R.S.M.H. were in accordance with the relevant awards, excepting that some positions were paid above the level specified for a hospital of this size. These were:-

	CURRENT ACTUAL SALARY	AWARD
	\$	\$
Paymaster	401.30	392.50
Supply Officer	463.00	433.10
Assistant Supply Officer	378.20	344.30
Purchasing Officer	358.98	344.30
Catering Manager	557.90	519.70
First Assistant Catering Officer	452.00	390.60
Second Assistant Catering Officer	328.30	312.30
Director of Nursing	616.20	580.50

The higher gradings for supply and catering were based on increased responsibilities for services outside the hospital, such as meals on wheels, supply and catering services to Caulfield Hospital, and supply services to Brighton Hospital. The present incumbents were engaged at these levels.

The Director of Nursing was paid at a higher level early in the hospital's history to attract a person with capacity to establish staffing and procedures for an expanding hospital. The paymaster was upgraded because of additional work on personnel matters in the absence of a personnel officer and because salaries were processed for a number of external organisations.

However, because a personnel officer had been appointed and the number of persons being paid had decreased, the new paymaster was appointed at the correct award level.

The Committee has been informed that these positions were upgraded after discussion with the Hospitals and Charities Commission and in some cases with the Victorian Hospitals Industrial Council many years ago. The Committee strongly believes that justification for these higher classifications must be reviewed before any new appointments are made to ensure new staff are appointed at the appropriate level.

4.2 TIME RECORDS

The Committee from its investigations has been disturbed at the lack of accountability in relation to time records. This is evidenced in the first report of Dr. Brand where he indicated, "the Manager informed me that only the four senior executives and sessional medical staff were not required to clock on. When we came to examine time cards selected at random, we found significant numbers of other staff who did not clock on.

"There seems to be little discipline and consistency in relation to the time cards. Many have no authorisation by a supervisor, even when a staff member is being paid on-call, re-call, shift allowances and overtime.

"A large number of payments were made off-line, and this situation should be reviewed.

"Actual times worked by staff are very frequently omitted.

"Some persons work regular overtime without any authorisation of supervisors, and other persons work large amounts of sporadic overtime, again without a record of authorisation.

"Where a supervisor does sign a clocked card this is frequently signed on one side of the card only, although overtime or penalties will be appearing on the second side of the card.

"If a supervisor calculates that certain hours have been worked on the basis of clocked figures, the salaries officer as a rule does not check that these calculations are correct. We found that frequently they were not correct.

"There is an almost complete lack of discipline in relation to part-time staff. Many of these work a larger number of hours than they have been engaged for, and no one at a managerial level seems to either notice or care" (1).

Further investigation for the Committee by Mr. Sims has confirmed that "Internal controls and internal audits on claims for payment were not adequate and there was considerable potential for abuse of the system" (2). This led to incidents of unsatisfactory time keeping as indicated previously.

The Sims report also showed that advice of pay changes and other payment details from departmental heads were sometimes made by handwritten notes with insufficient supporting data. A significant number of staff did not use the time card system, but either wrote in their attendance time (mostly paramedical staff), or had their pay cards filled in by the pay office (mostly senior executive staff).

While the situation has improved, the Committee believes there is need for greater control in this function. The Board in particular must ensure that each staff member completes a time record as required by the Industrial Relations Act 1979 (S.81).

4.3 LEAVE RECORDS

The Sims Report noted that, "Leave records are manually maintained in the pay office and are often duplicated in the operating departments" (3).

(1) Dr. I. A. G. Brand, Report dated 7th July, 1983, page 3.

(2) Mr. R. S. Sims, Report dated January, 1984, page 8.

(3) Mr. R. S. Sims, Report dated January, 1984, page 9.

These records were checked against time cards and the Committee believes that these have been accurately maintained and there is a satisfactory system for approval of leave. However, the Committee questions the necessity of duplicating leave records. This practice should be reviewed.

There are some cases of undue accumulation of leave and control should be improved to avoid this. The computer payroll facility is not used for progressive leave recording, and the Committee notes that this is very unusual in hospitals of this size.

4.4 RECOMMENDATIONS - NON-MEDICAL STAFF

1. THAT THE INTERNAL CONTROL AND INTERNAL AUDIT PROCEDURES RELATING TO SCRUTINY OF TIME CARDS, USE OF MANUAL TIME RECORDING AND CLAIMS FOR PAYMENT BE CONTINUALLY REVIEWED.
2. THAT ADVICE TO THE PAYMASTER ON CHANGES IN RATES OF PAY, ALLOWANCES OR JOB CLASSIFICATION BE SPECIFIED AND PROPERLY AUTHORISED.
3. THAT LEAVE RECORDING BE EXAMINED TO ASSESS THE NEED FOR DUPLICATED DEPARTMENTAL RECORDS AND TO UTILISE THE COMPUTER LEAVE RECORDING SYSTEM AVAILABLE WITH THE PAYROLL PACKAGE.
4. THAT A REVIEW OF THE POSITIONS PAID ABOVE THE NORMAL GRADINGS BE CARRIED OUT TO CONFIRM THEIR CURRENT JUSTIFICATION SO THAT NEW APPOINTMENTS ARE MADE AT THE CORRECT LEVEL.
5. THAT THE BOARD ENSURE EACH STAFF MEMBER COMPLETES A TIME RECORD AS REQUIRED BY THE INDUSTRIAL RELATIONS ACT 1979 (S.81).

CHAPTER FIVE

RATES OF REMUNERATION, METHODS OF PAYMENT AND HOURS WORKED -

MEDICAL PERSONNEL

5.1 BACKGROUND

Salaries account for approximately 80% of the operating expenditure of hospitals. Medical staff make up a significant proportion of this, and are employed under three different awards.

- (a) The Hospital Resident Medical Officers Award covers doctors appointed to a hospital on a full-time basis as resident medical officers. These are doctors in their first six years of hospital practice after graduation. At 30th June, 1983 there were 13 appointed at R.S.M.H.
- (b) The Hospital Senior Medical Officers Award covers doctors employed whole time as medical superintendents, deputy medical superintendents, specialists or assistant specialists. The grouping of the hospital determines the actual level of payment (1). At 30th June, 1983 there were 3.5 equivalent full-time persons appointed under this award at R.S.M.H.
- (c) The Sessional Medical Officers Award applies to all doctors providing medical services under sessional contracts. A standard session "means a continuous period of not more than three and a half hours' attendance by a sessional medical officer for the purpose of providing services for hospital patients or outpatients" (2). In addition some doctors, e.g. some radiologists, have individual contracts with the hospital to which they provide services.

- (1) See page 28 for a discussion of the grouping of hospitals.
- (2) Sessional Medical Officers Award.

The standard sessional rate is one-tenth of the weekly rate prescribed for the equivalent full-time classification in the Hospital Senior Medical Officers Award plus twenty five percent. 41 sessional medical officers were employed at R.S.M.H. at the 30th June, 1983.

There is a further group of doctors who are paid on a fee-for-service basis. These payments apply to doctors who render an account to the hospital for each patient seen and service performed.

The hospital pays the doctor the benefit component of the scheduled fee laid down in the "Medical Benefits Schedule Book" published by the Department of Social Security of the Australian Government. There were 163 general practitioners employed on this basis at R.S.M.H. at 30th June, 1983.

The hospital pays doctors for treating public (hospital or standard) patients. There is a separate system for private patients. For doctors employed under the Hospital Senior Medical Officers Award, payments for private patients are made into a Special Purposes Trust Fund. Resident Medical Officers do not charge private patients. All other doctors bill private patients directly.

The hospital did not have a full-time medical director and sessions (of 3 1/2 hours each) were allocated for this purpose, initially two, later increasing to five. Administrative sessions were also allocated to heads of medical departments, initially to plan the structure for the medical side of the hospital and later to co-ordinate and supervise individual sections, even though in many large hospitals with a full-time medical director sessional doctors are not paid administrative sessions.

The total medical payments made are outlined in Table 5.1.

The Committee believes the major points for discussion in relation to medical payments are:-

TABLE 5.1

MEDICAL STAFFING OF THE HOSPITALSessional Allocation Including Administrative Sessions

Medical Superintendent	5	
Heads of Divisions	3	
Full Time Salaried Staff:		
Pathology - 2 x 10	20	
Community Care - 1 x 10	10	
Family Medicine - 7 x 1/2	3.5	
University Consultants	4	
	—	
Total	45.5	
<u>Clinical Sessions</u>	73	
	—	
Total	118.5	sessions
	—	
Resident Medical Staff -		
equivalent full-time	13	
	—	

- (a) The effective control of disbursements and the extent of Board participation.
- (b) The system for authorising payments.
- (c) The rates at which payments were made.
- (d) The basis and adequacy of sessions allocated.

5.2 CONTROL OF PAYMENTS

The following discussion deals in detail with the allocation and distribution of sessions at R.S.M.H.

5.2.1. ALLOCATION OF SESSIONS

Sessions were allocated to the hospital based on expected need by the Hospitals and Charities Commission, initially for administrative purposes, when clinical services were paid on a fee-for-service basis, and later an additional allocation was made for clinical purposes on changeover to a sessional method of payment.

The Committee is concerned that although there was some duplication in the two groups of sessions, there appears to have been no review of the total allocation. Furthermore the number of allocated sessions has remained unchanged even though there has been a substantial reduction in non-private days over the last three years of about 17%. As sessions are allocated on the basis of need (i.e. the numbers of public patients to be treated), this has resulted in an excess number of sessions over those needed. The Committee believes this is a serious fault in the health system, of Victoria and lays the blame with the Board of Management and the Health Commission, as it is an issue of budgetary allocation, performance and control.

Medical specialists are paid by the hospital for treating standard (public) inpatients on a sessional basis. Private and compensable patients are charged directly by their doctors. Compensable patients are those for whom payments are made by a third party, e.g. motor accident or workers compensation patients.

One important hospital statistic which reflects the workload on staff is the number of beds occupied by inpatients, and the Committee has used the measure of the number of beds occupied by standard (public) inpatients in considering the appropriate sessional allocation to R.S.M.H.

The Committee has found that the total allocation of sessions for visiting medical staff, excluding 5 sessions allocated for the medical director, was 10.5 administrative sessions and 73 clinical sessions. This was almost 2 sessions per average occupied standard inpatient bed for the year ended 30th June, 1983. This level of payment is much higher than the average for most Victorian public hospitals, especially as R.S.M.H. argues that it does not provide a medical outpatient service (1). The Committee notes that the average initial sessional allocation for Victorian public hospitals is 1.4 sessions per average occupied standard inpatient bed, and this figure includes a component for treating outpatients. After the initial allocation, the Health Commission uses a figure of 1.2 sessions.

The high level of the ratio at R.S.M.H. arises also because the total sessional allocation was set some three years ago when the non-private inpatient bed days were considerably higher than now, and also from failure to take account of the administrative sessions in determining the allocation.

The initial allocation of administrative sessions at R.S.M.H. was high because there was no full-time Medical Director. Given the appointment of a full-time Medical Director, the Committee believes there is much less need to provide administrative sessions to clinicians, and this situation should as a matter of principle be reviewed both by the Board of Management and the Health Commission.

- (1) Refer to Chapter 12, Page 82 for a discussion of the status of the outpatient services at R.S.M.H.

The Board's attitude to the issue was that the allocation of sessions was an executive function and this, together with gradings of positions and rates of payment, were matters to be determined by the executives and the Health Commission. Board members stated that they were completely unaware of these matters and did not consider that such detail was their proper responsibility. In his submission Mr. R. L. Benjamin, President of The Royal Southern Memorial Hospital, said, "The Board made itself aware that the total of payments made were within, or explicably near, the budget laid down by the Commission.

"It is submitted that the Board did not have, does not have, nor should be expected to have the technical knowledge necessary to interpret and supervise these complex matters.

"It is relied, and should be entitled to rely, upon its Chief Executive Officer, its Medical Director, and the Commission in these areas" (1).

The Committee believes the Board's view is inappropriate, as this is a major area of expenditure and also determines the distribution of medical effort in the hospital. While the Board cannot be expected to be aware of all the details, it should have ensured that the internal controls (refer to page 46) did not allow improper payments to be made to staff.

The attitude of the medical staff was that, having been funded for a given number of sessions, the fair allocation and distribution of these amounts was an internal divisional matter and nothing to do with the Board. From time to time the agreed distributions were checked against the average number of inpatients treated by each sessional staff member, but apart from this there was effectively no review of sessions allocated or distributed.

On the basis of the evidence received the Committee cannot accept the doctors' position. The number of sessions obviously requires review downwards, and the Board should concern itself in these matters.

(1) Mr. R. L. Benjamin, Submission dated 24th November, 1983.

5.2.2 DISTRIBUTION OF SESSIONS

While the total allocation of sessions was determined by the Hospitals and Charities Commission, the effective control of distribution of clinical sessions rested with the Divisional Committee of the Medical Staff with the Medical Director playing a dominant role. However, the decisions of the Committee were never minuted and therefore did not come to the attention of the Board of Management, except in relation to the total allocation of sessions to the various divisions. The hospital Manager was aware of the allocations, but did not inform the Board. The Economic and Budget Review Committee was not able to establish a reason for this poor administrative control.

The funds were disbursed to the medical staff either by way of payment through the payroll system, by cheque from a capital or equalisation account, or by cheque from the hospital operating account. Some staff received payments by several methods, and the Committee on the basis of Mr. Sims' report found it extremely difficult to obtain a composite picture of the payments made.

In the case of the Division of Family Medicine, which encompassed the general practitioners on the staff, payment was continued on a fee-for-service basis. A sessional distribution was made for Family Medicine, and the equivalent funds for the division were transferred on a monthly basis initially to a capital account and later to a medical equalisation account. Payments were made from this on the basis of accounts rendered by the visiting general practitioners. For the other divisions, sessions were allocated to individuals, but some sessions were reserved as pool sessions for later distribution depending on the proportionate workload on on-call and re-call activities. In this case sessional funds were transferred to the capital account (later designated a medical equalisation account) and payments were made by cheque from the account. This account was a section of the capital account to which the sessional funds were transferred and from which payments were made to the doctors. The Committee believes this is an unsatisfactory situation since it is important to provide effective monitoring of expenditure as it occurs, rather than assume it is available for distribution or allocation regardless of activity.

The control of this aspect was largely informal, and if excessive allocations of sessions occurred, it was difficult to detect.

Not all the funds transferred to the medical equalisation account were distributed, and the account currently has a balance of the order of \$100,000. Payments were also made from the surplus funds in this account for some paramedical staff approved by the Hospitals and Charities Commission on the understanding that the hospital would provide the necessary funds. These funds should have been available for reallocation by the Commission. The Committee believes the hospital gained extra staff by falsely reporting to the Hospitals and Charities Commission and later the Health Commission of Victoria. The Board stated in evidence it was unaware of these and similar transfers.

The Committee cannot accept the Board's lack of awareness of these important matters.

Further evidence of the lack of Board control appears from Mr. Sims' investigation. He found that from time to time, on the authority of the Medical Director, amounts were paid from the pool sessions, presumably by agreement within the divisions. This was in effect the payment of a dividend to the recipients without adequate records, and the Committee cannot condone this in any way. The Health Commission appears to have been quite unaware of this unusual arrangement.

5.2.2.1 MEDICAL DIRECTOR - SPECIAL ARRANGEMENT

When the hospital was established there was insufficient work for a full-time Medical Director. Professor Nayman was at first paid 2 sessions, then later 5 sessions per week as part-time Medical Director, and 1 administrative session as head of surgery. At the change from fee-for-service to sessional remuneration, he was allocated 6 sessions as clinical sessions for public patients and 3.18 sessions for on-call/re-call. In addition, he saw over 30 patients per week in the private consulting clinic and attended private patients in the hospital.

The clinical work on private patients exceeded that of public patients with some 70% of total operating time and more than half the inpatient days involving private patients. The total payment for hospital non-private work was clearly at an unacceptably high level, representing 12 half-days per week plus re-call/on-call.

The Committee believes that even though the various elements of this allocation were approved separately by the Hospitals and Charities Commission (administrative sessions), and the Divisional Committee (clinical sessions), the total package when reviewed in conjunction with his private patients and other commitments is unacceptable.

Other areas of neglect relate to the four "administrative" sessions paid to four university personnel to cover specialist consulting services which provided additional expertise in areas of pathology outside the main clinical specialty of the full-time pathologist, who was a specialist in histopathology.

The need for this support should be reviewed when the new Director of Pathology takes up duty. Mr. Henry reported that, "Professor Linnane of Monash University is paid as a consultant to the department at the rate of one medical session. Professor Linnane is not a medical graduate and I recommend that Professor Linnane be paid at a rate commensurate with his qualifications" (1).

Furthermore, sessions payable to university staff should be paid to the university department rather than the individual concerned. In the case of one professor, payment was made, on his behalf, to a trust, and in the other cases the payments were made direct to the individuals.

Substantial sums were paid outside the payroll system by cheque. In 1980/81 this amounted to over \$231,576 but was reduced to \$16,503 in the following year.

(1) Mr. G. T. J. Henry, Report dated 2nd November, 1983, page 11.

Statements of Earnings to the Taxation Office were not prepared for these payments. This was an administration error. Retrospective amending advice was given to the Taxation Office in July, 1983.

A consequence of the employment of a part-time Medical Director with other pressing commitments was a failure to establish adequate medical administrative practices in relation to such areas as administrative procedures, systems for claiming and authorising payments, liaison with other departments and review of gradings and payments.

Since the employment of a full-time Medical Director, there has been a substantial change in many of these matters and this can be expected to continue.

5.2.2.2 CONCLUSION

The Committee found that the procedures for allocating and distributing sessional funds were unsatisfactory in several ways:-

- (a) The Board's attitude towards the payments. Medical staff salaries are a sizable component of the hospital's expenditure, and the Board must ensure that the lack of internal controls does not allow improper payments to be made to medical staff. There was no review of the total allocations of sessions to the doctors despite a substantial fall in public (standard) bed days. These problems lead to improper payments being made, with an inappropriate allocation of resources to the hospital. The Board's attitude to these payments can only be described as negligent.
- (b) Transfer of operating funds to the capital or medical equalisation fund and retention of the unexpended balance as a reserve fund is improper practice as it represents a diversion of unspent operating income which will continue to be funded by the Health Commission.

- (c) The allocation of unassigned pool sessions on the authority of the head of division even though it represented amounts which could have been distributed as sessions in the first instance, is not an acceptable practice, particularly when heads of division are directly involved and substantial sums are distributed, as there is no independent assessment and authority for such payments.
- (d) The sessional award provides for a 25% loading on full-time salary rates for sessional staff up to a maximum of 6 sessions excluding on-call sessions, whether at this or any other hospital. This should have been applied to payments to Professor Nayman who was receiving 12 standard sessions, an overpayment of 1 1/2 sessions per week or around \$8,100 per year. There were no other known cases where this reduced rate should have applied. It was an administrative error.

The Committee notes that medical officers are now being paid at a more appropriate level than previously. Systems have been established for claiming payments by staff and for the proper authorisation of these payments. Time records have been introduced.

The Committee believes on the above evidence that the additional cost of a full-time Medical Director is fully justified and overdue.

5.3 AUTHORISING PAYMENTS

The Committee has noted that the Senior Medical Officers Award provides that payments "shall be made by a hospital only after receipt from the sessional medical officer of a signed claim setting out in detail the services for which the claim is made" (1). In fact, many of the sessional payments at R.S.M.H. were made automatically and routinely without any form of claim being received. Claim forms were often only put in when a re-call claim was involved and often were not countersigned by the head of division. A major exception here was the Anaesthetics Division where claims were meticulously signed and countersigned.

- (1) Senior Medical Officers Award.

Claims for fee-for-service payments by family medicine doctors were forwarded as a normal practice invoice, and were checked to ensure the patient was a non-private patient and that the charge agreed with the fee schedule. No authorisation for payment was given. This should have been done by the Medical Director.

Periodically, but infrequently, the head of the division reviewed the paid accounts for reasonableness of charges. There was no procedure for noting all visits either administratively or on the medical record. Mr. Sims checked a number of claims against the medical record entries and found "... it is not possible to authenticate claims from this source" (1). While there is no evidence of general overservicing some claims include daily visits by the doctor.

Control of overservicing was a matter of concern and discussion within the Division of Family Medicine, but the value of total claims was less than the allocated sessions for the division. A new system has now been initiated to provide supporting evidence in these cases.

The solution to the payment of sessions which relate to intermittent visits and varying time spent which may involve both private and non-private patients is much more difficult. The Committee believes that each payment period should be covered by a signed claim and this should be countersigned by the division head or another person, as is done in a number of large hospitals. Distribution from the pool should also be externally scrutinised and authorised by the Medical Director, and there must be some documented rationale for payment.

(1) Mr. R. S. Sims, Report dated January, 1984, Appendix 2/4.

5.4 RATES OF PAYMENT

Mr. Sims reported that, "There is no problem with payments based on fee-for-service since charges are related to a set schedule. However, sessional payments are determined by the class of hospital, the grade of specialist and the number of sessions. There has been disagreement as to the correctness of each of these elements" (1).

5.4.1 HOSPITAL GROUPINGS

The Hospital Senior Medical Officers Award allots each major hospital to a particular group. The criteria for grouping are size and complexity of the hospital, and the status of the hospital in relation to teaching medical students. The Royal Southern Memorial Hospital has only recently been included in the grouping structure.

The groupings now specified are:-

Group 1A

Alfred, Austin, Fairfield, Prince Henrys, Queen Victoria, Royal Childrens, Royal Melbourne, Royal Victorian Eye & Ear, Royal Women's and St. Vincent's Hospital.

Group 1B

Geelong, Preston and Northcote, Western General and Box Hill.

Group 2

Ballarat Base, Bendigo Home, Bendigo Base, Caulfield, Kingston Centre, Mount Royal, Queen Elizabeth Geriatric and Royal Southern Memorial.

(1) Mr. R. S. Sims, Report dated January, 1984, Appendix 2/5.

Group 3

Alexander, Gippsland Base, Hamilton Base, Mildura Base, etc.

In the absence of formal grouping, R.S.M.H. selected Group 1A for all its specialists. This is the highest grouping and includes the major teaching and specialist hospitals of substantial size.

Since Group 1B includes hospitals which are larger and more complex than R.S.M.H., the selection of Group 1A was quite inappropriate. This has now been recognised and the hospital has recently been reclassified by the Hospitals Remuneration Tribunal to Group 2 for inclusion in the award.

Despite considerable effort Mr. Sims was unable to determine by whom the original decision was made. There is no reference to it in Board minutes and Board members say they were quite unaware of the grouping. The opinion is noted in the Divisional Council (Medical) minutes on one occasion that Group 1A was thought to be appropriate but there is no other mention of this which the Committee has been able to locate. The Committee is dismayed at the lack of Health Commission control in this important area.

The regrouping from 1A to 2 only affects Specialists Class 4 who must be reclassified to Class 3, and Medical Superintendents. The current award rates are as follows:-

Specialist Class 4 Group 1A	\$1,057.20 per week
Specialist Class 3	\$ 967.50 per week

The difference is \$89.70 per week or \$4,644 per year for each full-time Class 4 specialist or \$11.21 per session of 3 1/2 hours for sessional staff, incorporating the sessional 25% loading.

There were 22 sessional medical staff utilising 66.18 clinical sessions being paid as Class 4 specialists prior to May 1983. The balance of the clinical sessions was paid into the medical equalization fund (refer to Table 5.1). As Group 2 is now the award classification, the difference would have been in total \$38,526 per year. Class 4 is only appropriate to Group 1A or 1B hospitals and the maximum level for R.S.M.H. became Class 3 for senior specialists in a Group 2 hospital. The amount of \$38,526 includes \$21,518 which arose from inappropriate classification of some positions as heads of department.

5.4.2 SPECIALIST GRADING

Most of the specialists at R.S.M.H. were graded as Class 4. This is defined in the Senior Medical Officers Award as "a practitioner appointed as a head of a department or section to a teaching hospital Group 1A or Group 1B who possesses a higher qualification appropriate to the specialty in which he is employed and who has had not less than eight years practical experience in that specialty after obtaining the higher qualification.

"Provided that a practitioner may be appointed a Specialist Class 4 by the hospital concerned if he has had sufficient experience in his specialty to satisfy the Hospital" (1).

A Class 3 specialist is identically defined with the omission of the phrase "appointed as a head of a department or section".

- (1) Senior Medical Officers Award.

There were only four "heads of a department or section" in R.S.M.H. who, under the accepted interpretation of Specialist Class 4, should have been Class 4. The remainder should have been classified as Class 3 if they had the defined qualifications and experience.

This was recently recognised in the hospital and all but the four departmental heads were reclassified below Class 4 prior to the regrouping of the hospital to Group 2. The Australian Medical Association states, "The allocation of sessions and the payments for sessions to the medical staff at the hospital have now been rearranged to accord with the views expressed by Dr. Brand in his report" (1). The Committee also believes this is appropriate. The 18 affected positions involved 37 sessions. The difference for this group between Class 4 and Class 3 is \$21,518 per year.

A further problem arises in the case of general practitioners who have been held in the past not to hold a specialist qualification under the determination, even though they have done post-graduate studies in general practice. In other hospitals where general practitioners are attached to specialist units (a fairly rare occurrence) they have been paid as Specialist Class 1 with the concurrence of the Commission.

Mr. Sims has advised the Committee that this matter was discussed with the Commission in the planning stage for the Family Medicine Group with a recommendation to the Commission that the experienced general practitioners should be given the status of specialists. The Committee has been unable to locate any documentation to support this and there is no record in the Commission files agreeing to a departure from the accepted interpretation of the Commission instructions relating to general practitioners.

The Senior Medical Officers Award provides some discretion to the hospital to pay specialists at a higher grade if they are satisfied that the experience of a specialist is considered to justify it, and the Board of Management has obtained legal opinion which suggests it is able to pay a general practitioner at the higher rate.

(1) Australian Medical Association Submission, November, 1983, page 9.

However, it is clear such a discretion was never exercised by the Board of Management. The doctors were simply paid at the higher rate for reasons which can no longer be ascertained. The Committee believes it is inexcusable that such matters could occur without adequate documentation.

The Health Commission two years ago issued new guidelines for payments to general practitioners which allows them to be paid at higher classifications than previously, so this is no longer a problem.

Medical staff on appointment were not formally advised of the grading allocated or their sessional payment rate. The Committee believes they had no reason to question the validity of the payments and were entitled to believe that the level assigned to them by the hospital was appropriate.

5.4.3 PAYMENT OF LOADING ON SESSIONS

The Sessional Medical Officers Award provides that sessional medical staff be paid at the equivalent rate for full-time medical staff plus a 25% loading for sessions up to a maximum of six sessions per week, whether at one or more than one hospital, and at the full-time medical staff rate for more than six sessions taking account of sessions at this and any other hospital. This restriction does not apply to on-call sessions (1).

The Committee have found that this reduction of payment for sessions in excess of six was not applied by the hospital management. The only significant case which should have involved a reduction in payments if the award applied was that of Professor Nayman who was paid a total of 6 administrative sessions, 6 clinical sessions and 3 (and later 3.18 sessions) for on-call/re-call. The overpayment was for 6 sessions at 25% of the rate for salaried staff, that is 1 1/2 sessions or, at current rates, about \$8,100 per year.

- (1) Sessional Medical Officers Award.

The administrative sessions predated the changeover from fee-for-service to sessional payment. As previously stated the Committee believes the need for these sessions should be reviewed.

The 73 clinical session allocation appears to be based originally on 1.2 sessions per average non-private inpatient and this figure was used in discussions on the adequacy of sessional allocation.

Medical staff contend that their contribution to the hospital is far in excess of the paid non-hospital patient service. The Australian Medical Association claims "there is a deficiency in the sessional allocation in the order of 37.68 sessions per week" (1). The major factor in this argument relates to on-call payment.

The Sessional Medical Officers Award provides that, for a medical officer who makes himself available for exclusive on-call to the hospital for seven days per week, a payment of 9 sessions is payable. If each of the three specialist divisions of the hospital rostered a medical member on-call each night and each weekend day, a total of 27 sessions would result, leaving only 46 sessions for clinical work.

On the other hand the Committee believes that:-

- (a) For a hospital of 110 beds without an emergency department the need for exclusive on-call for each department is unnecessary, particularly as 24 hour service is provided for each unit by registrars and residents and the family care units operate on a fee-for-service basis.

(1) Australian Medical Association Submission, November, 1983, page 10.

- (b) Some of the administrative sessions should have been covered by the clinical session payment. Administrative responsibilities for divisional heads would normally have been considered as having been remunerated by the difference between Class 4 (head of department) and Class 3 salary. Further, the four consultative sessions to staff of Monash University, while probably appropriate in the developmental stages, as pointed out by Mr. Henry and Mr. Sims, are now difficult to justify and the Committee has not been able to find any other large public hospital which makes such payments.

The Committee notes that in submissions received it is stated that the hospital does not provide outpatient services. The sessional allocation normally includes a component for outpatients. In addition, the number of non-private inpatient days has declined over the last three years by 17%.

An examination of the correct sessional allocation is a complex and time consuming exercise beyond the scope of this inquiry. A preliminary analysis suggests that the allocations were high on an inpatient day basis by comparison with other hospitals. A detailed reassessment should be undertaken by the Health Commission, taking account of both administrative and clinical work. The Committee believes that the sessional allocation is more than adequate for the present non-private patient workload, both because of the fall in standard patient bed days and the appointment of a full-time Medical Director.

5.5.1 SALARIED STAFF

Mr. Sims reported that "Resident Medical Staff and Registrars are paid in accordance with the award. Full 24 hour cover was provided for each of the divisional wards and this involved extraordinarily long hours being worked and paid as there are few persons employed. The cover has now been reduced somewhat with a reduction in payments" (1). Dr. Brand found that claims for additional hours were neither signed by the resident nor countersigned.

- (1) Mr. R. S. Sims, Report dated January, 1984, page 19.

The head of the pathology department and the director of the Community Care Centre were classified as Class 4 Group 1A. The pathology department head is directly affected by the change of the hospital to Group 2. The position of the director of the Community Care Centre is not clear since there is no precedent for this position and it is not covered by the relevant awards. This matter should be discussed with the Health Commission to establish the appropriate level. The Committee believes this should not be Class 4 Group 1A, which as stated earlier only applies to specialist departments in the large teaching hospitals.

The head of pathology had the right of private practice and a Special Purposes Trust fund was set up to receive the private patient income, to pay expenses and to make distributions. The trust was set up somewhat in line with recommendations by the Hospital and Charities Commission. The trust received income from fees of private patients treated in the pathology department. The operation of the trust is discussed in detail later in the report. At this stage the personal income of the chief pathologist is only considered. The trust deed provides for the payment of a "bonus of not more than 25% of total hospital salary of the medical officer by way of income derived from private practice" and, in addition, for payment of "cost of travel within Australia and abroad of whole time Medical Officers", subscriptions to professional associations, and costs of textbooks and journals used in his work. The chief pathologist received salary, on-call allowance, re-call payments, and a bonus, travel grants and allowances for local travel, subscriptions, books etc., from the Special Purposes Trust. In addition, he received a bonus of \$3,500 from Moorabbin Hospital as approved by the Hospitals and Charities Commission in 1976 and occasional travel grants from Moorabbin and Mordialloc-Cheltenham Hospitals where he also provided service.

The chief pathologist was paid the following income in addition to the salary of a Class 4 specialist (\$54,974).

	Year ended 30th June	
	1982	1983
Bonus for previous year - Special Purposes Trust	14,275	15,717
On call	3,997	2,738
Re call	7,190	2,813
Bonus - Moorabbin Hospital	3,500	3,500
Travel Grant etc. - Moorabbin	-	1,000
- Mordialloc-Cheltenham	-	1,000
- RSMH Special Purposes Trust	<u>2,000</u>	<u>18,219</u>
	\$30,962	\$44,987
	_____	_____

Note 1: 1982/83 included substantial leave.

2: These figures exclude payments for local travel, subscriptions etc. reimbursed through petty cash.

The bonus payment from R.S.M.H. Special Purposes Trust was based on 25% of total salary including on-call and re-call. The Committee believes these on-call and re-call payments should have been excluded from the calculation, as the bonus should be related to base salary alone. Future payments must be at the proper level. The level of travel grants was at the discretion of the trustees.

Both Mr. Sims and Mr. Henry reported to the Committee that re-call is most unusual at this level, although it is provided for in the award. Most payments for re-call related to weekend work and may not have been emergency re-calls. The second pathologist shared on-call and re-call payments and received bonus and travel payments from 1980/81. Payments were approved within the department and time card claims were sketchy in detail. The validity of the re-call payments cannot now be established.

5.5.2 CONTRACT MEDICAL STAFF

The only contract doctor at R.S.M.H. is the radiologist. He is under contract to provide 24 hour, 7 days a week service for a fee comprising 40% of the scheduled Commonwealth fee for all non-private patients treated. The radiologist also agrees to pay the hospital 60% of private fees collected from private patients treated in the hospital department. The arrangements are as approved by the Commonwealth Government except that the original agreement provided for 42% of the scheduled fee to be paid to the radiologist for non-private income and was reduced at the instigation of the radiologist to 40%. Mr. Sims' investigation showed "that records are meticulously kept and all payments to the hospital and the radiologists are according to the contract. Patient billings are well controlled and write-offs are properly authorised and not excessive" (1).

The gross income to the radiologist in the year ended 30th June 1983 was:-

Treatment of non private patients (40% of Scheduled Fee)	\$ 67,321
Income from private patients (60% of private fees collected)	\$ 88,079
	—————
	\$155,400
	—————

From this income, the radiologist is required to provide full cover including relief on sick leave, annual leave, etc. This involves employment of other sessional radiologists on both a routine and locum basis.

(1) Mr. R. S. Sims, Report dated January, 1984, page 21.

It has been suggested that the use of a full-time salaried radiologist would be more economical to the hospital than the contract arrangements. After allowing for current salary rates, salary oncosts, provision of on-call and relief staff and assuming that the current right of private practice conditions applied via a special purposes fund, the Committee believes there would be no significant gain. This may not apply if new private practice conditions are negotiated for full-time staff. If the conditions for private practice for full-time staff or the contractual arrangements for radiologists vary, the situation should be re-examined.

The Committee is concerned with what appears to be a shortage of radiologists in Australia. The shortage has allowed this group to be paid, by community standards, at extremely high remuneration levels. The current costs of training radiologists is borne by the taxpayer in the form of grants to the Health Commission and thence hospitals. The number of radiologists approved to practise is determined by the College of Radiologists, which is the examining body as well as being the professional association. The shortage of radiologists has meant substantial occupational rent has been accrued to this group. The Committee believes an urgent review is required to determine whether the "high" cost of radiologists is a supply problem (i.e. low numbers of radiologists trained and or registered per annum), and/or a demand problem (i.e. a large need for radiologists). Depending on the causes, possible solutions to the problem could be an increase in the number of overseas radiologists admitted for practice in Australia, reform of exit and entry provisions, and/or an occupational licensing tax.

5.6 CAULFIELD COMMUNITY CARE CENTRE

The medical costs of the Caulfield Community Care Centre are much higher than is normal in community care centres because of the level of medical participation and the organisation of area liaison groups. The sessions used are in accordance with those approved by the Health Commission. The Centre has now been in operation long enough for a realistic assessment of costs and of the organisational approach taken. The Committee believes that the Health Commission should as quickly as possible undertake this assessment.

5.7 ACTION TAKEN

The Committee has from its investigations found that action has already been taken in the following matters:-

- (i) The hospital has now been graded as a Group 2 hospital.
- (ii) The sessional medical staff have agreed to reduce the number of Class 4 positions and these will be largely eliminated with the regrouping of the hospital.
- (iii) Some reduction has been made in resident medical officers hours.
- (iv) A full-time Medical Director has been appointed.
- (v) Medical staff have been formally advised of their correct gradings and salary levels.
- (vi) All medical staff are now required to submit a formal claim for sessions which is countersigned by the Medical Director.
- (vii) Fee-for-service staff are required to note their attendance in the medical record.

5.8 RECOMMENDATIONS - MEDICAL PAYMENTS

1. THAT THE BOARD OF MANAGEMENT CONCERN ITSELF WITH THE ISSUES INVOLVED IN THE PAYMENT OF MEDICAL STAFF.
2. THAT A DETAILED REASSESSMENT OF THE SESSIONAL ALLOCATION FOR VISITING SPECIALISTS BE CARRIED OUT BY THE HEALTH COMMISSION, WITH PARTICULAR ATTENTION TO ON-CALL REQUIREMENTS AND THE INTEGRATION OF ADMINISTRATIVE AND CLINICAL SESSIONS.
3. THAT THE BOARD OF MANAGEMENT IN ASSOCIATION WITH MANAGEMENT ESTABLISH APPROPRIATE EXCEPTION REPORTING MECHANISMS TO PROVIDE ADEQUATE OVERSIGHT OF LEVELS OF PAYMENT TO MEDICAL STAFF.

4. THAT APPROPRIATE INTERNAL CONTROLS AND INTERNAL AUDIT PROCEDURES BE INTRODUCED TO CHECK THAT PAYMENTS OF SESSIONAL AND FEE-FOR-SERVICE CLAIMS ARE PROPERLY MADE OUT AND AUTHORISED.
5. THAT ALL PAYMENTS FOR VISITING MEDICAL STAFF WITH THE EXCEPTION OF FEE-FOR-SERVICE PAYMENTS BE MADE THROUGH THE PAYROLL SYSTEM WITH A SINGLE APPEARANCE FOR EACH MEDICAL STAFF MEMBER.
6. THAT ALL DISCUSSIONS RELATING TO MEDICAL PAYMENTS AT THE DIVISIONAL COMMITTEE BE PROPERLY MINUTED AND INCLUDED IN BOARD REPORTS.
7. THAT THE POLICY ON RE-CALL PAYMENTS FOR PATHOLOGISTS BE REVIEWED.
8. THAT THE NEED FOR SESSIONAL ALLOCATIONS FOR PATHOLOGY CONSULTANTS BE REVIEWED WHEN THE NEW DIRECTOR OF PATHOLOGY IS APPOINTED AND, IN THE MEANTIME, ALL SESSIONAL PAYMENTS BE MADE TO THE APPROPRIATE UNIVERSITY DEPARTMENT.
9. THAT TRANSFERS FROM OPERATING ACCOUNT FOR FEE-FOR-SERVICE PAYMENTS BE RELATED TO EXPENDITURE LEVELS AND BE MADE VIA A SUSPENSE ACCOUNT RATHER THAN BY ROUTINE TRANSFER TO A RESERVE ACCOUNT SO THAT THE OPERATING ACCOUNT REFLECTS ACTUAL COSTS.
10. THAT ACTION BE TAKEN BY THE HEALTH COMMISSION TO REVIEW THE GROUPING OF HOSPITALS NOT INCLUDED IN THE SESSIONAL MEDICAL OFFICERS AWARD TO ENSURE THAT APPROPRIATE MEDICAL PAYMENTS ARE BEING MADE.
11. THAT THE ECONOMIC AND BUDGET REVIEW COMMITTEE CONDUCT A DETAILED STUDY INTO THE MARKET FOR RADIOLOGISTS AND RECOMMEND POSSIBLE POLICY SOLUTIONS.
12. THAT THE HEALTH COMMISSION AS QUICKLY AS POSSIBLE ASSESS THE COSTS OF THE CAULFIELD COMMUNITY CARE CENTRE AND ITS ROLE INCLUDING THE ORGANISATION APPROACH OF THE CENTRE.

CHAPTER SIX

REPORTING TO THE BOARD OF MANAGEMENT

6.1 BACKGROUND

Mr. Henry reported, "The Committees which report directly to the Board are:-

Executive Committee
Finance Committee
Coordinating Committee
Divisional Committee
Community Care Centre Committee
Medical Advisory Board" (1).

He recommended "that the Board reviews the role of each of the committees which reports directly to it, in consultation with the Chief Executive Officer, and lays down clear items of reference for each committee" (1). The Committee supports the recommendation.

6.2 REPORTING AT R.S.M.H.

The Committee understands that normal hospital practice (indeed normal "Committee" practice) is for minutes to be kept of each of these meetings, and for the minutes to be presented at the Board meeting with the Chairman of each Committee making a report to the Board (from the minutes if necessary). These minutes should then be filed with the Board minutes and should be initialled by the Chairman of the meeting as happens with the Board minutes at R.S.M.H.

All the Consultants to the Committee found that reporting to the Board was quite inadequate. There were no minutes of the Finance or Executive Committee meetings. A report was made from these meetings

(1) Mr. G. T. J. Henry, Report dated 2nd November, 1983, pages 5 and 6.

and was presented to the Board, but neither the Finance nor the Executive Committee reports from the meetings were filed with the Board minutes, and neither of them was confirmed at any subsequent meeting. The reports were adopted by the Board and this was considered to be confirmation of the accuracy of the business of the particular meeting.

The Board minutes were incomplete in that they were very brief, and did not record recommendations or supporting information. Often Committee reports were simply recorded as "approved and adopted", even when significant recommendations were included in the report. The reports were often unsigned.

The Board minutes did not accurately reflect the amount of information provided to the Board. Routine reports were made of monthly costs, trust account balances, proposed capital purchases, and investments. Particular attention was paid to budget variances and the cash situation. Reports on Brighton Hospital were often very brief. This reflects the relative autonomy of the Brighton Committee and the limited influence exercised by the Board. In some areas, notably nursing reports and community care centre reports, more detailed information was available.

No reports on overtime, outstanding annual leave or long service leave were made to the Board.

The Committee understands it was normal practice to obtain competitive quotes for capital purchases and to closely examine such matters. However, this is not apparent from the minutes which usually simply record approval to purchase with little detail.

The Committee is concerned that the Board accepted such a low standard of reporting and recording.

6.3 BOARD'S PERCEPTION

The Board's perception of its responsibility was relatively confined. Many important functions were seen as being either the responsibility of the Health Commission or as routine executive responsibilities. In addition, the Board appears to have been inadequately informed on important matters. Reporting on many matters such as industrial problems, medical sessional allocations, and hospital grading were restricted or non-existent. Contacts between hospital staff and Board members were actively discouraged.

The major objectives of the Board were clearly the provision of good patient care within the limits of staff establishment and funding approved by the Health Commission. While the Board and management controlled overall staffing levels and costs in line with approved allocations, the Board was not aware of significant internal problem areas. Having accepted the Board's major objectives, the Committee believes these must be compatible with good hospital management, and the Board must be accountable for the financial activities within the hospital.

6.4 IMPACT OF HOSPITAL FUNDING AND BUDGETARY PROCESS

Lack of effective internal control and audit were major factors contributing to the inefficiency at the hospital. These could only come to light by a special investigation, as they would not be picked up by the normal Health Commission monitoring mechanisms. This is of concern to the Committee.

While there was lack of effective internal controls, there were also external factors in operation, notably weaknesses in the hospital funding and budget process. These include:-

- (i) Detailed operations targets and objectives are not specified.
- (ii) There is little flexibility for the Board of Management to move outside the staffing structures and department expenditure limits built into the budget.

- (iii) There is no incentive to encourage cost reduction or creation of operating surpluses since this invariably results in reductions in future funding.
- (iv) Performance reporting is largely confined to monitoring of variances between budget and actual costs.

There is a need for a fundamental review of the budget process for hospitals to improve the degree of responsibility for performance, efficient use of resources and the specification and monitoring of performance standards. The Committee intends to directly consider this problem in Item 3 of its terms of reference.

6.5 RECOMMENDATIONS - REPORTS TO BOARD

1. THAT CONTINUING ATTENTION BE GIVEN TO PROVIDING SELF SUFFICIENT INFORMATIVE MINUTES WHICH INCLUDE ALL DATA NECESSARY TO INTERPRET THE BASIS AND CONTENT OF DECISIONS.
2. THAT THE BOARD MINUTES INCLUDE AS ATTACHMENTS IMPORTANT REPORTS WHICH RELATE TO DECISIONS MADE.
3. THAT ANY MAJOR CAPITAL COMMITMENTS APPROVED INCLUDE DETAILS OF TENDERS RECEIVED AND ACCEPTED TOGETHER WITH A NOTE OF THE VALUE OF REJECTED TENDERS.
4. THAT A MAJOR REVIEW OF THE HOSPITAL BUDGETARY PROCESS BE CARRIED OUT TO DEVELOP SYSTEMS WHICH PROVIDE PERFORMANCE OBJECTIVES AND STANDARDS, GREATER RESPONSIBILITY AND FLEXIBILITY FOR BOARDS OF MANAGEMENT AND IMPROVED MONITORING OF PERFORMANCE. THE COMMITTEE INTENDS TO UNDERTAKE THIS REVIEW IN ITEM 3 OF ITS TERMS OF REFERENCE.
5. THAT STAFF REPORTING INCLUDE OVERTIME AND ANNUAL AND LONG SERVICE LEAVE OUTSTANDING MORE THAN SIX MONTHS.

CHAPTER SEVEN

AUDIT AND INTERNAL CONTROL

7.1 OBJECTIVES OF AUDIT

The objects of an external audit are to examine all books of accounts and relevant records, registers and documents, with a view to ensure that:-

- (i) The books and records are properly kept.
- (ii) All transactions are recorded and correctly recorded.
- (iii) The statements of income and expenditure give a true and fair view of the results of operations.
- (iv) The balance sheet gives a true and fair view of the assets, liabilities, and funds of the hospital.
- (v) The internal controls are adequate and effective.
- (vi) Operational performance criteria are satisfactory.

To provide a complete system of internal control the hospital would need:-

- (i) A system of standard costing.
- (ii) Budgetary control.
- (iii) A perpetual inventory.
- (iv) Physical safeguards and checks against theft and loss of assets.
- (v) A system of internal check.

- (vi) An internal audit of accounting, purchasing, personnel and pay procedures.

Internal audit requires a distinct section of staff in the hospital whose duties are to perform most of the detailed checking of the work done by operative members of the accounting, purchasing, personnel and pay staff.

The internal audit report, like the external audit report, should be made direct to the Board of Management. The Committee understands that currently hospitals have no system of standard costing, and the great majority have no internal audit staff.

7.2 INTERNAL CONTROL AT R.S.M.H.

As will be shown below, the internal controls exercised within R.S.M.H. were deficient and require substantial improvement. A comprehensive review is justified. There is an excessive reliance on delegation to departmental heads without supporting control, and internal audit is superficial and performed on an unorganised basis.

Critical areas of internal control at R.S.M.H. were:-

Time Recording System

- (i) Excessive numbers of time cards manually filled out.
- (ii) Cards with overtime claims not properly authorised.
- (iii) Self signed or unsigned cards.
- (iv) Excessive numbers of senior positions not providing a claim for wage payment.

Claims for Medical Sessions and Fee-For-Service

- (v) Lack of signed claims for sessions.
- (vi) Inadequate authorisation of payment and supporting evidence.

Purchasing and Payments

- (vii) Inadequate authorisation of requisitions.
- (viii) Lack of supporting documentation with cheque requisitions.
- (ix) Acceptance of inadequate instructions for payments.
- (x) Lack of control of forms and documents.

Debtors Control

- (xi) Lack of formal authorisation of account write-offs.
- (xii) Failure to routinely balance debtors controls.

Assets Control

- (xiii) Lack of comprehensive assets register.

The Committee believes the following extracts from the evidence of Mr. Freadman are illuminating.

"THE CHAIRMAN: Does that not throw up something about management controls, whether it be a policy decision or a management decision, in terms of the need for some internal audit so that you, as board members, can be aware not only of those sorts of matters that you have mentioned but also of any other issues that you cannot identify here and now? An internal audit would provide the mechanism to report potential problems or actual problems in the running of the organisation.

"MR FREADMAN: I would go along with that.

"THE CHAIRMAN: Were any efforts made to introduce a more effective external audit or an internal audit.

"MR FREADMAN: Not up to the present time....." (1).

The Committee believes that despite the evident deficiencies in accountability and monitoring activities at R.S.M.H., the Board still has not grasped the need for urgent action.

7.3 EXTERNAL AUDIT

The external audit was not adequate for the needs of the hospital in that it was a restricted low cost audit (\$3,500 in 1982/83) which failed to locate significant procedural shortcomings and administrative errors and did not provide essential advice to the Board on inadequacies in internal control and internal audit. The Board on several occasions over the last three to four years discussed the audit limitations with the auditors and requested improvement in audit programs, management reporting and greater attention to internal control.

In evidence Mr. Benjamin, the President of the hospital, said, "The cost of a full audit would be between \$15,000 and \$20,000 a year. The existing audit, which was really just checking the books of account and certifying the income and expenditure and the balance sheet of the hospital, cost probably between one-third and one-fourth of that. The audit cost was, I think, about \$3000 or \$4000 a year, so it was not a minor difference.

"My earlier comments related to it being a minimal audit because the auditors saw the hospital as being in the nature of a charitable organization and they structured their audit so that the fee would be a minimal fee for a charitable organization" (2).

- (1) Public Hearing Transcript, Mr. R. Freadman, 22nd February, 1984, page 105.
- (2) Public Hearing Transcript, Mr. R. Benjamin, 12th December, 1983, page 91.

Cr. M. Blair, a Board member, in evidence said, "There had been some dialogue in the past that there was some dissatisfaction with their performance, and there was discussion about whether they should be retained or whether we should look elsewhere. That question was canvassed," (1).

The current situation has not changed materially and the scope and effectiveness of the audit is far below the needs of a business of this size. Even though the auditor has been replaced, the same firm continues to conduct the audit.

The Committee strongly believes the Board should have pursued this matter with more vigour as the lack of knowledge of deficiencies in internal control was undoubtedly a factor in failure to press for introduction of necessary changes. Procedures which may have been adequate in the early stages of the development of the hospital were never upgraded.

Some of the problems which arose were due to the lack of a fully professional, comprehensive audit which is essential in an organisation of this kind. A contributing factor was the lack of guidelines as to minimum audit requirements and the inadequacy of a confined financial audit which does not review operational performance criteria.

The Committee notes that a working party was set up two years ago by the Health Commission to report on the role and appointment of hospital auditors. This was disbanded because the members were unable to come to agreement. A reconstituted working party under the chairmanship of the Director of the Finance Division had its first meeting on 18 November, 1983, and has reported to the Health Commission on the role and appointment of hospital auditors. Both working parties had a member from the office of the Auditor-General.

(1) Public Hearing Transcript, Cr. M. Blair, 22nd February, 1984, page 109.

7.4 RECOMMENDATIONS - INTERNAL CONTROL

1. THAT THE HEALTH COMMISSION, IN CONJUNCTION WITH THE AUDITOR-GENERAL, PREPARE AN APPROPRIATE PROGRAMME OF INTERNAL AUDIT FOR HOSPITALS, INCLUDING THE NECESSARY AUDIT STAFF.

7.4.1 TIME RECORDING

1. THAT THE USE OF TIME CHECKING BE EXTENDED TO REDUCE MANUAL TIME RECORDING AS FAR AS PRACTICABLE.
2. THAT FOR VISITING MEDICAL STAFF, A WRITTEN CLAIM FOR PAYMENT BE PREPARED AND SIGNED BY THE INDIVIDUAL.
3. THAT ALL CLAIMS FOR PAYMENT BE AUTHORISED BY A SENIOR OFFICER AND UNAUTHORISED OR SELF-AUTHORISED CLAIMS BE REJECTED.
4. THAT AS FAR AS PRACTICABLE, ALL SALARIES AND WAGES CLAIMS BE PAID THROUGH THE PAY SYSTEM EXCEPTING FEE-FOR-SERVICE CLAIMS AND SPECIFIED PAYMENTS WHERE INCLUSION ON THE PAYROLL IS NOT APPROPRIATE.
5. THAT USE OF THE PAYROLL COMPUTER BASED LEAVE SYSTEM BE INTRODUCED.
6. THAT ALL CLAIMS FOR SESSIONS OR FEE-FOR-SERVICE PAYMENTS BE AUTHORISED BY THE RELEVANT DIVISIONAL HEAD AND APPROPRIATE SYSTEMS BE INTRODUCED TO VERIFY THE CORRECTNESS OF THE CLAIM.
7. THAT THE RETENTION PERIOD OF TIME CARDS, LEAVE APPLICATIONS AND OTHER PAY DOCUMENTATION BE REVIEWED AND EXTENDED.

7.4.2 PURCHASING AND SUPPLY SYSTEMS

1. THAT ALL REQUESTS FOR SUPPLIES BE AUTHORISED BY SPECIFIED PERSONS IN PARTICULAR IN THE CATERING DEPARTMENT.

2. THAT PURCHASE ORDER FORMS BE NUMBERED AND BE SUBJECT TO NUMBER CONTROL.
3. THAT REQUISITIONS BE SUBJECT TO NUMBER CONTROL AND PROCEDURES ESTABLISHED TO ACCOUNT FOR CANCELLED REQUISITIONS. PROCEDURES SHOULD ENSURE THAT ALL REQUISITIONS ARE ENTERED ON THE REQUISITION SUMMARY.
4. THAT THE SYSTEM FOR PROCESSING REQUISITIONS BE TIGHTENED TO PROVIDE IMPROVED CONTROL OF CUTOFF FOR ACCOUNTING AND STOCK RECORDING PURPOSES.
5. THAT THE ACCURACY OF COMPUTER STOCK RECORDING BE IMPROVED SO AS TO PROVIDE AN ACCURATE BASIS FOR ROUTINE SPOT STOCKCHECKS.

7.4.3 PAYMENT SYSTEM

1. THAT A CREDITORS PAYMENT SYSTEM PROCEDURE MANUAL BE DEVELOPED.
2. THAT ENTRY OF NEW CREDITORS INTO THE SYSTEM BE PROPERLY CONTROLLED AND AUTHORISED.
3. THAT SUPPORTING DOCUMENTATION FOR INVOICE PAYMENT AND AUTHORISATION BE MORE COMPREHENSIVE. IN PARTICULAR, DELIVERY DOCKETS SHOULD BE ATTACHED TO SUPPLY INVOICES.
4. THAT SUPPLIES OF CHEQUES FOR MANUAL PREPARATION BE SUPERVISED BY A RESPONSIBLE OFFICER OF THE HOSPITAL.
5. THAT INVOICES AND CHEQUE REQUISITIONS BE CANCELLED MORE EFFECTIVELY ON PAYMENT WITH DETAIL OF CHEQUE NUMBER AND AMOUNT ENTERED ON THE CHEQUE REQUISITION.
6. THAT ALL PURCHASE ORDERS AND ACCOUNTS BE PROCESSED THROUGH THE NORMAL SUPPLY PROCEDURE INCLUDING PATHOLOGY AND RADIOLOGY ACCOUNTS CURRENTLY PROCESSED WITHIN THE DEPARTMENT.

7.4.4 ASSETS REGISTER

1. THAT THE ASSETS REGISTER CONTINUE TO BE DEVELOPED AS QUICKLY AS POSSIBLE AND THEN BE RECONCILED TO THE GENERAL LEDGER.
2. THAT DEPRECIATION CHARGES ULTIMATELY BE CALCULATED USING THE ASSETS REGISTER.

7.4.5 PATIENTS ACCOUNTS

1. THAT THE PROCEDURE FOR WRITING OFF PATIENTS ACCOUNTS BE FORMALISED AND PROCEDURES FOR APPROVAL OF WRITE OFFS BE ESTABLISHED.
2. THAT THE DEBTORS CONTROL ACCOUNT BE MORE REGULARLY RECONCILED WITH THE DEBTORS LEDGER. AT PRESENT THE FREQUENCY OF BALANCING IS UNSATISFACTORY.
3. THAT CONTROL OF ADJUSTMENTS TO THE DEBTORS LEDGER VIA COMPUTER INPUT BE IMPROVED. ACCESS TO A COMPUTER TERMINAL PERMITS ALTERATIONS TO BALANCES. THIS REQUIRES BASIC CHANGES TO THE SYSTEM.
4. THAT THE INTERNAL CONTROL PROCEDURES BE SUPPORTED BY INTERNAL AUDIT ACTION TO PROVIDE PERIODIC VERIFICATION THAT PROCEDURES ARE BEING FOLLOWED AND THAT ACTION IS TIMELY.

7.5 RECOMMENDATIONS - EXTERNAL AUDIT

1. THAT A MORE COMPREHENSIVE AUDIT BE COMMISSIONED WITH AUDIT GUIDELINES SPECIFIED, INCLUDING THE FOLLOWING MATTERS WHICH ARE IMMEDIATELY RELEVANT TO R.S.M.H.:-
 - (a) A COMPREHENSIVE INTERNAL CONTROL REVIEW.
 - (b) VERIFICATION OF RATES AND AMOUNTS OF PAY.

- (c) ATTENTION TO COMPLIANCE WITH HEALTH COMMISSION CIRCULARS.
- (d) PROVISION OF COMPREHENSIVE MANAGEMENT REPORTS TO THE BOARD.
- (e) REVIEW OF EFFECTIVENESS AND ACCURACY OF COMPUTER INPUT AND OUTPUT ESPECIALLY IN RELATION TO FINANCIAL MATTERS.
- (f) REGULAR REVIEW OF BALANCING OF CONTROLS.
- (g) REVIEW OF TRUST ACCOUNT TRANSACTIONS WITH PARTICULAR ATTENTION TO COMPLIANCE WITH TRUST CONDITIONS.

2. THAT WITH THE APPROVAL OF THE AUDITOR-GENERAL GUIDELINES FOR AUDIT OF HOSPITALS BE DEVELOPED AND DISTRIBUTED TO BOARDS OF MANAGEMENT AND AUDITORS.

3. THAT THE STANDARD OF AUDITS IN THE GENERAL HOSPITAL FIELD IN RELATION TO THE GUIDELINES BE REVIEWED TO ENSURE THAT THEY ARE MEETING THE NEEDS OF THE BOARDS OF MANAGEMENT.

CHAPTER EIGHT

REPORTING TO THE HEALTH COMMISSION

8.1 INTRODUCTION

R.S.M.H. makes the following reports to the Health Commission.

(i) Monthly Financial and Statistical Return

This shows cash payments, cash receipts, comparison of actual payroll with Health Commission approved budget, patient revenue and statistics, and cafeteria trading statement.

(ii) Quarterly Return

Quarterly return shows expenditure (in departments), debtors movement, patient statistics, non-budgeted income and expenditure, profit forecast, source and application of funds (every six months).

(iii) Annual Return

Complete disclosure of all financial and statistical matters.

(iv) Department of Radiology Costs

Annual return itemising payments, type and number of examinations, names of practitioners and staffing establishment.

(v) Operating Budget

Allocation of approved income and expenditure budget into monthly and year to date figures.

(vi) University Teaching Costs

Annual return indicating costs associated with teaching of university students.

(vii) Special Escalation Costs

Has only been produced once but may be required on an annual basis. Itemises costs in excess of allocated budget, e.g., electricity, briquettes, linen, telephone, for which a special case can be made for increased funds.

(viii) Hospower

Monthly report providing input data for Hospower reports.

(ix) Form 11

Quarterly patient statistical return.

In addition, a number of nursing staff returns are made to the Health Commission and the Victorian Nursing Council.

8.2 PROBLEMS OF THE REPORTING SYSTEM

It is apparent from the previous discussion that there are a number of problems with this reporting system.

- (a) The Health Commission is chiefly concerned with monitoring gross operating expenditure in relation to approved budgets, and equivalent full-time (EFT) staff numbers against budget. In addition, gross revenue is monitored.

If a hospital commences with a certain approved expenditure, budgets have in the past been determined on the basis of the previous year's actual expenditure, with all salary and wage award increases being added, together with a percentage increase on non-salary items to allow for cost-of-living increases.

The Committee notes that recent attempts have been made to determine budgets on the basis of approved staff levels plus overheads plus a non-salary component, but the procedure is still so inexact that only gross deficiencies are picked up.

So long as a hospital operates within its approved operating budget and approved staff numbers, the Health Commission has no routine indicator to determine whether resources are utilised efficiently.' The Committee is extremely concerned at the wider implications of the lack of performance indicators, and will consider this in Item 3 of its terms of reference.

Given the type of reporting the Health Commission had no indication of any inefficiencies or improprieties at R.S.M.H. in a financial sense. This was reinforced by the lack of internal control at the hospital.

- (b) The various methods of payment of medical staff at R.S.M.H. involving many direct payments outside the payroll system until recently would have made it impossible to monitor the extent of payments to individuals without specific analysis.
- (c) An examination of the relevant Health Commission files does not provide any useful information in relation to the grouping of the hospital, the grading of medical staff, the internal distribution of sessions or the total earnings of individuals.

The information available in the payroll and personnel system is not normally accessed by the Commission and comparisons of gradings against approvals are not yet fully developed. Hospitals are now required to report overaward payments but this is not routinely externally monitored.

- (d) Direct contact with the Commission has been limited. With the possible exception of the nursing division, there have been very few visits of inspection or on-site budget reviews by the Commission.

While it is understandable that a comparatively small hospital which regularly balanced its budget and had clean audit reports should not attract attention from the Commission, the Committee believes some more frequent interaction is justified.

- (e) Further inadequacies in reporting to the Health Commission experienced by all hospitals are that requests for alterations to the hospital's staff establishment have not in the past included salary levels. This can lead to problems in budgetary allocation. Where variations to normal gradings occurred at R.S.M.H. these were discussed with the Commission or the Victorian Hospitals Industrial Council.
- (f) Sessional allocations at R.S.M.H. were requested from the Commission as the need arose and were formally allocated and approved. This process does not provide a coherent view of the total sessional allocation and it was necessary to examine and summarise correspondence over a long period to obtain a full picture.

The Committee will investigate in Item 3 of its terms of reference whether the Health Commission has the resources to monitor in detail the operation of a hospital. Its main control is via staffing and budget approvals. From its investigations the Committee has found that it is difficult to define the division of responsibilities of the Commission and the Board of Management. It would seem that with limited resources, the efforts of the Commission are likely to be directed away from a hospital which gives no evidence of financial or patient care problems.

In the case of R.S.M.H. the Committee believes there is a definite need for strengthening the oversight function of the Commission and for improvement of the quality of information available to it. Furthermore, increased interaction between executives and staff of the Commission is desirable.

8.3 RECOMMENDATIONS - HEALTH COMMISSION REPORTING

1. THAT PROVISION BE MADE FOR CLOSER CONSULTATION BETWEEN HEALTH COMMISSION STAFF AND HOSPITAL STAFF, INCLUDING REGULAR VISITS BY COMMISSION STAFF.
2. THAT THE COMMISSION MONITOR ESTABLISHMENT DATA AND POSITION GRADING THROUGH COMPUTER ANALYSIS OF HOSPITAL COMPUTER FILES.
3. THAT MATTERS IN THIS CHAPTER RELATING TO ALL HOSPITALS BE TAKEN UP IN ITEM 3 OF THE TERMS OF REFERENCE.

CHAPTER NINE

TRUST FUNDS

9.1 TRUST ACCOUNTS

The hospital has a program for building development, research and provision of services and a major concern is the accumulation of capital or trust fund resources. A number of trust funds have been built up and the total of reserves and trust funds held by the hospital, excluding the Special Purposes (Pathology) Account, is of the order of \$2,150,000. The following funds have been identified.

Research Trust

Trustees are appointed by the Board and consist of the hospital President, the hospital Treasurer, the Medical Director, one member of the Board of the hospital as nominated by the Board and the Chairman of the medical staff committee.

Current Trustees in those positions are Mr. Benjamin, Mr. Clegg, Dr. Hudson, Mrs. Best and Dr. Cohen. Balance at 31st January, 1984 - \$25,544.

The Maskiell Trust

The Trustees are the hospital President and Jacob Nayman. Each shall hold office until he shall resign or die, or ceases to hold a position on the staff, whichever shall first occur. The other Trustee is Cyril Charles Maskiell.

These Trustees are named in the Trust, but Cyril Maskiell is known as the appointor and he can remove any Trustee, or appoint a new Trustee, who then must be approved by the Board. Balance at 31st January, 1984 - \$90,735.

Special Purposes (Pathology) Account

The Board of Management has the power of appointing new Trustees. The Trustees are: The pathologist contributing to the fund, the President of the hospital, and the Medical Director. Currently they are Dr. Paul Tessa, Mr. Benjamin and Dr. Hudson. Balance at 31st January, 1984 - \$139,432.

Primary Care Development Fund

The Trustees are appointed by the Board and consist of the President and Treasurer of the hospital and three members of the Family Medical Division Advisory Committee, as nominated by the Committee. Current Trustees are: Mr. Benjamin, Mr. Clegg, Dr. Kline, Dr. Cohen and Dr. Combes. Balance at 31st January, 1984 - \$96,999.

In addition there are two funds which have no trustees, but are separate funds within the hospital's capital account.

Ashley Ricketson Fund

Balance at 31st January, 1984 - \$996,248.

General Trust

Balance at 31st January, 1984 - \$94,328.

Transactions relating to some of the trust funds are questionable, as is now discussed.

9.2 TRANSFERS TO RESERVES

Some of these funds have been built up by transfer of operating income. Although the Board of Management has power under Rule 101 to transfer to reserve any surplus in the operating account, these transfers are, in the opinion of the Committee, not proper.

This practice has the effect of apparently increasing operating cost or reducing operating income and hence maintaining budget allocations above the proper levels. This problem was discussed in Chapter 4.

Instances of diversion of operating funds reported by Mr. Sims (1) are:-

- (a) Routine transfer of medical sessional allocations to capital account or the medical equalisation fund without regard to actual expenditure and retention of undrawn amounts in the reserve. This fund currently stands at around \$100,000.
- (b) Transfer of 50% of the recovery of the hospital share of radiology charges to the capital account rather than to the operating income. This reserve stands at over \$250,000 and the annual transfer is of the order of \$66,000.
- (c) Transfer of 20% of the recovery of the hospital share of pathology private income to the capital account rather than to operating income. The annual transfer is of the order of \$90,000.
- (d) Retention of a subsidy for Medical registrar service to general practitioners from the Royal Australian College of General Practitioners, which was already funded from the operating account, as part of the Primary Care Development Fund. This now stands at \$96,999, although other sources of income contribute to this fund.

When questioned about the diversion of operating funds, the Board members who appeared before the Committee appeared to have no knowledge of the situation, as can be seen from the evidence.

"THE CHAIRMAN: The Committee is quite concerned about certain transfers that the board made from operating accounts to the reserves. Much of this money seems to have been taken in a most unusual way from the private patient fees to the hospital, and it has ended, in a rather circuitous route, in the hospital's capital funds.

(1) Mr. R. S. Sims, Report dated January, 1984, pages 37 and 38.

"Has it been suggested to you that this is, to say the least, a very unusual series of transactions in which your hospital has been engaged for a considerable time?

"MR. FREADMAN: I have never heard that said.

"THE CHAIRMAN: The transactions have not accurately recorded the operating costs to the Health Commission. Some people would consider that this is an improper use of the hospital's operating funds to be making transfers to reserves in the way that is done at your hospital. Are you saying that you have not heard that said?

"MR. FREADMAN: I cannot help you on that matter" (1).

9.3 THE CHARLES AND EILEEN MASKEILL RESEARCH FOUNDATION

This Foundation was set up to encourage research. The initial trustees were Mr. C. Maskiell, Professor J. Nayman and Mr. A. J. Robinson, Chairman of the Board of Management.

A substantial donation of debentures was made to establish the Foundation. Appointment of trustees is in the hands of Mr. Maskiell but the Deed requires approval from the hospital Board of Management for research expenditure.

In 1981, the Foundation held 9% debentures in Abbey Capital Finance Co. maturing in 1988 with a face value of \$57,500 donated by Mr. and Mrs. Maskiell. At this time the trustees of the Maskiell trust entered into an arrangement whereby a donation of \$10,000 was made by the donor and used, in conjunction with \$12,500 held in the trust, to purchase 9% debentures maturing in 1988 to the face value of \$22,500, though the market value was stated at \$15,625.

(1) Public Hearing Transcript, Mr. R. Freadman, 22nd February, 1984, pages 115 and 116.

The net effect was to increase the real value of investments and cash in the Foundation by \$3,125 and, presumably, to provide a taxation advantage for the donor.

Mr. Sims reported that, "The Board of Management communicated its concern over this transaction to the trustees on several occasions but the trustees accepted the scheme. The donor indicated that the donation was not related to the decision to purchase the shares and that the purchase was made based on the likelihood of early redemption of the debentures. This view was not supported by documentation in the hospital and the Board's attitude appears to have been justified. However, the Board had no power to alter the situation other than indirectly by representation of the Chairman who was a trustee" (1).

9.4 THE SPECIAL PURPOSES (PATHOLOGY) TRUST

This trust was set up in 1975 in accordance with a circular from the Hospital and Charities Commission to handle the income from private pathology patients treated in the hospital. The chief pathologist, a full-time salaried doctor, had the right of private practice and income from private patients was paid into the Trust.

The hospital was paid 60% of fees collected for use of hospital facilities and the remaining funds were to be dispersed by the trustees in accordance with the trust deed. The initial trustees were Dr. de Boer, the chief pathologist, Professor J. Nayman, Medical Director and Mr. A. J. Robinson, President of the hospital. Subsequently, Professor Nayman was replaced by Dr. Rees, a full-time pathologist who also had the right of private practice. Recently, Mr. A. J. Robinson was replaced by Mr. R. Benjamin, as hospital President. The hospital has power to appoint trustees.

(1) Mr. R. S. Sims, Report dated January, 1984, page 38.

Technically, the trustees are completely responsible for the operating of the Trust. The hospital and the Commission must be sent a copy of the auditor's report under the Deed and some payments, such as bonuses to medical staff other than the pathologists, are subject to agreement of the Board. The powers of the trustees to disburse income are very broad.

There were irregularities in the operation of the Trust and little, if any, participation by the Board of Management of the hospital in relation to priorities of expenditure.

In evidence, Mr. Benjamin, the President of the hospital, said "We have had a few meetings recently, because as a trustee, I am presently refusing to sign the accounts presented to me for the year 1982-83 because matters that went through the trust fund are inadequately documented.

"Decisions were made to spend large amounts of money which, as a trustee, I was not privy to and I need persuading that those amount of money were expended correctly."

Later in his evidence he said, "I attended one meeting in 1981 when the accounts were presented to me as trustee, for approval. It was obvious to me that some payments had been made which were not in accordance with the trust deed" (1).

In evidence Mr. Freadman stated, "The board had no knowledge of irregularities in relation to the pathology trust fund (Special Purposes - Medical Trust Fund). The president, who was a trustee, took the view, we believe, that the affairs of the trust were not the concern of the board" (2).

- (1) Public Hearing Transcript, Mr. R. L. Benjamin, 12th December, 1983, page 99.
- (2) Public Hearing Transcript, Mr. R. Freadman, 22nd February, 1984, page 108.

9.5 MATTERS OF CONCERN

The following matters give rise to concern:-

1. Payments were often made without adequate documentation and authorisation, a matter referred to by the auditor in several audit letters. Neither the Board nor anyone else followed this up.
2. Payments were not approved by meetings of the trustees except that retrospective approval was given at rare meetings of trustees. This is of particular concern considering that large payments were made to the medical members who were trustees.
3. Audits were not carried out in the years prior to 1979 as required.
4. Copies of audit reports were not forwarded to the Health Commission.
5. A number of payments do not appear to fall within the Trust Deed. Examples are:-
 - (a) Payment of Christmas bonus to selected staff of R.S.M.H.
 - (b) Payment of travel expenses for non-medical staff of R.S.M.H.
 - (c) Payment of a salary bonus to Dr. J. Ma, a full-time salaried officer of the hospital.
 - (d) Payment of a pathology department dinner.
 - (e) Payment to Dr. de Boer's wife for accommodation of an overseas visitor.

These amounts represent a small component of total payments.

6. It is not possible to establish the validity of many payments made from petty cash.

7. Payments listed as having inadequate supporting documentation were merely signed by the trustees as approved and no further action was taken.

In the circumstances, it is surprising that the auditor did not react more strongly to the situation in his reports to the trustees. There is good reason to doubt whether the trustees properly fulfilled their responsibilities and this matter should be further considered by the Crown Solicitor.

Mr. Sims reviewed the procedures for collection of patients fees, writing off of bad debts and the payments made to the hospital for use of services. These were handled largely by the hospital staff and the records confirm that the hospital was paid the appropriate share of income.

A summary of the disbursements from the Special Purposes (Pathology) Fund over the seven years to 30th June 1983 for major items is as follows:-

Equipment Purchased	\$ 540,000
Travel Dr. de Boer	45,360
Dr. Rees	7,360
Professor Nayman	14,050
Others	25,040
Computer hardware cost	215,800
software cost	89,050
Salaries other staff	76,400
staff bonuses	11,850
Bonus Payments to Pathologists	
Dr. de Boer	110,020
Dr. Rees	28,280
Research - University	39,800
- Other	2,810
	<hr/>
TOTAL	\$1,205,460
	<hr/>

There are some payments which would be considered outside the normal Health Commission guidelines which were specified at the time the trust was set up, but only a few payments could be construed as being outside the powers of the trustees.

Most of the expenditure went to items which were used in the hospital although the items would have been selected by the two medical trustees and their priorities may not have coincided with those of the hospital. Computer hardware and software costs relate to development testing and implementation of a pathology computer system. University research refers to payment of staff at Monash University engaged on a joint research project with the hospital and bonus payments to pathologists are as provided under the deed.

It might have been expected that the Board should have exerted greater influence on the activities of the Trust either directly or through the Chairman, who was a trustee. However, the Board of Management had virtually no knowledge of or influence on disbursements.

9.6 PROBLEMS OF MEDICAL TRUST FUNDS

The Committee believes this situation highlights the illogicality inherent in such Trust arrangements where the private practice income is high.

1. The Trust Deed precludes distribution of the bulk of the net income except by way of bonuses and expenses.
2. The large residual sums are available for disbursement by the trustees with no requirements to consider priorities of the hospital.
3. The medical officer has an incentive to equip and staff the department to a high service level which may be uneconomical by comparison with other demands but which encourages development of private practice in the hospital.
4. Unless close co-ordination exists between the trustees and the Board of Management, the Board has little influence on the decisions of the Trust.

The Committee feels there is a strong case for a complete review of the treatment of income from private patients in public hospitals and the disposition of net income.

In the particular case of R.S.M.H. despite the existence of audit reports, there is a reasonable presumption that the trustees may not have adequately fulfilled their duties to properly account for transactions and in exercising their responsibilities. This question should be referred to the Crown Solicitor for advice.

The trust reserve and capital funds of the hospital are invested in approved securities and these are conscientiously managed. The Committee believes it may be beneficial to change this procedure which requires each hospital committee to involve itself with investment decisions which could, perhaps, be handled more efficiently through a centralised investment authority.

9.7 RECOMMENDATIONS - TRUST FUNDS

1. THAT THE POLICY IN RELATION TO PRIVATE PRACTICE INCOME BE REVIEWED TO PROVIDE A MORE RATIONAL ARRANGEMENT. THIS IS CURRENTLY UNDER CONSIDERATION BY THE MINISTER OF HEALTH.
2. THAT A WIDESPREAD STUDY OF THE SOURCES AND DISPOSITION OF RESERVES AND TRUSTS UNDER THE CONTROL OF HOSPITALS GENERALLY BE UNDERTAKEN TO CLARIFY ACCEPTABLE PROCEDURES AND PROVIDE BETTER CONTROL OF THESE SUBSTANTIAL RESOURCES. THE COMMITTEE INTENDS TO UNDERTAKE THIS REVIEW IN ITEM 3 OF ITS TERMS OF REFERENCE.
3. THAT THE HOSPITAL CEASE THE TRANSFER OF OPERATING FUNDS AND INCOME TO CAPITAL ACCOUNTS AND RESERVES.
4. THAT THE ROLE OF THE TRUSTEES IN THE SPECIAL PURPOSES (PATHOLOGY) TRUST AT R.S.M.H. BE EXAMINED BY THE CROWN SOLICITOR.

CHAPTER TEN

ROLE OF THE BOARD, HEALTH COMMISSION, AND HOSPITAL ADMINISTRATION

10.1 FUNCTION OF THE HEALTH COMMISSION

The function of the Health Commission as laid down in the Health Commission Act 1977 Section 6 is:-

"Subject to directions of the Minister the functions of the Commission are:-

- (a) the overseeing, supervision, maintaining and co-ordination of health services in Victoria; and
- (b) the functions conferred on it by or under any Act."

Section 7 of the Act states:-

- "(1) Subject to this Act and directions of the Minister, the Commission has power to do all things necessary or convenient to be done for or in connexion with the performance of its functions.
- (2) Without limiting the generality of sub-section (1), the Commission may -
 - (a) promote, provide and assist in the provision of health services in Victoria;
 - (b) provide and assist in the provision of buildings and other facilities for health services in Victoria...."

10.2 FUNCTION OF THE BOARD

"The Accreditation Guide" of the Australian Council on Hospital Standards lays down a number of standards for Boards of Management. These are:-

1. To have overall responsibility for the conduct of the hospital in a manner consonant with the hospital's objective of providing high quality patient care.
2. To facilitate the philosophy and objectives of the hospital. An integral part of hospital organisation shall be appropriate administration records.
3. To make adequate delegations of authority and appropriate personnel available to allow the achievement of the hospital's philosophies and objectives.
4. To make overall responsibility for the provision of appropriate facilities and equipment so as to facilitate the achievement of the hospital's philosophies and objectives.
5. To provide policies and procedures to guide all staff including medical staff, patients and visitors in respect of the operating of the hospital.
6. To be responsible for ensuring continuing education, orientation and inservice programmes to enable all hospital personnel to maintain their knowledge and skills and to improve the service of the individual departments of the hospital.
7. To set up evaluation procedures by which the practice and standards of the hospital, departments, and staff, including medical staff, are assessed. These procedures should provide a mechanism to enable data obtained from the evaluation to be used effectively for the on-going improvement of patient care and associated services of the hospital.

To this the Committee on the advice of its Consultants would add:

8. To be responsible for the management of public money in an accountable way.

In examining "The Accreditation Guide" the Committee notes with concern that R.S.M.H. was accredited twice. This is a disturbing outcome given the evident problems at the hospital.

The ultimate responsibility for the efficient operation of the hospital rests with the Board of Management. The inquiry has confirmed that there were many areas of serious concern relating to the Board. The majority of the problems were due to lack of knowledge or involvement of the Board. This was partly due to a restricted perception of the role of the Board and excessive reliance on management and Health Commission procedures in critical areas.

The hospital system involves a balance of responsibilities between management, the Health Commission, the Board of Management and the external auditors. In this case, the Board was not well advised by general management and medical administration, the hospital monitoring systems were inadequate and the audit ineffective, and it is not surprising that problems occurred.

The Board could reasonably be expected to have taken greater interest and effective action in critical areas such as medical payments, personnel management, internal systems and control, and improvement of the audit function.

Mr. Freadmanⁿ, Vice President of the hospital, in his submission of 16th December, 1983, said "It is clear that the Board cannot be expected to conduct the affairs of the hospital in such a manner that nothing goes wrong.

"The responsibility of the Board is to conduct the affairs of the hospital in a business-like manner, to attend Board and Committee meetings regularly, to read and understand the steady stream of reports and other material which flows to them, and when aware of irregularity which requires correction or amendment, to act to put it to rights" (1).

In evidence Mr. Freadman said, "My view is that whilst the role of the Board is obviously to deal with matters of policy, it has to have some supervisory control over the management aspect. The board has to try to exercise some controls so that matters of the kind that have gone wrong in the hospital in the past will not go wrong in future" (2).

However, it seems to the Committee that the Board has tried to absolve itself from responsibility for the hospital when, in evidence, Mr. Freadman stated, "The affairs of the hospital were, at all material times, in practice, controlled by the president, the former Director of Medical Services, Mr. J. Nayman and the former Executive Director, Mr. D. Stitfold. Board meetings, Executive meetings and Finance Committee meetings were held regularly and were well attended, but we think it not unfair to say that the board and two committees, were concerned mainly with routine and policy business. In our opinion, there has been a marked lack of communication and consultation between the persons who were concerned with the day-to-day running of the hospital and the board. The president took the view that the work of the board should not interfere in the area of management" (2).

Given the substantial problems at R.S.M.H., especially the highly visible ones such as the poor industrial relations, the Committee cannot accept the Board's very restricted approach.

- (1) Submission from Mr. R. Freadman, dated 16th December, 1983, page 1.
- (2) Public Hearing Transcript, Mr. R. Freadman, dated 22nd February, 1984, page 104.

10.3 FUNCTIONS OF THE MANAGER

The Manager of a public hospital is the chief executive officer. Acting within guidelines established by the Board he is continuously responsible for the management of the hospital. The Board should hold him responsible for the application and implementation of established policies, and for providing co-ordination between the Board, the medical staff and hospital departments.

He should organise the administrative functions of the hospital, delegate duties and establish formal means of accountability on the part of their officers. He should recommend policy to the Board and the medical staff on the overall activities of the hospital.

10.4 MAJOR AREAS OF CONCERN AT R.S.M.H.

A summary of the main areas which were unsatisfactory at the hospital and the underlying causes are as follows:-

(i) Unsatisfactory industrial relations and inadequate personnel systems.

Failure to develop adequate systems	General Management
Inadequacy of expertise in the area	General Management
Lack of intervention and monitoring	Board

(ii) Inappropriate grading of hospital and medical staff grouping.

Failure to group the hospital	External Authorities
Inappropriate selection of grouping	Medical Administration
	General Management
Lack of intervention and monitoring	Health Commission
	Board

(iii) Excessive allocation of sessions to Professor Nayman.

Failure to act on the situation	Medical Administration
	General Management

	Lack of intervention and monitoring	Board
	Lack of monitoring and adequate control	Health Commission
(iv)	Inadequate control of time cards, authorisation of overtime and monitoring of overtime, recall etc.	
	Failure to update procedures	General Management
	Failure to establish routine control and internal control	General Management
	Failure to detect flaws in internal control	Auditor
		General Management
	Failure to detect irregularities	Auditor
	Failure to monitor and intervene	Board
(v)	Inadequate control of claims for medical payments.	
	As for (iv)	
	Failure to institute systems	Medical Administration
		General Management
(vi)	Inadequacy of audit procedures and management reports.	
	Failure to correct obvious weaknesses	Board
		General Management
(vii)	Incorrect procedures in relation to transfers to trusts and reserves.	
	Establishment of mechanisms and agreement to procedures	Board
		General Management
	Failure to monitor transfers	Auditor
		Health Commission
	Lack of incentive in budget process	Health Commission
(viii)	Poor procedures for operation of Special Purposes (Pathology) Trust.	
	Failure to establish acceptable procedures	Trustees

Failure to act strongly on deficiencies in documentation and authorisation

Auditor

Failure to follow up audit reporting

General Management Board

Liberal interpretation of powers of the Trust on disbursement

Trustees

(ix) Overpayment of award loading on excess medical sessions.

Misinterpretation of award

General Management

Lack of system to report excess sessions

General Management
Medical Administration

(x) Inadequacy of Board minutes and supporting data.

Inadequate reporting

General Management
Medical Administration

Acceptance of inadequate minutes

Board

The responsibility is often fairly widespread. The Board was not well informed on a number of critical areas and, in effect but inadvisedly, delegated responsibility on many matters to the Manager and Medical Director without adequate monitoring or effective control systems.

The Committee believes the Board functioned poorly in a number of significant areas:-

(a) Failure to intervene and monitor the situation of unsatisfactory industrial relations, and failure to provide adequate personnel systems (refer pages 9 - 11).

(b) Failure to insist on grouping of the hospital in the Senior Medical Officers Award. As a consequence medical staff were inappropriately graded (refer pages 28 - 30).

- (c) Failure to intervene and monitor the allocation of sessions to medical staff, especially the Medical Director (refer pages 19 - 26).
- (d) Failure to ensure that appropriate systems existed for the internal control of time records, and authorisation and monitoring of overtime for medical and non-medical staff (refer pages 12 - 15, 22 - 27, 46).
- (e) Failure to ensure that appropriate monitoring systems existed for the control of claims for medical payments (refer page 46).
- (f) Failure to secure an adequate external audit for the hospital even though the audit was known to be grossly deficient (refer pages 48 - 49).
- (g) Improper procedures in relation to transfers to trusts and reserves with the consequent failure to accurately report operating costs to the Health Commission (refer pages 22 - 23, 60 - 63).
- (h) Failure to follow-up reports of the auditor about unacceptable procedures of the Special Purposes (Pathology) Trust (refer pages 62 - 64).
- (i) Acceptance of totally inadequate Board minutes and supporting data (refer pages 41 - 43).
- (j) Failure to be responsible for the management of public money in an accountable way.

While these matters are of varying degrees of severity, it is clear to the Committee that there was a general failure on the part of the Board to monitor the hospital's activities and to take the necessary action to remedy the great number of deficiencies.

The Committee cannot accept the Board's stated evidence that they were either unaware of, or did not perceive as part of their function, the need to monitor the activities within the hospital.

The Committee believes the Board, as the body corporate, must be held to be responsible and accountable for the management of the hospital. Even at the present time the Committee feels the Board is not fully aware of the extent of the problems at the hospital or how to deal with them.

FOR THESE REASONS THE COMMITTEE RECOMMENDS THAT THE PRESENT BOARD BE REPLACED.

The role of the hospital should be reassessed in its relationship to the Community Care Centre. The validity of the "open hospital" model with its emphasis on community medicine liaison must also be assessed as should the "medical model" used in the Community Care Centre. Both of these concepts should be carefully evaluated and a decision should be made on their continuance or reversion to a more conventional approach.

Caulfield Hospital and R.S.M.H. occupy the same site, share major services, and are closely related. There is a strong case for amalgamation, and the Health Commission should investigate this as a matter of emergency. In the meantime R.S.M.H. should not appoint a Manager.

The hospital executives and Board of Management derived considerable comfort from very satisfactory hospital accreditation reports. These were prepared on behalf of the Australian Council on Hospital Standards, which is responsible for the hospital accreditation programme in Australia.

While many of these comments may have been well founded, the failure to locate serious shortcomings suggests grave deficiencies in the process of accreditation. The Committee believes that the Health Commission should endeavour to expand the accreditation process to provide improved assessment of administrative matters.

The accreditation procedure seems to be remarkably deficient in bringing to light serious managerial and administrative deficiencies in hospitals.

10.5 RECOMMENDATIONS

1. THAT THE HEALTH COMMISSION:-

- (a) IMPROVE INFORMATION AVAILABLE TO BOARD MEMBERS AND PROVIDE ADVICE AND SUPPORT IN DISCHARGING THEIR RESPONSIBILITIES.
- (b) THOROUGHLY ASSESS THE VALIDITY OF THE CONCEPT OF AN OPEN HOSPITAL AS ESTABLISHED AT R.S.M.H. TO DETERMINE WHETHER IT SHOULD CONTINUE OR REVERT TO A CONVENTIONAL MODE.
- (c) THOROUGHLY ASSESS THE VALIDITY OF THE "MEDICAL MODEL" AS USED IN THE CAULFIELD COMMUNITY CARE CENTRE AS COMPARED TO CONVENTIONAL CENTRES AND DETERMINE FUTURE ACTION.
- (d) REVIEW THE CASE FOR SEPARATION OF THE COMMUNITY CARE CENTRE FROM THE HOSPITAL MANAGEMENT AND BOARD.
- (e) INVESTIGATE THE ADVANTAGES OF AMALGAMATING R.S.M.H. AND CAULFIELD HOSPITAL.
- (f) ENDEAVOUR TO EXPAND THE ACCREDITATION PROCESS TO PROVIDE IMPROVED ASSESSMENT OF MANAGERIAL AND ADMINISTRATIVE PROCEDURES.

2. THAT THE PRESENT BOARD OF MANAGEMENT BE REPLACED.

CHAPTER ELEVEN

ACTION TO RECOVER INCORRECT PAYMENTS

11.1 BACKGROUND

1. Individual medical staff were employed at a level and grading determined by the hospital executives. They accepted these payments in good faith.
2. Payments to Professor Nayman were approved by the Health Commission in relation to administrative sessions and by the Divisional Committee with the knowledge of the Manager. Knowledge of the total payment package was restricted and although the total paid time was excessive it is unlikely that, with the exception of the next item, any money is recoverable from Professor Nayman.
3. Payments above the award conditions were made to Professor Nayman by way of 25% loading in excess of the 6 ordinary sessions maximum. This should be referred to the Crown Solicitor for an opinion as to whether it is recoverable.
4. While payment from the special purposes funds appear to have been unusual they mostly seem to have been within the power of the trustees to make.
5. The subdivision and allocation of medical sessions was carried out by the appropriate committee and was known to the executives. Although it may be considered excessive no action for recovery is warranted.
6. In regard to claims for re-call for the pathologists the claims were known to the Manager and were accepted when made.
7. Claims for overtime in the cleaning department, while giving rise to some suspicion as to their validity, were authorised by a responsible executive and it is impossible to prove at this time whether they were accurate.

8. The Manager was regarded as being incompetent in his management of the hospital, and inadequate in his relationship with staff, both professional and particularly domestic staff. His resignation was therefore requested. According to the evidence from three Board members the principal reasons were -

- "(a) Failure to alert the board to the level of Mr. Nayman's salary.
- (b) He had adopted a confrontationalist approach to the unions and, in our opinion, we had no hope of achieving reasonable industrial relations while he remained in office.
- (c) He had lost the confidence of the board and of the hospital staff.
- (d) There was a number of occasions on which Mr. Stitfold had undertaken initiatives in matters involving important questions of policy without first consulting the board, thereby embarrassing the board" (1).

On legal advice he was paid one year's salary, together with accrued long service leave and similar payments prior to tendering his resignation.

The matter of these termination payments should be referred to the Crown Solicitor for an opinion on their propriety and to see whether any of the money is recoverable.

11.2 RECOMMENDATIONS - RECOVERY OF INCORRECT PAYMENTS

1. THAT THE FOLLOWING MATTERS BE REFERRED TO THE CROWN SOLICITOR FOR AN OPINION AS TO WHETHER RECOVERY OF THE PAYMENTS SHOULD BE PURSUED:-

- (a) PAYMENTS ABOVE THE AWARD CONDITIONS MADE TO PROFESSOR NAYMAN.
- (b) TERMINATION PAYMENTS MADE TO THE FORMER MANAGER, MR. STITFOLD.

(1) Public Hearing Transcript, Mr. R. Freadman, 22nd February, 1984, page 108.

CHAPTER TWELVE

ADDITIONAL MATTER AND CONCLUSION

12.1 OUTPATIENT SERVICES

It is normal practice in metropolitan hospitals to refer public hospital patients to the outpatient department for post-treatment consultation by specialists and to refer private patients back to the referring doctor or to a specialist as a private patient. This does not happen at R.S.M.H.

There is a limited emergency service provided at the hospital for casual emergencies presenting at the hospital. This is operated by the Community Care Unit and treated 835 patients last year. There is a large number of paramedical outpatients, such as dietary, physiotherapy, occupational therapy. In the year ended 30th June, 1983 there were 31,442 attendances, including emergencies. However, there is no medical outpatient department at the hospital.

The post-hospital treatment at R.S.M.H. is more analagous to the procedure in some small country hospitals without outpatient departments. From a community viewpoint, outpatient service at R.S.M.H. can be likened to a fee-for-service post-hospital service.

On discharge patients requiring additional consultation are either referred to their general practitioners, to a specialist outside the hospital or, if treated by the medical or surgical specialists in the hospital, to private consulting clinics. These are held on hospital premises in rooms rented from the hospital, where the patient is seen by the specialist concerned as a private patient. Fees are charged by the medical practitioners for this service.

For many years, the number of outpatients treated in the private clinics was included in the hospital statistics as outpatients seen, and correspondence with the Commission discussed these outpatients as if they were normal hospital outpatients.

Last year these outpatients were referred to in the annual report as "Medical Records Drawn for Private Consulting Clinic Patients".

With the agreement of the medical staff, all patients, whether private or public, have a standard medical record and this is also used in the private consulting clinics in the hospital. The records, therefore, include a complete picture of the patient treatment within the hospital and at subsequent specialist consultation. This involves considerable work in medical records which would have to be paid for by the doctors if the patients were treated outside the hospital. It is supported on the grounds that a complete record is available for subsequent patient care.

Rental charges for the private consulting rooms for "outpatient services" were set at a low rate and did not include many of the associated costs. The Committee believes this subsidising of the rooms was improper. The rental has been reviewed upwards, but the full cost is still not charged, and the rooms should be leased to the doctors at normal commercial rates.

The current policy of direct referral to general practitioners or specialist private clinics is well established as a result of considered planning within the hospital. The continuing validity of the principle in the light of practice in other hospitals should be reassessed, especially as the sessional allocation includes a component for treating outpatients. The calculation of sessional entitlement based on 1.2 sessions per occupied standard patient beds applies to other metropolitan hospitals where medical outpatient services are provided.

12.2 RECOMMENDATIONS - OUTPATIENT SERVICES AT THE ROYAL SOUTHERN MEMORIAL HOSPITAL

1. THAT THE PRIVATE CONSULTING ROOMS BE LEASED TO THE DOCTORS AT NORMAL COMMERCIAL RATES.
2. THAT THE HEALTH COMMISSION REASSESS THE ROLE OF THE HOSPITAL, IN PARTICULAR TO ESTABLISH WHETHER IT SHOULD HAVE AN OUTPATIENTS DEPARTMENT.

12.3 CONCLUSION

The inquiry has revealed major shortcomings in the structure and functioning of the hospital. These have many causes, some internal, but some which affect the general hospital field and which require more extensive investigation.

A number of the matters raised will be encompassed when the Committee deals with Item 3 of its terms of reference: "To inquire into, report and recommend on the role of the Health Commission of Victoria in monitoring the situation of Public Hospitals....."

APPENDIX I

SPECIAL PURPOSES FUND (MEDICAL)

1. In October, 1959 a committee chaired by J. V. Dillon made the following recommendations in relation to private practice for whole-time medical officers:-
- (i) That no whole-time medical officer employed in a public hospital shall engage in private practice without the approval of the Committee of Management.
 - (ii) That each public hospital shall establish a trust fund to be styled a "special purposes account".
 - (iii) That all fees due to a whole-time medical officer for private practice shall be collected by the Committee of Management and paid into the special purposes account. The account for the services shall be rendered in the name of the medical officer concerned.
 - (iv) That the fund shall be administered by the Committee of Management with the advice of a committee (called the "advisory committee"), comprising the president, one other member of the Committee of Management, the chairman of the medical staff, and three or four specialists representing the body of the whole-time specialists.
 - (v) That the costs, direct and indirect, incurred by the hospital consequent upon a medical officer engaging in private practice shall be assessed on a basis agreed upon by the Committee of Management, the "advisory committee" and the Commission.
 - (vi) That such costs, and the costs incurred in administering the fund, shall be charged to the special purposes account.

(vii) That the balance of the account may be utilised for any of the following purposes:-

- (a) The conduct of research, educational programmes and developmental activities not generally subsidised by the Commission.
- (b) The purchase of items of equipment to improve private patient service, and or the maintenance of such equipment.
- (c) The conversion or renovation of facilities necessary to maintain private patient service.
- (d) The payment of salaries of special personnel, for example, research officers.
- (e) The costs of travel within Australia and abroad of whole-time medical officers.
- (f) The disbursement of bonuses (not exceeding 25% of the salary rate in any year to any one medical officer) to such whole-time medical officers as are approved by the Committee of Management. Note: The initial bonus was 250 pounds. It has been modified a number of times and is now 25% of the annual salary.
- (g) Generally for the advancement of medical knowledge.

In the late 1960's the Commonwealth Department of Health ruled that medical benefits were not payable to a public hospital for medical services and stipulated that:-

- (a) Any fees payable by the patient are charged by, and in the name of, the medical practitioner and the patient's liability for payment of the fees is solely to the practitioner as an individual.

(b) Except in the case of radiologists and pathologists, fees received are entirely at the disposal of the medical practitioner and are not, under the terms of his contract of employment payable wholly or in part to the hospital or any fund controlled by the hospital authorities, except to the extent that they represent a payment by the medical practitioner of bona fide charges by the hospital for the use by him for the purpose of his private practice, of hospital equipment, services and materials.

3. At this time it became necessary to establish trust funds under the control of the doctors for all specialties except pathologists and radiologists. However, in many hospitals the trust funds which were set up also included pathologists and radiologists.
4. Hospitals recover costs incurred by the full-time specialists, usually by assuming that 60% of the fee covers costs. This amount goes into the hospital's operating (maintenance) account as income.
5. For each service rendered to a private patient by a medical practitioner with the right of private practice exercising his right, it has been customary for the hospital to render the account to the patient in the specialist's name and on receiving the money issuing the receipt again in the specialist's name. The hospital's costs are first taken out and then the remainder is placed in a trust fund (not all hospitals established such funds) or in some form of special purposes (medical) account.
6. Many funds contain substantial amounts (in excess of 2 million dollars) and some hospitals experience difficulty in persuading trustees to allow the money to be used for expenditure on approved items and urgent replacement of equipment.

7. Many public hospitals follow the Dillon Committee recommendations on disbursements but there are a number of variations in the way the funds are handled.
8. Purchase of new equipment from the funds may not meet the priorities of hospitals and may involve hospitals in additional expense through the provision of extra staff and maintenance costs.
9. Some departments within hospitals do not have a high rate of private practice and have been disadvantaged in comparison to other departments. Some hospitals do not allow their doctors any private practice and these hospitals are then disadvantaged.
10. The Commission and the Victorian Hospitals Association (V.H.A.) believe that moneys in the special purposes funds may be used for any of the following purposes:-
 - (a) The disbursement of bonuses (not exceeding 25% of the salary rate in any one year to any one medical officer) to such participating full-time medical officers as are approved by the hospital's Committee of Management.
 - (b) Subscriptions or dues incurred by a participating medical officer for membership of a professional organisation.
 - (c) Cost of textbooks or professional periodicals or journals used by a participating medical officer in his work.
 - (d) The conduct of educational programmes and development activities for medical officers who are members of the Special Purposes Fund (Medical).
 - (e) The cost of travel for professional purposes within Australia and abroad of full-time officers who are members of the Special Purposes Fund (Medical).

(f) Contingent liabilities for expenses incurred during sabbatical leave which has commenced to accrue.

11. The Commission and the V.H.A. also believe that if at any time the level of the Special Purposes Fund (Medical) exceeds the amount required to provide for these purposes the surplus is to be transferred to a separate bank account and it will constitute a separate fund which is to be administered by the Committee of Management of the hospital. The Committee of Management should take into account the joint advice of contributing practitioners and hospital representatives when using the money which is to be used for the purchase of medical equipment and the conduct of medical research.

12. Under Medicare it is proposed that the Commonwealth legislates so that Commonwealth Medical benefits are only payable for diagnostic services provided to inpatients (and outpatients by agreement) of recognised hospitals if the service is provided pursuant to a contract between the medical practitioner providing the service and the hospital granting a right of private practice, of a form accepted by the Commonwealth minister.

This will allow State ministers of health to apply guidelines for the way the funds are used.

APPENDIX 2

SUBMISSIONS RECEIVED

Mr. A.S. Wood, 7th November, 1983.

Dr. R. McLellan & Professor P. Zimmet, 24th November, 1983.

Mr. R.L. Benjamin, 24th November, 1983.

Ms. H. Starling, 24th November, 1983.

Australian Medical Association, November, 1983.

Dr. J. Wheelahan, 30th November, 1984.

Dr. R. McLellan & Professor P. Zimmet, 19th December, 1983.

Mr. R. Freadman, 16th December, 1983.

Dr. W. deBoer, 20th January, 1984.

PUBLIC HEARINGS

Mr. G. T. J. Henry, Acting Chief Executive Officer, The Royal Southern Memorial Hospital, 14th November, 1983.

The Honourable T. W. Roper, Minister of Health, 12th December, 1983.

Mr. R. Benjamin, President, The Royal Southern Memorial Hospital, 12th December, 1983.

Mr. R. Freadman, Cr. M. R. Blair and Mr. A. Robinson, Board Members, The Royal Southern Memorial Hospital, 22nd February, 1984.

APPENDIX 3

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:

- (a) The Honourable P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS
OF THE LEGISLATIVE ASSEMBLY

Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-

- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL
Tuesday, 14 June 1983

14. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable Evan Walker moved, by leave, That the Honourable A.J. Hunt be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable G.P. Connard be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS OF THE
LEGISLATIVE ASSEMBLY
Tuesday, 6 March 1984.

5. ECONOMIC AND BUDGET REVIEW COMMITTEE - Motion made, by leave, and question - That Mr Richardson be discharged from attendance on the Economic and Budget Review Committee and that Mr Ramsay be appointed in his stead.

(Mr Fordham)-put and agreed to.

ECONOMIC AND BUDGET REVIEW COMMITTEE

A REVIEW OF SUPERANNUATION
IN THE VICTORIAN PUBLIC SECTOR

Ordered to be Printed

PREFACE

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees Act) 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers.

TERMS OF REFERENCE OF THE INQUIRY INTO VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

On 21 December 1982, the Governor-in-Council approved of the Terms of Reference of the Inquiry.

A. The adequacy of present provisions for the management of all Victorian public sector superannuation schemes, including:

- (a) structure and management of schemes;
- (b) representation of contributors;
- (c) actuarial assessment and valuation;
- (d) reporting to Government and contributors, and contributors' access to information; and
- (e) auditing requirements.

in terms of the efficient operations of these funds and the protection of the interests of contributors and the Government.

- B. Whether uniform provisions for the management of schemes are feasible and desirable, and if so what these might be.
- C. Whether existing administration of schemes is efficient and administrative costs are reasonable.
- D. Whether the current organisational structure of superannuation schemes in the Victorian public sector is the most suitable having regard to:
 - (a) differences in the financial independence of various agencies and authorities involved;
 - (b) possible benefits from reduction of duplication and economies of scale; and
 - (c) any disadvantages from competition between schemes.

and whether a reduction in the number of separate schemes is feasible and desirable.

- E. Whether the terms and conditions governing eligibility for membership of various schemes are reasonable in comparison with other schemes in Australia and whether these terms and conditions are equitable between different employees.
- F. The appropriateness of the current benefits, having regard to:
 - (a) the needs of contributors, superannuants and beneficiaries;
 - (b) comparable benefits for public sector employees in other States and in the Commonwealth Government and those prevailing in the private sector, also having regard to any differences in salary packages and to the role of the superannuation in the recruitment and retention of Victorian Government employees; and
 - (c) vesting.

and including the reasonableness of provisions governing breaks in service, resignation, early retirement, ill health retirement, retrenchment or redundancy.

- G. The adequacy of portability and preservation arrangements between schemes, and between them and other Australian superannuation schemes.
- H. The suitability of the present basis of Government funding of the various schemes including the funding of administrative costs, and the future financial implications for Government of existing basis of funding.
- I. Whether the existing investment powers and pattern of investments of these schemes is optimal from the point of view of contributors and of the Government; and whether existing arrangements provide the most efficient mechanism for maximising the investment income of the schemes.
- J. Future options for public sector superannuation, including new relationships between public sector and private sector superannuation schemes.
- K. The adequacy of the existing legislative and regulatory framework for the operation of schemes and the appropriate legislative framework for any recommended changes in the structure and operation of schemes.

The Committee is required to report to Parliament by 31 December 1983 if Parliament is then sitting or if the Parliament is not then sitting within seven days after the next meeting of Parliament.

As it was not possible for the Committee to report by 31 December 1983, approval has been granted for an extension to 30 June 1984 if Parliament is sitting or within seven days of the next sitting.

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P.	(Chairman)
Hon. D.K. Hayward, M.L.C.	(Deputy Chairman)
Hon. G.P. Connard, M.L.C.	
Hon. B.P. Dunn, M.L.C.	
Mr. P.M. Gavin, M.P.	
Hon. J.V.C. Guest, M.L.C.	
Mr. J.D. Harrowfield, M.P.	
Mr. A. McCutcheon, M.P.	
Mr. P.J. McNamara, M.P.	
Hon. J.H. Ramsay, M.P.	(From 6 March 1984)
Mr. J.I. Richardson, M.P.	(Until 6 March 1984)
Hon. G.A. Sgro, M.L.C.	
Mr. A.J. Sheehan, M.P.	

Inquiry into Victorian Public Sector Superannuation Schemes

SUB-COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Hon. D.K. Hayward, M.L.C.
Mr. A. McCutcheon, M.P.
Hon. J.H. Ramsay, M.P.*
Hon. G.A. Sgro, M.L.C.

RESEARCH STAFF

Ms. H. Silver, Director of Research
Mr. Paul Belin
Mr. Andrew Hemming
Mr. Ron McDonald
Mr. Rod Overall
Mr. Gary Smith

ADMINISTRATION

Mrs. Elke Barbian, Secretary
Mr. Graeme George, Acting Secretary
Mrs. Muriel O'Gorman
Ms. Anne Ruck
Mr. Jacques Collard

* Alternative Member from 13 March to 4 April 1984.

CHAIRMAN'S INTRODUCTION

This Report, which analyses superannuation in the Victorian public sector, is the first of three reports on this subject to be issued by the Economic and Budget Review Committee. The second report will focus on the options for the reform of Victorian public sector superannuation and the third report will contain the final recommendations.

The present Inquiry, is the first full review of public sector superannuation in the Victorian state and local government sectors. In undertaking this review, the Committee found an absence of information and relevant statistical data. As a consequence, the Committee initially had to develop its own data base. As such, it is the first time an economic assessment of the total impact of the various public sector superannuation schemes has been made available to the State Government and the people of Victoria. This has not been an easy task. The Committee has identified 42 separate schemes which vary widely in their investment performance, financing arrangements, and benefit structures. Not only do the schemes differ significantly from each other, but also from schemes typically found in the private sector. The importance of Victorian public sector superannuation schemes can be illustrated by the fact they cover in excess of 200,000 public sector employees and have total assets in excess of \$2.3 billion at June 1983.

In approaching its task, the Committee has identified 4 principles on which it believes its Inquiry should be based. These are :

- (a) that there be an emphasis on a continuing process of full and open community and interest group consultation;
- (b) that reports should have a substantial input and continuous involvement by the Committee;
- (c) that the Committee's investigations should be research based; and

(ii) Mr. Greg Bunbury, President, State Superannuation Board; and

(iii) Mr. Allan Henderson, President, Local Government Superannuation Board.

(c) S.A.,

(i) Mr. Allen Archer, Acting Public Actuary; and

(ii) Mr. John Holland, Acting President, Superannuation Board.

The information gained from these visits was invaluable in comparing the experience of different public sector superannuation schemes. The Committee was also able to increase its knowledge of other State's areas of concern and future directions for public sector superannuation.

To produce this report, the Committee held over 80 meetings and considered a number of drafts of the report. All members of the sub-Committee on superannuation have contributed significantly to the whole of the Inquiry. As Chairman, I wish to express my personal thanks to the other members of the sub-Committee. Throughout this process, the Committee has sought to develop a bipartisan attitude to the whole question of public sector superannuation. A major outcome of this approach is shown by the unanimous endorsement of this report by all political parties.

To undertake this study, the Committee sought to employ the best available research skills. In order to achieve this, the Committee employed a number of people to form a multi-disciplined team from the public sector, the private insurance industry, and the trade union movement. The research team consisted of the following people:

(a) Ms. H. Silver, Director of Research, an applied economist who has worked in the areas of labour market analysis, taxation and public policy. Ms. Helen Silver undertook the difficult task of managing the research and writing of the report.

(b) Mr. R.F. McDonald, Actuarial Advisor, was formerly General Manager, Finance of National Mutual T & G. Mr. McDonald was also formerly President of the Institute of Actuaries of Australia, Federal President of

the Association of Superannuation Funds of Australia, and Chairman of the Superannuation Committee of the Life Insurance Federation of Australia. Mr. McDonald was an invaluable source of knowledge and advice on all matters concerned with superannuation.

- (c) Mr. R. Overall, a Research Officer, was seconded from the ACTU from October 1983 until February 1984. Mr. Overall brought an essential industrial relations perspective to the work of the Committee.
- (d) Mr. P. Belin, a Research Economist, is on secondment from the Department of Agriculture and has a background in water resource economics and taxation policy.
- (e) Mr. A. Hemming, a Senior Research Officer, is on secondment from the Department of Housing with qualifications in urban planning and economics.
- (f) Mr. G. Smith, a Financial Analyst, is on secondment from the Financial Policy Branch of the Department of Management and Budget (since December 1983).

Dr. Paul Langley of La Trobe University worked as a consultant to the Committee, notably in the area of medical disabilities and redeployment policy. Dr. Langley was subsequently employed from late February 1984 to work on the final stages of the report.

The research team have shown a high level of professionalism and dedication in the manner in which they have carried out their work. At times much of the work was performed under stringent deadlines. On behalf of the Committee, I wish to acknowledge the important contribution made to this report by the research team. In particular, the Committee wishes to acknowledge the leadership and motivation given by the Director of Research, Ms. Helen Silver.

The Committee commissioned a number of studies for the more specialised aspects of its work. These reports will be published as part of the Committee's findings. The major consultancy reports, both from the private and public sector are:

- An Investment Performance Survey of Selected Victorian Public Sector Superannuation Schemes, undertaken by Campbell and Cook, Consulting Actuaries;
- Management and Public Sector Superannuation Schemes, two separate studies, undertaken by E.S. Knight & Co. and Mr. G. Hubbard;
- Disability Experience in the Victorian State Superannuation Scheme, undertaken by PTOW/TPF & C;
- A Study Into Personnel Practices Involved in the Issue of Disability Retirements in Victorian Public Sector Superannuation Schemes, undertaken by Coopers & Lybrand Services;
- A Study of Computer Administration Systems of Selected Victorian Public Sector Superannuation Schemes, undertaken by Campbell & Cook, Computer Services;
- A Summary of the Provisions of Victorian Public Sector Superannuation Schemes, undertaken by the Office of the Government Statist and Actuary; and
- Remuneration Comparisons, Public versus Private Sector, undertaken by the Victorian Public Service Board.

The present report is divided into five main sections :-

- (1) Superannuation in the Victorian Public Sector;
- (2) Eligibility, Contributions and Benefits;
- (3) Management and Administration;
- (4) The Financing of Victorian Public Sector Superannuation Schemes; and

(5) Investment Practice and Investment Performance.

The primary theme of the report is the lack of co-ordination and accountability in Victorian public sector superannuation. The results of the report are best explained by the major findings of the Committee, which are that:

- (a) the present structure of public sector superannuation has become unnecessarily complex, with little if any attempt to co-ordinate public policy in superannuation. The Committee is critical of the performance of previous Governments in this area;
- (b) the Committee supports the initiative of the present Government in appointing a Director of Superannuation in the Department of Management and Budget and the Treasurer's directive that all proposed changes to public sector superannuation must be channelled through his office;
- (c) there is an enormous disparity in benefit levels in the public sector which means that employees with similar job classifications and salary levels may receive significantly different retirement benefits simply because of the schemes they belong to. Thus, a railway member of the State Superannuation scheme retiring at age 60 after 30 years' service can expect to receive 9 times as much as a tramway worker with similar service. Similarly, members of the Municipal Officers' Association can be found in seven different schemes;
- (d) the Public Service Board should as a matter of urgency upgrade its pay-research facilities in order to take proper account of the relative contribution of public sector superannuation to the total remuneration package;
- (e) the State Government needs to undertake an urgent review of redeployment and retirement policies in an attempt to reduce the extremely high rates of disability retirement from the Victorian public sector, most notably in the Police Force;

- (f) there needs to be a standardisation of reporting and accounting between the various schemes, as well as a greater commitment to providing members with an understanding of the provisions of their schemes;
- (g) there should be a conscious effort towards recognition of member rights, and of the importance of their involvement in scheme management;
- (h) successive State Governments have failed to adequately oversee public sector superannuation developments particularly in the area of financial accountability;
- (i) in a very real sense, public sector superannuation will cause severe financial difficulties. The projected long run costs of the State Superannuation scheme under reasonable assumptions, is likely to exceed one billion dollars in 1981 prices within the next 46 years;
- (j) as an example of financial ineptitude, it would be difficult to surpass the Metropolitan Fire Brigades' scheme which on current estimates has accumulated a \$364 million actuarial deficit;
- (k) the investment performance of Victorian public superannuation schemes has been so abysmal as to effectively deprive the State of between \$575 million and \$1.2 billion over the past 5 years;
- (l) there needs to be greater professionalism in investment decision making;
- (m) in a number of crucial areas the performance of senior state public servants has fallen short of expectations; and
- (n) the State Superannuation Board, which administers the largest public sector superannuation scheme in Victoria, has failed to come to terms with managerial and administrative responsibilities, for example, in its dilatory handling of computerisation.

The implications of the Committee's findings are far reaching. Without attempting to pre-empt the forthcoming options report, there is a clear and pressing need for significant reform of State public sector superannuation schemes. These reforms should focus, not just on present management and administrative performance, but also encompass provisions for eligibility, contribution and benefit levels, asset structure and investment performance.

This emphasis on reform does not mean, however, that existing scheme members should be disadvantaged under any proposed changes to present arrangements. The Committee regards it as fundamental that recognition be given to accrued rights of members. It is envisaged that under any new scheme an attractive and wide range of options will be available both for new entrants and existing contributors to the various public sector superannuation schemes. Consultation and debate are an integral and necessary part of this process and will, hopefully, forestall any hasty and untoward reactions to this report.

An executive summary has been prepared which reviews the major findings and conclusions of this report. It must be emphasised that this is only a guide to the full report and should not pre-empt a more complete reading.

As Chairman of the Committee, I wish to acknowledge the support provided by Departments and other organisations in allowing staff to be made available for this Inquiry. In particular, I wish to thank Mr. R.L. Bienvenu, Managing Director, National Mutual T & G; Mr. W. Kelty, Secretary of the ACTU; and those Ministers and Department Heads who released staff on secondment. The Committee appreciated the work undertaken by the Office of the Government Statist and Actuary and the involvement of Mr. A. Truslove, the Deputy Government Actuary. The assistance and co-operation of Dr. R. Cullen and the Public Service Board is appreciated.

The Committee wishes to record its thanks for the assistance provided by the Speaker and the Officers of the Parliament. The Committee wishes to express its thanks to the individuals and organisations who made submissions, either in writing, or by appearing in person before the Committee.

Finally, the Committee is indebted to its administrative staff for the manner in which they responded to the demands of this Inquiry and the Committee expresses its gratitude to Mrs. M. O'Gorman and Ms. A. Ruck for their timely and accurate typing of this report.

B.J. ROWE, M.P.,

Chairman.

EXECUTIVE SUMMARY

CHAPTER 1

SUPERANNUATION IN THE VICTORIAN PUBLIC SECTOR

- (1) IN THE PUBLIC SECTOR SUPERANNUATION IS A COMMON AND SUBSTANTIAL COMPONENT OF EMPLOYMENT REMUNERATION WITH APPROXIMATELY 60% OF ALL VICTORIAN STATE AND LOCAL GOVERNMENT EMPLOYEES IN ONE OR ANOTHER OF THE AVAILABLE SCHEMES. (SECTION 1.1).
- (2) SUPERANNUATION PERFORMS TWO BROAD FUNCTIONS : FIRSTLY, IT PROVIDES AN INCOME SECURITY FUNCTION UPON RETIREMENT, DEATH OR PERMANENT DISABILITY; SECONDLY, IT HAS A LABOUR MARKET FUNCTION IN INFLUENCING RATES OF REMUNERATION, JOB MOBILITY AND CAREER DEVELOPMENT. (SECTION 1.1)
- (3) KNOWLEDGE OF THE IMPACT OF SUPERANNUATION PROVISIONS ON THE LABOUR MARKET IS LIMITED. (SECTION 1.1)
- (4) WHILE EQUITY BETWEEN STATE EMPLOYEES AND BETWEEN THE STATE AND THE PRIVATE SECTOR IS AN IMPORTANT CONSIDERATION IN SUPERANNUATION, THERE IS LITTLE EVIDENCE TO SUGGEST IT HAS BEEN AN ISSUE IN THE DESIGN OF VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES. THERE ARE NOT ONLY MARKED DISPARITIES BETWEEN PUBLIC SECTOR SCHEMES BUT THERE ARE ALSO SUBSTANTIAL DIFFERENCES BETWEEN THOSE IN THE PUBLIC AND PRIVATE SECTORS (SECTION 1.1)
- (5) SUPERANNUATION COVERAGE IN THE VICTORIAN PUBLIC SECTOR IS DOMINATED BY TEN SCHEMES WHICH REPRESENT OVER 97% OF TOTAL CONTRIBUTORS. (SECTION 1.1)

- (6) TAKING ALL SCHEMES TOGETHER, 80% OF MALE PUBLIC SECTOR EMPLOYEES ARE COVERED. THE CORRESPONDING ESTIMATE FOR FEMALES IS ONLY 41%. (SECTION 1.2)
- (7) SUPERANNUATION COVERAGE IS SIGNIFICANTLY HIGHER IN NON-MANUAL THAN IN MANUAL OCCUPATIONS (53% VERSUS 40%). FURTHER, PERSONS COVERED BY A SUPERANNUATION SCHEME IN VICTORIA TEND TO BE CONCENTRATED IN THE HIGHER EARNING GROUPS. (SECTION 1.2)
- (8) A MAJOR PROBLEM WITH PUBLIC SECTOR SUPERANNUATION IS EMPLOYEES' INABILITY TO MAKE ASSESSMENTS OF THEIR SCHEMES DUE TO A LACK OF INFORMATION. (SECTION 1.2)
- (9) AVAILABLE EVIDENCE ON THE CONTRIBUTION OF SUPERANNUATION TO RELATIVE RATES OF TOTAL REMUNERATION IN PUBLIC AND PRIVATE SECTORS IS SKETCHY. CAUTION IS THEREFORE REQUIRED IN DRAWING CONCLUSIONS ABOUT THE COMPETITIVENESS OF VICTORIAN PUBLIC SERVICE REMUNERATION. HOWEVER, THE COMMITTEE FOUND THAT REMUNERATION IN THE PUBLIC SERVICE, AS A COST TO THE EMPLOYER, IS HIGHER THAN IN THE PRIVATE SECTOR, EXCEPT FOR THE MOST SENIOR STAFF. REMUNERATION IN THE PUBLIC SERVICE, INCLUDING SUPERANNUATION, AS A NET BENEFIT TO THE EMPLOYEE, IS ALSO HIGHER THAN IN THE PRIVATE SECTOR, AGAIN EXCEPT FOR VERY SENIOR STAFF. (SECTION 1.2)

CHAPTER 2

ELIGIBILITY, CONTRIBUTIONS AND BENEFITS

- (1) LOOKING AT ELIGIBILITY THE COMMITTEE FOUND:
 - (i) MUCH HIGHER COVERAGE OF SUPERANNUATION MEMBERSHIP IN THE PUBLIC THAN IN THE PRIVATE SECTOR. (SECTION 2.2.1)
 - (ii) HEAVY EMPHASIS ON COMPULSORY PARTICIPATION (43% OF THE SCHEMES, 90% OF THE MEMBERSHIP). THIS HAS BEEN A SOURCE OF COMPLAINT BY A NUMBER OF PEOPLE WHICH SUGGESTS THE NEED FOR CHANGE. (SECTION 2.2.3)
 - (iii) DIFFERENTIAL TREATMENT BY SOME PUBLIC SECTOR EMPLOYERS OF DIFFERENT CLASSES OF EMPLOYEES. WHILE DISCRIMINATION BY SEX OR MARITAL STATUS HAS LARGELY BEEN ELIMINATED, DISCRIMINATION BY CLASS OF EMPLOYEE CONTINUES IN SOME AREAS. THE COMMITTEE CONSIDERS THAT BENEFITS SHOULD BE BASED ON SALARY AND SERVICE WITHOUT OTHER FORMS OF CLASSIFICATION. (SECTION 2.2.2)
 - (iv) BENEFITS ON DEATH AND DISABILITY ARE SUBJECT TO SEVERE MEDICAL SCREENING. (SECTION 2.2.4.2)
- (2) THE COMMITTEE FOUND CONSIDERABLE DIVERSITY IN MEMBERS CONTRIBUTIONS, THE PERCENTAGES OF SALARIES PAID RANGING FROM 2½% TO 11½%. (SECTION 2.3.1)
- (3) THE UNIT SYSTEM OF DETERMINING MEMBER CONTRIBUTIONS CONTINUES TO BE USED IN THE STATE SUPERANNUATION SCHEME ALTHOUGH IT HAS BEEN REPLACED IN THE SCHEMES OF THE COMMONWEALTH, QUEENSLAND, SOUTH AUSTRALIA AND TASMANIA. THE COMMITTEE CONSIDERS REFORM IN VICTORIA TO BE OVERDUE. (SECTION 2.3.1.1)

- (4) THE COMMITTEE REGARDS IT AS FUNDAMENTAL THAT RECOGNITION BE GIVEN TO ACCRUED RIGHTS OF MEMBERS. SUPERANNUATION PROVISION HAS BEEN PART OF THE REMUNERATION OF MEMBERS DURING THEIR PERIOD OF SERVICE AND ENTITLEMENTS TO DATE UNDER PRESENT SCHEME RULES MUST BE HONOURED AND MUST NOT BE TAKEN AWAY. CONSISTENT WITH THIS PRINCIPLE, THE COMMITTEE HOPES TO DESIGN A SCHEME WHICH WILL BE ATTRACTIVE TO THE MAJORITY OF EXISTING MEMBERS AS WELL AS FOR NEW ENTRANTS. (SECTION 2.4.1.)
- (5) THE COMMITTEE FOUND A WIDE DIVERSITY IN TYPES OF SCHEME (TABLE 2.5)
- (6) THE COMMITTEE NOTED CONSIDERABLE VARIETY IN RETIRING AGES (TABLE 2.9), SALARY USED TO DETERMINE RETIREMENT BENEFITS (TABLE 2.7) AND FACTORS FOR CONVERTING PENSION TO LUMP SUM (TABLE 2.8).
- (7) THE COMMITTEE FOUND CONSIDERABLE DIFFERENCES BETWEEN SCHEMES IN THE FORMULAE FOR RETIREMENT BENEFITS (TABLES 2.10, 2.12, 2.13 and 2.3)
- (8) THE COMMITTEE FOUND GREAT DIVERSITY IN THE LEVEL OF RETIREMENT BENEFITS PROVIDED BY THE MAJOR SCHEMES (TABLE 2.14).
- (9) EARLY RETIREMENT IS COMMONLY GRANTED ON A MORE GENEROUS BASIS THAN IN THE PRIVATE SECTOR (SECTION 2.4.4.2)
- (10) THE COMMITTEE FOUND THAT DEATH AND DISABILITY BENEFITS WERE GENERALLY AT A HIGHER LEVEL THAN FOR THE PRIVATE SECTOR (SECTION 2.4.4.4).
- (11) RESIGNATION BENEFITS ARE GENERALLY COMPARABLE WITH THOSE IN THE PRIVATE SECTOR EXCEPT IN THE CASE OF THE STATE SUPERANNUATION, PORT OF MELBOURNE AND METROPOLITAN FIRE BRIGADE SCHEMES. THE COMMITTEE CONSIDERED THAT THE RETURN

OF MEMBERS CONTRIBUTIONS ONLY IN THOSE SCHEMES IS NOT SATISFACTORY (SECTION 2.5.2)

- (12) THE COMMITTEE RECEIVED FEW SUBMISSIONS ON THE QUESTIONS OF VESTING AND PRESERVATION BUT MANY ON THE QUESTION OF PORTABILITY. IT CONSIDERS THAT PORTABILITY SHOULD BE FREELY AVAILABLE WITHIN THE VICTORIAN PUBLIC SECTOR (SECTION 2.5.4)
- (13) THE COMMITTEE FOUND THAT DISABILITY RETIREMENTS IN THE STATE SUPERANNUATION SCHEME ARE RELATIVELY HIGH (SECTION 2.6.3) AND COMPARE ADVERSELY WITH THOSE IN OTHER STATES AND IN THE PRIVATE SECTOR.(SECTION 2.6.5)
- (14) THE COMMITTEE SEES A CLEAR NEED FOR A COMPREHENSIVE DATA BASE COVERING DISABILITY EXPERIENCE WITHIN THE VICTORIAN PUBLIC SECTOR. (SECTION 2.6.3)
- (15) THE INCIDENCE OF DISABILITY RETIREMENTS FROM THE STATE SCHEME ON ACCOUNT OF MENTAL CONDITIONS WAS FOUND TO BE PARTICULARLY HIGH, ESPECIALLY IN THE POLICE FORCE AND EDUCATION DEPARTMENT (TABLE 2.2.1)
- (16) THE COMMITTEE CONSIDERS THE HIGH RATES OF DISABILITY RETIREMENT IN THE STATE SUPERANNUATION SCHEME ARE LARGELY ATTRIBUTABLE TO THE HIGH LEVEL OF BENEFITS AND PARTLY TO ADMINISTRATIVE PRACTICES. AS A RESULT IT BELIEVES BENEFITS SHOULD BE REVIEWED AND ADMINISTRATIVE PRACTICES TIGHTENED. (SECTION 2.6.5)

CHAPTER 3

MANAGEMENT AND ADMINISTRATION

- (1) VICTORIA HAS 42 SEPARATE PUBLIC SECTOR SUPERANNUATION SCHEMES. THE NUMBER AND DIVERSITY REFLECT A LACK OF CENTRAL CONTROL AND DIRECTION BY SUCCESSIVE STATE GOVERNMENTS. INDEED, THERE HAS BEEN LITTLE MONITORING OF THE GROWTH OF SUPERANNUATION SCHEMES. WHERE NEW SCHEMES HAVE BEEN SET UP, MANY HAVE BEEN INADEQUATELY CO-ORDINATED AND RESOURCED. (SECTION 3.1.1.)
- (2) THE COMMITTEE IS CONCERNED THAT THERE IS NO EFFICIENT MECHANISM FOR CHANGING SUPERANNUATION PROVISIONS AND AN ABSENCE, IN MANY INSTANCES, OF PROPER GOVERNMENT CONSIDERATION. (SECTION 3.1.2.)
- (3) THE COMMITTEE VIEWS WITH CONCERN THE CONCENTRATION OF ADVICE TO PUBLIC SECTOR SUPERANNUATION SCHEMES IN VICTORIA, AND CONSIDERS GREATER DIVERSITY IN THE EMPLOYMENT OF ACTUARIES WOULD BE DESIRABLE. (SECTION 3.1.2)
- (4) THE COMMITTEE CAN SEE LITTLE, IF ANY JUSTIFICATION FOR THE DIVERSITY OF TRUSTEE AND MANAGEMENT ARRANGEMENTS IN SCHEME ADMINISTRATION. (SECTION 3.1.3)
- (5) THE COMMITTEE BELIEVES THAT THE INTERESTS OF EFFECTIVE MANAGEMENT WITHIN THE PUBLIC SECTOR REQUIRE SUPERANNUATION SCHEME PROVISIONS TO PLAY A SECONDARY ROLE TO PERSONNEL CONSIDERATIONS IN THE SELECTION AND PLACEMENT OF EMPLOYEES. (SECTION 3.1.4)
- (6) THE GOVERNMENT ACTUARY, THE COMMITTEE BELIEVES, SHOULD PLAY AN INDEPENDENT ADVISORY ROLE AND SHOULD NOT BE INVOLVED IN THE DIRECTION OR MANAGEMENT OF ANY PARTICULAR SCHEME. (SECTION 3.1.4)

- (7) AFTER REVIEWING THE LACK OF EFFECTIVE CO-OPERATION BETWEEN THE PUBLIC SERVICE BOARD AND THE STATE SUPERANNUATION BOARD, THE COMMITTEE BELIEVES THERE SHOULD BE REVIEWS OF THE ADMINISTRATIVE AND OPERATIONAL FUNCTIONS OF ALL PUBLIC SECTOR SCHEMES AND A REGULAR MONITORING TO ENSURE IMPLEMENTATION OF RECOMMENDATIONS. (SECTION 3.2.1.)
- (8) THE COMMITTEE BELIEVES, AS A MATTER OF PRINCIPLE THAT ALL PUBLIC SECTOR SUPERANNUATION SCHEMES SHOULD HAVE MEMBER ELECTED REPRESENTATIVES ON THE GOVERNING BODY. (SECTION 3.3.3.)
- (9) THE COMMITTEE BELIEVES THAT IF THERE IS TO BE EFFECTIVE EMPLOYEE PARTICIPATION THEN THERE MUST BE A GREATER DISCLOSURE OF INFORMATION BY FUNDS. (SECTION 3.3.4.)
- (10) THE COMMITTEE TAKES THE VIEW THAT EFFECTIVE CONSULTATION AND PARTICIPATION BETWEEN SCHEME MANAGEMENT AND CONTRIBUTORS MUST BE ACCOMPANIED BY A CO-ORDINATED AND CONSISTENT APPROACH TO RESOLVING UNION-INITIATED CLAIMS FOR CHANGES TO PROVISIONS. (SECTION 3.3.6.)
- (11) THERE HAS BEEN, AND CONTINUES TO BE, NO ACTIVE OVERSEEING OF DEVELOPMENTS IN SUPERANNUATION PROVISIONS AND ADMINISTRATION ACROSS THE WHOLE PUBLIC SECTOR. THE COMMITTEE BELIEVES THAT GOVERNMENT POLICY NEEDS TO ADDRESS THESE DEFICIENCIES. (SECTION 3.3.6.)
- (12) THE COMMITTEE WAS CONCERNED THAT RATES OF DISABILITY RETIREMENT COULD IN THE LONG RUN JEOPARDISE THE FINANCIAL POSITION OF PUBLIC SECTOR SUPERANNUATION SCHEMES. IT INITIATED A REVIEW OF PERSONNEL PRACTICES IN ORDER TO EVALUATE THE POTENTIAL IMPACT OF REVISED PROCEDURES ON THE INCIDENCE AND PATTERN OF DISABILITY RETIREMENTS. THE MAJOR CONCLUSIONS WERE :

- (i) THAT POOR SELECTION PROCEDURES WERE A MAJOR CONTRIBUTING FACTOR IN DISABILITY RETIREMENTS FROM THE TEACHING PROFESSION. (SECTION 3.4.2.)
 - (ii) THAT WELFARE AND COUNSELLING SUPPORT CAN BE MOST COST EFFECTIVE IN REDUCING DISABILITY RETIREMENTS AND THAT THERE IS A CLEAR NEED FOR SUCH SUPPORT IN THE EDUCATION DEPARTMENT. (SECTION 3.4.3.)
 - (iii) THAT DISABILITY RETIREMENTS ARE TOO OFTEN USED AS AN EXPEDIENT PERSONNEL TOOL AND THAT, AS A CONSEQUENCE, THERE IS A NEED TO CONSIDER MORE FORMAL AND COMPREHENSIVE REDEPLOYMENT AND RETIREMENT MANAGEMENT SYSTEMS. A POSSIBLE MODEL FOR DISABILITY CASES IS THE PROCEDURE ESTABLISHED UNDER THE COMMONWEALTH EMPLOYEES (REDEPLOYMENT AND RETIREMENT) ACT 1979. (SECTION 3.4.4.)
 - (iv) THAT THERE IS A STRONG CASE FOR A CENTRALISATION AND STANDARDISATION OF MEDICAL SERVICES UNDER THE VICTORIAN GOVERNMENT MEDICAL OFFICER. (SECTION 3.4.2.)
 - (v) THAT THERE NEEDS TO BE A MORE SYSTEMATIC AND RIGOROUS REVIEWING OF DISABILITY PENSIONERS. (SECTION 3.4.6.)
- (13) THE COMMITTEE FOUND AN ABSENCE OF A CENTRALISED AND CO-ORDINATED APPROACH TO ADMINISTRATION AND COMPUTERISATION, WITH INDIVIDUAL SCHEMES ALLOWED TO DEVELOP THEIR OWN SYSTEMS AND TO PURCHASE THEIR OWN HARDWARE AND SOFTWARE IRRESPECTIVE OF COMPATIBILITY WITH OTHER SCHEMES. (SECTION 3.5.1.)
- (14) THE COMMITTEE RECOMMENDS AN URGENT UPGRADING OF MANAGEMENT RESOURCES IN THE COMPUTER SYSTEMS AREA. THE NEED FOR MANAGERS POSSESSING COMPUTER EXPERTISE HAS BEEN RECOGNISED BY THE STATE SUPERANNUATION SCHEME'S OWN CONSULTANT BUT NOTHING HAS YET BEEN DONE TO IMPROVE THE

SITUATION. THE COMMITTEE WAS OBLIGED TO SINGLE OUT THE STATE SUPERANNUATION SCHEME AS BEING THE POOREST PERFORMER OF THE LARGER PUBLIC SECTOR SCHEMES. (SECTION 3.5.4.)

- (15) THE COMMITTEE FINDS THAT NONE OF THE PUBLIC SECTOR SUPERANNUATION SCHEMES MEETS MINIMUM REPORTING STANDARDS AND, IN CONSEQUENCE, NO SCHEME'S REPORTS CAN BE CONSIDERED ADEQUATE. (SECTION 3.6.3.)
- (16) THE COMMITTEE RECOMMENDS UNIFORM AND COMPREHENSIVE ACCOUNTING AND REPORTING PROCEDURES FOR PUBLIC SECTOR SUPERANNUATION SCHEMES. (SECTION 3.6.4)
- (17) THE COMMITTEE BELIEVES THAT PUBLIC SECTOR SUPERANNUATION SCHEMES SHOULD BE DECLARED AS PUBLIC BODIES FOR THE PURPOSES OF THE ANNUAL REPORTING ACT 1983. (SECTION 3.6.5.)
- (18) THE COMMITTEE RECOMMENDS THAT ACTUARIES SHOULD DEAL WITH BOTH FUNDED AND UNFUNDED BENEFITS, AND THAT ACTUARIAL REPORTS SHOULD BE MADE AT LEAST EVERY THREE YEARS AND BE SUBMITTED WITHIN TWELVE MONTHS OF THE VALUATION DATE. (SECTION 3.6.6)

CHAPTER 4

THE FINANCING OF VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

- (1) THE METHODS OF FINANCING THE VARIOUS VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES ARE DIVERSE. AT ONE EXTREME THERE ARE SOME, MOSTLY MINOR, SCHEMES IN WHICH ALL BENEFITS ARE FINANCED ON A PURELY PAY AS YOU GO (PAYG) BASIS. AT THE OTHER EXTREME, THERE ARE A FEW SCHEMES THAT ARE FULLY FUNDED. HOWEVER, MOST OF THE MAJOR SCHEMES EXIST SOMEWHERE BETWEEN THESE TWO EXTREMES. FOR INSTANCE, IN THE STATE SUPERANNUATION SCHEME, MEMBERS' CONTRIBUTIONS ARE ACCUMULATED WITH INVESTMENT EARNINGS, BUT THE EMPLOYER'S SHARE OF BENEFIT PAYMENTS IS MADE ON A PAYG BASIS. OTHER MAJOR SCHEMES THAT ARE ONLY PARTLY FUNDED INCLUDE THE SERB, LOCAL AUTHORITIES, AND HOSPITALS SCHEMES. (SECTION 4.1)
- (2) THE COMMITTEE BELIEVES THAT STATUTORY COMMERCIAL AUTHORITIES SHOULD BE COVERED BY FUNDED SUPERANNUATION SCHEMES AND GENERALLY THIS IS THE CASE FOR THE AUTHORITIES WHICH GENERATE SUFFICIENT REVENUE TO COVER EXPENDITURE. A NOTABLE EXCEPTION TO THIS GENERAL RULE IS THE PORT OF MELBOURNE AUTHORITY SUPERANNUATION SCHEME, WHICH IS RUN ON A PAYG BASIS. CONTRIBUTIONS ARE DEDUCTED FROM MEMBERS' SALARIES AND CREDITED TO A NOTIONAL FUND. THE FULL COST OF BENEFITS IS PAID OUT OF CURRENT REVENUE. THE COMMITTEE CONSIDERS THAT THIS IS INAPPROPRIATE. (SECTION 4.1)
- (3) THE COMMITTEE ALSO CONSIDERS THAT THE SEC SUPERANNUATION AND GAS AND FUEL CORPORATION SCHEMES SHOULD HAVE BEEN FUNDING ADJUSTMENTS TO PENSIONS FOR INFLATION. (SECTION 4.1)
- (4) ONE SCHEME THAT IS IN CONSIDERABLE DEFICIT, TO THE AMOUNT OF \$364M AS AT JUNE 1982, IS THE METROPOLITAN FIRE BRIGADES SCHEME. THIS HAS RESULTED FROM GRANTING BENEFITS WHICH HAVE

NOT BEEN SUPPORTED BY APPROPRIATE CONTRIBUTIONS. THIS SITUATION IS MOST UNSATISFACTORY. (SECTION 4.1)

- (5) THE COMMITTEE IS CONCERNED OVER THE DIVERSE RANGE OF ASSUMPTIONS CHOSEN BY ACTUARIES IN VALUING EXPECTED FUTURE OUTGOINGS AND INGOINGS OF THE VARIOUS SCHEMES. (SECTION 4.1)
- (6) FOR THE MAJORITY OF MEMBERS OF THE STATE SUPERANNUATION SCHEME, EMPLOYING AUTHORITIES ARE NOT CHARGED WITH THE COSTS OF SUPERANNUATION. HENCE THERE IS LITTLE ACCOUNTABILITY FOR CURRENT AND EXPECTED EMPLOYER COSTS. A NOTABLE EXCEPTION IS V-LINE WHICH IS CHARGED FOR THE EMPLOYER'S SHARE OF BENEFIT PAYMENTS. THIS AMOUNT HOWEVER DOES NOT CORRESPOND TO THE COST OF ACCRUING SUPERANNUATION LIABILITIES. (SECTION 4.1)
- (7) SOME ORGANISATIONS COVERED BY THE STATE SUPERANNUATION SCHEME WHO ARE CHARGED FOR THEIR SHARE OF BENEFIT PAYMENTS, HAVE ATTEMPTED TO ACCOUNT FOR ACCRUING LIABILITIES BY ESTABLISHING INTERNAL INVESTMENT FUNDS OR ACCOUNTING PROVISIONS. NO GUIDELINES HAVE BEEN ESTABLISHED TO HELP THESE ORGANISATIONS. (SECTION 4.1)
- (8) OTHER ORGANISATIONS WITHIN THE STATE SUPERANNUATION SCHEME ARE CHARGED BY A CONTRIBUTORY ARRANGEMENT WHICH ABSOLVES THEM FROM MEETING THE ACTUAL COST ASSOCIATED WITH THE LATER PAYMENT OF BENEFITS. (SECTION 4.1)
- (9) THE COMMITTEE BELIEVES THAT REGULAR ACTUARIAL REVIEWS SHOULD BE UNDERTAKEN FOR THE ENTIRE STATE SUPERANNUATION SCHEME, NOT JUST FOR THE PART OF BENEFITS BORNE BY EMPLOYEE CONTRIBUTIONS. (SECTION 4.2)
- (10) THE COMMITTEE FOUND THE GOVERNMENT STATIST AND ACTUARY'S REPORT ON THE LONG TERM COST OF THE STATE SUPERANNUATION SCHEME UNSATISFACTORY. (SECTION 4.2)

(11) ACTUARIAL COST PROJECTIONS OF THE STATE SUPERANNUATION SCHEME CONTAINED IN A REPORT TO THE TREASURER BY THE CONSULTING ACTUARY MR. BRUCE COOK SUGGEST THAT:

- (i) ON A REASONABLE SET OF ASSUMPTIONS INCLUDING, GROWTH IN THE MEMBERSHIP OF THE SCHEME OF 1% PER ANNUM, SALARY GROWTH OF 10% PER ANNUM AND PENSION UPDATING OF 8% PER ANNUM (EQUAL TO CPI), THE COST TO THE STATE MEASURED IN 1981 PRICES, IS PROJECTED TO INCREASE FROM \$140M IN 1981 TO \$1000M IN 2030 (A 614% INCREASE);
- (ii) ON THE SAME SET OF ASSUMPTIONS BUT EXPRESSED AS A PROPORTION OF THE TOTAL SALARIES OF MEMBERS, THE PROJECTED INCREASE OVER THE SAME PERIOD IS OVER 70%;
- (iii) ON THE MORE FAVOURABLE ASSUMPTIONS THAT GROWTH IN THE MEMBERSHIP OF THE SCHEME WOULD BE ZERO AND THAT THERE WOULD BE NO INCREASE IN SALARIES OR PENSIONS, THE COST TO THE STATE, MEASURED TO IN 1981 PRICES, IS PROJECTED TO INCREASE FROM \$140M IN 1981 TO \$410M IN 2030 (A 193% INCREASE)
- (iv) SEVERAL FACTORS COULD FURTHER INCREASE STATE COSTS. THESE INCLUDE:
 - (a) INCREASED LONGEVITY OF PENSIONERS;
 - (b) CONTINUING HIGH RATES OF DISABILITY RETIREMENT;
 - (c) WIDENING THE SCOPE FOR VESTING, PRESERVATION AND PORTABILITY; AND
 - (d) GROWTH IN STATE PUBLIC SERVICE EMPLOYMENT AT A RATE WHICH IS GREATER THAN THE GROWTH IN PRIVATE SECTOR EMPLOYMENT. (SECTION 4.2)

- (12) IF STEPS ARE NOT TAKEN TO REDUCE THE PREDICTED INCREASES IN THE COST OF SUPERANNUATION, THE STATE MAY BE REQUIRED TO INCREASE THE LEVEL OF FINANCING OF THE STATE SCHEME BY ONE OR MORE OF A NUMBER OF MEASURES, INCLUDING INCREASED STATE TAXATION AND/OR REDUCED EXPENDITURE. (SECTION 4.2)

CHAPTER 5

INVESTMENT PRACTICE AND INVESTMENT PERFORMANCE IN VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

- (1) INVESTMENT PERFORMANCE AND PRACTICE ARE VITAL DETERMINANTS OF THE COST TO PUBLIC SECTOR EMPLOYING AUTHORITIES AND TO THE CONSOLIDATED FUND OF PROVIDING SUPERANNUATION BENEFITS. (SECTION 5.1)
- (2) THE COMMITTEE HAS FOUND THE INVESTMENT PERFORMANCE OF VICTORIAN PUBLIC SECTOR SUPERANNUATION FUNDS TO BE GENERALLY POOR AND OFTEN INHIBITED BY MANAGEMENT PRACTICES OR RESTRICTIVE INVESTMENT POWERS. (SECTION 5.1)
- (3) VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES HAD IN JUNE 1982, TOTAL INVESTED ASSETS OF \$2043 MILLION; THIS FIGURE HAD GROWN TO \$2338 MILLION BY JUNE 1983. THIS COMPARES WITH AN AUSTRALIAN PUBLIC SECTOR TOTAL OF \$9284 MILLION AT JUNE 1982. (SECTION 5.1)
- (4) THE INVESTMENT OBJECTIVE OF SUPERANNUATION SCHEMES GENERALLY CAN BE SUMMARISED AS MAXIMISING THE RETURN ON FUND ASSETS WITHIN ACCEPTABLE RISK LIMITS. THE COMMITTEE CONSIDERS THIS AN APPROPRIATE INVESTMENT CRITERION FOR THE INVESTMENT OF VICTORIAN PUBLIC SECTOR SUPERANNUATION FUNDS. (SECTION 5.1)
- (5) THE COMMITTEE FOUND SIGNIFICANT DIFFERENCES IN THE PORTFOLIO STRUCTURES OF VICTORIAN PUBLIC SECTOR SCHEMES COMPARED WITH PRIVATE SECTOR SCHEMES. IN MANY CASES THIS WAS DUE TO MANAGEMENT PRACTICES OR LEGISLATIVE RESTRICTIONS ON THE INVESTMENT POWERS OF PUBLIC SECTOR SCHEMES, FOR EXAMPLE, THE INABILITY OF A NUMBER OF SCHEMES TO INVEST IN SHARES. THE COMMITTEE CONSIDERS THAT THE LEGISLATIVE RESTRICTIONS ON FUNDS' INVESTMENT POWERS ARE TOO SEVERE. SUCH A

STRAIT-JACKET NOT ONLY ENCOURAGES AN EXCESSIVELY CONSERVATIVE ATTITUDE IN FUND MANAGERS BUT REDUCES OPPORTUNITIES TO OPTIMISE RETURNS. (SECTION 5.1)

- (6) THE COMMITTEE CONSIDERS THAT THE LARGE NUMBER OF INVESTMENT FUNDS, OFTEN CONTROLLED BY BOARDS OF MANAGEMENT WITH LIMITED INVESTMENT EXPERIENCE, HAS TENDED TO REDUCE THE EARNING POTENTIAL OF AGGREGATE PUBLIC SECTOR SUPERANNUATION ASSETS. (SECTION 5.2)
- (7) THE COMMITTEE FOUND THAT VICTORIAN PUBLIC SECTOR SCHEMES HAVE PLACED LITTLE EMPHASIS ON CONSISTENT AND COMPARATIVE MONITORING OF INVESTMENT PERFORMANCE. CONSEQUENTLY, THE COMMITTEE COMMISSIONED A STUDY BY THE CONSULTING ACTUARIES CAMPBELL AND COOK ON THE INVESTMENT RANKING AND PERFORMANCE OF TWELVE OF THE MAJOR SCHEMES (ACCOUNTING FOR ABOUT 99% OF VICTORIAN PUBLIC SECTOR SUPERANNUATION ASSETS). (SECTION 5.2)
- (8) THE COMMITTEE CONSIDERS THAT THE FOLLOWING FINDINGS OF THE CONSULTANTS' REPORT HIGHLIGHT THE POOR INVESTMENT PERFORMANCE ACHIEVED BY THE VICTORIAN PUBLIC SECTOR SCHEMES:
- (i) THE AVERAGE ANNUAL INVESTMENT RETURN ACHIEVED BY THE PUBLIC SECTOR SCHEMES OVER THE FIVE YEAR SURVEY PERIOD WAS 28% LESS THAN THE AVERAGE RETURN ACHIEVED BY SOME 250 PRIVATE SECTOR SCHEMES REGULARLY SURVEYED BY CAMPBELL AND COOK.
 - (ii) NINE OF THE TWELVE SURVEYED PUBLIC SECTOR SCHEMES WERE IN THE BOTTOM TEN (OUT OF 100) POSITIONS OF A NOTIONAL RANKING SCALE WHEN

COMPARED WITH A LARGE SAMPLE OF PRIVATE SECTOR SCHEMES.

- (iii) IF, INSTEAD OF RELYING ON ITS OWN INVESTMENT MANAGEMENT DURING THE REVIEW PERIOD, EACH FUND HAD PLACED THE VALUE OF ITS 1978 ASSETS (AND SUBSEQUENT CASH FLOWS) UNDER THE CONTROL OF PROFESSIONAL COMMERCIAL MANAGERS, THE CONSULTANTS ESTIMATE THE MARKET VALUE OF ASSETS AT JUNE 1983 WOULD HAVE BEEN SOME \$575 MILLION GREATER THAN THE OUTCOME ACTUALLY ACHIEVED.

THE COMMITTEE QUALIFIES THE CONSULTANTS FIGURES FOR THE ESTIMATED GAIN BECAUSE THEY DEPEND LARGELY ON SHARE AND OTHER MARKET VALUES AT PARTICULAR DATES. NEVERTHELESS THE COMMITTEE CONSIDERS THE RESULTS INDICATIVE OF A SIGNIFICANT OPPORTUNITY COST TO THE STATE IF PRESENT INVESTMENT POLICIES AND MANAGEMENT CONTINUE.

- (9) THE COMMITTEE BELIEVES THAT THERE ARE EXTREMELY STRONG REASONS TO MAXIMIZE INVESTMENT RETURNS AND TO ENSURE THAT ACTUAL INVESTMENT PERFORMANCE IS REGULARLY SCRUTINISED.

CONTENTS

	<u>Page</u>
PREFACE	(iii)
CHAIRMAN'S INTRODUCTION	(ix)
EXECUTIVE SUMMARY	(xix)

CHAPTER 1 SUPERANNUATION AND THE VICTORIAN PUBLIC SECTOR

SECTION 1.1 THE SIGNIFICANCE AND FUNCTIONS OF SUPERANNUATION

1.1.1	The Significance of Superannuation	... ..	1
1.1.2	The Functions of Superannuation	... ..	2
1.1.3	The Coverage of Superannuation	... ..	7
1.1.4	Superannuation Coverage in the Victorian Public Sector	... ..	11

SECTION 1.2 THE IMPACT OF SUPERANNUATION

1.2.1	Data Limitations and Impact Evaluation	... ..	17
1.2.2	Superannuation and Remuneration in Public and Private Sectors	... ..	21
1.2.3	Superannuation and Job Mobility	... ..	29

CHAPTER 2 THE INDIVIDUAL IN VICTORIAN PUBLIC SECTOR
 SUPERANNUATION: ELIGIBILITY, CONTRIBUTIONS AND BENEFITS

SECTION 2.1 INTRODUCTION

2.1.1	The Design of Superannuation Schemes	32
2.1.2	Public Versus Private Sector Provisions... ..	33

SECTION 2:2 ELIGIBILITY

2.2.1	Eligibility and Scheme Coverage	34
2.2.2	Membership Classification	34
2.2.3	Voluntary Versus Compulsory Membership	35
2.2.3.1	Commonwealth and Interstate Experience	38
2.2.3.2	Attitudes to Compulsory Membership	40
2.2.4	Discrimination in Eligibility Requirements	44
2.2.4.1	Discrimination in Superannuation Eligibility	44
2.2.4.2	Medical Discrimination	49

SECTION 2.3 CONTRIBUTIONS

2.3.1	Alternative Contribution Schemes	53
2.3.1.1	Partly Funded and Unit Schemes	56
2.3.1.2	Non-Compulsory Schemes	58

SECTION 2.4	BENEFITS						
2.4.1	Types of Benefit Systems	...	...	...	...	...	59
2.4.2	Benefits in Victorian Superannuation Schemes...	...	...	...	...	...	59
2.4.3	Indexation and Commutation	...	...	...	...	...	64
	2.4.3.1	Commutation Factors	...	...	...	...	65
2.4.4	Membership and Retirement Benefit	...	...	...	...	...	67
	2.4.4.1	Normal Retiring Age	...	...	...	...	67
	2.4.4.2	Early Retirement	...	...	...	...	69
	2.4.4.3	Variability in Retirement Benefits...	...	...	...	...	71
	2.4.4.4	Death and Disability Benefits	...	...	...	...	79
2.4.5	Discrimination and Equal Opportunity	...	...	...	...	...	84
SECTION 2.5	WITHDRAWAL BENEFITS						
2.5.1	Vesting, Preservation and Portability	...	...	...	...	...	86
2.5.2	Vesting and Preservation	...	...	...	...	...	87
2.5.3	Portability	...	...	...	...	...	93
2.5.4	Comments on Vesting, Preservation and Portability	...	...	...	...	...	93
2.5.5	Retrenchment	...	...	...	...	...	97
SECTION 2.6	DISABILITY RETIREMENTS AND THE STATE SUPERANNUATION SCHEME						
2.6.1	The Importance of Disability Retirements	...	...	...	...	...	98
2.6.2	The Provision for Disability Retirements	...	...	...	...	...	98
2.6.3	Disability Experience of the State Superannuation Scheme	...	...	...	...	...	98
2.6.4	Causes of Disability Retirement in the State Superannuation Scheme	...	...	...	...	...	104
2.6.5	Disability Retirement Experience in Other Jurisdictions.	...	...	...	...	...	106

CHAPTER 3 MANAGEMENT STRUCTURE, ADMINISTRATION AND REPORTING IN VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

SECTION 3.1	KEY ISSUES IN MANAGEMENT AND ADMINISTRATION	
3.1.1	Introduction: The Constitution of Superannuation Schemes in Victoria. 	113
3.1.2	The Evolution of Public Sector Superannuation Schemes in Victoria. 	114
3.1.3	Administration Costs	118
3.1.4	The Management of Superannuation Schemes	124
3.1.5	Co-ordination and Control of Public Sector Superannuation Schemes. 	125
SECTION 3.2	THE ADMINISTRATIVE STRUCTURE OF SUPERANNUATION SCHEMES	
3.2.1	Alternative Administrative Structures.	132
3.2.2	Case Study I: The SEC Scheme. 	133
3.2.3	Case Study II: The State Superannuation Scheme. 	135
SECTION 3.3	CONSULTATION AND PARTICIPATION IN SUPERANNUATION SCHEMES	
3.3.1	Superannuation as an Industrial Relations Issue. 	144
3.3.2	Employee Participation in the Management of Superannuation Schemes. 	149
3.3.2	Methods of Employee Election to Schemes. 	155
3.3.4	Information and Legal Requirements in Employee Participation. 	161
3.3.5	Employee Attitudes to Representation.	164
3.3.6	Procedure for Changing Superannuation Provisions. 	165

SECTION 3.4 DISABILITY RETIREMENTS AND PERSONNEL PRACTICES IN
THE VICTORIAN PUBLIC SECTOR

3.4.1	Disability Retirements and the State						
	Superannuation Schemes	...	...	...	...	...	171
3.4.2	Recruitment and Selection Processes	...	...	...	...	...	173
3.4.3	Employer Practices in Welfare and Counselling	...	...	...	...	...	174
3.4.4	The Process of Invalidation Retirement	...	...	...	...	...	176
3.4.5	Redeployment and Invalidation Practices	...	...	...	...	...	177
3.4.6	Tracking of Disability Retirees	...	...	...	...	...	179

SECTION 3.5 ADMINISTRATIVE SYSTEMS AND INFORMATION
REQUIREMENTS

3.5.1	Record Systems	...	...	...	...	...	182
3.5.2	Reporting and Information Access	...	...	...	...	...	185
3.5.3	Weaknesses of the State Superannuation Scheme	...	...	...	...	...	185
3.5.4	Model Scheme Compliance	...	...	...	...	...	188

SECTION 3.6 FINANCIAL ACCOUNTING AND ACTUARIAL STANDARDS

3.6.1	Reporting Standards	...	...	...	...	...	195
3.6.2	Requirements for an Accounting Framework	...	...	...	...	...	195
3.6.3	Overview of Accounting and Reporting Procedures	...	...	...	...	...	205
3.6.4	Desirable Accounting and Reporting Practices	...	...	...	...	...	208
3.6.5	Auditing : A Postscript	...	...	...	...	...	209
3.6.6	Actuarial Standards	...	...	...	...	...	212

CHAPTER 4 THE FINANCING OF VICTORIAN PUBLIC SECTOR
SUPERANNUATION SCHEMES

SECTION 4.1 ALTERNATIVE FINANCING SYSTEMS

4.1.1	The Cost of Superannuation	...	...	...	...	222
4.1.2	PAYG versus Funding	...	...	...	...	223
4.1.3	Funding for Statutory Authorities	...	...	...	...	225
4.1.4	Recognition of Cost	...	...	...	...	226
4.1.5	Victorian Funded Schemes	...	...	...	...	227
4.1.6	Victorian PAYG Schemes	...	...	...	...	237
4.1.7	Victorian Partly Funded Schemes	...	...	...	...	240

SECTION 4.2 THE STATE SUPERANNUATION SCHEME

4.2.1	Financing the Scheme	...	...	...	...	248
4.2.2	Long Term Costs of the State Superannuation Scheme	...	...	...	...	250
4.2.2.1	The Need for Regular Actuarial Reviews	...	...	...	...	250
4.2.2.2	Cost to the Consolidated Fund	...	...	...	...	251
4.2.2.3	The Cook-Ryder Report	...	...	...	...	254
4.2.2.4	Cost Projections for the State Superannuation Scheme	...	...	...	...	256
4.2.2.5	An Alternative View of Emerging Cost	...	...	...	...	260
4.2.2.6	New Entrant Contribution Rates	...	...	...	...	263
4.2.2.7	Conclusions to be Drawn from Cook Report	...	...	...	...	266
4.2.3	Cost Allocations to Employing Authorities	...	...	...	...	268
4.2.3.1	The Contributory Arrangement	...	...	...	...	270
4.2.3.2	Reimbursements for Pension Payments	...	...	...	...	272

CHAPTER 5

INVESTMENT PRACTICE AND INVESTMENT PERFORMANCE IN VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

SECTION 5.1

ASSET STRUCTURE AND INVESTMENT OBJECTIVES

5.1.1	Superannuation Asset Structure	...	...	...	...	280
5.1.2	Asset Structures of Major Public Sector Schemes	...				284
5.1.3	Superannuation Funds Investment Objectives	...	...			289
5.1.4	Divergent Investment Objectives	...	...	...	...	290
5.1.5	Investment Constraints in the Public Sector	...	...			296
5.1.6	Management Attitudes and Management Performance	...	...	...	...	299
5.1.7	Own Undertaking Investments	...	...	...	...	304
5.1.8	Property Management and Investment	...	...	...		307
5.1.9	Housing Mortgages	...	...	...	...	311

SECTION 5.2

INVESTMENT PERFORMANCE OF SELECTED SUPERANNUATION SCHEMES

5.2.1	Monitoring Investment Performance	...	...	...		315
5.2.2	Time Weighted Returns	...	...	...	...	315
5.2.3	Comparative Investment Performance	...	...	...		317
5.2.4	Performance Ranking.	...	...	...	...	321

TABLES

1.1	Frequency of Superannuation as a Component of Non-Wage Remuneration for Employees Working 20 Hours or More Per Week Victoria and Australia, 1979	8
1.2	Superannuation Coverage of Victorian Employees: Sex and Employment Sector	10
1.3	Number of Contributors of Victorian Public Sector Superannuation Schemes (June 1982)	12
1.4	Estimation of Coverage of Victorian Public Sector Superannuation Schemes	15
2.1	Victorian Public Sector Superannuation Schemes. Voluntary versus Compulsory Eligibility Requirements	37
2.2	Commonwealth and State Superannuation Schemes. Voluntary versus Compulsory Eligibility Requirements, January 1983	38
2.3	Victorian Public Sector Superannuation Schemes. Defined Contribution (Lump Sum) Schemes	54
2.4	Victorian Public Sector Superannuation Schemes. Contributions Under Defined Benefit Schemes	55
2.5	Victorian Public Sector Superannuation Schemes. Contributions Under Partly Funded Schemes	56
2.6	Victorian Public Sector Superannuation Schemes. Forms of Retirement Benefit	61
2.7	Private Sector Superannuation Schemes in Australia Averaging Period Used in Calculating Normal Retirement Benefits	62

2.8	Victorian Public Sector Superannuation Schemes Averaging Period in Calculating Normal Retirement Benefits	63
2.9	Victorian Public Sector Superannuation Schemes Commutation Factors Per \$1 Per Annum Pension	66
2.10	Victorian Public Sector Superannuation Schemes Retiring Age	68
2.11	Victorian Public Sector Superannuation Schemes Summary of Retirement Benefits (Major Pension Schemes)	72
2.12	Benefit and Contribution Levels State and Commonwealth Schemes	73
2.13	Victorian Public Sector Superannuation Schemes Retirement Benefits - Pension and Lump Sum Schemes	74
2.14	Victorian Public Sector Superannuation Schemes Retirement Benefits - Lump Sum Schemes (Defined Benefits)	75
2.15	Victorian Public Sector Superannuation Schemes Table of Retirement Benefits Expressed as a Multiple of Final Salary	78
2.16	Victorian Public Sector Superannuation Schemes Death Benefits	80
2.17	Victorian Public Sector Superannuation Schemes Disability Benefits	82

3.4	Victorian Public Sector Superannuation Schemes Methods of Selction of Employee Trustees or Representatives of Employees on Boards of Management or Trustees	156
3.5	Victorian Public Sector Superannuation Schemes. Summary of Computer Facilities	189
3.6	Victorian Public Sector Superannuation Schemes. General Reporting and Accounting Information (13 largest schemes)	198
3.7	Victorian Public Sector Superannuation Schemes Adequacy of Trustee/Management	199
3.8	Victorian Public Sector Superannuation Schemes. Detail of Profit and Loss Statements	200
3.9	Victorian Public Sector Superannuation Schemes Income and Expenditure Statement	201
3.10	Victorian Public Sector Superannuation Schemes Reporting of Balance Sheet Details	202
3.11	Victorian Public Sector Superannuation Schemes Notes on Accounting Policies Used	203
3.12	Victorian Public Sector Superannuation Schemes Actuarial Reporting	204
4.1	Victorian Public Sector Superannuation Schemes Funded Schemes	228
4.2	Victorian Public Sector Superannuation Schemes PAYG Schemes	238

CHAPTER 1

SUPERANNUATION IN THE VICTORIAN PUBLIC SECTOR

SECTION 1.1 THE SIGNIFICANCE AND FUNCTIONS OF SUPERANNUATION

1.1.1 The Significance of Superannuation

Superannuation is a common and substantial component of employment remuneration, particularly for employees in the public sector of the economy. Superannuation arrangements cover many years of an employee's life in both employment and retirement and are seen as a basic and necessary part of public sector employment benefits.

In Victoria, approximately 70% of all public sector employees working 20 hours or more per week are covered by a superannuation scheme - these include Commonwealth, State and Local Government employees. In the State and Local Government sector the coverage (of all employees) is approximately 64%. Overall, at 30 June 1983, 198,968 persons were covered by superannuation in a total of 42 separate schemes.

For the individual, superannuation is concerned essentially with the provision of payments or benefits to employees upon retirement, death or disability. This can mean, in a substantial minority of cases, payments on termination due to the retirement, death or ill-health of the employee. For the majority of entrants to the public sector who leave before retirement, it means life and disability cover and a resignation benefit on separation from the public sector to take work with another employer. The individual's primary concerns are, therefore, with issues such as eligibility, contribution levels, and the various benefit provisions.

For the State Government the perspectives are somewhat different. With a given benefit and contribution structure, the State Government's main concern must be with the long term financial viability of a given superannuation scheme. A scheme which is poorly managed, where the benefit structure is

unreasonably generous (at least for those who remain in the scheme until retirement) and which is likely, in the medium to long run, to be a potential and significant drain on State finances, must be cause for concern.

As well, if a scheme in its provisions for benefit accumulation, vesting and portability imposes a significant cost on those wishing to leave, the effect can be to lock individuals into the scheme and to reduce the ability of the public sector to attract, retain and exchange staff, both between public sector authorities and between public and private sectors. This can reduce the attractiveness of the State public sector to the most able.

Superannuation also has significant industrial relations implications. As a form of deferred remuneration it can be seen as a necessary and desirable element in public sector employment provisions.

1.1.2 The Functions of Superannuation

Superannuation performs two broad categories of function. The first category encompasses what may be called an "income security" function. This has two elements:

- (a) the provision of a partial replacement (pension and/or lump sum) for wages or salary upon retirement; and
- (b) the protection of employees and their dependants against loss of income in the event of permanent disability or in the event of death during employment.

These elements were summed up by the Chairman of the State Electricity Commission of Victoria in evidence to the Committee:

"We believe that both our funds provide a financial benefit that ensures security in retirement. This is, of course, the prime objective of any superannuation scheme. In addition to that, it does provide a death and disability cover so it gives financial security as well, not only to the members but to their dependants." (1)

The second category encompasses what may be termed a "labour market" function. This refers to the influence a particular superannuation arrangement has upon the market for public sector employees. Crucial elements would include:

- (a) relative remuneration levels between public and private sector employment;
- (b) opportunities for (and patterns of) mobility both within and between public sector employers;
- (c) the preservation of an employers investment in employees by locking them into a public sector career path;
- (d) the facilitation of age retirement and/or the retirement of inefficient or surplus employees;
- (e) entry levels and recruitment practices of public sector employers; and
- (f) the extent to which superannuation provisions reinforce or create discrimination and segmentation in the public sector.

The Chairman of the Public Service Board, Dr. R.B. Cullen placed particular emphasis upon the labour market outcomes of the rules embodied in superannuation schemes. He considered one of the major superannuation issues to be:

"...the extent to which the superannuation schemes meet the needs of the personnel system. There are a lot of issues involving mobility in the public sector, lateral recruitment into the public sector, moving from other services and other schemes in and out of the public sector."(2)

It must, of course, be recognised that in many cases the labour market functions or outcomes described above will be quite incidental to the design of the particular superannuation scheme. Typically, benefit and contribution provisions will have been designed with little if any thought given to their

impact on the public sector labour market (micro-implications) or on the budgetary position of the State Government (macro-implications). The Victorian situation is even more complex due to the fact that there are 42 different public sector superannuation schemes.

Even so, trade union submissions to the Inquiry regarded superannuation as a basic part of public sector employment benefits. The Municipal Officers' Association stated this in the following passage of its submission :

"The Association believes that the principal recommendation of the Committee should be to declare its recognition that superannuation is a basic condition of employment; a view that has always been held by this Association and its members." (3)

Nevertheless, it is a moot point as to whether or not superannuation plays a significant role in individual job and career decisions. If it is assumed that individuals take anticipated future events into account when labour market decisions are made, and if the expected future wage stream and retirement income levels (presumably discounted for rates of time preference) are significant decision variables, then superannuation contributions and benefit levels will be significant in job choice. On the other hand, for individuals with shorter time horizons these factors will be less significant.

Unfortunately, even with the amount of speculation on the effect of superannuation provisions on labour market outcomes, the Committee has little, if any evidence, to suggest that superannuation has an independent and significant impact on factors such as job choice, labour mobility or relative rates of remuneration. This means the Committee, in any assessment of the micro-impact of superannuation, is forced to rely on incomplete evidence and value judgements. Fortunately, the Committee's ability to study the macro-impact of current provisions and experience of superannuation schemes is more strongly based, given available evidence.

Even with these qualifications, a judgement about the desirable functions of superannuation is essential as it is only in the context of such a judgement that an assessment of the appropriateness or otherwise of existing arrangements can be made and options for reform formulated. This was emphasised by a

consulting actuary, Mr. D. Owen, in discussions with the Committee when he said:

"The Committee has to make a value judgement. It has to inquire whether things are desirable, reasonable, equitable, appropriate and suitable. Those sorts of things are judgements of value not judgements of fact and it is going to be difficult to make a value judgement unless you have some view of how things ought to be." (4)

A decision on what superannuation should do will necessarily influence consideration of other aspects of superannuation. There may be, for example, scope for wide variation in the actual arrangements and provisions that will adequately perform these broad functions.

THE COMMITTEE RECOGNISES THAT THE PARTIES WHICH HAVE A DIRECT INTEREST IN VICTORIAN PUBLIC SECTOR SUPERANNUATION MAY HAVE DIFFERENT, PROBABLY CONFLICTING, VIEWS ON THE FUNCTIONS WHICH SHOULD RECEIVE PRIORITY.

The State Government, whilst concerned with all aspects of superannuation, might emphasise superannuation's impact on labour mobility within the public sector and between the private and public sectors, reflecting its particular responsibility for management of the Victorian economy. The Government would also have to regard the revenue-raising task associated with the financing of its share of superannuation benefits as a constraint upon the income replacement function which it would also regard as important.

Trade unions may consider that the functions of income replacement upon retirement and protection against loss of income due to death or disability deserve top priority. The Public Service Board, on the other hand, may place most importance upon the role of superannuation in providing some flexibility in personnel management or in facilitating the recruitment of suitable employees into the Victorian Public Service. It is also evident that some schemes have had other minor functions (such as lending for home purchase) grafted on to them for a variety of reasons and which may make them particularly attractive to certain employee groups.

In addition to the fact that those directly concerned with superannuation in the Victorian public sector have different interests and views, two other factors are relevant to determining priorities for superannuation.

Firstly, it must be recognised that current superannuation arrangements represent a substantial cost to be financed from State Government revenue and that this cost will grow significantly. State Government expenditure on pensions was \$197 million in 1982-83, of this \$191 million was related to the State Superannuation scheme (5). The latter expenditure had doubled from \$96 million in only four years since 1978-79.

It must also be recognised that there may be costs of a different type, in terms of possible industrial disputation and the administration and management of a substantial reorganisation, associated with changes to existing arrangements. These potential costs need to be considered in determining objectives for public sector superannuation.

Secondly, a constraint which the Committee recognises in assessing the purpose and appropriateness of current arrangements is the principle of equity. This has two major aspects:

- (a) equity between employees within the Victorian public sector; and
- (b) equity between public sector and private sector employees.

As far as the first point is concerned, this Report will show that there is a marked disparity between the standard of benefits provided across the multitude of public sector schemes. Retirement benefits available to public sector employees present a continuum ranging from an indexed pension under the State Superannuation scheme to a minimal lump sum provided by the MTA Gratuity scheme to nothing for the nearly 40% of employees without any cover. The Committee cannot find any good reason in principle for the existing pattern of diversity.

The second point arises from the substantial difference in coverage by superannuation schemes between the public and private sectors. This discrepancy in superannuation coverage exacerbates the problem of an

inter-generational transfer also involved in some public sector schemes. Schemes with benefits financed (partly or wholly) from current taxation revenue impose obligations on future taxpayers to finance the payment of benefits to present public sector employees when they retire.

On reaching a conclusion about the desirable functions of superannuation, the Committee has had to balance conflicting interests and take into account the impact of public sector superannuation arrangements on that large section of the Victorian community not employed in the public sector.

THE COMMITTEE CONSIDERS THAT THE PRIORITIES OF ANY VICTORIAN PUBLIC SECTOR SUPERANNUATION SHOULD BE:

- (A) TO PROVIDE BENEFITS AT A LEVEL, TO TAKE INTO ACCOUNT ANY AVAILABLE SOCIAL SECURITY PAYMENTS, WHICH ENABLES RETIREES TO MAINTAIN A REASONABLE STANDARD OF LIVING; AND
- (B) TO PROTECT EMPLOYEES AGAINST A LOSS OF INCOME IN THE EVENT OF PERMANENT DISABILITY AND PROTECT DEPENDANTS AGAINST LOSS OF INCOME IN THE EVENT OF DEATH IN EMPLOYMENT.

AT THE SAME TIME, SCHEME ARRANGEMENTS SHOULD NOT INHIBIT FLEXIBILITY AND ADAPTABILITY IN THE VICTORIAN PUBLIC SECTOR LABOUR MARKET.

1.1.3 The Coverage of Superannuation

Official survey data indicate that superannuation is the most common non-wage component of employment remuneration in Australia. A study by the then Commonwealth Department of Labour and Immigration in the early 1970's, found that "superannuation was the most commonly reported of all benefits surveyed."⁽⁶⁾ Estimates by the Australian Bureau of Statistics (ABS) based on a national survey of employee benefits in 1979 confirmed superannuation as the most common employment benefit received in addition to wages. The ABS estimated for Australia as a whole that 1.8 million

employees who usually worked at least 20 hours per week were members of a superannuation or retirement benefit scheme. This represents 42.2% of all such employees.

TABLE 1.1

FREQUENCY OF SUPERANNUATION AS COMPONENT OF NON-WAGE REMUNERATION, FOR EMPLOYEES USUALLY WORKING 20 HOURS OR MORE PER WEEK VICTORIA AND AUSTRALIA, 1979.

Component of Remuneration	Proportion of employees receiving benefit (%)					
	<u>Victoria</u>			<u>Rest of Australia</u>		
	<u>Males</u>	<u>Females</u>	<u>Persons</u>	<u>Males</u>	<u>Females</u>	<u>Persons</u>
Superannuation (a)	51.2	25.5	42.5	49.6	26.6	42.1
Goods & Services	37.3	35.3	36.6	36.4	37.3	36.7
Transport	12.7	2.5	9.2	9.5	2.0	7.1
Telephone	10.8	2.2	7.9	10.7	2.1	7.9
Low-Interest Finance	8.0	3.6	6.5	6.5	3.7	5.6
Holiday Costs	5.8	3.8	5.2	8.2	3.8	6.7
Medical	5.1	3.0	4.4	5.2	5.0	5.1
Entertainment Allowance	6.3	-	4.4	5.8	-	4.2
Housing	4.1	2.5	3.6	7.7	2.7	5.0
Union Dues	3.1	-	2.3	2.6	-	2.0
Study Leave	2.6	1.4	2.2	2.6	2.5	2.4
Electricity etc.	1.8	2.0	1.9	3.6	1.6	3.0
Club Fees	2.3	-	1.6	3.0	-	2.3
Shares	1.8	-	1.4	1.6	-	1.2

Notes: (a) The ABS defines 'superannuation' as follows:

"Membership of a superannuation or retirement benefits scheme, if the scheme was arranged or provided by the person's current employer, even if the employer did not contribute to the fund."

For definitions of the other employment benefits see the ABS publication cited below.

Source: ABS, Employment Benefits, Australia, February to May 1979, Cat. 6334.0.

The provision of goods or services by employers free or at a discounted price was the next most common benefit applying to 1.6 million employees, representing 36.7% of all employees. (7) In Victoria, the same survey revealed that approximately 500,000 employees working 20 hours or more per week were members of a superannuation or retirement benefits scheme, representing 42.5% of all such employees (Table 1.1).

Superannuation is most important among male employees with 51.2% reporting coverage (females 25.5%). Among females, goods and services provided at a discount are the single most frequently reported category (35.3%) which is still less than the corresponding estimate for males (37.3%).

ABS survey data also reveal a significant disparity between the extent of superannuation coverage for the private and public sectors in Victoria (where the latter refers to total Commonwealth, State and Local Government employment). As Table 1.2 indicates, coverage in 1982 among male public sector employees working 20 hours or more per week is almost twice that of their private sector counterpart (79.7% versus 48.4%). Coverage for females in public and private sectors is 49.8% and 25.1% respectively.

TWO OTHER FEATURES OF SUPERANNUATION COVERAGE ARE WORTH NOTING. FIRSTLY, SUPERANNUATION COVERAGE IS SIGNIFICANTLY HIGHER IN NON-MANUAL THAN IN MANUAL OCCUPATIONS (53.4% VERSUS 39.9%) (REFER APPENDIX A TABLE A1). SECONDLY, PERSONS COVERED BY A SUPERANNUATION SCHEME IN VICTORIA TEND TO BE CONCENTRATED IN THE HIGHER EARNINGS GROUPS (APPENDIX A TABLE A2).

In 1982, 43% of those covered by superannuation reported weekly earnings of \$350 or more, but only 11% of those not covered reported earnings of that amount. By contrast, 43% of those not covered by superannuation had weekly earnings of less than \$220 per week, but only 10% of those covered had earnings of less than \$220 per week. The mean weekly earnings of persons covered by superannuation in 1982 was estimated to be \$360 and for those not covered it was \$239.

TABLE 1.2

SUPERANNUATION COVERAGE OF VICTORIAN EMPLOYEES:
SEX AND EMPLOYMENT SECTOR

	Number		Proportion	
	1974(a) '000	1982(b) '000	1974(a) %	1982(b) %
Males				
Private employment	216.1	261.9	33.1	48.4
Government employment (c)	151.0	221.3	70.3	79.7
Total	367.1	483.2	42.3	59.0
Females				
Private employment	43.0	76.5	10.6	25.1
Government employment (c)	35.4	74.4	42.4	49.8
Total	78.4	151.0	16.0	33.3
Persons				
Private employment	259.1	338.4	24.5	40.0
Government employment (c)	186.4	295.7	62.5	69.3
Total	445.4	634.2	32.8	49.8

- (a) February 1974. The 1974 estimates relate to both full-time and part-time employees unlike the 1982 estimates which relate only to employees who usually work 20 hours or more per week. Thus the 1974 estimates are not comparable with the 1982 estimates. However, employees who usually work less than 20 hours each work represent only about 10% of employees and very few of these part-time employees would be likely to be covered by superannuation. The 1974 estimates therefore provide an approximate comparison with the later estimates.
- (b) September to November 1982. These estimates relate to employees who usually worked 20 hours or more per week.
- (c) Government employment includes Commonwealth Government employment located in Victoria in addition to State and Local Government employment.

Source: ABS, Survey of Superannuation, February 1974. Catalogue No. 6319.0
 ABS, Superannuation, Australia, September to November 1982, Preliminary, Catalogue No. 6318.0
 ABS, Unpublished data from the 1982 survey of superannuation.

1.1.4 Superannuation Coverage in the Victorian Public Sector

Superannuation is a common condition of employment in the State and Local Government sector in Victoria with 42 schemes currently in place. The largest schemes have been established for many years. The State Superannuation scheme and the MMBW Superannuation scheme were established in 1926, and the SEC Superannuation scheme was established in 1930. The Local Authorities Superannuation Board was formed in 1947, initially providing cover in the form of life assurance policies. One of the medium-sized schemes, the City of Melbourne Officers' Superannuation scheme commenced in 1922.

The majority of persons employed in the Victorian public sector are covered by one or other of the 42 schemes currently operating. Approximately 303,000 persons were employed by State or Local Government bodies at June 1982. Of this approximately 181,000 were covered by a superannuation scheme. A further 6,000 persons were covered by two non-contributory retirement gratuity schemes.

Estimates of the number of contributors to each of the 42 separate superannuation schemes operating in the Victorian public sector as at June 1982 are set out in Table 1.3. Of the estimated total of 180,854 contributors, 131,993 contributors or 73.0% were males and 49,299 or 27.0% were females, (the total number of contributors in June 1983 was 192,093).

An estimate of the proportion of Victorian public sector employees covered by superannuation, based on the totals derived in Table 1.3 and ABS estimates of State and Local Government employees, is provided in Table 1.4. According to this estimate, 80.3% of male public sector employees were covered by a superannuation (or retirement benefits) scheme and 40.9% of female public sector employees were similarly covered. In total 63.7% of public sector employees were covered by superannuation in June 1982. These estimates, which are based on information supplied to the Committee by the various schemes, are broadly consistent with the ABS estimates of coverage in Table 1.2 of 79.7% of males, 49.8% of females and 69.3% of persons in total government employment. The estimates would not be expected to be the same because the ABS estimates include Commonwealth Government employees located in Victoria and are compiled from household survey data.

A small number of the Victorian public sector schemes account for the great majority of employee contributors to schemes. The State Superannuation scheme had 92,166 (98,446) members in June 1982 (June 1983), representing just over 50% of all contributors. The ten largest schemes had a combined membership of 176,347 (189,147) employees which represented 97.2% (97.4%) of total contributors. The ten smallest schemes for which estimates were available had a combined membership of 101 employees, representing less than 0.01% of total contributors.

TABLE 1.3

NUMBER OF CONTRIBUTORS TO VICTORIAN PUBLIC SECTOR
SUPERANNUATION SCHEMES (JUNE 1982)

Scheme	No. of Male Contributors	No. of Female Contributors	Total No. of Contributors
1. State Superannuation	64,310(a)	27,856(a)	92,166
2. Local Authorities' (b)	17,729	5,933	23,662
3. SEC Employees	11,447	157	11,604
4. SERB	7,521	3,196	10,717
5. SEC Superannuation	8,911	1,145	10,056
6. Hospitals'	4,488	4,666	9,154
7. State Bank	3,531	3,556	7,087
8. Gas and Fuel Corporation	4,289	719	5,008
9. MMBW Superannuation	3,130	370	3,500
10. MMBW Provident	2,540	260	2,800
11. MTA Gratuities	n.c.	n.c.	n.c.
12. Metropolitan Fire Brigades'	1,951	48	1,999
13. City of Melbourne Officers'	683	173	856
14. City of Melbourne Gratuities	n.c.	n.c.	n.c.
15. Port of Melbourne Authority	708	28	736
16. Superannuation Lump Sum	1	529	530
17. TAB	184	131	315
18. Egg Board Staff	89	40	129
19. Parliamentary	115	9	124
20. Port of Geelong	97	1	98
21. Zoo	70	19	89

TABLE 1.3 (Concl.)

	Scheme	No. of Male Contributors	No. of Female Contributors	Total No. of Contributors
22.	Port Phillip Pilots Sick and Superannuation	n.c.	-	n.c.
23.	Westgate (CML)	41	-	41
24.	Port Phillip Pilots Staff Life Assurance	38	-	38
25.	Pilot Service Staff	n.a.	n.a.	n.a.
26.	Westgate (NMLA)	28	5	33
27.	County Court Associates	22	3	25
28.	Harness Racing Board	21	-	21
29.	Australian Barley Board	13	2	15(c)
30.	Supreme Court Associates	12	-	12
31.	Greyhound Racing Control Board	10	5	15
32.	MURLA	5	-	5
33.	Legal Aid Committee	2	3	5
34.	Grain Elevators	4	-	4
35.	Tobacco Leaf Marketing Board	3	-	3
36.	Vic. Dried Fruits Board	n.a.	n.a.	2(d)
37.	Supreme and County Court Judges	n.c.	n.c.	n.c.
38.	Chairman General Sessions	n.c.	n.c.	n.c.
39.	Governor's Pension	n.c.	-	n.c.
40.	Mint	n.c.	n.c.	n.c.
41.	Police Pensions	n.a.	n.a.	5(d)
42.	Coal Mine	n.c.	n.c.	n.c.
	Total	131,993	48,854	180,854

n.c. : non-contributory scheme.
n.a. : not available

Note: (a) Estimate only
(b) For February 1982
(c) Contributors employed in Victoria
(d) Breakdown not known.

The coverage of State and Local Government schemes in Victoria appears to have increased moderately over the last decade. Estimates for 1974 indicate that of 216,000 persons employed by State and Local Government bodies approximately 120,000, or about 56%, were covered by superannuation schemes.

The estimated coverage of the individual major schemes ranges from complete or near complete coverage in the schemes for employees of the State Electricity Commission, the State Bank, the Gas and Fuel Corporation of Victoria and the Metropolitan Fire Brigade, down to only about 23% coverage of hospital employment. This difference obviously reflects the voluntary membership of the Hospitals' scheme in contrast to the compulsory membership of the other schemes referred to. It is impossible to obtain a meaningful estimate for the coverage of the State Superannuation scheme or the SERB scheme as the boundaries of the employment areas from which these schemes draw their contributors are difficult to define. Of course, given the size of the schemes' membership, coverage would seem to be relatively high, but not complete, reflecting the fact that the State Superannuation scheme is open to full-time permanent employees only and that SERB is only open to exempt employees employed in government departments subject to a minimum period of service of 12 months and to certain other employees.

TABLE 1.4

ESTIMATION OF COVERAGE OF VICTORIAN PUBLIC SECTOR
SUPERANNUATION SCHEMES, 1982.

(1)	<u>Employees Contributing to Victorian Public Sector Schemes (a):</u>		
	Males 131,993	Females 48,854	Persons 180,854
(2)	<u>Employees Potentially Eligible For Retirement Benefits Under Non-Contributory Gratuity Schemes (b):</u>		
	Males 4,657(c)	Females 1,699(c)	Persons 6,356
(3)	<u>Estimate of Total Employees Covered by Victorian Public Sector Schemes :</u>		
	Males 136,650	Females 50,553	Persons 187,210
(4)	<u>Estimate of State Government and Local Government Employment in Victoria, at 30 June 1982 (d):</u>		
State	Males 149,400	Females 110,800	Persons 260,100
Local	20,800	12,900	33,700
Total Victorian Public Sector	170,200	123,700	293,800
(5)	<u>Estimate of Proportion of Victorian Public Sector Employees Covered by Superannuation</u>		
	Males 80.3%	Females 40.9%	Persons 63.7%

Notes:

(a) See Table 1.3.

(b) The non-contributory gratuity schemes included here are the MTA and the City of Melbourne gratuity schemes. The MTA scheme has been assumed to potentially apply to all tramways employees. The MMTB

Annual Report for 1980-81 reports 4,571 employees, this figure is assumed to approximate June 1982 employment.

- (c) Estimates of the number of male and female employees was not available for MTA. These figures are based on an assumption that 31% of the total number of tramways employees are females.
- (d) ABS, The Labour Force, Australia, June 1983, p.33. For the ABS figures government employees comprise not only administrative employees but also all other employees of government bodies (State, local and semi-government) on services such as railways, road transport, banks, education police, public works, factories, marketing authorities, public hospitals (other than those run by charitable or religious organisations) and departmental hospitals and institutions. The ABS estimate for State government employment has been reduced by 9,000 to eliminate employment in universities from the total.

Sources: Data provided by the various Superannuation funds.
ABS, The Labour Force, Australia, June 1983 Catalogue No. 6203.0.
MMTB Annual Report, 1980/81.

1.2.1 Data Limitations and the Impact of Superannuation

A MAJOR LIMITATION UPON THE COMMITTEE'S WORK HAS BEEN THE LACK OF RELEVANT DATA WITH WHICH TO ASSESS THE IMPACT OF SUPERANNUATION PROVISIONS. AT THE MOST ELEMENTARY LEVEL THIS MAY BE SEEN IN THE INABILITY OF THE STATE GOVERNMENT TO PRODUCE ESTIMATES OF THE NUMBER OF EMPLOYEES COVERED BY SUPERANNUATION AND THE NUMBER OF PUBLIC SECTOR EMPLOYEES BOTH IN TOTAL AND BY EMPLOYING AUTHORITY.

If the Committee is to analyse, for example, the impact of superannuation provisions on the operation of the public sector labour market, then considerably more data than are presently available are required. The Committee can certainly speculate as to possible outcomes; but this is a long way from being able to assign orders of magnitude to particular consequences. The Committee's task is made even more difficult by the complexity of superannuation provisions, the lack of commonality between the various schemes and the fact that the Victorian public sector labour market is not a single market but rather a series of loosely interlocking internal labour markets specific to particular employing or statutory authorities, each with their boundaries defined by institutional and occupational factors. The extent of labour mobility between these markets is, as far as can be ascertained, negligible. It is also important to remember that a significant proportion of employees in the Victorian public sector, particularly females, are not covered by superannuation provisions.

Public sector internal labour markets also comprise jobs with a variety of characteristics. In simple terms, there are groups of jobs with more desirable characteristics and groups with less desirable characteristics. The former possess several of the following characteristics - high pay, good working conditions, chances of promotion, equity and due process in the administration of work rules. The latter tend to have low pay, fewer employment benefits, inferior working conditions, high labour turnover, little chance of promotion and few steps of promotion.

Superannuation arrangements in the Victorian public sector reflect, to some extent, the existence of this broad distinction between high status and low status jobs in their internal labour markets. For example, the SEC scheme operates two schemes, SEC Superannuation scheme for staff employees and SEC Employees' scheme for wages employees. The MMBW also operates two schemes, the MMBW Superannuation scheme for staff and the MMBW Provident scheme for non-staff employees. For both the SECV and MMBW, the staff scheme provides generally superior benefits and higher employer contributions than the non-staff scheme. The City of Melbourne similarly has two schemes, the City of Melbourne Officers' scheme for administrative/executive employees and the Gratuity scheme for other employees (generally blue-collar employees). The difference in the eligibility criteria between the State Superannuation scheme and the SERB scheme rests on the type of job employees hold. The State Superannuation scheme is open to full-time permanent employees only, whilst SERB is open to temporary and part-time employees and the bulk of its membership is blue-collar employees.

A further feature of Victorian public sector employment which must be emphasised is that the bulk of recruitment is into lower level classifications. Over the period January 1978 to November 1983, for example, 70% of public service entrants entered the service at salary levels below the equivalent of \$14,000 p.a. at June 1981 salary levels (see Appendix A Table A3). In contrast the number of employees below this salary level accounted for only 49% of public servants at June 1983. Over the same period 43% of entrants into the second division of the public service commenced at the base grade classification (see Appendix A Table A4 for entry levels into SEC employment).

There are two other features of the Victorian public sector labour market which are worth noting. Firstly, there is considerable stability of employment within the public sector with over 60% of public service and SEC employees having been with their current employer for five years or more (see Appendix A Table A5). Secondly, wastage rates are significantly higher for lower public service classifications (see Appendix A, Table A6). For example, in the non-trade groups SEC employees experienced a 32% wastage since 1980-81. In the higher classifications (e.g. professional staff) the wastage over the same period is less than 10% (see Appendix A Table A7).

Job tenure (and its corollary, job wastage or voluntary separations) are important for superannuation. On the one hand, the provision of superannuation may encourage greater job attachment, and hence, longer average periods of job tenure (by making the job more attractive or locking individuals in). On the other hand, early job leavers may be discriminated against by the benefits accruing primarily to those prepared to remain within a public sector scheme for their working life. Once again, however, in the absence of a more comprehensive data base this hypothesis cannot be examined.

It is reasonable to assume that superannuation functions as an adjunct to the operation of internal labour markets to encourage stable employment patterns. Superannuation can be seen as one of several institutional arrangements developed to reduce labour turnover thereby controlling the costs of recruitment, screening and training and enabling the employer to gain a return on investment in training. It is most likely to be a factor in the retention of labour within public sector internal labour markets. It may also be a factor in retaining employees whose job satisfaction or, perhaps, efficiency is relatively low. Such employees may feel locked in to their current employment in the absence of portability of entitlements.

The influence of superannuation on the operation of the Victorian public sector labour market depends, in part, on its relevance to individual's decisions about their supply of labour, choices between available jobs, responses to the level and composition of remuneration offered by employers, and so on. How important superannuation is to such decisions will reflect the (conscious or unconscious) preferences of individual employees or persons seeking public sector employment. Other relevant factors will be the level and composition of remuneration offered and non-monetary job characteristics such as continuity of employment, job security, and social status. Preferences will vary in a complex manner resulting from the interaction of several factors, notably : the family or household context of individuals; the influence of family formation; and the relationship between age, income and consumption patterns.

In theory, decisions may be influenced not only by current wages and other current job benefits (both material and non-material), but also by

consideration of future wages and benefits, job security, promotion opportunities and provision for retirement. The value placed upon job security by the labour force will vary with its time horizon (directly), rate of time preference (inversely) and level of aggregate labour demand (inversely). Variables potentially influencing the individual employee's evaluation of superannuation are:

- (a) current consumption requirements which will vary with age and in particular the various age-related stages of family formation;
- (b) current superannuation contribution rates which cause a reduction in current disposable income and personal saving;
- (c) expected rates of contribution over the employee's working life which will affect expected disposable income and planned consumption;
- (d) the resignation benefit provided in the event of the employee leaving a scheme;
- (e) the value attached to the death and disability cover provided by a scheme;
- (f) expected benefits from superannuation at, and during retirement; and
- (g) the rate at which an employee discounts future earnings to present values. The higher an individual's rate of time preference (that is, the more strongly current consumption is preferred over future consumption), the greater will be the impact of reductions in current disposable income relative to the future benefits of superannuation payments upon retirement. An employee with a high rate of time preference may not view superannuation favourably despite the source of retirement income it provides because contributions will reduce current disposable income. It is also likely that rates of time preference will fluctuate during the employee's lifetime.

THE COMMITTEE SUSPECTS THAT IN REALITY EMPLOYEES' EVALUATION OF SUPERANNUATION IS LIKELY TO BE POORLY INFORMED AND CONFUSED. THIS IS BECAUSE PROVISIONS ARE USUALLY COMPLEX (SOME UNNECESSARILY SO), ENTITLEMENTS ARE DIFFICULT TO DETERMINE AND DETAILED INFORMATION ABOUT SCHEMES ARE NOT ALWAYS READILY ACCESSIBLE. BENEFITS ARE CONTINGENT UPON CERTAIN CIRCUMSTANCES OCCURRING AND THEIR VALUE (FUTURE OR CURRENT) CANNOT BE PRECISELY CALCULATED.

1.2.2 Superannuation and Remuneration in Public and Private Sectors

It is important, when examining the impact of public sector superannuation provisions (and possible changes to them) to be able to gauge the extent to which present provisions are a complement to, or a substitute for, elements of total remuneration in the private sector.

With the probability that superannuation will be more fully recognised as part of total remuneration in future, the Committee in making its final recommendations will need to consider the principle "of equal pay for equal work."

Accurate comparisons of remuneration applying to particular jobs are inevitably complex and difficult, the more so when comparisons are between jobs in the private and public sectors. The general problems of remuneration comparisons are:

- (a) ensuring that jobs being compared are truly "like with like" in respect of skills, responsibility, nature of work, physical conditions etc.;
- (b) defining what constitutes remuneration if more than wage/salary rates are being compared;
- (c) comprehensively including all components of remuneration;
- (d) valuing non-cash employment benefits (including security of tenure where appropriate);

- (e) determining the tax liability and post-tax value (if tax applies) of non-cash benefits; and
- (f) determining both the pre- and post-tax cost of remuneration to the employer and the pre- and post-tax value to the employee.

Despite these problems the Committee is required to consider the differences in salary packages between the public and private sectors. The Committee interprets this as requiring comparisons of total remuneration, to the extent that it is measurable, which includes non-wage components such as superannuation, provision of cars, various allowances, employer payment/subsidisation of consumption items and so on.

A MAJOR PROBLEM ENCOUNTERED BY THE COMMITTEE IS THAT THERE IS ONLY LIMITED RESEARCH INTO TOTAL REMUNERATION PACKAGES WITHIN THE VICTORIAN PUBLIC SECTOR. NOT ONLY IS THERE AN ABSENCE OF ANY ONGOING ATTEMPT TO EVALUATE RELATIVE REMUNERATION LEVELS FOR PUBLIC SECTOR JOB POSITIONS, BUT THERE HAS BEEN LITTLE IF ANY CONCERN FOR THE ROLE OF PUBLIC SECTOR SUPERANNUATION PROVISIONS IN REMUNERATION COMPARISONS.

This limitation has been, in part, overcome by the Public Service Board which indicated in the course of a hearing that some comparative data could be made available. The material provided by the Public Service Board is reproduced in Appendix B. The Board indicated that while the issue of pay comparisons was important it had so far, in its personnel management role, only been able to apply its points evaluation system to the senior executive service and second division. The private sector data were provided by the management consultants Cullen, Egan and Dell and the overall comparison purports to be one between public and private sector jobs of "equal assessed work value".

Total remuneration in the Public Service Board's report is measured in two ways : (a) cost to the employer; and (b) value or benefit to the employee. Total remuneration as a cost to the employer comprises the following four public service provisions:

- (a) total cash including:
 - (i) base salary;
 - (ii) holiday loading;
 - (iii) expense of office allowance; and
- (b) non-cash benefits including:
 - (i) superannuation.

Total remuneration for the private sector positions comprise:

- (a) total cash including:
 - (i) base salary;
 - (ii) holiday loading;
 - (iii) bonuses/commission/incentives; and
- (b) non-cash benefits including:
 - (i) superannuation;
 - (ii) subsidised or full hospital/dental /medical care;
 - (iii) subsidised home loans or personal loans;
 - (iv) provision of motor car;
 - (v) subsidised telephone rental/calls;
 - (vi) subsidised club subscriptions; and
 - (vii) other benefits.

Comparisons of total remuneration were made by the Public Service Board between positions in the public and private sectors in respect of:

- (a) cost to employer;
- (b) value to employee (net of personal income tax) excluding superannuation from total; and
- (c) value to employee (net of personal income tax) including superannuation.

Key procedures and assumptions involved in the comparisons are:

- (a) the application of a points evaluation system to jobs in both sectors results in a comparison of "like with like";

- (b) assuming the imputed cost of the employer's superannuation contribution for the Public Service positions is 20% of the base salary for the position; and
- (c) assuming 30% of non-cash benefits provided by private sector employers are taxed at the marginal rate applicable to taxable income.

The reader is referred to Appendix B for further details of the methodology.

The first comparison made concerns the cost to the employer of providing the total remuneration for employees in positions within the scope of the survey. The Public Service Board concludes:

"... the remuneration cost of employing officers up to SES Level 4 in the Victorian Public Service (VPS) lies within the third quartile of remuneration cost of employees in positions of equal assessed work value in "the private sector". Above this level, the VPS remuneration costs fall below the median remuneration cost, with the gap between the market median cost and VPS remuneration cost widening with increasing work value.

It should be noted that the total remuneration cost for VPS officers includes the estimated cost of the Government contribution (20% of base salary) to superannuation. This cost is not, however, incurred on behalf of officers who leave the VPS before they are eligible for benefit from the scheme. In 1982-83 over sixty percent of all separations of permanent officers fell into this category. Thus, for such officers the estimate of total remuneration cost is overstated."⁽⁸⁾

The Public Service Board is clearly in error in the last paragraph of this quotation since the estimated cost to Government is 20% of all officers' salaries. If the percentage could be related only to those continuing in the State public service until claiming a major benefit it would of course be very much higher.

A comparison is also made excluding superannuation because employees who resign from public service employment do not receive any monetary gain from

their membership of the State Superannuation scheme as the scheme provides only a return of a member's contribution on resignation. In effect, it is assumed that for such employees, the net benefit of superannuation is zero. A factor which the Public Service Board has not taken into account is that public servants who resign have, during their employment, death and disability cover under the provisions of the State Superannuation scheme. This cover, although only activated by the employee's death or disability, presumably is of some value or benefit to the employee.

The Committee believes that this comparison is invalid. The difficulty is demonstrated by selecting two comparable employees at random, one in the public and one in the private sector. In both cases it is unlikely that the employees, or anyone else, know whether they will continue in their present employment or whether they will resign. In both cases the employer is promising substantial superannuation benefits if the employee continues in the service. How then is it possible to exclude superannuation in comparing the value of the respective remuneration packages of the two employees?

A further comparison is made including superannuation benefits valued at a gross value (before taxation) which is assumed to be equivalent to the employer's contribution. In the case of public service positions the employer's contribution is assumed to be 20% of the base salary of each position.

The Public Service Board summarised its comparisons as follows:

"Victorian Public Service officers receive less after tax benefit (excluding superannuation) than their counterparts in the private sector. The relatively poorer after tax position may be compensated to some extent by the more generous employer superannuation contributions paid by the VPS. The extent of this compensatory effect is however, difficult to assess, because of the differences in benefits accruing to individuals.

In summary, it is submitted that any variation in the level of benefits provided through a superannuation scheme may affect the ability of the VPS to attract and retain staff and should not, therefore, be considered separately from the total remuneration question."⁽⁹⁾

Comment on Public Service Board Remuneration Comparisons

The Committee has no fundamental criticisms of the methodology used by the Public Service Board but does have some reservations about the appropriateness of the Cullen, Egan and Dell data base for the present purpose and about certain assumptions made. At the same time, the Committee recognises that these are matters outside the Public Service Board's control. The Committee notes the following factors which must be taken into account when assessing the comparative material provided by the Public Service Board:

- (a) The private sector data provided by Cullen, Egan and Dell relates to incumbents of jobs in all firms Australia-wide who subscribe to the Cullen, Egan and Dell service. Consequently the sample is not a random sample and may therefore be (unintentionally) biased.
- (b) The private sector sample is not confined to Victoria but includes employers in all States.
- (c) The positions included in the private sector sample constitute a broader range of occupations than exist in the senior executive service and the second division. Almost half (48%) of the jobs in the data base are of a type not found in the public service second division, (e.g. production/manufacturing operations, marketing/sales, sciences, engineering/technical and supply/distribution positions).
- (d) The sample size for high level jobs in the private sector is small (e.g. 99 incumbents for positions in the range \$55,000 to \$66,000 p.a. and 48 incumbents for positions in the range \$70,000 to \$80,000 p.a.) and therefore may be unreliable.
- (e) The degree of superannuation coverage in the private sector sample, which is approximately 85%, is over twice that estimated by the ABS for private sector employees in Victoria which was 40% (see Table 1.2). The highest degree of coverage in the private sector in the ABS estimates was for males in non-manual occupations at 68.6%. This discrepancy raises questions about the possible biases of the Cullen, Egan and Dell sample.

- (f) The imputed gross benefit of superannuation to a public service employee of 20% of salary may underestimate the value of superannuation retirement benefits. In the Committee's view 20% is a reasonable estimate for present purposes of the average notional cost to the employer for a new entrant into the State Superannuation scheme.
- (g) The difference between total remuneration as a benefit to employees in the two sectors, except for the most senior positions above the equivalent of senior executive service level 7, rests largely upon assumptions made about the value of employer superannuation contributions, the incidence of receipt of superannuation benefits and the tax liability of non-wage employment benefits.
- (h) No account is taken of the value of greater job security in public service employment. Obviously the value of security of tenure of employment varies with the state of the labour market as this affects the expected duration of unemployment, the probability of being dismissed and the likelihood of the next job being lower paid. It is clearly of substantial value in periods of relatively high unemployment and generally stagnant employment growth as has been experienced in Australia over recent years. Public sector employees are far less likely to suffer the financial costs of retrenchment, possible associated hardship and the social and psychological costs of being unemployed.

IN VIEW OF THESE FACTORS CAUTION IS REQUIRED IN DRAWING CONCLUSIONS ABOUT THE COMPETITIVENESS OF VICTORIAN PUBLIC SERVICE REMUNERATION. THE COMMITTEE NOTES FROM FIGURE 1 OF APPENDIX B THAT REMUNERATION IN THE PUBLIC SERVICE AS A COST TO THE EMPLOYER, IS HIGHER THAN IN THE PRIVATE SECTOR EXCEPT FOR THE MOST SENIOR STAFF. FIGURE 3 OF APPENDIX B ALSO SUGGESTS THAT REMUNERATION IN THE PUBLIC SERVICE (INCLUDING SUPERANNUATION), AS A NET BENEFIT TO THE EMPLOYEE, IS ALSO HIGHER THAN IN THE PRIVATE SECTOR AGAIN EXCEPT FOR VERY SENIOR STAFF. THE COMMITTEE CANNOT ACCEPT THE PUBLIC

SERVICE BOARD'S FIGURE 2 OF APPENDIX B AS GIVING A VALID COMPARISON SINCE TO EXCLUDE THE IMPUTED VALUE OF SUPERANNUATION IS TO DISREGARD ONE OF THE MAJOR ELEMENTS IN THE OVERALL REMUNERATION PACKAGE.

It must also be emphasised that the public service employment included in the comparison accounts for only about 4% of State and Local Government employees in Victoria. The comparative data gives no indication of the remuneration for a wide range of occupations - scientific, technical, trades, semi-skilled and unskilled - within the public service or in statutory bodies compared to those in the private sector.

THE COMMITTEE IS PARTICULARLY CONCERNED THAT THE PUBLIC SERVICE BOARD WAS UNABLE AT THIS TIME TO PROVIDE THE RANGE OF REMUNERATION COMPARISONS, INCLUDING PUBLIC AND PRIVATE SECTOR SUPERANNUATION PROVISIONS, AS REQUIRED BY THE COMMITTEE'S TERMS OF REFERENCE. THE COMMITTEE CONSIDERS THAT THE PUBLIC SERVICE BOARD SHOULD UNDERTAKE COMPREHENSIVE COMPARISONS OF TOTAL REMUNERATION FOR THE WIDE RANGE OF OCCUPATIONS THAT EXIST WITHIN THE PUBLIC SERVICE WITH THAT FOR SIMILAR JOBS IN THE PRIVATE SECTOR. AS IT STANDS, DATA AVAILABLE GIVE NO INDICATION OF THE REMUNERATION FOR A WIDE RANGE OF OCCUPATIONS - SCIENTIFIC, TECHNICAL, TRADES, SEMI-SKILLED AND UNSKILLED - WITHIN THE PUBLIC SERVICE OR IN STATUTORY BODIES, COMPARED TO THOSE IN THE PRIVATE SECTOR.

The strong growth in Victorian public sector employment and the relatively stable employment patterns of the public sector indicate that employment in that sector is sufficiently attractive, in toto, to provide an adequate supply of labour. It appears that existing public sector superannuation provisions contribute to this position, but how significant this contribution is cannot be quantified. Certainly one public sector employer, the MMBW, considered superannuation played a role in its ability to recruit labour.

"There is little doubt that the Board's ability to recruit employees over the years has been enhanced by the existence of satisfactory retirement provisions."(10)

1.2.3 Superannuation and Job Mobility

The Committee notes, however, that current provisions of some schemes are most likely to be unattractive to younger employees (or potential employees) who have no expectation of, or desire for, a long-term and continuous career in the public sector employment. The State Superannuation scheme in particular, and most other major schemes, provide a poor resignation benefit (return of contributions only or with nominal interest). The main perceived benefit of membership of such schemes, which are typically compulsory, would in fact be negative - because of the detrimental impact of contributions on take-home pay. The above category of employee appears to be numerically significant, at least in the public service.

Thus, of approximately 18,600 persons who separated from the Victorian Public Service for all reasons between January 1978 and November 1983, 56% resigned with less than 5 years service, and 70% resigned with less than 10 years service. Also 48% of all persons who separated were persons aged under 30 years who had resigned. In 1982, 85% of persons separating from the Victorian Public Service resigned, only 2.5% separated due to age retirement. (11)

Once again in the absence of a more adequate data base one cannot determine whether or not benefit provisions under the various State public sector schemes and their requirements for vesting, preservation and portability influence significantly patterns of labour mobility and the incidence of voluntary withdrawals. The presumption is, however, that they do.

The Public Service Board expressed the view in its submission to the Committee that:

"Differences in arrangements and provisions between the numerous schemes impede mobility between sectors of government employment."(12)

THE COMMITTEE BELIEVES THAT THE LIMITED PROVISION FOR PORTABILITY BETWEEN THE VARIOUS SCHEMES IN THE VICTORIAN PUBLIC SECTOR CONSTITUTES AN UNNECESSARY IMPEDIMENT TO GREATER MOBILITY OF LABOUR WITHIN THAT SECTOR.

The structural characteristics of the public sector labour market, in particular the degree of segmentation, suggests that there are further, possibly more substantial, barriers to mobility than superannuation. The existence of an internal labour market structure suggests that greater portability may have only a second order effect on increasing labour mobility.

Superannuation arrangements are perhaps only a minor factor in the observed limited mobility of labour and that more fundamental forces operate to preserve the stability of employment in public sector internal labour markets. The absence of portability of superannuation entitlements is probably not the cause of non-mobility, but is rather a factor associated with structural characteristics of labour markets that themselves operate to limit labour turnover and hence mobility. Consequently, one should be cautious about concluding that greater portability on its own can be seen as a primary means of freeing up labour markets and of providing greater access by certain groups in the labour force to public sector employment. Improved portability has a role in attaining such objectives but only in conjunction with other measures.

NOTES

- (1) Minutes of Evidence, Friday 8 July 1983, p.433.
- (2) Minutes of Informal Meeting, Friday 24 June 1983, p.140.
- (3) Municipal Officers' Association of Australia, Submission, 19 September 1983, p.2.
- (4) Minutes of Informal Meeting, Wednesday 22 June 1983, pp.95-96.
- (5) Treasurer's Statement of the Receipts and Payments of the Consolidated Fund and the Trust Fund, Finance 1982-83, pp.23-24.
- (6) Department of Labour and Immigration, Employee Benefits and Services, AGPS, Canberra, p.3.
- (7) ABS, Employment Benefits, Australia, February to May 1979, Cat. 6334.0.
- (8) See Appendix B.
- (9) See Appendix B.
- (10) Secretary, Melbourne and Metropolitan Board of Works, letter to the Economic and Budget Review Committee responding to a questionnaire, 5 September 1983.
- (11) Data supplied by the Public Service Board.
- (12) Public Service Board, Submission, 10 February 1984 p.2.

CHAPTER 2

ELIGIBILITY, CONTRIBUTIONS AND BENEFITS

SECTION 2.1 INTRODUCTION

2.1.1 The Design of Superannuation Schemes

Central to any assessment of the impact and adequacy of the public and private sector superannuation schemes are those issues which relate to the conditions under which individuals are accorded membership of a scheme and the benefits, costs and obligations which membership confers.

The issues which are of particular significance for the Committee's review of public sector superannuation schemes in Victoria may be usefully grouped under three main headings. These are:

- (a) eligibility and the requirements for scheme membership;
- (b) the structure of contribution systems; and
- (c) the structure of benefit systems.

Under the third heading there are two important subsidiary areas which demand particular attention. These are, firstly, issues relating to vesting, preservation and portability and secondly, the question of disability retirements.

The Committee, in addressing these issues, has been interested in the extent to which discrimination continues to be practised in Victorian public sector superannuation schemes. Discrimination, whether according to sex, marital status, class of employee, or other reasons, occurs to a varying extent in State schemes in such areas as eligibility for membership, retiring age, benefits and contributions.

Of particular concern to the Committee is the extent to which benefits differ between the various public sector schemes. Some schemes, for example the State Superannuation scheme, are particularly generous - not only in terms of other public sector schemes but also in terms of typical private sector superannuation benefits.

In detailing the provisions of the various public sector schemes as they relate to these issues, the Committee has relied heavily upon a summary provided by the office of the Government Statist and Actuary showing the detailed features of each scheme. This summary is being released as a separate discussion paper of the Inquiry entitled "Public Sector Superannuation Schemes - Benefit Summaries."

2.1.2 Public versus Private Sector Provisions

As part of its terms of reference the Committee was asked to consider the provisions of private sector superannuation schemes. This is significant because not only are there major differences among the various public sector schemes in Victoria, but there are also a number of important differences from typical private sector provisions. The most important of these is the higher level of benefit in major parts of the public sector.

THE COMMITTEE BELIEVES THE MOST PLAUSIBLE EXPLANATION FOR THE GENEROUS BENEFIT STRUCTURES IN THE PUBLIC SECTOR HAS BEEN THE TENDENCY FOR SUCCESSIVE GOVERNMENTS AND PARLIAMENTS TO GRANT IMPROVEMENTS WITH LITTLE REGARD TO COST.

SECTION 2.2 ELIGIBILITY

2.2.1 Eligibility and Scheme Coverage

Two factors account for the significantly higher coverage of superannuation in the public sector compared to the private sector. These are, firstly, the conditions of eligibility for membership (and in many instances the requirement for compulsory membership) and, secondly, the availability of a superannuation scheme for the majority of public sector employees. In the private sector the availability of superannuation is often restricted by occupation or by earnings level. Typically, small employers may not operate a scheme and even large employers may impose restrictions or not offer membership to some classes of employees.

2.2.2 Membership Classification

Not only is superannuation more likely to be available in the public sector but entry tends to be more accessible. For example, in the largest schemes entry is compulsory. This is not to say, however, that entry is necessarily automatic and there are often qualifications. A permanent position, for example, is necessary for entry to the Local Authorities, SEC and Gas and Fuel schemes. In the case of the State Superannuation scheme the employee must be full time, while in the MTA Gratuities scheme the individual must have completed ten years' service to qualify for a benefit. These are similar to corresponding requirements in the private sector.

The insistence on full-time employment as a qualification for superannuation membership is currently being questioned by some of the major schemes and a change in the legislation to permit the entry of part time employees to the State Superannuation scheme is imminent. The Committee noted one particular anomaly in this area. Trainee nurses are excluded from the Hospitals' scheme although apprentices and other trainees are included. The Hospitals' Superannuation Board has been seeking to have this altered for some years without success.(1)

A striking example of discrimination in eligibility conditions occurs where different classes of employee of a single employer are eligible for separate schemes with differing benefits, contributions and conditions. Thus, the SEC has schemes for salaried and wages staff. In a similar manner the MMBW has separate schemes for staff and non-staff employees. Another example is the State Employees Retirement Board's scheme for employees of departments and other bodies who are not eligible for the State Superannuation scheme.

The private sector demonstrates many other examples of differential provisions for different classes of employee so that the public sector is not unique in this respect. The evolution of these distinctions in both sectors has been explained in terms of differential wage structures and other employment conditions, the impact of social security benefits, and the willingness of employees to pay higher or lower personal contributions.

THE COMMITTEE BELIEVES THAT WHERE THE SALARY OR WAGE PAID TO AN EMPLOYEE PROPERLY REFLECTS A PERSONS VALUE TO AN ORGANISATION, THAT ITEM ALONE, RATHER THAN ANY ARBITRARY CLASSIFICATION, WOULD SEEM TO BE THE MOST APPROPRIATE BASIS FOR DETERMINING THE LEVEL OF SUPERANNUATION BENEFITS.

2.2.3 Voluntary Versus Compulsory Membership

There are other aspects of entry to public sector schemes which restrict membership to less than 100% of all employees. As an example, the SERB scheme was optional for those eligible to join on the commencing date - 1 April 1980. A similar rule was applied at the commencement of the SEC Employee's scheme in 1970 (but that scheme was made compulsory in 1980).

The State Bank's scheme is compulsory for permanent clerical and legal employees but optional for technical and specialist staff. The latter groups must however make their decisions within twelve months of appointment to the permanent staff. The Gas and Fuel Corporation's scheme is compulsory except where an employee can establish a valid reason for not contributing. Those who opt out in this way are eligible for a gratuity payment, on retirement or earlier death, rather than superannuation.

The MMBW Superannuation scheme is compulsory for staff employees but their Provident scheme for non-staff employees is voluntary. The latter employees also have the choice whether they contribute at 2½% or 5% of salaries with appropriately different levels of benefit.

Membership of the Port of Melbourne scheme is voluntary but members must apply to join within three years of commencing employment or by age 24, whichever is later. This provision has given rise to some dissatisfaction and it is alleged that there are currently over one hundred employees who would like to join.(2)

Of the larger schemes where membership is voluntary the most notable are the Hospitals, with some 23% participation, Port of Melbourne with 51% participation and MMBW Provident with 53% participation. In the latter case, members who have not joined are covered by a retirement gratuity scheme.

Apart from the Parliamentary and Judges schemes which are compulsory, most of the smaller schemes are voluntary. Participation rates in these smaller schemes vary from 17% to 89% with an overall average of 66%.

Table 2.1 distinguishes the voluntary and compulsory public sector schemes in Victoria. The table shows that 54% of all public sector schemes are either compulsory or non-contributory and that these cover 92% of all members of Victorian public sector superannuation schemes. Non-contributory schemes are shown separately since the voluntary/compulsory classification is meaningless in this context.

TABLE 2.1

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
VOLUNTARY VERSUS COMPULSORY ELIGIBILITY REQUIREMENTS (a)
JUNE 1983

Compulsory Schemes	Voluntary Schemes	Non-Contributory Schemes
Australian Barley Board	County Court Associates	Chairman General Sessions
City of Melbourne Officers	Egg Board Staff	City of Melbourne Gratuities
Gas and Fuel Corporation	Grain Elevators Board	Coal Mines
Local Authorities	Greyhound Racing Board	Governor's Pension
Metropolitan Fire Brigades	Harness Racing Board	Judges - County and Supreme Court
MMBW Superannuation	Hospitals	Mint
Parliamentary	Legal Aid Committee	MTA Gratuities
Pilot Service Staff	MMBW Provident	
Police Pensions	MURLA	
Port Phillip Pilots Staff	Port of Geelong	
Life Assurance	Port of Melbourne	
Port Phillip Pilots	Supreme Court Associates	
Sick and Superannuation	Super Lump Sum	
SEC Employees	Tobacco Leaf Marketing Board	
SEC Superannuation	Vic. Dried Fruits Board	
SERB	Westgate (CML)	
State Superannuation	Westgate (NMLA)	
State Bank		
TAB		
Zoo		
18 Schemes 178,349 Members (b)	17 Schemes 13,785 Members	7 Schemes 6,834 Members

- Notes: (a) Pensioners are specifically excluded.
(b) The total does not include current data for the Pilot Service Staff and Port Phillip Pilots Staff Life Assurance schemes. At the time of writing, the requested information had not been forwarded.

Source: Office of Government Statist and Actuary.

2.2.3.1 Commonwealth and Interstate Experience

Corresponding provisions for compulsory as opposed to voluntary membership of the Commonwealth Superannuation scheme and the various state schemes are detailed in Table 2.2. There is, quite obviously, considerable diversity in the degree of compulsion for membership, although the majority of funds require permanent employees to be members. It is noteworthy however that the state schemes in both South Australia and Western Australia are voluntary and that the New South Wales scheme is voluntary for certain categories of employee.

TABLE 2.2

COMMONWEALTH AND STATE SUPERANNUATION SCHEMES
VOLUNTARY VERSUS COMPULSORY ELIGIBILITY REQUIREMENTS
JANUARY 1983

Scheme	Eligibility Requirements
Commonwealth	Compulsory for permanent employees. Temporary employees may join with one year service and at least three years prospective service. Contract employees and statutory office-holders may join if employed/appointed for at least 1 year. All full-time only.
Victoria	Compulsory for full-time permanent officers, except those aged 58 and over at entry.
South Australia	Voluntary. Members may be full-time or part-time employees.
Queensland	Compulsory for full-time permanent salaried officers upon appointment, and

full-time temporary public servants (other than married women) who have been employed for 12 months. Voluntary for full-time permanent wages employees -may elect to join after 12 months employment.

New South Wales

Compulsory for permanent full-time employees except: those aged 40 and over at entry; a woman married to a contributor; a woman receiving a widow's pension from the scheme; an employee who satisfies the Board that adequate provision has been made for himself/herself and family.

Tasmania

Compulsory for full-time permanent employees. Optional for permanent part-time employees. Temporary officers with one year service and at least three years prospective service or four years actual service may also contribute. Contract employees with term of at least three years may also contribute.

Western Australia

Voluntary. Members must be permanent full-time employees and able to aggregate not less than seven years service to date of elected retiring age.

An important corollary to the issue of voluntary versus compulsory membership is the extent to which superannuation cover is taken up by public sector employees who have a choice in this respect. It would appear that in South Australia only 30% of public service members contribute to superannuation. Significantly, coverage varies by department, reflecting in

part the different occupational structures, with a much higher proportion of white collar as opposed to blue collar workers contributing.

2.2.3.2 Attitudes to Compulsory Membership

The compulsory principle was strongly supported at a hearing of the Committee by the Victorian Public Service Association (VPSA) Secretary, Mr. Burgess. In a written submission, however, his association added the qualification that the conditions for exemption should be broadened, especially for cases of late entry.⁽³⁾ Another supporter of compulsory membership, Mr. G.A. Weaven, Municipal Officers' Association representative on the Local Authorities Superannuation Board, made two major points. He complained about the competition offered by life assurance companies in the following terms:

"All of them operate on the basis of accumulated funds so the benefits depend totally on the assumptions they build into the scheme. It appears they build in whatever assumptions they like and quote fantastic figures people will receive after 30 years. This creates problems because our members say it is better than what they are getting under the current scheme."⁽⁴⁾

Mr. Weaven's second point related to the question of voluntary withdrawal from a scheme:

"If the scheme was not compulsory and people had financial difficulty at any point, they would get out of the scheme and cash in the money available to them. Some people who find it difficult to make that commitment right from the start do not wish to be members, and I can understand that, but I would regard that as a question of adequate rates of pay. If people do get out in those circumstances, they will certainly fall prey to unscrupulous private agencies and commission people and it will be a terrible long term situation."⁽⁴⁾

On the other hand, the Committee has received a number of submissions supporting voluntary membership. These include a representative committee of Electorate Officers⁽⁵⁾ arguing that SERB membership should be voluntary

and the LaTrobe Valley sub-branch of Australian Institute of Marine and Power Engineers (6) objecting to the compulsory nature of SEC schemes.

The Chairman of the State Employees Retirement Benefits Board, Mr. G.M. Fry told the Committee that he had received many complaints about compulsory membership. He remarked that:

".... particularly in the last 12 months or two years with interest rates going up and the lower-paid people we have in our sector, (because we do have a lot) it has become almost impossible for them to meet their contributions. We have had cases where people have left their jobs because of that. I am inclined to feel that instead of being rigidly compulsory there could be a half-way arrangement." (7)

The Victorian Women's Advisory Council (VICWAC) took a similar view. They argued that until the current inequities inherent in superannuation schemes are removed (for example, by significantly improved vesting and preservation arrangements) then membership should not be compulsory, particularly for females locked into low pay occupations:

"Given the segregation of women in low wage industries and occupations, VICWAC believes that contributions to superannuation schemes must be voluntary otherwise an unfair financial burden inherent in contributory schemes will be placed on certain groups. Contribution rates should not discriminate against low income groups. VICWAC believes that schemes should provide for basic death and disability cover available to all members at a minimal contribution rate irrespective of medical classification. Additional benefits should then be available on the basis of graded superannuation payments. Provision of basic cover irrespective of medical classification is a crucial change required to schemes given the concentration of women in lower classifications. Where initial contribution rates make it simply uneconomical, because of low level of earnings, for employees to join a scheme then such employees should be entitled to a loading on their wages which reflects the value of the employers contributions foregone." (8)

Mr. David Owen, consulting actuary, told the Committee:

".... at one stage ... a lot of employers were finding it a problem recruiting staff, particularly blue collar workers where there was a compulsory scheme. This was when labour was hard to come by. An employer would find that workers would not work for him with 95 per cent of the pay and 5 per cent being contributed to a scheme. Instead they would go to an employer giving them 100 per cent of the pay. It was an indicator in getting employees." (9)

Mr. P. Seletto, Deputy General Manager of the Grain Elevators Board made a plea for voluntary membership in the following terms:

"We are a fairly democratic organisation. The Board believes - and we have checked it with the Chairman and others - that the scheme should be voluntary. We encourage people to belong to it because I think generally the management's opinion is it is a good thing because perhaps one might say, from a social point of view, as a manager, it does tend to keep employees rather more stable. I also think, from a human point of view it is a good thing, and I think the Board has that attitude, but it does not like compulsory situations." (10)

The Chairman of the Public Service Board, Dr. Cullen, indicated that the Board did not have a view on the voluntary/compulsory question but that he personally was "not dedicated to the concept of compulsory superannuation". (11) In view of this controversy, and its financial significance, it seems worthwhile to consider this question in more detail.

IT IS CLEAR FROM EVIDENCE PRESENTED TO THE COMMITTEE THAT THERE IS CONSIDERABLE DISAGREEMENT CONCERNING THE PRACTICE OF REQUIRING COMPULSORY MEMBERSHIP.

Employees and employers have differing attitudes to the question of compulsory membership. Some employees, especially at lower pay levels and at younger ages, prefer not to contribute in order to optimise their immediate take-home pay. Not contributing may, of course, be contrary to their own long-term interest. Resignation benefits are often unattractive to those who do not wish to stay with a single employer for long periods. As an example, the Chairman of the Port of Melbourne Authority, Mr. Mayne, said:

"Some young people are not greatly concerned with the long term benefits of superannuation. Females, in many instances, still tend to look on their working lives as being relatively short term, pending marriage and commencing a family". (12)

It is noteworthy in this respect that according to recent experience of contributors to the State Superannuation scheme only about 70% of new entrants are still members after five years. Some people simply do not want or need particular elements of the superannuation benefit package.

Voluntary membership normally makes superannuation less costly to the employing body but it is often argued that the employer is exposed to the possibility of embarrassing hardship claims from former employees who were not members and their dependants. Compulsory membership on the other hand means that the employer avoids any such claims. It also minimizes discrimination between employees by granting a tax effective benefit to all. To the extent that the expectation of future superannuation benefits reduces employee turnover, compulsory membership may give employers better value for investment in training and staff development but reduced turnover may of course be less desirable in the case of employees at the older ages. Any advantages to the employer do not however accommodate the quite valid objections of many employees to compulsory membership.

More importantly, membership of a public sector scheme may lock individuals into a long term career path which is not of their choosing. Lack of portability and a low (and even negative return) on own contributions may be an active deterrent to the most able joining the State public service.

THE COMMITTEE IS RELUCTANT TO ACCEPT WITHOUT QUESTION THE CURRENT ARGUMENTS FOR COMPULSORY MEMBERSHIP. THE WISHES AND THE NEEDS OF INDIVIDUALS MUST BE TAKEN INTO ACCOUNT.

An intermediate position between that of the employee who joins a scheme and is fully covered against the various contingencies and one who does not join and is thus left with nothing on retirement, death, disability, etc. is sometimes provided by giving employees the option of participation at different levels. An example of this is the South Australian State scheme

where members may elect to contribute at full rates or half rates. In the latter case they receive half-scale benefits. This approach has not been much used in Victoria although, as indicated above, the South Australian principle has been adopted in the case of the MMBW Provident scheme.

WITH THIS IN MIND THE COMMITTEE BELIEVES THAT A CASE CAN BE MADE FOR A MORE FLEXIBLE APPROACH WHICH ENSURES A BASIC COMPULSORY COVERAGE WITH AN OPTION TO PURCHASE ADDITIONAL COVER THROUGH VARIABLE PARTICIPATION.

2.2.4 Discrimination in Eligibility Requirements

2.2.4.1 Discrimination in Superannuation Eligibility

Apart from the fact that the various superannuation schemes are specific to particular employing authorities and thus, by definition, exclude particular classes of employee, discrimination in eligibility requirements can take a number of forms. The most widely cited are discrimination on the grounds of sex, age, marital status, occupation and health.

In its submission to the Committee the Victorian Women's Advisory Committee argued that:

"A basic principle underlying all superannuation schemes should be that eligibility criteria for entry to schemes should not discriminate against a person by reason of a person's sex, marital status, ethnic background or disability."(13)

The practice of superannuation schemes differentiating between employees with respect to eligibility, contributions and benefits has received considerable attention in recent years. In May 1978, the New South Wales Anti-Discrimination Board published a report entitled, Discrimination in Superannuation pursuant to Section 121 of the New South Wales Anti-Discrimination Act 1977. The Victorian Equal Opportunity Board published a report in January 1980, similarly entitled, Discrimination in Superannuation and Pension Schemes pursuant to Section 15(3) of the Victorian Equal Opportunity Act 1977. The anti-discrimination legislation passed in

several States in the late 1970s, and the above mentioned reviews of superannuation consequential upon that legislation, reflect growing public dissatisfaction with long established discriminatory practices, particularly those based on grounds of sex or marital status. The word 'discrimination' now commonly has an adverse connotation. This reflects growing community disapproval of practices which deny individuals equal opportunities in social and economic life.

Several Parliaments in Australia have translated this broad community attitude into legislation designed to prohibit discriminatory behaviour. Among the relevant legislation are the New South Wales Anti-Discrimination Act 1977, the Victorian Equal Opportunity Act 1977, and the Commonwealth Racial Discrimination Act 1975. The Commonwealth Parliament is currently considering the Sex Discrimination Bill 1983.

The various anti-discrimination Acts are primarily concerned with discrimination on the grounds of sex or marital status although proposed legislation in the Victorian Parliament to replace the 1977 Act encompasses broader grounds.

The Victorian Equal Opportunity Act 1977, Section 16(1), defines discrimination in the following terms:

"A person discriminates against another person on the ground of sex or marital status in any circumstances relevant for the purposes of a provision of this Act if on the ground of the sex or marital status of the other person the first-mentioned person treats the other person less favourably than he treats or would treat a person of the other sex or of a different marital status."

The Equal Opportunity Bill 1983 (which was passed by the Legislative Assembly on 16 November 1983 and is currently before the Legislative Council), when operative, will repeal the 1977 Act and the Equal Opportunity (Discrimination Against Disabled Persons) Act 1982. The 1983 Bill, Clause 17(1), broadens the grounds of unlawful discrimination:

"A person discriminates against another person in any circumstances relevant for the purposes of a provision of this Act if on the ground of the status or by reason of the private life of the other person the first-mentioned person treats the other person less favourably than he treats or would treat a person of a different status or with a different private life."

The Sex Discrimination Act 1983, introduced into Federal Parliament in mid-1983 contains a definition similar to the Victorian Bill. Clauses 5 and 6 of the Commonwealth Act define discrimination on the grounds of sex (or marital status) as being a less favourable treatment of one person compared to another of the opposite sex (or different marital status) by reason of:

- (a) the sex (marital status) of the aggrieved person;
- (b) a characteristic that appertains generally to persons of the sex (marital status) of the aggrieved person; or
- (c) a characteristic that is generally imputed to persons of the sex of the aggrieved person, in circumstances that are the same or are not materially different.

The Commonwealth Act is to apply throughout Australia with the exception of persons employed by State Government instrumentalities. Even so, as we note below these legislative developments have, for the most part, yet to be translated to the superannuation area.

Direct versus indirect discrimination

The definitions of discrimination contained in the Victorian and Commonwealth Bills reflect the notions of both direct and indirect discrimination. Direct discrimination occurs when there is a specifically directed policy or action which treats one group less favourably than another by reason of sex, marital status or certain other characteristics. Indirect discrimination occurs when a policy or practice, which on the face of it appears to be neutral or non-discriminatory, by its operation results in discrimination against one particular group of persons. The notion of indirect discrimination has some relevance to the design and administration of superannuation schemes. An obvious case is where members of a particular

group are locked into a particular occupational category or workplace situation. The operation of a particular set of rules which may, on the face of it be non-discriminatory, effectively discriminate against this group because group members are disproportionately represented. A number of examples of potential indirect discrimination could be cited. One example would be part time employees. If part time employees are discriminated against then if part time employees are almost exclusively female then females in this case are discriminated against. Another example would be where females have a different career path than males.

THE COMMITTEE HAS NOTED THAT WORK PATTERNS AND FAMILY RELATED CAREER CHOICES IN PRACTICE GENERATE INDIRECT DISCRIMINATION IN SUPERANNUATION.

Another problem in this area of direct versus indirect discrimination is that superannuation schemes, if they are to be consistently administered, must be based on sets of rules regarding eligibility, benefits and contributions. Most such rules can be said, by definition, to be directly discriminatory. Many could involve indirect discrimination also. For example, the benefit for a member who dies is much greater than the benefit for a member who resigns. The benefit for a member who retires early differs from that for a member who is retrenched, and so on.

NEVERTHELESS, THE COMMITTEE SUPPORTS EQUAL OPPORTUNITY PRINCIPLES IN ELIGIBILITY PROVISIONS.

Discussion of discrimination is primarily concerned with sex and marital status. However, it is evident that discriminatory practices in superannuation have also been based on the class of employee, particularly the occupational category. The most widespread such practice has been the historical exclusion of wages or blue-collar employees from schemes or the establishment of different schemes for wages employees and staff of an enterprise, with schemes covering the former having generally inferior entitlements. Such discrimination requires examination just as much as that occurring on the grounds of sex or marital status.

Section 30 of the Victorian Equal Opportunity Act 1977 specifically excludes the provisions of pension or superannuation schemes from the Act's coverage. Clause 35 of the Equal Opportunity Bill 1983 confirms the exemption of pensions and superannuation from anti-discrimination legislation in Victoria.

The Commonwealth Sex Discrimination Act 1983 proposes a two-year exemption from unlawful discrimination on the ground of sex or marital status for superannuation or provident fund schemes in operation at the commencement of the Act, (Clause 34(1) and (2)). The Act also contains a qualified exemption for insurance where discrimination is based on actuarial data-reflecting the New South Wales and Victorian Acts' provisions.

Notwithstanding the exemption, since the 1980 report of the Equal Opportunity Board a number of legislative changes have effectively eliminated direct discrimination in Victoria in public sector superannuation eligibility. The most important of these changes has been to eliminate discrimination in the eligibility of females on the basis of marital status.

THE COMMITTEE SUPPORTS FULLY THE PRINCIPLE THAT ELIGIBILITY CRITERIA FOR SUPERANNUATION SCHEMES SHOULD NOT DISCRIMINATE AGAINST A PERSON ON THE GROUNDS OF SEX OR MARITAL STATUS, OCCUPATION OR HOURS OF WORK.

Other recent changes include uniform entry requirements, standard retiring ages, uniform contribution rates, spouse benefits for both males and females and common factors for commutation of pensions.

THE COMMITTEE NOTES THAT FEW SCHEMES IN THE VICTORIAN PUBLIC SECTOR NOW DISCRIMINATE IN ELIGIBILITY ON THE GROUNDS OF SEX OR MARITAL STATUS.

THE COMMITTEE ALSO NOTES THAT IN BOTH PUBLIC AND PRIVATE SECTORS SIGNIFICANT MOVES HAVE OCCURRED TO REMOVE DISCRIMINATORY PROVISIONS.

Comments have been made about discrimination between staff and wages employees. Discrimination also occurs between permanent and non-permanent

and between full-time and part-time employees. The Committee accepts that such distinctions are necessary in considering superannuation eligibility but believes they should be applied on a uniform basis across the public sector. This requires a generally acceptable definition of permanent employment and a standard minimum number of hours work in order to qualify.

THE COMMITTEE BELIEVES THAT PERMANENCE SHOULD BE DEFINED AND THAT A PERMANENT PART TIME EMPLOYEE SHOULD BE ELIGIBLE FOR SUPERANNUATION.

2.2.4.2 Medical Discrimination

Most superannuation schemes in both the public and the private sectors provide significant insurance in the event of death or disablement. It is therefore usual for the scheme administrator to underwrite the risk, i.e. the administrator requires detailed medical evidence before agreeing that an applicant is eligible for the insurance provided by the scheme. There are exceptions to this pattern in the Victorian public sector, e.g. the Superannuation Lump Sum scheme and the Tobacco Leaf Marketing Board scheme, in both of which cases the benefits payable on death or total disability represent the amount of contributions and interest to date. There is thus no real cover and thus no call for medical assessment.

The underwriting process is, however, the norm for all the major public sector schemes. Members are classified according to the available medical evidence and benefit entitlements adjusted where health is other than first class. In the case of the State Superannuation scheme, the principles are spelled out in Section 12(3)(d) of the Superannuation Act 1958. Classification is required to be made according to actuarial principles, and to ensure as far as is practical, that on average the benefits per unit of pension are the same for each classification. Three classifications are identified: "normal" meaning full benefits, "limited" meaning full benefits on death and restricted benefits on total disability, and "service" meaning proportionate benefits on death and three and one-half times contributions paid on total disability. In the case of the SERB scheme five medical classes are recognised. These are however applied in a more sophisticated manner so that the adverse impact of classification progressively reduces to zero at retiring age.

The Committee has received a number of submissions which addressed the underwriting process. The process itself has been severely criticised and described as "discrimination against the chronically ill"(14). The Federated Engine Drivers and Firemens Association submitted:

".... that the SECV Employees Retirement and Benefit Fund rules should be amended to allow full death benefits to be paid in all cases of death during service of an employee, whether to a dependant or into a deceased employee's estate where there are no dependants".(15)

The Ombudsman reports that the refusal by the State Superannuation Board to supply reasons for its classification decisions is a common cause of complaints.(16) The Committee has received a similar comment from a number of individuals. Delay by that Board in reclassifying disablement claimants is another cause of complaint although in many cases this may be attributable to the time taken to assemble appropriate medical information.

The Ombudsman also argues for a differential rate of contribution for contributors who are classified.(17) Contributor organisations believe that a classified person who retires in ill-health should only suffer reduced benefit if the cause is the same as that which gave rise to the classification. They are also keen to see classifications reviewed automatically at the end of four years.(18)

These complaints highlight a dilemma which is difficult to resolve. Most superannuation schemes provide valuable benefits on death or disablement. The cost of providing these benefits depends of course on how many claims are made. The number of claims in turn depends heavily on the medical condition of the members covered. If new members are examined medically and those where the chance of claim is clearly greater are classified and granted reduced benefits, the overall costs of the scheme are no greater than if all new members were medically first class. If, however, there is no medical screening and classification, the costs of providing death or disability benefits other things unchanged must be considerably greater than in the former case.

Furthermore, if one employer has no screening and classification for its scheme but others do and these schemes have similar benefit provisions, the

former is likely to attract a higher than normal proportion of higher-risk employees. The basic choice therefore, if cost is to be kept within bounds, is either:

- (a) providing uniform benefits to all employees regardless of medical condition but reducing the attractiveness of the benefit or by eliminating the insurance element altogether, e.g., by making the benefit merely a return of employee and employer contributions with interest; or
- (b) to provide more valuable benefits as at present but only for those employees able to meet the medical requirements.

The Victorian Consultative Council on Rehabilitation urges the elimination of the insurance element in the following passage:

"... Modern medical knowledge and technology have greatly assisted in prolonging the life of persons with disabilities and in improving their work capabilities. Council suggests that many medical assessments of potential work performance and longevity of persons with disabilities are at best 'guesstimates'. Council is concerned that such people be given maximum encouragement and incentive to pursue active and productive lives and would suggest that this might be assisted if all appointees to the public service were to be classified as full contributors for superannuation purposes but that their benefit scales on retirement (for whatever reasons) were to be based solely on the length of their service, i.e. the actuarial base would concentrate not on a 'guesstimate' of the length of working life but on the benefits which would be affordable by the scheme as evidenced by actual employment history."(19)

If this approach were adopted, it would enable schemes to eliminate all forms of medical discrimination. Unfortunately, it would also deny the majority of scheme members the present generous provisions for obvious need in the case of death or disability.

THE COMMITTEE BELIEVES THE EXTREMES OF OPTIONS (A) AND (B) ABOVE ARE UNSATISFACTORY TO A SIGNIFICANT NUMBER OF PUBLIC

SECTOR SCHEME MEMBERS AND THAT SOME FORM OF COMPROMISE SEEMS DESIRABLE. THIS MAY INVOLVE, FOR EXAMPLE, A BASE LEVEL COVERAGE AT A RELATIVELY LOW CONTRIBUTION RATE WITH THE OPTION, FOR THOSE MEMBERS WHO WISHED A HIGHER COVER TO UNDERGO MORE STRINGENT EVALUATION OF THEIR SUITABILITY ON MEDICAL GROUNDS.

Under such an approach there could be an easing of entry medical standards and a wider basic coverage. It is clear, however, that given the costs of the present schemes, a more flexible approach could not maintain the present level of benefits. If those benefit levels are maintained there should be no relaxation of entry medical standards.

SECTION 2.3 CONTRIBUTIONS

2.3.1 Alternative Contribution Schemes

In any review of contribution provisions and contribution levels it is important to distinguish the form of superannuation scheme to which an individual is contributing. There are two broad types of superannuation scheme - defined benefit schemes and defined contribution schemes. In addition, there are a number of schemes which combine elements of both.

Defined contribution schemes, specify both the contributions of the employee and the employer but do not specify the amount of the benefit. Where a benefit is payable, in either a lump sum (the more typical) or a pension, the amount of the benefit is related to the total sum of contributions of employer and employee and interest earnings thereon. Victorian public sector defined contribution schemes are listed in Table 2.3 together with their respective rates of contribution. These schemes all provide lump sum benefits.

Under a defined benefit scheme, which is the most common scheme in the Victorian public sector (with such schemes covering 99.5% of total public sector superannuation contributors), the benefits and contributions of employees are set out in the documentation of the scheme. Employees typically pay a fixed percentage of salary with the employer paying a further (variable) percentage of salary recommended from time to time by the scheme's actuary. Schemes where this pattern applies in the Victorian public sector are listed in Table 2.4.

As can be seen, there is considerable variation in employee contributions ranging from 11.5% of salary in the case of the Parliamentary scheme to only 2.5% per cent of salary for the Supreme and County Court Associates and parts of the MMBW and Westgate schemes.

TABLE 2.3
 VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
 DEFINED CONTRIBUTION (LUMP SUM) SCHEMES

Scheme	Retirement Benefit Comprising Accumulation of Employee and Employer Contributions and Interest	
	Employee Contributions (% of Salary)	Employer Contributions (% of Salary)
Legal Aid Committee	5	5
Pilot Service Staff	5	10
Port of Geelong	5	$8\frac{3}{4}$
State Lump Sum	5	$7\frac{1}{2}$
Supreme & County Court Associates	$2\frac{1}{2}$	$6\frac{1}{4}$
Vic. Dried Fruits Board	5	$7\frac{1}{2}$
Tobacco Leaf Marketing Board	Nominated Amount	Nominated Amount

Source: Office of Government Statist and Actuary

TABLE 2.4

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
CONTRIBUTIONS UNDER DEFINED BENEFIT SCHEMES

Scheme	Employee Contributions (% of Salary)	Employer Contributions (% of Salary)
Egg Board Staff	4 or 5	9.25
Fire Brigade	7	12(a)
Gas and Fuel Corporation	6	12
Greyhound Racing Control Board	5	19.2/7.2
MMBW Provident	2.5 or 5	n.a.
MURLA	8	19
SEC Employees	3.25	6.5
SEC Superannuation	6.5	16.3
State Bank	6	12
Parliamentary	11.5	72(2)
TAB	5	16
Westgate (CML)		
-Class 1	2.5	8.75
-Class 2	4.0	7.25
Westgate (NMLA)	4.0	14.8

Note (a) This amount is substantially less than the amount required to finance the scheme's benefits.

(b) The amount shown in this case reflects the amount paid according to the latest accounts.

Source: Office of Government Statist and Actuary.

2.3.1.1 Partly Funded and Unit Schemes

There are two variants in the defined benefit type of scheme which are of particular importance to the Victorian superannuation system. These are: (a) partly funded defined benefit schemes; and (b) age related or unit based defined benefit schemes.

There are three partly funded schemes which provide both lump sum and pension benefits. These are financed partly on an unfunded Pay-As-You-Go (PAYG) basis where the employers total contribution is determined by an actuary for three years at a time. The three schemes in this category are summarised in Table 2.5.

TABLE 2.5

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES CONTRIBUTIONS UNDER PARTLY FUNDED SCHEMES

Scheme	Employee Contributions (% of Salary)	Employer Contributions (% of Salary)
Hospitals	3.5 to 6	7.91 (Public) 8.91 (Private)
Local Authorities	3.5 to 6	8.29
SERB (a)	3.5 to 6	7.62

Note:(a) In the SERB case, certain employers under the direction of the Treasurer are not paying the required contribution.

Source: Office of Government Statist and Actuary.

The other group of defined benefit schemes are the age related employee contribution or unit schemes of which the State Superannuation scheme is by far the most important. Under unit schemes the employee's initial rate of contribution is based on the age at entry to the scheme. When the employee gets a salary increase, the contribution on that increase relates to age at the time. In inflationary periods the effect has been to increase employee's contributions significantly. As a result, a ceiling of 9% of salary has been placed on the total employee contribution. The State Superannuation, Port of Melbourne, MMBW Superannuation, and City of Melbourne Officers' schemes are in this category. A minor difference with the City of Melbourne Officers' scheme is that both the scale for initial contributions and that for salary increases are subject to a maximum contribution rate of 9%. There is no corresponding employer contribution for the State Superannuation or the Port of Melbourne schemes - in each of these cases the employer share of the cost of benefits is met as benefits become payable on a PAYG basis. In the other two cases the employer contribution is that determined by the actuary concerned, 2.9 times members' contributions for the MMBW Superannuation scheme and twice members' contributions for the City of Melbourne Officers' scheme.

Contributions which increase according to age at entry or age at salary increase are a basic element of the unit system which has long been a feature of public but not private sector superannuation. The unit system was conceived in times of negligible inflation and worked satisfactorily in those conditions. In current conditions, however, the system gives rise to unreasonably high employee contributions at the older ages. This effect is moderated but not eliminated by the imposition of a maximum total contribution rate. The resulting total contribution of 9% of salary payable by most contributors at the older ages is still high compared with all other types of scheme.

Apart from the foregoing difficulty, the unit system is administratively cumbersome, especially when it has to be applied to salary increases which are back-dated. Some of the administrative burden is relieved by not adjusting contributions immediately an employee receives a salary increase but doing it once a year, for all employees, at the annual review date. A consequence of this however is that the employee incurs what is, in effect, a reduction in

take-home pay at the date concerned.

The unit system has been replaced by the Commonwealth in relation to its own scheme by the much simpler percentage system. In a similar fashion the State schemes of Queensland, South Australia and Tasmania no longer rely on the unit system. Thus the Victorian schemes mentioned immediately above, i.e. State Superannuation, Port of Melbourne, MMBW Superannuation and City of Melbourne Officers' appear overdue for reform in this respect.

THE COMMITTEE CONSIDERS THE UNIT SYSTEM IS NO LONGER APPROPRIATE AND OVERDUE FOR REFORM

2.3.1.2 Non Contributory Schemes

As indicated in Table 2.1, there is a small group of schemes covering such people as the Governor, Chairman of General Sessions, Supreme and County Court Judges, MTA and City of Melbourne Gratuities where there are no member contributions. This approach has obvious attractions to scheme members. Because of the operation of the tax rebate system which gives members little, if any, recognition of their contributions, it is also the most tax-efficient method of financing benefits. Nevertheless, non-contributory arrangements are the exception rather than the rule in both public and private sectors throughout Australia. This appears to be due to a belief that superannuation is a joint responsibility of employee and employer and most schemes are founded on that belief.

SECTION 2.4 BENEFITS

2.4.1 Types of Benefit Systems

In the previous section, a distinction was made between the two major types of superannuation schemes - defined benefit schemes and defined contribution schemes. Under defined benefit schemes, benefits on retirement, death or disability are determined by a formula which defines benefits in terms of salary at or near retirement and years of actual scheme membership. With defined contribution schemes, the benefit at retirement is the accumulation with interest at the rates earned from time to time of contributions by both employer and employee. In current conditions, defined contribution schemes generally provide lower benefits than defined benefit schemes.

In the Victorian public sector defined benefit schemes predominate, with over 99% of total public sector contributors enrolled in such schemes. Two issues are important here: firstly, how do the benefits compare across different schemes and, secondly, to what extent are the benefits received under public sector schemes out-of-line with, or more generous than, those received in the private sector.

Before discussing either of these aspects, the Committee believes it is important to state the principle on which it is considering the range of superannuation provisions. The Committee regards it as fundamental that recognition be given to accrued rights of members. Superannuation provision has been part of the remuneration of members during their period of service and entitlements to date under present scheme rules must be honoured and must not be taken away. Consistent with this principle, the Committee hopes to design a scheme which will be attractive to the majority of existing members, as well as for new entrants.

2.4.2 Benefits in Victorian Superannuation Schemes

As noted, the great majority of public sector superannuation schemes in Victoria are based on defined benefits. An example is the State Superannuation scheme which provides a pension of 70% of final salary on

retirement at age 65, subject to completion of 30 years membership. Another example is the Zoo scheme which provides a lump sum retirement benefit of 16% of final salary for each year of membership.

The Port of Geelong scheme, however, is a defined contribution scheme, providing as a lump sum retirement benefit the accumulation with interest of contributions by employee and employer of 5% and 8.75% respectively. Other defined contribution schemes - which tend to be the smaller schemes - are the Supreme and County Court Associates, Legal Aid Committee, Pilots' Service Staff, Superannuation Lump Sum, Supreme Court Associates, Tobacco Leaf Marketing Board and Vic. Dried Fruits Board schemes.

The dominance of defined benefits in the Victorian public sector matches the situation amongst larger schemes in the private sector.

An important characteristic of superannuation is whether the scheme provides a pension or a lump sum at retirement. Although the private sector is heavily biased toward the lump sum benefit, the Victorian public sector shows considerable diversity as illustrated in Table 2.6.

Retirement benefits, in the private sector, whether pension or lump sum, are most commonly based on average salary over the last three years of employment. The experience of private sector schemes is summarised in Table 2.7 which is taken from survey data (for 1980) for 280 funds supplied by The Association of Superannuation Funds of Australia.(20)

TABLE 2.6
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
FORMS OF RETIREMENT BENEFIT

Retirement Benefit	Scheme
(a) <u>Pension Only</u>	- Judges, Governor, Mint, Police Pensions, Chairman General Sessions, Coal Miners.
(b) <u>Pension Partly Commutable to Lump Sum</u>	- State Superannuation Metropolitan Fire Brigades, Port of Melbourne, Port Phillip Pilots Sick and Superannuation, SEC Superannuation.
(c) <u>Pension Wholly Commutable to Lump Sum</u>	- Gas and Fuel Corporation, City of Melbourne Officers', MMBW Superannuation, Parliamentary, State Bank, TAB,
(d) <u>Pension Plus Lump Sum</u>	- Hospitals', Local Authorities, SERB.
(e) <u>Lump Sum Only -</u>	
Australian Barley Board	MURLA
County Court Associates	Pilot Service Staff
Egg Board Staff	Port of Geelong
Greyhound Racing Control Board	Port Phillip Pilots Life Assurance
Grain Elevators	SEC Employees
Harness Racing Board	Superannuation Lump Sum
MMBW Provident	Supreme Court Associates
MTA Gratuities	
Tobacco Leaf Marketing Board	
Vic. Dried Fruits Board	
Westgate Bridge Authority (CML and NMLA)	
Zoo	

Source: Office of Government Statist and Actuary

TABLE 2.7

PRIVATE SECTOR SUPERANNUATION SCHEMES IN AUSTRALIA
 AVERAGING PERIOD USED IN CALCULATING NORMAL RETIREMENT BENEFITS

Period	% of Schemes	% of Members
Pay in final year) or at retirement)	12	17
Average pay over three years	69	61
Average pay over five years	15	16
Average pay over career	1	-
Some other period of pay	4	5

Source: Association of Superannuation Funds of Australia.

The preference by over two-thirds of private superannuation schemes for a three year averaging period is partly tradition but, more importantly, due to the fact that such a period is used by the Taxation Commissioner in the formula for permissible benefits. Public sector superannuation is not subject to the Taxation Commissioner's controls and, as a result, a more liberal approach is commonly taken to this and other benefit provisions in scheme design.

Although most Victorian public sector superannuation schemes base their retirement benefits on final salary or its equivalent, there is still a significant

degree of diversity, as illustrated in Table 2.8.

Final salary tends to be favoured by employees for this purpose because it helps in optimising retirement benefits. It also helps relate such benefits to the living standard of the employee immediately before retirement. Possible objections to the use of final salary include its giving undue weight to any promotional salary increase immediately before retirement and increasing the cost of the scheme to the employer. Both objections are met in part by averaging salary for retirement benefit purposes over several years.

TABLE 2.8

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
AVERAGING PERIOD IN CALCULATING NORMAL RETIREMENT BENEFITS

Period	Schemes
Final Salary or its Equivalent	Grain Elevators, Hospitals', Judges', Local Authorities', Metropolitan Fire Brigades', MMBW Superannuation, MTA Gratuities, MURLA, Parliamentary, Port of Melbourne, Port Phillip Pilots Sick and Superannuation, SERB, State Superannuation and Zoo.
Average Final Year	Gas and Fuel Corporation, TAB.
Average Final Two Years	City of Melbourne Officers', SEC Employees, SEC Superannuation, State Bank.
Average Final Three Years	Egg Board Staff , Greyhound Racing Control Board, Harness Racing Board, MMBW Provident, Westgate (NMLA)
Average Final Five Years	Westgate (CML)

Source: Office of Government Statist and Actuary.

LITTLE EVIDENCE OR ARGUMENT WAS PUT TO THE COMMITTEE JUSTIFYING THE DIVERSITY OF AVERAGE PERIOD CALCULATIONS IN VICTORIAN PUBLIC SECTOR SCHEMES. THE COMMITTEE IS EXPLORING AN ACCEPTABLE COMMON RULE FOR ALL SCHEMES.

2.4.3 Indexation and Commutation

Schemes based on final salary or on salary averaged over a short period before retirement, produce benefits which relate reasonably to living costs at the point of retirement. Pensions granted at that point can only continue to relate reasonably to living costs if they are regularly up-dated.

Most public sector pension schemes are fully indexed according to changes in the Consumer Price Index. Schemes where there is partial indexation are City of Melbourne Officers' (rate recommended by the scheme's Actuary), Gas and Fuel Corporation (rate determined from time to time by the trustees), and Port Phillip Pilots Sick and Superannuation (rate determined by Pilot Superannuation Board). Schemes where there is no indexation are MMBW Superannuation and TAB.

The corresponding situation in the private sector is that very few schemes provide full indexation. Most provide no guarantees whatever in this respect, increases being granted on an ad hoc basis and subject to an upper limit of 3% or 4%. This is undoubtedly a reflection of the uncertainty and costs involved.

CONSIDERATIONS OF LOGIC SUGGEST TO THE COMMITTEE THAT THERE IS A STRONG CASE FOR UNIFORMITY IN INDEXATION PROVISIONS IN THE PUBLIC SECTOR. CONSIDERATIONS OF EQUITY SUGGEST THAT THERE SHOULD AT LEAST BE SOME NARROWING OF THE WIDE GAP BETWEEN THE PUBLIC AND PRIVATE SECTORS. THE COMMITTEE NOTES IN THIS RESPECT THAT THE PROBLEM DISAPPEARS WHEN LUMP SUM BENEFITS ARE PAID.

Most pension schemes in both public and private sectors permit full or partial commutation of pension. This process enables a retiring member to exchange a pension entitlement for an equivalent lump sum. Evidence to the Committee suggests that where commutation is available, most public sector scheme members commute the maximum to which they are entitled. One exception is the State Bank where, although the whole of the pension may be commuted, the portion actually commuted averages about 60%. This is an average result derived from some who commute the whole, some who take the benefit entirely in pension form, and some who commute only part of the benefit.(21)

The Bank's experience in this respect differs from the general pattern because of the terms upon which commutation is offered.

The State Superannuation scheme permits only 30% of a member's pension to be commuted for cash. Two employee organisations, the Victorian Public Service Association(22) and the Municipal Officers' Association(23) argued that this percentage should be increased. On the other hand, two other employee bodies, the Combined Contributor Organisations to the State Superannuation scheme and the Victorian Colleges Staff Association expressed the view that:

"We support the continuation of an indexed pension based scheme. We are in favour of retaining the present 70% pension and maximum 30% lump sum conversion benefit. We also support the concept that there should be a sliding scale to enable the percentage of pension converted to a lump sum to increase for those members retiring younger than age 60."(24)

THE COMMITTEE BELIEVES THAT THERE IS A GOOD CASE FOR THE OPTION OF INCREASED COMMUTATION IN THE STATE SUPERANNUATION SCHEME BUT THAT ANY CHANGE SHOULD BE LINKED WITH OTHER CHANGES IN SCHEME CONDITIONS.

2.4.3.1 Commutation Factors

The amount of lump sum granted in lieu of pension is determined by multiplying the amount of pension concerned by a commutation factor. For instance, if the amount of pension to be commuted is \$8,000 per annum and the factor is 9.5, the lump sum granted is $\$8,000 \times 9.5 = \$76,000$.

There is some variety in the view taken by various schemes of the figure which should be used for this purpose. It may (and often does) depend on such things as sex, age, earning rate of the fund, and whether or not the spouse's pension ceases or continues. For example, the State Superannuation scheme currently uses a factor of 10.38 at age 60 years for both males and females and a figure of 8.97 at age 65 years. Thus, a member of the State Superannuation scheme retiring at age 60 with a pension of \$13,500 is allowed to commute 30% of the pension (\$4,050) and would receive a lump sum payment of \$42,039.

Table 2.9 illustrates the range of commutation factors used by various public sector superannuation schemes. As can be seen, considerable diversity is in evidence as well as different treatments for spouse pensions.

THE COMMITTEE SEES LITTLE JUSTIFICATION FOR THIS DIVERSITY IN COMMUTATION FACTORS AND TREATMENT OF SPOUSE PENSIONS.

TABLE 2.9

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
COMMUTATION FACTORS PER \$1 PER ANNUM PENSION

Scheme	Age 60 \$	Age 65 \$	Spouse Pension
City of Melbourne Officers'	11.00	11.00	Ceases
Gas & Fuel Corporation	11.33	10.00	Ceases
Metropolitan Fire Brigades'	10.38	8.97	Unaffected
MMBW Superannuation (a)	11.00	9.70	None
Parliamentary	10.00	10.00	Unaffected
Port of Melbourne	10.38	8.97	Unaffected
Port Phillip Pilots			
Sick and Superannuation	10.35	10.00	Ceases
SEC Superannuation (b)	12.00	11.00	Ceases
State Superannuation	10.38	8.97	Unaffected
State Bank	8.83	8.25	Ceases
TAB	12.00	10.80	Ceases

Notes (a) This scheme has differential rates for females \$12.60 at age 60, \$11.31 at age 65.

(b) These factors are reduced by \$2.00 if the spouse pension is left intact.

Source: Office of Government Statist and Actuary.

Little if any account is taken of indexation in the estimation of commutation factors. If full account were taken of indexation, commutation factors, of course, would be materially increased. The fact that commutation is nevertheless extremely popular reflects employee preference for the freedom and flexibility which a lump sum benefit allows.

THESE CONSIDERATIONS SUGGEST TO THE COMMITTEE THAT IN THE LONGER TERM THERE WOULD BE SUBSTANTIAL SAVINGS TO THE STATE IN ALLOWING A GREATER DEGREE OF COMMUTATION UNDER THE STATE SCHEME. ON THE OTHER HAND GREATER COMMUTATION WOULD REQUIRE MUCH HEAVIER CLAIMS ON THE CONSOLIDATED FUND IN THE IMMEDIATE FUTURE AND THOSE CLAIMS WOULD OF COURSE NEED TO BE FINANCED. SIMILAR SAVINGS SUBJECT TO SIMILAR FINANCING PRESSURES COULD BE ACHIEVED BY OFFERING TO COMMUTE EXISTING STATE SCHEME PENSIONS.

2.4.4. Membership and Retirement Benefit

2.4.4.1 Normal Retiring Age

The normal retiring age is a key item in the design of most superannuation schemes. This establishes the date at which the main benefits of the scheme become payable. It is also the central pillar upon which early retirement, late retirement, death, disablement and other benefits commonly depend. For most Victorian public sector schemes, the normal retiring age specified is either 60 or 65 years. Some exceptions are the Parliamentary scheme, where retirement can of course be at any time, the Supreme and County Court Judges, who can retire at any time after age 60 years provided they complete at least 10 years' service, and the City of Melbourne Officers' scheme, whose officers can retire at any time between age 55 and 65 years. Normal retiring age provisions are summarised in Table 2.10.

The 1980 survey of the Association of Superannuation Funds of Australia indicated that the normal retiring age was 65 years for 85% of the schemes and 80% of the members of the private sector schemes surveyed. (25)

TABLE 2.10

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
RETIRING AGE

Retiring Age	Scheme
55 - 65	City of Melbourne Officers
60	Harness Racing Board, Legal Aid Committee MMBW Superannuation, Superannuation Lump Sum Tobacco Leaf Marketing Board
60 - 65	City of Melbourne Gratuities, Egg Board Staff, MURLA.
65	Australian Barley Board, Gas & Fuel Corporation, Grain Elevators, Greyhound Racing Board, Hospitals', Local Authorities', MMBW Provident, Metropolitan Fire Brigades', MTA Gratuities, Pilot Service Staff, Port of Geelong, Port of Melbourne, Port Phillip Pilots Sick and Superannuation, State Bank, SEC Employees, SEC Superannuation, SERB, State Superannuation, TAB, Vic. Dried Fruits Board, Westgate (CML, NMLA), Zoo.
72	County Court Associates, Supreme Court Associates
Unspecified	Parliamentary, Governor

Source: Office of Government Statist and Actuary.

2.4.4.2 Early Retirement

Some of the schemes where the normal retiring age is specified as 65 years provide for early retirement after age 60 without penalty apart from any service necessarily forgone. Examples are the SEC Superannuation, MMBW Provident, Port of Geelong and Port Phillip Pilots Sick and Superannuation schemes. Others provide for early retirement with minimal penalty. Thus, members of the State Superannuation scheme who have completed 30 years service can retire at age 60 years on a pension of 66 2/3% of final salary instead of 70% at age 65. By private sector standards this is extremely generous. It is also clearly attractive to members, with the result that, in 1981-82 some 59% of all age retirements were at age 60 years. Many other State Superannuation scheme members retire before age 65 years, immediately on completing 30 years of membership. Similar provisions apply to the Hospitals', Local Authorities' and SERB Schemes. For the Metropolitan Fire Brigades' scheme, early retirement with reduced pension is permitted after age 55 years. Overall, it may be said that the effective retirement age for the great bulk of the Victorian public sector is 60 years of age.

The State Superannuation scheme benefit on retirement at 60 years of age is clearly superior to that granted by the Commonwealth Superannuation scheme in similar circumstances. For a member with full (30 years) service the State Superannuation scheme's benefit is 66.7% of salary, which is 95.2% of the normal benefit at 65 years of age. The corresponding situation for the Commonwealth Superannuation scheme is that the pension benefit at 60 years of age is 90% of that available at 65 years of age.

THE COMMITTEE HAS HEARD NO EVIDENCE TO JUSTIFY THE STATE SUPERANNUATION SCHEME'S RELATIVE GENEROSITY IN EARLY RETIREMENT PROVISIONS.

The provisions of retirement benefits and provisions for early retirement or withdrawal from a scheme have, quite clearly, important implications for personnel management. The personnel management aspects of early retirement were discussed with representatives of the Public Service Board. The question of the role of early retirement benefits before reaching 60 years

of age under the State Superannuation scheme was raised with the Chairman of the Public Service Board:

"THE CHAIRMAN: There must be plenty of people in the 55-plus age group, who are waiting to retire and who could possibly be described as "dead wood" in the service, but who cannot take a pension before 60. Is there anything that you would like to put to this Committee about encouraging people, through superannuation, to retire early?

DR CULLEN: That is the companion to the previous question. I think the ill health retirements would reduce markedly. I cannot talk about the equity of people who want to retire early being allowed to do so. That is a social issue. I can say that the ability to negotiate early retirement, from a management point of view, is quite important. What one has to do, if one cannot do that, at times is to find useful things for people to do for relatively few years and I do not think they particularly enjoy it and I do not think there is enormous value in it. Whether or not they would be attracted by a fair offer of early retirement, it would be nice to be able to offer it." (26)

Generous provision for retirement before age 65 is much less common in the private than the public sector. In current conditions, where early retirement is of increasing interest to both employees and employers, this is clearly a reflection of the costs involved. Generous early retirement provision is especially costly to the employer in the case of pension schemes, particularly when the pension is fully indexed.

THE COMMITTEE BELIEVES THAT CURRENT EMPLOYMENT CONDITIONS CALL FOR FLEXIBILITY IN THE AGE AT WHICH RETIREMENT BENEFITS ARE AVAILABLE.

THERE ARE CASES WHERE IT IS APPROPRIATE THAT RETIREMENT BENEFITS BE AVAILABLE BEFORE THE PRESENT MINIMUM AGE (IN THE STATE SCHEME) OF 60. AT THE SAME TIME THE COMMITTEE IS CONSCIOUS OF THE CONSIDERABLE COSTS INVOLVED IN FULLY INDEXED PENSIONS.

2.4.4.3 Variability in Retirement Benefits

THE COMMITTEE IS CONCERNED AT THE APPARENT INEQUITIES BETWEEN THE VARIOUS PUBLIC SECTOR SCHEMES AND BETWEEN PUBLIC AND PRIVATE SECTOR SUPERANNUATION BENEFITS.

In order to highlight these inequities, Tables 2.11 to 2.14 summarise the retirement benefits of the more important Victorian public sector schemes.

Table 2.11 summarises the retirement benefits of the major pension schemes in terms of four characteristics - pension benefit (assuming 30 years membership), salary base for pension purposes, survivor's pension rights and level of indexation. The majority of schemes (including the largest - the State Superannuation scheme) offer 70% of final salary, a survivor's pension and full CPI indexation. This is far more generous than the private sector where the corresponding benefit for 30 years membership of an average pension scheme would be 45% of final average salary over three years, a survivor's pension and partial indexation.

The relative generosity of the Victorian State Superannuation scheme is also evidenced by contrasting its benefit provisions with those of the Commonwealth Superannuation scheme. While it is argued that this generosity is an historical accident, due to Victoria in 1975 anticipating changes which were subsequently amended by the Commonwealth, the fact remains that no attempt has been made at amendment.

The principal differences between the State and Commonwealth schemes are summarised briefly in Table 2.12. The Victorian benefits are clearly more liberal except in the case of resignation. Commonwealth scheme contributors overall pay much lower contributions but have the option to make additional voluntary contributions.

Table 2.13 summarises the benefits of the four schemes which provide both pensions and lump sums. There are no immediate parallels in the private sector for this type of scheme.

TABLE 2.11

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
SUMMARY OF RETIREMENT BENEFITS

Scheme	Pension Benefit (30 Years M'ship) %	Salary for Pension Purposes	Survivors Pension	Indexation of Pension
City of Melbourne Officers'	60	FAS(2)	W	P
Gas & Fuel Corporation	52.5	FS	W	P
Judges, County Court and Supreme Court	60	FS	W	C
Metropolitan Fire Brigades'	70	FS	W	C
MMBW Superannuation	70	FS	-	-
Parliamentary	75	FS	W	S
Port of Melbourne	70	FS	W	C
Port Phillip Pilots Sick and Superannuation	54	FS	W	P
SEC Superannuation	66.7	FAS(2)	W	C
State Superannuation	70	FS	W	C
State Bank	70	FAS(2)	W	C

Note :

- FS = Final Salary
 FAS(x) = Final Average Salary over x years
 W = Survivor's pension for widow or widower
 C = Full indexation according to CPI
 P = Partial indexation
 S = Indexation to current basic salary of MP's.

Source: Office of Government Statist and Actuary.

TABLE 2.12

BENEFIT AND CONTRIBUTION LEVELS
STATE AND COMMONWEALTH SUPERANNUATION SCHEMES

Feature	Victoria	Commonwealth
Retiring Age	Effectively 60	Effectively 65
Retirement Benefit (30 years service)	Pension 66 2/3% of final salary (30% commutable).	Pension 50% of final salary at 65 (45% at 60). Plus return of member contributions and interest.
Resignation	Members contribution.	Members contribution plus interest.
Contributions	Depend on age/salary history: maximum 9% of salary (overall about 6½%).	5% of salary (members may voluntarily pay a further 5%).

TABLE 2.13

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
RETIREMENT BENEFITS - PENSION AND LUMP SUM SCHEMES

Scheme	Normal Retirement Benefit for 30 Years Membership
Hospitals'	Pension of 25% FS W C plus lump sum of 3.0 FS
Local Authorities'	Pension of 25% FS W C plus lump sum of 3.0 FS
SERB	Pension of 25% FS W C plus lump sum of 3.0 FS
TAB	Pension of 50% FAS(1) W - plus accumulated member contributions.

Note: FS = Final Salary
 FAS(x) = Final Average Salary over x years
 W = Survivor's pension for widow or widower
 C = Full indexation according to CPI

Source: Office of Government Statist and Actuary.

The retirement benefits under public sector defined benefit lump sum schemes are summarised in Table 2.14. After 30 years membership lump sums range from 1.7 to 7.0 times final salary or final average salary. These figures are not out of line with those reported for the private sector where an average defined benefit scheme provides a benefit of about four times final average salary over three years. (27)

TABLE 2.14

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
RETIREMENT BENEFITS - LUMP SUM SCHEMES
(DEFINED BENEFITS)

Scheme	Normal Retirement Benefit for 30 Years Membership
Egg Board Staff	3.75 FAS (3)
Greyhound Racing Control Board (Employees)	3.75 FAS (3)
Greyhound Racing Control Board (Executive)	6.0 FS
Grain Elevators	4.2 FS
MMBW Provident (lower benefit)	3.3 FS
MMBW Provident (higher benefit)	4.2 FS
MTA Gratuities	1.7 FS
MURLA	7.0 FS
SEC Employees	4.0 FAS (2)
Westgate (CML)	3.0 FAS (5)
Westgate (NMLA)	4.5 FAS (3)

Note: FS = Final Salary
FAS(x) = Final Average Salary over x years

Source: Office of Government Statist and Actuary.

A few of the smaller schemes provide for the accumulation of defined employee and employer contributions plus interest at retirement. These were listed in Table 2.3. These schemes are obviously similar to accumulation schemes in the private sector.

The range of variability exhibited by Victorian public sector superannuation schemes is such that it becomes of particular importance to try and assess the relative benefits of the different schemes by putting them on a common base. While it is difficult to make a precise comparison, one method is to express the value to the member of the benefit payable at normal retirement date as a capital sum, not in dollar terms but as a multiple of the member's salary at the date of retirement. This process eliminates many of the variables but necessarily depends on a number of assumptions. Table 2.15 provides details for a selection of the largest schemes (covering 99% of public sector scheme membership) the main assumptions being as follows:

Retirement age	60 or 65 years
Scheme membership	30 or 40 years
Long term interest earning	9%
Salary increases	8%

For pension schemes it has further been assumed that:

- (a) the member is a married male and his wife is 5 years younger than he is;
- (b) investment earnings of the fund are 3% greater than the CPI; and
- (c) the member commutes maximum possible pension for cash.

These assumptions have been adopted purely for comparative purposes. Any reasonable alternative assumptions would not greatly alter the relativities indicated by the table.

Under each of the four retirement age and membership permutations the State Superannuation scheme and the Port of Melbourne scheme emerge as the most

generous with a benefit, at age 60 years and with 30 years membership equivalent to 10.7 times final salary.

Perhaps the most significant point to note is that an individual's retirement benefit need not depend upon salary level, occupation or skills. Employees with a similar job classification at the same salary level can expect to receive significantly different retirement benefits simply because of the scheme they happen to belong to. Thus, a railway member of the State Superannuation scheme retiring at age 60 after 30 years service can expect to receive 9 times as much as a tramway worker with similar service. Similarly, members of the Municipal Officers' Association can be found in up to seven different schemes - the benefits for 30 years membership at age 60 ranging from 8.4 times final salary in the SEC Superannuation scheme to only 2.9 times final salary in the MMBW Provident scheme.

THE COMMITTEE REGARDS THE DIFFERENCES DISCLOSED BY TABLE 2.15 AS HIGHLY INEQUITABLE. HOWEVER, STANDARDISATION OF ALL BENEFITS AT THE HIGHEST LEVELS CURRENTLY AVAILABLE IN THE PUBLIC SECTOR WOULD HAVE SERIOUS COST IMPLICATIONS. THE COMMITTEE IS CONCERNED THAT SUCH A STANDARDISATION WOULD ALSO REINFORCE THE EXISTING MAJOR DISPARITIES BETWEEN THE PRIVATE AND PUBLIC SECTORS.

TABLE 2.15

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
RETIREMENT BENEFITS
EXPRESSED AS A MULTIPLE OF FINAL SALARY

Scheme	Retirement at Age 60		Retirement at Age 65	
	30 Years M'ship	40 Years M'ship	30 Years M'ship	40 Years M'ship
State Superannuation	10.7	10.7	9.9	9.9
Port of Melbourne	10.7	10.7	9.9	9.9
Metropolitan Fire Brigades'	10.3	10.3	9.6	9.6
SEC Superannuation	8.4	8.8	7.5	7.9
MMBW Superannuation	7.7	7.7	7.7	7.7
Local Authorities'	6.9	6.9	6.6	6.6
Hospitals'	6.9	6.9	6.6	6.6
SERB	6.9	6.9	6.6	6.6
City of Melbourne Officers'	6.1	6.6	6.1	6.6
Gas & Fuel Corporation	5.4	7.2	5.1	6.7
State Bank (a)	4.4	5.2	4.6	5.4
SEC Employees	3.7	3.9	3.7	3.9
MMBW Provident	2.9	3.9	2.9	3.9
MTA Gratuities	1.2	2.5	1.7	2.5

Note:(a) The assumption of maximum commutation of pension which appears reasonable in other cases is not altogether appropriate in the case of the State Bank. The cash amounts granted in lieu of pension by the State Bank scheme are relatively unattractive, with the result that many members prefer pensions. The factors for the State Bank if retiring members claim 100% pensions are respectively 8.4, 9.8, 8.2 and 9.6.

Source: Office of Government Statist and Actuary.

2.4.4.4 Death and Disability Benefits

In both the public and private sectors the form of benefit provided on a member's death or permanent disability in service generally follows the form of the retirement benefit. Thus, for pension schemes the death benefit is usually a spouse's pension, commonly two-thirds of the member's pension, and the permanent disability benefit is usually a pension with a reversionary pension to a surviving spouse. For lump sum schemes the death benefit and the disablement benefit are usually lump sums determined in a manner similar to the determination of the normal retirement benefit. On death after retirement, pension schemes commonly provide a continuing pension to a surviving spouse. No corresponding provision is normally made in the case of lump sum schemes.

Not only the form, but also the amounts of benefit payable on death or disablement are related to those payable at normal retirement. Thus, the relative generosity of public sector retirement benefits is also true of death and disablement benefits. In particular, the fully indexed pensions payable by many of the larger public sector schemes have few counterparts in the private sector.

There are a few exceptions to the foregoing matching principles in Victorian public sector schemes. Two pension schemes provide a lump sum as an alternative to the spouse pension on death in service. These are the Gas and Fuel Corporation and City of Melbourne Officers' schemes. The SEC Superannuation, TAB, Port Phillip Pilots Life Assurance, Hospitals', Local Authorities' and SERB schemes provide for a lump sum in addition to a spouse pension on death in service. The MMBW Superannuation scheme is a pension scheme which can be distinguished from other pension schemes in at least two respects. It provides a lump sum rather than a spouse pension on death in service, and it does not provide any spouse pension on death after retirement. These details are summarised in Table 2.16.

TABLE 2.16
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
DEATH BENEFITS

Scheme	Form Of Benefit			
	Pension Scheme		Lump Sum Scheme	
	Spouse Pension	Childrens Pension	Matching Retirement Benefit	Other
Australian Barley Board			X	
Chairman General Sessions	X			
City of Melbourne Officers'	X	X		X(a)
County Court Associates				X
Egg Board Staff			X	
Gas and Fuel Corporation	X	X		X(a)
Grain Elevators				X
Governor's Pension	X			
Greyhound Racing Control Board			X	
Harness Racing Board			X	
Hospitals'	X	X	X(b)	
Judges - County Court)				
Judges - Supreme Court)	X	X(c)		
Legal Aid Committee				X(d)
Local Authorities'	X	X	X(b)	
MMBW Provident			X	
MMBW Superannuation				X
MURLA			X	
Metropolitan Fire Brigades'	X	X		
MTA Gratuities			X	
Parliamentary	X	X(c)		
Port of Geelong				X
Port of Melbourne	X	X		
Port Phillip Pilot Sick & Superannuation	X	X		X(b)
State Bank	X	X		
SEC Employees			X	
SEC Superannuation	X	X		X(b)
SERB	X	X	X(b)	
Superannuation Lump Sum				X
State Superannuation	X	X		
Supreme Court Associates				X
Tobacco Leaf Marketing Board				X
TAB	X	X		X(b)
Vic. Dried Fruits Board				X
Westgate (CML)			X	
Westgate (NMLA)			X	
Zoo			X	

Notes: (a) Alternative to spouse pension
(b) Additional to spouse pension
(c) Payable if no spouse
(d) Accumulation plus insurance proceeds

Source: Office of Government Statist and Actuary.

Table 2.17 summarises the forms of disability benefit under the various Victorian public sector superannuation schemes. As may be noted, disability pensions are not generally commutable, but the State Bank scheme allows a disability pensioner who reaches age 60 to commute his/her pension at that age. The Gas and Fuel Corporation scheme gives the option of pension or lump sum. The MMBW Superannuation scheme provides a lump sum rather than a pension, and SEC Superannuation scheme provides lump sum plus pension on total disability. The Port Phillip Pilots Sick and Superannuation scheme provides a reduced pension on disability within the first 5 years of membership.

Because the generous level of disability benefits, taken in conjunction with the rates of disability retirement, is clearly a significant factor in the burden of public sector superannuation costs it is proposed to examine patterns of disability retirement in more detail in section 2.6 below.

TABLE 2.17
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
DISABILITY BENEFITS

Scheme	Form Of Benefit			
	<u>Pension Scheme</u>		<u>Lump Sum Scheme</u>	
	Matching Retirement Benefit	Other	Matching Retirement Benefit	Other
Australian Barley Board			X	
Chairman General Sessions	X			
City of Melbourne Officers'	X			
County Court Associates				X
Egg Board Staff			X	
Gas and Fuel Corporation	X			X(a)
Grain Elevators				X
Governor's Pension	X			
Greyhound Racing Control Board			X	
Harness Racing Board			X	
Hospitals'	X		X(b)	
Judges - County Court)				
Judges - Supreme Court)	X			
Legal Aid Committee				X
Local Authorities'	X		X(b)	
MMBW Provident			X	
MMBW Superannuation		X		
MURLA			X	
Metropolitan Fire Brigades'	X			
MTA Gratuities				X
Parliamentary	X			
Port of Geelong				X
Port of Melbourne	X			
Port Phillip Pilot Sick & Superannuation	X			
State Bank		X		
SEC Employees			X	

TABLE 2.17
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
DISABILITY BENEFITS (CONCL.)

Scheme	Form Of Benefit			
	<u>Pension Scheme</u>		<u>Lump Sum Scheme</u>	
	Matching Retirement Benefit	Other	Matching Retirement Benefit	Other
SEC Superannuation		X		
SERB	X		X(b)	
Superannuation Lump Sum				X
State Superannuation	X			
Supreme Court Associates				X
Tobacco Leaf Marketing Board				X
TAB		X		
Vic. Dried Fruits Board				X
Westgate (CML)			X	
Westgate (NMLA)			X	
Zoo			X	

Note : (a) Member has option of pension or lump sum
(b) Additional to pension benefit.

Source: Office of Government Statist and Actuary.

2.4.5 Discrimination and Equal Opportunity

Reference has been made in section 2.2.4 to recent changes eliminating discrimination on the basis of sex and marital status in public sector superannuation schemes. In welcoming these changes the Committee is conscious that some areas of discrimination remain. Some of these are generally considered acceptable. As an example, the Equal Opportunity Board has no objection to a scheme which provides for spouse or childrens benefits or for the cessation of a spouse pension on remarriage. Less satisfactory is the treatment of a de facto relationship, where schemes require the relationship to have persisted for some time before it is recognised. That there should be some qualifying period seems reasonable but any selected period can be regarded as discriminatory (and arbitrary).

Those public sector schemes which provide benefits to de facto spouses, for example, the State Superannuation scheme and SERB, only do so if the dependent person has lived with the deceased member for 3 years before the members death, was incapable of marrying the member and was dependent on the member. In its October 1983 submission to the Committee, the Equal Opportunity Board pointed out that:

"If de facto spouses are to be accorded the same status as married spouses under the proposed new Equal Opportunity Act either the assumed needs concept should be applied to de facto spouses or a non discriminatory dependency test should apply to both married and de facto spouses. Alternatively, as mentioned above, spouse benefits could be abolished."(28)

The Committee discussed this question in its November 1983 "Report On The Hospitals Superannuation (Amendment) Bill (No 2)." It then pointed out that "marital status is no longer a reliable indication of need" and that in view of the costs involved automatic provision for spouse benefits can no longer be regarded as appropriate.

THE COMMITTEE NEVERTHELESS STRONGLY SUPPORTS EQUAL OPPORTUNITY CONCEPTS IN BENEFIT PROVISION BUT APPRECIATES THE PRACTICAL DIFFICULTIES OF APPLYING THEM FULLY TO EXISTING

SCHEMES.

IN FRAMING BENEFIT OPTIONS FOR THE FUTURE HOWEVER, THE COMMITTEE IS EXAMINING THE POSSIBILITY OF PLACING ON SCHEME MEMBERS THE RESPONSIBILITY FOR PROVIDING FOR DEPENDENTS.

2.5.1 Vesting, Preservation and Portability

An undesirable feature of any labour market is the extent to which individuals may be locked in as a result of the operation of institutional rules which determine the conditions (and hence costs) of entry and exit. The greater these costs the less responsive such an organisation will be to changing job requirements and work patterns.

The Victorian public sector is not a single internal labour market. It is more properly seen as a set of independent sub-markets between which mobility is highly restricted. One of the reasons for this lack of mobility is the operation of superannuation schemes which, because of their failure to accommodate job transfers and resignations effectively, lock individuals into particular employing authorities.

These issues can be resolved into four main questions :

- (a) To what extent are employee and employer contributions vested in individuals?
- (b) To what extent do individuals receive a return on their contributions?
- (c) To what extent are individual and employer contributions preserved?
- (d) To what extent are contributions portable (both within the public sector and with private sector funds)?

THE COMMITTEE TAKES THE VIEW THAT SUPERANNUATION BENEFIT SYSTEMS, IN PARTICULAR THOSE WITH COMPULSORY MEMBERSHIP, SHOULD NOT IMPOSE UNREASONABLE COSTS ON THOSE INDIVIDUALS WHO DECIDE TO RESIGN (OR WHO ARE RETRENCHED) FROM THE PUBLIC SECTOR. AT THE SAME TIME THE COMMITTEE IS AWARE THAT AN OVERLY GENEROUS RESIGNATION BENEFIT STRUCTURE COULD IMPOSE UNACCEPTABLE COSTS SCHEME MANAGEMENT.

2.5.2 Vesting and Preservation

Vesting refers to an employee's right to all or part of the employer contributions made to a superannuation scheme on his/her behalf upon termination of employment by resignation or retrenchment. Under most superannuation schemes the member's own contributions are automatically vested in him/her. That is, the member has an unqualified right to the return of those contributions on resignation. In many schemes, the documentation also vests in the member who leaves before retirement an amount representing interest on the member's contributions. This may be at the rate earned by the fund from time to time or at a lower nominal rate which remains unchanged. Vesting which relates to the members own contributions in the foregoing manner is so universal in Australian schemes that it tends to be taken for granted. In practice most references to vesting refer to that part of a members benefits which is derived from employer contributions and interest earnings thereon.

The extent of vesting in the latter sense varies considerably between public sector schemes. Thus, in the State Superannuation scheme there is no vesting unless the employee elects to preserve his/her benefit. In the SEC schemes there is no vesting until after the completion of 10 years membership. Vesting in a number of schemes is determined by formula, the amount increasing with duration of membership. A good example is the scheme for the Greyhound Racing Control Board, where the resigning employees receive their own contributions and interest, plus a further 10% of that amount for each year of membership in excess of 5, up to a maximum further amount of 100%.

As in the case of other benefits, there are considerable variations between schemes as to the benefits available to members on resignation. This is an important element in the benefit structure of most schemes because of the large number of employees who resign, especially in the early years of membership. The spectrum of resignation benefits commences with the Judges' scheme where there is no specific provision for resignation. The only provision is for retirement after 10 years service and the attainment of age 60 years. Similar provisions apply to resignation under the scheme for Port Phillip Pilots. At the next level the scheme for employees of the Vic. Dried Fruits Board provides a resignation benefit which is entirely at the trustee's

discretion. It would however be unusual in these circumstances for the amount paid on resignation to be less than the employee's contributions, possibly with interest also.

In many cases the resignation benefit is a return of the members contributions with interest. Examples are the Hospitals', MMBW Superannuation and Provident, TAB, Superannuation Lump Sum, Port of Geelong, Supreme and County Court Associates, and State Bank schemes. Some of these provide a nominal rate of interest such as 4% or 5% compound, some provide the rate actually earned, and some work on a simple formula which is broadly equivalent to a compound earning rate. Both the staff and employee schemes for the SEC provide for the return of the members contributions with interest on resignation if membership is less than 10 years. For longer membership this amount is increased by 50%.

THE STATE SUPERANNUATION, PORT OF MELBOURNE, AND METROPOLITAN FIRE BRIGADES' SCHEMES PROVIDE FOR A RETURN OF THE MEMBER'S CONTRIBUTIONS ONLY ON RESIGNATION. THIS IS CLEARLY AN INFERIOR BENEFIT.

This non-payment of interest is explained on the basis that withdrawing members should bear their share of the cost of providing death and disablement benefits for their fellows and that interest earnings represent an acceptable approximation to that cost. This explanation however becomes less acceptable as the employee's age and years of membership increase and at times when interest rates are relatively high. The practice is also out of line with private sector superannuation and has been raised with the Committee as a ground for complaint by several witnesses. The survey in 1980 by the Association of Superannuation Funds indicated that whereas 45% of the members of public sector schemes surveyed had resignation benefits in this form, only 3% of the members of private sector schemes had such benefits. (29)

Evidence to the Committee by Mr. G.A. Weaven, Municipal Officers' Association representative on the Local Authorities Superannuation Board, recognised the need for improved vesting provisions:

"MR. WEAVER: It begins to measure up. There are still some problems. For instance, it could be argued that certain classes of employees, who would be short term and who would regard themselves as short term in the industry, may not be getting their due consideration because the scheme does not have vesting. While the resignation benefits are superior to the State scheme, which gives a contributor only his money back and which in my opinion is legal robbery, our scheme is clearly preferable although it does not approach full vesting." (30)

A number of schemes provide for graduated vesting of employer money in the employee on resignation rather than the abrupt system adopted by the SEC. Under the graduated system, the basic resignation benefit is a return of the members contributions with interest. If the member has completed a specified period of membership, commonly 5 years, the basic benefit is increased by a percentage for each year of membership in excess of the basic period. The example of the Greyhound Racing Control Board was quoted above. Other schemes using similar principles are the Egg Board Staff, Gas and Fuel Corporation, Westgate (NMLA), and Zoo schemes.

Finally, some schemes provide for a combination or variation of the foregoing. Only one scheme provides for what is in effect full vesting of the whole benefit in the employee. This is the small insurance-based scheme for a few employees of the Grain Elevators Board. That scheme however is closed to new members.

Table 2.18 provides a summary of the various provisions for resignation benefits.

TABLE 2.18
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
RESIGNATION BENEFITS

Scheme	Form Of Benefit				
	None (1)	Member Contns. Only (2)	Member Contns. plus Interest (3)	(3) plus graduated vesting (4)	Other (5)
Australian Barley Board				X	
Chairman General Sessions	X				
City of Melbourne Officers'					X(a)
County Court Associates			X		
Egg Board Staff				X	
Gas and Fuel Corporation				X	
Grain Elevators					X(b)
Governor's Pension	X				
Greyhound Racing Control Board				X	
Harness Racing Board			X		
Hospitals'			X		
Judges - County Court)					
Judges - Supreme Court)	X				
Legal Aid Committee				X	
Local Authorities'					X(c)
MMBW Provident			X		
MMBW Superannuation			X		
MURLA				X	
Metropolitan Fire Brigades'		X			
MTA Gratuities					X(d)
Parliamentary					X(e)
Port of Geelong			X		
Port of Melbourne		X			
Port Phillip Pilot Sick & Superannuation	X				
State Bank			X		

TABLE 2.18
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
RESIGNATION BENEFITS (CONCL.)

Scheme	FORM OF BENEFIT				
	None	Member Contns. Only	Member Contns. plus Interest	(3) plus graduated vesting	Other
	(1)	(2)	(3)	(4)	(5)
SEC Employees					X(f)
SEC Superannuation					X(f)
SERB					X(g)
Superannuation Lump Sum			X		
State Superannuation		X			
Supreme Court Associates			X		
Tobacco Leaf Marketing Board			X		
TAB			X		
Vic. Dried Fruits Board					X(h)
Westgate (CML)				X	
Westgate (NMLA)				X	
Zoo				X	

- Notes :
- (a) Graduated multiple of members' contributions
 - (b) Surrender value of insurance policies
 - (c) Actuarial reserve for lump sum benefits plus members' pension contributions
 - (d) Gratuity after 20 years
 - (e) $1\frac{1}{2}$ or $3\frac{1}{2}$ times contributions, depending on reason
 - (f) Members' contributions plus interest plus 50% after 10 years
 - (g) Members' contributions plus interest less cost of cover but not less than members' contributions
 - (h) At trustees' discretion.

Source: Office of Government Statist and Actuary

It should also be noted that many schemes provide for benefit preservation as an alternative. Under preservation the members entitlement is retained in the scheme, to be paid to him/her subsequently on his/her death, disablement or attainment of normal or early retiring age. Such a facility has very limited appeal if it applies only to the member's contributions, or to his/her contributions and interest.

Some schemes provide for vesting of employer money when the benefit is to be preserved, but not otherwise. This presumably reflects the willingness of employers to vest money in the employee provided it is clear that the money is to be used for its originally intended purpose, namely for retirement.

One example of this is provided by the State Superannuation scheme under section 36 of the Superannuation Act 1958. An employee who resigns after age 50 and having completed 15 years membership is entitled to a preserved pension payable at age 65. This is calculated according to a formula specified in the Act, the overall benefit being substantially more valuable than the alternative cash benefit, which is a return of the members contributions without interest.

Preservation is also available to members of public sector schemes on a more general basis, under the Superannuation Benefits Act 1977. This provides a preserved retirement benefit in lieu of immediate cash for an employee over age 30 who resigns in order to take up other public sector employment.

Preserved benefits in both the foregoing examples enjoy full indexation which adds considerably to their value. Evidence available to the Committee however suggests that the facilities are not widely used. This may be attributable to lack of understanding by employees of the virtue and value of a preserved benefit or to the common preference of employees for cash in hand rather than a more valuable benefit which is deferred for some years.

Preservation facilities would no doubt be more widely used if they were available without restrictions as to age and service. They would obviously be much more attractive if freely available on transfer from the public to the private sector. Such a facility would of course increase the superannuation costs of public sector employers. The Committee notes that the State Bank

scheme has been considering preservation arrangements of this type for some time but that the proposal still does not have the Treasurer's approval.

2.5.3 Portability

The term portability embraces both the concept of vesting (with the implication of 100% vesting of employer money in the employee concerned) and preservation (because there is no immediate intention to claim cash or other benefits). Portability however requires the further elements of:

- (a) translation of the employee's accrued benefits, in form and amount, from the old scheme arrangements to the new;
- (b) transfer of the employee's legal entitlement to claim benefits from the old scheme to the new scheme; and
- (c) transfer of funds supporting the transferred benefit from the old to the new scheme.

Step (c) would normally be mandatory for transfers within the private sector or for transfers between the private and public sectors or vice versa. For transfers within the public sector it may be possible to dispense with this item if there are appropriate reciprocal agreements between the employer bodies at each end of an employee transfer, or alternatively if there is an appropriate legislative provision.

2.5.4 Comments on Vesting, Preservation and Portability

Hearings of, and submissions to, the Committee with few exceptions, have made little specific reference to the question of vesting. The Victorian Public Service Association (VPSA), however, strongly supported the payment of an interest component in withdrawal benefits.⁽³¹⁾ A similar point was made in a submission by the Ministry of Transport.⁽³²⁾ The VPSA also felt there should be a distinction between permanent and temporary employees in this respect, with the greater vesting for the latter.⁽³³⁾ That association also considered that broader access to preservation rights would be desirable. This presumably refers to the fact that the 1977 legislation only covers transfers within the

Victorian public sector. The Association of Consulting Actuaries made the comment that: "as a generality public sector vesting is less generous than private sector vesting, particularly in the State Superannuation Fund".(34) They also felt that the preservation facilities of the Superannuation Benefits Act 1977 dealt satisfactorily with transfers within the public sector but not others.

Portability on the other hand has had considerable attention from many parties:

- (a) The State Ombudsman complained of the lack of full portability between the Commonwealth and State on health grounds.(35)
- (b) The Public Service Board drew attention to the fact that lack of portability from the Commonwealth means medical examination by the State which leads to problems in certain cases.(36)
- (c) The Minister of Agriculture said that this lack of portability of superannuation benefits is a "significant barrier in attracting experienced staff into the Department in areas where there is a lack of appropriate expertise within this Department or the rest of the Public Service."(37)
- (d) The Health Commission complained of lack of portability in the health industry. They also mentioned related problems with housing loans.(38)
- (e) The Association of Professional Engineers deplored the lack of portability out of Local Authorities and within the public sector generally.(39)
- (f) The College Council's Association complained of the lack of portability between colleges and municipalities.(40)
- (g) Various parties mentioned lack of portability into and out of SEC schemes.

(h) The Life Insurance Federation of Australia explained that lack of portability was also a feature of private sector superannuation.(41)

The Public Service Board in its submission was particularly concerned with the ability of superannuation provisions to facilitate both inward and outward mobility within the public service. In their view, while the Victorian State Superannuation scheme allows inward portability from other State public services and other approved schemes, there exist no provisions for outward portability. While there are preservation provisions these are, in their own words: "... limited in scope and benefits and certainly do not address the growing need for private/public sector interchange."(42)

There was strong support for portability from the Minister for Conservation(43), Gas & Fuel Corporation(44), Victorian Hospitals Association(45), Combined Contributors to the State Superannuation scheme(46), APSA(47), MOA(48), MEU(49), VCSA(50), CASA(51), United Firefighters(52), GISOF(53) and some individual writers. On the other hand, the VPSA(54) expressed strong opposition to portability, basically on the ground that it facilitates entry to the Victorian service of outsiders at senior levels. There is obviously some conflict between this view and that of the Combined Contributors Organisation mentioned above.

The questions of vesting, preservation and portability have been under discussion for many years. While there have been steps taken to improve individual schemes in these respects, there are still no legislative requirements apart from the Superannuation Benefits Act 1977 referred to earlier. In the early 1970's the Victorian Government introduced a bill for compulsory vesting and preservation. This was not proceeded with, one of the objections at the time being that so many schemes Australia-wide would need to make special provision for Victorian employees.

The National Superannuation Committee of Inquiry (the Hancock Committee) in its Part 2 Report recommended a minimum vesting formula on the basis that benefits would be preserved until retirement age. That Committee went somewhat further in recommending that cash payment of withdrawal benefits be not permitted. (55)

The Commonwealth Treasurer's Task Force on Occupational Superannuation, which reported in January 1983, also addressed these questions. It too proposed vesting on minimum prescribed bases, provided benefits were preserved until genuine retirement. There would be no vesting of employers contributions if the employee elected to receive a cash withdrawal benefit. These conclusions were intended to apply to both private and public sectors in the absence of special considerations.(56)

It is perhaps notable that none of these three sets of proposals takes the further steps necessary to secure full portability. This would seem to be due to the difficulties inherent in the translation of the employee's accrued benefits. It may also be relevant in this regard to quote one of the main conclusions of a report by the United Kingdom's Occupational Pensions Board in June 1981. Under the heading "Preservation or Transferability" they remarked:

"The Board does not believe that there is an inherent advantage in transfers over preserved benefits and believe that it would be difficult to extend the system of transfers without major changes in the overall structure of occupational pension provision. We have therefore given our attention first to the issue of preserved benefits."(57)

The comments and quotation in the preceding paragraphs are, made in the context of provisions intended to be nation-wide. On the face of it, the portability needs of public sector employment in the state of Victoria would appear to be much more circumscribed and therefore more manageable. As indicated above, evidence before the Committee suggests a widespread demand for portability. At the same time the evidence also suggests that the value of preserved benefits provided under the Superannuation Benefits Act 1977 is not sufficiently understood nor appreciated.

THE COMMITTEE BELIEVES IN PRINCIPLE THAT PORTABILITY SHOULD BE FREELY AVAILABLE BETWEEN PUBLIC SECTOR SCHEMES THROUGHOUT AUSTRALIA AND THAT GENERAL PUBLIC SECTOR PORTABILITY IN VICTORIA WOULD BE A USEFUL FIRST STEP IN THIS REGARD. SUCH PORTABILITY WOULD BE GREATLY FACILITATED BY A REDUCTION IN THE NUMBER OF SCHEMES AND BY A REDUCTION IN THE

VARIETY OF BENEFITS AND CONDITIONS BETWEEN REMAINING SCHEMES.

2.5.5 Retrenchment

About one-third of Victoria's public sector superannuation schemes, covering about 73% of contributors, make specific provision for a retrenchment benefit. The implication is that in the remainder of cases the benefit payable in the event of retrenchment is the normal resignation benefit. Retrenchment benefits are commonly specified by formula, such as $3\frac{1}{2}$ times member contributions and interest. Depending on the form of the scheme, another approach is to grant the whole amount standing to the credit of the members' account (employee and employer contributions and interest), or alternatively where the scheme provides defined benefits, the actuarial reserve held in the fund for the member concerned.

Schemes which specify retrenchment benefits are the City of Melbourne Officers', Egg Board Staff, Gas and Fuel Corporation, Hospitals', Legal Aid Committee, Local Authorities', MMBW Provident, Port of Melbourne, SEC Employees, SEC Superannuation, SERB, State Superannuation, Vic. Dried Fruits Board and Westgate (NMLA) schemes.

The fact that some schemes provide for retrenchment while others do not, highlights the uncertainty whether it is appropriate for a superannuation scheme to provide such benefits. The Committee is aware that a full bench of the Conciliation and Arbitration Commission has yet to decide on a national claim by the Australian Council of Trade Unions for comprehensive redundancy and retrenchment award provisions. Consequently, it would be premature to formulate a firm position before the Commission's decision on the claim is known.

SECTION 2.6 DISABILITY RETIREMENTS AND THE STATE SUPERANNUATION SCHEME

2.6.1 The Importance of Disability Retirements.

The purpose of this present section is to review the patterns and incidence of disability retirements in the State public sector - in particular experience under the State Superannuation scheme.

An important issue for disability retirements is whether or not Victorian public sector experience is significantly out of line with disability retirement experience in other public sector jurisdictions and the private sector. The Committee, in order to answer this question, commissioned a consultant study by PTOW/TPF & C. The study, Disability Retirements in Victorian Public Sector Superannuation Schemes, is the basis for this section. (58)

2.6.2 The Provision for Disability Retirements.

The current provisions of the State Superannuation scheme for disability retirements flow principally from the Superannuation Act 1958 as amended. The 1975 Act introduced a revised scheme which provides a basic pension entitlement on retirement at age 65 or prior disability of 70% of final salary. The Pensions Supplementation Act 1966 (as amended in 1973) provides for pensions to be increased in line with the CPI.

The State Superannuation scheme's definition of disability specifies that 'the Board is satisfied from the medical report that the contributor is physically or mentally incapable of performing his duties'. This definition is known as an 'own occupation' definition of disability and, while it is common in the public sector, the private sector generally uses the more stringent 'any occupation' or 'any occupation for which the member is suited by training, education or experience' definition.

2.6.3 Disability Experience in the State Superannuation Scheme.

A major limitation encountered by the consultants in their review of disability

retirement experience was the absence of an adequate statistical base. This is particularly disturbing because, although successive reports of the Government Actuary and of the State Superannuation Board have drawn attention to the worsening disability experience of the scheme, there appears to have been no coherent effort devoted to either upgrading statistical reporting or making data available on a regular and timely basis to employing authorities to use in their own monitoring and administrative procedures.

THE COMMITTEE VIEWS WITH DISQUIET THE LIMITED AMOUNT OF DATA AVAILABLE FOR THE ANALYSIS OF DISABILITY RETIREMENTS UNDER THE STATE SUPERANNUATION SCHEME AND SEES A CLEAR NEED FOR A COMPREHENSIVE DISABILITY DATA BASE FOR ALL VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES SO THAT THE EXPERIENCE OF THESE SCHEMES AND RELEVANT EMPLOYING AUTHORITIES CAN BE MONITORED CONTINUOUSLY.

Table 2.19 summarises for the State Superannuation scheme the main trends in disability retirement experience for the period 1958 to 1980. The ratio of the actual numbers of disability retirements in the periods chosen to the numbers that would have been expected on actuarial grounds (using the age- and sex-specific rates adopted by the actuary in the 1965 actuarial investigation) shows, for males, a general worsening of experience with a particularly significant increase in the disability experience for males aged 30 to 54 years. The female disability experience indicates a substantial deterioration until the early 1970's, with no clear trend in the period since then.

TABLE 2.19

STATE SUPERANNUATION SCHEME
RATIO OF ACTUAL TO EXPECTED DISABILITY RETIREMENTS 1958-1980

	P e r i o d					
	1977-80 %	1974-77 %	1971-74 %	1968-71 %	1964-68 %	1958-64 %
<hr/>						
<u>Males</u>						
age 30 - 54	309	249	197	142	121	96
age 16 - 54	289	236	188	139	109	95
age 16 - 64	212	183	142	106	87	93
<u>Females</u>						
age 30 - 54	129	123	122	163	107	72
age 16 - 54	106	91	105	144	102	70
age 16 - 64	111	93	92	116	80	76

Source: PTOW/TPF & C, "Disability Retirements in Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February, 1984.

Crude rates of disability retirements for the employing authorities within the State Superannuation scheme in 1982-83 are reported in Table 2.20. Although caution should be exercised in interpreting and contrasting these results, because of the absence of an age and sex group standardisation by employing authority, it is clear that rates of disability retirement vary markedly between the employing authorities, ranging from 1.20% for the Police to 0.49% for Education Department.

Overall, these disability retirements accounted, in 1982-83, for one-third of all retirement pensions granted by the State Superannuation Board.

It is also important to consider the age characteristics of retirees. Table 2.21 summarises disability retirements in 1981-83 by average age at retirement and the greatest frequency of retirees by age group. This table shows that in the Police Force and Education Department the average age at retirement is less and the greatest frequency age group is younger than for the other employing authorities. The average years to retirement are 16 and 15 years respectively for these authorities.

TABLE 2.20

STATE SUPERANNUATION SCHEME
DISABILITY RETIREMENTS BY EMPLOYING AUTHORITY 1982-83

Authority	Disability Retirements	Contributors	Overall Rate %
Police Force	100	8,340	1.20
Railways	114	13,042	0.87
Public Service Depts.	222	25,670	0.86
Miscellaneous Authorities	42	8,441	0.50
Education	212	42,958	0.49

Source: PTOW/TPF & C, "Disability Retirements in Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February, 1984.

TABLE 2.21

STATE SUPERANNUATION SCHEME
AGE CHARACTERISTICS OF DISABILITY RETIREES BY EMPLOYING AUTHORITY

Authority	Average Age at retirement		Greatest frequency age group	
	(years)		(years)	
	1981-82	1982-83	1981-82	1982-83
Police Force	40	37	35 to 39	30 to 34
Education	44	45	50 to 54	50 to 54
Miscellaneous Authorities	48	51	55 to 59	50 to 54
Public Service Depts	49	49	55 to 59	55 to 59
Railways	50	52	55 to 59	55 to 59
All persons in scheme	46	47	55 to 59	55 to 59

Source : PTOW/TPF & C, "Disability Retirements in Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February, 1984.

2.6.4 Causes of Disability Retirement in the State Superannuation Scheme

There are three primary disabilities identified as a cause of disability retirements for all employing authorities in the State Superannuation scheme - mental disorders, diseases of the circulatory system, and diseases of the musculoskeletal system and connecting tissues.

In 1982-83 these disabilities accounted for 40.7%, 18.1% and 13.0% respectively of total disability retirements.

It is also important to recognise that the patterns of disability retirement vary significantly between the public sector employing authorities (Table 2.22). As can be seen, the Police Force has the highest proportion of retirements through mental disorder (70.0%) with Education at 51.1%. In the Public Service Departments, diseases of the musculoskeletal system dominate (31.2%). Diseases of the circulatory system are most significant for the Miscellaneous Authorities group and the Railways.

TABLE 2.22

STATE SUPERANNUATION SCHEME
DISTRIBUTION OF DISABILITY RETIREMENTS BY
PRIMARY DISABILITY 1982-83

Primary Disability

Employing authority	Mental Disorders	Diseases of the Musculoskeletal System	Diseases of the Circulatory System
	%	%	%
Police Force	70.0	10.0	3.0
Education	51.1	9.1	10.2
Miscellaneous Authorities	30.8	20.5	20.5
Public Service Departments	25.8	31.2	14.0
Railways	24.8	16.8	20.4

Source : Coopers and Lybrand Services, 'Study into Personnel Practices Involved in the Issue of Disability Retirements in Victorian Public Service Superannuation Schemes' A Report to the Economic and Budget Review Committee, February 1984.

2.6.5 Disability Retirement Experience in Other Jurisdictions

Any comparison of disability experience between superannuation schemes is difficult because of different benefits structures, disability provisions and membership. The NSW Superannuation scheme, for example, excludes members of the NSW Police Force and a detailed comparison between Victorian and NSW employing authorities within the separate schemes is precluded because the latter does not provide disability retirement data for individual authorities.

Table 2.23 summarises the disability retirement experience of the Victorian State Superannuation scheme at ages 30, 40 and 50 years and contrasts this with the experience of the Commonwealth Superannuation scheme, the NSW State public service scheme and two private sector schemes.

Comparing the Victorian State Superannuation scheme with the other two public sector schemes shows that, for males, the scheme experiences significantly higher rates of disability retirements at all three ages - the difference is most noticeable for the NSW public service scheme where the rates are less than half those reported for Victoria. Experience with the Commonwealth Superannuation scheme for females is worse than for Victoria for the older age groups, but once again, NSW experience is markedly better.

Although these differences must be qualified, as noted, by the fact that scheme membership, benefit structures and retirement provisions do differ between the various schemes, the point still remains that, in contrast to NSW, the retirement disability experience of the Victorian State Superannuation scheme is decidedly adverse.

The contrast with the private sector is even more marked (Table 2.23) with public sector disability rates several to many times greater. While the benefit structures are significantly different from the public sector, the private sector rates are still disturbingly lower.

THE COMMITTEE IS PARTICULARLY CONCERNED WITH THE DISABILITY RETIREMENT EXPERIENCE OF THE VICTORIAN STATE

SUPERANNUATION SCHEME. THIS IS EVEN MORE DISTURBING WHEN IT IS CONTRASTED WITH THAT REPORTED FOR NEW SOUTH WALES.

A final point to consider is the experience of the various public sector superannuation schemes with respect to the relative importance of principal disabilities causing invalidity retirements. Table 2.24 summarises these principal disabilities for the Victorian and Commonwealth schemes and the NSW State Superannuation scheme. The outstanding feature of this table is the importance of mental diseases to total disability retirements in Victoria (48.4%) compared to NSW and the Commonwealth. Against this should be set the relatively consistent pattern of the primary causes of disability retirements in the other two jurisdictions.

THE IMPORTANT QUESTION IS WHETHER OR NOT THE HIGH RATES OF DISABILITY RETIREMENT IN THE VICTORIAN STATE SUPERANNUATION SCHEME CAN BE ATTRIBUTED TO THE BENEFIT PROVISIONS OF THE SCHEME. THE COMMITTEE BELIEVES (AND HAS BEEN SUPPORTED IN THIS BY EVIDENCE PRESENTED) THAT THE RELATIVELY GENEROUS BENEFIT STRUCTURE IS A SIGNIFICANT, AND PROBABLY THE SINGLE MOST IMPORTANT, CONTRIBUTORY FACTOR TO THESE DISABILITY RETIREMENT LEVELS.

THE COMMITTEE ALSO TAKES THE VIEW THAT ADMINISTRATIVE PROCEDURES BOTH WITHIN EMPLOYING AUTHORITIES AND AT THE SUPERANNUATION SCHEME LEVEL ARE IMPORTANT CONTRIBUTORY FACTORS.

THE COMMITTEE BELIEVES THAT IF THESE RATES OF DISABILITY RETIREMENT ARE TO BE CONTROLLED BENEFIT LEVELS MUST BE REVIEWED AND ADMINISTRATIVE PROCEDURES TIGHTENED.

TABLE 2.23

STATE SUPERANNUATION SCHEME
COMPARISONS OF DISABILITY RETIREMENT EXPERIENCE BY SEX

Scheme	<u>Age Specific Disability Rates</u>		
	30 years %	40 years %	50 years %
Victoria (1977-80)			
State Superannuation Scheme			
Males	0.189	0.519	1.464
Females	0.190	0.378	0.916
Commonwealth (1976-80)			
Superannuation Scheme			
Males	0.103	0.289	1.333
Females	0.167	0.460	1.260
New South Wales (1978-81)			
State Public Service Scheme			
Males	0.060	0.160	0.610
Females	0.110	0.260	0.650
Private Sector			
(a) Large Life Office (1970-79)			
All Persons	0.011	0.046	0.220
(b) Large Private Bank (1975-82)			
Males Only	0.024	0.079	0.565

Source : PTWO/TPF & C, "Disability Retirements in Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February, 1984.

TABLE 2.24

PRINCIPAL DISABILITIES CAUSING INVALIDITY RETIREMENTS
(AS PENSION) FOR SUPERANNUATION SCHEMES IN VICTORIA
NEW SOUTH WALES AND THE COMMONWEALTH 1981-82

Principal Disability	Victoria %	New South Wales %	Commonwealth %
Mental Disorders	48.4	25.4	28.9
Diseases of the Circulatory System	13.2	23.0	22.2
Diseases of the Musculoskeletal System and Connective Tissue	13.9	24.2	21.1
Other	24.5	27.4	27.8
Total	100.0	100.0	100.0

Source : Coopers and Lybrand Services, 'Study into Personnel Practices Involved in the Issue of Disability Retirements in Victorian Public Service Superannuation Schemes' A Report to the Economic and Budget Review Committee, February 1984.

NOTES

- (1) Minutes of Evidence, 13 July 1983, p.505.
- (2) Minutes of Evidence, 30 June 1983, p.233.
- (3) Victorian Public Service Association, submission, 17 August 1983, p.2.
- (4) Minutes of Evidence, 25 July 1983, p.26.
- (5) Victorian Public Service Association Electorate Officers Division, submission, 15 August 1983, p.14.
- (6) Australian Institute of Marine and Power Engineers, La Trobe Valley sub-branch, submission, 15 August, 1983, p.2.
- (7) Minutes of Evidence, 20 July 1983, p.677.
- (8) Victorian Women's Advisory Council, submission, 30 December 1983, p.4.
- (9) Minutes of Evidence, 22 June 1983, p.109.
- (10) Minutes of Evidence, 21 July 1983, p.700.
- (11) Minutes of Evidence, 24 June 1983, p.148.
- (12) Minutes of Evidence, 30 June 1983, p.232.
- (13) Victorian Women's Advisory Council, op. cit.
- (14) Mr. F. Fisher, submission, 15 August 1983, p.1.
- (15) Federated Engine Drivers' and Firemen's Association, submission, 9 September 1983, p.1.
- (16) The Ombudsman, submission, 22 August 1983, p.1.
- (17) Ibid., p.1.
- (18) Combined Contributors Organisation, submission, 31 August 1983, p.2.
- (19) Victorian Consultative Council on Rehabilitation, submission, 21 December 1983, p.1.
- (20) The Association of Superannuation Funds of Australia, 1980 Survey of Superannuation Funds, December 1981.
- (21) Minutes of Evidence, 14 July 1983, p.587.
- (22) Victorian Public Service Association, op. cit., p.3.
- (23) Municipal Officers' Association, submission, 19 September 1983, p.11.

- (24) Combined Contributor Organisations to the State Superannuation scheme, submission, 31 August 1983, p.2. (see also Victorian Colleges Staff Association, submission, 26 August 1983, p.3)
- (25) The Association of Superannuation Funds of Australia, op. cit.
- (26) Minutes of Evidence, 24 June 1983, pp. 153-154.
- (27) The Association of Superannuation Funds of Australia, op. cit.
- (28) Equal Opportunity Board, submission, 10 October 1983, p.6.
- (29) The Association of Superannuation Funds of Australia, op. cit.
- (30) Minutes of Evidence, 25 July 1983, p.27.
- (31) Notes of Interview, 7 June 1983.
- (32) Ministry of Transport, submission, 15 September 1983, p.3.
- (33) Notes of Interview, 7 June 1983.
- (34) The Association of Consulting Actuaries, submission, 7 July 1983. p.4.
- (35) The Ombudsman, op. cit.
- (36) Minutes of Evidence, 24 June 1983, p.146.
- (37) Minister of Agriculture, submission, 23 August 1983, p.1.
- (38) Health Commission, submission, 25 August 1983, p.2.
- (39) The Association of Professional Engineers, submission, 30 August 1983, p.4.
- (40) Minutes of Evidence, 3 August 1983, p.15.
- (41) Minutes of Evidence, 22 June 1983, p.120.
- (42) Public Service Board, submission, 10 February 1984, p.2.
- (43) Minister for Conservation, submission, 16 August 1983, p.2.
- (44) Minutes of Evidence, 6 July 1983, p.404.
- (45) Victorian Hospitals Association, submission, 30 August 1983, p.1.
- (46) Combined Contributors Organisation to the State Superannuation Scheme, op. cit.
- (47) Association of Professional Scientists of Australia (MMBW and RCA Groups), submission, 5 September 1983, p.3.
- (48) Municipal Officers' Association, op. cit.
- (49) Federated Municipal and Shire Council Employees Union of Australia - Victorian Division, submission, 2 September 1983, p.5.

- (50) Victorian Colleges Staff Association, submission, 26 August 1983, p.3.
- (51) Council of Academic Staff Associations, submission, 30 August 1983, p.2.
- (52) United Firefighters Union - Victoria Branch, submission, August 1983, p.6.
- (53) Gas Industries Salaried Officers Federation, submission, July 1983, p.5.
- (54) Victorian Public Service Association, op.cit.
- (55) National Superannuation Committee of Inquiry, Occupational Superannuation in Australia, Final Report Part Two, AGPS Canberra, 1977.
- (56) Commonwealth Task Force on Occupational Superannuation, A Report to the Australian Treasurer, May 1983.
- (57) United Kingdom Occupational Pensions Board, Improved Protection for the Occupational Pension Rights and Expectations of Early Leavers, June 1983.
- (58) PTOW/TPF & C, Disability Retirements in Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February, 1984.

CHAPTER 3

MANAGEMENT AND ADMINISTRATION

SECTION 3.1 KEY ISSUES IN MANAGEMENT AND ADMINISTRATION

3.1.1 Introduction: The Constitution of Superannuation Schemes in Victoria

Over the years the numerous public bodies and statutory authorities in Victoria have at different times, for different reasons and under different legislation made a range of provisions for their employees. In consequence, Victoria now has some 42 separate schemes, the constitutions of which reflect the differing views of their members and management committees as to what is a suitable scheme for that employee group.

THIS DIVERSITY REFLECTS THE ABSENCE OF CENTRAL CONTROL AND DIRECTION BY SUCCESSIVE STATE GOVERNMENTS. THERE IS NOT, AS FAR AS THE COMMITTEE CAN ASCERTAIN, ANY LOGICAL REASON AS TO WHY THERE SHOULD BE SO MUCH DIVERSITY WITHIN (AND INCONSISTENCY BETWEEN) PUBLIC SECTOR SUPERANNUATION SCHEMES IN VICTORIA.

The range of public sector superannuation schemes is described in Appendix A, Table A9 where the various schemes are listed in order of membership. Of the 198,968 persons covered by public sector superannuation, at June 1983 the overwhelming majority (98.9%) are in the twelve largest schemes (with 51.2% of all contributors in the State Superannuation scheme). At the other end of the size distribution we have 22 schemes with a total of less than 1,000 contributors.

Each superannuation scheme is constituted either by trust deed, legislation or regulation. This legal framework determines, for each scheme, the management structure - in the form of a board or trustees - who may be simply appointed, nominated or elected. The management structure will also be influenced by the membership of the scheme. Despite similarity in the

functions of the various schemes, a wide range of administrative mechanisms have evolved for undertaking contribution deductions, record maintenance, pension payments and investments. In particular, outside agencies and individuals may be employed to look after one major function such as an actuarial review or to carry out the entire operation.

A principal aim of this chapter is to examine the administrative operation of the various schemes and to consider whether or not this lack of commonality in administration, financial reporting and information distribution, together with the related issues of accountability and efficiency, are appropriate to the particular schemes.

3.1.2 The Evolution of Public Sector Superannuation Schemes in Victoria

The present diversity in public sector superannuation schemes in Victoria is a reflection of the essentially ad hoc manner in which the various schemes were introduced and the ways in which they have evolved.

THERE IS LITTLE, IF ANY, EVIDENCE TO SUGGEST THAT SUCCESSIVE STATE GOVERNMENTS HAVE PLAYED A SIGNIFICANT ROLE IN MONITORING THE GROWTH OF SUPERANNUATION SCHEMES. MANAGERIAL AND OPERATIONAL GUIDELINES ARE CONSPICUOUS BY THEIR ABSENCE AND UNTIL THE PRESENT INQUIRY NO ATTEMPT HAD BEEN MADE TO REVIEW THE STRUCTURE AND OPERATION OF THE VARIOUS SCHEMES.

The various superannuation schemes have been, in effect, subject to limited governmental control. Central agencies, in particular the Treasury Department (now Department of Management and Budget), the Public Service Board and the Office of the Government Statist and Actuary have had, at best, a peripheral and indirect role in the introduction and development of these various schemes. Indeed, in many cases, the superannuation scheme managers have acted independently, and in some the public authority concerned has even created a new scheme without consultation with a central agency. An example of the former would be the Gas and Fuel Corporation, which has not in the past been required to consult outside. An example of the latter would

be the MMBW's introduction of a new scheme for its wages staff to replace its old gratuity scheme.

Evidence presented by witnesses before the Committee reinforced this picture of an ad hoc and haphazard evolution of public sector superannuation schemes.

The State Employees Retirements Benefit Scheme (SERB), which is one of the largest (and most recent) schemes is an example of one that was hastily introduced and which was commenced without staff, equipment or assets. In evidence to the Committee, the Chairman, Mr. Fry, commented:

"Ours is the most recent of the larger schemes and it came into being for a particular reason. It had a particularly painful birth... It arose out of agitation from the Country Roads Board employees to obtain some sort of superannuation. It was agreed to in this form. After that it was agreed that exempt employees also be brought in, in the same way."(1)

Later on in his evidence Mr Fry mentioned the situation that existed at the time the scheme was introduced:

"At the last moment, without any advice to me or anyone else we started off in January 1980 with no staff and with some hundreds of employees who were awaiting benefits. It made quite a big problem which we had to overcome by some other unconventional means, in some ways cutting corners. For the first six months the entire staff was three seconded officers from the Treasury, plus casuals employed through the Drake Overload people."(2)

The compulsory nature of SERB and the introduction of otherwise disparate groups of people into the scheme has had some unfortunate effects. Some employees have been unaware of the impending compulsory deductions from their salaries on being admitted to SERB. Also inadequate communications between SERB and new members has led to cases of unexpected demands for substantial arrears in employee superannuation contributions.

A further example of an isolated and unco-ordinated major change in a large public sector superannuation scheme is the establishment, in 1981, of a

contributory provident fund for Melbourne and Metropolitan Board of Works (MMBW) employees.

The following extract from the transcripts of evidence is a comment from Mr D.J. Keleher, consulting actuary to the MMBW:

"As Mr Brindley has explained, the Board has had for 60 years an unfunded non-contributory gratuity scheme. This was, in fact, similar to what applied to what were called exempt State public servants. The Board considered, from around 1976 onwards, the introduction of a contributory scheme which I understand arose, at least in part, from pressure from unions. The Board was looking at putting forward a contributory scheme which would cost in broad terms - or involved the same type of long term commitment - as that which was involved under the gratuity scheme. In fact, that scheme had been approved and was ready to go when the SERB scheme was brought forward.

As a result of that, the Board delayed the introduction of that scheme while it considered the ramifications of the SERB scheme. It is my understanding that the Board was not prepared to consider a scheme as costly as it was estimated that the SERB scheme would be. Therefore, they introduced a revised scheme which they considered had some features which were attractive, particularly lump sums, which as I mentioned before gave an optional member contribution which was seen as a significant advantage and which did not involve the Board in anything like the cost that it perceived it would have been involved in with a SERB type of scheme.

I am not aware of whether the Board ever actually considered joining the SERB scheme - I think probably not, in that it had a scheme, a gratuity scheme and it was then upgrading that to another scheme."(3)

It is important to note, in this context, that while union pressure, once again, resulted in change, there was no consideration given by the MMBW to join SERB, nor was there any apparent concern by the Government of the day with the introduction of the new scheme.

Over the years, a number of ad hoc arrangements have arisen and survived. A good example is the Local Authorities Superannuation Board providing computer services to the State Superannuation Board. The Local Authorities Superannuation Board has a large computer services operation and receives payment for services it supplies to local councils, the State Superannuation Board and the Motor Accidents Board. The Board has maintained this operation on a commercial basis.

The State Superannuation Board has always relied heavily upon the resources of the Local Authorities Superannuation Board. In evidence to the Committee Mr Rodriguez, the manager of the Local Authorities Superannuation scheme, made the following comment in regard to the history of the Board's computer operation:

"With the areas of Government activity, such as the State Superannuation Board and the Motor Accidents Board, we originally supplied services to the State Superannuation Board. From memory I think it was about 1965 when they in fact ran into some trouble with some equipment they had at the time. That equipment was getting a bit old and it was not being serviced properly. They had some heavy problems in being able to pay pension cheques at that time and I recall Mr Arnold rang and asked could we help them out with the payment of pensions, which we did. Their own job has grown from that and we have always supplied the services."(4)

THE COMMITTEE NOTES THIS IS ANOTHER EXAMPLE OF ARRANGEMENTS GAINING THEIR OWN MOMENTUM, INADEQUATELY CO-ORDINATED AND RESOURCED BY PAST STATE GOVERNMENTS.

Furthermore, the experience of the Hospitals' Superannuation scheme is interesting because it is the only large scheme that allows membership to be voluntary, and whose potential membership can rise if a particular hospital, not already under the scheme's umbrella, elects to join. The Committee was interested to note that an active campaign was in progress to increase membership.

The Hospitals' Superannuation scheme also provided evidence on their relationship with the Government regarding changes to the scheme. The case in point was whether student general nurses could be included in the scheme. Mr W.R. Shepherd, a Board member, commented:

"Requests regarding this were made as long ago as six or seven years. The previous Government would not allow student general nurses to join the fund. The significant thing was that if hospitals wanted to get a change that would be of benefit to the employees, they had to see the Minister of Health. The superannuation fund was under the care of the Minister of Health, but before that Minister could approve an alteration he had to go through Treasury because it involved a financial change.

Prior to the new Government coming to power, a change was made and the board came under the administration of Treasury and the Minister of Health no longer had a say in what was happening with the board. Since the change of Government, the board has made at least two trips to see the Treasurer, but it is taking a long while for anything to filter through regarding alterations to the Act."⁽⁵⁾

THIS EXAMPLE ILLUSTRATES NOT ONLY THE DELAY AND INABILITY OF THE HOSPITALS' SUPERANNUATION BOARD TO ALTER THE SCHEME, (A COMMON FEATURE OF SCHEMES CONSTITUTED BY LEGISLATION), BUT ALSO THE LACK OF AN EFFICIENT MECHANISM FOR DEALING WITH THE NATURAL REQUIREMENT FOR CHANGES TO A SUPERANNUATION SCHEME AS TIME PASSES.

3.1.3 Administration Costs

A further management issue to consider is the level of costs associated with the administration of superannuation schemes. Table 3.1 summarises the administrative costs for the ten largest public sector schemes in Victoria. The overall cost of running these schemes is \$8.37 million which, with a total membership of 176,523 yields an average per member cost of \$47.42. Extending this figure to all schemes on a pro rata basis would yield a total administrative cost for all schemes of approximately \$9.0 million per annum.

As can be seen, the cost per member for the various schemes varies quite markedly. The Gas and Fuel scheme has the lowest per member cost at \$23.96 with the Hospitals scheme, (the only voluntary scheme), the most expensive at \$108.89. The State Superannuation scheme, with a total membership of over ninety thousand has the third lowest per member cost of \$31.46. This last figure compares favourably with that reported for the NSW Superannuation scheme (\$31.57) but quite poorly compared to the Queensland Superannuation scheme at \$19.95.

TABLE 3.1

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
ADMINISTRATIVE AND PER MEMBER COSTS JUNE 1982 (a)

Scheme	Administration Costs (\$M)	Number of Members	Cost per Member (\$)
State Superannuation	2.90	92,166	31.46
Gas & Fuel Corporation	0.12	5,051	23.76
Hospitals'	1.00	9,184	108.89
Local Authorities'	1.30	23,662	54.94
State Bank	0.18	7,000	25.71
SEC - Superannuation	1.05	10,056	104.42
- Employees	0.46	11,604	39.64
SERB	1.00	11,500	86.96
MMBW - Superannuation	0.20	3,500	57.14
- Provident	0.16	2,800	57.14
TOTAL	8.37	176,523	47.42

Notes based on June 1982 figures produced as evidence at the public hearings.

In reviewing the administration costs under individual expenditure categories, the Committee noted that actuarial costs in 1981-82 and 1982-83 were approximately \$300,000 in each period. (See Appendix C, Table C1). Also included in Appendix C are the consulting actuarial fees earned by Mr. V.H. Arnold, over the period 1978 to 1983 as actuary to 5 public sector superannuation schemes, as well as being the joint actuary to the State Superannuation scheme.

In the course of its investigation, the Committee established that Mr. Arnold is in receipt of a pension from the State Superannuation scheme and is in receipt of a salary as part-time Chairman of the Motor Accidents Board. Until 22 December 1982 he was also the Chairman of the State Superannuation Board. For the financial year 1982-83, the Committee calculated Mr. Arnold received a total of \$128,086 from the Victorian public purse, comprising salaries/allowances received as a statutory appointee, a consultant and as a State pensioner (see Appendix C, Table C2).

The Government has acted to resolve the situation regarding the salary and various allowances received by the current Government Statist and Actuary. The position has been classified within the senior executive service of the Victorian public service at a salary level that reflects the responsibilities of the Government Actuary as well as those of chairman of several important boards of management.

THE COMMITTEE VIEWS WITH CONCERN THIS CONCENTRATION OF ADVICE TO PUBLIC SECTOR SUPERANNUATION SCHEMES IN VICTORIA, AND CONSIDERS GREATER DIVERSITY IN THE EMPLOYMENT OF ACTUARIES WOULD BE DESIRABLE.

THE COMMITTEE ALSO NOTES WITH CONCERN THAT THE PUBLIC SERVICE BOARD WAS UNAWARE OF THE AMOUNT OF REMUNERATION ACCRUING TO MR. ARNOLD. THE COMMITTEE BELIEVES THIS IS AN INTOLERABLE SITUATION AND ONE WHICH SHOULD NOT ARISE AGAIN.

Finally, as a further example of administrative inconsistency, it is of interest to note the staffing constraints faced by the State Superannuation scheme. While the State Superannuation Board can purchase such items of equipment as

computers and pay administrative costs as it sees fit, it has no jurisdiction in staffing.

Mr Leonard-Kanevsky, an elected member of the Board, commented as follows in connection with a proposal to restructure the administration of the State Superannuation scheme:

"The other constraint the Board has had is whilst the administrative costs of the superannuation fund are paid directly from the fund itself, the Board does not have authority, as an employer has, in that staff for the Superannuation Board are still under the Public Service Board and ceilings and we have to go through that process to obtain staff. So to implement that proposal all those positions are going to have to be agreed on various levels by the Public Service Board mechanisms ..." (6)

In regard to the last major changes to the scheme (in 1975) the following exchange took place between the Chairman of the Committee and Mr J.M. Ryder, the Chairman of the State Superannuation Board:

"THE CHAIRMAN: We have had some evidence put to us that the State benefits are somewhat more favourable than those of the Commonwealth. Would there be any justification for that?

MR RYDER: The justification was that the State superannuation level of benefits which was introduced in 1975 was based entirely on the legislation about to be introduced by the Commonwealth and which was introduced in South Australia. We hurriedly adapted our legislation so that it fitted with the proposals of the Commonwealth. The Commonwealth turned it on its head and reviewed it and introduced the present scheme. It is slightly less favourable than the State scheme.

THE CHAIRMAN: You are saying that it is virtually an historical error or fact that the Victorian pension superannuation scheme is more favourable than that of the Commonwealth?

MR RYDER: Yes. It is an historical error." (7)

THE COMMITTEE NOTES WITH CONCERN THE ADMISSION THAT THE STATE SUPERANNUATION SCHEME WAS HURRIEDLY CHANGED WITHOUT PROPER GOVERNMENTAL OR PARLIAMENTARY CONSIDERATION.

The examples in section 3.12 and 3.13 indicate the existence of diversity and ad hoc arrangements within Victorian public sector superannuation. In summary these are:

- (a) One scheme (SERB) was created in a hurry in response to pressure from Country Roads Board employees but no attempt was made by the Government to co-ordinate matters. The Melbourne and Metropolitan Board of Works was allowed to create a new scheme, separate from SERB, whilst Melbourne Metropolitan Tramways Board employees (now in the MTA) were left out of SERB for several years and are currently covered only on the basis of the Minister of Transport's own undertaking.
- (b) The State Superannuation scheme has continued to use the Local Authorities Superannuation Board's computer facilities, first utilised in 1965 as the result of an internal crisis, and has suffered from an inability to control its own staff resources leading to delays and inadequacies which have been reflected in its performance.
- (c) A previous State Government was prepared to hurriedly improve the State Superannuation scheme in response to proposed changes to the Commonwealth Superannuation scheme without the fullest appreciation of the implications. Differences between the two schemes have been allowed to continue for the period from 1975 to the present.

An argument put to the Committee was that the diversity of superannuation schemes reflects the needs of contributors and the different employing organisations. Each scheme, in short, is uniquely well placed to service its own members.

THE COMMITTEE FINDS THIS ARGUMENT DIFFICULT TO ACCEPT. THE EVIDENCE OVERWHELMINGLY SUPPORTS THE ALTERNATIVE PROPOSITION THAT THE DIVERSE AND FRAGMENTED NATURE OF PUBLIC SERVICE SUPERANNUATION SCHEMES IN VICTORIA IS THE OUTCOME OF AD HOC AND UNCO-ORDINATED GROWTH.

Despite these shortcomings and diverse administration costs, the Committee has been faced with an almost universal request to leave well alone in the field of superannuation administration, despite the fact that superannuation arrangements have been allowed to grow 'like topsy' out of historical variations.

3.1.4 The Management of Superannuation Schemes

The establishment of a superannuation scheme in the public sector results either from legislation (the appropriate act or regulation) or by a trust document with associated rules. In the case of the larger schemes, only the SEC's and the Gas and Fuel Corporation's Superannuation schemes are established by trust deed. The smaller schemes, on the other hand, usually operate under a trust document in association with a life insurance company. The other larger schemes have their origin in legislation which also specifies who shall be on the board of trustees.

In some cases the trustees are simply the parent board such as the SEC, Melbourne Underground Rail Loop Authority, Port of Melbourne Authority, Port of Geelong Authority, Tobacco Leaf Marketing Board and the Harness Racing Board. Alternatively, the trustees are senior officers of the parent Board, for example, in the case of the Australian Barley Board, the Egg Marketing Board, the Grain Elevators Board, the TAB and the Westgate Bridge Authority.

More commonly, the trustees consist of board/authority officers and employee representatives with the former mostly in the majority. In many cases the chairman is a Governor-In-Council appointment. With the exception of the SEC and the State Bank, all the large schemes operate with employee representation on the board of trustees. As a rule of thumb, the smaller the

scheme the more likely senior management will perform the administration of superannuation without any employee involvement.

It is possible to categorise the various superannuation schemes into management types (see Appendix D for a detailed breakdown).

Although it is clearly difficult to assess the particular advantages and disadvantages of a given administrative or trustee arrangement, it is by no means obvious that the various management arrangements reflect individual needs.

THE COMMITTEE TAKES THE VIEW, FROM THE EVIDENCE PRESENTED, THAT THERE IS LITTLE IF ANY JUSTIFICATION FOR THIS VARIETY OF TRUSTEE ARRANGEMENTS.

3.1.5 Co-ordination and Control of Public Sector Superannuation Schemes

Three central agencies of the Victorian Government are involved in (or are potentially concerned with) the management and administration of public sector superannuation schemes. These agencies are:

- (a) the Public Service Board;
- (b) the Department of Management and Budget; and
- (c) the Office of the Government Statist and Actuary.

The Public Service Board

The functions and responsibilities of the Public Service Board of Victoria are defined in the Public Service Act 1974 and associated regulations. Aside from its role in relation to industrial relations, levels of staffing, wage/salary determinations, and conditions of employment, the Board is charged with:

"... providing policy on a wide variety of personnel management matters and to develop a personnel system within the Public Service which meets the needs of both staff and management."(8)

With this in mind, the Committee invited Dr. R.B. Cullen, Chairman of the Public Service Board, to address the Committee and to provide a written submission on the role of superannuation as it impacts on the personnel management needs of the service.

In his written submission, Dr. Cullen pointed out that the present Victorian Government has a policy intended to : "develop mobility within the public sector workforce"; and "remove barriers that retard movement of employees within the State public sector."(9) However, as Dr. Cullen also explained at the public hearings current superannuation arrangements impose limitations on public sector wide mobility because of the number and diversity of public sector schemes. Dr. Cullen identified two main areas of concern. These were, firstly, the lack of portability and preservation provisions (in particular outward portability from the State Superannuation scheme) and, secondly, medical assessments where the statutory powers are divided between the Public Service Board and the State Superannuation Board with a potential for conflict due to the different roles of the two organisations. A specific example of this potential for conflict on medical issues was given by Mr. A. Phillips, then Secretary of the Public Service Board:

"It is at two levels. Under Section 57 of the Public Service Act it can authorize someone to retire due to ill health but that is retirement only from the Victorian Public Service. The question of availability of superannuation is a question separate from that and it is a question decided by the State Superannuation Board. In effect, when one is talking about ill health retirements and their levels, one is talking about decisions made by the State Superannuation Board. The Board may have a view as to whether or not it should have an involvement in that particular decision but at the moment it does not."(10)

With 42 separate superannuation schemes the situation in terms of overall public service personnel management is complex. Although the Public Service Board has jurisdiction over only some 35,000 officers out of almost 100,000 in the State Superannuation scheme, the summation by the Public Service Board in its submission to the Committee is relevant to all funds:

"... The Public Service Board believes that in the interest of effective personnel management, decisions relating to appointment, invalidity retirement and redeployment should be made by the personnel management agency, according to stated policies, and on the basis of appropriate medical advice rather than on the basis of superannuation fund management considerations."(11)

THE COMMITTEE BROADLY CONCURS WITH THIS VIEW AND BELIEVES THAT, SUBJECT TO APPROPRIATE RECOGNITION OF AND RESPONSIBILITY FOR THE COSTS INVOLVED, THE INTERESTS OF EFFECTIVE PERSONNEL MANAGEMENT, FOR BOTH MOBILITY WITHIN THE PUBLIC SECTOR AND BETWEEN PUBLIC AND PRIVATE SECTORS, SHOULD HAVE PRIORITY OVER PURELY SUPERANNUATION CONSIDERATIONS.

THE COMMITTEE BELIEVES, FROM THE EVIDENCE PRESENTED, THAT IN FAILING TO ADDRESS THESE PERSONNEL MANAGEMENT ISSUES, SUCCESSIVE GOVERNMENTS HAVE ALLOWED AN UNNECESSARY DEGREE OF SEGMENTATION AND HUMAN RESOURCE MISALLOCATION WITHIN THE STATE PUBLIC SECTOR. SUPERANNUATION SCHEMES SHOULD BE SEEN AS AN INTEGRAL PART OF A PERSONNEL MANAGEMENT SYSTEM.

The point was emphasised by Dr. Cullen:

"... The Board clearly has a responsibility to think about the personnel system in total, and that includes this. I have been putting that point of view and raising issues. There is starting to be some recognition of that, but even seeing the superannuation scheme as part of the personnel system is a concept that has to be directed to mind. The Board is saying that it has quite an interest, both on the pay side and on the personnel side, in looking at issues and developments.

It has actively begun to put points of view and to effect changes on specific points like the senior officers' transfers, part-time work and so on. It has made a start on that, but I could not say that it was seen previously as a Board role. I do not see how one can manage personnel policy and pay policy and not have that component in there."(12)

The Department of Management and Budget

The Treasury (now the Department of Management and Budget) has, in the past, exercised indirect control over superannuation matters. This was in cases where the Minister responsible for a particular superannuation scheme has chosen, or been required, to refer any change to a superannuation scheme to the Treasury for comment on the cost implications. In many cases, as has been already noted, Treasury was not consulted.

However, in 1983, at the time of the commencement of this Inquiry, the Treasurer issued instructions that no public sector superannuation scheme was to be altered without his knowledge and consent. The Committee wrote to the Treasurer seeking clarification of this instruction, in particular requesting that no further amendments to public sector superannuation schemes be entertained (other than those already agreed to by the Government) until the Committee's inquiry had been completed.

The Treasurer gave the following assurance:

"I desire to confirm that the Government will not consider any further amendments to State superannuation schemes, other than those already agreed to, until the Inquiry has been completed.

In the event that a proposal should come forward which requires special consideration because of a technicality or an anomaly situation I will bring it to your notice before any decision is taken on the matter by Cabinet."(13)

Consequently, the scene is now set for the Treasurer to formalise the processes for changing individual superannuation schemes.

While the Committee has not received a written submission from the Department of Management and Budget, it has been able to note certain significant developments, particularly the creation in 1984 of the office of Director of Superannuation within that Department.

The Office of the Director of Superannuation will be entirely separate from the Office of the Government Statist and Actuary. It is intended that the latter will act as a source of professional advice, primarily concerned with the cost implications of any proposed changes to superannuation schemes. The Director, who will be supported by some four or five staff, will deal with policy proposals and liaise with scheme managers concerning the implementation of Government policies.

The Committee noted the similarity of these developments with those of the New South Wales Superannuation Office. The Office assists the Minister for Industrial Relations in the co-ordination of policies in relation to public sector superannuation schemes and assists generally in the administration of these schemes. The Office is divided into a Secretariat which assists the Under-Secretary in carrying out the administrative functions of the Office, and a Bureau of Government Superannuation Research, which carries out research orientated towards the harmonious development of public sector retirement schemes and their administration in accordance with Government priorities.

The Committee notes that in a paper produced by the NSW Superannuation Office several pertinent comments were made in relation to centralised policy control:

"... for historical reasons the State Superannuation Board has maintained a greater degree of independence of the Minister's superannuation administration than the other major boards, and with the Minister's approval is largely responsible for carriage of its own legislation independently of the Office. This has from time to time been the source of some administrative difficulty particularly when proposals have been put forward which would conflict with the harmonious development of the Government's superannuation policy in other directions."(14)

Again:-

"In hindsight it may be fairly remarked that the role of a centralised administration having Ministerial authority which to some extent supplanted elements of authority previously exercised by the independent

superannuation administrative boards, would have been better facilitated by legislative backing."(15)

The Committee will be dealing with the mechanism and procedures it proposes for the operation of the Victorian equivalent of the superannuation office in its next report. However, it can be stated at this point that the Committee believes that no scheme should have preferential or independent access to the Treasurer.

THE COMMITTEE SUPPORTS THE ESTABLISHMENT OF THE OFFICE OF DIRECTOR OF SUPERANNUATION AND ITS ROLE AS THE MAJOR SOURCE OF POLICY ADVICE ON SUPERANNUATION IN THE VICTORIAN PUBLIC SECTOR.

The Office of the Government Statist and Actuary

Historically, the Office of Government Statist and Actuary has played a significant role in providing advice to Government on superannuation issues. Legislation on the statute books requires the Government Statist and Actuary to be on the State Superannuation Board, to be Chairman of the Metropolitan Fire Brigades' Superannuation scheme, and to be Chairman of the Hospitals' Superannuation scheme. More recently, the Government has gone further in making the Government Statist and Actuary, the Chairman of the State Superannuation Board and, as described later, Chairman of the Treasurer's Consultative Committee on Superannuation and Chairman of the Superannuation Advisory Group.

These present Victorian arrangements stand in contrast to those followed in NSW. In NSW, the Government Actuary plays a more independent role in relation to superannuation issues. Although he is a member of the State Superannuation Board (not Chairman), he does not fill managerial roles with individual superannuation schemes or chair advisory groups on superannuation to the Government of NSW. Further, the Government Actuary is not located in the NSW Superannuation Office.

The present Victorian situation is more akin to that of South Australia where the Public Actuary is also President of the Superannuation Board and

Chairman of the Investment Trust. Furthermore, general superannuation policy advice and research on changes to the State Superannuation scheme is located in the Public Actuary's office, which is in turn part of the Treasury Department.

Given the sheer size and diversity of the problems encountered in NSW and Victoria (in contrast to South Australia) and the appointment in Victoria of a Director of Superannuation, the Committee believes that it is important to assign a separate professional role to the functions of the Victorian Government Statist and Actuary.

THE COMMITTEE BELIEVES THAT THE GOVERNMENT STATIST AND ACTUARY SHOULD PLAY AN INDEPENDENT PROFESSIONAL ROLE ADVISING GOVERNMENT, THE DIRECTOR OF SUPERANNUATION AND THE INDIVIDUAL SCHEMES, BUT SHOULD NOT BE INVOLVED IN THE DIRECTION OR MANAGEMENT OF ANY PARTICULAR SCHEME.

SECTION 3.2 THE ADMINISTRATIVE STRUCTURE OF SUPERANNUATION SCHEMES

3.2.1 Alternative Administration Structures

The internal organisations of the various separate public sector superannuation schemes in Victoria are often quite dissimilar, reflecting not only the needs of the organisation and its members but also the process of historical growth.

The question of whether or not a particular scheme is operating efficiently is not one that can be answered without a detailed review of scheme objectives and organisational structures. Even so, all schemes would be expected to have common elements and job task descriptions as they are fulfilling essentially the same role. Thus, while we can distinguish single employer from multi-employer schemes, the most important differences are likely to be not in the operational structures, with the exception of the extent of mechanisation of the scheme, but in the reporting procedures from management to trustees and the extent to which trustees may participate in the day-to-day operations of the scheme.

A report to the Committee by Campbell and Cook Consulting Actuaries on the 'Computer Administration Systems for Selected Victorian Public Sector Superannuation Schemes'(16), has provided the basis for an evaluation of the appropriateness or otherwise of individual scheme structures. If there is to be a continuation with the present structure of separate scheme operations in the public sector, the new Office of Superannuation in the Department of Management and Budget should have the responsibility for regularly reviewing the progress of individual schemes in achieving the goal of a model administrative system as set out by the consultants or towards some other standard agreed to by the Government.

At the time of writing and as far as the Committee is aware, only two management reviews of a public sector superannuation scheme in Victoria have been undertaken and officially released. The Committee knows of one other review, on SERB, which is in the process of finalisation. These are the reviews of the operations of the State Superannuation Board by Public Service

Board consultant groups, which reported in June 1981 and April 1984 respectively. Unfortunately, experience with the 1981 review does not augur well for the most recent review if it is conducted on a similar basis. To date, the 1981 recommendations of the Public Service Board task force have yet to be implemented and an unusual degree of acrimony has built up between the State Superannuation Board, the Department of Management and Budget, and the Public Service Board over the matter.

THE COMMITTEE FINDS THIS SITUATION TOTALLY UNSATISFACTORY AND TAKES THE VIEW THAT THERE SHOULD BE:

- (1) REGULAR REVIEWS OF THE ADMINISTRATIVE FUNCTIONS OF ALL PUBLIC SECTOR SUPERANNUATION SCHEMES TO ENSURE THAT THE SCHEMES OPERATE TO MINIMISE ADMINISTRATIVE COSTS AND TO MEET THE NEEDS OF THEIR MEMBERSHIP IN AS TIMELY AND EFFICIENT A WAY AS POSSIBLE;
- (2) REGULAR MONITORING TO ENSURE THAT APPROVED REVIEW RECOMMENDATIONS ARE IMPLEMENTED AS SPEEDILY AS POSSIBLE (INCLUDING RECOMMENDATIONS FOR SCHEME MERGERS); AND
- (3) THAT THESE REVIEWS SHOULD COME UNDER THE AUTHORITY OF THE DIRECTOR OF SUPERANNUATION WHO SHOULD HAVE RESPONSIBILITY FOR ASSIGNING TERMS OF REFERENCE AND SELECTING THE REVIEWING BODY FROM EITHER THE PUBLIC SERVICE BOARD OR INDEPENDENT PRIVATE CONSULTANTS.

3.2.2 Case Study I : The SEC Scheme

In order to indicate the alternative administrative forms (and range of tasks) that can emerge in the management and operation of a public sector superannuation scheme, the Committee considers as one case, the two SEC schemes.

Naturally, in the case of large schemes, like the SEC schemes, the trustees do not manage the scheme. As a sole employer scheme the trustees have delegated responsibility for the operation of the scheme to SEC officers'. Organisationally, the two SEC schemes are identical except that separate actuarial firms service each scheme and the SEC Employees' scheme does not have an advisory committee.

In evidence to the Committee, Mr. J.C. Trethowan, Chairman of the SEC Superannuation scheme, made the following comment in relation to the running of the scheme:

"... As far as the day-to-day administration of the fund is concerned, it is vested in the Manager, Superannuation Administration, Mr. Les Harcourt who reports to Mr. Frank Sims, our Director of Human Resources. Mr. Harcourt, together with his manager, is responsible for investment, accounting systems and counselling services and they are responsible to the trustees of the fund through Mr. Harcourt as Secretary to both funds. In addition, the trustees are advised on superannuation fund matters by a long-standing advisory committee on which we have elected representatives from the fund. In addition, we have an investment committee which provides expert investment advice to the trustees on investment matters for both funds."(17)

Later on, Mr Trethowan was asked about delegations from the trustees to the managers of the schemes:

"... On the day-to-day basis the administration is in charge of investments, and on funds matters there are clear delegations and guidelines laid down by the trustees. On the investment side we have the objectives of investments within specific broad categories.

The budget will be applied each year, and delegations will be made to the administration to carry these out : (a) through the administration; or (b) through the investment committee, and report and ratification comes back to the Board for each of those."(18)

This scheme, which has independent authority over its own resources, can be compared to the State Superannuation scheme.

3.2.3 Case Study II : The State Superannuation Scheme

An obvious variation from the situation described for the SEC is where some of the trustees are elected by the membership. The most important example of this is the State Superannuation Board of Victoria, with three of the six members of the Board being elected from various categories of the membership.

In written evidence to the Committee, the State Superannuation Board outlined the day-to-day management arrangement of the scheme:

"The Board meets on a weekly basis, this is mainly to determine decisions about ill health retirements, investments, policy, and other statutory requirements.

The Board determines administrative policy and guidelines for investment and the day-to-day running of the fund within those guidelines is left to the General Manager and Secretary to organise.

The Board has a longer meeting once monthly to consider reports from management and sub-committees about administrative matters of the Board.

The Board has sub-committees set up in the areas of E.D.P., medical classification matters and ill-health retirements, investments and property investments."(19)

In evidence to the Committee, the Chairman of the State Superannuation Board, Mr. J.M. Ryder, expanded on this submission in relation to the investment sub-committee:

"MR. RYDER: The Board really lays down the guidelines for the staff of the Board to administer. The creation of the sub-committee means that there is a much closer feedback on what goes on. The sub-committee is

composed of certain board members and the board staff, and they will be discussing what they are going to do with investments.

THE CHAIRMAN: What, within the guidelines?

MR. RYDER: Yes. The guidelines would be approved anyway every week. If any change eventuates in the guidelines it would be looked at within the week."(20)

Day to day investment management is left to the Investment Officer and the General Manager. Mr. S.J. Bates, then General Manager, commented in evidence:

"With anything outside those guidelines we go back to the Board. The guidelines vary from time to time with interest rates going up and down."(21)

In reviewing the operation of the State Superannuation scheme the Public Service Board's consultant review (1981)(22) identified a number of weaknesses and proposed a reorganisation of the scheme's administration. The key recommendations were to:

- (a) reorganise the structure of the scheme's administration, grouping like functions together and freeing-up the Board to concentrate more on major policy matters;
- (b) select and appoint suitably qualified managers to key positions within the new structures;
- (c) improve internal communications and develop more productive and satisfying relationships between management and staff;
- (d) upgrade EDP and other operating and control systems; and
- (e) establish and monitor the achievement of organisation wide, divisional and sectional objectives, priorities and action plans.

With the three key elements of the revised organisational structure being:

- (a) EDP and accounts;
- (b) operating and management services; and
- (c) funds management.

As mentioned previously, these recommendations have yet to be implemented. Nevertheless, it should be pointed out that the State Superannuation scheme has, to some extent, been limited in its ability to re-organise itself by the fact that legally it could not appoint staff (that is the function of the Public Service Board). This is despite the fact that, in the opinion of the Crown Solicitor, the State Superannuation scheme:

"... when expending moneys that have been appropriated for the purpose by Parliament for the purpose of administering the Act, is not required to first obtain the approval of the Treasurer or any officer in the Treasury."(23)

It was this latter opinion which allowed the State Superannuation scheme to purchase a \$1.4 million computer system although the Treasurer sought to stop the tender. Nevertheless, with respect to staffing the situation is different.

In explanation of the failure to finalise the Board's management structure, Mr. J.M. Ryder commented to the Committee at the public hearing:

"The final report was accepted by the Board in the spirit of try it and see because we will try anything if we only are allowed to.

Unfortunately the Board has not been allowed to and the Public Service Board and the Treasury have had the ultimate responsibility and they did not give their approval. The Board clearly wants to implement that report. The Board cannot unilaterally do that, it is an act of constraint.

Section 61 of the Superannuation Act 1958 states, "The staff of the Board shall be appointed under and be subject to provisions of the Public Service Act 1958", and that is the constraint that the Superannuation Board has to work under."(24)

Following the resignation of the General Manager a new review was initiated by the Public Service Board. Fortunately, the Committee has been able to read, at short notice, the final Report by the Department of Management and Budget's review team dated February 1984, a final copy of which was received on April 2 1984.(25)

The Committee makes the following comments:

- (a) The Committee observes that the final report blames State Superannuation Board senior management for the delays in implementing the 1981 report. An extract from the 1984 report will illustrate the point:

"Top management has not determined or articulated key organisational goals and priorities and has not persisted in securing organisational change and management improvement as identified in the PSB July 1981 report."(26)

- (b) The Committee believes an alternative and more accurate view would be to add that the State Superannuation Board has not received the assistance it deserved from Treasury (now the Department of Management and Budget), and that there are a number of instances of requests generated by the Board which were not acted on by the Treasury. Furthermore, the Public Service Board can be criticised for failing to follow up its own 1981 report prior to being called in by the Director-General of the Department of Management and Budget in September 1983.

- (c) The Committee notes that the 1984 report recommends that an Implementation Steering Committee be established to ensure the recommendations of the report are considered and implemented. The report states that, 'there are no comprehensive statements of agreed, articulated and promulgated corporate objectives'.(27) It then goes on to recommend:

"That such objectives be considered, reviewed and fine tuned as necessary by the Implementation Officer, the General Manager and

the Director-General DMB or his delegate before their submission to State Superannuation Board for formal endorsement."(28, Committee's emphasis)

The implication of "formal endorsement" is that the Board would be expected to agree automatically to anything the steering committee suggests. This surely disregards the Board's responsibilities under the legislation and the participation by employee members in the Board's policy making.

- (d) The Committee has taken account of the passing reference to the various operational models mentioned in the 1984 report, but notes that none are developed, and that the writers of the report have completely missed the possibility of a Commissioner of Superannuation model, since the Commonwealth model splits investment and administration.
- (e) Following on from (d), the 1984 report makes no attempt to resolve one of the major causes of the State Superannuation Board's problems - namely, the inability to control its own staffing whilst being capable of making independent expenditure decisions. The 1984 report seems to be implying that the Board will become a rubber stamp, subservient to the Department of Management and Budget. The review team favours the Treasurer having powers to direct the Board on any matter deemed to be 'of significant public interest'. The Committee believes a far more appropriate model is found in the SEC (Amendment) Act 1982, on the assumption that the current Board continues to have unchanged responsibilities.
- (f) The Committee found little substantive difference in the recommendations of the 1981 and the 1984 review reports. A comparison between Chart 3.1 on page 142 (the proposed organisation chart in the 1981 report) and Chart 3.2 on page 143 (the 1984 report's proposed organisation chart) will support the point. The 1984 report creates the position of Assistant General Manager (AGM) but seems to have lost 'EDP Operations' and a 'Fixed Interest Securities Unit' in the new structure. The

Committee was confused by the seemingly contradictory situation whereby the duty statement of the AGM requires the person to act as Secretary whilst the organisational chart has no link between the AGM and the secretariat. Such key issues as the situation pertaining to the medico/actuary, the arrangements with the LASB, and the need for an EDP manager, are all repeated from the 1981 report. However, the Committee did note the absence of any comment on disability procedures in the 1984 report, a key cost item, as this Committee's report will demonstrate.

- (g) Overall, the Committee felt the 1984 Public Service Board report into the State Superannuation Board to be superficial, exhibiting a lack of understanding of administration of a complex multi-employer scheme, and to be less than critical of both the Public Service Board and the Department of Management and Budget who each must take a fair share of responsibility for the unsatisfactory state of affairs in the State Superannuation Board.

QUITE CLEARLY, IN THE CASE OF THE STATE SUPERANNUATION BOARD, THERE IS CONSIDERABLE ROOM FOR IMPROVEMENT NOT ONLY IN MANAGEMENT STRUCTURES BUT IN THE RELATIONS BETWEEN THE BOARD AND OTHER CENTRAL AUTHORITIES.

The Committee believes that the State Superannuation Board, the Department of Management and Budget and the Public Service Board must bear equal responsibility for the present state of affairs at the State Superannuation Board.

The Committee finds:

- (a) The State Superannuation Board used the lack of implementation of the 1981 Public Service Board report as an excuse for inaction, and that senior management resisted change on the basis that agreement had not been reached in respect of that report.

- (b) Treasury (now Department of Management and Budget) was remiss in not dealing with in dealing with a matter that had been identified by the Public Service Board as totally unsatisfactory.

In evidence to the Committee Mr S. Bates, then general manager of the State Superannuation scheme, stated:

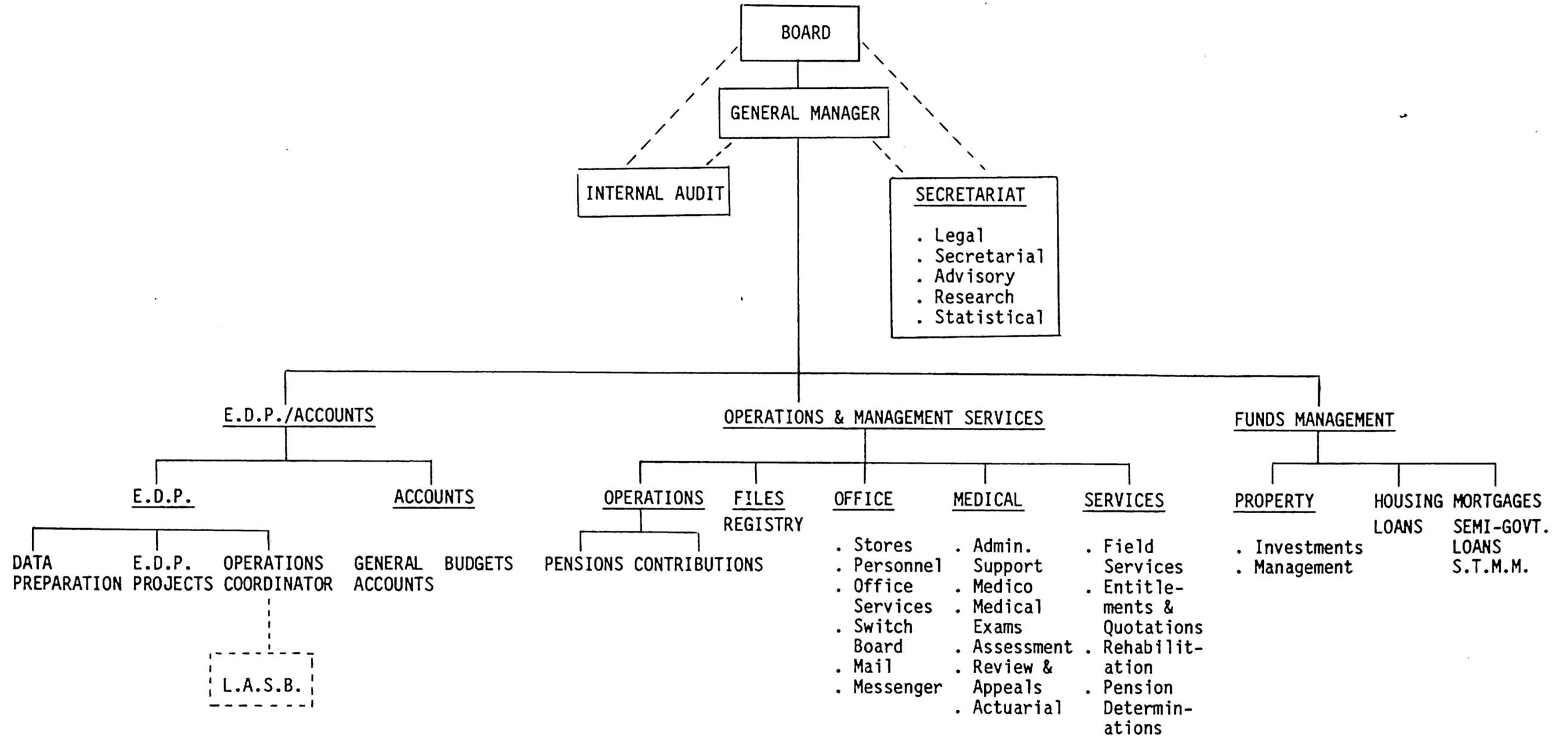
"You must get the sequence of events right. I was appointed in 1976 after a previous Public Accounts Committee report. One of the first jobs I had to do was to set up a staff restructure, which I did, and it was submitted through Treasury from August 1977. That was asking for 17 extra positions. That stayed from when the report was commissioned, until December, 1980 or thereabouts. We did not get any response from Treasury from that time in spite of letters to the Treasury saying that we needed less staff in certain areas and more in others. We have a whole file over that period of time."(29) (See Appendix E for a full listing of the chronological sequence of events.)

- (c) The Public Service Board made no attempt to ensure a speedy implementation of a report that it had initiated. Not surprisingly, the 1984 Public Service Board review of the State Superannuation Board has made similar comments in terms of needed changes to those of its 1981 report.

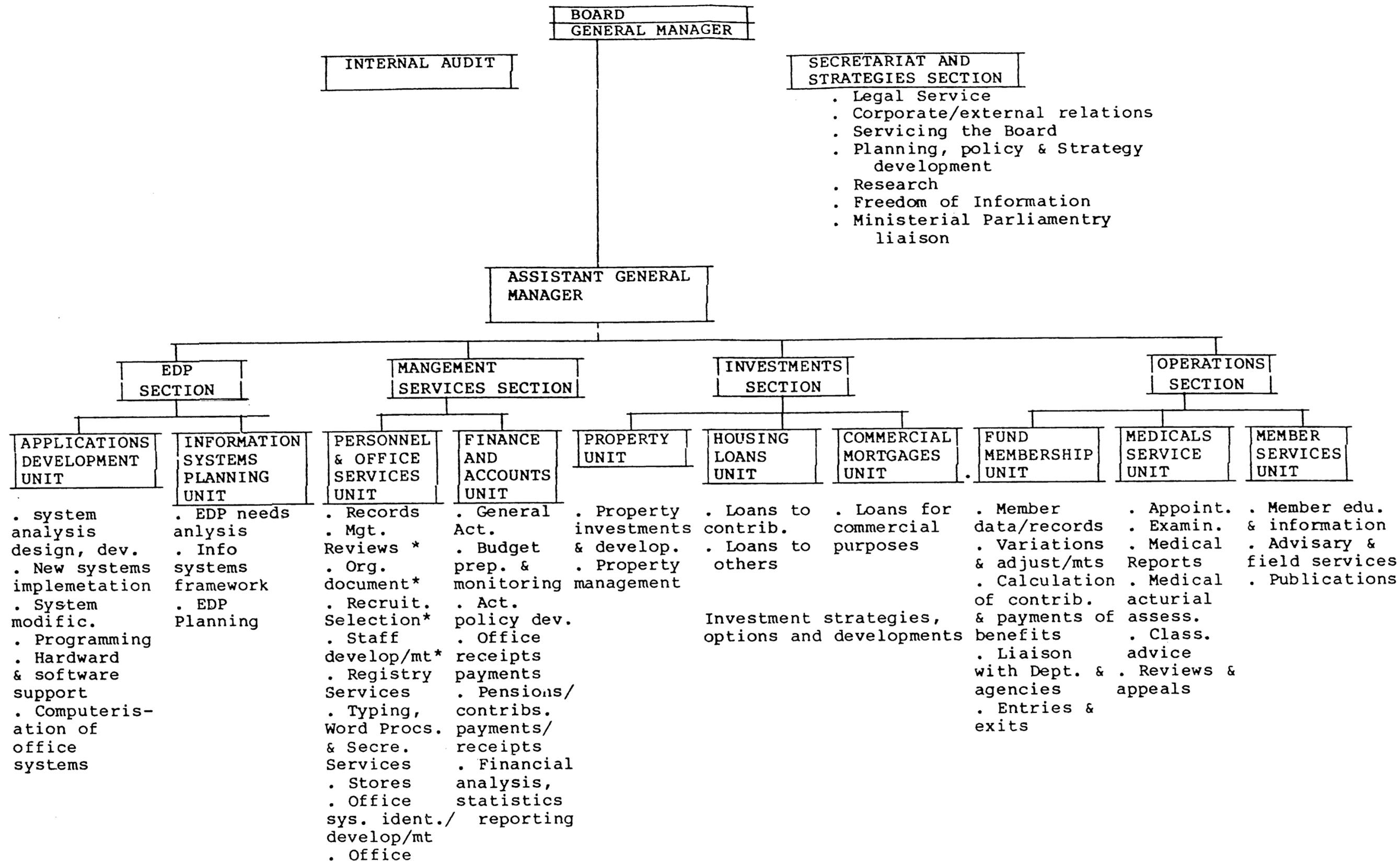
THE COMMITTEE REGARDS THIS AS AN INTOLERABLE AND UNSATISFACTORY CHAIN OF EVENTS THAT DOES NOT REFLECT WELL ON ANY PARTY. THE COMMITTEE STRESSES THAT WITHOUT IMPROVED MANAGEMENT AND EFFECTIVE CENTRAL CO-ORDINATION THE SITUATION WILL DETERIORATE.

IN THIS LIGHT THE COMMITTEE'S PREVIOUS RECOMMENDATION THAT THE OFFICE OF GOVERNMENT STATIST AND ACTUARY AND THE CHAIRMAN OF THE STATE SUPERANNUATION BOARD SHOULD NOT BE HELD BY THE SAME PERSON IS RELEVANT. THE COMMITTEE RECOMMENDS THAT THE CURRENT CHAIRMAN OF THE STATE SUPERANNUATION BOARD BE REPLACED.

PROPOSED ORGANISATION CHART FOR THE STATE SUPERANNUATION BOARD, APRIL 1981.



142



* To be undertaken by Implementation Officer initially

SECTION 3.3 CONSULTATION AND PARTICIPATION IN SUPERANNUATION SCHEMES

3.3.1 Superannuation as an Industrial Relations Issue

Superannuation is an important component of the total remuneration of many public sector employees. As such, it might be expected that the determination of superannuation provisions would be part of the normal procedures established to determine wages and other conditions of employment of public sector employees. However, this is not the case in Victoria or Australia generally. Traditionally, superannuation has been separate from the processes of negotiation, conciliation and arbitration which dominate the determination of wages and employment conditions. This separation reflects a variety of factors including the rather paternalistic origins of superannuation and the relative disinterest of unions in superannuation matters.

However, this situation has changed and since the late 1970's superannuation has been increasingly perceived by both employers and trade unions to be an "industrial matter" appropriate to collective negotiations and agreement. This is the case at the several levels of industrial relations within Australia. The superannuation policy of the Australian Council of Trade Unions (ACTU) determined at its biennial Congress held in September 1983 calls for the ACTU Committee on Superannuation to:

"... co-ordinate and assist unions attempting to implement (superannuation) schemes; and to co-ordinate a campaign amongst union membership around the issue of superannuation."⁽³⁰⁾

The Confederation of Australian Industry (CAI) also clearly recognises that superannuation is an important industrial relations matter. In 1979 the then Director-General of the CAI's Industrial Council wrote:

"With the movement of trade unions into this area, in terms of establishing their own schemes and using industrial action to support their pursuit of superannuation benefits for their members, the issue of

superannuation is becoming an integral part of the industrial relations scene."(31)

Several individual unions have established their own schemes (for example, the Pulp and Paper Workers' Federation and the Federated Storemen and Packers' Union) and many unions have negotiated superannuation benefits as part of a log of claims.

THESE CHANGING PERCEPTIONS HAVE RESULTED IN SUPERANNUATION BECOMING AN IMPORTANT ISSUE IN INDUSTRIAL RELATIONS, NEVERTHELESS IT STILL REMAINS OUTSIDE THE ESTABLISHED FRAMEWORK OF THE CONDUCT OF INDUSTRIAL RELATIONS IN VICTORIA. THE COMMITTEE CONSIDERS THAT THE STATUS OF SUPERANNUATION IN PUBLIC SECTOR INDUSTRIAL RELATIONS IS A PROBLEM, OR AT LEAST A POTENTIAL PROBLEM, REQUIRING EXAMINATION. AS GREATER ATTENTION IS LIKELY TO BE FOCUSED ON SUPERANNUATION AS A CONDITION OF EMPLOYMENT IN THE FUTURE, THE PRESENT INQUIRY PROVIDES A TIMELY OPPORTUNITY FOR ASSESSING THE INDUSTRIAL RELATIONS ASPECTS OF SUPERANNUATION.

Several trade unions which made submissions to the Committee made it quite clear that superannuation, or more specifically alterations to existing superannuation arrangements, represented an important industrial relations issue to them. The SEC Staff Sub-Branch of the Federated Engine Drivers' and Firemen's Association submitted:

"... we would resist by any and all means at our disposal any attempt to amalgamate the SEC Staff Superannuation Fund with any other fund."(32)

The LaTrobe Valley Sub-Branch of the Australian Institute of Marine and Power Engineers (AIMPE) submitted that :

"The members of the LaTrobe Valley Sub-Branch of the AIMPE will not allow their benefits to be reduced in any way as a result of the present inquiry."(33)

The Municipal Officers' Association of Australia (MOA) provided the clearest statement of the industrial relations significance of superannuation. The MOA submitted:

"The Association considers that any external interference with schemes other than to improve or increase minimum benefit standards would jeopardise the current harmonious industrial relationship between this Association and its various employers.

In the light of membership reaction to the establishment of this Committee of Review and the recent changes to Federal taxation legislation, the Association must view any move to reduce current benefits, alter the structure of any funds to which MOA members are contributors or impose any external limitation on improvements to schemes negotiated by parties, as deliberately provocative."(34)

Superannuation is an important condition of employment which unions can include in their general representational role. Superannuation provides unions with an opportunity to claim credit for new or improved benefits, perhaps more clearly than for a wage increase, particularly when wage fixation is highly centralised as it was during 1975 to mid-1981 and has been since December 1982. Secondly, the institutional security of the union may be enhanced by superannuation schemes in which the union's representatives participate in the administration of the scheme. As to be discussed in the following section, some Victorian public sector schemes provide for employee representation on the boards of management.

The Victorian Ministry of Industrial Affairs also expressed, "no doubt that superannuation should be regarded as an industrial matter" in its submission to the Committee.(35)

Despite the fact that superannuation is regarded as an industrial relations matter and is the subject of negotiations, it is an issue rarely dealt with by industrial tribunals in the normal processing of union claims. Some unions have included superannuation in their ambit logs of claims but few have pursued superannuation matters in proceedings before industrial tribunals. This situation may reflect a somewhat conservative view of the jurisdiction of

industrial tribunals on the part of unions, as much as a narrow interpretation of the term "industrial matter" by the courts.

Data from the Australian Bureau of Statistics (ABS) indicate that awards of the Federal industrial tribunal covered 50.1% of Victorian employees compared with 37% employed under State industrial tribunal awards. Federal award coverage of male employees (58.3%) and State award coverage of females (58%) were higher than the overall figures.⁽³⁶⁾ Many key areas of employment for which the Victorian government is responsible come under the Federal jurisdiction. Among these areas are employees providing a direct service to the public, for example electricity, railway, tram and bus employees.

There are two statutes establishing tribunals which are relevant to the conduct of industrial relations in the Victorian public sector. These are the Federal Conciliation and Arbitration Act 1904 and the Victorian Industrial Relations Act 1979.

The Conciliation and Arbitration Act 1904 (S.4) defines "industrial matter" to mean, "all matters pertaining to the relations of employers and employees", including "the privileges, rights and duties of employers and employees", and "the mode, terms and conditions of employment". Prima facie, such a definition would seem to encompass superannuation within the scope of the Commission's powers to prevent or settle disputes as to industrial matters by conciliation or arbitration. However it appears that at least part of the reason for the effective exclusion of superannuation from the Commission's jurisdiction has been the doubt cast on this prima facie view by the High Court decision in R. v Hamilton Knight Ex parte Commonwealth Steamship Owners' Association (1952)⁽³⁷⁾. Another factor probably has been Section 58 (1)(a) of the Act which provides that an award shall continue in force for a maximum period of five years. However the issue of whether claims concerning retirement benefits come within the Commission's jurisdiction does not seem to have been conclusively resolved. A statement by Mr. Justice Stephen (as he then was) in his judgement in the High Court decision in R. v Ex parte A.N.Z. Banking Group (1972) tends to support the prima facie interpretation that a claim concerning retirement benefits constitutes an "industrial matter", and therefore that the Australian Conciliation and Arbitration Commission does

have power to deal with the subject of retirement benefits.(38) The Industrial Relations Commission of Victoria is the other industrial tribunal determining conditions of employment in Victoria. The Industrial Relations Act 1979 empowers the Commission and Conciliation and Arbitration Boards to make awards relating to "industrial matters". The term "industrial matter" is not defined anywhere in the Act, unlike the Federal Act which provides a definition in Section 4. Section 34 (1) of the Industrial Relations Act 1979 empowers Conciliation and Arbitration Boards:

"to make an award determining all matters relating to ...

- (b) pay, wages and reward ...
- (c) privileges, rights and duties of employers and employees ...
- (d) the mode, terms and conditions of employment or non-employment ..."

Again, the Victorian legislation provides a prima facie basis for regarding superannuation as a potential industrial matter coming within the Victorian Commission's jurisdiction. The matter of whether a claim for retirement benefits or alteration of existing arrangements would come within the Commission's jurisdiction has not been tested before the Supreme Court to the Committee's knowledge. In particular the meaning of the expression "terms and conditions of ... non-employment" (S.34(1)(d)) is obscure.(39) The Committee is not aware of any definitive interpretation of the Commission's jurisdiction regarding superannuation which is a matter for determination by the Supreme Court and ultimately Parliament. It is, of course, open to question whether an award of an industrial tribunal is a suitable instrument for establishing a superannuation scheme. This matter and whether industrial tribunals should have indisputable power to deal with claims and disputes concerning superannuation are industrial relations policy issues about which the Committee received no opinions.

In summary, the current situation in the Victorian public sector is that superannuation is the subject of industrial claims, negotiations and agreements between public sector employers and trade unions representing employees. However, both the Federal and Victorian industrial tribunals play no significant part in this process.

IN THE COMMITTEE'S VIEW SUPERANNUATION IS CLEARLY AN INDUSTRIAL RELATIONS MATTER. IT DEPENDS ON THE EXISTENCE OF AN EMPLOYMENT RELATIONSHIP FOR ITS INSTITUTIONAL ESTABLISHMENT, IT CONSTITUTES PART OF THE ESSENTIAL EMPLOYMENT EXCHANGE OF REMUNERATION IN RETURN FOR PROVISION OF LABOUR SERVICES AND IS AN APPROPRIATE SUBJECT FOR CLAIMS, NEGOTIATION AND CONFLICT BETWEEN EMPLOYER AND EMPLOYEES.

3.3.2 Employee Participation in the Management of Superannuation Schemes

Given that superannuation is clearly an industrial relations matter, an issue of major concern is the extent to which employees are represented on the governing bodies of schemes and take part in the management functions of those schemes (to include the actual involvement in decision making on superannuation by scheme members).

Many public sector superannuation schemes involve employee members of the scheme on their governing body - although the majority of schemes in Victoria do not have any representation at the trustee or board level. Some with long established superannuation schemes have had employee representation for many years. The potential benefits are two-fold. First, a wider understanding and appreciation of the scheme among the workforce generally. Secondly, keeping the management more directly and fully informed of employee concerns and views about the scheme and its benefits.

As noted already, superannuation schemes are either regulated (and created) by legislation or by a trust deed (as in the private sector). In the case of the latter, management of the scheme is formally vested in the trustees, who bear legal responsibility for it. The functions of trustees vary from organisation to organisation, but broadly include decisions not only relating to the fund but also to the management of the scheme generally, e.g. the exercise of discretionary powers, the interpretation and application of rules, the disclosure of information, and the selection of advisors. The trustees may appoint sub-committees to handle one or more functions listed above; whereas day-to-day decisions on investment and other issues are particularly likely to be handled by managers or small sub-groups.

In the case of superannuation schemes which are established by legislation a board is generally constituted to administer the Act. In this case the board has similar powers and functions to the trustees of a superannuation scheme and often delegates operational matters to administrative staff.

Table 3.2 identifies those superannuation schemes - whether they be established by legislation or trust deed - for which there is an employee representative or trustee on the board of management or trust board. As shown 51% of schemes are regulated by trust deed - of these 33% had an employee representative on the trustee board. In the case of those schemes constituted by legislation 69% had an employee representative on the board of management. There are seven schemes constituted by legislation which do not have boards of management. It will also be noted from Table 3.2 that the number of schemes that have employee representation and the number that do not are approximately equal, although the large schemes have a heavy proportion of the former category.

In the cases where there was no employee representative on the board there appears to be no real concern by the trustees to challenge this situation (except perhaps in the case of the Port of Geelong). Mr. N.G. Samuels, the General Manager of the Port of Geelong Authority, and its superannuation scheme manager, gave the following insight into the lack of employee pressure for representation on the board of trustees:

"There has certainly not been any pressure at all. We would welcome involvement. But we have had difficulty in getting that involvement particularly. From time to time we have tried to explain to our employees that superannuation is a benefit that is of some value when they are comparing wages and benefits in one area with wages and benefits in another area, and included in that consideration should be the value of superannuation. We have had great difficulty in having that view accepted."(40)

TABLE 3.2

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES -
EMPLOYEE REPRESENTATION

Legislation	Trust Deed
Chairman General Sessions(b)	Australian Barley Board
City of Melbourne Gratuities(b)	City of Melbourne Officers'(a)
Governor's Pension(b)	County Court Associates
Hospitals'(a)	Egg Board Staff
Judges - County Court)(b)	Gas and Fuel Corporation(a)
Judges - Supreme Court)(b)	Grain Elevators
Local Authorities'(a)	Greyhound Racing Control Board(a)
MMBW Provident(a)	Harness Racing Board
MMBW Superannuation(a)	Legal Aid Committee
Metropolitan Fire Brigades'(a)	MURLA
MTA Gratuities(b)	Pilot Service Staff(a)
Mint(b)	Port Phillip Pilots Life Assurance
Parliamentary(a)	SEC Employees
Police Pensions(a)	SEC Superannuation
Port of Geelong	Supreme Court Associates
Port of Melbourne	Tobacco Leaf Marketing Board
Port Phillip Pilot Sick and Superannuation(a)	TAB
State Bank	Vic. Dried Fruits Board(a)
SERB(a)	Westgate (CML)(a)
Superannuation Lump Sum(a)	Westgate (NMLA)(a)
State Superannuation(a)	Zoo(a)
Total Number of Schemes	21

Notes: (a) Indicates if there is an employee representative or trustee on the board of management or trust board.

(b) Indicates there is no board of management.

Another group relates to those funds where the trustee is the parent body corporate or the Commissioners of the parent body but where employee representatives sit on an advisory committee. The two prominent examples are the SEC and the State Bank. Another is the Port of Melbourne Authority.

Mr. J. Trethowan, Chairman of the SEC gave evidence to the Committee in connection with the advisory committee which advises the SEC trustee on superannuation fund matters:

"THE CHAIRMAN: How many people are on the advisory committee, how are they elected and appointed?

MR. TRETOWAN: There are five people on the advisory committee. The Commission appoints the Chairman and two representatives, and two representatives come from the staff. Although they look at both funds, at the moment there is no representation on the employees retirement and benefit fund."(41)

Similarly, Mr H.W. Torrens, General Manager of the State Bank outlined the arrangements relating to the control of the State Bank scheme in evidence to the Committee:

"THE CHAIRMAN: ... May I ask how the fund is governed, what is the membership and how are they appointed or elected.

MR TORRENS: The commissioners are responsible for exercising control of the fund. In the legislation they have made provision for a management committee which consists of one commissioner, two officers of the bank who are appointed by the board, and two elected representatives from the staff to act as a committee of advice in provident fund matters. The ultimate determination rests in the hands of the commission itself ..

THE CHAIRMAN: The management committee is purely advisory?

MR TORRENS: Yes, it has no capacity to determine.

THE CHAIRMAN: Is the Commissioner chairman of that management committee?

MR TORRENS: In normal circumstances, yes ..."(42)

The Port of Melbourne Authority is the corporate trustee of the Authority's scheme, and three senior officers plus an employees' representative form a committee to oversee its operation.

Mr. D. Taplin, employee representative on the committee gave a view on employee representation:

"MR TAPLIN: Until this time we did not have an elected representative at all and, therefore, one representative is better than none. I would prefer to see an equal representation of the people on the committee with a chairman appointed by the State Government and I believe that would be the best way to run the board. However, I believe the way the committee operates at the moment is proper and it does reflect the feelings of the employees. ...

THE CHAIRMAN: Has any consideration been given by the committee to changing that ratio of representation?

MR. TRUEMAN: Not at this stage, Mr Chairman."(43)

The Committee recognises that boards of trustees are not the only forum for participation in superannuation policy making. The Committee also appreciates the advantages of management advisory and consultative committees on superannuation. These committees provide a mechanism for educating members about aspects of their schemes and allow management to consider members' concerns about their scheme. As noted above these committees generally run parallel with the trustees or boards. Nevertheless the trustees or board members remain formally responsible for the scheme and thus representation on an advisory committee as an alternative to representation on the governing body itself provides lesser involvement and responsibility.

When considering the significance of employee representation, it is obviously important to take into account the size and coverage of the body in which they are participating. There should be sufficient number of employee representatives, to ensure reasonable representation of employee groups but without making the total number of trustees so large as to be unwieldy.

TABLE 3.3

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
EMPLOYEE TRUSTEES AS PROPORTION OF TRUSTEE BOARDS
AND BOARDS OF MANAGERMENTS (a)

Employee Trustees and Representatives as a Percentage of All Trustees and Boards of Management (%)	No. of Cases
0	15
1 - 33	10
34 - 39	-
40	5
41 - 49	-
50	4
Over 50	-

Note: (a) Boards of management are those constituted under legislation.

On the whole, trustee boards and boards of management are small. The most common size was three members. Trustee boards and boards of management tend to be fairly compact bodies, where the presence of even a limited number of employee representatives would constitute a significant proportion of its membership. To gain an idea of their significance, the Committee looked at the degree of representation and found that the number of employee representatives or trustees ranged from 1 (9 cases) to 3 (3 cases). These results are summarised in Table 3.3.

On this scale, the Committee was concerned to find those schemes which do not have any employee representatives are by far the largest single category, followed by those schemes who have one third representation. However, whilst the degree of representation is therefore not very substantial in terms of the number of schemes, it is significant in terms of the larger schemes.

IT IS IMPORTANT THAT WHERE THERE IS NO MEMBER REPRESENTATION AT THE BOARD LEVEL BUT ADVISORY COMMITTEES OF MANAGEMENT EXIST, REPRESENTATION OF MEMBERS SHOULD OCCUR AT THAT LEVEL.

3.3.3 Methods of Employee Election to Schemes

To further consider the extent of participation, the Committee examined the methods by which employee trustees or representatives assumed their position. Table 3.4 indicates how employee trustees or representatives are selected. Over one quarter were elected directly by scheme members, though of course the basis of election can vary.

TABLE 3.4

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
METHODS OF SELECTION OF EMPLOYEE TRUSTEES OR REPRESENTATIVES OF
EMPLOYEES ON BOARDS OF MANAGEMENT OR TRUSTEES

	No. of Schemes	%
Nominated by Parent Board for Knowledge of Scheme	5	26
Nominated by Government	3(a)	16
Nominated by Staff Association, Trade Union	3	16
Election from Occupational or Specific Categories	4	21
Open Election to Board of Management (b)	4	21
	19	100

Notes: (a) The employee representative sitting on the SERB Board does so by virtue of Section 3(c) of the State Employees Retirement Benefits Act 1979 which provides:

"... one who is a contributor or eligible to be a contributor shall be appointed by the Governor in Council after being elected by contributors in accordance with the regulations."

At the present time, however, there is no election and the representative is nominated by the Governor in Council.

(b) Boards of management are those constituted under legislation.

The following discussion from various public hearings illustrates the variation in election procedures. It should be noted that in 21% of cases there are elections but the occupational category of the employee representative is specified.

The State Superannuation scheme is an example of a fund where there are elections but the professional category of the employee representative is specified. In its written submission to the Committee, the State Superannuation Board outlined the composition of the Board as specified in the Superannuation Act 1958:

"The Board consists of six members who are appointed for a term of five years. Of the persons appointed to the Board:

- (a) one shall be an Actuary;
- (b) one shall be the Government Statist;
- (c) one shall be a contributor in the railway service elected by contributors who are in the railway service;
- (d) one shall be a contributor who is a member of the education service elected by contributors who are in the education service; and
- (e) one shall be a contributor who is not a member of the railway service or the education service elected by the contributors who, are not members of the education or the railway service."⁽⁴⁴⁾

Members of the State Superannuation scheme engaged in a discussion with the Chairman of the Committee in relation to the specification of representatives on the Board. Mr. J.M. Ryder is the Government Statist and Actuary, Mr. W.P. Leonard-Kanevsky is the elected member from the education service, Mr. J.D. Malone is an elected member and Mr. M.S. Hastie is the Secretary of the Board:

"THE CHAIRMAN: Is there any significant group without a specific member on the Board, in a similar situation to the railways for instance or the teachers who have a specific representative?

MR. LEONARD-KANEVSKY: It is a question of where you draw the line. The railways number 16,500 and they have their representative. There would be other groups who would number about 1,000 or 2,000.

MR. HASTIE: The only significant numerical group is the police with 7,000 people. They are the fourth largest.

THE CHAIRMAN: The police do not have a representative elected to the Board?

MR. RYDER: They participate in a vote.

THE CHAIRMAN: Is it likely they would ever elect one?

MR. MALONE: There was a possibility of forwarding their own candidate. The HEF has about 8,000.

MR. HASTIE: The next would be the tertiary education areas with about 5,000 or 6,000.

THE CHAIRMAN: There is a number of significant groups that are not directly represented on the Board?

MR. RYDER: Yes, If they were represented, one could imagine a Board of the size of about 30 or 40 members.

THE CHAIRMAN: I am not suggesting that. There are groups at certain levels that are represented and some that are not represented at another level."(45)

The Zoological Board Superannuation scheme illustrates a scheme where there is a distinction made between salaried and wages staff. Mr. J.H. Sullivan discussed the issue at the public hearings:

"THE CHAIRMAN: In respect to the members represented on the board controlling the scheme, what proportion of members are represented?

MR. SULLIVAN: There are three board members and the board has one more member than the staff.

THE CHAIRMAN: Three members are appointed by managers?

MR. SULLIVAN: Yes, and two are elected by secret ballot.

THE CHAIRMAN: Do they represent geographical locations?

MR. SULLIVAN: No, they represent salaried staff and union staff. That was the discrimination that was used to ensure that the balance did not go the other way."⁽⁴⁶⁾

A further category allows for unrestricted election to the board of trustees of the particular superannuation scheme. This is the case with the Gas and Fuel Corporation Superannuation scheme. Mr. N.A. Smith, Chairman, outlined the membership of the trustees:

"MR. SMITH: Yes, the trust deed provides that the Chairman of the Trust shall be the Chairman of the Corporation for the time being. The second member shall be the Secretary for the time being, there will be a representative of the Board of Directors and two elected members elected from the contributors' staff. There is another small clause that provides that the director representing the Board shall not himself be a contributor to the fund. He must be an outsider."⁽⁴⁷⁾

Mr. C. Wallace, President of the Plumbers and Gasfitters Union mentioned the election of Trustees:

"MR. WALLACE: We would support Mr. Smith's comments and those of the other union representatives in relation to the fund. We have a number of reservations in relation to the selection of trustees. The Plumbers and Gasfitters Union represent one-eighth of the

representation of the fund. In the present method of voting, we would appear not to have representation."(48)

Employee representatives or trustees nominated or selected exclusively through the trade union system occurred in only 16% of cases. An important example of this situation is the case of the Local Authorities Superannuation scheme. Mr. L.M. Rodriguez, the Secretary of the scheme and Mr. G.A. Weaven of the Municipal Officers' Association and representative on the Local Authorities Board commented on this situation:

"THE CHAIRMAN: You have indicated that the composition of the board is five persons. Does that cover all the employee organizations in the industry?

MR. RODRIQUEZ: The specific organizations represented on the Board are the Municipal Employees' Union and Municipal Officers' Association.

THE CHAIRMAN: Is it laid down in the Act that those two organizations shall have a representative?

MR. RODRIQUEZ: Yes.

THE CHAIRMAN: How are they chosen?

MR. RODRIQUEZ: They are nominated by the bodies by themselves.

THE CHAIRMAN: Therefore, the contributors are not represented on the board in that sense other than through the unions?

MR. WEAVEN: The Act says that the two - Mr. Slape and me - are in fact contributors' representatives and their task is to be contributors' representatives but the way they get there is the nomination of the Victorian branch of the respective unions.

THE CHAIRMAN: That makes the scheme somewhat unique compared with others in the public sector. Do you wish to comment on the way

that works? Is it a principle that could be applied in other superannuation funds?

MR. WEAVER: The view of the MOA is that it should continue the way it is and that is perhaps understandable, because they have control of who should be the representative."(49)

The Local Authorities Superannuation Act 1958 requires that the Chairman of the Board be a nominee of the Municipal Association of Victoria. Both trade union representatives on the board considered this inappropriate, for example, Mr P. Slape, the Municipal Employees' Union representative said in evidence to the Committee:

"MR SLAPE: I believe that method of election could be left open, whether by rotation or a life term, so that when somebody resigns the position is filled by a senior person from the existing board members. The current method seems to me to be a bit of a hang-over from previous days. It would certainly be so if those sorts of positions were enshrined forever in the legislation."(50)

Bare statistics and discussion of this nature give little indication of the extent to which unions control the process of selection. Even where unions have the power to nominate, the trustee or representative may operate totally without union servicing and support subsequent to appointment.

THE COMMITTEE WOULD EMPHASISE THAT THE ELECTION OR SELECTION OF MEMBER TRUSTEES OR REPRESENTATIVES IS ONLY THE BEGINNING OF PARTICIPATION. TO ENSURE EFFECTIVE PARTICIPATION IT IS ESSENTIAL FOR MEMBER TRUSTEES OR REPRESENTATIVES TO HAVE MAXIMUM OPPORTUNITY FOR TRAINING BEFORE TAKING UP THEIR DUTIES.

3.3.4 Information and Legal Requirements in Employee Participation

A further important element in employee participation is access to information. The importance of this has been stressed in a report to the U.K. House of Commons:

"Occupational pension schemes exist for the benefit of their members. As a matter of justice, and as an aspect of good relations between employers and employees, members of a scheme ought to be given all the information necessary to enable them to feel an involvement in how it operates and understand how it will affect them personally. This principal seems to be generally accepted." (51)

THE COMMITTEE BELIEVES THE DISCLOSURE OF INFORMATION, WHETHER IT IS GENERAL INFORMATION, OR SPECIFICALLY RELATED TO THE INDIVIDUAL'S OWN CONTRIBUTION/BENEFIT POSITION, WILL LOSE MUCH OF ITS VALUE IF THE INFORMATION DISCLOSED IS BADLY SET OUT OR IS UNTIMELY. SUPERANNUATION MATTERS ARE OFTEN COMPLEX AND FOR EFFECTIVE PARTICIPATION, INFORMATION NEEDS TO BE COMPLETE AND PRESENTED IN A CLEAR AND STRAIGHT-FORWARD MANNER.

The Committee has also noted that in a number of cases, superannuation schemes that produce a trustee/management report, fail to produce any information on rule outlines with some also failing to produce information on 'rule changes and reasons for changes'. A scheme which produces no information on 'rule changes and reasons for this change' is the State Bank scheme. Given this, it is interesting to consider the Chairman and the General Manager of the State Bank, Mr. H.E. Torrens' comments when questioned on this issue at the public hearing.

"THE CHAIRMAN: There is no provision in the rules and regulations for the approval by the employees of changes to the benefits?

MR. TORRENS: No, there is not. It is unthinkable that one would take away employees rights and that has never happened so far as the fund is concerned. When one talks about changes in that sense, one is talking about liberalization of benefits. Whenever there has been a change to benefits which tend to take away employees' rights, preservation rules have resulted. It is not a question of taking away rights.

So far as consultation is concerned, there are two members' representatives and the union is consulted when appropriate. While this

may or may not change the views all would agree that there is an opportunity to discuss the issues.

THE CHAIRMAN: Strictly speaking, there is nothing in the rules to prevent there being a situation whereby there was a change to benefits which would be seen in some people's minds as lessening of the benefits. That could occur without the prior approval of the contributors?

MR. TORRENS: Technically, it could. There may be a strike of all officers as a result of it. One must consider the facts of the situation. One does not wipe away benefits with the stroke of a pen in this day and age."(52)

In contrast to the State Bank, the Gas and Fuel Corporation gives substantial formal control to members. This situation appears to reflect the whole approach of superannuation management within the Gas and Fuel Corporation. Thus the Chairman of the Gas and Fuel indicated in his response to questions concerning the course of action initiated if an adverse change, for members, was proposed for the scheme:

"MR. GUEST: Pursuant to any changes that may be made to the trust deed, Mr. Cooper mentioned that if a change was proposed adverse to any member members, there would have to be a 75% vote of members. Where that applies in various company schemes in relation to company shareholders, for example, there is protection from the courts in most instances if the scheme is used in a blatantly self-interest way.

Do you regard it as satisfactory in theory that 75% of the contributors could vote benefits which are related to the detriment of perhaps a small proportion of fund members? Presumably you have no redress once a 75% vote occurs.

MR. SMITH: You are putting a hypothetical question that within the 25% vote against the changes there lies a group that are disadvantaged?

MR. GUEST: Yes, maybe 1% are disadvantaged severely.

MR. SMITH: In fairness, the only way I can answer that question is to say that it has never happened. I could not foresee a situation where we would deliberately take action to the detriment of any member of the fund.

MR. GUEST: In reality, the 75% vote is a protection that is not needed if the directors are operating fairly to all.

MR. SMITH: We would have to have a responsibility to recognise the rights of any minority group, as trustees.

MR. COOPER: The fact is that 75% is a clear majority. With 75% of the votes cast, there would be difficulty in obtaining a vote to diminish a benefit.

MR. GUEST: May or may not?

MR. SMITH: It has never happened and it is not likely to."⁽⁵³⁾

THE COMMITTEE TAKES THE VIEW THAT THERE SHOULD BE DISCLOSURE OF RELEVANT INFORMATION TO FUND MEMBERS. THIS SHOULD INCLUDE RULE OUTLINES, RULE CHANGES AND REASONS FOR SUCH CHANGES AS WELL AS MORE SPECIFIC INFORMATION RELATED TO THE INDIVIDUAL'S OWN POSITION.

3.3.5 Employee Attitudes to Representation

Despite these limitations on full participation the Committee was struck by the lack of dissatisfaction with the arrangements for representation, whatever they happen to be. Complaints, such as they were, can only be considered as minor. In the case of committees of management, the parent board generally accepted their recommendations and there were no complaints. In the case of union nominations, open elections were not requested. None of the smaller groups covered by the State Superannuation scheme sought specific representation.

This situation appears to be the result of the nature of changes to superannuation schemes rather than any inherently desirable characteristics of current arrangements for employee representation/consultation. Basically individual funds operate on the principle that members' benefits are sacrosanct. This is illustrated by the Gas and Fuel and State Bank evidence to the Committee. No consideration appears to have been made for trading off reductions in a particular benefit or benefits for the introduction of new benefits or improving existing ones. Changes to provisions invariably involve removing anomalies, broadening categories or introducing new or improved benefits with no alterations to other benefits. Consequently it is not surprising that there is no fundamental criticism of existing representation and consultation arrangements.

3.3.6 Procedures for Changing Superannuation Provisions

There are two main consultative committees which have been specifically established by the Treasurer to consider changes to superannuation schemes. These are the Treasurer's Consultative Committee (TCC) and the Superannuation Advisory Group (SAG).

The TCC on Superannuation has been in existence since 1974. Historically, the Committee considered policy options in relation to possible amendments to the Superannuation Act 1958 and provided the Treasurer (or Premier) with its view prior to legislation being presented. In 1981 the Committee's role was changed with it being asked to agree with draft legislation before it entered Parliament. In August 1982 the role of the Committee was again amended, with it now being seen as a point of contact with relevant interest groups to air broad policy questions, both at the consideration of principles and at the draft bill stage.

As well as revamping the TCC, the Treasurer established a second committee, the SAG, to provide advice on proposed or suggested changes to any public sector superannuation scheme.

Mr. J. Ryder, Government Statist and Actuary is Chairman of both advisory groups. In a letter to the Economic and Budget Review Committee, Mr Ryder elaborated on how matters came before the TCC:

"What matters come before the Committee are decided by the Treasurer. He may decide to refer a matter to the Consultative Committee, the Superannuation Advisory Group, internally within the Department of Management and Budget or the Caucus Economics Committee. It is the Treasurer's prerogative as to whose advice he seeks."(54)

Mr Ryder in evidence to the Committee was asked whether most issues that are examined by the TCC are also examined by the SAG:

"MR RYDER: It does not matter whether it is a policy issue. It must be rated in some fashion. If it is a real policy matter that will affect the structure of the benefits, it will go firstly to the Treasurer's Consultative Committee for consideration.

Lesser issues like portability between funds are referred directly to the Superannuation Advisory Group ...

The Superannuation Advisory Group then makes a report to the Minister. Anything that is administrative would go direct to SAG."(55)

On the other hand, the SAG is a technical advisory group providing advice to Government on the administrative, cost and flow-on implications of proposed amendments to schemes. Mr. J.M. Ryder, in evidence before the Committee described the SAG as:

"... A committee of experts who really know something about superannuation and are interested in the administration of superannuation and they can inform the Government of the problems caused by the leap-frogging effect. That has been basically their whole function, to inform on leap-frogging effects of certain recommendations."(56)

The general position of SAG was described by Mr G.M. Fry, a member of SAG, in evidence as follows:

"MR FRY: I think its role has slipped very substantially from a group that had quite a lot of status and influence in what was taking place until now; it is very far from that role. For instance, you have just been talking to the TCC. That group was at the end of the queue before but now I visualize it at the beginning of the queue ...

I am most concerned that the Superannuation Advisory Group is not really fulfilling its function at this present stage. I should go so far as to say that if it cannot be either strengthened or reconstituted, I would just as soon see it disappear because it may give the impression of being an alert watchdog but, as far as I am concerned, it is a tame pussycat."(57)

Mr. Fry's and the Committee's concern over the apparent absence of adequate central control over the processing of requests for change in superannuation provisions can be illustrated by a specific case.

During 1983 early retirement at age 55 years - an uncommon provision in Victorian schemes - was introduced into the Metropolitan Fire Brigades' scheme. The process leading to this change was outlined in evidence before the Committee:

"MR FISK (President of the Fire Brigades Board): The sequence of events was that the union approached the MFBB for improvements in an already very generous superannuation scheme. That was the opinion of the board. It duly considered the unions request and declined to extend the benefits. The union then went directly to the Government and the pressure on the Government then resulted in the formation of the committee (by the Minister for Police and Emergency Services) that we have mentioned previously and flowing from the deliberation of that committee the amendments have come into operation.

THE CHAIRMAN: How did they flow? How were you informed?

MR RYDER (Chairman, Fire Brigades Superannuation Board): The recommendations were made to the Minister. The Minister took them to the various committees of which Mr. Jolly (Treasurer) was Chairman and he had discussions with the Fire Brigade Union and so on and finally they

came to certain decisions about what would have to be done and the Fire Brigade Superannuation Board was informed that these changes would take place. They have taken place."(58)

Thus the union firstly approached the direct employer, the Metropolitan Fire Brigades Board, and then the State Government. An ad hoc committee was established by the Minister with portfolio responsibility for the Fire Brigade, not by the Minister responsible for superannuation, that is the Treasurer. However, subsequently the ad hoc Committee's recommendations went to the Treasurer and a decision was reached and the improved benefit implemented.

The overall position as perceived by Mr. Fry, was as follows:

"By the time matters are reaching SAG, as we call it, I think it is more or less too late. It is like calling for the door to be shut after the horse has bolted. I think the fire brigade is a good example here. By the time the matter reached the superannuation advisory group commitments had already been made and the comments that came from SAG were not appreciated."(59)

Unfortunately, none of the organisations except representatives of Government consultative committees who made submissions to the Inquiry directly addressed the question of the adequacy or desirability of the current procedures for determining changes to superannuation provisions. Several trade unions expressed concern about the possibility of reduced benefits resulting from this Inquiry and the Ministry of Industrial Affairs considered that superannuation should be "neutral in its effect":

"That is, enable change to take place rather than obstruct change. That means that industrial relations solutions to specific problems should not be impeded by superannuation. Equally, care should be given to ensure that changes to superannuation schemes, undertaken for a scheme's convenience, do not create industrial relations problems. This does not imply that superannuation should be more or less attractive in given circumstances (e.g. early retirement). This would depend on what goals are to be achieved."(60)

The Ministry identified what it termed "immediate issues" and "long-term issues" in the linkage between superannuation and industrial relations. In the former category are situations where superannuation is directly relevant to matters at issue in an industrial dispute or where it is the subject of dispute itself. Examples of this given by the Ministry were : retrenchment, early retirement, permanent part-time work, family leave, accessibility to schemes and portability. The latter category includes "long term trends where superannuation interacts with industrial relations change".(61) The Ministry considered that "the most likely area of overlap is in the area of control of superannuation funds and the democratisation of the decision-making and management of enterprises".(62)

Unfortunately, the Committee received no opinions about the current procedures for handling either union claims for improvements to superannuation provisions, or for dealing with the industrial relations consequences of government initiated changes to superannuation.

The Committee regards the evaluation of procedures for change as important to its assessment of the appropriateness of options for change to superannuation in the Victorian public sector. The passage from the Ministry of Industrial Affairs quoted above refers to the desirability of changes to superannuation schemes not creating industrial relations problems. However the Ministry's submission does not assess existing procedures for dealing with superannuation claims nor does it suggest desirable procedures for determining superannuation changes. The emphasis is on outcomes rather than both the process of decision-making and outcomes.

As already noted, the Committee has reservations about the appropriateness and efficiency of current processes for changing superannuation provisions either as a result of union-initiated claims or government decisions. The feature of the current situation is that the procedures are indeterminate. There appear to be several avenues for unions to pursue changes to superannuation provisions, thus promoting ad hoc and inconsistent decision-making. Also, given the multiplicity of schemes, the absence of a central agency overseeing the processing of all superannuation claims and the lack of institutionalised procedures a potential for leapfrogging is evident. The Committee notes, in contrast, the trade union movement's expressed

preference on equity grounds for centralised wage fixation which treats all uniformly and simultaneously through the application of a set of wage fixing principles. Of course, such principles have the objective of maintaining and improving real wages and conditions.

Whilst the Fire Brigades case may be considered by some to be an exceptional case it at least suggests that current procedures are unco-ordinated and ad hoc.

THE COMMITTEE CONSIDERS THAT SUPERANNUATION CLAIMS SHOULD NOT BE PROCESSED ON A PIECEMEAL BASIS WITH THE TREATMENT OF CLAIMS VARYING WITH THE EXIGENCIES OF EACH DISPUTE.

The Committee understands that claims for changes to such major schemes as the SEC and Gas and Fuel Corporation Schemes would not necessarily be referred to either the TCC or SAG.

EFFECTIVE CONSULTATION AND PARTICIPATION MUST BE BALANCED BY A CO-ORDINATED AND CONSISTENT APPROACH TO RESOLVING UNION-INITIATED CLAIMS FOR CHANGES TO PROVISIONS AND ALSO TO ENSURE THE EFFECTIVE IMPLEMENTATION OF GOVERNMENT POLICY DECISIONS ON SUPERANNUATION. THERE HAS BEEN, AND CONTINUES TO BE, NO EFFECTIVE OVERSEEING OF DEVELOPMENTS IN SUPERANNUATION PROVISIONS AND ADMINISTRATION ACROSS THE WHOLE PUBLIC SECTOR.

3.4.1 Disability Retirements and the State Superannuation Scheme

A major concern of the Committee in their review of superannuation management in the Victorian public sector has been the issue of disability retirements. The State Superannuation scheme, for example, has experienced rates of disability or ill health retirement which are not only substantially higher than those reported for comparable private sector superannuation schemes but are also substantially higher than those reported for a number of major (and comparable) public sector schemes in other states. If these patterns of disability retirement continue unchecked they will have disastrous implications for the future viability of schemes such as the State Superannuation scheme.

At 30 June 1982, a total of 5,721 ill-health retirees were receiving pensions from the State Superannuation scheme. These represent 30.3% of the total of all age and ill-health pensions under the scheme. Taking ill-health pensions separately, we find that 38.9% of these were to persons under 55 years; 11.2% were to persons under 40 years. The importance of ill-health retirees to the total pensioner stock can be gauged by the fact that, in 1981/82, the number invalided out under 50 years equalled 20.6% of the total.

As part of the Inquiry the Committee engaged Coopers and Lybrand Services to undertake a study into personnel practices in Victorian public sector superannuation schemes. The terms of reference required the Consultants to:

- (a) examine the personnel practices of the major bodies participating in the State Superannuation scheme which have material bearing on the incidence of claim for disability pensions and the continuance of such pensions; and
- (b) consider factors affecting the incidence of disability retirement and subsequent re-employment which are not strictly speaking,

personnel practices but which relate to the employment situation concerned.

The Consultants' report 'Study into Personnel Practices involved in the issue of Disability Retirements in Victorian Public Service Superannuation Schemes'(63) will be published by the Committee. The purpose of this section of the report is to highlight their major findings and recommendations. It should be noted that the Report refers primarily to the operations of the State Superannuation scheme and the major bodies participating in it. These are the Public Service Board, the Education Department, the Railways and the Police Force.

The approach adopted by the Consultants was to identify key individuals in selected organisations and to conduct formal interviews structured around four elements in personnel practice. These elements are:

- (a) recruitment and selection procedures;
- (b) management practices and procedures in monitoring and detecting potential invalidity retirees and the degree to which welfare and counselling services are provided;
- (c) the process of disability retirement in the employing organisations; and
- (d) management and union attitudes toward staff retention, re-training, re-deployment, and retrieval (where a review of pensioner status is sought).

An important aspect of the Consultants' report was a review of formal personnel practices and procedures at Commonwealth Government level. This is seen in the context of the Commonwealth Employees (Redeployment and Retirement) Act 1979. (CE(RR) Act) As a unique body of legislation in the personnel practice field, the Consultants believe it has some significant implications for both the management of disability retirements and the general area of staff redeployment in the Victorian public sector.

3.4.2 Recruitment and Selection Processes

Inappropriate or rudimentary job recruitment and selection procedures can result in unacceptably high rates of disability retirement. The need for such procedures is most clearly seen in those job tasks or career paths which may be considered, on a priori grounds, to be stressful. Among Victorian employing authorities, these would include the police, the teaching profession and certain aspects of railway work.

The Consultants were, in general, satisfied with recruitment and selection procedures for Victorian employing authorities. In the case of both the railways and the police force, procedures had been adopted to match (in potentially high stress areas) individuals to the job tasks expected of them. However, recruitment and selection procedures for entry to the teaching profession were considered most unsatisfactory and, in the Consultants' view, a major contributing factor to the incidence of invalidity retirements from the Education Department. Stated simply, too many people are getting into teaching who are unsuited to do the work. With termination being virtually a non-existent management practice - invalidity retirement becomes the "soft" personnel option. Entry to the teaching profession is essentially a process of self selection. Once an individual has the minimum academic standards, has a favourable report from their training institution (unlikely not to be forthcoming) and meets medical requirements, entry is almost automatic. Interviews by departmental committees are rudimentary and only weed out applicants who are clearly unsuitable.

A most disturbing feature of personnel practice is the extent to which Education Department interviewing procedures for applicants are being discontinued as a cost saving measure. Discussions by the Consultants with Education Department personnel officers indicated the primary teacher interviews had been discontinued with a similar move envisaged for secondary teachers.

THE COMMITTEE IS PARTICULARLY CONCERNED WITH THE NATURE OF RECRUITMENT AND SELECTION INTO THE TEACHING PROFESSION AND SUPPORTS THE VIEW THAT POOR SELECTION IS A MAJOR CONTRIBUTING FACTOR IN DISABILITY RETIREMENTS FOR THIS GROUP.

A further major concern of the Consultants was with the extent to which medical services are fragmented. Apart from services provided through the Health Commission by the Government Medical Officer, medical services for the assessment of suitability for permanency in the public service and in the assessment of invalidity redeployment are to be found in the Police Department, the State Transport Authority and the State Superannuation Board.

The Consultants believe that this degree of fragmentation - and the clear lack of formal contacts between many medical units - could be a significant factor in the present incidence of disability retirements. There does not appear to be a common set of standards to which these medical units subscribe, a situation which is not helped by the failure of the Public Service Board to lay down minimum medical standards for certain occupations.

THE COMMITTEE SUPPORTS THIS VIEW AND BELIEVES A CASE CAN BE MADE FOR A GREATER DEGREE OF CONTROL AND CENTRALISATION OF MEDICAL SERVICES.

3.4.3 Employer Practices in Welfare and Counselling

Welfare and counselling services - including procedures for monitoring and accessing employee performance - have the potential to contribute significantly to a reduction in disability retirement claims. They can attempt to militate against poor selection and recruitment procedures and, assuming complementary redeployment policies are in place, assist management to reassign, redeploy or modify current job tasks faced by employees.

THE COMMITTEE BELIEVES THAT, IN CERTAIN AUTHORITIES AND JOB AREAS, WELFARE AND COUNSELLING SUPPORT CAN BE HIGHLY COST EFFECTIVE IN REDUCING SICK LEAVE, WORKERS COMPENSATION CLAIMS AND, ULTIMATELY, DISABILITY RETIREMENTS.

The Consultants believe that there are insufficient resources devoted to welfare and counselling in a number of key areas. The most important of these is, once again, the Education Department where resources available are

totally inadequate to the task. In consequence, employee organisations have taken it upon themselves to adopt a welfare and counselling role.

This point was brought out by Mr Leonard-Kanevsky in evidence to the Committee:

"I believe a much closer relationship between the major employing authorities and the State Superannuation Board should take place in the area of personnel welfare and warning signals. The State Superannuation Board only finds out at the end of the line and it is too late. A school teacher may have a history of a particular stress factor and it may go back ten years before the person is under threat from stress or goes off the rails. The Education Department has been supplied with information on that welfare function by the teacher organisations and it is an area that involves all employing authorities."(64)

THE COMMITTEE NOTES WITH DISQUIET THE FAILURE OF THE EDUCATION DEPARTMENT TO INSTITUTE AN EFFECTIVE WELFARE AND COUNSELLING SYSTEM.

Against this, the Railways can be seen to have a comprehensive and well run counselling and welfare facility. The Welfare Services Section was established on a limited basis in 1954 and, expanded in 1976 to cover all employees and their dependents. The section now includes a Co-ordinator, Rehabilitation Officer, Welfare Officer, Dependencies Counsellor, Retirement Counsellor and support staff.

WHILE THE COMMITTEE WOULD NOT ARGUE THAT THE RAILWAYS' WELFARE SERVICES SECTION IS NECESSARILY A MODEL FOR ALL EMPLOYING AUTHORITIES IT INDICATES THAT SUCH A FACILITY CAN BE ESTABLISHED TO OPERATE EFFECTIVELY WITHIN A PUBLIC SECTOR ENVIRONMENT.

The Railways are also significant because redeployment counselling and retraining to alternative job tasks within the authority are well established and apparently effective.

3.4.4 The Process of Invalidation Retirement

The Consultants principal objection to the procedure for invalidity retirement in the employing authorities considered (with the important exception of the State Transport Authority - VLine) is that, as laid down, management is excluded from any responsibility for medical assessment and medical redeployment, firstly, within the claimants department and, secondly, within the public sector as a whole. In effect, management (if it wishes) can use invalidity retirement as a "soft" management option, supporting applications for invalidity retirement as opposed to the more demanding task of assessment and redeployment within the employing authority or department.

Victorian employing authority procedures stand in marked contrast to those laid down for the management of invalidity retirement under the CE(RR) Act. Under the CE(RR) Act the Permanent Head (or his representatives) must review and assess, with medical evidence, the employee's job performance and suitability for reassignment within the department. A declaration for redeployment outside the employees present department can only be issued after the Permanent Head has demonstrated that all reasonable steps have been taken to employ the officer in some other capacity at his substantive position. While this does not mean that a Permanent Head cannot use medical redeployment as a personnel tool, the procedures in place would tend to discourage it.

In Victoria, there are no procedures which require the Permanent Head (or managers) to consider alternative duties seriously. Permanent Heads (or managers) can use the provisions of the Superannuation Act 1958 as an alternative to more time consuming and comprehensive counselling for job task redefinition and redeployment.

THE COMMITTEE BELIEVES THAT DISABILITY RETIREMENT SHOULD NOT BE USED AS AN EXPEDIENT PERSONNEL TOOL BY PERMANENT HEADS WITHIN THE VICTORIAN PUBLIC SERVICE.

3.4.5 Redeployment and Invalidity Practices

Redeployment is an important issue in the Victorian public sector, not only because of the diversity of public sector schemes (and the consequent need to put in place personnel policies that complement the administrative provisions of the various superannuation funds) but because of the high rates of disability retirement from the public sector.

The position of redeployment and the relationship between the provisions of superannuation schemes for job separation and personnel policies are industrial relations issues. It is clearly inappropriate to have in place administrative and medical procedures for disability retirement if they are in conflict with (or impose unreasonable costs on) public sector employment policies.

At the present time there is no mechanism in place within the Victorian public sector to allow employees declared eligible for redeployment (on medical or any other grounds) in one employing authority to be considered for employment in another. The only exception here is an ad hoc Committee within the Public Service Board which attempts to fill this role. The Consultants do not believe that this Committee is adequate.

THE COMMITTEE FINDS IT INCONSISTENT THAT WHILE, ON THE ONE HAND, THE PUBLIC SERVICE BOARD SHOULD EMPHASISE THE POLICY OBJECTIVE OF ENCOURAGING MOBILITY WITHIN THE PUBLIC SECTOR, THE BOARD HAS NOT, ON THE OTHER HAND, GONE BEYOND THE ESTABLISHMENT OF INFORMAL AND AD HOC PROCEDURES FOR THE REDEPLOYMENT OF STAFF BOTH WITHIN AND BETWEEN EMPLOYING AUTHORITIES.

THE APPARENT INACTIVITY OF THE BOARD IN PROMOTING AND (WITHIN ITS OWN JURISDICTION) IMPLEMENTING REDEPLOYMENT POLICIES STANDS IN MARKED CONTRAST TO THE PRACTICES ESTABLISHED UNDER THE CE(RR) ACT.

The CE(RR) Act, which came into operation in February 1981 provides, according to the consultants, a basis for management practice in the handling of disability retirements. The CE(RR) Act is important not only because it

imposes a structure (requirements and procedures) for a departmental head and the Public Service Board to follow, but because in the opinion of the Commonwealth Public Service Board the reduction in the number of invalidity retirements in recent years from the Commonwealth public service can be ascribed, in part, to the revised management and administrative procedures codified in the Act.

THE COMMITTEE BELIEVES THAT, IN THE CASE OF DISABILITY RETIREMENTS, THERE IS A CLEAR NEED FOR MORE STRUCTURED MANAGEMENT PROCEDURES BOTH AT DEPARTMENTAL AND BOARD LEVEL AND THAT SUCH PRACTICES SHOULD BE IN PLACE THROUGHOUT THE VICTORIAN PUBLIC SECTOR. INVALIDITY RETIREMENTS MUST BE SEEN AS A LAST RESORT WITH THE INCIDENCE OF SUCH RETIREMENTS REDUCED BY AN EFFECTIVE REDEPLOYMENT POLICY, ALLIED WITH IMPROVED AND CONSISTENT STANDARDS OF MEDICAL ASSESSMENT AND RETRAINING PROGRAMS FOR ALL STATE EMPLOYING AUTHORITIES.

THE PRESENT AD HOC MANAGEMENT SYSTEM IN INVALIDITY RETIREMENTS CANNOT BE ALLOWED TO CONTINUE AND COMMONWEALTH PRACTICES ARE IMPORTANT AS A POSSIBLE MODEL FOR THE VICTORIAN PUBLIC SECTOR.

The development of an effective redeployment and retirement policy in the Victorian public sector could be easily frustrated by the differing provisions of the various public sector superannuation schemes.

If an individual is not able to move from one scheme to another without future financial loss (as could occur even with preservation in the Victorian public sector) then an effective redeployment policy would be difficult to implement. Similarly, if early retirement provisions differ between schemes it would be impossible to implement a consistent early retirement policy across all departments and statutory authorities.

Commonwealth experience is important, therefore, not only in the management of invalidity retirements but also in the general area of redeployment and the management of excess staff. Such a policy cannot be

viewed in isolation from policies directed toward simplifying and standardising the provisions of the various public sector superannuation schemes.

It is important to note in this context that there is substantial support among employee organisations for an effective redeployment policy - particularly where medical disabilities are concerned. The most positive views were expressed by the Victorian Teachers' Union and the Victorian Secondary Teachers' Association. Unlike Education Department management they were not only aware of the incidence of disability retirements in the teaching service but also saw the need for effective welfare and counselling services and had a positive view towards the role of retraining and redeployment in relocating officers to non-teaching positions.

THE COMMITTEE RECOGNISES THAT REDEPLOYMENT POLICIES HAVE SIGNIFICANT INDUSTRIAL RELATIONS IMPLICATIONS. HOWEVER, THE COMMITTEE IS ALSO AWARE THAT THERE IS CONSIDERABLE SUPPORT FOR EFFECTIVE INVALIDITY RELATED REDEPLOYMENT POLICIES BY EMPLOYEE ORGANISATIONS IN THE PUBLIC SECTOR. THE COMMITTEE BELIEVES THAT SUCH SUPPORT IS A SIGNIFICANT FIRST STEP IN THE DEVELOPMENT OF A MORE COMPREHENSIVE REDEPLOYMENT POLICY.

THE COMMITTEE TAKES THE VIEW THAT IF ECONOMICAL AND EFFICIENT USE OF STAFF RESOURCES ARE OBJECTIVES OF VICTORIAN PUBLIC SECTOR MANAGEMENT THEN POLICIES MUST BE IN PLACE (AND MANAGEMENT PRACTICES ESTABLISHED) TO FACILITATE REDEPLOYMENT OF STAFF WITH MEDICAL DISABILITIES.

THE COMMITTEE CONSIDERS THAT REDEPLOYMENT POLICY AND PROCEDURES FOR DISABILITY CASES SHOULD BE DEVELOPED IN CONSULTATION WITH EMPLOYEE ORGANISATIONS.

3.4.6 Reviewing of Disability Retirees

In reviewing personnel practices of the State Superannuation Board, the Consultants pointed to the lack of resources devoted to tracking and reassessing disability status. According to the management of the Board, they had been seeking additional investigatory staff but had been unable to

convince the Public Service Board of its priority. The Consultants took the view that an effective and systematic monitoring procedure is essential for invalidity retirees and that this should involve not only additional investigatory field staff but also a regular annual review (by mail and questionnaire) of all pensioners (to age 65), taking the form of a statutory declaration regarding employment experience and income. Failure to comply within a reasonable period of time should result in a suspension of pension rights. Commonwealth practice, once again, should be the model.

THE COMMITTEE BELIEVES THAT AN EFFECTIVE AND SYSTEMATIC MONITORING PROCEDURE IS IMPORTANT TO REDUCING THE INCIDENCE AND COSTS OF DISABILITY RETIREMENTS UNDER THE STATE SUPERANNUATION SCHEME.

The importance of an effective monitoring procedure can be illustrated by an extract from a confidential submission to the Committee:

"... In particular I would like to comment on my experiences with 18 policemen who have been superannuated in the last four years on grounds of neuroses. In every case they were suffering from an anxiety state or a depressive neurosis with secondary anxiety. These are conditions which, in normal circumstances, 90% of patients can confidently be expected to have made a complete recovery within several months. However, with the police, a remarkable feature is that they never respond to treatment. There may be temporary remissions but within three years of being seen, inevitably they have to be superannuated. This contrasts with patients employed in the private sector where only a few from my entire career have had to give up employment.

... The cause of their illnesses is usually improbable; for instance none of these policemen have had anything particularly traumatic happen to them. The majority opt for mental shock after finding dead bodies in the water, motor car accidents, etc. One was a mental wreck after a drunk kicked the bumper of his car. Another disquieting feature is the pattern of their attendances. Despite my failure to cure them they are most faithful and grateful and attend frequently even if they are not given further appointments but as soon as they have their superannuation and

workers' compensation, without exception, they find they can survive without medical attention."(65)

SECTION 3.5 ADMINISTRATIVE SYSTEMS AND INFORMATION REQUIREMENTS

3.5.1 Record Systems

An important part of the administration of superannuation systems relates to the way in which records are maintained and contributions/payments are made. Consequently, the appropriate balance between a totally mechanised recording system and a totally manual one, whilst depending to some extent on the complexity of the scheme and integration with a parent body's payroll, is a matter the Committee deemed worthy of specific consideration.

As a result, the Committee commissioned Campbell and Cook Computer Services to produce a consultant report outlining the present position relating to computer installation amongst the largest superannuation schemes and to compare their respective positions with a model scheme.⁽⁶⁶⁾ The terms of reference are given in Appendix F, F1.

It is important to emphasise, as the Consultants do in their report, that superannuation administration is far more than record-keeping and contribution accounting. A complete superannuation administration service should also provide such services as record maintenance for eventual benefit calculation, member statements, financial and actuarial status of the fund to management, and reconciliation of actual benefit payments.

A MAJOR PROBLEM ENCOUNTERED BY THE CONSULTANTS WAS THE ABSENCE OF A CENTRALISED AND CO-ORDINATED APPROACH TO ADMINISTRATION AND COMPUTERISATION. AS WITH SO MANY OTHER ASPECTS OF PUBLIC SECTOR SUPERANNUATION THE SEPARATE FUNDS HAVE BEEN ALLOWED (BY DEFAULT) TO DEVELOP THEIR OWN SYSTEMS, TO PURCHASE THEIR OWN HARDWARE AND TO BE ACCOUNTABLE ONLY TO THEIR OWN BOARD OR TRUSTEES.

The Committee can illustrate the diversity of administration systems by reference to two schemes. The first of these two is one of the newest schemes, SERB, a multi employer scheme. As such, starting with nothing in

1980 it was forced to review existing computer facilities in order to assess the most appropriate for its type of scheme.

Mr. E.F. Rowlands, Manager of SERB, was asked his view on the compatibility of SERB's computer facilities in relation to similar funds such as Local Authorities and the Hospitals' Superannuation scheme:

"MR. ROWLANDS: I was lucky to find an organisation in Creative Computer Installations, a branch of the Catholic Church Insurance Company, which had software suitable for our use. They were prepared to amend that for something like \$10,000 for us. Ever since we have had a comprehensive and complex system, for about \$55,000. If I had gone to anybody else it would have been about half a million."(67)

Mr. Rowlands also mentioned that SERB had changed the original arrangements whereby the State Superannuation Board made the pension payments:

"MR. ROWLANDS: Since then we have taken over the pension payments from the State Superannuation Board because that was costing us nearly \$1200 a fortnight. At present it costs us about \$200 if anything. We also have investment systems, accounting systems, financial reporting systems and everything else."(68)

Having rejected the Hospitals computer system on cost grounds, Mr. Rowlands was asked about the compatibility of SERB with the Hospitals' system:

"MR. ROWLANDS: There is a major problem at the moment since we use IBM 38 and they use a Hewlett Packard 3000 system. The systems analyst on programmes has assured me that a system such as the HP 3000 could be converted quite reasonably through our IBM."(69)

WHILE SERB'S MANAGEMENT MAY BE COMMENDED FOR ITS ECONOMICAL AND QUICK RESPONSE TO AN UNSATISFACTORY SITUATION RESULTING FROM THE HURRIED INTRODUCTION OF THE SCHEME, THE COMMITTEE IS DISTURBED AT THE ABSENCE OF A CO-ORDINATED GOVERNMENT APPROACH IN THIS AREA.

An organisation that has both largely computerised its superannuation files and integrated them with its existing payroll system is the State Electricity Commission (SEC), a single employer scheme. As Campbell and Cook state:

"The scheme is administered effectively and efficiently, aided by its overall simplicity and a well proven computer system. It meets the model in most areas."(70)

Mr. J.C. Trethowan, Chairman of the SEC, was asked by the Chairman on his attitude to standardised record keeping:

"THE CHAIRMAN: By way of a broader comment, what would be your reaction to proposals for a standardised scheme of accounting and reporting and standardised record keeping?

"MR. TRETOWAN: Because it is part of the overall data processing system for payrolls, there would be a considerable disadvantage in a centralised computer scheme. Our schemes are geared and integrated with our existing payrolls, they are based mostly on computer but, as I have mentioned, some on manual. There would be problems with the staff themselves as to confidentiality of the members' records because these would be at risk. There would need to be standard benefit and contribution structures. If we went to a centralised system there would need to be a common calculation of the benefits and contribution. We are still having problems ourselves in fully computerising our wages fund because not all the wages are on computer. This would be a difficulty and several things with which we are having trouble processing at the present time would be even more difficult under a centralised system.

There would be a tremendous cost for reprogramming and, to some extent, duplication because we need those records elsewhere in the Commission. There does not appear to me to be a reasonable prospect of that."(71)

While it is apparent that the SEC has developed a comprehensive and closely integrated personnel and superannuation management system which is relatively easy in a single employer fund the Committee does not see the

existence of multi-employer schemes as a necessary barrier to the development and implementation of a uniform scheme.

3.5.2 Reporting and Information Access : Model Systems

As well as being required to set out and comment upon the facilities available to the larger superannuation schemes, the Consultants were also asked to comment on how the various examined schemes compared to a model administrative system. The elements of such a model system are set out in Appendix F, F2.

Although the Consultants were asked to comment on each scheme in detail, the Committee considers it significant to summarise the comments made in respect of the State Superannuation scheme as this is the largest in the State. A summary of all other schemes will be considered in the final part of this section where it will be noted that the large single employing authorities are performing satisfactorily in this area.

3.5.3 Weaknesses of the State Superannuation Scheme

The current systems and procedures of the State Superannuation scheme do not meet the model in many respects. This is largely due to the as yet incomplete computerisation of contribution procedures and contributor records.

The State Superannuation scheme has to undertake the administration of what is probably the most complicated superannuation scheme in Australia - one of the last of the unit schemes once popular in the arena of public sector superannuation. Given the complexity of the contribution rules and the large numbers of contributors involved, it is astonishing to find that over 50,000 contributors are still handled on a manual basis.

Not only is the State Superannuation Board faced with this task, but it has relied on an outside body for its computer expertise and has not had representation of its computer management on the Board.

The State Superannuation Board however is in the process of computerising its

records. At present only the teachers' records are fully computerised with communication between the teacher payroll system and the existing computer facilities at the State Superannuation Board. Other contributors' records are continually being converted from manual records to a computerised system similar to that generated for the Education Department. There are other systems, such as those for payment of pension cheques, a general ledger and daily cash system, a medical record and review system, and a housing loan system run via a terminal on the IDAPS system in South Melbourne.

The State Superannuation scheme has been forced by the upgrade requirements of its co-tenant the Motor Accidents Board to seek a replacement computer system. The existing contributions system and general ledger system are being converted to run on the new FACOM mainframe, using data base management software basically similar to that currently used on the ICL mainframe. The Committee understands that this conversion is being carried out by contractors, and that no new facilities are being added. The planned rewrite of the pensions system and the upgrade of the medicals system will be carried out on the new machine. The conversion of the remaining 50,000 contributors to the computer system will continue. As Mr. Ryder says:

"Basically, the Board feels that it is under-staffed, and it has inadequate computers. The understaffing matter is, of course, the responsibility of the Department of Management and Budget and the Public Service Board, but the computers are the Board's own responsibility. It has taken a while to make that decision, but it has taken some months, if not years, to arrive at the final decision that we are about to make."(72)

At a special Inquiry into the State Superannuation scheme's computer purchase, the Deputy Chairman of the Economic and Budget Review Committee consistently expressed the view that in maintaining the present computer service, changing over to new hardware and software, and developing new systems, considerable attention would need to be paid to the appropriate management structures to handle the conversion operation. The State Superannuation Board intended to form a steering committee to handle the task.

After listening to all the evidence, the Committee concluded in a letter to the Treasurer, who had requested the review in the first place:

"Overall, the Committee was not satisfied that sufficient thought has been given to the management resources that should be made available to the project and was not convinced by the State Superannuation Board's assurances that having a limited number of very senior staff involved in the project on an ad hoc basis would suffice. There is no existing middle management in the State Superannuation Board available for this work and the Committee feels obliged to underline this deficiency especially as the consultants to the Board also emphasised this problem both in their documents and directly to the Committee. The consultants to the Board recommended a team of four people to be appointed. None of these recommended people are as yet in place."(73)

The above extract serves to underline the continual difficulties faced by a statutory authority, the State Superannuation Board who has no control over its staffing levels. It is also intended as an indication of the Committee's reservations as to the State Superannuation Board's senior management's ability to pilot through a major change in its computer facilities.

It would seem that it will be well into 1985, if all goes well, before the State Superannuation Board has recovered from this conversion and upgrade exercise sufficiently to be in a position to implement any changes, other than minor ones, which may result from recommendations made by the Committee. In this context it is important to note the representations made by the Committee to the Treasurer concerning the necessity for strengthening the project management and for regular reporting to him. The Committee believes that the management and reporting methodology should be consistent with that in use elsewhere in the public service.

Finally, the Committee believes that the developments of the next two years should be undertaken within a context of direct involvement of computer management at the Board level. Furthermore, the Committee suggests that the conversion process, the enhancements planned, and future enhancements should be conducted with the involvement of advisors who are in a position to ensure that the direction of the developments are controlled and logical.

THE COMMITTEE IS CONCERNED WITH THE APPARENT LACK OF MANAGEMENT EXPERTISE IN COMPUTERISATION WITHIN THE STATE SUPERANNUATION BOARD. AS THE SINGLE LARGEST SCHEME IN VICTORIA THE COMMITTEE FINDS IT DIFFICULT TO UNDERSTAND WHY THE INTRODUCTION OF A COMPUTER SYSTEM SHOULD HAVE PROCEEDED SO SLOWLY, EVEN WITH THE STAFF RESTRICTIONS.

THE COMMITTEE ALSO NOTES THAT THE COMPUTER CONSULTANT RETAINED BY THE STATE SUPERANNUATION BOARD RECOMMENDED THAT, FOR EFFECTIVE SYSTEM IMPLEMENTATION THE BOARD SHOULD EMPLOY ADDITIONAL MANAGERS WITH COMPUTER AND EDP EXPERIENCE. TO THE COMMITTEE'S KNOWLEDGE THIS HAS NOT BEEN DONE.

3.5.4 Model Scheme Compliance

A summary of the computer facilities used by each of the larger schemes is found in Table 3.5. This is followed in Charts 3.3 and 3.4 with a bar chart illustrating the extent to which the various reporting and computer facilities match the requirements of the model scheme and an index of the relative complexity of the various schemes. In the latter, the State Superannuation scheme has been assigned an index value of 10 as being the most complex scheme under consideration.

Overall model compliance for each scheme is summarised in Chart 3.3. Relevant points to note in any assessment include: the State Superannuation scheme's inability to undertake any changes to its scheme until 1985; the Hospital's scheme being an object lesson in how to design a superannuation plan that will be difficult to administer; the efficiency of the large single-employer funds and the effective manual adjuncts in the case of the Gas and Fuel and the State Bank; the incomplete approach to computerisation by the Fire Brigades' scheme; and the effective manual recording systems of the small single-employer schemes.

TABLE 3.5
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
SUMMARY OF COMPUTER FACILITIES

Scheme	Hardware Model and Class	Software Development Environment	Scheme Size	Scheme Complexity	Other(a) Users
State Superannuation	ICL 2960 Mainframe	IDMSX, COBOL	Large	High	-
State Superannuation (future)	FACOM M340 Mainframe	IDMS, COBOL, ADMS, OLE, IDMS/R(b)	Large	High	-
SEC Employees	HP3000/44 Minicomputer	CO-CAM	Medium	Low	140+
Local Authorities'	ICL 2960 Mainframe	COBOL, FILETAB	Medium	High	-
SERB	IBM Sys. 38 Minicomputer	RPGIII	Medium	Low	-
SEC Superannuation	Amdahl V7 Mainframe	PL/1, FOCUS Easytrieve	Medium	Medium	-
Hospitals'	HP3000/30 Minicomputer	CO-CAM	Medium	High	140+
State Bank	IBM 4341-II Mainframe	COBOL	Medium	Low	-
Gas & Fuel Corporation	Burroughs B7800 Mainframe	PL/1, COBOL AUDIT RPTR LINC	Medium	Low	-

TABLE 3.5 (concl.)

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
SUMMARY OF COMPUTER FACILITIES

Scheme	Hardware Model and Class	Software Development Environment	Scheme Size	Scheme Complexity	Other(a) Users
MMBW Superannuation	NCR 8585M Mainframe	Neat/3 COBOL	Medium	Low	-
MMBW Provident	HP3000/44 Minicomputer	CO-CAM	Medium	Low	140+
Metropolitan Fire Brigades'	Cromemco Microcomputer	BASIC	Small	Low	-
City of Melbourne Officers'	No computer system currently used.				
Parliamentary	No computer system currently used.				

(a) "Other Users" gives the number of other organisations in Australia reported as using the same or very similar hardware and software for superannuation administration.

(b) IDMS/R has not been officially released in Australia. Press reports indicate that IDMS/R has only just been released in the US.

Source: Campbell and Cook Computer Services, Report on Computer Systems for Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, 10 February, 1984.

In the opinion of the Consultants the State Superannuation and the Fire Brigades' schemes are farthest from the model with the closest being SERB and SEC staff.

Chart 3.4, which presents the comparative complexity index, identifies the Hospitals and Local Authorities as the most complex after the State Superannuation scheme.

The consultants in their report distinguished between multi-employer, large single-employer and small single-employer schemes. In relation to Chart 3.4 it is significant that the three most complicated schemes - State Superannuation, Local Authorities' and Hospitals' schemes are all multi-employer.

THE CONSULTANTS IN THEIR REPORT HAVE HIGHLIGHTED THIS PROBLEM ASSOCIATED WITH MULTI-EMPLOYER GROUPS AND DIVERSE PAYROLL SYSTEMS. FURTHERMORE, THE CONSULTANTS ENDORSED THE COMMITTEE'S VIEW THAT THE STATE SUPERANNUATION BOARD HAS NO INTERNAL COMPUTER EXPERTISE AND GIVEN THE SIZE OF THE TASK THE STATE SUPERANNUATION BOARD FACES, RECOMMENDED THAT EXPERIENCED PROJECT MANAGEMENT STAFF SHOULD BE EMPLOYED. OTHER MULTI-EMPLOYER SCHEMES SUCH AS THE LOCAL AUTHORITIES', SERB AND HOSPITALS' ARE MUCH CLOSER TO THE MODEL THAN THE STATE SUPERANNUATION SCHEME.

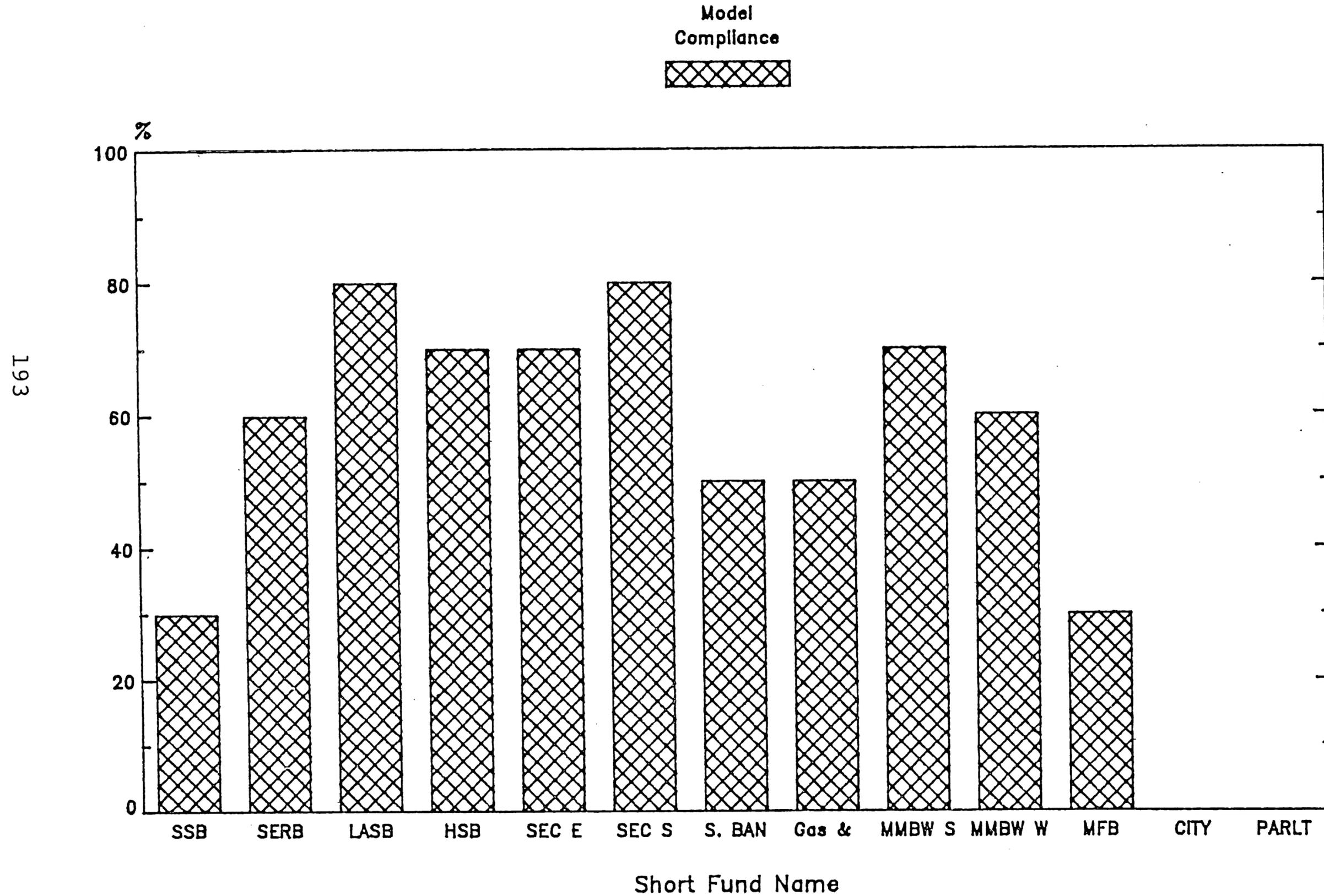
The larger single-employer schemes, for example, the SEC Employees, SEC Superannuation, MMBW Provident, MMBW Superannuation, Gas and Fuel Corporation and State Bank schemes, are distinguished by the relative simplicity of their benefit and contribution structures, and the efficiency and effectiveness of their administrative system. They generally fall short of the model but given their simple structure, attaining the standards required by the model would not be difficult.

The smaller single employer schemes were simple enough to be administered manually, with the Metropolitan Fire Brigades' scheme on the threshold where computerisation would be justified.

THE COMMITTEE CONSIDERS THAT THE EXPERIENCE OF THE MULTI-EMPLOYER FUNDS IN COMPUTER SYSTEM IMPLEMENTATION TO BE LESS THAN SATISFACTORY. THERE IS A CLEAR AND URGENT NEED FOR AN UPGRADING OF MANAGEMENT RESOURCES IN THIS AREA.

Model Compliance Chart

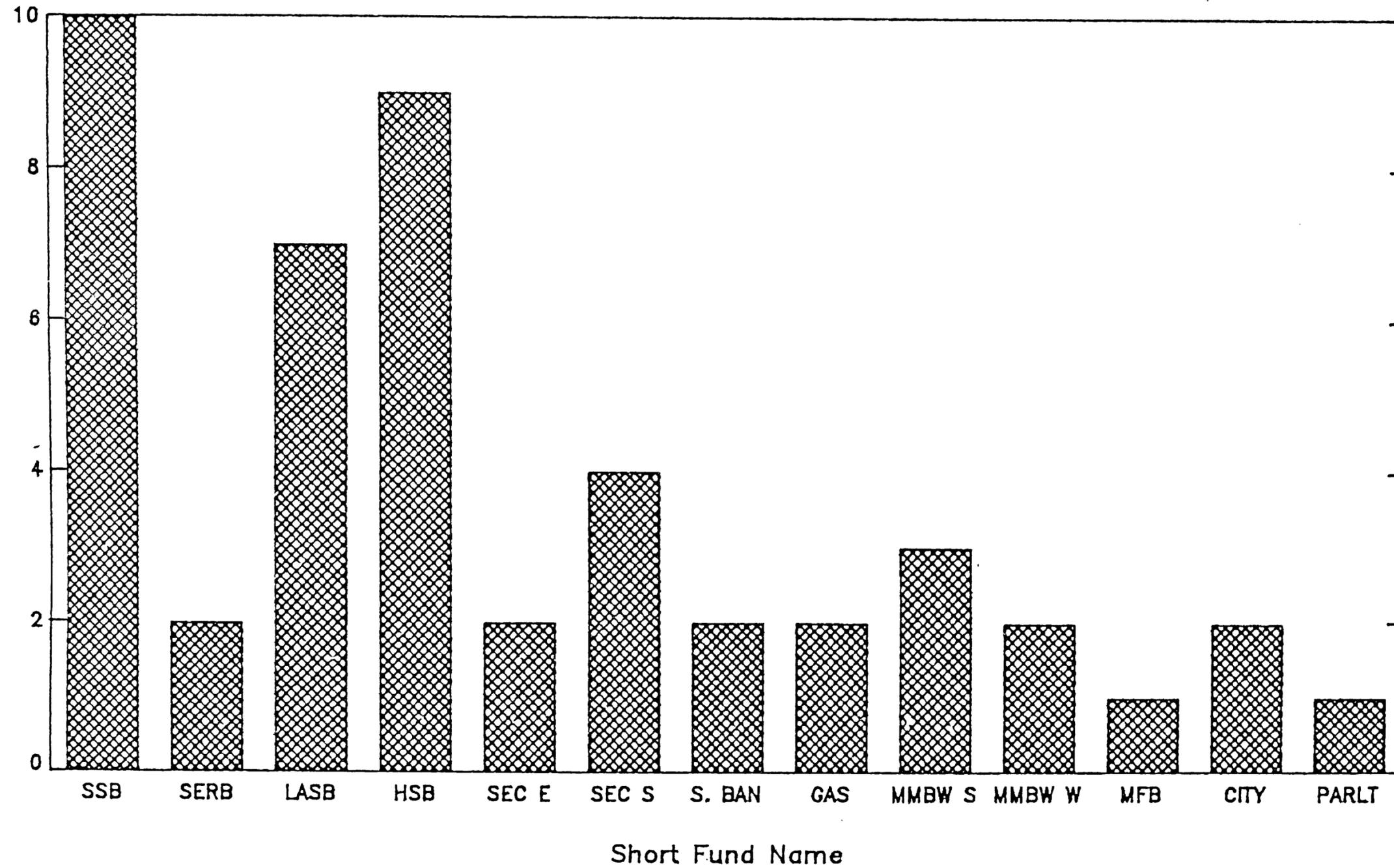
Percentage of Model System Implemented



Source: Report on Computer Administration Systems for Victorian Public Sector Superannuation Schemes- Campbell & Cook Computer Services, February 1984.

Comparative Complexity Index On a Scale of 1 to 10

Complexity
Index



194

3.6.1 Reporting Standards

The terms of reference for the Committee required it to examine three major aspects of superannuation scheme financial accounting. These aspects are:

- (a) actuarial assessment and valuation;
- (b) reporting and contributors' access to fund information; and
- (c) accounting requirements.

The Committee is also required, in light of the above, to assess whether or not uniform provisions for financial accounting are feasible and desirable and, if so, what these might be.

To meet these objectives, the Committee commissioned two Consultants to examine, respectively, accounting and reporting practices and actuarial reporting. These Consultants reports will be published separately. This section summarises the major features and conclusions of their reports.

3.6.2 Requirements for an Accounting Framework

The Consultant retained to examine accounting standards, Mr. G. Hubbard, in his report to the Committee,(74) pointed out that contributors to any superannuation scheme needed to know:

- (a) that the scheme is being soundly administered in accordance with the trust deed and the law generally;
- (b) that their money is being invested to earn a reasonable return; and
- (c) that there will be enough money in the scheme when they will receive their benefits (i.e. there is good actuarial control of the scheme)."(75)

As the majority of public sector superannuation schemes are of the defined benefit type, where employers (in this case the Government or the employing authority) are expected to contribute any fund shortfall on benefit payments, the employer is clearly interested in both the current and future financial state of a scheme.

Rather than review all public sector superannuation schemes in Victoria, the Consultant was asked to consider the twelve largest schemes and the Parliamentary scheme.

In reviewing each scheme's annual report or annual accounts, the Consultant examined the overall structure of current reporting practice by the schemes under the following headings:

- (a) general reporting;
- (b) trustee/management report;
- (c) profit and loss/income and expenditure statement;
- (d) balance sheet/statement of net assets;
- (e) notes on accounting policies used;
- (f) cash flow/sources and uses of funds statement;
- (g) actuarial report; and
- (h) audit report.

This list is based, in large part upon standards established by the Australian Accounting Research Foundation and the Association of Superannuation Funds of Australia.

(a) General Reporting

General reporting refers to those reports which were prepared and issued by the individual schemes and the type of information contained in those reports which were publicly available. Table 3.6 below summarises the findings for the schemes considered.

Major conclusions are:

- (i) only 8 out of the 13 schemes prepare an annual report;

- (ii) only 4 schemes produce an individual entitlement or benefit statement;
- (iii) 5 schemes do not produce a trustee or management report (the same five schemes that did not produce an annual report);
- (iv) in producing an annual report only 2 of the 8 schemes actually bothered to distribute it; and

all schemes that issued reports failed to meet the requirement of the Victorian Annual Reporting Act 1983 which states that annual reports should be submitted within 3 months of the end of the reporting period.

The Consultant concluded:

"Only one of the 13 schemes (State Superannuation) produces all the reports which might be expected. Local Authorities does not have an audit report, SERB, SEC Employees and SEC Staff are missing the actuarial report and all other reports are missing at least 3 of the reports discussed. The worst report is Parliamentary which only contains 1 of the reports.

On the basic observation, before the detail is even examined, it is clear that the quality of reporting is below an acceptable standard for all but one of the 13 schemes."(76)

TABLE 3.6

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
GENERAL REPORTING AND ACCOUNTING INFORMATION

	Availability		
	Yes	No	n.a.
<u>Does Scheme Have:</u>			
a) Annual Report?	8	5	-
b) Simplified Members Report?	3	10	-
c) Individual Benefit Statement?	4	9	-
<u>Does Scheme Have (Publicly Available):</u>			
a) Trustee/Management Report?	8	5	-
b) Profit and Loss Statement?	3	10	-
c) Income and Expenditure Statement?	9	4	-
d) Balance Sheet?	12	1	-
e) Statement of Net Assets?	-	13	-
f) Notes on Accounting Policies Used?	8	5	-
g) Cash Flow/Sources and Uses of Funds Statement?	7	6	-
h) Actuarial Report?	2	11	-
i) Audit Report?	8	5	-
<u>Is Annual Report:</u>			
a) Available on request?	8	-	5
b) Distributed?	2	6	5

n.a. Not available

Source: G. Hubbard, 'Uniform Provisions for the Management of Public Sector Superannuation Schemes.' A Report to the Economic and Budget Review Committee, February 1984.

(b) Trustee/Management Report

In preparing a trustee/management report, the Association of Superannuation Funds of Australia details a list of items which it believes are essential to report on. Table 3.7 below summarises these and the extent to which the schemes investigated comply.

TABLE 3.7

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
ADEQUACY OF TRUSTEE/MANAGEMENT REPORTS

	Yes	No	n.a.
<hr/>			
<u>Does report have:</u>			
a) Scheme details?	-	8	5
b) Trustee/committee names?	5	3	5
c) Professional advisor names?	2	6	5
d) Membership details?	8	-	5
e) Basis of employer contributions?	3	5	5
f) Detail of material investments in employer?	3	2	8
g) Rule outlines?	-	8	5
h) Rule changes and reasons for changes?	5	1	7
i) Investment policy details?	7	1	5
j) Information on investment returns?	6	2	5
k) Information re financial position of plan?	3	5	5

n.a. Not available

Source: G. Hubbard, 'Uniform Provisions for the Management of Public Sector Superannuation Schemes', A Report to the Economic and Budget Review Committee, February 1984.

The consultant noted that none of the schemes show details of the scheme itself, in such a report, or an outline of the rules. Further, the style, structure and length of the management reports varied enormously, from well laid out to poorly structured, some intelligible only to the more sophisticated reader.

(c) Profit and Loss Statements

Three schemes produced profit and loss as distinct from income and expenditure statements (the two MMBW schemes and a hybrid report prepared by the Hospitals scheme). Table 3.8 reviews these schemes and assesses their reporting procedures against the level of detail which would be considered standard practice. As can be seen, none meet all of these criteria, with all schemes failing to report earnings rates.

TABLE 3.8

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
DETAIL OF PROFIT AND LOSS STATEMENTS

			Hospitals	MMBW	MMBW Staff Provident
<hr/>					
<u>Does Profit and Loss show:</u>					
a)	Income	- total?	Yes	Yes	Yes
		- by investment type?	Yes	Yes	Yes
b)	Expenses	- total?	Yes	Yes	Yes
		- by investment type?	No	No	-
c)	Realised Gains/Losses?		-	Yes	No
d)	Unrealised Gains/Losses?		Partly	Yes-Losses	No
e)	Net Income?		No	Yes	Yes
f)	Comparisons for Previous Year?		Yes	No	-
g)	Earning rate:	- total?	No	No	No
		- by type of investment?	No	No	No
		- compared to previous year?	No	No	No
<hr/>					

Source: G. Hubbard, 'Uniform Provisions for the Management of Public Sector Superannuation Schemes', A Report to the Economic and Budget Review Committee, February 1984.

Income and Expenditure Statements

A breakdown on income and expenditure statement is presented for the 10 remaining schemes in Table 3.9. There is little consensus in what is reported by the various schemes. The Consultant noted, that report layouts and terminology varied widely from scheme to scheme, which added significantly to problems encountered in trying to understand and compare the performance of the respective funds.

TABLE 3.9

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES INCOME AND EXPENDITURE STATEMENT

			Yes	No	n.a.
<u>Does scheme have this report?</u>			10	3	-
<u>Does it show:</u>					
a)	Contributions Received	- total?	6	4	0
		- members?	7	3	0
		- employer?	6	3	1
		- special?	3	3	4
b)	Investment Income	- total?	7	3	3
		- short term deposits?	2	8	3
		- investment in employer?	-	6	7
		- fixed interest securities			
		- public?	3	7	3
		- company?	-	7	6
		- mortgages?	3	7	3
		- shares?	-	6	7
		- real estate?	2	6	5
		- insurance policies?	3	6	4
		- other?	6	4	3
c)	Total Income?		10	-	0
d)	Benefits Paid?	- total?	5	5	3
		- pensions?	8	2	3
		- commuted pensions?	1	9	3
		- lump sums?	4	5	4
		- death benefits?	4	6	3
		- disablement benefits?	6	4	3
		- resignation benefits?	6	4	3
e)	Insurance Premiums Paid?		1	3	9
f)	Management Expenses?		6	-	7
g)	Other Expenses?		8	2	3
h)	Total Expenses?		3	7	3
i)	New Funds Available for Investment?		8	2	3
j)	Comparisons to Previous Year?		9	1	3

n.a. Not available

Source: G. Hubbard, 'Uniform Provisions for the Management of Public Sector Superannuation Schemes', A Report to the Economic and Budget Review Committee, February 1984.

(d) Balance Sheets or Statements of Net Assets

In contrast to the lack of agreement which existed over the profit and loss or income and expenditure statements of the various funds there is considerable common practice in balance sheet presentation as Table 3.10 indicates. While this degree of common practice is probably due more to accident than design there are a number of omissions in reporting balance sheet data.

TABLE 3.10

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
REPORTING OF BALANCE SHEET DETAIL

	Yes	No	n.a.
Does scheme have a Balance Sheet?	12	1	-
<u>Does Balance Sheet show:</u>			
a) Current Assets			
- total?	9	3	1
- by type?	10	2	1
b) Investments			
- total?	8	4	1
- by type?	11	1	1
c) Non-Current Assets			
- total?	6	2	5
- by type?	6	2	5
d) Other Assets			
- total?	4	1	8
- by type?	4	1	8
e) Total Assets?	12	-	1
f) Current Liabilities			
- total?	9	3	1
- by type?	11	1	1
g) Non-Current Liabilities			
- total?	3	1	9
- by type?	3	1	9
h) Total Liabilities?	8	4	1
i) Members Equity			
- total(accounting difference)?	11	1	1
j) Fund Surplus/Deficiency?	1	11	1
h) Total Liabilities and Equity?	3	9	1
l) Comparisons to previous year?	11	1	1
m) Accounting Policies used:			
- cash/accrual accounting?	11	1	1
- fixed interest securities valuation?	10	2	1
- equity securities valuation?	6	-	7
- investment property valuation?	5	1	7
- depreciation on fixed assets?	7	2	4
- depreciation on buildings?	4	4	5
Do accounts use rounded accounts?	3	9	1
Are market values given if securities valued at cost?	2	7	4

n.a. Not available

Source: G. Hubbard, 'Uniform Provisions for the Management of Public Sector Superannuation Schemes', A Report to the Economic and Budget Review Committee, Friday 1984.

(e) Notes on Accounting Policy Used

Table 3.11 summarises the details of notes provided by individual schemes on accounting policy used in preparing published accounts. Of the schemes reviewed, five did not prepare notes, with the quality of those that did varying widely.

TABLE 3.11

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
NOTES ON ACCOUNTING POLICIES USED

	Yes	No	n.a.
Are accounting notes shown?	8	5	-
<u>Does scheme have an accounting note for:</u>			
(a) accrual/cash accounting	5	3	5
(b) securities valuation?	5	3	5
(c) property valuation?	2	2	9
(d) depreciation?	5	1	7
(e) general accord with accounting standards?	6	2	5
(f) other?	7	1	5
How many notes are there?	Average = 12		

n.a. Not available

Source: G. Hubbard, 'Uniform Provisions for the Management of Public Sector Superannuation Schemes', A Report to the Economic and Budget Review Committee, February 1984.

(f) Cash Flow, Sources and Use of Funds Statements

Funds flow statements are becoming an increasingly important source of accounting information. Unfortunately, for the public sector superannuation

schemes reviewed only seven presented a funds flow statement. In no case was the definition of 'funds' made clear and in four of these cases it was difficult to reconcile the funds statement to other statements. In only one case was there an attempt to provide comparable figures for the previous financial year.

(g) Actuarial Report

Table 3.12 summarises the amount of actuarial information that is presented by schemes in their annual report. Most schemes (8 out of the 13) solve the problem of the amount of actuarial information to include by not presenting any with none of the five schemes that actually present information meeting the standards expected by the Association of Superannuation Funds of Australia.

TABLE 3.12

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
ACTUARIAL REPORTING

	Yes	No	n.a.
<u>Does the annual report include:</u>			
(a) a separate actuarial report?	1	12	-
(b) any actuarial information?	5	8	-
<u>Does this information include:</u>			
a) date of last full valuation?	3	2	8
b) date of next full valuation?	1	4	8
c) funding method assumed?	-	5	8
d) comment on variability of future employer contribution rate?	-	4	9
e) comment on any contingent liability?	-	5	8
f) comment on financial soundness of scheme?	4	1	8

n.a. Not available

Source: G. Hubbard, 'Uniform Provisions for the Management of Public Sector Superannuation Schemes', A Report to the Economic and Budget Review Committee, February 1984.

(h) Audit Report

Only eight schemes had audit reports with their accounts. In each case the audit report covered the balance sheet and the income and expenditure or profit and loss statement (except MMBW Provident where the latter was not included). In no case was the funds statement covered. In all cases, the report simply concluded that the statements covered were 'true and fair'.

3.6.3 Overview of Accounting and Reporting Procedures

As well as providing a detailed assessment of the various accounting and reporting procedures for the schemes as a whole, the Consultant also reviewed the quality of overall reporting for each of the schemes. These comments, which as the Consultant points out, are made from the point of view of a reasonably sophisticated reader trying to understand the information without having to resort to personal explanations of individual items, are worth reporting verbatim:

- (a) "State Superannuation - a mass of detail is provided but the information is poorly structured and is not easy to understand, or to find the significant information. Accrual accounting was only introduced in 1981. Accounts could be improved very simply by better structuring, highlighting of significant information, rounding the accounts to the nearest thousand dollars, and eliminating insignificant detail.
- (b) Local Authorities' - the most impressive report of those examined, except for the major omission of an audit report. Information is clear, quite comprehensive and the inclusion of a separate actuarial statement and comments on overall fund earning rate mean that an assessment can be made of the fund's position. The inclusion of an audit report and some improved information in the notes to accounts would further assist this report.
- (c) SERB - Because the scheme is new and had no investment funds until 1982, it is perhaps slightly unfair to apply the same criteria to its accounting and reporting. Nevertheless, no earning rate is

given, no actuarial information is given, the accounts are presented to the extreme detail of cents and the order of account groups and account headings within groups is inconsistent with normal accounting practice. One positive feature is the contingent liability note which highlights the several unknown future dollar costs for various types of benefits which are likely to be payable.

- (d) SEC Employees - This report is well laid out and provides very good information on investment performance and membership in particular, as well as highlights of the year overall. The report also states clear objectives which the scheme is trying to achieve. Inclusion of an actuarial report and a better structured management report would assist. The separate report to members is very similar in style (and has the same cover except for the title).
- (e) SEC Staff - Is almost identical to SEC Employees in layout and information conveyed.
- (f) Hospitals - This report is printed unaudited. It contains many different accounting statements which are not clearly linked together by cross-reference or explanation. One major statement, entitled the "Income Statement", is a cross between a more traditional income and expenditure statement and a profit and loss statement. No performance information, or actuarial information is given, significant information is not highlighted and the layout and terminology are very confusing.
- (g) State Bank Provident - A very simple report, this might be of some use to members, but it lacks detail on accounting policies used, investment policies, the fund's actuarial position and there is no audit report attached.
- (h) Gas and Fuel - Only one A3 size page with 3 accounting reports is available, which is not distributed.

- (i) MMBW Staff - This is the first annual report to be produced. However, it contains only the accounts and no descriptive information from the scheme managers. It was produced 12 months after year-end, but it is notable because it contains a true profit and loss statement which is, however, entitled an income and expenditure statement.
- (j) MMBW Provident - Virtually identical to the MMBW Staff report. This is a very new scheme and so comparative data is not available for some items.
- (k) Metropolitan Fire Brigades - Although the layout of the balance sheet and the income and expenditure statement are quite good, the lack of an audit report, comparative figures, actuarial information, notes to the accounts, together with a very brief management report mean that this report is seriously defective in providing useful information.
- (l) City of Melbourne - No report is produced, only a brief set of accounts.
- (m) Parliamentary - no report is produced, only a cash flow statement to the nearest cent is available."⁽⁷⁷⁾

OVERALL, THE COMMITTEE CONCLUDES THAT NOT ONE OF THE 13 SCHEMES REVIEWED IS CURRENTLY PRODUCING AN ACCEPTABLE SET OF USEFUL INFORMATION FOR THOSE CONCERNED WITH THE SCHEMES. FURTHERMORE, NOT ONE ANNUAL REPORT CONFORMS TO THE ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA GUIDELINES WHICH SHOULD BE REGARDED AS ONLY MINIMUM STANDARDS.

In summary, the Committee has identified a number of major deficiencies with respect to:

- (a) production of an annual report;

- (b) production of other simplified reports for financially unsophisticated members to be able to understand the level of benefits which they might expect under various conditions;
- (c) production of a properly-structured management report;
- (d) the naming and detail of a performance report;
- (e) the detail and structure of an assets report;
- (f) the provision of adequate notes to enable the reader to assess the basis on which the accounts are prepared and to provide adequate back-up detail to the summary financial statements;
- (g) the production of adequate actuarial information to enable an assessment of the current and future solvency of the scheme;
- (h) production of an audit report which accompanies every set of accounts which are presented and ensures that statements which are prepared conform to desirable standards; and
- (i) production and distribution of the annual report within an acceptable time-frame.

THE COMMITTEE BELIEVES THAT MEMBERS OF SCHEMES ARE ENTITLED TO RECEIVE A REASONABLE REPORT ON HOW THEIR SCHEME HAS PERFORMED FOR THE PERIOD AND WHAT IS THE CURRENT AND EXPECTED FUTURE FINANCIAL STATE OF THE SCHEME.

THE COMMITTEE CONSIDERS THAT NONE OF THE PUBLIC SECTOR SUPERANNUATION SCHEMES MEET MINIMUM REPORTING STANDARDS AND, IN CONSEQUENCE, NO SCHEME'S REPORT CAN BE CONSIDERED ADEQUATE.

3.6.4 Desirable Accounting and Reporting Practice

As well as reviewing current accounting practices the Consultant was also asked to comment on the feasibility and desirability of uniform accounting and reporting practice for the various schemes. The Consultant saw no reason why uniform procedures could not be instituted and, indeed, argued that this was important not only for members to have the information (as they often had little choice as to whether they wished to contribute or not) but also for Government. Schemes should provide sufficient information to the Government to account for their position. The Government, in turn, must account to taxpayers for the schemes' current and future financial position. There is no doubt, of course, that under the Annual Reporting Act 1983, the Government can implement any reporting standards that it deems, in the public interest, to be appropriate to the various public sector superannuation schemes.

THE COMMITTEE BELIEVES THAT UNIFORM AND COMPREHENSIVE ACCOUNTING AND REPORTING PROCEDURES SHOULD BE IN PLACE FOR THE VARIOUS STATE PUBLIC SECTOR SUPERANNUATION SCHEMES. THE COMMITTEE WILL BE DEVELOPING THE APPROPRIATE FORMAT FOR THIS AREA IN THE COMMITTEE'S NEXT REPORT ON SUPERANNUATION.

3.6.5 Auditing: A Postscript

The Committee's Terms of Reference, as noted above, require it to examine the adequacy of present provisions for auditing. The Committee has also examined the audit implications of its recommendations. Any audit of a superannuation scheme (where, at the moment only 8 out of the 13 schemes provide an audit) should be concerned with :

- (a) checking that the plan operates in accordance with the documentation;
- (b) checking that transactions are correctly authorised and recorded and that adequate internal control exists within the accounting system;

- (c) checking that the assets listed on the balance sheet exist and are recorded at values acceptable under accounting principles; and
- (d) checking that the accounts are prepared according to acceptable accounting standards.

All of the above would be unaffected by the introduction of the Association of Superannuation Funds of Australia recommendations. Indeed, they would be completely consistent. Given that it is perfectly feasible for auditors to meet the proposed accounting and reporting procedures, the question then arises as to who should audit the schemes' statements.

In his April 1982 report to Parliament the Auditor-General of Victoria expressed the opinion that:

"... there is a need for a review of the legislative and other provisions relating to the audit, operation and reporting of superannuation and retirement benefit schemes in the public sector."(78)

Currently, the authority for the audit of the various schemes may be vested under specific statute, regulation or trust deed with either private auditors or in the Auditor-General. Superannuation schemes not currently audited by the Auditor-General include:

- (a) the Gas & Fuel Corporation;
- (b) the MMBW Superannuation;
- (c) the MMBW Provident; and
- (d) the State Bank schemes.

In this context, the Auditor-General in a submission to the Committee, directed attention to the Annual Reporting Act 1983 which was introduced to provide more standardised procedures for the reporting to Parliament of departments and public bodies.

The Auditor-General noted:

"In my opinion, it is an appropriate time to consider whether the Governor-in-Council should declare public sector superannuation schemes as public bodies under the Annual Reporting Act 1983. These superannuation schemes have financial implications for the government and the organisation concerned as well as implications of equity between employers and mobility of employees and as such, both the government and Parliament should scrutinise their operations."(79)

and

"If public sector superannuation schemes are declared under the Act, it would follow that:

- (a) the Treasurer would be able to prescribe the form and content of financial statements and any other standards which are considered necessary to ensure uniformity and consistency of accounting and reporting practices;
- (b) provided annual disbursements are in excess of \$1 million, superannuation bodies would be required to table their reports in Parliament; and
- (c) all declared bodies would be automatically subject to audit by the Auditor-General.

The ability of Parliament to review public sector superannuation schemes would be improved if it receives relevant, timely and comparable information on the operations and performance of the schemes."(80)

THE COMMITTEE BELIEVES THAT PUBLIC SECTOR SUPERANNUATION SCHEMES SHOULD BE DECLARED AS PUBLIC BODIES FOR THE PURPOSES OF THE ANNUAL REPORTING ACT 1983.

3.6.6 Actuarial Standards

The question of scheme performance, raised by the Auditor-General leads to an area of particular significance, that is, the reporting of the actuarial position of a superannuation scheme. As the Auditor-General emphasises:

"In respect of superannuation schemes, the traditional balance sheet does not disclose actuarial position and therefore does not give a long term perspective of the scheme. The projected future liability for pension payments for both current and future pensioners and future refunds of contributions is not disclosed. Thus, the assets of such schemes available for distribution are not matched with actuarially accrued liabilities. It is therefore difficult for Parliament and other users to assess the potential unfunded liability of the scheme."(81)

Because of the importance of actuarial assessment the Committee engaged a Consultant, Mr R. Champion, to review actuarial reporting for 15 of the largest funds - the 13 funds reviewed by Mr G. Hubbard as well as the TAB Superannuation Scheme and the Port of Melbourne Authority Superannuation Fund.(82)

A major concern of the Committee was the question of how partially funded or unfunded schemes would be treated by an actuary. The case of a fully funded scheme (e.g. Gas and Fuel) is quite straightforward as the actuary must, as a matter of course, recommend the appropriate contributions to maintain the funding status of the scheme.

For a partially funded or unfunded scheme the typical provisions for an actuarial investigation (i.e. to investigate the financial position of a scheme) could be interpreted by the actuary as precluding any reporting on the unfunded elements of the scheme. An example of such a narrow interpretation is provided by the joint actuaries to the State Superannuation Board, Messrs. Arnold and Ryder, in the 30 June 1980 report on the State Superannuation scheme:

"The valuation of assets and liabilities relates only to the proportion of benefits which remain a charge on the fund, i.e. the portion of the

unitary benefits to which rights arise from payments of contributions by contributors. The balance of the pension benefit which is reimbursed to the fund from consolidated revenue on the day of payment is excluded from this valuation."(83)

The joint actuaries' statement quoted here is defensible, and supported by precedent of earlier reports on the State Superannuation scheme and probably most if not all, triennial reports on the corresponding schemes of the Commonwealth and other states. However, the Committee believes that the majority of the actuarial profession has moved to the view that a proper actuarial report on a partially funded superannuation scheme like the State Superannuation scheme, should encompass not only the funded section, but also future emerging costs for unfunded benefits.

The Committee supports its position by noting that there have been two Australian reports on long term costs of public sector superannuation, both relating to schemes outside Victoria. The first was the 'Report on Long Term Projections of the Cost to the South Australian Government of the South Australian Superannuation Scheme and Related Matters', tabled in the South Australian Parliament on 16 July 1981.

The opening paragraphs of the South Australian Report state:

"The triennial actuarial investigations of the South Australian Superannuation Fund indicate what proportion of the cost of future superannuation benefits can be expected to be supported by the Fund (i.e. by the contributors).

Whilst it follows that these investigations also indicate the proportion of the cost of future superannuation benefits which it is expected will be borne by the Government, they do not provide information as to the trend of that cost in future years. The purpose of these projections is to provide that information."(84)

The second report is the report on the Commonwealth Superannuation scheme dated 21 June 1982. Again the opening paragraph may be quoted:

"This Report sets out estimates of the long term costs of the Commonwealth Superannuation Scheme. A long term examination is necessary because the costs are met as they arise and the liabilities are still maturing."(85)

Defined benefit superannuation schemes depend heavily on sound actuarial advice for their continued satisfactory operation.

Obscure or poorly presented actuarial information is likely to hinder decision making and, thus impair the long term success of the scheme. A quotation from Mr. Hubbard's report may be usefully cited to illustrate this point:

"The State report under 'Actuarial Reports', states that the 1980 actuarial investigation "disclosed a surplus of \$157.3m which will be used for updating pensions". However, the separately printed actuarial investigation, in addition to the above statement, also says:

"At present rates of interest, and with the existing contribution rates, the State Superannuation Fund is in a satisfactory state. But the Superannuation Fund is unlikely to be able to meet the full updating costs required by the Supplementation Act in future years."

In this case, the information is available, but the reader of the annual report would almost certainly come to the conclusion that the fund is in a sound financial position, when the exact reverse is the case."(86)

Two further issues in actuarial reporting are also worth noting, that is, the period of reporting and the timeliness of reports. As far as the former issue is concerned, there is a legally required three year period between actuarial reviews of all but two of the schemes considered. The exceptions are the City of Melbourne Officers' scheme (where no interval between reviews is specified) and the Gas and Fuel Corporation scheme (which specifies intervals not exceeding 5 years). In practice both these schemes are also subject to three yearly actuarial investigation. This uniformity is not surprising as the three year interval between reviews has also been traditional in the private sector.

The Committee believes that the three year standard should be left unchanged, but notes that if any significant change in benefits or contributions of a scheme is being considered by its board or trustees, they should ensure that the longer term financial implications of the proposed change are understood.

Of the schemes considered by the Consultant, SERB is the only one which specifies a period within which an actuarial review is to be presented to its board. Nine schemes had reports presented within a 12 month time frame; 5 were longer than 12 months. The Parliamentary scheme report was undated.

Legislation commonly imposes time limits on submission of reports and returns. In the area of actuarial reporting the Commonwealth Life Insurance Act 1945 requires an abstract of an actuarial report to be submitted within 6 months of the date to which it relates.

Because timeliness of reporting is desirable, the Consultant believes it would be reasonable for the 12 month limit in the State Employees Retirement Benefits Act 1979 to be adopted as a uniform time limit for actuarial reports for all public sector superannuation schemes.

As the compilation of data - the most common cause of long delays in actuarial reporting - should be speeded by computerisation, it may well be practical, after schemes have become accustomed to more timely reporting inside the 12 months limit, to move to a shorter time limit of, say 6 months for submission of all actuarial reports.

IN THE CONTEXT OF CURRENT ACTUARIAL PRACTICE, THE COMMITTEE BELIEVES THAT:

- (a) THE ACTUARY SHOULD DEAL WITH BOTH FUNDED AND UNFUNDED BENEFITS;
- (b) REPORTS SHOULD BE MADE AT LEAST EVERY THREE YEARS;
AND

- (c) REPORTS SHOULD BE SUBMITTED WITHIN 12 MONTHS OF THE VALUATION DATE (AND PERHAPS, AFTER A TRANSITION PERIOD, WITHIN 6 MONTHS).

NOTES

- (1) Minutes of Evidence, 20 July 1983, p. 654.
- (2) Minutes of Evidence, 20 July 1983, p. 657.
- (3) Minutes of Evidence, 15 July 1983, p. 588.
- (4) Minutes of Evidence, 15 July 1983, p. 17.
- (5) Minutes of Evidence, 13 July 1983, p. 505.
- (6) Minutes of Evidence, 18 July 1983, p. 615.
- (7) Minutes of Evidence, 28 July 1983, p. 13.
- (8) Public Service Act 1974.
- (9) Public Service Board, Submission, 10 February 1984, p. 1.
- (10) Minutes of Informal Meeting, 24 June 1983, p. 156.
- (11) Public Service Board, Submission, op. cit., p. 5.
- (12) Minutes of Informal Meeting, 24 June 1983, p. 152.
- (13) Letter from the Treasurer of Victoria to the Chairman of the Economic and Budget Review Committee, 20 June 1983.
- (14) The Role of the Superannuation Office in Providing the Mechanism for Change in Public Sector Superannuation in New South Wales, Papers for Victorian Parliamentary Committee provided by NSW Superannuation Office, February 1984. p. 6.
- (15) Ibid., p. 4.
- (16) Campbell and Cook Computer Services, Report on Computer Administrative Systems for Victorian Public Sector Superannuation Schemes, 10 February 1984.
- (17) Minutes of Evidence, 8 July 1983, p. 433.
- (18) Minutes of Evidence, 8 July 1983, p. 438.
- (19) State Superannuation Board, Submission, July 1983.
- (20) Minutes of Evidence, 18 July 1983, p. 631.
- (21) Minutes of Evidence, 18 July 1983, p. 631.
- (22) State Superannuation Board, Public Service Board Consultants Study, April 1981.

- (23) Letter from the Crown Solicitor to the Secretary of the State Superannuation Board of Victoria, 16 May 1980.
- (24) Minutes of Evidence, 28 July 1983, p. 2.
- (25) The State Superannuation Board, A Review of its Operations, Department of Management and Budget Review Team Report, February 1984.
- (26) Ibid., p. 31.
- (27) Ibid., p. 6.
- (28) Ibid., p. 6.
- (29) Minutes of Evidence, 18 July 1983, p. 619.
- (30) Australian Council of Trade Unions, Biennial Congress, September 1983.
- (31) G. Polites, "Superannuation and the Views of Employers", Australian Financial Review, 24 September 1979.
- (32) Secretary, SEC Staff Sub-Branch, Federated Engine Drivers' and Firemen's Association.
- (33) LaTrobe Valley Sub-Branch of the Australian Institute of Marine and Power Engineers, 15 November 1983.
- (34) Municipal Officers' Association of Australia, Submission, 19 September 1983, p. 2.
- (35) Ministry of Industrial Affairs, Submission, p. 2.
- (36) ABS, Victorian Yearbook, 1983, p. 192.
- (37) 86 CLR 283. The High Court held by a 4/2 majority that a claim for a pension scheme did not give rise to a jurisdiction to arbitrate. This decision hardly constitutes a definitive ruling which would place the matter beyond question, despite the continued absence of retirement benefits from matters dealt with by the Commission. Only two of the six judges considered, and found in the negative, the issue of whether superannuation was arbitrable on the basis of the legislative definition of "industrial matter".
H.J. Glasbeek & E.M. Eggleston, Cases and Materials on Industrial Law in Australia, Butterworths, Sydney, 1973. pp. 37-39.
- (38) In the course of his judgement Stephen J. commented on the definition of "industrial matter" contained in Section 4 of the Act. Having identified the performance of work by the employee and the receipt of reward for that work from the employer as the two broad aspects of relations between employer and employee, His Honour went on to state:
"Not every demand for reward for work performed will render the subject matter of the demand an industrial matter. The matter demanded must always pertain to the employer-employee relationship so that the subject matter of demands by either party which are, for example, of a political or social or managerial nature will not be industrial matters. The necessary quality of a subject matter demanded

which is concerned with reward for work performed is, I think, that it be, of itself, inherently associated with the relationship of employer and employee and not with some other type of relationship. Reward by way of remuneration of course conforms most clearly to such a test; the payment of wages or salary is inherent in the relevant relationship. Likewise demands for, for instance, paid annual holidays or retirement benefits (disregarding, for present purposes, any consequences arising from the fact that awards are necessarily of limited duration) would, I think, satisfy this requirement; even if the relationship existing between parties to a demand of this character was unknown it would nevertheless, from its very nature, be seen to be associated with some employer-employee relationship."

Commonwealth Law Reports Volume 127, 1972 p. 371.

- (39) C.M. Jessup, Industrial Law, Victoria. Butterworths Melbourne, 1981, p. 211.
- (40) Minutes of Evidence, 1 July 1983, p. 298.
- (41) Minutes of Evidence, 8 July 1983, p. 434.
- (42) Minutes of Evidence, 14 July 1983, p. 564.
- (43) Minutes of Evidence, 30 June 1983, p. 235.
- (44) State Superannuation Board, op. cit.
- (45) Minutes of Evidence, 18 July 1983, p. 627.
- (46) Minutes of Evidence, 29 June 1983, p. 181.
- (47) Minutes of Evidence, 6 July 1983, p. 390.
- (48) Minutes of Evidence, 6 July 1983, p. 418.
- (49) Minutes of Evidence, 25 July 1983, p. 3.
- (50) Minutes of Evidence, 25 July 1983, p. 7.
- (51) Occupational Pension Schemes, HMSO, London, June 1976, p.2.
- (52) Minutes of Evidence, 14 July 1983, p. 571.
- (53) Minutes of Evidence, 6 July 1983, p. 393.
- (54) Letter from J.M. Ryder, Chairman Treasurer's Consultative Committee on Superannuation, 29 August 1983.
- (55) Minutes of Evidence, 5 August 1983, p. 37.
- (56) Minutes of Evidence, 5 August 1983, p. 27.
- (57) Minutes of Evidence, 5 August 1983, pp. 30, 36.
- (58) Minutes of Evidence, 4 July 1983, p. 356.
- (59) Minutes of Evidence, 5 August 1983, p. 30.

- (60) Ministry of Industrial Affairs, Submission, p. 3.
- (61) Ibid., p. 5.
- (62) Ibid., p. 6.
- (63) Coopers and Lybrand Services, "Study into the Issue of Disability Retirements in Victorian Public Service Superannuation Schemes", A Report to the Economic and Budget Review Committee, February 1984.
- (64) Minutes of Evidence, 28 July 1983, p. 9.
- (65) Confidential Submission to the Committee, 22 July 1983, p. 1.
- (66) Campbell and Cook Computer Services, Report on Computer Administration Systems for Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, 10 February 1984.
- (67) Minutes of Evidence, 20 July 1983, p. 671.
- (68) Ibid., p. 672.
- (69) Ibid., p. 672.
- (70) Campbell and Cook Computer Services, op. cit., E-6.
- (71) Minutes of Evidence, 8 July 1983, p. 446.
- (72) Minutes of Evidence, 12 September 1983, p. 4.
- (73) Economic and Budget Review Committee letter to the Treasurer of Victoria, dated 15 September 1983.
- (74) G. Hubbard, Uniform Provisions for the Management of Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February 1984.
- (75) Ibid., p. 1.
- (76) Ibid., p. 11.
- (77) Ibid., pp. 25-27.
- (78) Report of the Auditor-General, April 1982.
- (79) Auditor-General, Submission, 18 October 1983, p. 2.
- (80) Ibid., p. 3.
- (81) Ibid., p. 5.
- (82) R.W. Champion, Uniform Provisions for the Management of Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, 16 February 1984.

- (83) Ibid., p. 22.
- (84) Ibid., p. 22.
- (85) Ibid., p. 22.
- (86) G. Hubbard, op. cit., p. 31.

SECTION 4.1 ALTERNATIVE FINANCING SYSTEMS

4.1.1 The Cost of Superannuation

Funding is a rather ambiguous term which in the broadest sense can refer to any schedule or plan for financing superannuation. In a more formal sense funding refers to the procedure of setting aside money in an investment fund to provide for future contributor benefits and administrative expenses. Further qualifications can be added. Thus, full funding means that all benefits are funded and partial funding means that only some of the benefits are being funded. Should a fully funded scheme be terminated for any reason the scheme's assets would be sufficient to ensure that any current pensioners would be secure in their pensions and current employees would have an equity in the fund reasonably commensurate with their accrued pensions/lump sums for service to date.

At the other extreme to full funding is the Pay-As-You-Go (PAYG) approach, in which current benefit and administrative expenses are financed from current revenue. No investment fund is maintained and the provision of future benefits is dependant on the continued existence of the employer and his willingness to meet these obligations.

In the Victorian public sector the methods of financing superannuation range from purely PAYG to full funding systems.

The long term cost of superannuation will be influenced by some or all of the following factors:

- (a) benefit scales of the scheme;
- (b) investment yields to the scheme;
- (c) the incidence of deaths, disablements, retirements and withdrawals;
- (d) patterns and rates of salary increase;

- (e) age and sex characteristics of members and pensioners;
- (f) mortality experience of pensioners and dependents;
- (g) provision for pension updating; and
- (h) administrative expenses.

Such factors would be taken into account by an actuary in setting contribution rates (employer and employee) for a funded scheme or in preparing projections of the emerging cost of a PAYG scheme.

4.1.2 PAYG versus Funding

Governments have considerable flexibility in the matter of financing for most public sector superannuation schemes. They can use their revenue raising powers to set up investment funds or to provide for benefit and administration expenses on a PAYG basis. However, because of the prospect of insolvency, private sector superannuation benefits are assured only if they are funded in advance. Also, because of the taxation treatment of superannuation, it is often cheaper for private schemes to fund their superannuation commitments.(1)

The reasons for choosing or maintaining a particular system of financing for public sector superannuation are likely to be complex.(2) For example, it would be desirable to know before commencing whether interest on investments is likely to be less than, equal to, or greater than the growth in the tax base. If interest is greater than growth in the tax base the funded approach would be optimal on purely financial grounds and vice versa. This would be because the investment yield on contributions made beforehand would give a greater income than could be gained from a constant tax.

Other significant factors that influence the choice of a system of financing superannuation include considerations of equity, especially intergenerational equity, financial responsibility and the likely effect on savings and investment patterns in the economy.

Intergenerational equity is important with a PAYG system because today's taxpayers support today's public sector superannuants through taxes and/or

contributions. The long term acceptance of this system depends on the willingness of future generations to provide the benefits that are promised to today's scheme members. If these benefits are inconsistent with future capacity to pay the future generation might view their payment as the cost of an undue privilege. Thus, a justification for funding is to enforce financial responsibility by making the current generation pay for their own retirement incomes. This matter is particularly relevant in an ageing population such as Australia's, because the ratio of aged persons to individuals of labour force age is expected to increase.

To many, financial responsibility is a persuasive argument. However, the matter is contentious where existing superannuation schemes are concerned. This is because once PAYG or partly funded schemes are firmly established taxpayers and contributors could be expected to resist a conversion to a funded system because of the extra cost involved in building up the fund. Thus, the current generation would have to pay not only for current public sector superannuation benefits but also, via the buildup of the investment fund, for future retirement benefits. Such an abrupt change would require either a massive one off injection of funds or the amortisation of the liability over a suitable period. Put simply, the current generation would have to pay twice.

Equity considerations have other important dimensions, although these have a lesser bearing on the choice between PAYG and funding. These would include questions about the way in which the necessary revenue to pay for superannuation benefits is raised (i.e. is the taxation system progressive or regressive with respect to income) and the extent to which private sector employees should pay for public sector superannuation benefits which are not generally available to them.(3)

The financing of public sector superannuation could also have implications for saving and capital accumulation in the economy, and hence on long term economic growth. If people regard the provisions of social security/public pensions as part of their anticipated wealth, it has been argued that they will decrease their current saving. This would be so if the scheme was funded or not. However, if it is a PAYG or only partly funded scheme then, as Feldstein asserts:

"... social security "wealth" is not a real wealth but only an implicit promise that the next generation will tax itself to pay the annuities currently specified in the law. Although there are no tangible assets corresponding to this "wealth", it is perfectly rational for households to regard the value of their future social security benefits as part of their personal wealth."(4)

Thus, it is argued, overall saving and capital accumulation is lower than it otherwise would be, and in the longer term national income is reduced. Feldstein's research showed this to be very significant but other writers have disputed his findings. Nevertheless, the Hancock Committee attached sufficient importance to the effect on saving to suggest that contributions to the proposed National Superannuation Scheme be kept to "modest levels."(5)

4.1.3 Funding for Statutory Authorities

It is generally accepted that statutory authorities of a commercial or semi commercial nature should have their employees covered by fully funded superannuation schemes. The rationale is that such authorities should bear in their budgets the full cost of providing goods and/or services. If instead, superannuation was managed on a PAYG basis, the authorities would not be making proper allowance for the liabilities that are accruing with respect to superannuation benefits promised to existing workers. Thus prices charged and/or operating subsidies would be understated.

A further reason for funding superannuation is that if the organisation should later shrink, its superannuation costs do not become an unmanageable burden on its budget, and, if it should cease to exist altogether, the Government would not have to step in to meet existing obligations. Similarly, in the eventuality that some or part of such statutory authorities is transferred to the private sector, superannuation liabilities are identifiable and matched by an external investment fund.

One problem in applying this policy to the public sector is that whilst some statutory authorities are clearly profitable, and set their charges according to the cost of supply (e.g. Gas and Fuel Corporation, Melbourne Metropolitan Board of Works), some are not (e.g. State Rivers and Water Supply

Commission, Forests Commission, V-Line). However, for organisations of the latter type funding might still be argued to be appropriate so that recurrent subsidies reflect the full cost to the State of running those organisations at a loss. Yet other statutory authorities are more of a regulatory nature and may have no revenue raising activities. These might best be funded because of the complications that would result if they were to be dissolved.

4.1.4 Recognition of Cost

One of the most important considerations in favour of funding is that it helps to enforce financial responsibility. It does this by imposing on current scheme members and employers the costs of benefits that they expect to receive in the future. The investment fund established by the contributors assures that pension promises are backed by assets. However, in a multi-employer PAYG scheme where organisations are dependent on budget appropriations for their revenue, it may be financially impractical or even unnecessary to actually put money aside in an investment fund. A method of recognising cost without actually accruing an investment fund could still discourage the current generation from granting themselves unrealistic benefits and ensure acceptance with future taxpayers. The advantage would be that the current generation would not be paying twice, i.e. through the simultaneous payment for current pensions/lump sums and the build up of an investment fund. This result could mostly be achieved by using notional funding techniques or simply by levying actuarially determined employer contributions.

Notional funding is a method used for approved authorities whose employees are covered by the Commonwealth Superannuation scheme. Authorities pay employer superannuation contributions to the Commonwealth which are credited to notional funds. Whilst employee contributions are actually paid into the Commonwealth Superannuation Investment Trust, they too are nominally added to the same fund. Contributions are notionally accumulated with interest and all benefits that are paid to, or in respect of, their employees are notionally charged to the fund. The employer contribution is actuarially determined so that contributions, when accumulated with interest, should be sufficient to meet the benefits that will be charged to the notional fund.

An alternative is a contributory arrangement which does not require the maintenance of a notional fund. All that would be involved is that departments/authorities would be charged an employer's contribution. This would discharge that departments obligations for the later payment of benefits. Although administratively a much simpler technique, it lacks the sophistication of notional funding.

THE COMMITTEE BELIEVES THAT IT IS IMPORTANT FOR EFFICIENT SCHEME MANAGEMENT AND BENEFIT/CONTRIBUTION NEGOTIATIONS THAT PUBLIC SECTOR AUTHORITIES BE AWARE OF CURRENT AND EXPECTED EMPLOYER COSTS FOR BOTH PAYG AND PARTIALLY FUNDED SUPERANNUATION SCHEMES.

4.1.5 Victorian Funded Schemes

The forty-two superannuation schemes in the Victorian public sector consist of twenty-six funded schemes, nine PAYG schemes and seven schemes that are partly funded to various degrees. Two of the nine PAYG schemes are gratuity schemes.

The twenty-six funded schemes include nearly all of the smaller schemes and some of the larger statutory authorities' schemes. These schemes are listed in Table 4.1.

Typically the smaller schemes have their funds managed externally either through a merchant bank or more commonly through a life assurance office. Quite clearly the provision of superannuation benefits through life assurance offices involves funding in advance.

Eight of the twenty-six funded schemes are accumulation schemes. Because the benefits of these schemes are determined by the accumulation of employees' and employers' contributions plus interest they are automatically funded. It also means that investment performance has a direct influence on the level of benefits. The largest of these, in terms of assets, is the Port of Geelong scheme which had investments of \$3.08 million at December 1982. The consulting actuarial firm of PTOW/TPF&C were recently contracted to review the scheme and the result was a recommendation to move towards a defined benefit scheme.

TABLE 4.1

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES - FUNDED SCHEMES

Scheme	Defined Benefit or Accumulation	Contributions (% of Salary)		Comments
		Member	Employer	
Australian Barley Board	DB	5	13	
City of Melbourne Officers'	DB	5 to 9	10 to 18	Contribution rates depend on age and salary. Actuarial surplus finances pension updates.
County Court Associates	AC	2.5	6.25	Fund is managed by the Public Trustee.
Egg Board Staff	DB	4 or 5	9.25	Members contribute 4% or 5% depending on category.
Grain Elevators	DB	Up to 5	n.a.	Members contribute the amount necessary to secure insurance policy. Scheme closed.
Greyhound Racing Control Board	DB	5	19.2 7.2	Executive Staff - (19.2%) Other staff - (7.2%)
Harness Racing Board	DB	5	13.5	
Legal Aid Committee	AC	5	15 5	Special rate for one member - (15%) Normal rate - (5%). Fund is effectively closed.
MMBW Provident	DB	2.5 5	n.a.	Employer contribution as recommended by actuary each 3 years.
MMBW Superannuation	DB	up to 9	up to 26	The member contribution rate depends on age. Employer contribution is equal to twice that of members' plus an amount recommended by actuary.
MURLA	DB	8	19	Closed.

TABLE 4.1 cont.

Scheme	Defined Benefit or Accumulation	Contributions (% of Salary)		Comments
		Member	Employer	
Metropolitan Fire Brigades	DB	7	12	Fund is currently running an actuarial deficit. (\$365M at June 1982 Valuation)
Parliamentary	DB	11.5	n.a. (Estimated to be 113)	Employer contribution has been estimated using private sector funding techniques.
Pilot Service Staff	AC	5	10	Set up for new employees and those whose accounts have exceeded the \$50,000 limit in the Port Phillip Pilots Staff Life Assurance and Pension Scheme.
Port of Geelong	AC	5	8.75	Different employee rates apply if the person commences at less than forty-five years of age.
Port Phillip Pilots Sick and Superannuation	DB	0	n.a. (Est. to be 32)	Contributions are paid from gross pilotage. Currently this is 12.5% of pilotage which is approximately 32% of Pilots' remuneration.
State Bank	DB	6	12	
SEC Employees	DB	3.25	6.5	
Supreme Court Associates	AC	2.5	6.25	Fund is managed by the Public Trustee.
Tobacco Leaf Marketing Board	AC	5	10	
TAB	DB	5	16	

TABLE 4.1 concl.

Name of Scheme	Defined Benefit or Accumulation	Contributions (% of Salary)		Comments
		Member	Employer	
Vic. Dried Fruits Board	AC	5	7.5	
Westgate (CML)	DB	2.5 4	8.75 7.25	Class One - (2.5%, 8.75%) Class Two - (4%, 7.25%) Scheme closed to new members.
Westgate (NMLA)	DB	4 0	14.8 1.3	
Zoo	DB	5 6.25	10.6	Union - (5%) Staff - (6.25%)
Port Phillip Pilots Life Assurance	AC	5	10	Operated through Friendly Society. Limit of \$50000 - when reached, employee transfers to the Pilot Service Staff scheme.

n.a. Not available

Three of the accumulation schemes are managed by the Public Trustee. These schemes are those of the Supreme Court Associates, County Court Associates and the Legal Aid Committee. The last of these schemes is, to all intents and purposes, a closed scheme which will slowly disappear. One of the remaining accumulation schemes, the Vic. Dried Fruits Board scheme has only one contributor and assets of only \$29,000 (at September 1982).

THUS THE OVERALL PICTURE IS THAT ACCUMULATION SCHEMES ARE RELATIVELY FEW IN NUMBER, THEY ARE MINOR IN TERMS OF BOTH CONTRIBUTORS AND ASSETS AND THEY ARE A DECLINING INFLUENCE IN VICTORIAN PUBLIC SECTOR SUPERANNUATION.

Ten of the larger schemes - which for the purposes of this report are taken to be those with investments of over \$1 million - are funded, though one of these, the Metropolitan Fire Brigades' scheme, has chronically been in deficit.

Two other schemes that are almost fully funded are:

- (a) the SEC Superannuation scheme; and
- (b) the Gas and Fuel Corporation scheme.

These are covered later.

Despite the intention that all benefits be funded - which is the basis of the funding definition adopted in this report - a scheme may have a considerable actuarial deficit.

An actuarial deficit occurs when the present value of expected future outgoings of the fund exceeds the amount of the fund plus the present value of expected ingoings. This calculation is made during actuarial reviews and unless an actuarial deficit has occurred because of extraordinary circumstances the normal remedy involves increasing the employer's contribution.

Metropolitan Fire Brigades' Scheme

One scheme, that has chronically been in deficit (\$200.5 million at 1979 valuation and \$364 million at the 1982 valuation) is the Metropolitan Fire Brigades' scheme. This result seems to have been mostly attributable to granting benefits out of proportion to the contributions that could be set. According to Mr. Fisk, President of the Metropolitan Fire Brigades (MFB):

"When the scheme came into operation the Fire Brigade Board advised the Government of the day that introduction of the Act would produce the result we are now looking at, of a severe deficit. We believed the provisions at the time were over generous and the contributions at the time were inadequate to take care of the benefits. We made that very strong point but were over-ridden because of proposed strike action."⁽⁶⁾

In fact the scheme was in deficit right from its commencement in 1976 when funds were transferred from an old scheme. Information in the 1980-81 annual report of the scheme shows that as at 30 June 1975 the estimated deficit was \$59 million without including pension updating and \$180 million including the cost of pension updating. This demonstrates the considerable cost that pension updating imposes on a scheme and because no action was taken to offset the initial deficit, either by way of a one off injection of funds or by payment of additional employer contributions over a suitable period, how the deficit has increased in the meantime.

A reasonable assessment of the scheme over time is difficult given the fluctuating assumptions used by the actuary, Mr. V.H. Arnold. In a 1975 valuation of the previous scheme the rather pessimistic assumption was made that interest earned on the fund would be 5% less than the increase in salaries. Then, in the valuation as at 30 June 1979, it was assumed that the rate of interest would be 10% and the rates of increase of both salaries and pension would be 9%. While this at least shows a positive interest differential over salaries (of 1%) and is therefore more in accordance with accepted actuarial practice, the assumption that the rate of increase in pensions will be as great as the rate of increase in salaries, is somewhat harsh, and would add to the estimated deficit (compared with the State Bank scheme's valuation

which uses the following assumptions : interest 10%, salary growth 8%, and pension updating 6%). In the 1979 valuation, the actuary hinted that:

"... with increases in interest rates which are occurring it may be possible to assume a greater difference between the interest rate to be earned and the increase in salaries, in the next valuation as at 30 June 1982. This could lead to a significant reduction in the deficit."(7)

However, the experience of the scheme over the three years to June 1982 did not justify any change. In the latest valuation Mr. Arnold reports that on the basis of the same interest and salary and pension growth rates the actuarial deficit as at June 1982 was \$364.6 million. The increased deficit is attributed to the considerable increase in salaries over the period (16.6% per annum) and the poor investment receipts of the fund.

Mr. Arnold also presents the results of a valuation based on an interest rate to salary margin of 2.75%. This 'softer' option is in response to the moderate salary growth observed in the year after the valuation date (i.e. 1982-83). The interest rate to salary margin is adapted from the coupon rate of index linked securities recently issued by the SEC. Again, the valuation involves holding salary growth down to the same level as pension updating (i.e. the CPI), which the Committee feels is hard to justify. The greater interest to salary margin reduces the deficit to \$198 million. If pension updating was assumed to be less than salary growth, and no other factors were changed, the deficit would be less than this amount but by no means would it be eliminated.

THE COMMITTEE IS CONCERNED OVER THE DIVERSE RANGE OF ASSUMPTIONS CHOSEN BY ACTUARIES IN VALUING EXPECTED FUTURE OUTGOINGS AND INGOINGS OF THE VARIOUS SCHEMES. THE COMMITTEE BELIEVES THERE NEEDS TO BE FURTHER INVESTIGATION OF THIS ISSUE.

The massive growth in the liability of the scheme means that sooner or later government intervention will be necessary to ensure benefit payments can be met. According to Mr. Connolly, a members' representative on the board, this has been the understanding of the members since the establishment of the scheme:

"MR CONNOLLY: We are happy with the way in which it is funded at present.

THE CHAIRMAN: Is that because you believe the Government will come to the party at some point when it is required?

MR CONNOLLY: We have always had that in the backs of our minds.

THE CHAIRMAN: As a board member?

MR CONNOLLY: Yes, we were led to believe that."(8)

THE COMMITTEE IS CONCERNED THAT NOTHING HAS BEEN DONE TO RAISE CONTRIBUTION RATES TO HELP BRIDGE THE DEFICIT. ONE HURDLE TO SETTING A FULLY FUNDED CONTRIBUTION RATE IS THAT THE EMPLOYER'S CONTRIBUTION IS RESTRICTED BY LEGISLATION TO A MAXIMUM OF 13%. GIVEN THE EXPECTATION THAT THE FUND WOULD RUN INTO A DEFICIT THE COMMITTEE IS SURPRISED THAT THE EMPLOYER CONTRIBUTION RATE WAS NOT AT LEAST RAISED TO 13%. THE FAILURE TO DO EVEN THIS WAS ATTRIBUTED TO THE GOVERNMENT BY THE CHAIRMAN OF THE SCHEME MR. JOHN RYDER WHO STATED THAT : "BASICALLY IT IS GOVERNMENT POLICY."(9)

THIS SEEMS TO CONTRADICT THE RECOMMENDATION OF MR ARNOLD IN THE JUNE 1979 VALUATION TO THE EFFECT THAT EMPLOYER AND EMPLOYEE CONTRIBUTIONS REMAIN UNALTERED, I.E. THAT IT WAS THE ACTUARY'S ADVICE NOT GOVERNMENT POLICY THAT LED TO THE RETENTION OF AN EMPLOYER CONTRIBUTION RATE OF 12%.

The growth in the Metropolitan Fire Brigades' scheme's deficit between the 1979 and 1982 valuations seems to have prompted Mr Arnold to recommend a partial solution. Although not spelt out clearly it is based on setting a contribution rate that would fund future benefits, i.e. it assumes there is no deficit for past service. Based on the more optimistic 2.75% valuation the total new entrant contribution rate would be 28% of salary making the employer contribution rate 21%. This was estimated to give a slight surplus by the time of the next valuation in 1985 but would eventually need to be

augmented by an annual PAYG subsidy. This proposal would formally recognize what has effectively been the case from the outset, viz., that the scheme is only partly funded. It has been included in this section to demonstrate the types of problems that a funded scheme can run into if benefits are allowed to get significantly out of line with contributions.

FOR AN ORGANISATION THAT IS DEPENDENT ON LEVIES ON CURRENT FIRE INSURANCE PREMIUMS FOR A SUBSTANTIAL PART OF ITS BUDGET THE COMMITTEE CONSIDERS THAT IT WOULD BE UNACCEPTABLE FOR THIS SITUATION TO CONTINUE.

City of Melbourne Officers' Scheme

Whilst an actuarial deficit constrains a scheme, an actuarial surplus can be used to bolster benefits and/or reduce the employer contribution in subsequent periods. An example of the use of an actuarial surplus to bolster benefits can be found in the City of Melbourne Officers' scheme. In this scheme there is no provision for indexation of pensions. Instead actuarial surpluses are used to provide whatever updating that the trustees, acting on the advice of the actuary, think can be afforded. According to evidence given by representatives of the scheme at a public hearing on 27 July 1983, this has resulted in updating being about half the rise in the Consumer Price Index. The practice of discretionary adjustments to pensions is also practised by the Gas and Fuel Corporation scheme and is reminiscent of private sector practices.

Parliamentary Scheme

One other funded scheme in the large category (greater than \$1 million) of particular importance is the Parliamentary scheme. The cost of funding this scheme is considerable in relation to members salaries but small in absolute terms. Members of the scheme pay 11.5% of their salary which is the highest member contribution rate of all schemes. The employer's contribution is also the highest by a wide margin. In the most recent actuarial report on the fund the Government Statist and Actuary recommended an employer contribution of \$4.9 million per year. In 1981-82 this represented some 72% of Parliamentarians' salaries. However, the method of calculating the employee

contribution requires that the actuary estimates a flat amount sufficient to pay for benefits over a 25 year period. If the calculation was done on the normal private sector basis by estimating the percentage of current members salaries needed to fund expected benefit payments over the expected duration of a politician's stay in office, (which would be less than 25 years) the employer contribution would be 113%.

Port Phillip Pilots' Sick and Superannuation Scheme

One of the smaller funded schemes that is noteworthy is the Port Phillip Pilots Sick and Superannuation scheme. This scheme is funded entirely by a portion of gross pilotage revenue - members do not contribute at all and it is therefore non-contributory in the normal sense. This arrangement was explained by Mr. Wagglan, Chairman of the Marine Board and Chairman of the scheme:

"The Marine Board fixes the number of the pilots' complement. It fixes the pilots' remuneration and it fixes the rates that are paid by the shipping industry. The collection of pilotage is subject to statutory deduction; 4% is paid into Consolidated Revenue and 12.5% is paid into the Pilot Superannuation Scheme. The balance after those deductions are paid to the pilot service to run its own affairs."(10)

Mr Wagglan emphasised that the scheme was non contributory -

"... My understanding of a contributory scheme is something that reduces one's gross salary and if that is the definition of a contributory scheme then the Pilots' scheme would not be a contributory scheme because it does not affect their remuneration."(11)

Mr. Wagglan's definition is in accordance with accepted practice. However, his opinion was not shared by Captain Taylor, a Pilots' representative on the Superannuation Board. Captain Taylor argued that the scheme could be said to be contributory in as much as the pilots "earn the money by piloting the ships."(12) This argument could be countered if, in the absence of superannuation, the overall cost of employing pilots was less and hence the rate of pilotage was less. However, it is likely that pilots could command a higher salary if there was no superannuation and therefore, that by foregoing

some salary, the scheme is contributory. This is an arbitrary definition and would mean that all schemes would have to be considered to be contributory. The Committee prefers the normal definition of contributory which means that the employee pays a portion of his/her salary into a fund.

4.1.6 Victorian PAYG Schemes

There are nine schemes in the Victorian public sector which finance all benefits on a PAYG basis. These are listed in Table 4.2. Two of these are in fact gratuity schemes, i.e. the MTA Gratuities scheme and the City of Melbourne Gratuities scheme.

The gratuity schemes are non-contributory, i.e. persons covered do not contribute -and they are financed by the employing authorities on a PAYG basis. This is normal for gratuity schemes. The MTA Gratuities scheme is a carryover from the Melbourne and Metropolitan Tramways Board.

Pensions under the Judges', Governor, Chairman General Sessions and the Mint schemes are paid entirely from the Consolidated Fund and are therefore also non contributory.

Port of Melbourne Authority Scheme

The remaining PAYG scheme is the Port of Melbourne Authority (PMA) scheme. The Port of Melbourne Authority scheme is most unusual in that although members of the scheme make contributions, the funds are retained in the working finances of the PMA and only a notional credit is made to the superannuation fund. Mr. A.S. Mayne, Chairman of the PMA explains:

"There is the Port of Melbourne Authority Fund which is structured so that members' contributions are credited to a special account in the books of the Port of Melbourne Authority and retained for use in the Port of Melbourne Authority operations.

The special account, called the Port of Melbourne Authority Superannuation Account is credited with interest each quarter at the greater of 3.75% per annum or the average interest rate obtained by the

TABLE 4.2

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES -
PAYG SCHEMES

Scheme	Defined Benefit or Accumulation	Contributions (% of Salary)		Comments
		Member	Employer	
Chairman General Sessions	DB	-	n.a.	Pensions paid from Consolidated Fund.
City of Melbourne Gratuities	DB	-	n.a.	
Coal Mine	DB	-	n.a.	Pensions paid from Consolidated Fund. Closed scheme.
Governor's Pension	DB	-	n.a.	Pensions paid from Consolidated Fund.
Judges - County Court Judges - Supreme Court	DB	-	n.a.	Pensions paid from Consolidated Fund.
MTA Gratuities	DB	-	n.a.	Previously the Melbourne and Metropolitan Tramways Board Retiring and Death Gratuities Scheme.
Mint	DB	-	n.a.	Pensions paid from Consolidated Fund.
Police Pensions	DB	n.a.	n.a.	Closed scheme.
Port of Melbourne Authority	DB	up to 9	n.a.	Five sevenths of benefits and any shortfall are paid by the Port of Melbourne Authority. Member's contributions credited to a notional account.

n.a. Not Available

State Superannuation Board in respect of its investment of the superannuation fund for the financial year ending in the preceding calendar year. That is 10.8%. That is the position of the scheme. The money is used in the running of the port authority. We do not credit the amount until it is actually paid out."(13)

There are therefore no assets to back the liabilities of the scheme and benefits are paid entirely out of current revenue.

THE COMMITTEE CONSIDERS THAT THIS IS AN INAPPROPRIATE FINANCIAL ARRANGEMENT FOR A STATUTORY, COMMERCIAL ORGANISATION.

Furthermore, this arrangement does not seem to have the full support of the contributors. This is evident from the comment of Mr. D. Taplin, contributor representative:

"The feeling of the people that have some communication are that they would be happier with the Port of Melbourne Authority Fund paying their portion of the pension which is attributed each year at the time they are due. In other words, this would mean the Port of Melbourne Authority Fund would need a proper investment and finance budget to accommodate this. I refer to a cash management scheme or some such thing.

The Port of Melbourne Authority Fund makes no contribution for contributors' portions until the contributor retires and this is of some worry to me personally."(14)

Although there is some confusion in this statement it appears that Mr Taplin, as a contributor representative, would be happier if there was a funded scheme.

In a notional sense, the majority of the cost of providing superannuation benefits is met by the Port of Melbourne Authority Fund and only a small portion is met by the Superannuation Account. Figures supplied to the

Committee show that the overall cost of superannuation benefits is apportioned 80% to the former and 20% to the latter.

4.1.7 Victorian Partly Funded Schemes.

There are seven partly funded superannuation schemes in the Victorian public sector and details on these are contained in Table 4.3. By partly funded it is meant that not all benefits are funded or conversely that some benefits are paid for on a PAYG basis. This definition excludes schemes that are funded in principle but that are currently running an actuarial deficit (e.g. Metropolitan Fire Brigades' scheme). It is also a little different from the less rigorous definition that is sometimes used which treats as funded any scheme which funds all benefits except pension updating.

The Gas and Fuel Corporation scheme and the SEC Superannuation scheme

The Gas and Fuel Corporation scheme and the SEC Superannuation scheme are mostly funded - only the indexation adjustments to pensions are paid on a PAYG basis. For the Gas and Fuel Corporation scheme the cost of pension adjustments is very small. This is because pensions are fully commutable, most people commute, indexation adjustments may only partly compensate for cost of living rises and there are very few pensioners. For most intents and purposes then, this scheme could be thought of as being funded.

The cost of indexing pensions is much higher for the SEC Superannuation scheme. This scheme offers a fully indexed (to CPI) pension of which up to 50% may be commuted. Pension adjustments are financed on a PAYG basis and, according to Mr. Trethowan, Chairman of the scheme and of the SECV, and Mr Harcourt Secretary of the scheme, they would be costly to fund:

"MR TRETHOWAN: We do not fund the CPI adjustment in our scheme, that is paid on an annual basis by the Commission. It is guaranteed by the Commission and I think that if you funded that it would mean a tremendous increase in the amount of funding coming from the Commission.

TABLE 4.3

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES -
MOSTLY OR PARTLY FUNDED SCHEMES

Scheme	Defined Benefit or Accumulation	Contributions (% of Salary)		Comments
		Member	Employer	
Gas and Fuel Corporation	DB	6	12	Pension adjustments are PAYG. This is a minor expense in practice hence scheme is virtually funded.
Hospitals	DB	3.5 2.5	5 or 6 3.91	Lump sum Pension. Lump sum is mostly funded. The remaining benefits are PAYG on three year basis.
Local Authorities	DB	6	Mostly 8.29	The minimum lump sum provision is unfunded. Balance of benefits are PAYG on a three year basis. The scheme retains elements of an endowment assurance plan.
SEC Superannuation	DB	6.5	16.3	3.3% of employer contribution is an extra amount needed to stabilise the fund. Pension indexation PAYG.
SERB	DB	3.5	7.62	The 7.62% is an amount determined by the actuary to meet outgoings on a three yearly basis. The member contribution rate depends on age.
State Superannuation	DB	up to 9	n.a.	Members' contribution rate depends on salary. The Government's contribution in 1981-82 was \$159.3 million.
Superannuation Lump Sum	AC	5	n.a.	The employer's amount is that necessary to pay current benefits.

n.a. Not Available

MR HARCOURT: That is so. I am not sure if it gets up to 30%, but it makes a substantial difference."(15)

Presently the employer contribution is made up of a 13% basic rate plus an 'additional' contribution of 3.3% which is required to stabilise the fund, i.e. 16.3% in total. If the fully funded contribution rate was 30% as Mr. Harcourt estimates, the very substantial cost of funding indexation adjustments becomes apparent.

NEVERTHELESS, THE COMMITTEE BELIEVES IT IS INAPPROPRIATE FOR A STATUTORY BODY AND ESPECIALLY SUCH A COMMERCIALY ORIENTED ONE AS THE SEC, NOT TO FUND ALL OF THE BENEFITS OFFERED BY ITS SUPERANNUATION SCHEMES.

State Superannuation and Superannuation Lump Sum schemes

On most criteria the State Superannuation scheme is by far the most important of the Victorian public sector schemes. Consequently, the whole of Section 4.2 is devoted to the funding arrangements for that scheme.

The Superannuation Lump Sum scheme is administered by the State Superannuation Board. This scheme is an accumulation scheme with a difference. Members pay a contribution of 5% of salary which is paid into an account and accumulated with interest. What is unusual about the scheme, at least so far as accumulation schemes go, is that the employer's share of benefits is financed on a PAYG basis. The total retirement benefit is equal to 2.5 times the member's accumulated contributions with interest, and the employers share of this (i.e. the 1.5 times component) is paid from the Consolidated Fund immediately prior to payment of the full lump sum to the retiring member. It was mentioned earlier in this Chapter that accumulation schemes were, by definition, funded. This scheme is an exception which demonstrates the flexibility that governments have in paying for superannuation schemes.

SERB, Local Authorities' and Hospitals' Schemes

The superannuation schemes for Hospitals', Local Authorities' and SERB have been shown to have similar benefits. Therefore, one would expect that the costs of these schemes would be similar in normal circumstances. The contributions listed in table 4.4 show this to be basically the case.

TABLE 4.4

CONTRIBUTIONS FOR SERB, LOCAL AUTHORITIES' AND HOSPITALS'
(% of Salary)

Benefit	<u>Employee</u>			<u>Employer</u>		
	Local Authorities'	Hospitals'	SERB	Local Authorities'	Hospitals'	SERB
Lump Sum	3.5	3.5	↑	3.5	3.5	↑
Addition for Lump Sum (a)			3.5 to 6.0	0.95	0.5 (1.0)	7.62
Disability			↓	1.25		↓
Pension	0 to 2.5	0 to 2.5		2.59	3.91	
Total	3.5 to 6.0	3.5 to 6.0	3.5 to 6.0	8.29	7.91 (8.41)	7.62

Notes: (a) Higher rate applies to Class B Institutions, i.e. Private Institutions.

In these schemes members pay contributions ranging between 3.5% for employees receiving the minimum wage or less, up to 6% for those receiving at least $1\frac{1}{2}$ times the minimum wage.

In SERB, the employer contribution is determined by an actuary on a PAYG basis for three years at a time. In the Hospitals and Local Authorities schemes the employers pay contributions for lump sum benefits partly on a funded basis and partly PAYG. In both schemes the employer contributions for pensions are made on a PAYG basis. As for SERB, PAYG requirements are determined on a three year basis.

In the case of SERB the Committee has been informed that this means that members contributions cover roughly half of the lump sum benefit and the employer's contribution picks up the other half of the lump sum, the pension and administrative costs. This arrangement means that the scheme is not really funded in the true sense, but is partly a PAYG scheme based on a three year period instead of a one year period. However, the existence of an investment fund accumulated primarily from members' contributions means that some of the accruing liabilities of the scheme are covered and therefore it is regarded as partly funded.

The current employer contribution rate for SERB is 7.62% of salary which, it was hoped, would meet current costs and eventually recompense the fund for the payment of retrospective benefits that were promised to existing employees when the scheme commenced. Members' contributions have been used to offset this deficiency and interest at the overdraft rate of 15% has consequently been allowed on those funds. Also the Committee has been informed that in 1982-83 the Treasurer instructed all organisations who are dependent on budget appropriations for their revenue to cease paying the employer contribution to SERB and instead to incur an interest penalty on their accruing liabilities. The object was, apparently, to achieve short term budgetary savings.

THE INSTRUCTION TO WITHHOLD EMPLOYER CONTRIBUTIONS TO SERB IS STILL IN FORCE, AND THOUGH IT EFFECTIVELY EQUATES TO THE HOLDING OF A STATE GOVERNMENT SECURITY, THE COMMITTEE IS

MOST CONCERNED THAT MEMBERS' CONTRIBUTIONS AND INTEREST ARE NOT FULLY COVERED BY NORMAL INVESTMENTS.

IF THIS NEW ARRANGEMENT CONTINUES THE ACCRUING LIABILITIES OF CONTRIBUTING ORGANISATIONS COULD BECOME SO LARGE AS TO JEOPARDIZE ANY CHANCE OF RETURNING TO THE PREVIOUS CONTRIBUTORY ARRANGEMENT.

The SERB scheme covers a number of contributing organisations some of which are of a commercial or semi-commercial nature. It is always difficult to draw the line between commercially oriented public sector organisations and those that are more of a public service. One commercial organisation covered by SERB is the Grain Elevators Board (GEB). The fact that the GEB is now required to pay a public authority dividend is evidence of that, and it would be appropriate if all of its employees were covered by funded superannuation schemes, so that it would be incurring the full cost of superannuation liabilities as they accrue. Similarly, the Geelong Waterworks and Sewerage Trust by having some of its employees covered by SERB would not be bearing the full cost of accruing liabilities in their charges.

The financial arrangements for the Local Authorities' and the Hospitals' scheme are similar. In both schemes the lump sum benefit is mostly funded by employee and employer contributions of 3.5% of salary (total 7%). In the Local Authorities' scheme, these contributions form part of an endowment assurance plan which, in layman's terms, means that the contributions will purchase an assured sum at retirement age. If the earnings of the fund allow, bonuses on top of the assured sum may be paid. Grafted onto this is a guaranteed minimum lump sum based on years of service and the result is an exceedingly complex scheme. If the assured sum and bonuses is less than the minimum the difference is made up from amounts provided by employer contributions. Currently this is 0.95% of salary. The pension is financed by employee contributions of 2.5% of salary and the balance of the cost is met by employer's contributions, currently running at 2.59% of salary. Disability benefits are financed by an employer contribution of 1.75% of salary. The employer's contributions for supplementing the minimum lump sum, for the pension and for disability are determined by an actuary to meet expected costs

over a three year period, i.e. most of the employers' obligations are met on a PAYG basis.

A recent actuarial review of the Benefit Contracts Account, which covers lump sum benefits, revealed a surplus of \$19.6 million as at 28 February 1982. The majority of this surplus was used to increase the guaranteed minimum lump sum with the balance being allocated to paying bonuses. That the minimum lump sum contribution should be retained when actuarial surpluses accrue in the lump sum account and are used to raise the guaranteed minimum benefit is confusing and seems contradictory. This is the result of grafting a defined benefit scheme (i.e a portion of final salary for each year of service) onto an accumulation scheme. It would be far simpler and more comprehensible if the lump sum was a defined benefit only and the employer paid one rate sufficient to fund that benefit.

THE COMMITTEE BELIEVES THAT THE FINANCIAL ARRANGEMENTS FOR THE LOCAL AUTHORITIES' SCHEME ARE OVERLY COMPLICATED, ESPECIALLY AS A RESULT OF THE MAINTENANCE OF ELEMENTS OF AN ENDOWMENT ASSURANCE IN THE SCHEME, AND THAT THEY MUST BE QUITE BEYOND THE COMPREHENSION OF LAY PERSONS SUCH AS CONTRIBUTORS TO THE SCHEME. THE CONTINUED USE OF ENDOWMENT ASSURANCE IS AT VARIANCE WITH ACCEPTED PRACTICE IN THE SUPERANNUATION INDUSTRY, LARGELY BECAUSE OF THE INHERENT UNCERTAINTY ABOUT FINAL BENEFITS.

When questioned as to why the Local Authorities' Superannuation Board had not acted to remove the endowment assurance element in the lump sum benefit, Mr Weaven, Municipal Officers Association nominee to the Board and Mr V.H. Arnold, Actuary to the Board replied :

"MR WEAVEN: We do not have any reasons to do that. If someone could suggest why we should do that, we would consider it.

MR ARNOLD: There needs to be a trigger. At present no one is for it and no one is against it."(16)

GIVEN THE COMPLEXITIES OF THE SCHEME'S FINANCES, THE COMMITTEE IS NOT SURPRISED THAT STIMULUS FOR CHANGE HAS NOT COME FROM WITHIN THE MEMBERSHIP. THE COMMITTEE IS ALSO SURPRISED THAT MANAGEMENT ARE APPARENTLY UNCONCERNED WITH MAINTAINING THESE ENDOWMENT ASPECTS.

The Local Authorities' scheme covers about 600 organisations including local councils, cemetery trusts, waterworks trusts, sewerage trusts and other miscellaneous authorities. Many of these are dependent for a substantial part of their revenue on property rates and, because the scheme is not fully funded they are not incurring the liabilities for superannuation as they accrue. Hence, future ratepayers will be required to pay some of the benefits promised to today's local authority employees.

In the Hospitals' scheme, the extra employer contribution needed to pay for lump sums at the moment is 1% of salary for Class B institutions (i.e. private institutions) and 0.5% for other institutions. The pension benefit is financed by employee contributions of up to 2.5% and an employer contribution of 3.91% for the current period. As for the Local Authorities' scheme the employer's contributions are set to pay the balance of the lump sum and pension benefits payments within the triennial valuation period. No separate disability contribution is paid.

ONE UNUSUAL CHARACTERISTIC OF THE HOSPITALS' SCHEME IS THAT TWO ACTUARIES ARE USED IN THE VALUATION PROCESS. E.S. KNIGHT & CO. ARE CONTRACTED TO REVIEW THE LUMP SUM BENEFIT AND V.H. ARNOLD IS THE ACTUARY FOR THE PENSION PART. THE ADVANTAGES OF DOING THIS ARE NOT APPARENT AND IT ONLY SERVES TO FURTHER HIGHLIGHT THE DISPARATE ARRANGEMENTS THAT SCHEMES IN THE PUBLIC SECTOR HAVE BEEN ALLOWED TO DEVELOP. THIS ARRANGEMENT MUST BE MORE COSTLY THAN HAVING ONE ACTUARY TO UNDERTAKE THE VALUATIONS FOR THE ENTIRE SCHEME. THE COMMITTEE NOTES THAT THE FEES FOR UNDERTAKING THE LATEST TRIENNIAL INVESTIGATION INCLUDED PAYMENTS IN 1982-83 OF \$11,030 TO V.H. ARNOLD AND \$7,027 TO E.S. KNIGHT AND CO., I.E. A TOTAL OF \$18,057.

4.2.1 Financing the Scheme.

It was originally intended that 2/7ths of the benefits provided by the State Superannuation scheme would be paid by members and 5/7ths was to be paid by the Government. Members' contributions are paid into the State Superannuation Fund where they earn investment income whereas the Government meets its share of benefits on a PAYG basis. Under the unit system the member's contribution could rise dramatically late in a person's working life. This happened when a salary rise was granted such that there was only a short time before retirement in which to finance the extra units of pension entitlement that the salary rise produced. The effect was sometimes to reduce take home pay after a salary rise. To amend this a ceiling of 9% was placed on the member's contribution and now the Consolidated Fund is charged with any benefit payment shortfall that results. Together with the effect of the generous early retirement benefit now offered at age 60, the result is that the Government share of benefit payments is substantially greater than 5/7ths for current retirees.

THE COMMITTEE BELIEVES THAT UNIT SYSTEM SUPERANNUATION SCHEMES ARE NO LONGER APPROPRIATE AND OVERDUE FOR REFORM.

The Government reimburses the Superannuation Fund for its share of pensions by payment from the Consolidated Fund. Similarly the Government pays its share of the costs of updating pensions (i.e. indexation) by payment from the Consolidated Fund to a fund called the Pensions Supplementation Fund. Thus, all of the Government's share of benefit payments is financed on a PAYG basis. For the majority of members of the State Superannuation scheme, employing authorities are not charged for the employer's costs of superannuation. Hence there is no mechanism for assuring accountability. There are exceptions to this rule and they are discussed later.

The arrangement for cash options - the lump sum created by commutation of up to 30% of the pension - is a little different. Lump sum payments are made from the Superannuation Fund as are pension payments. However, the

Government does not generally pay its share of the lump sum payment immediately. Instead the Government continues to make payments into the Superannuation Fund in respect of that part of the base (i.e. unindexed) pension that has been converted as if no conversion had been made.

With respect to this arrangement the Fund's actuaries Messrs. V.H. Arnold and J.M. Ryder have noted in the most recent actuarial review of the fund that:

"In effect the Act provides that the fund purchases an annuity, part of which is payable by the Treasury The interest rate used in these calculations is 6%. Thus the board is investing its funds at 6% at a time when it can earn in excess of 15% on semi-Government loans. Obviously distortions are resulting from these transactions and the matter needs urgent attention."(17)

Little further information is provided in the actuarial report or in the latest annual report to explain this arrangement. The matter is confounded by the fact that the Consolidated Fund does not explicitly make any interest payments at all. What happens is that the Superannuation Fund, in determining the commuted lump sum, has used an implicit earning rate of 6%. Thus the lump sum they offer in exchange for the commuted portion of pension is calculated as if the expected stream of pension payments from the Consolidated Fund would refund the capital and give a return of 6%. The 6% rate of interest was struck by the State Superannuation Board in 1966. Whilst it reflected market returns at the time it is by anybody's standards well below current market rates.

Notwithstanding this state of affairs, a recent amendment to the Pension Supplementation Act will mean that the Consolidated Fund will pay indexation adjustments on the Government's share of the commuted pension (as from 1 January 1983). This will greatly increase the revenue to the State Superannuation Fund on the amounts advanced for commutation purposes.

4.2.2 Long Term Costs of the State Superannuation Scheme

4.2.2.1 The Need for Regular Actuarial Reviews

The State Superannuation scheme is valued by the actuaries at three yearly intervals. Such valuations however apply only to that part of the scheme for which assets are accumulated, i.e. the members' share. Furthermore the valuation currently relates only to the dollar values of pension units and has no regard to pension indexation. On this basis, the present processes give rise to a substantial surplus (\$157.3 million at 30 June 1980) which is available for and is used from year to year in indexing the members' share of pensions (\$23.9 million for the year to 30 June 1982). In the latest actuarial report on the Superannuation Fund the joint actuaries (Messrs. V.H. Arnold & J.M. Ryder) warn of the danger of continually relying on the existence of a surplus to finance this liability. They make the following recommendation:

"At present the Supplementation Act does not require any report by the Actuary, but since the expenditure on pension updating via the Supplementation Act by the transfer of surplus from the Superannuation Fund, is a major source of outgo of funds, it is recommended that the actuary should be required to include in his report under Section 10 of the Superannuation Act a reference to the operations of the Supplementation Act."(18)

THE COMMITTEE REGARDS THIS REFORM AS LONG OVERDUE. IN ITS ABSENCE THE INFORMATION PRODUCED BY THREE YEARLY ACTUARIAL INVESTIGATIONS IS MEANINGLESS.

THE COMMITTEE GOES FURTHER IN SAYING THAT REGULAR ACTUARIAL REVIEWS SHOULD BE UNDERTAKEN FOR THE ENTIRE SCHEME, NOT JUST FOR THE PART OF THE BENEFITS BORNE BY EMPLOYEE CONTRIBUTIONS. THE PRESENT ARRANGEMENT MEANS THAT NO ESTIMATES ARE MADE OF THE ACCRUING LIABILITY TO GOVERNMENT OF CONTINUING TO PROVIDE SUPERANNUATION BENEFITS NOR IS THERE ANY FORMAL MECHANISM TO GAUGE THE LONG TERM COST OF CHANGES TO BENEFITS OR OF EXPECTED DEVELOPMENTS IN PUBLIC SECTOR EMPLOYMENT OR FINANCIAL

INFLUENCES (E.G. SALARIES). THE COMMITTEE IS DISAPPOINTED THAT SUCH A SUGGESTION HAS NOT BEEN MADE ALREADY BY THE JOINT ACTUARIES.

4.2.2.2 Cost to the Consolidated Fund

Concern about the long term costs of the scheme was heightened by the rapidly increasing cost to the Consolidated Fund which followed the amendments to the scheme in 1975.

AS THE ESTIMATES IN TABLE 4.5 SHOW, THE COST TO THE CONSOLIDATED FUND MORE THAN DOUBLED IN THE THREE YEARS TO 1977-78 (\$34.7 MILLION TO \$80.4 MILLION). IT HAD ALMOST DOUBLED AGAIN IN THE FOUR YEARS TO 1981-82 (\$155.9 MILLION) AND WAS CONTINUING TO GROW STRONGLY - IN BOTH REAL AND NOMINAL TERMS. THE DATA SHOW THAT FROM 1974-75 TO 1982-83 THE INCREASE WAS 142% IN REAL TERMS AND 447% IN NOMINAL TERMS.

To put the cost into perspective it has been expressed as a percentage of both the total State budget and State Government salaries. Thus, as a percentage of budget, the cost is shown to be a quite small amount. Nevertheless it is shown to have risen continuously from 1.64% in 1974-75 to 2.94% in 1980-81. However, it has been relatively steady at around 2.7% to 2.9% from 1978-79 to the projected 1983-84 figure. What this disguises is that the State budget was also increasing at a substantial rate.

THE COST TO THE CONSOLIDATED FUND EXPRESSED AS A PERCENTAGE OF TOTAL STATE GOVERNMENT SALARIES IS ALSO ILLUMINATING. THIS SHOWS A STEADY RISE FROM 4.12% IN 1974-75 TO 7.95% IN 1981-82, THEN, AS A RESULT OF THE SLOWDOWN IN GROWTH OF SALARIES BECAUSE OF THE 'WAGE PAUSE', SIGNIFICANT LEAPS IN 1982-83 AND 1983-84 (EXPECTED).

Care must be taken in interpreting these figures because total State Government salaries do not correspond to the sum of the salaries of contributors to the scheme. Changes in the coverage of the scheme, for instance, will have influenced the observed trends. More importantly, total

State Government salaries is the greater of the two amounts, hence the figures in Table 4.4 will be understating cost as a percentage of contributors' salaries. At the times of actuarial valuations of the fund the actuaries to the scheme have calculated such figures. Unfortunately this means that a continuous series of figures is not available but estimates for 1976-77 (7.4%) and 1979-80 (9.0%), as would be expected, are greater than the corresponding percentages of total State Government salaries.

TABLE 4.5
STATE SUPERANNUATION COSTS TO GOVERNMENT
1974-75 TO 1983-84

Financial Year	<u>Consolidated Fund Share of Pensions Including Supplementation</u>				
	Nominal	Real(a)	Percentage of		
	\$M		Total State Budget(b) %	Total State Salaries(c) %	Contributors' Salaries %
1974-75	34.7	63.9	1.64	4.12	n.a.
1975-76	47.8	78.0	1.86	4.65	n.a.
1976-77	64.3	91.7	2.18	5.44	7.6
1977-78	80.4	104.4	2.44	6.11	n.a.
1978-79	96.0	115.5	2.71	6.73	n.a.
1979-80	110.9	121.3	2.78	7.04	9.0
1980-81	131.6	131.6	2.94	7.61	n.a.
1981-82	155.9	141.2	2.85	7.95	n.a.
1982-83	189.8	154.7	2.84(d)	9.60	n.a.
1983-84(e)	223.1	n.a.	2.92(d)	11.00	n.a.

n.a. Not available.

Notes: (a) Deflated by CPI Melbourne, 1980-81 = 100.

(b) Based on total receipts of the Consolidated Fund.

(c) Based on the sum of departmental rates for 'Salaries and Payments in the Nature of Salary.' This will be greater than the sum of contributors' salaries, hence percentage figures will be less.

(d) Consolidated Fund receipts adjusted for the effect of revenue previously paid directly to the Trust Fund.

(e) Based on budget estimates.

Sources: Victorian Government Statist and Actuary.

Victoria, Department of Management and Budget, Estimates of Receipts and Payments of the Consolidated Fund, VGPS, Various Issues.

4.2.2.3 The Cook-Ryder Report

On 9 May 1980, the then Treasurer and Acting Premier, the Hon. Lindsay Thompson M.P., announced that a detailed investigation into the cost of the State Superannuation scheme was to be undertaken so as to ensure that commitments would be known at any point in the foreseeable future. Terms of reference were issued on 10 October 1980 which included the requirement:

"To make projections of the future cost to the Consolidated Fund of the continued operation of the existing schemes contained in those Acts (i.e. the State Superannuation Act, the Pensions Supplementation Act) ..."

Mr. Thompson commissioned Mr. B.D. Cook, a private consulting actuary, to undertake the investigation together with the Government Statist and Actuary, Mr. J.M. Ryder. When the Committee commenced this inquiry the 'Cook-Ryder' report was not complete. It was not until late January 1984, some three years and three months after the terms of reference were issued, that anything like a final result was achieved. The delay has clearly been attributable to the conflicting philosophies of the two actuaries. They have disagreed on such fundamental factors as the choice of methodology and assumptions re the underlying rates of increase of the number of members, members' salaries and pension updating. The result was two competing preliminary reports to the Treasurer, one by Mr. Ryder in November 1981 and one by Mr. Cook in December 1981. This was followed by a further draft report to the Treasurer by Mr. Cook in October 1982 but that report was not agreed to by Mr. Ryder.

In an attempt to break this deadlock, the Treasurer made certain proposals, the major one being that the Melbourne Institute of Applied Economic and Social Research (IAESR) would be asked to supply independent forecasts of rates of growth of a number of key variables (e.g. contributors, salary levels).

This Committee was sceptical that the Treasurer's proposals would result in a joint report being available by the time the Committee was due to report to Parliament. Consequently the Committee suggested to the Treasurer that the actuaries be asked to submit separate reports. This was done and the Committee received copies of those reports in early February 1984. Both

reports are amended versions of the drafts previously submitted to the Treasurer.

Whilst these reports show that agreement was reached between the two actuaries on salary, pension and contributor growth rates and that the IAESR forecasts were, more or less included, they are vastly different. The report submitted by Mr. Cook is entitled "Cook-Ryder Investigation Into Victorian State Superannuation Scheme" and is hereafter referred to as the Cook report. The Committee notes that the report includes substantial amendments by Mr. Ryder but that it has been signed only by Mr. Cook. The report presents results for the projected emerging cost to government, as well as addressing the other terms of reference. Also, Mr. Cook has calculated new entrant contribution rates for males and females for different ages, as if the scheme was funded, though these were not required by the terms of reference. As might be expected all of these results were calculated using appropriate computer programs.

As far as projections of emerging costs are concerned Mr. Ryder's report includes Mr. Cook's results and some results of his own. Unfortunately, Mr. Ryder's results bear little resemblance to Mr. Cook's computer projections. So confusing and indecipherable is Mr. Ryder's report that the Committee cannot readily determine whether his calculations have even been made using the same assumptions as those employed by Mr. Cook.

THE COMMITTEE FOUND MR. RYDER'S SEPARATE REPORT DECIDEDLY UNSATISFACTORY FOR THE FOLLOWING REASONS.

- (a) The terms of reference called for projections of future cost to the Consolidated Fund, but Mr. Ryder produced total costs including the employees' share. He did not attempt to separate the latter, which could be anywhere between 3% and 9% of salaries.
- (b) He adopted his own approximate projection methods which he claims to be sufficiently accurate. These could in the Committee's view have been validated against Mr. Cook's figures but were not. Such comparisons as were made suggested to the Committee that the approximations were far from satisfactory.

- (c) He cast substantial, and in the Committee's view, unreasonable doubt on projection processes. This is evident from comments in his report such as:

"lending themselves to supporting whatever you want them to support"; and

"complex formulae and elaborate computer programs, (which are so often just magical nonsense)".(19)

- (d) In a report dated 15 January 1984 most of the accounting information provided was for the year ending 30 June 1980. Substantial data was for year to 30 June 1977. He indicated to the Committee that to date figures were felt to be unnecessary.

GIVEN THE LONG TERM SIGNIFICANCE TO THE STATE OF THIS REPORT AND THE TIME TAKEN FOR ITS PRODUCTION THE COMMITTEE WOULD HAVE EXPECTED FROM THE GOVERNMENT STATIST AND ACTUARY A MORE THOROUGH ANALYSIS OF THE PROBLEMS AND A MUCH MORE INFORMATIVE PRESENTATION OF THE RESULTS. IN THE CIRCUMSTANCES THE COMMITTEE HAS HAD TO RELY ON MR. COOK'S REPORT IN MAKING THE FOLLOWING COMMENTS AND IN REACHING ITS CONCLUSIONS.

The Cook report is reproduced in Appendix G. Copies of the Ryder report are available from the Committee.

4.2.2.4 Cost Projections for the State Superannuation scheme

In his report Mr. Cook has made twelve projections of emerging cost based on differing combinations of the following factors :

- (a) growth rate of number of contributors;
- (b) growth rate in salaries above CPI;
- (c) salary growth and the CPI varied in unison;
- (d) age of entry to scheme;
- (e) age of retirement; and
- (f) expectations regarding demographic influences.

Not all permutations of these have been explored nor, indeed, would it have been particularly illustrative to have done so. For the purposes of the present report, two projections are discussed which put the results in the relevant context. These are, firstly, Mr. Cook's benchmark projection the main features of which are that salary growth exceeds the rate at which pensions are indexed by 2% per annum and that the number of contributors increases by 1% per annum. These assumptions parallel those made by the Commonwealth Government Actuary in a review of the scheme (20). The second projection is that based on the forecasts made by the Institute of Applied Economic and Social Research. This differs from Mr. Cook's standard by virtue of an assumed rate of growth in numbers of contributors of 2% per annum. Both are based on age 25 entry, age 65 retirement, salary growth of 10% compared with pension updating (i.e. CPI) of 8%, and the demographic experience of the scheme in the 1974-77 period.

These projections are shown in Table 4.6

TABLE 4.6

PROJECTIONS OF EMERGING COST TO GOVERNMENT OF THE STATE SUPERANNUATION
SCHEME (% OF CONTRIBUTORS' SALARIES)

Assumptions	Standard	IAESR*(a)
Salary Growth Rate Minus Pension Updating (% p.a.)	2	2
Growth in Number of Contributors (% p.a.)	1	2
Calendar Year		
1981	9.0	9.0
1990	11.0	10.2
2000	11.5	9.8
2010	12.7	10.0
2020	14.8	11.3
2030	15.4	11.6

Notes: (a) The IAESR (Institute of Applied Economic and Social Research) supplied different growth rates prior to 1990 but these were not used in the cost projections.

Source: Bruce D. Cook "Cook/Ryder Investigation into Victorian State Superannuation Scheme," A Report to the Victorian Treasurer, January 1984. p.3.

Both projections indicate that the emerging cost of the scheme is expected to rise. The standard projection shows the greatest rise being from 9.0% of salaries in 1981 to 15.4% in 2030, i.e. an overall increase of the order of 70%. This is explained by the different assumed growth rates for numbers of contributors. With a greater growth rate, the IAESR based projection yields the lower ultimate cost simply because pensioners become an increasingly smaller group relative to contributors.

The IAESR based projection is the lowest of all projections and again the reason is the high assumed growth rate. The assumed growth rate of 2% matches the past growth in numbers but it is at odds with both the Commonwealth Government Actuary's projection assumptions (21) and the expectations of the State Forecast Co-ordination Group. The former assumed a 1% growth rate in the number of contributors to the Commonwealth Superannuation Scheme with the latter expecting Victoria's population to grow by 1%. If the relative size of the public service remains the same, this implies a 1% growth in membership of the scheme.

THE COMMITTEE THEREFORE USES THE 'STANDARD' PROJECTION AS THE MORE LIKELY OUTCOME. OF COURSE, IF ANY ONE OF A NUMBER OF OTHER ASSUMPTIONS PROVE WRONG, ACTUAL COST WILL DIFFER FROM PROJECTED COST. ONE ASSUMPTION THAT HAS ARGUABLY HELD DOWN THE COST HAS BEEN THE DECISION TO BASE THE PROJECTIONS ON DEMOGRAPHIC FACTORS THAT PREVAILED IN THE 1974-1977 PERIOD. IT WAS AFTER THIS PERIOD THAT DISABILITY WITHDRAWALS ROSE SUBSTANTIALLY AND IF THE HIGHER RATES WERE MAINTAINED, EMERGING COSTS WOULD BE SOMEWHAT HIGHER.

It is interesting to compare these results with the ultimate emerging cost of the Commonwealth scheme as calculated by the Commonwealth Government Actuary. This report indicates that the emerging cost to the Commonwealth Government could rise from 11.1% in 1981-82 to about 21 to 22% from about 2016 onwards (22). For a number of reasons the Commonwealth projection and the Cook projections cannot strictly be compared - demographic factors are likely to be different for instance. However, two points are worth noting. Firstly, the State Superannuation scheme offers marginally greater benefits than the Commonwealth scheme. One would expect therefore, that the

former would produce higher costs, yet the opposite is the case. Secondly, and as a partial explanation of this, is the fact that the Commonwealth Government Actuary has allowed for a 0.8% per annum decrease in pensioner mortality whereas no such allowance was included in the Cook report. The effect of this is to increase the expected cost of the Commonwealth scheme. It would not however have been unreasonable for a similar allowance to have been made in the Victorian projections.

Further comparison can be made with projections made for the South Australian Superannuation Fund and the NSW State Superannuation Scheme. The SA scheme offers benefits very similar to the Victorian State scheme but differs in one important respect - it is voluntary. In the absence of other influences this would be likely to make the scheme relatively more costly. With this in mind the Committee notes that the SA public actuary has estimated that the cost would increase from about 12% of salaries in 1980-81 to about 29% in 40 years time an overall increase of about 142% (23). This is substantially greater than either of the Victorian or Commonwealth projections. It is partly attributable to the actuaries' assumption that the growth in membership would decline from 0.5% per annum to zero in several years' time.

The NSW projection is based on salaries increasing at 8.5% per annum, pension updating of 8% per annum and an annual increase in the number of contributors of 0.5% per annum. Despite the fact that benefits under the NSW scheme are at a lower level than under the Victorian scheme, the NSW projection produces a higher ultimate emerging cost. The projection shows that emerging cost is expected to increase from about 11% at the moment, to about 20% over the next 30 years, an overall increase of about 82%.(24)

4.2.2.5 An Alternative View of Emerging Cost

The terms of reference for Messrs. Cook and Ryder requested them to express their results in terms of a percentage of contributors' salaries, the base figure being 9.0% for 1981. The obvious advantage is that inflationary effects are controlled and that if the salaries can continue to be met from the State budget, superannuation costs which are a reasonable percentage of those costs can also be met. There is however a significant disadvantage in using

percentage of salaries as the indicator of expected future cost. This problem is highlighted by the figures in Table 4.7 below which shows the percentage of salaries in the year 2030 according to Mr. Cook for various assumed rates of growth in the membership of the State Superannuation scheme.

TABLE 4.7

COSTS OF STATE SUPERANNUATION SCHEME IN 2030
ON VARIOUS GROWTH OF MEMBERSHIP ASSUMPTIONS

Growth Rate (% per annum)	Percentage of Contributors Salaries in 2030
0	20.6
$\frac{1}{2}$	17.8
1	15.4
2	11.6

Source: Bruce D. Cook, "Cook/Ryder Investigation into Victorian State Superannuation Schemes," A report to the Victorian Treasurer, January 1984. p.3.

The data show that the higher the rate of growth in membership, the lower will be the cost to the State measured in terms of percentage of salaries. In absolute terms, of course, the higher the rate of growth in membership, the higher the cost to the State. The Committee therefore felt that alternative ways of assessing cost should also be considered. In response to this suggestion Mr. Cook has provided amounts in constant 1981 prices which correspond with his standard projection shown in Table 4.6. These estimates are shown in table 4.8.

TABLE 4.8

COOKS STANDARD PROJECTION OF EMERGING COST TO GOVERNMENT
OF THE STATE SUPERANNUATION SCHEME IN REAL TERMS

Year	Emerging Cost \$M (Constant 1981 Prices)
1981	140
1990	232
2000	325
2010	475
2020	734
2030	1,000

Notes: (a) Based on Cook's standard projection, which uses growth rate of membership of 1% per annum, salary inflation of 10% per annum and pension updating of 8% per annum.

Source: Bruce D. Cook, "Cook/Ryder Investigation into Victorian State Superannuation Scheme," A report to the Victorian Treasurer, January 1984.

In constant 1981 prices these show a projected cost in the year 2030 of \$1000 million compared with \$140 million in calendar 1981. This very considerable growth however incorporates two elements, both of which can perhaps be accepted as "manageable" and therefore disregarded in considering future cost movement. The first element is salary increase in excess of CPI movement (assumed to be 2% in the standard projection). If the State's capacity to raise revenue is assumed to move in concert with salary movements this growth factor is not material for the present purpose. Similarly, if the State's capacity to raise revenue is likely to move in concert with population growth, and growth in the membership of the State Superannuation scheme matches

growth in population, the growth in membership factor (assumed to be 1% in the standard projection) can be disregarded.

AT THE COMMITTEE'S REQUEST, MR. COOK SUPPLIED A COST PROJECTION WITH THESE FACTORS REMOVED, I.E. WITH SALARY INFLATION LESS UPDATING SET AT ZERO AND A ZERO GROWTH RATE IN THE NUMBER OF MEMBERS. THAT PROJECTION SHOWED THAT EVEN ON THE BASIS OF EXTREMELY FAVOURABLE ASSUMPTIONS THE COST IN 1981 PRICES COULD BE EXPECTED TO INCREASE FROM \$140 MILLION IN 1981 TO \$410 MILLION IN 2030 - AN INCREASE OF 193%.

IT IS CLEAR TO THE COMMITTEE THAT THE REAL COSTS OF THE STATE SUPERANNUATION SCHEME MUST CONTINUE TO INCREASE SUBSTANTIALLY.

4.2.2.6 New Entrant Contribution Rates

The Cook report gives new member contribution rates for the State Superannuation scheme and for a typical private sector staff fund. These indicate the percentage of salary which needs to be set aside annually by the employers on a fully funded basis, to provide eventual benefits for new members. Such rates are a ready measure of the cost of a scheme and if calculated on a consistent basis a useful measure for comparing different schemes. Mr. Cook's results show new member contribution rates required from the employer for entrants of different ages. Contribution rates have been calculated with and without taking account of resignation from service and, by definition, they do not include any 'extra contribution' needed to finance past liabilities. These rates are shown in Table 4.9.

THE COMMITTEE NOTES THE IMPLICATION OF THE FIGURES IN TABLE 4.9 IS THAT IF IT WERE FULLY FUNDED IN THE PRIVATE SECTOR MANNER, THE COSTS TO STATE EMPLOYERS OF THE STATE SCHEME WOULD BE ABOUT TWICE THE CORRESPONDING COST OF THE TYPICAL PRIVATE SECTOR SCHEME.

The figures without resignation indicate the level of cost to the employer if complete portability or preservation of benefits were granted to all who

resign. Where resignation is included the new member rates reflect the present situation in this area. The effect of allowing for resignation is particularly dramatic for young females. Overall the differences between the new member rates with and without allowance for resignation reflect the additional costs which would be incurred by employers if complete preservation or portability occurred.

Further comparison can be made with the overall new member contribution rate calculated by the Commonwealth Government Actuary for the Commonwealth scheme. This was estimated on the basis of a real interest rate of 3% with other assumptions common to the cost projections referred to earlier. The overall employer contribution rate was estimated to be 21.5% of salary. Whilst comparison with the Cook figures is difficult, it would appear that the Commonwealth figure would probably be larger than an overall rate for the State Superannuation scheme. This presumption is based on an age 25 entry assumption and the fact that the overall rate will be a weighted sum of the male and female rates. If this is so, it is inconsistent with the relative benefits of the two schemes, though other differences between the two valuations mean that any comparisons should be qualified.

TABLE 4.9

NEW MEMBER CONTRIBUTION RATES FOR THE STATE SUPERANNUATION SCHEME
AND A TYPICAL PRIVATE SECTOR SUPERANNUATION SCHEME

Age at Entry	State Superannuation Scheme		Typical Private Sector Staff Scheme	
	Males	Females	Males	Females
	%	%	%	%
	<u>Without Resignation</u>			
20	21.0	18.1	10.7	9.6
25	23.5	20.2	10.4	9.2
30	27.2	23.3	10.4	9.1
35	29.3	24.0	10.7	9.2
40	29.7	24.1	11.1	9.3
	<u>With Resignation</u>			
20	14.0	6.1	7.5	4.0
25	17.7	8.9	8.2	4.8
30	22.6	13.1	8.8	5.8
35	26.1	16.7	9.7	6.8
40	27.7	19.4	10.4	7.8

Source: Bruce D. Cook, "Cook/Ryder Investigation into Victorian State Superannuation scheme," A Report to the Victorian Treasurer, January 1984. pp. 10-11.

4.2.2.7 Conclusions to be Drawn from Cook Report

Despite the uncertainties associated with actuarial projections, there are a number of conclusions that can be drawn from the Cook Report and the projections requested by the Committee.

THE COMMITTEE CONSIDERS THE MOST IMPORTANT ARE THAT:

- (a) ON A REASONABLE SET OF ASSUMPTIONS INCLUDING, GROWTH IN THE MEMBERSHIP OF THE SCHEME OF 1% PER ANNUM, SALARY GROWTH OF 10% PER ANNUM AND PENSION UPDATING OF 8% PER ANNUM (EQUAL TO CPI), THE COST TO THE STATE MEASURED IN 1981 PRICES, IS PROJECTED TO INCREASE FROM \$140 MILLION IN 1981 TO \$1000 MILLION IN 2030 (A 614% INCREASE);
- (b) ON THE SAME SET OF ASSUMPTIONS BUT EXPRESSED AS A PROPORTION OF THE TOTAL SALARIES OF MEMBERS, THE PROJECTED INCREASE OVER THE SAME PERIOD IS OVER 70%;
- (c) ON THE MORE FAVOURABLE ASSUMPTIONS THAT GROWTH IN THE MEMBERSHIP OF THE SCHEME WOULD BE ZERO AND THAT THERE WOULD BE NO INCREASE IN SALARIES OR PENSIONS, THE COST TO THE STATE, MEASURED IN 1981 PRICES, IS PROJECTED TO INCREASE FROM \$140 MILLION IN 1981 TO \$410 MILLION IN 2030 (A 193% INCREASE)
- (d) SEVERAL FACTORS COULD FURTHER INCREASE STATE COSTS. THESE INCLUDE:
 - (i) INCREASED LONGEVITY OF PENSIONERS;
 - (ii) CONTINUING HIGH RATES OF DISABILITY RETIREMENT;

- (iii) INCREASES IN VESTING, PRESERVATION AND PORTABILITY; AND
- (iv) GROWTH IN STATE PUBLIC SERVICE EMPLOYMENT AT A RATE WHICH IS GREATER THAN THE GROWTH IN PRIVATE SECTOR EMPLOYMENT.

There is of course firm evidence of (ii) and (iv) for the period since 1981 which was the base for the projections.

Strong future growth in the cost to government of the State Superannuation scheme is confirmed from four sources:

- (a) The Commonwealth Actuary's projections for the Commonwealth scheme which bears substantial similarity to the State Superannuation scheme and shows a 95% increase over a similar period.
- (b) The South Australian projections for a scheme which is superior to the Commonwealth and similar to Victoria's show a 142% increase over the period to 2020-21.
- (c) The NSW projections for a scheme slightly inferior to Victoria's show an 82% increase over the period to 2011-12.
- (d) The employer new member rates, which represent a lower limit on the real cost of providing State scheme benefits, are materially higher than present PAYG costs. In the Commonwealth case the long term costs after 2016 were assessed by the Government Actuary at about the same level as the new member rate, namely 21.5% of salaries.

IF STEPS ARE NOT TAKEN TO REDUCE THE PREDICTED INCREASES IN THE COST OF SUPERANNUATION, THE STATE MAY BE REQUIRED TO INCREASE THE LEVEL OF FINANCING OF THE STATE SCHEME BY MEASURES THAT COULD INCLUDE INCREASED STATE TAXATION AND/OR REDUCED EXPENDITURE.

4.2.3 Cost Allocations to Employing Authorities

For the majority of people covered by the State Superannuation scheme, employing authorities are not charged for the costs of superannuation in any way. The Superannuation Act 1958 defines one particular exception, and that is that the State Transport Authority - VLine, must pay out of their revenue, the cost of benefits paid to former employees. In 1982-83 this amounted to \$40.1 million. Section 20 of the Act also allows the Treasurer to charge any public authority such amounts as the Treasurer directs. Correspondingly, two broad arrangements exist for some or all of the employees of a number of statutory authorities covered by the scheme and for certain other situations. These are:

- (a) A contributory arrangement whereby the authority makes contribution payments to the Consolidated Fund as if they were part of a funded superannuation scheme. There are no assets held in trust for the payment of benefits nor are notional funds kept for particular groups. This arrangement transfers to the Consolidated Fund the responsibility for payment of subsequent superannuation benefits for that authority.
- (b) PAYG payment by the organisation, to the Consolidated Fund, of that authority's share of benefit payments as in the V-Line example. In some cases this occurs in conjunction with the establishment of a fund or provision within the authority concerned.

The organisations that fall into the two groups are shown in table 4.10.

TABLE 4.10

OTHER FINANCING ARRANGEMENTS IN THE STATE SCHEME FOR
SOME OR ALL EMPLOYEES OF ORGANISATIONS

Contributory Arrangement

Army Apprentice School - Balcombe
 Bingo Fund
 Building Industry Long Service Leave Board
 Chairman Planning Appeals Board
 Education Department
 Estate Agents Board
 Forests - University of Melbourne
 Gas & Fuel Corporation of Victoria
 Health Commission - Drug Education
 Heatherton and Exotic Diseases Hospital
 Legal Aid Commission
 Motor Accidents Board
 Environment Protection Authority
 River Murray Commission
 State Employees Retirement Benefits Board
 State Rivers & Water Supply Commission
 Victorian Brown Coal Council
 Westernport Regional Planning Authority

Organisations Charged
For Employer's Share of Pension Payments (PAYG)

Country Fire Authority
 Country Roads Board
 Exhibition Trustees
 Grain Elevators Board
 Housing Commission
 Port of Melbourne Authority
 Rural Finance Commission
 State Electricity Commission
 State College of Victoria
 State Insurance Office
 Transport Regulation Board
 Victorian Institute of Colleges
 V-Line

The decision as to which arrangement should apply to a particular authority upon its entry into the State Superannuation scheme has traditionally been made by the Department of Management and Budget (formerly Treasury). However, decisions appear to have been made on an ad hoc basis. This matter was put to the Chairman of the State Superannuation Board, Mr John Ryder:

"MR RYDER: It is just Government policy. It is just the determination of the Treasury or the Department of Management and Budget. Some organizations have been asked to pay a funded cost which is not a pay-as-you-go but a term used in the Commonwealth fund and it is used incorrectly.

The funded cost expects them to pay a contribution of roughly 20%. If it is an emerging cost they will pay that eventually when it comes and when a person becomes a pensioner. If it is paid as a funded cost of 20% and that organisation can be thought of as being one that could go out of existence, and so on, it is all looked after.

THE CHAIRMAN: Is it an important principle or has it grown up haphazardly?

MR RYDER: I think it has grown up haphazardly a bit. Certainly it is not a responsibility of the State Superannuation Board.(25)

NOTWITHSTANDING MR RYDER'S COMMENT, THE COMMITTEE NOTES THAT NO ATTEMPT APPEARS TO HAVE BEEN MADE BY THE STATE SUPERANNUATION BOARD TO SUGGEST A MORE COHERENT AND CONSISTENT POLICY.

4.2.3.1 The Contributory Arrangement

Although it is appropriate for statutory authorities of a commercial or even semi-commercial nature to have funded superannuation schemes other considerations seem to have been more important in deciding to bill some organisations on a contributory basis. For example, many of the organisations listed above have been billed for minor amounts as the result of secondment of officers to other organisations. Secondment of teachers from the Education Department is an example. Because these are short term arrangements it is

more suitable to charge contributions during the secondment, rather than to attempt to collect pension payments long after the secondment has ended. In these and other cases the primary consideration seems to have been that the organization or the arrangement could cease to exist. The contributory arrangement absolves that organisation from having to contribute for pension payments at a later date. However, because actuarial reviews do not currently address the question of overall funding rates, neither the Department of Management and Budget (DMB) nor the State Superannuation Board (SSB) know the correct rate(s) to charge. Thus a variety of rates exist. Originally organisations were billed for an amount equal to 2.5 times employee's contributions. This practice is gradually being phased out and has been replaced firstly by a rate of 15% of salary, and later by a rate of 20%. However, all of these rates are still in use. For instance, with respect to a small group of employees absorbed into the Gas & Fuel Corporation (GFC) who are covered by the State Superannuation scheme, the GFC pay contributions of 2.5 times the contributions made by the employees. This compares with the Education Department who are required to use a rate of 15%, whereas the most recent addition to the contributory list - the Legal Aid Commission (formerly Legal Aid Committee) - is charged at a 20% rate.

The adoption of a 20% rate is in accordance with Commonwealth practice for the notional funding of some "approved authorities". Given that the Commonwealth Government Actuary has recently calculated that the (new entrant) contribution rate necessary to fund the Commonwealth scheme would be 21.5% of salary and that the State Superannuation scheme offers greater benefits than the Commonwealth Superannuation scheme, it would appear that even 20% may be insufficient. Unlike the notional funding practice adopted in the Commonwealth Superannuation scheme, the employer contribution made under the contributory arrangement is not set aside and credited with interest and debited with pension payments. Instead it is absorbed into consolidated revenue and the Consolidated Fund is later called on to pay pensions. There is thus no check on whether a particular organisation (or arrangement) is sufficiently funded over the long term. This also means that these organisation are not directly accountable to government for the cost of pensions. This is, of course, similar to the arrangement for the majority of members covered by the State Superannuation scheme whose employers neither make employer's contributions nor meet their share of pension payments.

THE COMMITTEE IS DISSATISFIED WITH THE INCONSISTENT WAY THIS POLICY OF CHARGING ORGANISATIONS FOR THE COST OF SUPERANNUATION HAS BEEN APPLIED.

4.2.3.2 Reimbursements for Pension Payments

Most of the organisations listed in the PAYG group meet their pension payments to the Consolidated Fund out of their current revenue. They are therefore truly PAYG arrangements. Other than V-Line, the three organisations with the largest bills in 1982-83 were the Country Roads Board (\$4.1 million), the Transport Regulation Board (now part of the Road Traffic Authority)(\$3.6 million) and the Victorian Institute of Colleges (\$4.1 million).

The Victorian Institute of Colleges and the State College of Victoria had their financial arrangements changed from contributory arrangement to PAYG on 1 January 1977. Employer contributions made prior to that date were set aside by the DMB as a provision to absorb pension payments. According to a submission from the recently formed College Councils Association of Victoria (CCAV), which represents the sixteen Colleges of Advanced Education in Victoria, the Commonwealth evidently reduced the Colleges' grants for 1977 and subsequent years. Now that the provision with DMB has been exhausted the Colleges are required to meet the full cost of the employer's share of pension payments from their recurrent revenue. CCAV advise that one result of this is that two Colleges have advised the SSB that accounts with respect to current staff pensions cannot be paid until supplementary Government finance is provided. The CCAV understood that the Commonwealth would eventually provide finance on the basis of the Superannuation Scheme for Australian Universities, i.e. a 14% employer contribution, but they were fearful that the cost of pensions under the State Superannuation scheme would eventually exceed this amount. The standard projection of the Cook report indicates that the emerging cost for the State Superannuation scheme as a whole could exceed this amount but not until well into the next century.

There is a second group of organisations who have set up funds or provisions to finance their pension payments to the DMB. The intention has been to fund or otherwise provide for the organisation's benefit liabilities and they therefore give some insight into the funding of the State Superannuation scheme as a

whole. A summary of the more important details for these schemes is presented in Table 4.11 below.

TABLE 4.11

ORGANISATIONS WHO FUND PENSION PAYMENTS TO
DEPARTMENT OF MANAGEMENT & BUDGET
AS AT 30 JUNE 1982

Organisation	Employer To Employee Contrib. Ratio	Amount Of Investment/ Provision \$M	Actuarial Advice	Other Details
Country Fire Authority	2:1	10.8	PTOW	CFA has actual investment fund. Recent actuarial advice recommended 5:1 ratio.
Grain Elevators Board	6:1	2.6 (June 1981)	SSB	Non-interest earning provision in SSB accounts.
Rural Finance Commission	26% of Salary (Ratio not known)	5.2	SSB	Previously advised by SSB but 26% rate set unilaterally. Interest bearing provision secured against RFC Investment.
State Insurance Office	2.5:1	11.9	E.S. Knight & Co.	SIO first funded liability in 1981-82
Victorian Dairy Industry Authority	3.6:1	0.25		VDIA has eight members of State Superannuation scheme. No. retirements to date, therefore no payments to DMB. Rate determined unilaterally but sought advice from SIO.

Country Fire Authority

The Country Fire Authority (CFA) is unusual in that it pays its share of pension payments to the Consolidated Fund from an internal investment fund. The CFA contributions into the fund are twice employee contributions (which are paid separately to the SSB). At 30 June 1983 the fund had \$12.7 million of investments, mostly in local and semi-government securities. Twice a year the CFA pays out of the fund for pension payments made by the State Superannuation Fund on their behalf. These payments are made directly to the DMB.

The CFA have funded their pension obligations in this way since 1950. Given that two thirds of the CFA's budget is met by levies on insurance policies written by insurance companies in relation to properties outside the metropolitan fire district and hence that there is a commercial basis to their financing, it is appropriate that superannuation obligations should be funded (note that the other third of the budget is met from Consolidated Revenue).

HOWEVER, THE COMMITTEE IS CONCERNED THAT THE CFA MAY NOT BE PAYING A SUFFICIENT AMOUNT TO FULLY FUND THE BENEFITS PROMISED TO ITS EMPLOYEES.

According to evidence from the public hearing at which CFA representatives attended, the authority's contribution has always been on the 2:1 basis. An actuarial report submitted to the CFA in May 1981 by the consulting actuarial firm PTOW recommended the contribution rate should be increased to 5:1. To quote from the report:

"In our opinion the Authority's continued participation in the State Superannuation scheme will be a viable proposition provided its contributions are lifted to the rate mentioned above - i.e. 5 times employees' contributions".(26)

The CFA have on more than one occasion sought approval from the Treasurer through the Ministry for Police and Emergency Services, to increase the rate of contribution. The most recent occasion was at the time of preparing their 1983-84 budget estimates. The Treasurer's response was to direct them to

prepare that budget on the basis of the CFA maintaining the 2:1 contribution ratio. However, he also requested that this Committee examine the matter.

Rural Finance Commission

The Rural Finance Commission (RFC) make allowance for their share of the accruing liability for superannuation by making a charge of 26% of employee's salaries against operating profit. The contribution rate was set arbitrarily by the RFC without, it seems, any actuarial advice. Prior to setting this rate a deduction of 2.5 times employees' contributions was made.

The financial practice is to calculate the annual provision, apportion investment income on RFC investment assets on a pro-rata basis and then deduct pension payments to DMB. The nett amount is added to the accumulated sum of past years annual provisions and the total is secured against the RFC's investments. At 30 June 1982, the total liability of the RFC for this superannuation provision was \$5.2 million.

State Insurance Office

Following an actuarial report by the consulting actuarial firm of E.S. Knight & Co. in September 1981, the State Insurance Office (SIO) have set up a financial provision to account for superannuation liabilities. To finance the accrued liability to that date an amount of \$9.265 million was set aside as a provision in the accounts. For accruing liabilities the actuarial report suggested making employer contributions to this provision equal to 2.5 times the employees' contributions. Without detailed knowledge of salaries it is not possible to express this as a percentage of salaries.

Interest on SIO investments is credited to the provision on a pro rata basis and pension payments to DMB are deducted. This provision is covered by SIO investments and at 30 June 1982 the provision amounted to \$11.9 million.

Victorian Dairy Industry Authority

When the Victorian Dairy Industry Authority (VDIA) took over from the Milk Board in 1977 eight members of the State Superannuation scheme transferred to the new organisation. There have been no retirements to date. To finance

the accruing liability for benefits promised to those employees the VDIA have made a provision in their accounts in a similar manner to the Grains Elevator Board. The contribution rate is about 3.6 times employees' contributions. This rate is calculated by the VDIA using a comparatively elementary formula based on expected age at retirement, expected life of the current contributors etc. The VDIA have informed the Committee that before settling on this formula they had unsuccessfully sought advice from the State Superannuation Board, and had even conferred with the State Insurance Office. Consequently these organisations have been left to their own devices to calculate employer contribution rates without having any consistent guidelines.

Grain Elevators Board

The Grain Elevators Board (GEB) provide further evidence of the disparate approach to funding pension payments to DMB. The GEB have some 70 to 80 employees covered by the State Superannuation scheme, four covered by a life policy and the remainder by SERB.

The GEB is a commercial organisation responsible for receiving and handling Victorian grain production. Consequently, it would be appropriate for the superannuation schemes covering its employees to be funded. The SERB scheme is dealt with elsewhere but for those employees covered by the State Superannuation scheme the GEB make a provision against revenue equal to six times employees contributions. The provision, net of pension payments to DMB, is accumulated and counted as a liability in the balance sheet. In this case however, the liability is secured against the GEB's overall assets and interest is not credited to the provision.

According to the GEB :

"The level of the board's contribution currently provided is in line with earlier actuarial advice from the State Superannuation Board. A further review of the adequacy or otherwise of the board's contributions is currently in progress".(27)

Mr. Lang, Accounting Manager of the GEB gave further explanation in evidence to the Committee:

"As I said earlier, historically - and obviously this was established much before I joined the Board - it was determined six times was the adequate amount. Since then we have been to the State Superannuation scheme seeking actuarial advice. That request was made somewhere in the region of two years' ago. Despite a follow-up we have not yet received advice as to whether that amount is adequate or not."(28)

IT WOULD SEEM TO THE COMMITTEE THAT THE DIVERSE ARRANGEMENTS THAT EXIST IN THIS AREA OF THE STATE SUPERANNUATION SCHEME, ARE THE RESULT OF A COMPLETE LACK OF SUPERVISION BY THE CENTRAL AGENCIES RESPONSIBLE FOR THE FINANCING AND ADMINISTRATION OF THE SCHEME, I.E. THE DMB AND THE STATE SUPERANNUATION BOARD.

NO GUIDELINES HAVE BEEN ESTABLISHED TO ASSIST SUCH ORGANISATIONS TO ACCOUNT FOR ACCRUING SUPERANNUATION LIABILITIES. ONE REASON FOR THIS IS THAT NEW ENTRANT CONTRIBUTION RATES FOR THE SCHEME AS A WHOLE, OR FOR ANY SUBSIDIARY GROUP OF CONTRIBUTORS, ARE NOT KNOWN.

NOTES

- (1) M. Feldstein and S. Seligman, "Pension Funding, Share Prices and National Savings", The Journal of Finance, Vol. 36, No. 4, Sept. 1981, p. 805.
- (2) For an introduction to this topic see:

D. Ingles, "Financing Social Security : An Analysis of the Contributory 'Social Insurance' Approach", Research Paper No. 19, Development Division, Department of Social Security, AGPS Canberra, 1982.

K.J. Hancock, (Chairman, National Superannuation Committee of Inquiry), "National Superannuation in Australia", AGPS Canberra, 1974, pp. 39-40 and 82-87.

J.E. Pesando and S.A. Rea Jr. "Public and Private Pensions in Canada; An Economic Analysis", Ontario Economic Council, University of Toronto Press, Toronto and Buffalo, p. 977, Chapter 6.
- (3) If, for instance, superannuation was financed solely by State Government taxation, the results of the Revenue Raising Inquiry suggest that it would be being raised in a regressive manner, i.e. low income people would be paying a higher proportion of their incomes to support superannuation expenditure than would high income people. See : Report of the Committee of Inquiry into Revenue Raising in Victoria, Government Printer, Melbourne, May 1983, Ch. 6.
- (4) M.S. Feldstein, 'Social Insurance', Public Policy, Vol. 25, No. 1, Winter, 1977 p. 97.
- (5) K.J. Hancock, op. cit., p. 45.
- (6) Minutes of Evidence, 4 July 1983, p. 381.
- (7) Fifth Annual Report of the Metropolitan Fire Brigades' Superannuation Board, 1980-81, p. 6.
- (8) Minutes of Evidence, 4 July 1983, p. 381.
- (9) Minutes of Evidence, 4 July 1983, p. 360.
- (10) Minutes of Evidence, 30 June 1983, p. 260.
- (11) Minutes of Evidence, 30 June 1983, p. 279.
- (12) Minutes of Evidence, 30 June 1983, p. 279.
- (13) Minutes of Evidence, 30 June 1983, p. 246.
- (14) Minutes of Evidence, 30 June 1983. P. 247.
- (15) Minutes of Evidence, 8 July 1983, p. 470.
- (16) Minutes of Evidence, 25 July 1983, p. 33.

- (17) Thirteenth Investigation of the Superannuation Fund, Legislative Assembly, VGPS, 30 June 1980, p. 9.
- (18) Ibid., p. 21.
- (19) J.M. Ryder, Government Statist and Actuary, "Certain Aspects of the Costs Borne by the Consolidated Fund Under the Superannuation Act 1958 and the Supplementation Act 1966", A Report to the Victorian Treasurer, January 1984, p. 12.
- (20) Australian Government Actuary, Commonwealth Superannuation Scheme; A Report on Long Terms Costs, AGPS, Canberra, 1982 p.V.
- (21) Ibid., p. 9.
- (22) Ibid., p. 7.
- (23) I.S. Weiss, Public Actuary, "Report on Long Term Projections of the Cost to the South Australian Government of the South Australian Superannuation Fund and Related Matters", April 1981, p. 6.
- (24) J.H. Taylor, Government Actuary, "State Superannuation Scheme : Long Term Costs", Government Actuary's Office, Sydney, July 1983 (Confidential), p.(i).
- (25) Minutes of Evidence, 28 July 1983, p. 24.
- (26) Palmer, Trahair, Owen & Whittle, Report to the Country Fire Authority on its Participation in the Victorian State Superannuation Scheme, An Actuarial Investigation as at 30 June 1979. p. 2.
- (27) Grain Elevators Board of Victoria, Annual Report and Statement of Accounts for the Year Ended 31 October 1982.
- (28) Minutes of Evidence, 21 July 1983, p. 705.

CHAPTER 5

INVESTMENT PRACTICE AND INVESTMENT PERFORMANCE IN VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

SECTION 5.1 ASSET STRUCTURE AND INVESTMENT OBJECTIVES

5.1.1 Superannuation Asset Structures

Victorian public sector superannuation schemes had, in June 1982, total invested assets of \$2043 million. This figure had grown to \$2338 million by June 1983.

The income derived from these investments together with employer and employee contributions is used to help finance members' benefits and administrative costs. With member contributions being essentially fixed, investment income is the variable that determines the cost to the employing agency of providing a defined superannuation benefit. Lower investment income implies a higher cost to the employing agency.

Investment performance and practice are, therefore, vital determinants of the cost to public sector employing authorities of providing superannuation benefits and an index of how effectively members' contributions are being utilised by fund management for their future benefit.

As Table 5.1 shows, aggregate assets of public authority pension and superannuation schemes for both Victoria and Australia as a whole have grown substantially in the periods 1976-77 to 1981-82. The compound rate of growth over this period has been 19.3% for Victorian public sector schemes and 17.1% for all Australian public authority schemes. The rate of growth of the assets of selected private pension funds reported by the ABS has been 17.5% over the same period. These rates compare with annual rates of growth for the period in the Consumer Price Index of 9.5% and in Gross Domestic Product of 12.2%.

TABLE 5.1

VICTORIA AND AUSTRALIA : ASSET GROWTH IN
PUBLIC AND PRIVATE SECTOR PENSION AND
SUPERANNUATION SCHEMES 1977-1982
(\$M)

As at June 30	Public Authority Pension and Superannuation Assets (a)			Private Sector Superannuation Assets in Australia	
	Victoria	Australia excl.C'th scheme	Australia Total(b)	Life Insurance Businesses(c)	Selected Private Pension Funds(d)
1977	854	3113	4222	2999	2901
1978	996	3741	5000	3578	3305
1979	1165	4398	5574	4302	3905
1980	1369	5032	6388	5108	4637
1981	1613	6014	7581	6307	5710
1982	2062 (I)	7471	9284	n.a.	6497
Growth Rate					
1977 to 1982 (% p.a.)	19.3	19.1	17.1		17.5

Note: n.a. Not available
(I) Because of slight differences between the coverages of the Committee's survey of the Victorian public sector funds and the ABS survey, the ABS estimate of assets in 1981-82 (\$2062M) differs slightly from that quoted earlier in the text (i.e. \$2043M).

Sources: (a) ABS, Public Authority Pensions and Superannuation Schemes, various issues, Catalogue No. 5511.0.
(b) Includes assets of Commonwealth Superannuation Fund Investment Trust from: "The Annual Reports of the Superannuation Fund Investment Trust and the Commissioner for Superannuation," AGPS, Canberra, various issues.
(c) Based on Balance of Revenue Account at End of Year for the Superannuation Business of Life Insurance Business from: Life Insurance Commissioner, Annual Report 1982, AGPS, Canberra, 1983.
(d) ABS, Survey of Selected Private Pension Funds, 1976-1977 to 1981-1982 (Unpublished).

The assets of Victorian public authority superannuation funds totalled \$1613 million in 1980-81 when the total assets for Australian public authority superannuation schemes was estimated to be \$7581 million. At that time, the total assets held by Australian life offices with respect to superannuation business was \$6307 million and assets held by selected private pension funds within Australia was \$5710 million.

Superannuation assets are invested over a wide range of investments. A breakdown of the assets of the Victorian public sector schemes using data collected by the Committee is shown in Table 5.2. Also shown is the portfolio composition of selected private pension funds using ABS data. These data show dramatic differences between the investment patterns of the two sectors. One area of difference that is readily explained is that of Commonwealth and other public securities. Section 23F of the Income Tax Assessment Act 1942 exempts from taxation the earnings of superannuation schemes if they comply with, among other conditions, the so called 30/20 rule. This rule requires that at least 30% of assets must be held in public securities, of which at least 20% must be Commonwealth securities.

It is clear that private sector schemes have invested in Commonwealth and other public securities little more than the minimum required to obtain the taxation benefit.

Public sector schemes are not under such a constraint and have a smaller percentage invested in public sector securities. It should be noted that the very small amount invested in Commonwealth securities is largely the result of a past policy by the Victorian government that directed the superannuation schemes to invest preferentially in Victoria.

The other marked differences between the two sectors are:

- (i) the greater proportion of public sector assets invested in mortgages (overall 20.0% compared with 5.5% in the private sector sample);
and

- (ii) the much smaller proportion of assets invested by the public sector schemes in the private sector by way of shares (7.2% compared with 25.0%) and company securities (3.3% compared with 12.8%).

TABLE 5.2

DISTRIBUTION OF ASSETS IN VICTORIAN PUBLIC SECTOR
SUPERANNUATION FUNDS AND SELECTED PRIVATE PENSION FUNDS
30 JUNE 1982.

	Victorian Public Sector Superannuation Assets %	Selected Private(a) Pension Funds' Assets %
Short Term Deposits	2.5	1.0
Own Undertaking(b)	21.1	n.a.
Commonwealth Government Securities	0.2	20.9
Other Public Securities	23.0	10.5
Mortgages - Commercial	15.3	4.6
- Housing/Other	4.7	0.9
Shares	7.2	25.0
Company Securities	3.3	12.8
Real Estate	9.3	12.0
Insurance Policies	0.1	n.a.
Other Assets	13.6	12.3
Total(c)	100.0	100.0

n.a. Not available as separate estimates.

Note: (a) Although the ABS data is not necessarily drawn from a representative sample, the pattern of investment is typical of private sector schemes.

(b) 'Own Undertaking' refers to loans to, or investment in, the parent body.

(c) May not add due to rounding.

Source: ABS, Survey of Selected Private Pension Funds, 1976-77 to 1981-82, (Unpublished).

The difference between the two sectors with respect to investment in shares and company securities is made all the more dramatic if one looks at the 'discretionary' investment of the private sector. If the investment by the private sector schemes in public securities is set aside, no less than 55% of the remaining, 'discretionary' investment is made in shares and company debentures. Investment by the Victorian public sector schemes in shares and company debentures represents only 14% of investments other than public securities.

Unlike private sector schemes, public sector schemes have a significant proportion of their total assets invested in their 'own undertaking'. In the private sector it is generally considered imprudent to invest in the parent company. This could jeopardise the members' chances of obtaining superannuation benefits if the company went into liquidation. Generally speaking, public sector schemes are not likely to be threatened in this manner. Nevertheless, it is argued later that some of the 'own undertaking' investments that are made in the Victorian public sector compromise investment earnings.

Another feature of the public sector schemes asset distribution which may be noted, is that 0.1% of total assets are by way of life insurance policies. This result is attributable to the nine small schemes that have arranged their superannuation through life insurance businesses.

5.1.2 Asset Structures of Major Public Sector Superannuation Schemes

The overall distribution of the assets of the Victorian public sector schemes is heavily influenced by the major investment funds. Differences between schemes with respect to the size of funds and their portfolios are illustrated in Table 5.3. The data show that the State Superannuation scheme has the largest fund with \$744.6 million of assets at 30 June 1982. The next largest funds are those of the SEC Superannuation scheme, with assets of \$424.9 million and the Local Authorities scheme, with assets of \$296.9 million. These three funds account for 72% of the assets of all Victorian public sector schemes. The twelve largest schemes - those with assets of greater than \$10 million each - account for \$2015.3 million, or almost 99% of all assets.

The different portfolios of the funds are a reflection of the investment philosophies of the schemes' managers and the existence of legal and other restrictions on the powers of investment. For instance, the State Superannuation scheme has most of its funds placed in public securities (41.4%) and mortgages (18.6% 'Commercial' and 10.3% to members for home mortgages). The SEC Superannuation scheme, to give another example, has over half of its funds invested in the SEC itself (55.7%), and a substantial proportion invested in the private sector by way of shares (18.7%) and company securities (1.4%).

Other examples of unusual portfolios are:

- (a) the Local Authorities' scheme has almost half of its funds invested in 'Own Undertaking' by virtue of loans to local government;
- (b) the State Bank scheme is heavily invested in fixed interest securities (public 10.1%, private 33.0%) and mortgages (44.1%);
- (c) the Hospitals' scheme has a substantial investment in shares as a result of being able to place funds by way of investment linked deposits with some of the major life companies;
- (d) the Gas and Fuel Corporation scheme has a large share portfolio (39.3%), which together with investments in company securities (13.6%) means over half of its funds are invested in the corporate sector; and
- (e) the Metropolitan Fire Brigades' scheme, the Parliamentary scheme and the State Lump Sum scheme have very large proportions of their assets invested in mortgages (67.4%, 66.7% and 68.8% respectively).

TABLE 5.3

ASSETS OF MAJOR VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES (a)
 AT 30 JUNE 1982(a)
 \$M (percentages in brackets)

Scheme	Short Term	Own Under- taking	Public Securit- ies	Mortgages		Shares	Company Securit- ies	Real Estate	Other Assets	Total
				Commer- cial	Housing					
State Superannuation	6.3 (0.8)	-	308.5 (41.4)	138.7 (18.6)	76.4 (10.3)	-	-	45.5 (6.1)	169.2 (22.7)	744.6 (100.0)
SEC Superannuation	19.8 (4.7)	236.7 (55.7)	5.0 (1.2)	11.8 (2.8)	-	79.4 (18.7)	6.1 (1.4)	50.9 (12.0)	15.3 (3.6)	424.9 (100.0)
Local Authorities (b)	2.3 (0.8)	143.9 (48.5)	66.7 (22.5)	15.9 (5.4)	-	-	-	34.9 (11.8)	33.2 (11.2)	296.9 (100.0)
State Bank	1.0 (0.7)	-	14.3 (10.1)	62.5 (44.1)	-	-	46.7 (33.0)	6.7 (4.7)	10.4 (7.3)	141.6 (100.0)
Hospitals (External funds included in 'Other Assets')	6.7 (5.7)	-	25.5 (21.7)	16.2 (13.8)	6.4 (5.4)	-	-	-	62.8 (53.4)	117.6 (100.0)
Hospitals (External funds allocated)	6.7 (5.7)	-	40.3 (34.3)	16.2 (13.8)	6.4 (5.4)	22.7 (19.3)	-	20.6 (17.5)	4.7 (4.0)	
Gas & Fuel Corporation	1.6 (2.0)	6.4 (7.9)	8.4 (10.4)	3.6 (4.4)	2.6 (3.2)	31.8 (39.3)	11.0 (13.6)	14.2 (17.5)	1.4 (1.7)	81.0 (100.0)
MMBW Superannuation (External funds included in 'Other Assets')	-	19.8 (27.5)	9.6 (13.4)	5.2 (7.2)	-	-	-	-	37.3 (57.9)	71.9 (100.0)

TABLE 5.3 cont.

ASSETS OF MAJOR VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
AT 30 JUNE 1982(a)
\$M (percentages in brackets)

Scheme	Short Term	Own Under- taking	Public Securit- ies	Mortgages		Shares	Company Securit- ies	Real Estate	Other Assets	Total
				Commer- cial	Housing					
MMBW Superannuation (External funds allocated)	-	19.8 (27.5)	10.4 (14.5)	5.2 (7.2)	-	5.6 (7.8)	-	2.9 (4.0)	28.0 (38.9)	
Metropolitan Fire Brigades	-	-	9.9 (15.9)	33.8 (54.4)	8.1 (13.0)	-	-	5.3 (8.5)	5.0 (8.1)	62.1 (100.0)
SECV Employee's	0.5 (1.7)	15.8 (52.5)	-	0.7 (2.3)	-	4.9 (16.3)	1.5 (5.0)	5.1 (16.9)	1.6 (5.3)	30.1 (100.0)
Parliamentary	5.7 (32.8)	-	0.2 (1.1)	11.6 (66.7)	-	-	-	-	-	17.4 (100.0)
City of Melbourne Officers'	1.3 (8.1)	3.0 (19.3)	2.1 (13.0)	2.2 (13.7)	2.8 (17.4)	1.8 (11.2)	2.2 (14.3)	-	0.5 (3.1)	16.1 (100.0)
TAB	1.0 (9.0)	-	0.8 (7.2)	5.2 (46.8)	-	0.7 (6.3)	-	3.2 (28.8)	0.2 (1.8)	11.1 (100.0)
Superannuation Lump Sum	1.1 (17.2)	-	0.8 (12.5)	4.4 (68.8)	-	-	-	-	0.1 (1.6)	6.4 (100.0)
Port of Melbourne (Notional)	-	5.8 (100.0)	-	-	-	-	-	-	-	5.8 (100.0)
MMBW Provident Fund	1.3 (23.6)	-	-	-	-	-	-	-	4.2 (76.4)	5.5 (100.0)
SERB	1.8 (36.7)	-	-	-	-	-	-	-	3.2 (65.3)	4.9 (100.0)

TABLE 5.3

ASSETS OF MAJOR VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES (a)
 AT 30 JUNE 1982(a)
 \$M (percentages in brackets)

Scheme	Short Term	Own Under- taking	Public Securit- ies	Mortgages		Shares	Company Securit- ies	Real Estate	Other Assets	Total
				Commer- cial	Housing					
State Superannuation	6.3 (0.8)	-	308.5 (41.4)	138.7 (18.6)	76.4 (10.3)	-	-	45.5 (6.1)	169.2 (22.7)	744.6 (100.0)
SEC Superannuation	19.8 (4.7)	236.7 (55.7)	5.0 (1.2)	11.8 (2.8)	-	79.4 (18.7)	6.1 (1.4)	50.9 (12.0)	15.3 (3.6)	424.9 (100.0)
Local Authorities (b)	2.3 (0.8)	143.9 (48.5)	66.7 (22.5)	15.9 (5.4)	-	-	-	34.9 (11.8)	33.2 (11.2)	296.9 (100.0)
State Bank	1.0 (0.7)	-	14.3 (10.1)	62.5 (44.1)	-	-	46.7 (33.0)	6.7 (4.7)	10.4 (7.3)	141.6 (100.0)
Hospitals (External funds included in 'Other Assets')	6.7 (5.7)	-	25.5 (21.7)	16.2 (13.8)	6.4 (5.4)	-	-	-	62.8 (53.4)	117.6 (100.0)
Hospitals (External funds allocated)	6.7 (5.7)	-	40.3 (34.3)	16.2 (13.8)	6.4 (5.4)	22.7 (19.3)	-	20.6 (17.5)	4.7 (4.0)	
Gas & Fuel Corporation	1.6 (2.0)	6.4 (7.9)	8.4 (10.4)	3.6 (4.4)	2.6 (3.2)	31.8 (39.3)	11.0 (13.6)	14.2 (17.5)	1.4 (1.7)	81.0 (100.0)
MMBW Superannuation (External funds included in 'Other Assets')	-	19.8 (27.5)	9.6 (13.4)	5.2 (7.2)	-	-	-	-	37.3 (57.9)	71.9 (100.0)

TABLE 5.3 cont.

ASSETS OF MAJOR VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
AT 30 JUNE 1982(a)
\$M (percentages in brackets)

Scheme	Short Term	Own Under- taking	Public Securit- ies	Mortgages		Shares	Company Securit- ies	Real Estate	Other Assets	Total
				Commer- cial	Housing					
MMBW Superannuation (External funds allocated)	-	19.8 (27.5)	10.4 (14.5)	5.2 (7.2)	-	5.6 (7.8)	-	2.9 (4.0)	28.0 (38.9)	
Metropolitan Fire Brigades	-	-	9.9 (15.9)	33.8 (54.4)	8.1 (13.0)	-	-	5.3 (8.5)	5.0 (8.1)	62.1 (100.0)
SECV Employee's	0.5 (1.7)	15.8 (52.5)	-	0.7 (2.3)	-	4.9 (16.3)	1.5 (5.0)	5.1 (16.9)	1.6 (5.3)	30.1 (100.0)
Parliamentary	5.7 (32.8)	-	0.2 (1.1)	11.6 (66.7)	-	-	-	-	-	17.4 (100.0)
City of Melbourne Officers'	1.3 (8.1)	3.0 (19.3)	2.1 (13.0)	2.2 (13.7)	2.8 (17.4)	1.8 (11.2)	2.2 (14.3)	-	0.5 (3.1)	16.1 (100.0)
TAB	1.0 (9.0)	-	0.8 (7.2)	5.2 (46.8)	-	0.7 (6.3)	-	3.2 (28.8)	0.2 (1.8)	11.1 (100.0)
Superannuation Lump Sum	1.1 (17.2)	-	0.8 (12.5)	4.4 (68.8)	-	-	-	-	0.1 (1.6)	6.4 (100.0)
Port of Melbourne (Notional)	-	5.8 (100.0)	-	-	-	-	-	-	-	5.8 (100.0)
MMBW Provident Fund	1.3 (23.6)	-	-	-	-	-	-	-	4.2 (76.4)	5.5 (100.0)
SERB	1.8 (36.7)	-	-	-	-	-	-	-	3.2 (65.3)	4.9 (100.0)

TABLE 5.3 concluded.

ASSETS OF VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
AT 30 JUNE 1982
\$M (percentages in brackets)

Scheme	Short Term	Own Under- taking	Public Securit- ies	Mortgages		Shares	Company Securit- ies	Real Estate	Other Assets	Total
				Commer- cial	Housing					
Port Phillip Pilots Sick and Superannuation	0.1 (3.4)	-	2.8 (95.2)	-	0.04 (1.4)	-	-	-	-	3.0 (100.0)
Port of Geelong	-	-	2.5 (89.3)	-	-	-	-	-	0.3 (10.7)	2.8 (100.0)
Schemes With Assets Less Than \$1 M ('000)										
Zoo (b)	-	-	30 (4.0)	-	6 (0.8)	-	-	-	718 (95.2)	754 (100.0)
Egg Board Staff	298 (57.1)	-	-	-	-	127 (24.3)	21 (4.0)	32 (6.1)	44 (8.4)	522 (100.0)
Supreme Court Associates (c)	8 (5.3)	-	46 (30.5)	90 (59.6)	-	-	3 (2.0)	5 (3.3)	-	151 (100.0)
Legal Aid Committee (c)	8 (5.4)	-	44 (29.7)	88 (59.5)	-	-	-	4 (2.7)	-	148 (100.0)
County Court Associates (c)	5 (5.9)	-	25 (29.4)	51 (60.0)	-	-	2 (2.4)	3 (3.5)	-	85 (100.0)
Tobacco Leaf Marketing Board	1 (1.0)	-	79 (82.3)	-	-	-	-	-	16 (16.7)	96 (100.0)

(a) Major is defined as having assets in excess of \$1 million.

(b) Annual reporting dates respectively : Local Authorities, February 1983; and Zoo, March 1983.

(c) Portfolio spread based on overall portfolio of the Public Trustee's Common Fund.

5.1.3 Superannuation Fund Investment Objectives

In the private sector the investment objectives of a superannuation fund could be described simply, within legal and taxation constraints, as maximising the return of fund assets while taking minimum possible risk.

INVESTMENT BEHAVIOUR AND THE CONSEQUENT INVESTMENT INCOME IS A CRUCIAL PART OF SUPERANNUATION. A GREATER INVESTMENT RETURN IN THE LONG TERM IMPLIES GREATER BENEFITS AND/OR REDUCED CONTRIBUTIONS. CONVERSELY, A POOR INVESTMENT PERFORMANCE MEANS POORER BENEFITS AND/OR INCREASED CONTRIBUTIONS WHICH, IN THE PUBLIC SERVICE SCHEMES, WOULD MEAN A GREATER CALL ON THE CONSOLIDATED FUND TO MAINTAIN A GIVEN BENEFIT STRUCTURE. THE GOVERNMENT, IN EFFECT, SUBSIDISES POOR FUND MANAGEMENT.

To achieve the highest possible yield on funds invested requires a flexible approach that enables the investment manager to move into and out of various forms of investment as conditions change. Thus at some time property may be preferred to fixed interest securities, and fund managers would then invest a greater proportion of the fund's available assets in the former. The skill of the investment managers in being able to pick changes in the various markets will greatly influence the performance of an actively traded portfolio.

Obviously, fund managers are constrained in making investments by the nature of the liabilities of the scheme. This could mean holding liquid assets (i.e. readily marketable assets) which are sufficient in conjunction with contributions and investment income to meet the short term requirements of resignation benefits, for example, compared with holding long term investments to match outgoings of the fund when members retire. These considerations are especially important in the smaller schemes.

All investments involve risk or uncertainty. The range of possible outcomes for some securities is greater than it is for others. Generally speaking, those investments that are potentially the most profitable also have the higher degree of risk. Whilst such investments may have a higher expected income, the possibility of a large loss and capital constraints (i.e. limited finance) will

mean that they may be regarded as unsuitable by some investment managers. There is thus a conflict between maximizing the income and minimizing the risk. In practice the two objectives are reconciled by spreading the portfolio over a representative selection of available investments to reduce risk to an acceptable level.

In Victorian public sector funds the majority of fund managers interviewed by the Committee claimed to be pursuing the traditional objective of maximising investment income - subject to risk constraints. In a number of cases however, the basic objective is significantly qualified in practice because of the extent of "divergent investment". This term, which is explained in more detail below, includes any investment where the return is less than would be achieved in the market.

5.1.4 Divergent Investment Objectives

'Divergent' investment policy relates to the selection of investments on the basis of criterion other than the traditional investment objective of income maximization within acceptable risk limits. The provision of housing finance to members at concessional rates or investment aimed at increasing the employment prospects of members are both examples of divergent investment.

WHILST THE COMMITTEE HAS SYMPATHY FOR THE 'SOCIAL' BENEFITS ATTRIBUTED TO DIVERGENT INVESTMENT IT BELIEVES THAT, ESPECIALLY FOR INVESTMENTS REPRESENTING A SIGNIFICANT PROPORTION OF TOTAL ASSETS, INVESTMENT PERFORMANCE SHOULD BE THE MAIN CRITERION FOR MAKING INVESTMENT DECISIONS.

Divergent investment practices are pursued by a number of the Victorian public sector schemes but in most cases only a small proportion of assets are involved. However, divergent investment and the broader issue of employee participation in decision making processes are becoming more important in public policy discussions.

The overriding concern amongst advocates of non-traditional investment of superannuation funds centres around the prospects for maintaining or

enhancing employment. This is evident in a submission to this Committee from the Ministry of Industrial Affairs:

"As a major source of investment capital, superannuation funds have attracted significant attention abroad and increasing attention in Australia for their possible impact on the pattern and rate of job creation. In conjunction with claims for worker participation in enterprise management there has emerged a claim for contributor determined and prioritised investment policies for such "workers' funds". Such determination to be undertaken by worker representatives, not as token members of a management board, but as a significant group with direct policy guidance from the contributors' trade union.

...The investment strategy of a fund and the management of the fund should not be inflexible. The potential for employment growth through investment of mobilisable superannuation capital - a form of non-discretionary saving - is already recognised by the union movement."(1)

Recognition of the employment consequences of investment is explicit in the investment objectives of the Local Authorities scheme. In this case the interests of Local Authorities and the employees of those authorities are reasonably compatible. This is demonstrated by the following quote from their 1982-83 annual report:

"When setting its investment objectives, the Board has made a conscious effort to support Local Authorities when considering avenues of investment. At present, these loans represent some 49% of the investment portfolio. The Board has always recognised the value of providing funds for Local Authorities, the Board is assisting to ensure continuation of employment for the employees who are themselves contributors to the Scheme.

It is worth noting that this was one of the reasons for initiating an internally administered Scheme in 1961."(2)

By holding such a large proportion of their assets in such loans the Local Authorities Superannuation Board have created an inflexible and imbalanced portfolio which is shown to have performed very poorly (see section 5.2). It is apparent that the Local Authorities scheme is a source of capital funds for many Local Authorities which have trouble obtaining finance elsewhere.

THE COMMITTEE DRAWS ATTENTION TO THE FACT THAT SUPERANNUATION FUNDS ARE BEING DELIBERATELY USED AS A VEHICLE FOR FINANCING LOCAL AUTHORITIES CAPITAL WORKS.

The Committee expects that the Government's proposed Local Authorities Finance Agency will decrease the dependence of local authorities on superannuation fund financing.

A suggestion for divergent investment was made in a submission by the Plumbers and Gasfitters Employees Union. That union supported investments that give benefits to workers during their working lifetime. To quote from their submission:

"... the Plumbers and Gasfitters Employees' Union supports the investment of fund money into such projects as:-

- . gymnasiums
- . holiday homes
- . health and dental care projects and other such developments."⁽³⁾

No mention is made of how these facilities would be run, but if they were set up on a commercial basis there is a possibility that they could be valid forms of investment.

If, as the Committee presumes, the Plumbers and Gasfitters Employees' Union intended that these facilities be provided at prices subsidised by the superannuation scheme, this type of investment is questionable on financing grounds.

It has been argued that one way of accommodating these sorts of investments in a superannuation scheme, would be to limit them to a small proportion of fund assets. That way, if the services provided by the investment are subsidised and/or provide significant non-pecuniary benefits, the effect on overall investment performance and cross subsidisation between members will be minimized. This point was made in a submission by the Victorian Womens Advisory Council to the Premier who suggested that child care facilities may be a useful area of investment. They argued that:

"...in the case of possible 'social' areas of investment vis-a-vis high rate of return investment options (from, for example, investment of funds on the share market) it is considered a balanced investment portfolio should be the objective. Areas of acute need from the perspective of labour market participation of women can be addressed if, for instance, even a quarter of a percent of total funds available were invested in the establishment of child-care facilities. A major 'social' rate of return would be achieved without a significant impact on 'economic' rates of return."⁽⁴⁾

The sentiments expressed by proponents of non-traditional or divergent investment in Victoria indicate that the subject is still in the formative stages of debate. In comparison, the pursuit of divergent investment and debate on the subject is considerably more advanced in the USA. For instance, the American Federation of Labour - Congress of Industrial Organisations (AFL-CIO), a major labour organisation, has indicated that four strategies should be pursued by those in control of employee pension funds:

- "(1) investment in projects that promote development of communities where beneficiaries live, i.e. a regional emphasis on investment decisions;
- (2) investment preference for firms with largely domestic work forces in order to promote domestic employment;
- (3) investment in firms with "good" labour relations rather than those with strong anti-union records or attitudes in order to "promote

positive labour relations, employer compliance with the labour laws, and industrial stability"; and

- (4) investments that generally tend to promote the ready availability of "food, shelter and energy for fund beneficiaries." "(5)

The AFL-CIO are therefore advocating a wholesale shift in investment philosophy more far reaching than the partial approach inherent in the Australian examples quoted above. Not surprisingly this declaration stimulated vigorous opposition from non-union interests on a number of fronts.

The Committee also sees several reasons for questioning the pursuit of such objectives. First and foremost, investment in projects that impair the earning rate of the fund will require either that benefits are reduced and/or that contributions must be increased. Because the employer has traditionally been the one to pay the extra contributions needed to balance actuarial deficits the members of superannuation schemes might similarly expect them to subsidise divergent investment. However, if the effect on income was substantial the pressure for a reduction in benefits or a foregoing of expected increases in benefits may become irresistible in the longer term.

Secondly, it is argued that selective investment in favoured firms, for instance, will not influence the fortunes of those firms. The motive presumably is to effect a redistribution of capital between favoured and non-favoured firms by denying capital to the latter. However, in an efficient capital market all that is likely to happen is that superannuation fund capital would substitute for other capital and the firms would be no better off. As an alternative, divergent investment to protect employment could take the form of concessional finance to declining labour intensive industries, but inevitably this would involve a trade-off between the retirement incomes of present employees and their present income.

There are also a host of allocative problems. For instance the following questions are raised:

- (a) Which divergent goals shall be pursued?
- (b) What priorities shall rank the divergent goals if more than one is to

be pursued?

- (c) Who decides what shall be the goals and priorities?
- (d) What information are investment decisions to be made on, compared with say price earnings ratios or rates of return?
- (e) How to deal with the inevitable and enormous clamour for funds except on a political basis?
- (f) How does one evaluate the portfolio managers' performance?

THE PROBLEMS WITH DIVERGENT INVESTMENT ARE SUCH THAT THE COMMITTEE COULD NOT SUPPORT ITS PURSUANCE EXCEPT IN SPECIAL CASES AND ON A MINOR SCALE. THIS IS ESPECIALLY SO GIVEN THE GENERALLY POOR INVESTMENT PERFORMANCE OF THE PUBLIC SECTOR SCHEMES. IF DIVERGENT INVESTMENT OBJECTIVES ARE TO BE PURSUED AT ALL, THE COST IN TERMS OF INCOME FOREGONE SHOULD BE REPORTED.

5.1.5 Investment Constraints in the Public Sector

The concern expressed by a number of bodies over the investment performance of Victorian public sector superannuation schemes led the Committee to engage consulting actuaries, Campbell and Cook, to review a number of aspects of the investment performance of selected Victorian funds including the effects of investment constraints. The concluding sections of this chapter draws heavily upon their report.(6)

For those schemes established by an Act of Parliament investment powers are relatively restricted. In those schemes established by trust deed the investment powers are usually wider, extending in particular to investment in shares. Several such schemes have virtually no investment constraints.

Information available to the Committee suggests that there are ten schemes which have particularly restricted powers of investment. This distinction ignores such funds as the Port of Melbourne Scheme, which does not have the facility to make investments (the fund is notional), the totally unfunded schemes such as the Judges Pension scheme, and those funds that are maintained by some organisations covered by the State Superannuation scheme such as the Country Fire Authority.

The ten schemes are:

- (a) Hospitals';
- (b) Local Authorities';
- (c) Metropolitan Fire Brigades';
- (d) SERB;
- (e) State Superannuation;
- (f) State Superannuation Lump Sum;
- (g) Port of Geelong;
- (h) State Bank;
- (i) Supreme Court Associates; and
- (j) County Court Associates.

Typically, the regulation or legislation that governs the superannuation scheme specifies what the scheme may invest in rather than what they may not invest

in. A common basis for specifying investment restrictions are the powers described in the Trustee Act 1958. Variations of these powers are applicable to most schemes established by legislation. Campbell and Cook question:

"... whether the first 'model' of these investment powers has merely been adopted unthinkingly for more recent schemes, and from there whether the subject of 'continuing appropriateness of powers' is under any sort of review, and, if so, by whom and on what grounds."(7)

A number of submissions commented on investment restrictions and the broad consensus was that the funds should have broad powers of investment so as to give the funds the greatest potential to maximize their returns. This is essentially the point made in submissions by the Association of Consulting Actuaries of Australia and the Association of Superannuation Funds of Australia. For instance, the latter submission suggested that:

"It would probably be generally accepted that the scheme should operate under wide investment powers so that it is not unreasonably inhibited in its investment policy. If a scheme is restricted this will probably restrict its investment yield...."(8)

None of the ten schemes named above are permitted to invest in shares. Whilst there are other restrictions, such as on investment in land outside of Victoria, the inability to invest in shares is potentially the most important in terms of investment performance. This is demonstrated by the results of the investment performance survey of certain superannuation funds that is regularly undertaken by Investment Measurement Services Pty. Ltd. The results of this survey show that, for the seven year period to June 1983, investment in shares yielded the greatest rate of return (18.6% per annum) followed by property investments with 15% per annum (Table 5.4).

TABLE 5.4

INVESTMENT RETURNS BY SECTOR

Sector	7 Years to June 1983 (% p.a.)
Shares	18.6
30/20 Assets	10.1
Property	15.0
Other Assets	12.5

Source: The IMS Survey, Nineteenth Report, Periods Ending 30 June 1983, IMS Pty. Ltd.

However, while investment in shares gave the greatest return over that period, the Committee recognises that the returns on this type of investment are subject to marked cyclical fluctuation and the results of such surveys of performance are thus sensitive to the time period chosen. The experience of the Egg Board Staff scheme illustrates this point. The schemes' investment portfolio yielded a negative income result in the year to 30 June 1982 due to adverse movements in the market value of share holdings. In the year to 30 June 1983, a more buoyant year on the stock market, the scheme achieved a 31% return on investments.

It was noted above that Victorian public sector superannuation schemes held, on average, a much lower proportion of their assets in shares than the private sector schemes. The average figure disguises the fact that some funds have quite large share portfolios. These include such notable examples as the Gas and Fuel Corporation scheme (39.3%), and the SEC Superannuation scheme (18.7%). Both of these schemes were included in the consultants' investment performance survey and they are among the best performing schemes. Unfortunately, it was not possible to undertake that performance survey on a sectoral basis (i.e. shares compared with property etc.) because there were insufficient data. Hence, it is possible only to say that those funds which have

share portfolios have performed better than average and that some of that performance is, most likely, attributable to that fact. The Campbell and Cook report supports this assertion stating that:

"The funds with reasonable or above average performance are generally those with Professional Managers and/or those which have invested a significant proportion of their assets in Ordinary Shares."(9)

THAT INVESTMENT IN SHARES IS FRAUGHT WITH UNCERTAINTY IS SOMETHING THAT THE COMMITTEE ACKNOWLEDGES - THE PRICE OF A GREATER RETURN IS GREATER RISK. WHILST THE VALUE OF ORDINARY SHARES MAY FLUCTUATE WIDELY IN THE SHORT TERM, SHARES AND PROPERTY HAVE BEEN DEMONSTRATED TO BE THE MOST LIKELY TO PRODUCE REAL RATES OF RETURN (I.E. GREATER THAN INFLATION) OVER THE LONGER TERM AND HENCE THEY ARE ESPECIALLY IMPORTANT INVESTMENT AVENUES FOR DEFINED BENEFIT SCHEMES.

THE COMMITTEE ALSO ACKNOWLEDGES THAT CONSIDERABLE EXPERTISE IS REQUIRED TO MANAGE A SHARE PORTFOLIO AND THAT SOME SCHEMES MAY NEITHER HAVE THAT EXPERTISE NOR BE ABLE TO JUSTIFY HAVING A FULL TIME SHARE MANAGER. THIS HAS NOT PRECLUDED SOME SCHEMES FROM PARTICIPATING IN THE SHARE MARKET BY WAY OF AN EXTERNAL MANAGER (E.G. THE EGG BOARD STAFF AND THE ZOO SCHEMES), AND IS THEREFORE NOT, OF ITSELF, SUFFICIENT REASON FOR MAINTAINING A POTENTIALLY DEBILITATING RESTRICTION ON INVESTMENT IN SHARES.

5.1.6 Management Attitudes and Management Performance

THE FACT THAT INVESTMENT RESTRICTIONS IN GENERAL AND THE RESTRICTIONS ON THE INVESTMENT IN SHARES IN PARTICULAR ARE STILL OPERATIVE IS DUE IN NO SMALL PART TO THE CONSERVATISM OF SOME SCHEMES' MANAGERS.

Although the primary responsibility of the boards of trustees is to manage the schemes, they are in a strong position to initiate and support change.

However, it appears that the managers of those funds that have investment restrictions have in general been opposed to such a change.

For example Mr. Torrens, in his capacity as Chairman of the State Bank scheme said in evidence to the Committee:

"All sorts of results could be produced from investments in ordinary shares. That has been discussed over the past 15 years and the fund is glad it has not been involved in ordinary shares. It has been the opinion of the bank that it has been relieved of great responsibility in determining which shares will not depreciate."(10)

Mr. K. Fry, Chairman of SERB was similarly opposed to investment in shares:

"I believe that equities, which are inclined to go up and down much more than fixed interest securities, destabilise a fund and it is very difficult to explain to a man who goes out one year why he gets less than the persons who went out the year before. I have always been somewhat opposed to equity investment for superannuation purposes."(11)

Two people who have been in an influential position with respect to a number of the schemes and who have resisted the liberalisation of the powers of investment are Mr. J.M. Ryder and Mr. V.H. Arnold.

Mr. Arnold was the Government Statist and Actuary before Mr. Ryder, and he was also Chairman of the State Superannuation Board and an influential person in the establishment of SERB. As well he is the sole actuary for the Local Authorities, Metropolitan Fire Brigades, SERB and Port of Melbourne schemes, joint actuary to the State scheme and the actuary for the pension part of the Hospitals' scheme.

Mr. Arnold's philosophy on investment in shares and the perception of his own responsibilities as an actuary are clear in a statement he made during the public hearing for the Local Authorities' Scheme:

"MR. ARNOLD: ...I would think there are few other pools of money that need to be protected, as a person's life savings and an employer's life

savings are set aside to look after that person when he can no longer work. Where are these groups that need State Government protection more than that?

In these days of equity investment, if one cannot afford to get the latest information about what is going on internationally, how can a board ever come to conclusions that the future is good for a particular company. It all sounds very nice and one can look at the performance of other companies but one cannot compare one fund with another unless one knows every item of investment that has been made.

There are so many different practices. It is like trying to compare one life company with another. It is meaningless.

In equities, one buys a company's shares and if that company winds itself up one can make a loss. What effect does that have on the balance sheet?

THE CHAIRMAN: We do not necessarily agree with that. Many people make a lot of money out of comparing performance.

MR. ARNOLD: But you do not get the right answer. That is why this board has not moved very much in that direction. It is better to blame me for not making the initiative. I never introduced the idea that they should not, but since I have to advise them annually about the nature of their investment, if I had put it in they might have made a move to do it."⁽¹²⁾

Mr. Arnold's comments display considerable concern for the security of persons savings through superannuation. Clearly he regards investment in shares as an unacceptable risk. However, by not being able to invest in shares, retirement benefits may ultimately be diminished by a reduction investment performance. Mr. Arnold has probably been the most influential person in Victorian public sector superannuation in the recent past. His philosophical attitude to investment in shares is reflected in the restricted powers of those schemes with which he has been closely associated. To the extent that he influenced the schemes to maintain this restriction the Committee believes

that he must accept much of the blame for the resulting poor investment performance.

The Committee notes with interest that the Local Authorities Superannuation Board recently declared that they are seeking to have their investment powers extended to include investment in shares. Presumably this was not initiated by Mr. Arnold. It is also most timely in view of the Committee's findings on the investment performance of that scheme.

This conservative influence has been maintained by the current Government Statist and Actuary, Mr. J.M. Ryder. Mr. Ryder is, among other things, also the Chairman of the Hospitals, Metropolitan Fire Brigades and State Superannuation schemes. During the hearing for the Metropolitan Fire Brigades scheme he compared the investment powers of the Hospitals scheme (who by virtue of the power to invest in life companies can indirectly invest in shares) with those of the Metropolitan Fire Brigades and the State Superannuation schemes pointing out that they cannot invest in shares even indirectly. However, he did not offer an opinion as to whether it was desirable to have that power, preferring instead to attribute the fact to Government policy. This comes out in the following discussion:

"THE CHAIRMAN: Did you say you would like the flexibility that the Hospital Superannuation Scheme has in regard to investments?

MR. RYDER: It is not a case of liking or disliking. It is a case of recognising that that sort of investment power exists. It is a matter of Government policy that the Hospitals' Superannuation Board can invest in these equities. It is a matter that the State Superannuation Board cannot invest in these areas.

THE CHAIRMAN: But I understood Mr. Watt (Secretary of MFB scheme) to say you were quite satisfied with the rate of return you were getting on investments. Later on you indicated in your capacity as chairman of the Hospital Superannuation Board there was a higher rate of return than the 13% you mentioned earlier. Therefore, you have the power to put to the Government the change in these investment criteria which is needed and you said you did not see the need.

MR. RYDER: I am saying the Government policy is different for these various organisations and it is not for me to comment upon Government policy.

THE CHAIRMAN: But you are a trustee of the Fire Brigade Board?

MR. RYDER: As a trustee I simply administer the scheme. I also administer the Hospitals' Superannuation Board scheme. There is a different rate of return in both cases and it is not for me to comment on the reasons why there is a difference."⁽¹³⁾

The Committee does not accept Mr. Ryder's argument that scheme managers are not in a position to initiate or support particular policies nor is it satisfied that reference to government policy should serve as an excuse for inactivity on this front. The Committee does not wish to give the impression that Mr. Ryder is the only representative of the schemes with responsibility or influence over investment policies of these schemes. Other members of the schemes may be opposed to making such changes - for instance Mr. P. Leonard-Kanevsky, the teachers' representative on the State Superannuation Board made similar objections to those of Mr. Arnold in a private submission.⁽¹⁴⁾ The Committee notes that Mr. Ryder was Chairman of the Boards of the Hospitals, Metropolitan Fire Brigades and State Superannuation Schemes, Joint Actuary to the State Superannuation Scheme, Chairman of the Superannuation Advisory Group and the Treasurer's Consultative Committee on Superannuation, and, for a time, Director of Superannuation in the Department of Management and Budget.

MR. RYDER HAS BEEN IN A UNIQUE POSITION TO INITIATE AND SUPPORT A UNIFORM AND RATIONALISED APPROACH TO INVESTMENT POWERS. IN PRACTICE HE WAS RELUCTANT TO EVEN OFFER AN OPINION ON THE ISSUE.

THE COMMITTEE CONSIDERS THAT THE LEGISLATIVE RESTRICTIONS ON INVESTMENT POWERS ARE FAR TOO SEVERE. SUCH A STRAIT-JACKET NOT ONLY ENCOURAGES A CONSERVATIVE ATTITUDE IN FUND MANAGERS BUT REDUCES OPPORTUNITIES TO OPTIMISE THE RETURN.

5.1.7 Own Undertaking Investment

A number of the Victorian public sector superannuation schemes have a considerable proportion of their assets invested in what is called 'own undertaking'. This refers to investment in the parent body. Table 5.3 above shows that of the schemes which have assets of more than one million dollars, the two SEC schemes and the Local Authorities scheme each have about 50% of their assets in this form of investment, the MMBW Superannuation scheme has 27.5% and the City of Melbourne Superannuation scheme has 19.3%. The Port of Melbourne scheme effectively has 100% of its investment in the parent body but this is in a notional sense.

OWN UNDERTAKING INVESTMENT IS CONSIDERED UNWISE IN THE PRIVATE SECTOR FOR THE SAME REASON THAT FUNDING IS FAVOURED - TO PROTECT THE MEMBERS' BENEFITS IN THE EVENTUALITY OF BUSINESS FAILURE. THIS IS A MOST UNLIKELY OUTCOME FOR MOST PUBLIC SECTOR ORGANISATIONS, INCLUDING THOSE MENTIONED ABOVE. HOWEVER, NOT ALL AREAS OF THE PUBLIC SECTOR MAY CONTINUE INDEFINITELY, AT LEAST IN THEIR CURRENT FORM, HENCE OWN UNDERTAKING INVESTMENT COULD POSE PROBLEMS IN SOME SITUATIONS.

The Port of Melbourne Authority (PMA) is a case in point. The PMA scheme is in practice a totally unfunded scheme, i.e. employee contributions are credited to a notional account. However, there are no specific assets and the authority meets all benefit payments out of its current revenue as they fall due.

The Committee notes with concern that if, for any reason, the PMA were to be wound down, or even if a part of it were to be sold, the government would be obliged to step in to meet existing superannuation liabilities.

Prudential considerations aside, the investment of superannuation assets in the employing authority is not, of itself, a reason for poor performance. That would depend on the return offered by the investment. In one case, the SEC Employees' scheme, it was the high return on such assets which contributed to good performance. The majority of own undertaking investment by the two SEC schemes is the result of the SEC retaining their contributions within their

working finances. This financing technique was introduced in response to Loan Council restrictions which increasingly constrained the SEC's ability to finance capital works by its normal borrowing program. At 30 June 1982 the SEC Superannuation scheme had a credit of \$205.5 million with the SEC in this form and the corresponding figure for the SEC Employees scheme was \$15.8 million. The SEC pay interest on these retained contributions at 0.5% above the rate determined by Loan Council as the maximum interest rate applicable to private loan raisings by semi-government authorities. Mr. Trethowan, Chairman of the SEC stated that:

"It is a 0.5% above what the fund could have invested at outside, on private, long-term loan money at that stage. From the Commission's point of view it is too expensive. From the fund's point of view it is a reasonable rate of return."(15)

THE COMMITTEE NOTES THAT, AS ATTRACTIVE AS THIS INTEREST RATE MAY BE, THE PRACTICE HAS EFFECTIVELY TIED UP ONE HALF OF THE ASSETS AND RESTRICTED THE FLEXIBILITY OF THE TWO SCHEMES.

However, with the recent freeing of the Loan Council guidelines with respect to borrowings by electricity authorities, the SEC's dependence on this form of financing has decreased. Thus it might be expected that the amount invested by the schemes in this manner will decrease in the future. This is apparent from a comment by Mr. Trethowan:

"With the freeing of the rules as far as overseas and local borrowing is concerned, from the Loan Council, we are now in a position to consider whether that investment should be retained in the Commission at that maximum rate, plus the 0.5%, or whether that money should now be transferred."(16)

The case of the Local Authorities scheme was documented in a previous section on divergent investment. The Local Authorities scheme makes loans to local authorities and has about 50% of its assets held in this form. The City of Melbourne Officers Superannuation scheme have made a number of loans to the City of Melbourne. At 30 June 1982, these amounted to some \$3.0 million

or 19.3% of the assets of the scheme. In both of these cases the loans are secured against future rate revenue and therefore there is little risk involved.

The other major example of own undertaking investment is the loan by the MMBW Superannuation scheme to the MMBW for the purpose of building new depots. This amounted to \$19.8 million or 27.5% of that fund's assets at 30 June 1982. The loan was made by way of promissory notes which earn interest at the rate determined by the Loan Council for long term private borrowings by semi-government authorities.

5.1.8 Property Investment and Management

Most of the larger schemes now invest in property. Property, like shares, is commonly regarded as an appropriate investment for hedging against inflation and is therefore particularly well suited to the long term investment requirements of superannuation schemes. However, Campbell and Cook were somewhat wary about the schemes' experience and abilities to manage property portfolios. They were prompted to comment that:

"Some funds are now investing significantly in property, but with relatively small numbers of individual investments. One must have some concern about the expertise available to the funds in this area. There may therefore be scope for inexperienced staff to be exploited somewhat by outside advisers, and this point should at least be considered by the Committee.

There would seem to be a strong case that all property investment should be done through the property pools of the professional superannuation fund investment managers or, alternatively, through one large property investment pool established for all public sector funds. It certainly seems wasteful for all of them to attempt to develop their own specialised expertise in this area, or for that matter in the wider investment area."(17)

The Committee has identified two cases where property owned by superannuation funds is leased to the parent organisation. Such an arrangement inevitably produces a conflict of interest as it is difficult for two parties to arrive at a rental fee that doesn't favour one or the other, i.e. the employing body or the superannuation fund. This is especially so where senior executives of the organisation are also trustees of the superannuation scheme.

An example of this type of investment is found in the portfolio of the Totalizator Agency Board (TAB) Superannuation scheme. The TAB have some 420 outlets or agencies in Victoria. About forty of these are owned by the TAB Superannuation scheme, about ten are owned by the TAB itself and the remaining agencies are leased.

The general manager of the TAB, Mr. Rutter, is one of three trustees of the TAB Superannuation scheme and the only trustee from the staff (the other two Trustees are the Chairman and a member of the board). In responding to a question about a conflict of interest between the scheme and the TAB Mr. Rutter explained the process whereby a rental fee is derived for agencies owned by the fund:

"There is a possibility of conflict, but we try to draw a line between two indices. With the TAB leasehold premises, we try to obtain a rental which is about half a per cent of turnover. With the superannuation fund we aim to get a return on investment of 10% plus capital gain. Between those two figures we do the sums and work out which is the right spot to strike in the middle. If we cannot get a reasonable return on investment of the fund, it is not on. We have purchased a lot of agencies that were already in on a leasehold basis."(18)

The Committee is concerned about the application of this investment criterion following earlier comments by Mr. Rutter and Mr. Forsyth, Secretary of both the TAB and the TAB Superannuation scheme:

"MR. RUTTER: We own about 40 properties and in the main they are TAB agencies, just sole properties. In some cases they are complexes where there may be a TAB agency and shops.

THE CHAIRMAN: Where there is a TAB agency could it contain that only?

MR. RUTTER: Yes.

MR. FORSYTH: That is not necessarily the investment criteria that there be a TAB there. There are no restrictions.

THE CHAIRMAN: Are you talking about property investments there?

MR. FORSYTH: Yes.

MR. RUTTER: It has been a decision to suit the TAB to give the TAB security of tenure on a favourable rate." (19)

THE COMMITTEE IS CONCERNED ABOUT THE TAB SUPERANNUATION FUND PURCHASING TAB AGENCIES AND LEASING THEM BACK TO THE TAB WHEN IT APPEARS TO BE DIFFICULT TO ENSURE THAT THE LEASING ARRANGEMENTS ARE SET AT MARKET RATES.

A further example of a scheme owning property that is leased back to the parent body is the case of the State Bank scheme which has invested in shopping centres where agencies of the bank have later been established. Mr. Torrens, then General Manager of the Bank and a member of the scheme's management committee explains:

"MR. TORRENS: ... In a couple of cases, shopping centres have been purchased and the section of the bank which examines the establishment of branches has stated that it would like a branch at that shopping centre. In that case, it has taken space on the same terms and conditions as any other retailer. There are two cases out of 531 branches and the area they occupy is approximately 2% of the total retail space. It is a matter of convenience rather than of conflict of interest.

THE CHAIRMAN: Do the commissioners have a policy regarding that?

MR. TORRENS: If possible it is avoided. The provident fund moneys are not used for that purpose.

THE CHAIRMAN: Why?

MR. TORRENS: In the long term, it could lead to a conflict of interest. If it was in the interest of the fund to dispose of the property and if a branch was established at that property, it could be argued that this may be a factor in not disposing of the property." (20)

The State Bank case is more of an arm's length arrangement than exists in the TAB. Nevertheless, there is still a conflict of interest.

The SEC has found one way of overcoming this problem. According to Mr. Trethowan, Chairman of the SEC, the SEC would have to pay a very high rental if they wished to lease premises from the schemes:

"MR. TRETOWAN: ... The rules are such it is prohibitively expensive for the Commission to do that. The rules say the rate of return to the fund must be set at the highest private borrowing rate set and we just could not afford it.

THE CHAIRMAN: Why was that put into the rules?

MR. TRETOWAN: To protect the fund so you could not come across the situation where the Commission was using fund money to provide cheap accommodation."(21)

5.1.9 Housing Mortgages

THE PROVISION OF HOUSING FINANCE TO SCHEME MEMBERS HAS BEEN IDENTIFIED AS A POTENTIAL AVENUE FOR DIVERGENT INVESTMENT. SUCH A FACILITY, IF OFFERING CONCESSIONAL INTEREST RATES, WILL OF COURSE REDUCE THE EARNING CAPACITY OF A SCHEME'S INVESTMENT PORTFOLIO. THE COMMITTEE CONSIDERS IT IMPORTANT THEREFORE TO EXAMINE THE CURRENT ARRANGEMENTS GOVERNING THE PROVISION OF HOUSING FINANCE BY VICTORIAN PUBLIC SECTOR SCHEMES.

Four schemes have invested part of their assets in housing mortgages to members of the scheme. A fifth scheme, the City of Melbourne Officers' scheme has some 17.4% of its assets invested by way of housing mortgages, but none is in the hands of members of the scheme. Table 5.5 shows the amounts invested in housing mortgages, the proportion of each scheme's assets this comprises and the interest rates charged. As well, a very small proportion of the assets of the Port Phillip Pilots Sick and Superannuation and the Zoo schemes are held by way of housing mortgages (about \$40,000 and \$6,000 respectively at June 1982).

Investment in housing mortgages by the City of Melbourne Officers' scheme is done on a discretionary basis after consideration by the fund manager of submissions by solicitors, public accountants and the like. The amounts lent are limited to 60% of the sworn valuation and in keeping with this type of housing finance the interest charged is high relative to bank and building society rates, i.e. 16.25% compared with the bank rate at the time of the hearings (July 1983) of 12.5%. It is also high relative to the interest rates of the other schemes listed in Table 5.5

All but one of the other schemes set their mortgage rates having regard to the prevailing bank and building society housing finance rates. Whilst these rates are still reasonably favourable to the mortgagor they are much higher than the concessional rates charged on housing loans from the Gas and Fuel Corporation scheme. Their long term mortgage finance rate was, until recently, only 8%. This is being revised to 10% when each mortgage comes up for review. Not surprisingly, with only 1% of funds ear marked for this purpose, demand

TABLE 5.5

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
HOUSING MORTGAGE INVESTMENTS
AS AT JUNE 1982

Scheme	Amount (\$M)	Proportion of Assets (%)	Interest Rates(a) (% p.a.)
City of Melbourne Officers'	2.8	17.4	16.25
Gas and Fuel Corporation	2.6	3.2	8.0(b)
Hospitals	6.4	5.4	13.5
Metropolitan Fire Brigades	8.1	13.0	14.5
State Superannuation	76.4	10.3	14.5

(a) At time of hearing, i.e. July 1983 (bank rate at that time was 12.5%)

(b) Short term or bridging finance at 15% is also available in some cases.

exceeds supply and queuing results. In fact there is more than 1% of total assets invested in housing mortgages because the scheme also provides short term loans at 15% for people wishing to purchase homes just prior to retirement.

The provision of low interest housing finance to members was seen by the Gas and Fuel Corporation representatives attending the public hearing as one way of benefiting members during their working life. However, borrowers who are getting a concessional interest rate are benefiting at the expense of the earning rate of the fund and hence at the expense of the employer and/or other employees in the longer term. Also, rationing of available credit by queuing can only widen the gap between those who have been fortunate enough to obtain finance and those who have not. Despite the recent increase in mortgage interest rates the Committee feels that the time is long overdue for a complete revision of this arrangement.

Housing mortgage finance has an additional role in the Hospitals' scheme. That scheme is voluntary and according to representatives of the scheme the availability of housing finance to members is a major selling point of the scheme. With the interest rate set at 1% above the normal bank rate, but with less stringent qualifying requirements, the popularity of this facility is understandable. No limit is placed on the proportion of the fund that may be channelled into housing mortgages, the result being that about 5.4% of assets is invested in this manner.

In contrast to normal practice the interest rate structure used by the Hospitals' scheme does not vary with the size of the mortgage. As a result some of the large loans made by the Hospitals' scheme are at very favourable rates. One result of this is that five loans of over \$100,000 have been made - all of them to doctors - at interest rates that would not have applied to any similar sized mortgage loan at the time. As at October 1983, the largest loan of \$160,000 had an interest rate of 12% and the next largest at \$150,000, a mere 10.5%. In comparison, the State Bank rate for mortgages over \$100,000 is negotiable, but typically it was about 16% at that time.

The interest rate for each mortgage loan made by the Hospitals scheme is reviewed every three years. Equity problems can arise between new and existing mortgages because of this method of setting interest rates. For example, the rates quoted above for the two largest loans are considerably less than the 13.5% that would have been charged on a new mortgage at that time.

The State Superannuation and Metropolitan Fire Brigades schemes have a housing mortgage facility for members and both had interest rates set at 14.5% as at July 1983. Despite this rate being higher than that charged by the the Hospitals' scheme, they have lent out a larger proportion of their assets in this form (10.3% and 13.0% respectively). In both cases, the interest rate is determined by board policy. The most recent decision by the Metropolitan Fire Brigades' scheme was to set the rate at 1% above the rate set by the State Bank, i.e. 12.5%. The State Superannuation scheme on the other hand takes into account a broad range of interest rates and claim their interest rates are set at 'commercial' levels.

The interest rate on housing mortgages is reviewed every three years in the Metropolitan Fire Brigades' scheme and every five years in the State Superannuation scheme. Shortly though, mortgage holders under the State scheme will be offered the choice of switching to a fluctuating interest rate. Both of these schemes limit repayments to 25% of the contributors salary unlike the Hospitals scheme's more flexible arrangement that uses total household income for the base. This serves to highlight the relatively more generous provisions of the Hospitals' scheme.

The Metropolitan Fire Brigades' scheme rations mortgage loans by limiting them to five per month on a first come, first serve basis. The reason for this is that the administrators of the scheme are not able to process any more than this number. The State Superannuation scheme, on the other hand, places no limit on the number of mortgages or the proportion of total assets so allocated. At the present time, the State Superannuation scheme, while only investing 10.3% of its total assets in mortgages has \$76.4 million in housing loans.

A final point to note in the case of housing mortgages is that they lock the fund into a potentially long term investment and thus reduce managerial discretions to vary the portfolio mix to take account of changing yield structures.

5.2.1 Monitoring Investment Performance

Victorian public sector superannuation schemes have placed little emphasis on consistent and comparative monitoring of their investment performance. The majority of schemes were unable to supply the Committee with any readily comparable performance indicators of their investment activity. Consequently, the Committee has had to draw heavily on the Campbell and Cook report regarding the investment ranking and performances of twelve of the major schemes.

As a general premise it is necessary to monitor performance to assess whether or not an objective is being achieved efficiently. Given the cost implications associated with higher or lower investment returns there exists a strong motive to maximise returns and ensure that there are methods to scrutinise actual performance. Recognition of this has led to the growth of investment performance surveys amongst private sector schemes over the last ten years. Campbell and Cook assert that: "Without the spur of competition by comparison, it is not surprising that the public sector funds do not show up well in this survey." (22)

The consultants analysed investment data provided by the schemes and calculated time weighted investment returns for 5, 3 and 1 year periods. Only major schemes that had sufficient data to calculate returns over the full 5 year period were included. The results were compared to some general financial indicators, ranked in comparison with the performance of a survey of private sector schemes, and estimates made of the potential earnings of the investment funds if private sector investment managers had been employed.

5.2.2 Time Weighted Returns

Campbell and Cook estimated the yield on the investments of the twelve schemes using the system they have applied over some years in the private sector. The time weighted return (TWR) method was used to remove the effects of large cash flows, a factor not usually under control of the

investment management. Table 5.6 shows the TWR earned by the schemes over the five, three and one year periods ending 30 June 1983.

TABLE 5.6

MAJOR VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
TIME WEIGHTED INVESTMENT RETURNS (TWR's)

Scheme	Range of TWR's for Periods Ending 30 June 1983		
	5 years (% p.a.)	3 years (% p.a.)	1 year (% p.a.)
State Superannuation	7.5	10.8	22.1
SECV Superannuation	14.2	14.1	20.0
Local Authorities*	7.9	9.4	21.2
State Bank	9.1	n.a	25.7
Hospitals	13.3	12.8	21.2
Gas and Fuel Corporation	15.7	9.8	24.1
MMBW Superannuation	11.7	14.3	21.0
Metropolitan Fire Brigades	11.8	12.8	20.0
SEC Employees'	18.0	14.0	19.9
Parliamentary	12.2	13.5	19.4
City of Melb. Officers'	9.5	11.4	22.6
TAB	13.2	14.9	19.4
Average Value	12.4	12.8	21.4
Median Value	12.2	13.2	21.0

* The Local Authorities scheme balances on 28 February and TWR's are for periods ending 28 February 1983. The yields quoted are therefore not strictly comparable. They have been excluded from the calculation of both average and 'median' value.

n.a. 3 year figures for the State Bank scheme were not available.

Source: Campbell and Cook, Investment Performance Survey of Selected Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February, 1984.

A limitation of the TWR method is its sensitivity to the end-points chosen for the period of review. Varying market conditions may mean that a very different result is obtained for a single scheme merely by altering the valuation period by as little as three to six months. Nevertheless, Campbell and Cook claim that:

"We are satisfied that the conclusions drawn from this survey on the basis of the five year TWRs provide a realistic assessment of investment management." (23)

Apart from a few schemes with favourable results, notably the SEC Employees scheme with a five year return of 18%, the overall level of investment return indicated by the survey results is low. Perhaps the most startling result is that four schemes, accounting for some \$1.3 billion in assets, produced returns of less than 10% over the five year survey period. Indeed, over both five and three year investment periods the State Superannuation scheme, the largest in the State is one of the worst performers.

5.2.3 Comparative Investment Performance

The absolute rates of return shown in Table 5.6 can also be utilised to obtain measures of comparative investment performance. A comparison must be made against relevant financial indicators which reflect investment conditions or opportunities in the market over the corresponding periods of time. Campbell and Cook used the following indicators for the comparison:

"The **Campbell and Cook Index** is based on the average yield of schemes participating in the Campbell and Cook Survey and therefore indicates the average return on superannuation funds which hold 30% of their assets in the public sector. As at 30 September 1983 there were 420 funds participating in the Campbell and Cook Survey.

The yield on **91-day Treasury Notes** is a good indication of the risk free rate of return, as a result that can be achieved with complete safety, and without requiring any skill.

The **Balanced Portfolio** shows the yield which would be obtained from a fund invested in broadly based indices in the proportions: 40% shares; 25% property; 5% liquid assets; and 30% Commonwealth bonds. This is a result which can be secured without requiring any skill since it assumes that investment is made automatically in the securities represented by the indices.

The **70% Share Portfolio** shows the yield from a fund which is invested 70% shares and 30% Commonwealth Bonds as represented by the indices.

The **Bond Accumulation Index** is based on the Commonwealth Bond Accumulation Index (all non-rebateables, all periods) prepared and published by the Commonwealth Bank.

The **Share Accumulation Index** is based on the Australian Stock Exchanges Share Accumulation Index (all ordinaries) for the period since 1 January 1980 and prior to that date the Statex Actuaries Accumulation Index.

The **Sample Life Office Funds** show the average of the yields achieved by two major life offices in the key investment sectors." (24)

Table 5.7 illustrates the average, highest and lowest returns for the schemes under review (excluding the Local Authorities scheme because of its different reporting date) against these indicators of financial conditions.

The poor investment performance achieved by the Victorian public sector schemes is highlighted in this table.

THE COMMITTEE NOTES THAT THE RETURN ACHIEVED BY THE PUBLIC SECTOR SCHEMES OVER THE FIVE YEAR PERIOD ENDING 30 JUNE 1983 WAS 28% LESS THAN THE RESULTS OF THE 250 PRIVATE SECTOR SCHEMES SUMMARIZED IN THE CAMPBELL AND COOK INDEX, I.E. 12.4% COMPARED WITH 17.2%.

Over the five year period to June 1983, the public sector schemes achieved, on average, only a marginally better result than could have been obtained simply

TABLE 5.7

COMPARATIVE INVESTMENT PERFORMANCE
FOR PRIVATE AND PUBLIC SECTOR SUPERANNUATION PORTFOLIOS

Indicator	Average Annual Return for Periods ending 30 June 1983		
	5 years	3 years	1 year
	(% p.a.)	(% p.a.)	(% p.a.)
Campbell & Cook Index	17.2	13.0	24.2
CPI	10.1	10.3	11.2
91-Day Treasury Notes	12.1	14.0	14.2
Balanced Portfolio	15.5	10.0	24.8
70% Share Portfolio	16.8	6.1	30.8
Bond Accumulation Index	8.5	11.2	21.0
Share Accumulation Index	19.7	3.4	34.7
Sample Life Office Funds			
Shares	21.7	7.4	34.9
Property	15.7	16.5	14.4
Fixed Interest	11.5	13.8	26.9
Govt.	7.8	11.6	21.4
Victorian Public Sector			
Average	12.4	12.8	21.4
Highest	18.0	14.9	25.7
Lowest	7.5	9.4	19.4

Source: Campbell & Cook, Investment Performance Survey of Selected Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February 1984.

by holding 91 day Treasury Notes to maturity over that period. Campbell and Cook use the yield on 91 day Treasury Notes as indicative of the rate of return that can be achieved "with complete safety and without requiring any skill."
(25)

When examining results of investment performance comparisons it is generally more relevant to select the longest sample period, in this case five years, because the effects of short term market volatility are reduced.

It is useful at this stage to examine more closely the figures in Table 5.7 for the sample Life Office funds. Campbell and Cook use the figures, detailed in

Table 5.8 to show how unrestricted investment powers can be turned to advantage by the skilled manager, yet equally can be a trap for the unwary.

"... it is apparent that monies invested in 'Shares' throughout the five years to 30 June 1983 produced a far better return than those invested in 'property', 'fixed interest' or 'government'. In total contrast, the position is reversed when the first two years are cut from the review period. The return on 'shares' during the last three years scarcely exceeded 50% of the 'fixed interest'. The following table shows the return earned by the sample Life Office Funds for each of the years ending 30 June 1979-1983. They show quite clearly that, of the last five years, four (those ending 30 June 1979-1981 and 1983) favoured shares vis-a-vis fixed interest securities while one favoured fixed interest. (A closer analysis would show that in fact "1½" years favoured fixed interest). Over the same period property has offered relatively stable, if unspectacular returns throughout." (26)

TABLE 5.8

SECTORAL INVESTMENT RETURNS

Sample Life Office Funds	Annual Return for year ended 30 June (% p.a.)				
	1979	1980	1981	1982	1983
Shares	23.5	74.4	25.7	-26.9	34.9
Property	14.8	14.1	15.6	19.7	14.4
Fixed Interest	9.1	7.2	8.3	7.3	26.9
Govt.	1.3	3.3	6.2	7.9	21.4

Source: Campbell & Cook, Investment Performance Survey of Selected Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February 1984.

Campbell and Cook, with the benefit of hindsight, have deduced what would have been the 'best' investment policy over the last five years:

"Ideally, a scheme would have continuously had a high exposure to ordinary shares through to (about) 30 June 1980 at which time the portfolio would have been restructured strongly towards short term fixed interest investment and property. In 1982 the share market bottomed and commenced a sustained (as yet unfinished?) recovery. Then was the time to realise short term assets for investment in shares.

If any lesson is to be learned it is that investment policy must be fluid and reflect an informed professional judgement of the future. Over the period under survey, as for all reasonably lengthy periods, a passive, static policy was virtually guaranteed not to give the best results. Several of the public sector schemes reviewed in this report have traditionally followed a passive investment policy. Redeemable securities, once bought, have merely been held to maturity. Even within the context of limited investment powers which oblige the fund to hold assets of this type, the result of such inaction is usually a poor relative yield. It is clear that if investment powers are widened to include equities, and the new powers were made use of, then to obtain good results a positive investment review policy would have to be adopted as well." (27)

5.2.4 Performance Ranking

A further guide to relative investment performance is obtained by comparing the public sector results against those actually achieved by other fund managers. Public sector schemes were allotted notional rankings within the Campbell and Cook Investment Performance Survey. The survey ranks the returns achieved by some 250 other schemes over five years and 400 schemes over the most recent year.

The ranking is the percentage position a fund would occupy if there were 100 funds involved and they were ranked in yield order, position one representing the highest yield and 100 the lowest. Table 5.9 shows the rankings achieved by the surveyed schemes.

Considering the rankings for the more indicative five year period reinforces the perception of the poor performance of public sector investments compared with the results achieved by private sector fund managers.

THE COMMITTEE IS MOST DISTURBED BY THE FACT THAT NINE OF THE TWELVE SURVEYED PUBLIC SECTOR SCHEMES WERE IN THE LOWEST TEN PERCENT OF PERFORMANCE RANKING POSITIONS OF ALL SCHEMES SURVEYED BY CAMPBELL AND COOK.

TABLE 5.9

NOTIONAL PERFORMANCE RANKING OF
VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

Scheme	Ranking for Period Ending 30 June 1983		
	5 years	3 years	1 year
1 State Superannuation	100	80	69
2 SECV Superannuation	85	39	78
3 Local Authorities (a)	100	97	n.a.
4 State Bank (b)	100	n.a.	39
5 Hospitals	91	48	75
6 Gas and Fuel Corporation	67	92	54
7 MMBW Superannuation	96	29	76
8 Metropolitan Fire Brigades	95	48	78
9 SEC Employees	27	40	79
10 Parliamentary	94	42	83
11 City of Melbourne Officers'	100	76	66
12 TAB	92	25	83

n.a.: Not available

(a) Rankings for the Local Authorities Fund are approximate as its balance date is 28 February which does not coincide with a Campbell and Cook survey date.

(b) 3 year figures for the State Bank scheme were not available.

Source: Campbell & Cook, Investment Performance Survey of Selected Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February, 1984.

The ranking concept gives no indication of the spatial distribution, or bunching, of the results, and it is therefore difficult to judge how sensitive the ranking order is to small changes in the yields achieved by the schemes. Consideration of the 'upper quartile', the 'median' and the 'lower quartile' are useful in this regard. These are, respectively, the yields such that 25%, 50% and 75% of all funds surveyed achieved a higher yield. For the five year period ending 30 June 1983 the Campbell and Cook survey had an upper quartile value of 18.2%, a median of 16.6% and a lower quartile value of 15.2%.

With two exceptions, the SEC Employees scheme and the Gas and Fuel Corporation scheme, the return earned over the last five years by the Victorian public sector schemes has been in the lower quartile (bottom 25%) of all funds in the Campbell and Cook Survey.

An alternative approach illustrating comparative performance is shown in Table 5.10. Instead of relying on internal investment management during the review period, it is assumed that each scheme had placed the value of its 1978 assets and all subsequent cash flow under the control of two large professional managers, the AMP Society and BT Australia. In each case it is assumed that the new manager had full discretion on all investment matters, subject only to the need to comply with the '30/20' requirements for private sector funds.

TABLE 5.10

VICTORIAN PUBLIC SECTOR SUPERANNUATION FUNDS
PRIVATE SECTOR MANAGEMENT COMPARISON

Market Value at 30 June 1983

Scheme	<u>Notional Values if Managed Over Last 5 Years by:</u>		
	Own Manager	AMP	BT
	\$m	\$m	\$m
1 State Superannuation	759	1079	1346
2 SECV Superannuation	534	586	729
3 Local Authorities	264	355	424
4 State Bank	148	197	246
5 Hospitals	151	172	214
6 Gas and Fuel Corporation	109	114	138
7 MMBW Superannuation	73	88	111
8 Metropolitan Fire Brigades	70	84	104
9 SEC Employees'	48	47	54
10 Parliamentary	18	21	26
11 City of Melbourne Officers'	17	22	27
12 TAB	14	15	19
Total	2205	2780	3438

Source: Campbell & Cook, Investment Performance Survey of Selected Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February 1984.

Table 5.10 shows the notional market value which each of the new managers might have achieved by 30 June 1983 (28 February, 1983 for the Local Authorities Fund). These figures need to be interpreted with some caution given the rather stylized nature of this approach. Many of the funds presently operate under investment constraints not applicable in the AMP and BT results. Nonetheless, the figures give some indication of the opportunity cost of present investment management practices as compared to utilising professional managers.

The consultants qualify the results by saying:

"It will be appreciated that the mere inflow of such a sum of money (\$977 million in 1978) into the AMP or BT management portfolios might have affected the performance they would subsequently have been able to achieve. This is particularly so with BT. They have been a market leader throughout the period and it is perhaps unlikely that the margin of their lead could be as great under the inevitable 'levelling-down' effects of a very large portfolio."

but also add that

"AMP's actual results over the five year period have been very close to the median of all the funds participating in the Campbell and Cook survey. It is therefore, quite likely that the professional managers (as a whole) could have absorbed \$977 million in 1978 and by 1983 converted it and subsequent cash-flow into a result somewhat better than that achieved by the AMP, viz. a gain to the public purse of some \$575 million." (28)

The Committee would further qualify the gain of \$575 million mentioned immediately above and the other figures in Table 5.10. These result from the performance measurement system adopted which is necessarily based on market values of the investments from time to time. Because market values may fluctuate significantly, the performance figures depend very heavily on the period of observation and on market values at the beginning and end of that period. Altogether different results would for example have been shown if Table 5.10 had been based on a three year rather than a five year period or if the five year period had ended in June 1982.

IF, INSTEAD OF RELYING ON ITS OWN INVESTMENT MANAGEMENT DURING THE REVIEW PERIOD, EACH FUND HAD PLACED THE VALUE OF ITS 1978 ASSETS (AND SUBSEQUENT CASH FLOWS) UNDER THE CONTROL OF PROFESSIONAL COMMERCIAL MANAGERS, THE CONSULTANTS ESTIMATE THE MARKET VALUE OF ASSETS AT JUNE 1983 WOULD HAVE BEEN SOME \$575 MILLION GREATER THAN THE OUTCOME ACTUALLY ACHIEVED BY THE TWELVE SURVEYED SCHEMES.

THE COMMITTEE QUALIFIES THE CONSULTANTS FIGURES FOR THE ESTIMATED GAIN BECAUSE THEY DEPEND LARGELY ON SHARE AND OTHER MARKET VALUES AT PARTICULAR DATES. NEVERTHELESS THE COMMITTEE CONSIDERS THE RESULTS INDICATIVE OF SIGNIFICANT OPPORTUNITY COST TO THE STATE IF PRESENT INVESTMENT POLICIES AND MANAGEMENT CONTINUE.

THE COMMITTEE IS SATISFIED THAT THE PERFORMANCE OF THE MAJOR FUNDS HAS SUFFERED SIGNIFICANTLY FROM THE LACK OF INVESTMENT IN SHARES, FROM OVER INVESTMENT IN SEMI-GOVERNMENT AND OTHER FIXED INTEREST SECURITIES, AND FROM LACK OF ACTIVE INVESTMENT MANAGEMENT. AS A RESULT GOVERNMENT AND OTHER PUBLIC SECTOR EMPLOYERS MUST MEET HIGHER COSTS FOR SUPERANNUATION THAN THEY SHOULD. CHANGE IS CLEARLY NECESSARY IN THIS AREA.

COMMITTEE ROOM 11 APRIL 1984.

NOTES

- (1) Submission, Ministry of Industrial Affairs, 19 September 1983, p.6, 7.
- (2) Local Authorities Superannuation Board, 35th Annual Report, 1982-83, p.26.
- (3) Submission, Plumbers and Gasfitters Employees Union, 27 July 1983, p.2.
- (4) Submission, Victorian Womens Advisory Council, 30 December 1983, p.11.
- (5) Bennet, J.T. and Johnson, M.H. "Union use of Employee Pension Funds: Introduction and Overview". Journal of Labour Research, Vol. 2, No. 2, 1981, p.181.
- (6) Campbell and Cook, Investment Performance Survey of Selected Victorian Public Sector Superannuation Schemes, A Report to the Economic and Budget Review Committee, February 1984.
- (7) Ibid., p.16.
- (8) Submission, Association of Superannuation Funds of Australia, 16 August 1983, p.5.
- (9) Campbell and Cook, op cit., p.2.
- (10) Minutes of Evidence, 14 July 1983, p.591
- (11) Minutes of Evidence, 20 July 1983, p.688.
- (12) Minutes of Evidence, 25 July 1983, p.37.
- (13) Minutes of Evidence, 4 July 1983, p.386.
- (14) Submission, Mr P. Leonard-Kanevsky, 31 August 1983.
- (15) Minutes of Evidence, 8 July 1983, p.464.
- (16) Ibid., p.465.
- (17) Campbell & Cook, op. cit., p.3
- (18) Minutes of Evidence, 29 June 1983, p.218
- (19) Ibid., p.216
- (20) Minutes of Evidence, 14 July 1983, p.218
- (21) Minutes of Evidence, 8 July 1983, p.467
- (22) Campbell & Cook, op. cit., p.17
- (23) Ibid., p.5
- (24) Ibid., p.8

- (25) Ibid., p.8
- (26) Ibid., p.9
- (27) Ibid., p.10
- (28) Ibid., p.15

APPENDIX A

SUPPLEMENTARY TABLES

TABLE A1

SUPERANNUATION COVERAGE OF EMPLOYED PERSONS IN VICTORIA
SEX AND TYPE OF OCCUPATION 1974 AND 1982

	<u>Number</u>		<u>Proportion</u>	
	1974(a)	1982	1974(a)	1982
	'000	'000	%	%
<hr/>				
<u>Males</u>				
Manual occupations (b)	171.4	285.5	25.9	44.8
Non-manual occupations (c)	213.5	268.0	57.5	68.6
<u>Females</u>				
Manual occupations (b)	9.8	38.2	4.8	21.9
Non-manual occupations (c)	70.6	119.6	21.0	35.7
<u>Persons</u>				
Manual occupations (b)	181.2	323.6	20.9	39.9
Non-manual occupations (c)	284.2	387.6	40.2	53.4

- (a) The 1974 estimates relate to all employed persons and are therefore not strictly comparable with the 1982 estimates which relate to employed persons who usually worked 20 hours or more each week in main job.
- (b) Manual work comprised farming, fishing, hunting and timber-getting; mining and quarrying; most transport and communications; trades, production-process and labouring; and most service, sport and recreation occupations.
- (c) Non-manual work comprised professional, technical, administrative, executive, managerial, clerical and sales; wool classing; certain transport and communications (such as ships' officers, aircraft pilots, station-masters, postmasters, etc.); and photographic occupations.

Source: ABS, Survey of Superannuation, February 1974. Catalogue No. 6319.0
 ABS, Superannuation, Australia, September to November 1974 (Preliminary) Catalogue No. 6318.0
 ABS, unpublished data from 1982 survey of superannuation.

TABLE A2

EMPLOYED PERSONS(a) IN VICTORIA : DISTRIBUTION OF WEEKLY EARNINGS
AND WHETHER COVERED BY A SUPERANNUATION SCHEME, 1982(b)

Weekly Earnings(c) \$	Employed Persons Covered by Superannuation %	Employed Persons Not Covered by Superannuation(d) %
Under 140	1.0	13.4
140 and under 180	2.6	12.3
180 and under 220	6.8	16.9
220 and under 260	13.2	21.1
260 and under 300	14.8	14.8
300 and under 350	17.8	10.4
350 and under 400	12.0	5.2
400 and under 450	10.7	2.9
450 and under 500	6.3	1.6
500 and over	14.2	1.4
Total	100.0	100.0
Mean Earnings	\$360	\$239

- (a) Employed persons who usually worked 20 hours or more each week in their main job.
- (b) Survey period was September to November 1982.
- (c) Weekly earnings from last pay at time of survey interview .
- (d) Excludes employed persons not covered by a superannuation scheme but who were covered by a life insurance scheme maturing at age 60-65. However, this group constituted only 11% of the total number of employed persons not covered by superannuation.

Source: ABS unpublished data from 1982 survey of superannuation.

TABLE A3

LEVEL OF ENTRY OF PERSONS APPOINTED TO VICTORIAN PUBLIC SERVICE
JANUARY 1978 TO NOVEMBER 1983 (a)

Entry Level (b) \$'000	Proportion of persons entering at level(c)			Employees (d) %	Total %
	1st Div. %	2nd Div. %	3rd Div. %		
10<11			10.1	23.2	11.7
11<12		43.3	5.2	6.4	17.0
12<13		0.2	32.2	30.9	22.0
13<14		1.7	30.9	22.9	19.2
14<15		1.7	8.4	11.3	7.4
15<16		0.3	4.2	1.2	2.0
16<17		3.9	3.8	1.8	3.1
17<18		7.1	1.8	1.2	3.2
18<19		17.3	0.7	0.7	5.5
19<20		1.9	0.3	0.3	0.7
20<21		2.6	0.7	0.7	1.1
21<22		7.1	0.6	0.5	2.4
22<23		0.6	0.2	0.2	0.2
23<24		3.7			1.1
24<25		0.5			0.2
25<26		2.4			0.8
26<27		0.7			0.3
27<28		0.3			0.1
28<29		1.3			0.4
29<30		0.7			0.2
30<31		0.6			0.2
31<32		1.4			0.5
32<33					0.1
33<35					-
35<37	30.8				0.1
37<39	38.5				0.1
39<41	7.7				*
41<44	7.7				*
44<47	-				-
47<54	15.4				*
TOTAL (e)	100	100	100	100	100

* less than 0.05 per cent.

(a) This table is based on a 20% random sample of all persons who joined and are still in the Victorian Public Service between 1 January 1978 and November 1983, excluding persons who separated from the Victorian Public Service to join the Education Service in March 1982 or who separated in March 1983 due to the establishment of the Victoria College

of Agriculture and Horticulture.

- (b) All salary levels and ranges are expressed in terms of salaries at 30 June 1981.
- (c) Persons appointed in a full-time permanent capacity to a Division of the Public Service after satisfying conditions as specified in Section 30 of the Public Service Act.
- (d) Persons engaged by the Board under Section 40(2) or 40(4) of the Public Service Act in a temporary capacity on the condition that such employment shall be for a specified period.
- (e) Totals may not add to exactly 100 due to rounding.

Source: Public Service Board

TABLE A4

AGE AND LEVEL OF ENTRY OF SECV EMPLOYEES
30 JUNE 1980 TO 30 JUNE 1983.

Classification	Proportion of Total Employees Commencing Age Group (Years)			Row Total
	15-24	25-34	35 & over	
	%	%	%	
Wages Employees				
Non-trades	14.0	11.1	7.9	33.0
Apprentices	17.9	-	0.1	18.0
Trades	5.1	4.3	2.4	11.8
Staff Employees				
Commercial/Administrative	11.6	2.6	0.6	14.8
Technical	8.4	2.3	1.2	11.9
Supervisory	0.2	0.7	0.5	1.4
General	0.3	0.5	0.4	1.2
Professional	3.0	2.8	1.4	7.2
Senior Officers	-	0.3	0.4	0.7
Column Total	60.5	24.6	14.9	100.0

Source: Data supplied by SECV.

TABLE A5

JOB TENURE
VICTORIAN PUBLIC SERVICE AND SECV

Proportion of employees in

Duration	Victorian Public Service (a) %	SECV %
Less than 1 year	10.8	6.4
1 and under 2 years	9.4	9.0
2 and under 3 years	7.5	8.4
3 and under 5 years	11.3	12.5
5 and under 10 years	29.7	17.7
10 years and over	31.3	45.9
TOTAL	100	100

(a) Victorian Public Service staff excluding exempt employees.

Source: Data supplied by the PSB. See footnote (a), Table 1.8.
Data supplied by the SECV.

TABLE A6

EMPLOYEE WASTAGE RATES IN THE VICTORIAN PUBLIC SERVICE FOR
PERSONS COMMENCING EMPLOYMENT DURING 1981

Public Service Division	Proportion of persons commencing employment in 1981 who had resigned by November 1983 %
First Division	16.7
Second Division	29.7
Third Division	34.3
Total	32.7

Source : Data supplied by PSB. See footnote (a) of Table 1.8

TABLE A7

EMPLOYEE WASTAGE RATES IN THE SECV
 PERSONS COMMENCING EMPLOYMENT IN YEAR ENDED 30 JUNE 1981

Employment Classification	Proportion of persons commencing employment in year ended 30 June 1981 who had resigned by November 1983. %
<hr/>	
Staff Employees	
Senior Officers	-
Professional	9.8
General	4.0
Supervisory	-
Technical	16.3
Commercial/Administrative	29.3
Wages Employees	
Trades	27.8
Non-trades	32.0
<hr/>	
Total	22.0
<hr/>	

Source : Data supplied by SECV.

TABLE A8

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
 GENERAL SCHEME STATISTICS: JUNE 1983 AND JUNE 1982 (a)

No.	Scheme	No. of Contributors	No. of Pensioners	Annual Contributions		Investment Fund \$M
				Member \$'000	Employer \$'000	
1.	Australian Barley Board	14 (15)	- (-)	11 (10)	30 (26)	.134 (.112)
2.	Chairman General Sessions	- (-)	1 (1)	- (-)	23 (21)	- (-)
3.	City of Melbourne Gratuities (b)	- (-)	- (-)	- (-)	343 (371)	- (-)
4.	City of Melbourne Officers'	893 (856)	49 (52)	1,303 (1,071)	2,606 (2,143)	18.6 (16)
5.	Coal Mine	- (-)	239 (234)	- (-)	- (-)	- (-)
6.	County Court Associates	25 (25)	- (-)	13 (10)	33 (27)	.135 (.085)
7.	Egg Board Staff	130 (129)	- (-)	83 (66)	203 (169)	.95 (.52)
8.	Gas and Fuel	5,078 (5,008)	72 (78)	5,100 (4,300)	10,200 (8,300)	94.2 (81)
9.	Grain Elevators	4 (4)	- (-)	3.31 (2.80)	5.38 (4.57)	0.05 (0.05)

TABLE A8 (cont.)

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
 GENERAL SCHEME STATISTICS: JUNE 1983 AND JUNE 1982 (a)

No.	Scheme	No. of Contributors	No. of Pensioners	Annual Contributions		Investment Fund \$M
				Member \$ ' 000	Employer \$'000	
10.	Governor's Pension	- (-)	3 (3)	- (-)	48 (64)	- (-)
11.	Greyhound Racing Control Board	15 (15)	- (13)	12.74 (12.4)	22.72 (26.59)	Feb 83 .221 Feb 83 .1677
12.	Harness Racing Board	22 (21)	- (-)	22 (21)	38 (36)	.060 (.057)
13.	Hospitals (c)	9,489 (9,154)	1,804 (1,518)	12,019 (9,954)	14,364 (9,671)	146.2 (117.6)
14.	Judges - County Court Judges - Supreme Court	- (-)	39 (37)	- (-)	1,288 (1,102)	- (-)
15.	Legal Aid Committee	5 (5)	- (-)	7.34 (6.47)	12.60 (10.75)	.18 (.14)
16.	Local Authorities (d)	24,500 (23,662)	4,523 (4,051)	25,510 (21,149)	34,920 (27,779)	297.5 (241.5)
17.	MMBW Provident	2,798 (2,800)	- (-)	1,338 (1,070)	4,000 (3,000)	10.13 (5.53)
18.	MMBW Superannuation	3,399 (3,500)	16 (20)	3,447 (2,800)	9,996 (8,200)	72.71 (71.85)

TABLE A8 (cont.)

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
 GENERAL SCHEME STATISTICS: JUNE 1983 AND JUNE 1982 (a)

No.	Scheme	No. of Contributors	No. of Pensioners	Annual Contributions		Investment Fund \$M
				Member \$'000	Employer \$'000	
19.	MURLA	5 (5)	- (-)	14 (10)	32 (21)	.465 (.356)
20.	Metropolitan Fire Brigades	2,002 (1,999)	431 (407)	3,181 (2,800)	5,422 (4,700)	73.8 (62.1)
21.	MTA Gratuities	- (-)	- (-)	- (-)	2,241 (1,794)	- (-)
22.	Mint.	- (-)	25 (27)	- (-)	62 (66)	- (-)
23.	Parliamentary	125 (124)	94 (105)	657 (560)	4,902 (4,900)	18.5 (17.43)
24.	Pilot Service Staff	n.a. (n.a.)	n.a. (n.a.)	n.a. (n.a.)	n.a. (n.a.)	n.a. (n.a.)
25.	Police Pensions	3 (5)	966 (1,000)	6.29 (27.91)	6,601 (5,669)	- (-)
26.	Port of Geelong	103 (98)	- (-)	131 (156)	233 (294)	3.08 (2.98)
27.	Port of Melbourne	785 (736)	441 (416)	1,062 (824)	- (-)	6.9 (5.7)

TABLE A8 (cont.)

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
 GENERAL SCHEME STATISTICS: JUNE 1983 AND JUNE 1982 (a)

No.	Scheme	No. of Contributors	No. of Pensioners	Annual Contributions		Investment Fund \$M
				Member \$'000	Employer \$'000	
28.	Port Phillip Pilot Sick & Superannuation (e)	- (-)	39 (39)	- (-)	892 (634)	3.5 (3)
29.	Port Phillip Pilots Life Assurance	n.a. (38)	n.a. (-)	n.a. (34.84)	n.a. (70.51)	n.a. (n.a.)
30.	State Bank	7,107 (7,087)	722 (709)	6,500 (6,000)	13,000 (12,000)	166.14 (141.60)
31.	SEC Employees	12,086 (11,604)	- (-)	5,777 (5,119)	11,590 (10,254)	44.65 (31.01)
32.	SEC Superannuation	10,659 (10,056)	3,905 (3,754)	15,265 (13,000)	48,626 (41,289)	510.8 (424.9)
33.	SERB	13,585 (10,717)	1,502 (1,089)	12,202 (6,700)	15,496 (5,500)	13.27 (4.90)
34.	Superannuation Lump Sum	361 (530)	25 (27)	298 (618)	225 (124)	4.7 (6.3)
35.	State Superannuation	98,446 (92,166)	29,926 (28,896)	115,759 (91,100)	189,800 (155,900)	835.8 (744.6)
36.	Supreme Court Associates	7 (12)	- (-)	4 (6)	10 (15)	.092 (.15)

TABLE A8 (cont.)

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
 GENERAL SCHEME STATISTICS: JUNE 1983 AND JUNE 1982 (a)

No.	Scheme	No. of Contributors	No. of Pensioners	Annual Contributions		Investment Fund \$M
				Member \$ '000	Employer \$'000	
37.	Tobacco Leaf Marketing Board	2 (3)	- (-)	2 (3)	2 (4)	.115 (.096)
38.	TAB	304 (315)	18 (23)	320 (293)	1,012 (926)	13.14 (11.10)
39.	Vic. Dried Fruits Board	2 (2)	- (-)	1.5 (2)	.03 (3)	.286 (.029)
40.	Westgate (CML)	14 (41)	- (-)	9 (16)	17 (32)	.065 (.120)
41.	Westgate (NMLA) (f)	19 (33)	- (-)	20 (19)	72 (69)	.341 (.207)
42.	Zoo	106 (89)	- (-)	68 (30)	118 (53)	.917 (.754)
TOTAL (g)		192,093 (180,854)	44,840 (42,503)	210,144.83 (167,791.42)	378,490.73 (305,268.42)	2,337.631 (1,991.943)

n.a. - Not available

- (a) June 1982 figures are shown in brackets.
- (b) The scheme provides a lump sum upon retirement. On June 30 1983 there were 1,857 employees and at June 30, 1982, 1,783.
- (c) The annual contributions represent a projection of contribution rates applicable as at June 30 of each year. In the last column, the net assets of the fund are shown.
- (d) The figures shown are for February, 1983 and February, 1982 in parentheses.
- (e) This fund is currently financed out of 12.5% of pilotage collected from ship owners and there is no direct contribution from a pilot's remuneration.
- (f) The figures indicated in the last three columns, for both years, are as at September, 1983 and September, 1982.
- (g) The total does not include 1982 and 1983 data for the Pilot Service Staff scheme, nor 1983 and fund size (1982) details for the Port Phillip Pilots Life Assurance scheme. Despite several requests this information was not provided by the Port Phillip Sea Pilots at the time of writing.

TABLE A9

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
MEMBERSHIP SIZE JUNE 1983 (a)

Scheme	No. of Members (a)	Progressive Total (b)	Progressive %
State Superannuation	98,446	98,446	49.5
Local Authorities	24,500	122,946	61.8
SERB	13,585	136,531	68.6
SEC Employees	12,086	148,617	74.7
SEC Superannuation	10,659	159,276	80.1
Hospitals	9,489	168,765	84.8
State Bank	7,107	175,872	88.4
Gas and Fuel	5,078	180,950	90.9
MTA Gratuities	4,918	185,868	93.4
MMBW Superannuation	3,399	189,267	95.1
MMBW Provident	2,798	187,147	97.4
Metropolitan Fire Brigades	2,002	194,067	97.5
City of Melbourne Gratuities	1,857	195,924	98.5
City of Melbourne Officers	893	196,042	98.9
Port of Melbourne	785	197,602	99.31
Superannuation Lump Sum	361	197,963	99.49
TAB	304	198,267	99.65
Egg Board Staff	130	198,397	99.71
Parliamentary	125	198,522	99.78
Zoo	106	198,628	99.83
Port of Geelong	103	198,731	99.88
Judges - County Court	57	198,788	99.91
- Supreme Court			
Port Phillip Pilot			
Sick & Superannuation	42	198,830	99.93
County Court Associates	25	198,855	99.94
Harness Racing Board	22	198,877	99.95
Westgate (NMLA)	19	198,896	99.96

TABLE A9 (concl.)

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
MEMBERSHIP SIZE JUNE 1983 (a)

Scheme	No. of Members	Progressive Total (b)	Progressive %
Greyhound Racing Control Board	15	198,911	99.97
Australian Barley Board	14	198,925	99.98
Westgate (CML)	14	198,939	99.99
Supreme Court Associates	7	198,966	99.99
Legal Aid Committee	5	198,951	99.99
MURLA	5	199,956	99.99
Grain Elevators	4	198,960	100.00 (c)
Police Pensions	3	198,963	100.00 (c)
Tobacco Leaf Marketing Board	2	198,965	100.00 (c)
Victorian Dried Fruits Board	2	198,967	100.00 (c)
Governor's Pension	1	198,968	100.00

Notes :

- (a) Includes Employees covered by Non-Contributory Schemes.
- (b) The progressive total excludes current data for the Pilot Service Staff and Port Phillip Pilots Life Assurance schemes. Although several requests were made, this information had not been provided by the Port Phillip Sea Pilots.
- (c) Percentages rounded to two decimal places.

APPENDIX B

EMPLOYEE REMUNERATION COMPARISONS BY PUBLIC SERVICE BOARD OF VICTORIA

B.2.1 Introduction

Superannuation can be considered as one element of the total remuneration cost to the employer of employing staff. Employees on the other hand, see superannuation as a benefit of employment. Any alteration in the level of superannuation benefits will therefore have an impact on the contract of employment between the employer and employee.

The task of comparing the levels of remuneration paid to staff employed by various employers is complex. The most common approach is to compare the total costs of such remuneration to the employer. A more useful approach, when considering remuneration as a method of attracting and retaining staff, is to compare the benefits of a particular remuneration "package" to the employee. The former approach is commonly used in making remuneration comparisons because it necessitates fewer assumptions than the latter approach. Both approaches are used in the following analysis.

It should be noted that neither the cost nor the benefit of tenure is included in the following comparisons. There appears to be no accepted methodology for valuing tenure and it is difficult to devise acceptable assumptions regarding the extent of the differences in tenure benefits of public and private sector employees. For these reasons tenure is not included in the comparisons which follow and this should be borne in mind when deriving conclusions from these comparisons.

B.2.2 Methodology

The VPS has recently adopted a points factor system for evaluating the relative work value of positions. This provides a method of comparing a variety of positions and enables comparisons of the level of remuneration paid by different employers for positions of equal assessed work value. In constructing the comparisons below between the levels of remuneration paid by the VPS and the private sector, the remuneration provided by employers represented on the Cullen, Egan and Dell data bank is taken to represent "the private sector". The job families represented in this data bank are detailed in Appendix 1.

Cullen, Egan and Dell (CED) provide two types of remuneration data to people using their system:

- (i) The first is the relationship between the evaluated points of a position and the total cash remuneration paid for such a position. Total cash remuneration includes all cash items of remuneration, i.e, base salary, bonuses, loadings, representation allowance. In the VPS total cash remuneration is comprised of base salary, holiday loading and expense of office allowance.

The relationship between the assessed work value of a position and the total cash remuneration costs to the employer is described by the following regression lines derived by CED from their survey data (September, 1983):

Total Cash (Median)	= \$12,000 + \$35 per point (200-1000 points)
	= \$21,000 + \$25 per point (1000-2000 points)
Total Cash (3rd quartile)	= \$13,000 + \$39 per point (200-1000 points)
	= \$24,000 + \$28 per point (1000-2000 points)

- (ii) They also provide survey data on the level of non cash remuneration items associated with various levels of base salary.

These two types of data have been combined to derive the level of total remuneration paid by the private sector shown in Figure 1. The private sector lines were derived by averaging the percentage level of non cash remuneration items (derived from CED Survey Data) provided in the private sector and then increasing the total cash regression lines by this percentage. This method was used because Cullen Egan and Dell do not provide a regression line relating total remuneration and job evaluated points.

The derivation of the VPS benefit levels shown in figures 2 and 3 is shown in Appendix 2.

The private sector lines for Figures 2 and 3 were derived through the linear regression analysis of the after tax benefits and total benefits respectively (derived in Appendix 3) against CED points.

B.2.3 Remuneration Cost Comparisons

Figure 1 compares the total remuneration cost of employment in the VPS with that in the private sector. Total remuneration includes the cost of non cash items, such as the cost of providing motor vehicles, superannuation, subsidized home and personal loans, subscriptions to clubs and associations, medical and dental costs. For the VPS, the only non-cash remuneration cost is the imputed cost of superannuation.

Figure 1 shows that the remuneration cost of employing officers up to SES Level 4 in the VPS lies within the third quartile of remuneration cost of employees in positions of equal assessed work value in "the private sector". Above this level, the VPS remuneration costs fall below the median remuneration cost, with the gap between the market median cost and VPS remuneration cost widening with increasing work value.

It should be noted that the total remuneration cost for VPS officers includes the estimated cost of the Government contribution (estimated cost 20% of base salary) to superannuation. This cost is not, however, incurred on behalf of officers who leave the VPS before they are eligible for benefit from the scheme. In 1982/83 over sixty per cent of all separations of permanent officers fell into this category. Thus, for such officers the estimate of total remuneration cost is overstated.

B.2.4 Benefits to Employees

Comparisons of remuneration costs to the employer do not, however, provide information on the benefits to employees of a particular remuneration "package". Packages provided in the private sector are commonly designed to provide maximum after-tax benefits to employees. If two differently comprised remuneration packages, which have the same total remuneration costs are compared, one package may provide greater after tax benefit to an employee and therefore be a superior incentive in the process of recruiting and retaining staff.

Figures 2 and 3 compare the "after tax benefits" to officers and employees of typically comprised remuneration packages in the private sector with the remuneration provided in the Victorian Public Service.

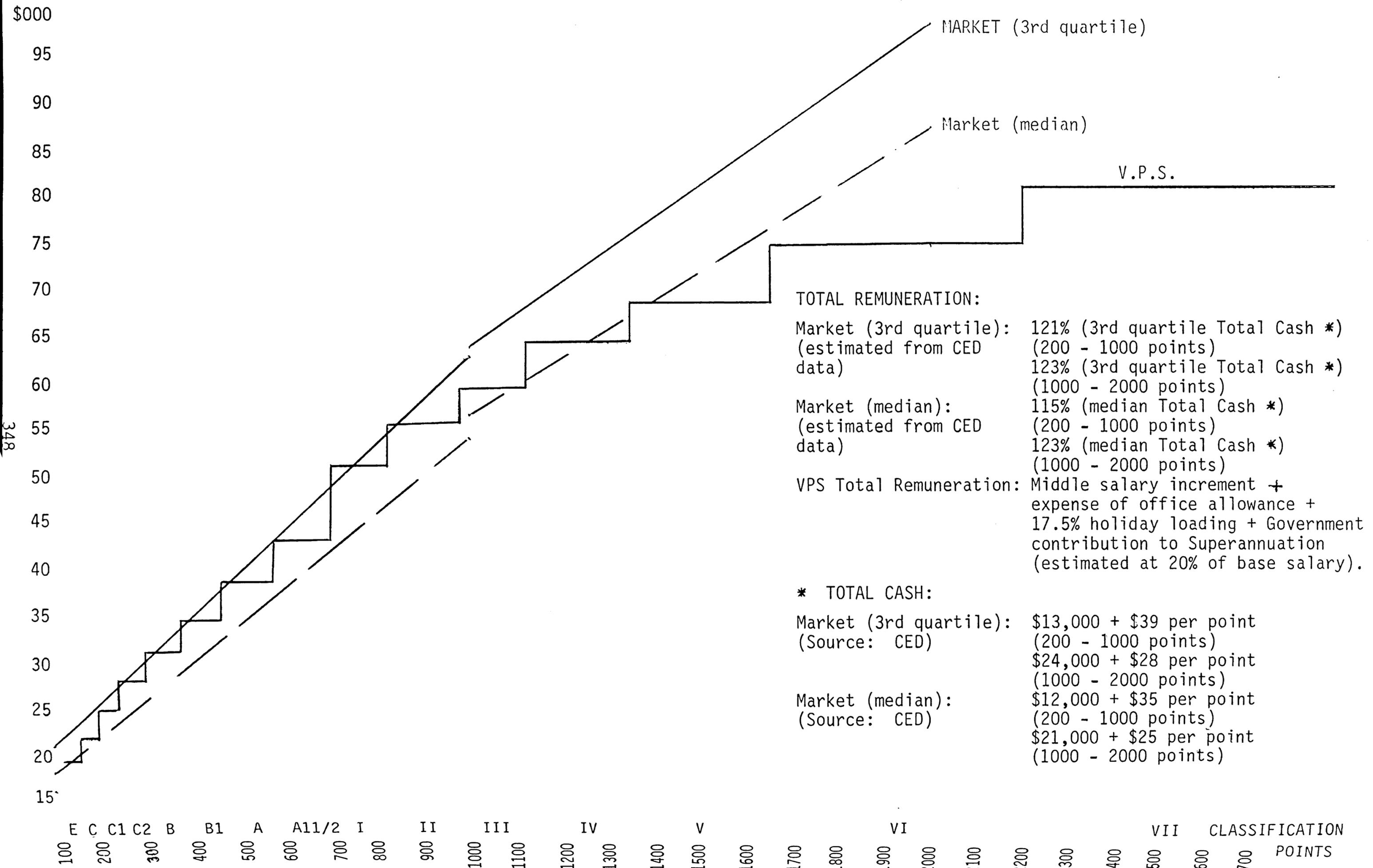
Benefit comparisons are complex because of variations in the level of benefit derived from particular remuneration items by individuals and the potentially different taxation treatment of these items. For example, provision of a car is valued by CED on the assumption that a car is used partially for work related purposes and partially for personal usage. This is an overstatement of the benefit of a car to all individuals who do not require a car for private usage. A similar circumstance applies to items such as club subscriptions. In addition, the extent to which the benefit of a car incurs a tax liability varies according to the declaration by the taxpayer of the level of benefit he or she derives from a car and the Taxation Office's assessment of any declared benefit.

It is recognised that some portion of the non cash remuneration items received by private sector employees may incur a taxation liability. Therefore in constructing the after tax comparison it is assumed that 30% of "other benefits" provided to private sector employees incur a tax liability.

Figure 2 compares after tax benefits of total remuneration (excluding the employer's contribution to superannuation) in the private and public sectors. Figure 3 includes the employer's contribution to superannuation in the benefits comparison. It values superannuation at its gross value (i.e. before taxation). The gross value is used because of the complexity of deriving an acceptable assumption regarding the tax liability incurred by the employer's contribution.

Figure 2 can therefore be interpreted as presenting the benefit comparison between the private and public sectors for officers who leave the public service before qualifying for superannuation benefits. Such officers receive none of the employer contribution and thus the benefit comparison shown in Figure 2 represents their position. It may in fact understate the gap between after tax benefits in the two sectors because such officers, additionally, forego interest on their superannuation contributions. In some instances private sector employees also receive a portion of the employer's contribution on resignation. These two factors would tend to widen the gap between benefit levels indicated in Figure 2.

FIGURE 1: TOTAL REMUNERATION COMPARISON: VPS Vs. MARKET (COST TO EMPLOYER)



TOTAL REMUNERATION:

Market (3rd quartile): 121% (3rd quartile Total Cash *)
 (estimated from CED data) (200 - 1000 points)

Market (median): 115% (median Total Cash *)
 (estimated from CED data) (200 - 1000 points)

VPS Total Remuneration: 123% (3rd quartile Total Cash *)
 (1000 - 2000 points)

123% (median Total Cash *)
 (1000 - 2000 points)

VPS Total Remuneration: Middle salary increment +
 expense of office allowance +
 17.5% holiday loading + Government
 contribution to Superannuation
 (estimated at 20% of base salary).

* TOTAL CASH:

Market (3rd quartile): \$13,000 + \$39 per point
 (Source: CED) (200 - 1000 points)

Market (median): \$12,000 + \$35 per point
 (Source: CED) (200 - 1000 points)

\$24,000 + \$28 per point
 (1000 - 2000 points)

\$21,000 + \$25 per point
 (1000 - 2000 points)

348

E C C1 C2 B B1 A A11/2 I II III IV V VI VII CLASSIFICATION POINTS

Figure 3 indicates the extent to which this gap in benefit levels is potentially narrowed by the provision of superannuation for officers who do remain in VPS employment until retirement.

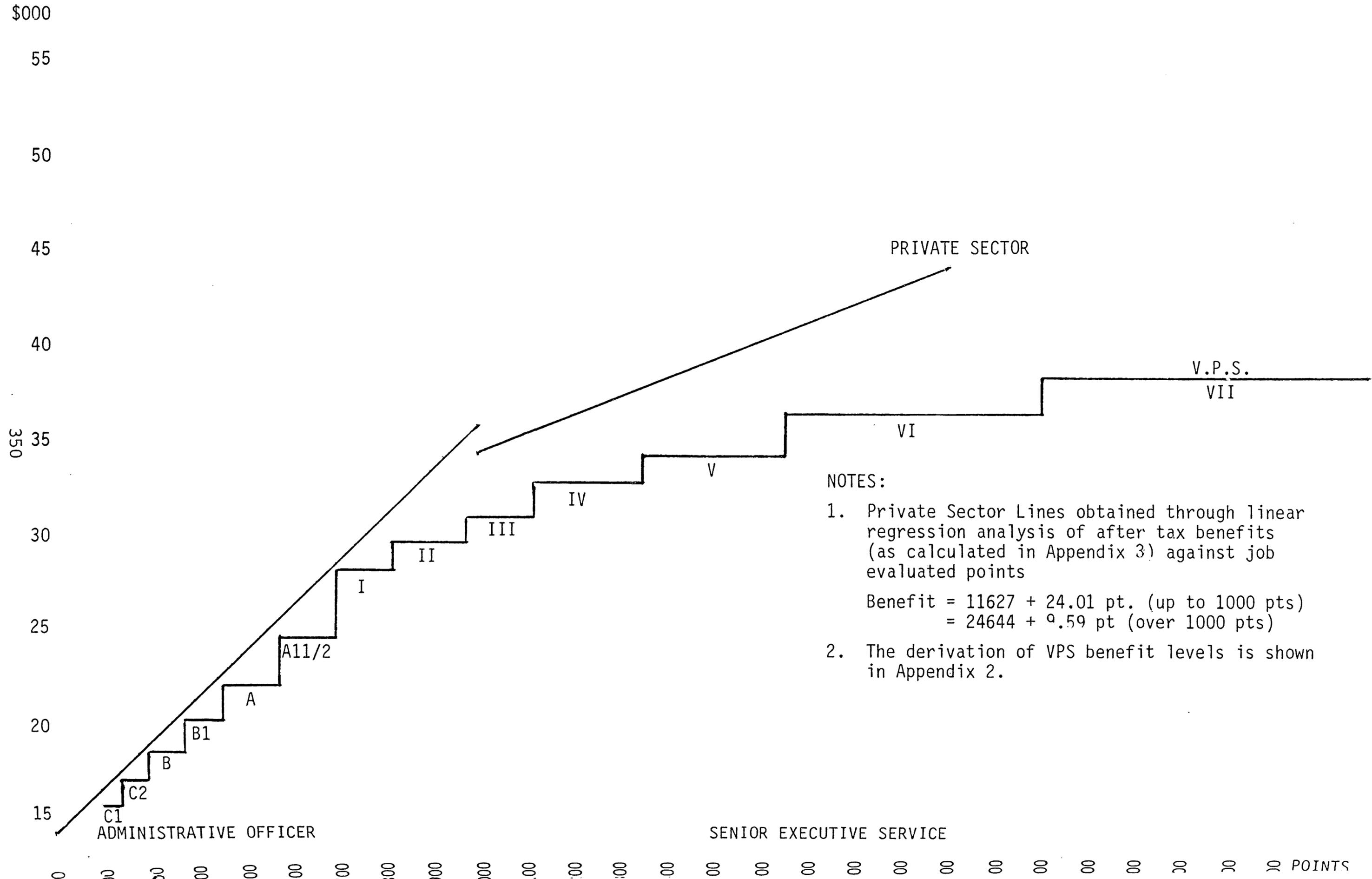
As indicated earlier over 60% of permanent officers who separated from the VPS in 1982/83 fall into the category of officers who do not remain in employment to receive the employer's superannuation contribution and therefore Figure 2 represents the majority case.

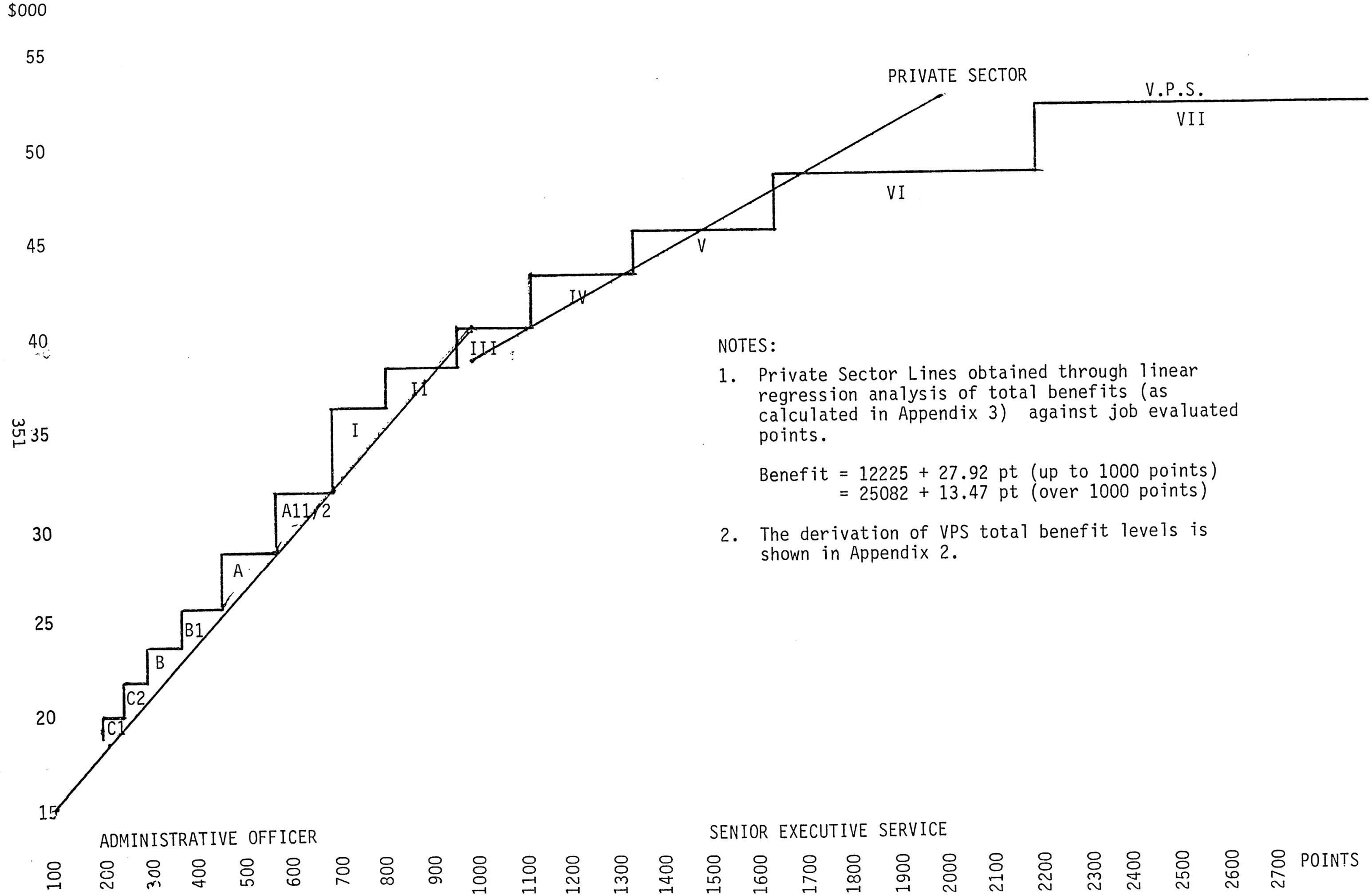
Figures 2 and 3 can be summarised as follows:

Victorian Public Service officers receive less after tax benefit (excluding superannuation) than their counterparts in the private sector. The relatively poorer after tax position of the VPS Officers may be compensated to some extent by the more generous employer superannuation contributions paid by the VPS. The extent of this compensatory effect is however difficult to assess, because of the differences in benefits accruing to individuals.

In summary, it is submitted that any variation in the level of benefits provided through a superannuation scheme may effect the ability of the VPS to attract and retain staff and should not, therefore, be considered separately from the total remuneration question.

FIGURE 2: AFTER TAX BENEFIT COMPARISON: VPS Vs. PRIVATE SECTOR (BENEFIT TO EMPLOYEE)
(Excluding Superannuation)





COMPOSITION OF DATA BASE

(BY JOB FAMILY)

1.	General Management (Chief Executives, Area/State Manager, Directors, etc.)	:	13.6%
2.	Finance/Admin.	:	23.8%
3.	E.D.P.	:	7.2%
4.	Personnel/IR etc.	:	6.6%
5.	Engineering/Technical (e.g. surveyors, architects)	:	8.0%
6.	Production/Manufacturing Operations	:	11.3%
7.	Marketing/Sales	:	14.1%
8.	Supply/Distribution/ Warehousing	:	8.9%
9.	Sciences (Geology, Biochemistry, Physicians, Metallurgy, Vets. etc.)	:	6.5%
			<hr/>
			99.9%

BENEFIT CALCULATION FOR VPS REMUNERATION

VPS Points	Classif-ication	Salary (1)	Holiday Loading	Taxable Income	Tax Payable	Net Income	Other Benefits (2)	After Tax Benefits (3)	Super-annuation (4)	Total Benefits (5)
200 - 244	C1	20569	277	20864	5099	15765	-	15765	4114	19879
245 - 304	C2	23053	310	23363	6248	17115	-	17115	4611	21726
305 - 374	B	25522	343	25865	7399	18466	-	18466	5104	23570
375 - 464	B1	28411	382	28793	8746	20047	-	20047	5682	25729
465 - 574	A	31702	427	32129	10281	21848	-	21848	6340	28188
575 - 699	A1(1-2)	36771	495	37266	12851	24415	-	24415	7354	31769
700 - 824	1	40600	547	41147	15179	25968	2000	27968	8120	36088
825 - 974	2	44250	596	44846	17399	27447	2000	29477	8850	38297
975 - 1124	3	47500	639	48139	19375	28764	2000	30764	9500	40264
1125 - 1349	4	51000	687	51687	21503	30184	2500	32684	10200	42884
1350 - 1649	5	54750	737	55487	23783	31704	2500	34204	10950	45154
1650 - 2199	6	59500	801	60301	26672	33629	2500	6129	11900	48029
2200 - 2899	7	64260	865	65125	29566	35559	3000	38559	12852	51411
2900+	8	69019	929	69948	32460	37488	3000	40488	13804	54292

- Notes:
1. Mid point of salary range.
 2. Other Benefits: Expense of office allowance assumed to incur to taxation liability.*
 3. After Tax Benefits = (Taxable Income - Tax Payable) + Other Benefits.
 4. Superannuation = 20% of base salary.
 5. Total Benefits = After Tax Benefits + Employers superannuation contribution valued before tax at current dollar values.

* This simplifying assumption is also applied for private sector employees receiving representation allowance.

BENEFIT CALCULATION FOR PRIVATE SECTOR REMUNERATION

CED Points	Salary	Holiday Loading	Super-annuation	Total Remuneration	Taxable Income	Tax Payable	Net Income	Other Benefits	Tax Payable On Other Benefits	After Tax Benefits	Total Benefits Including Super-annuation
	(1)	(1)	(2)	(3)	(4)	(5)			(6)	(7)	(8)
200 - 250	20000	273	1655	23745	20273	4827	15446	1817	251	17012	18667
250 - 400	23100	319	1806	27434	23419	6274	17145	2209	305	19046	20855
400 - 475	27445	370	2248	33518	27815	8296	19519	3455	477	22497	27475
475 - 700	31323	431	2662	39441	31754	10108	21464	5025	693	25978	28640
700 - 775	36000	490	3515	46391	36490	12385	24105	6386	1149	29342	32857
775 - 900	40000	540	4015	51620	40540	14815	25725	7065	1272	31518	35533
900 - 1100	43858	595	4500	57552	44453	17163	27290	8599	1548	34341	38841
1100 - 1600	49500	672	5311	64931	50172	20594	29578	9508	1711	37375	42686
1600 - 1850	56900	763	7309	75594	57663	25089	32574	10623	1912	41285	48594
	73920	1009	8795	102369	74929	35499	39480	18645	3361	54764	63559

CED DATA:

- Notes:
1. Median Figure used (CED)
 2. Superannuation = median employer's contribution (CED)
 3. Median Total Remuneration CED Survey Data 26/9/83

VPS CALCULATIONS:

4. Taxable Income = Base Salary + Holiday Loading
5. 1982/83 Tax Rates are used
6. Other Benefits = Median (Total Remuneration - Base Salary - Contributory Superannuation - Holiday Loading)
7. 30% of other benefits are assumed to incur a tax liability
8. After Tax Benefits = Net Income + Other Benefits - Tax Payable on other Benefits
9. Total Benefits = After Tax Benefits + Employers' Superannuation Contribution valued before tax at current dollars

APPENDIX C

TABLE C1

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES
ACTUARIAL COSTS(a)

Scheme	1981-82 \$	1982-83 \$	1978-83 \$
City of Melbourne Officers'	4,144	672	13,900
Egg Board Staff	9,958	722	12,680
Gas and Fuel Corporation	1,322	1,380	23,371
Greyhound Racing Control Board	1,913	2,291	5,826
Hospitals	63,398	61,668	327,599
Local Authorities	28,491	29,629	122,093
MMBW Provident	38,968	25,648	65,160
MMBW Superannuation	35,897	21,438	87,839
Fire Brigades	4,142	4,805	19,905
MTA Gratuities	-	-	6,545
Pilot Service Staff(b)	n.a.	n.a.	n.a.
Port of Melbourne	-	13,060	21,260
Port Phillip Pilot Sick and Superannuation	6,087	5,597	30,167
Port Phillip Pilots Life Assurance (b)	n.a.	n.a.	n.a.
State Bank	23,891	2,966	27,904
SEC Employees	5,802	11,560	87,746
SEC Superannuation	19,575	7,185	80,073
SERB	17,355	11,499	53,864
State Superannuation	33,999	60,864	177,985
TAB	350	7,534	17,486
Westgate (CML)	3,058	2,398	9,746
Westgate (NMLA)	4,482	5,511	21,433
Zoo(c)	-	13,260	13,260
TOTAL	302,830	289,687	1,225,842

n.a. : Not available

- Notes :
- (a) Those schemes not listed have no actuarial costs.
 - (b) The Port Phillip Sea Pilots had not forwarded the requested information at the time of writing.
 - (c) This fund began in November, 1982.

TABLE C2

STATEMENT OF REMUNERATION
MR. V.H. ARNOLD

Source	1978-79	1979-80	1980-81	1981-82	1982-83	1978-83
	\$	\$	\$	\$	\$	\$
Salaries and Allowances (a)	26,869	27,946	29,360	34,515	35,761	154,450
Consultancy Fees (b)	22,350	45,275	37,048	38,191	63,609	206,473
Pension	17,217	19,634	24,562	25,819	28,717	115,949
Total	66,436	92,855	90,970	98,525	128,087	476,872

(a) Salaries and allowances as Chairman of the State Superannuation Board, Motor Accidents Board and Metropolitan Fire Brigades Superannuation Board.

(b) Consultancy fees as actuary to the following public sector schemes : Hospitals, Port of Melbourne, SERB, Local Authorities and Metropolitan Fire Brigades.

APPENDIX D

CATEGORIES OF SUPERANNUATION SCHEME BY MANAGEMENT TYPE

1. Superannuation schemes whose trustees come both from employer and employee ranks, and are managed internally, by: (a) large administration, (b) one person administration. These arrangements cover the following schemes.
 - (a) Local Authorities
 - State Superannuation
 - SERB
 - MMBW - Provident
 - MMBW - Staff
 - Hospitals
 - Gas and Fuel Corporation
 - Metropolitan Fire Brigades
 - (b) City of Melbourne Officers'
 - Port Phillip Pilots Sick and Superannuation

Examples

- (a) Metropolitan Fire Brigades Scheme

The scheme is governed by legislation which stipulates a Board of three people - one appointed by the Government, one being the President of the Fire Brigade and one elected by the contributors. The scheme is managed by the secretary of the superannuation scheme and there is a total of six staff. The files are computerised on the scheme's own micro-computer. The secretary decides on investment matters within Board policy guidelines.

(b) City of Melbourne Officers' Scheme

There are five trustees - The Lord Mayor, the Chairman of the Resources Committee, a representative of the councillors, the Town Clerk and an elected contributors' representative. The Secretary of the scheme is exclusively responsible for the day-to-day administration. The trustees determine policy for the scheme. It is anticipated that the scheme's files will be computerised within the next 12 months.

2. The same as (1) except external parties responsible for some facets of administration, e.g. investments, record keeping, or lump sum payments. Only two schemes are in this category:

Zoo

Vic. Dried Fruits Board

Example

Zoo Scheme

The scheme is controlled by five trustees, three nominated by the Zoological Board and two by the staff. The trustees have appointed AUC nominees as investment managers for the scheme. AUC reports quarterly giving a full summary of the investment operation, changes in portfolio and performance. Administration of the scheme is handled by an associate firm of Campbell and Cook, consulting actuaries to the scheme.

3. Appointed Trustees with no employee representation, with day-to-day operations handled by a committee of management. The following schemes have this arrangement.

SEC - Superannuation

- Employees

State Bank

Port of Geelong

Port of Melbourne
Harness Racing Board

Example

Port of Melbourne Scheme

The superannuation scheme is administered through the Board of the Port of Melbourne Authority. A committee consisting of three senior officers and a contributors' representative oversees the scheme. Any proposals for alteration to the superannuation regulations go from the committee to the Board of the Port of Melbourne Authority, and then to the Minister of Public Works. The investment fund is regarded as part of the PMA account. Three people are responsible for record keeping (manual), counselling contributors and preparing pension vouchers.

4. Appointed trustees manage daily requirements, either themselves, or in conjunction with outside assistance such as an investment advisor, record keeping agency or insurance company. The following schemes have this arrangement.

Westgate
MURLA
Egg Board Staff
Grain Elevators
Greyhound Racing Control Board
Australian Barley Board
Tobacco Leaf Marketing Board
TAB

Example

Greyhound Racing Control Board Scheme

There are four trustees - the Chairman, Deputy Chairman, Secretary of the Board, and an ex-member of the Board. There is

no elected employee representative. The Secretary estimates that only half an hour of his time per fortnight is involved in administration. The scheme is managed by AMP. The files are held manually.

5. The following schemes do not fit any particular category.

Parliamentary

Police Pensions

MTA Gratuities

Melbourne City Council Gratuities

Judges' Pensions

Example

Parliamentary Scheme

There are six trustees - the Treasurer, the President, the Speaker, the Leader of the Opposition, the Leader of the National Party and the Leader of the Government in the upper house. Investment management has been delegated to the State Superannuation Board whose secretary is also secretary to the Parliamentary scheme. The trustees meet when it is thought necessary but can only advise as policy is made by the Government. The Secretary reports to the Treasurer (as Chairman). The State Superannuation Board charges for investment and management services. Proposals for change are costed by the scheme's actuary who is the Government Statist and Actuary. Records are computerised.

APPENDIX E

SPECIFIC ACTIONS TAKEN AS A RESULT OF THE PUBLIC SERVICE BOARD CONSULTANTS STUDY OF JULY 1981

Extract From Letter From State Superannuation Board of Victoria
to Economic and Budget Review Committee
Dated 22 July 1983.

. Appointment of Staff

A brief history of events leading to the current situation is relevant.

1. March 1975 - Public Accounts Committee Report recommended urgent review of the staff structure of the State Superannuation Board.
2. September 1976 - General Manager appointed.
3. August 1977 - Staff submission for restructure of staff submitted by the State Superannuation Board to Treasury.
4. September 1978 - Approval given by Treasury for provision of funds to cover creation of 8 of the 17 positions requested in August 1977 submission. These positions were created by the Public Service Board in May 1979 and it was not until August 1979 that the positions were filled.
5. May 1980 - As a result of another staff submission concerning the pending 9 positions from August 1977 together with other additional positions the Treasurer sought approval from the Public Service Board for a Management Review team to investigate the operations of the State Superannuation Board.
6. December 1980 - Public Service Board study commenced.
7. February 1981 - 31 additional positions requested in 1981-82 Manpower Budget estimates.
8. July 1981 - Public Service Management Review finalised and circulated simultaneously to the Superannuation Board and Department of Treasury on 5 August, 1981, for response.
9. 15 October 1981 - State Superannuation Board response sent to Public Service Board.
10. February 1982 - 31 additional positions requested in 1982-83 Manpower Budget estimates.
11. September 1982 (approx.) - Treasury response to Public Service Board consultants study received at Public Service Board.
12. October 1982 - Public Service Board before proceeding with the implementation of the report recommendations sent a letter to Treasury

querying the effect the introduction of the Department of Management and Budget and the re-organisation of the old Treasury Department would have had on the structure of the State Superannuation Board.

13. March 1983 - Department of Management and Budget response received at the Public Service Board clearing the way for the implementation of the report recommendations.
14. 9 March 1983 - Steering Committee comprising J. Ryder, S. Bates, and Grant Campbell, Public Service Board, met to discuss implementation. Public Service Board had no resources available to help and it was agreed S. Bates would prepare a specification of the six senior management positions.
15. 13 May 1983 - Draft specifications prepared and circulated to Grant Campbell, Public Service Board, and Personnel Officer of Treasury.
16. 24 May 1983 - Grant Campbell, Consultant from Public Service Board, on the Steering Committee, responded to draft specifications of positions and stated that they would be required to be put into the format as per the Cullen Egan Dell system.
17. 11 July 1983 - Letter received from Director-General of Department of Management and Budget in response to an article which appeared in the June edition of the Victorian Public Service Association news. The letter assured that the Board and its staff that the restructure of the Superannuation Board staff would be completed before 1984 and that he was hopeful that the personnel section of the Department of Management and Budget would be able to commence this exercise in the week commencing 18 July, 1982.
18. 26 July 1983 - Draft job specifications for six senior management jobs in the Cullen Egan Dell format completed.

APPENDIX F

MODEL ADMINISTRATIVE SYSTEM FOR A SUPERANNUATION SCHEME

F1 - TERMS OF REFERENCE

- (1) To outline briefly the computer and other facilities which should be available to the administrators of a large superannuation scheme. The object is to provide a non-detailed view of the "state of the art" in this field.
- (2) In the same format as used for step 1, to set out and comment on the facilities of the following public sector schemes:

State Superannuation	Gas and Fuel
Local Authorities	MMBW Staff
SEC Employees	MMBW Provident
SERB	MFB
SEC Staff	City of Melbourne
Hospitals	Parliamentary
State Bank	

- (3) To comment on how well the systems cope with the distribution of scheme membership over many locations throughout Melbourne and the State.
- (4) To give an outline of the present computer installations for the listed schemes.
- (5) To provide brief comment on the feasibility of one or several installations handling the whole of the requirements of public sector superannuation in Victoria.
- (6) To give a brief report on how the State Superannuation scheme's present and proposed facilities compare with the "model" developed in step 1.

F2 - OUTLINE OF A MODEL ADMINISTRATIVE SYSTEM FOR A SUPERANNUATION SCHEME

(i) Computer Facilities

- (a) The computer system should support online operations for processing enquiries, benefits, and low-volume updates and data corrections. It should support batch operations for bulk processing.
- (b) Systems development work should be strictly segregated from production systems.
- (c) The hardware should be provided by a major manufacturer with good local support. It should be one of a compatible range of computers so that future hardware upgrades do not require software conversion.
- (d) The software for contributor related systems should be proven in superannuation and related applications, and be flexible so that modifications can be easily implemented with minimal impact on existing operations.
- (e) Other systems should be based on standard packages or systems developed for other schemes.

(ii) Contributions Processing

Contributions processing should be largely automated using data transfer between the deducting authority's payroll system and the superannuation administration system.

(iii) Member Information

The computer system should record all the indicative and historical information necessary to calculate the benefits to which a member may become entitled at any time.

(iv) Benefit Statements

The system should produce personalised benefit statements of each member on demand and at regular intervals.

(v) Benefit Payment

The system should enable benefits to be calculated and paid monthly.

(vi) Medical Classifications

Medical classifications should be computerised so that the medical and benefit status of every member is known at all times.

(vii) Pensions

The administration of pension payments should be fully computerised, with the system paying the majority of pensions by bank transfer rather than by cheque.

(viii) Actuarial Requirements

The data required for actuarial review should be available at short notice on magnetic tape or other computer readable form supported by printed schedules.

(ix) Security

The system should guard against unauthorised access of data and record attempted violation.

(x) Flexibility

The computer system should be designed to be flexible, permitting response to changes in legislation with minimal disruption to normal operation.

(xi) Accounting Systems

General ledger, accounts payable , and accounts receivable should utilise standard commercial packages or a corporate standard system.

APPENDIX G

THE COOK REPORT

This appendix contains the complete report by Mr. Bruce D. Cook to the Victorian Treasurer on certain aspects of the Victorian State Superannuation scheme.

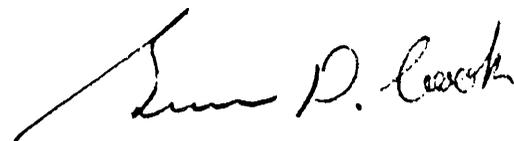
That is, the 'Cook' report:

"Cook/Ryder Investigation into Victorian State Superannuation Scheme" by Bruce D. Cook, January 1984.

**Cook/Ryder Investigation into
Victorian State Superannuation Scheme**

INDEX

Section 1	Introduction
Section 2	Projections of Future Government Costs
Section 3	Comparison of Cost Levels in the State and Private Sectors
Section 4	Changes in Commutation Provisions
Section 5	Methods of Assessing Costs of Changes to Scheme Rules
Section 6	Possible Design Changes in the Scheme
Section 7	Effect of South Australian or Commonwealth Provisions
Appendix A	Terms of Reference
Appendix B	Technical Background to Projection Calculations
Appendix C	Comparison of State Scheme Benefits with typical Private Sector Scheme
Appendix D	Comparison of Victoria, South Australian and Commonwealth Schemes



DATE: 20th January, 1984

BRUCE D. COOK

SECTION 1

Introduction

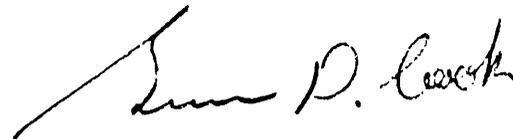
- 1.1 The Terms of Reference for this Report were laid down by the then State Treasurer, Mr. L. H. S. Thompson, on 10 October 1980. They are reproduced in Appendix A.
- 1.2 In Section 2 we project the trend of future Government costs to illustrate the broad effect of different possibilities. To avoid confusing the issues with too many figures we have given the technical details in Appendix B.
- 1.3 This Report was initially prepared by Mr. Cook and substantially amended following discussions with Mr. Ryder. We have agreed on the various assumptions used in the cost projections given in the Report.

Section 3 has not been finally agreed and as included in this Report it reflects the views and cost calculations of Mr. Cook.

**Cook/Ryder Investigation into
Victorian State Superannuation Scheme**

INDEX

Section 1	Introduction
Section 2	Projections of Future Government Costs
Section 3	Comparison of Cost Levels in the State and Private Sectors
Section 4	Changes in Commutation Provisions
Section 5	Methods of Assessing Costs of Changes to Scheme Rules
Section 6	Possible Design Changes in the Scheme
Section 7	Effect of South Australian or Commonwealth Provisions
Appendix A	Terms of Reference
Appendix B	Technical Background to Projection Calculations
Appendix C	Comparison of State Scheme Benefits with typical Private Sector Scheme
Appendix D	Comparison of Victoria, South Australian and Commonwealth Schemes



DATE: 20th January, 1984

BRUCE D. COOK

SECTION 1

Introduction

- 1.1 The Terms of Reference for this Report were laid down by the then State Treasurer, Mr. L. H. S. Thompson, on 10 October 1980. They are reproduced in Appendix A.
- 1.2 In Section 2 we project the trend of future Government costs to illustrate the broad effect of different possibilities. To avoid confusing the issues with too many figures we have given the technical details in Appendix B.
- 1.3 This Report was initially prepared by Mr. Cook and substantially amended following discussions with Mr. Ryder. We have agreed on the various assumptions used in the cost projections given in the Report.

Section 3 has not been finally agreed and as included in this Report it reflects the views and cost calculations of Mr. Cook.

SECTION 2

Projections of Future Government Costs

- 2.1 The Terms of Reference require these costs to be expressed as a percentage of salaries payable to scheme members.
- 2.2 The level of benefits is only one factor in this ratio. For any given benefits a wide range of costs can be projected merely by changing the assumed relative numbers of contributors and beneficiaries.
- 2.3 In the first part of this Section we concentrate on the level of the ratio itself.
- 2.4 The table below shows the typical effect on costs if the number of contributors remains at its present level or grows at up to 2% in each future year. The other assumptions used in deriving the figures are detailed in Appendix B.

Calendar Year	Level of costs (% of contributors' salaries)			
	Annual growth rate of number of contributors			
	0%	1/2 %	1%	2%
	%	%	%	%
1981	9.0	9.0	9.0	9.0
1990	12.0	11.3	11.0	10.2
2000	13.6	12.5	11.5	9.8
2010	16.4	14.4	12.7	10.0
2020	20.2	17.4	14.8	11.3
2030	20.6	17.8	15.4	11.6

general salary rises do not match CPI movements, State scheme costs will rise even higher than shown in the table unless positive action is taken to trim benefits. In this latter event pensioner living standards are maintained when the living standards of the rest of the community are falling.

Calendar Year	Level of costs (% of contributors' salaries)		
	Annual excess of salary growth above CPI		
	0%	1%	2%
	%	%	%
1981	9.0	9.0	9.0
1990	12.2	11.6	11.0
2000	13.6	12.5	11.5
2010	15.3	13.9	12.7
2020	18.0	16.4	14.8
2030	18.8	17.0	15.4

2.10 Cost levels are also sensitive to the relative periods for which an individual is a contributor and later a beneficiary. These depend on age when taking up membership and when retiring. In the next table we compare the effect of two possible patterns of new entrants. The first assumes that, for financial purposes, all new members may be regarded as joining at age 25. The second reflects the recent experience of both the Victorian and Commonwealth Schemes. (Full details are in Appendix B.)

Calendar Year	Level of costs (% of contributors' salaries)	
	Entry to membership at age 25	recent Vic./C'wealth expce.
	%	%
1981	9.0	9.0
1990	11.0	11.4
2000	11.5	12.5
2010	12.7	14.6
2020	14.8	20.4
2030	15.4	19.4

- 2.5 There are two main points to note in relation to the table above. The first is how sensitive are the costs to the growth assumption. Emerging costs do not arise to any significant extent until a generation or more has elapsed since the benefits were promised. If, in the interim, the number of contributors continues to grow, the emergence of the true level of costs will be pushed even further into the future. This can be seen by considering a simple example. Suppose that, in thirty years' time, a current contributor is by then a pensioner. If by then there are twice as many contributors as there are today (roughly equivalent to a 2% annual growth rate over the period), their salary roll is likely to be twice as high in real terms as if numbers had not increased. Hence the cost of the pension, expressed in terms of this salary roll, is only half what it would have been had numbers not changed.
- 2.6 The second point is to observe that a growth in the public service, (or a growth in Fund membership through more employees being deemed eligible for membership), which was not accompanied by an equal or larger growth in the private sector would be illusory in its impact on real costs, and the ability of the State to finance those costs out of taxation revenue.
- 2.7 In the long run, the governing factor is not what percentage of the public service salaries superannuation costs represent, but what percentage the combined sum of the public service salaries and superannuation costs, represent. Whether superannuation costs will become unmanageable in the future, thus forcing a reduction in benefits, is less a matter of what percentage superannuation costs are of public service salaries, than what percentage the combined costs are of the gross domestic product of the State.
- 2.8 Another important factor in the progression of the cost ratio in the State scheme is the difference between the rates of increase of contributors' salaries and of CPI-updated pensions. The effects are shown in the following table, whose underlying assumptions are set out in Appendix B. There are analogies with the growth of numbers examined above. The outturn of the arithmetic is similar and a large gap between the two rates of increase has implications far beyond the financing of the State scheme.
- 2.9 For example, general salary rises at 2% per annum above inflation (as represented by the CPI index) imply continual and substantial increases in the standard of living of contributors. On the other hand, CPI-linked pensions are a guarantee against a reduction in living standards. If

2.11 The next table illustrates the effect of different age-retirement patterns. It compares age-retirement exclusively at 60 (when the benefit now takes its greatest value) and at 65 (the 'normal' retirement age). Prior to 1975 early retirement benefits were assessed in such a way that there was little financial gain to the member from bringing forward his retirement.

Calendar Year	Level of costs (% of contributors' salaries)	
	Retirement (except for ill-health) at age	
	60	65
	%	%
1981	9.0	9.0
1990	11.0	9.3
2000	11.5	10.8
2010	12.7	11.7
2020	14.8	12.1
2030	15.4	13.5

2.12 In the paragraphs above we have examined variations in cost according to options which members may exercise on grounds of age. A disturbing feature in recent years has been the treatment of claims for ill-health benefits. Contrast, for example, the effect of differentiating solely by claims accepted on ill-health grounds between Victorian experience in the early 1960s and in 1974-77, and South Australian experience in 1976-80.

Calendar Year	Level of costs (% of contributors' salaries)		
	Ill-health retirements		
	Vic early 60s	Vic 74-77	SA 76-80
1981	9.0	9.0	9.0
1990	10.3	11.0	10.2
2000	10.6	11.5	10.5
2010	11.8	12.7	11.6
2020	14.1	14.8	13.9
2030	14.4	15.4	14.2

- 2.13 The most recent Victorian data available, covering 1977 to 1980, show further deterioration. The South Australian experience in 1976-80 was substantially poorer than in the early 1970s so the 'interstate' comparison over identical periods of time would be even more marked than is shown by the table. Thus, the more stringent supervisory measures taken in 1981 have a lot of ground to recover before the position may be judged satisfactory.
- 2.14 A source of savings in the past has been the benefit granted on resignation. Improvements in vesting, say to the standards widely accepted overseas, could be costly. The extent of the potential extra cost involved is illustrated in the tables set out in Section 3 of this Report.
- 2.15 There are numerous other elements in the scheme whose variation will affect the level of costs. Some are examined further in Appendix B and in other sections of this Report. None, however, raises financial issues outside the broad spectrum already covered.
- 2.16 The underlying rate of inflation will obviously affect the dollar cost of benefits in future years. The effect on costs expressed as a percentage of salaries is much smaller, as the following table shows:-

Calendar Year	Level of costs (% of contributors' salaries)		
	Annual rate of inflation		
	7%	10%	13%
	%	%	%
1981	9.0	9.0	9.0
1990	11.1	10.9	10.6
2000	11.6	11.4	11.1
2010	12.8	12.5	12.3
2020	15.1	14.8	14.5
2030	15.6	15.2	14.8

SECTION 3

Comparison of Cost Levels in the State and Private Sectors

- 3.1 The previous Section has examined the capacity of the State to meet its future commitments under the present benefit structure of the State scheme. This Section looks more closely at the equity of its doing so.
- 3.2 The remuneration package of employees in the private sector is largely determined by market forces. As such it is a reasonably independent measure of society's view of the living standards which can be supported at any point of time. The structure of our society puts the public sector at the hub of its operations, providing services which, for one reason or another, are not undertaken commercially. Employment conditions in the public sector ought, therefore, to be broadly commensurate with the norm of the private sector. There is no good reason why they should be better or worse than such a norm.
- 3.3 This principle has been lost sight of in recent years. Not only in Victoria but, for example, in Canada and the United Kingdom as well, the public sector has used its influence at the centre of the legislative process to protect its members from economic realities faced by the population at large. Such action is understandable but it cannot be condoned.
- 3.4 A groundswell of opinion against the perceived excesses of 'public service superannuation' is already apparent from press comment. As the true cost of benefits starts to emerge in future years the outcry from taxpayers in the private sector can only intensify.
- 3.5 The distinctive nature of the State superannuation scheme is apparent from the following table. This shows the disparity between 'new member' contribution rates required from the employer to support State scheme benefits as opposed to the rates payable by the employer under a typical private sector fund. The latter is outlined in Appendix C.

Age at Entry	State Fund		Typical Private Sector Staff Fund	
	Males %	Females %	Males %	Females %
20	21.0	18.1	10.7	9.6
25	23.5	20.2	10.4	9.2
30	27.2	23.3	10.4	9.1
35	29.3	24.0	10.7	9.2
40	29.7	24.1	11.1	9.3

- 3.6 The 'new member' rate is the level percentage of salary which needs to be set aside annually to provide the eventual benefits for an entrant at each age shown. The rates shown are averages, of course, based on the assumption that the future experience of the individual exactly matches the aggregate for all similar members.
- 3.7 All the calculations above use rates of mortality and disablement taken from recent State scheme experience. Since the rates of ill-health (disablement) experience under the State scheme are typically several times higher than those met in the private sector, it follows that the private sector contribution rates shown above are somewhat overstated.
- 3.8 The calculations further assume that a member will remain in service until he retires at age 60 unless, of course, he dies or is disabled earlier. They take no account of possible resignation from service. Thus, the rates indicate the level of actual costs if complete portability or preservation of benefits were granted to all leavers.
- 3.9 In the following table employer contribution rates are shown that are calculated on exactly the same basis as for those above, except that allowance has been made for resignations, using the State Fund experience. Here, for each group of entrants at a particular age, the forfeited benefits from those leaving are applied to reduce the cost of the remaining members.

Age at Entry	State Fund		Typical Private Sector Staff Fund	
	Males %	Females %	Males %	Females %
20	14.0	6.1	7.5	4.0
25	17.7	8.9	8.2	4.8
30	22.6	13.1	8.8	5.8
35	26.1	16.7	9.7	6.8
40	27.7	19.4	10.4	7.8

SECTION 4

Changes in Commutation Provisions

- 4.1 The brief was to consider 'The effect, on the cost to the Consolidated Fund, of changes in the present provisions relating to the commutation of pensions.'
- 4.2 The current position, in outline, is that an age pensioner may commute up to 30% of pension and an invalidity pensioner may commute none. The options available to a surviving spouse depend on age at bereavement. Above age 60 he or she is treated like an age pensioner. Below age 55 a recent change to the Act allows commutation of the entire pension.
- 4.3 Revenue will be affected by 'changes in the present provisions' in two ways - benefits themselves may be changed and/or the method of financing them may be changed.
- 4.4 Since commutation was introduced the impact on Revenue has been held down by letting the Fund (that is, the accumulation of member contributions) bear the brunt of the immediate cash outlay. The lump sum paid to the retiring member is paid entirely from the Fund, even though some 5/7ths of the amount is recognised as the State's responsibility. The Treasury then reimburses the Fund over the subsequent lifetime of the pensioner by a series of level payments including interest at 6% per annum.
- 4.5 The net results have been very favourable to Revenue at the expense of the Fund. The Fund has suffered because it has large sums 'loaned' to the Treasury at a low rate of interest. The 1980 Actuarial Investigation shows that loans by the Superannuation Fund to the Treasury account for 18% of Fund assets (on the valuation basis). The member by his choice of a lump sum benefit has suffered by the loss of index-linking on the portion of the pension commuted, but this is offset to a large extent by the rate of interest used in the calculation of cash options.
- 4.6 On the other hand this method has allowed some commutation of pensions without the significant increase in cost that would have been involved if the State had directly paid its share of such lump sums, in cash at the time of a member's retirement.
- 4.7 The relative value of options facing a retiring member is a separate issue. It is a matter of benefit design whether commutation terms should reflect the intrinsic worth of the pension foregone. The point can be illustrated by comparing practice under the South Australian and Victorian schemes. Both allow commutation of 30% of an index-linked pension. In South Australia the commutation of pension is

on terms which reflect investment conditions current at the time, and subsequent CPI increases to the residual pension are based on the original amount of pension before commutation. This approach confronts the pensioner with benefits of identical worth (in context) irrespective of their form. In Victoria the position has developed that a full pension is (in context) intrinsically more valuable. This is because only the residual pension is CPI-indexed and the terms for cash commutation do not fully reflect the value of CPI increases given up along with the pension foregone.

- 4.8 The Superannuation Act clearly places the onus to determine the cash alternative to a pension on 'an actuary appointed by the Board.' There could be conflicting views as to whether such a determination should necessarily be carried through to fix the terms of an investment by the Fund with the Treasury.
- 4.9 If, however, legal opinion were that the Act had to be interpreted as binding the two issues together, we should recommend a suitable amendment to separate them for the future.
- 4.10 Once the link is broken the distortions disappear. Anomalies of benefit design may remain but presumably they would exist by virtue of conscious decisions.
- 4.11 The effect of this change in isolation would obviously be to increase the annual charge on Revenue. Instead of paying 6% interest for the use of \$100M worth of the Fund's assets it would pay the commercial rate, 15% or more at the time of writing.
- 4.12 Any increase in the level of commutation will almost certainly require a sharp increase in cost to the State. There is very little scope to increase above 30% the proportion of benefit that can be commuted and paid out by the Fund. To do so would risk running down the assets resulting from past member contributions to an unacceptable level, or even to result in eventually them all being lent to Treasury.
- 4.13 The potentially large and immediate increase in cost to the State makes any further increase in the level of commutation most unlikely. The following table assumes that the right of increased commutation to 50% of pension, had commenced from 30th June 1980. It shows the annual cost increasing in the first year by some 38%.

Calendar Year	Level of costs (% of contributors' salaries)	
	Proportion of pension commuted	
	30%	50%
1981	9.0	12.3
1990	11.0	11.4
2000	11.5	11.6
2010	12.7	12.6
2020	14.8	15.1
2030	15.4	15.1

- 4.14 The '30%' figures above assume that current practice continues as regards the financing of commutation payments from the Superannuation Fund. Other underlying assumptions are set out in Appendix B.
- 4.15 By contrast the '50%' figures show the effect on Revenue if a further 20% of pension were commuted and the extra cash outlay met directly and exclusively from Revenue. In other respects the calculation basis is identical to that for the '30%' figures.
- 4.16 There is an obvious, immediate surge in the annual charge on Revenue. The effect then gradually disappears over the next dozen years or so, reflecting the reduced cost of CPI-linking on the smaller residual pensions. In the longer-term the charge on Revenue falls below what it would be if current practice were maintained. This bears out the observation made elsewhere that the factors used to calculate cash options do not fully represent the value of the index-linked pension foregone by the member.

SECTION 5

Methods of Assessing Costs of Changes to Scheme Rules

- 5.1 The brief was to consider 'The methods that might be adopted to enable accurate assessments to be made of long term costs or benefits to the Consolidated Fund of any changes that may be, from time to time, contemplated.'
- 5.2 The control mechanisms adopted must remove two areas of doubt in the community. The first is that the ultimate cost of the scheme may prove to be an unmanageable burden for the taxpayer when promises already given have to be honoured in hard cash.
- 5.3 With the advent of modern computing aids it is now a relatively simple matter to project future costs on any specified set of assumptions. A practical problem acknowledged by the State Superannuation Board, however, is that it does not have the capability at present to make such calculations. A first step towards proper control in future therefore must be to ensure that the Board does have adequate computer-based records and expertise.
- 5.4 Thereafter a control process must be evolved with the aim of putting the cost implications of any proposed course of action in front of Parliament in laymen's terms.
- 5.5 An adequate control process must identify all reasonable alternative courses of action and then quantify the effects of following any of them. Shorn of detail, the process would be:-
1. Projections of emerging costs throughout the next 40 years, say, should be made every three years in conjunction with the Actuarial Investigation of the Fund. The underlying technical assumptions would be chosen by the actuaries to determine the range of projections made. Supporting argument to the projections would be, so far as possible, in non-technical language. If the actuaries were not in total agreement on the calculations appropriate, then the range of projections and argument should encompass their individual views.
 2. The three-yearly updatings of such projections would take account of actual events since the earlier calculations and assumptions for the future would be adjusted as appropriate.

3. In addition to projections, the 'new member contribution rate' would be calculated at each Investigation. This would show, for entrants of each sex and at specimen ages from 20 to 50, the eventual charge on Revenue for that person expressed as a level percentage of his or her salary throughout service.
4. When any change to benefits under the State scheme is proposed, calculations as in 1. and 3. must be made to isolate the potential cost of the change. Any submission to Parliament on the proposed change must include this analysis. Any proposed change to employment policy or conditions with implications for superannuation costs should be handled similarly.

5.6 Apart from their prime purpose of ensuring informed decisions on State superannuation matters, the results of calculations as above can be used more generally. For example, given the 'new member contribution rates', budgets at departmental level should have due regard to the superannuation element of staff costs. Indeed it would be a simple matter to calculate the notional percentage addition to a department's payroll necessary to meet its existing liability for superannuation. Such figures, in turn, are a vital element in any comparison of the total 'remuneration package' between private and public sector employment.

SECTION 6

Possible Design Changes in the Scheme

- 6.1 The brief was to consider 'the possible changes in the design of the schemes which would not materially affect existing benefits, but which would reduce costs to the Consolidated Fund.'
- 6.2 If benefits are not to be 'materially affected', the scope for reducing costs is very limited. The level of costs goes hand-in-hand with the intrinsic worth of the benefits. If the latter is to be maintained then costs to the Consolidated Fund can only be reduced by one or more of the following:-
- (i) increase the member contribution rates;
 - (ii) reduce the number of claims which lead to benefits being met from Revenue;
 - (iii) provide a lower scale of benefits for future members.
- 6.3 Of these avenues, (i) has significant implications which may make it impracticable. Option (ii) is readily feasible and steps have already been taken to reduce the number of accepted claims for invalidity pensions.
- 6.4 Ill-Health Pensions
- The most important change to be made in the operation of the Fund, relates to the payment of ill-health or invalidity pensions. The generous pension levels, and the apparent ease of obtaining such benefits, has undoubtedly led to the vast increase in the rates of ill-health retirements.
- 6.5 Should a teacher who cannot cope with school children, or the policeman suffering from strain associated with their jobs, receive a generous fully indexed pension for life, irrespective of them subsequently resuming some other full-time employment?
- 6.6 As this has been happening it is no wonder that there has been a financial incentive to "become disabled".
- 6.7 Some years ago following an investigation of this problem, more stringent medical examinations were undertaken of prospective entrants to the Fund.
- 6.8 The need has been to ensure the benefit level, and its subsequent administration after retirement, removes or substantially decreases, the financial encouragement to become disabled.

- 6.9 While our investigation has been underway changes have been made in an attempt to solve this problem.
- 6.10 It remains to be seen whether these changes, and the way in which they are administered, will in fact lead to a significant reduction in the high cost paid out in ill-health pensions.

Final Average Salary

- 6.11 In most Private Sector Funds, the retirement benefits are related to the member's average annual salary over either a three or five year period, immediately before the member's retirement.
- 6.12 However the State Fund bases pensions on salary at the actual date of retirement. Thus if a public servant receives a promotion within a few months of his retirement, his pension entitlement may greatly increase in value.

Amended Benefits for Future Entrants

- 6.13 Although it is not practical to reduce benefit entitlements for existing Scheme members, why not a reduced level of benefits for future members?
- 6.14 Rather than attempt to establish some new scale of benefits, why not adopt the new benefit structure currently being introduced for University staff throughout Australia.
- 6.15 If the benefit level is considered adequate for future University staff and employees, why should future Public Servants receive a higher level of benefit.
- 6.16 If such a basis was adopted for future entrants it would still be necessary to fund on an Emerging Cost Basis to avoid a sudden cost increase.

SECTION 7

Effect of South Australian or Commonwealth Provisions

- 7.1 The brief was to consider 'any likely significant differences which could be expected to occur in respect of changes to costs borne by Consolidated Fund if the Commonwealth or South Australian benefit provisions applied in Victoria'.
- 7.2 The likelihood of such differences can perhaps best be assessed by quoting from the report of the actuarial investigation of the Fund as at 30 June 1977, dated 17 December 1980. "As from 1 July 1975 extensive changes (were made and) the revised scheme was modelled on the revised South Australian ... scheme and the proposals for the Commonwealth ... scheme".
- 7.3 However the proposed Commonwealth Scheme changes were subsequently cut back in some respects before they were eventually passed by Parliament. Thus a change to Commonwealth Public Servant Scheme benefits would result in a reduction in cost.
- 7.4 It would not be considered practicable to make such a change for existing members but it would be quite feasible for future entrants. A side benefit would be the much greater simplification of the Commonwealth benefits, particularly in relation to the administration of member contributions and of commutation.
- 7.5 The actual cost saving of a change to Commonwealth Scheme benefits for future members would however be quite minor.
- 7.6 The costs of South Australian Scheme benefits would be similar to those in Victoria. On part commutation of pensions, the subsequent CPI increases are based on the full pension before commutation, thereby involving increased costs, when compared to the Victorian Scheme, in this regard.

APPENDIX A

TERMS OF REFERENCE

The Terms of Reference set out by the Treasurer, Mr. L. H. S. Thompson, on 10th October, 1980 were as follows:

To make projections of the future cost to the Consolidated Fund of the continued operation of the existing schemes contained in those Acts (i.e. the State Superannuation Act, the Pensions Supplementation Act), on whatever assumptions are considered necessary, to give a view of the estimated actual cost that will be incurred by the State over the next forty years. These projections should be shown as a percentage of the assumed salaries used in the projections.

The report was also to cover the following matters:

- (a) the effect, on the cost to the Consolidated Fund, of changes in the present provisions relating to the commutation of pensions;
- (b) the methods that might be adopted to enable accurate assessments to be made of the long term costs or benefits to the Consolidated Fund of any changes that may be, from time to time, contemplated;
- (c) the possible change in the design of the schemes which would not materially affect existing benefits, but which would reduce costs to the Consolidated Fund; and
- (d) any likely significant differences which could be expected to occur in respect of changes to costs borne by Consolidated Fund if the Commonwealth or South Australian benefit provisions applied in Victoria.

APPENDIX B

Technical Background to Projection Calculations

General Introduction

Calculations were based on the State Scheme membership (contributors and pensioners) as at 30 June 1980 using data supplied by the Government Statist and Actuary. Current methods of financing benefit payments have been assumed to continue unless the contrary is stated explicitly. For example, commutation of pension up to the '30%' limit appears as a charge on Revenue only to the extent that annual payments are made to the Superannuation Fund to extinguish its loans to the Treasury.

Apart from their action as a catalyst to finance commutation, the assets of the Superannuation Fund do not enter into the calculations. The emerging costs shown are those which must be found from Revenue to meet the balance of total State Scheme benefits after allowing for the fraction deemed bought by member contributions. Similarly, no account is taken of the expenses of administration of the State Superannuation Scheme.

Projected emerging costs

The range of variables affecting costs is apparent from Section 2. To isolate the effect of any single one the remainder of the calculation basis must be kept fixed. This 'underlying' or comparative basis is summarised below. Each element is then examined in more detail in the remainder of this Appendix.

- (i) Growth in numbers of contributors at 1% per annum.
- (ii) General salary increases (i.e. excluding promotional element) at rates exceeding increases in the CPI by 2% p.a..
- (iii) Other factors mainly as per Victorian experience in 1974-77 - that is, mortality, invalidity, resignation, retirement and family statistics. A promotional salary scale deduced from the data was used.

Membership Growth

Historically the growth in contributor numbers to the schemes has averaged almost 2% per annum, with a surge in recent years. The number of contributors in 1971 was some 57,000, in 1980 some 89,000 - an increase of nearly 60%. By contrast the numbers of pensioners at the same dates were some 20,000 and 27,000 respectively - an increase over the period of only some 35%. This is the immediate reason why emerging costs in 1980 were only at the level of 9% of salaries - the levy for pensioners is spread over an exceptionally large base of contributors.

The State Forecasting Co-ordination Group has made various projections of population growth within Victoria. Over a future period of 40 years or so these indicate a growth rate averaging about 1% per annum. This could well prove an overstatement if economic prospects in Victoria are outshone by those in other States. Moreover growth of numbers within the State superannuation scheme cannot, realistically, outstrip growth of the Victorian economy. To suppose otherwise is to claim that an ever-increasing proportion of the workforce is in the public service. A point must then be reached when the bureaucracy cannot support itself through taxation.

Section 2 shows the different patterns of emerging costs produced by assumed annual membership growth rates of 0%, 1/2 %, 1% and 2%.

Salary Inflation

Pension increases under the Scheme are linked to movements in the CPI. The total contributors' salary roll (and hence the traditional yardstick for measuring emerging costs) might be assumed to move in line with the Average Weekly Earnings Index. Over the past thirty years the average gap between these two measures has been about 2 1/2 % per annum.

There is no reason to suppose the Victorian workforce will be as fortunate in the future. Overseas factors dominate the picture. Not only trade recessions and oil crises but the slide in Australia's position relative to many of its trading competitors all point to a future in which the maintenance of today's standards may be difficult.

Economic Assumptions

For the comparative basis pensions in payment are assumed increased by 8% per annum by cost-of-living adjustments. Contributors salaries increase by 10% per annum owing to inflation, and further by promotion. The promotional rates of increase were derived from an examination of the data; sample rates are -

Age	% Increase
20	7.5
25	4.5
30	2.5
35	1.3
40	.8
45	.55
50	.4

Section 2 also shows the alternative effects of annual inflation rates of 7% and 13%.

New Entrant Assumptions

Members leaving service are assumed to be replaced by new entrants, in such a way that total membership increases by up to 2% per annum compound as described above. For the 'underlying' basis, the new members are deemed to be aged 25, and on salaries of \$12,000 at 1980 values. The alternative effect of entry at an average age of 29 is also shown, as experienced by the State scheme over the period 1975-80. During these years the scheme expanded greatly, giving rise to many entrants at ages higher than might be expected in future. However, a recent report by the Australian Government Actuary shows a very similar new entrant experience in the Commonwealth scheme over 1976-81, even though fluctuations in membership were much smaller.

Age-Retirement Assumptions

Retirements on grounds of age are assumed to take place entirely at age 60, unless a contrary assumption is stated explicitly. This recognises that, under the post-1975 benefit structure, the intrinsic value of age-retirement benefits is greatest at age 60.

Other Demographic Assumptions

Rates of exit from service and pensioner mortality are those derived from the 1974-1977 experience of the Fund. Sample rates are as follows; separated between males and females, and contributors and pensioners:-

Males Contributors			
Numbers leaving service per 10,000, through			
Age	Death	Ill-Health	Resignation
20	7	10	1,042
25	6	10	754
30	6	16	509
35	9	26	347
40	16	43	242
45	26	73	173
50	42	126	129
55	69	219	-

Males Pensioners

Rates of mortality per 10,000

Age	Age Retirements	Ill-Health Retirements
35	-	395
45	-	318
55	-	361
65	240	499
75	578	852
85	1,565	1,716

Females Contributors

Numbers leaving service per 10,000, through

Age	Death	Ill-Health	Resignation
20	2	8	1,297
25	3	12	1,142
30	5	17	986
35	8	23	829
40	11	33	671
45	16	46	512
50	22	65	351
55	31	92	-

Female Pensioners

Rate of Mortality per 10,000

Age	Age Retirements	Ill-Health Retirements	Widows [*]
35		200	409
45		200	156
55		240	100
65	125	350	160
75	325	520	435
85	905	905	1,221

* includes allowance for remarriage.

Comparative Ill-health Experience

The effects of the adverse trend in recent years in the incidence of ill-health pensions is measured against earlier Victorian and recent South Australian experience. Sample rates are as follows:-

Numbers leaving service per 10,000 contributors, through ill-health			
Age	Victoria early 1960s	Victoria 1974-77	South Australia 1976-80
20	6	10	1
25	8	10	2
30	9	16	5
35	13	26	9
40	19	43	17
45	30	73	34
50	40	126	67
55	85	219	130

The Victorian statistics are for male lives only. The South Australian statistics are not differentiated by sex. The corresponding rates for males only are probably slightly higher than those shown if observed Victorian male/female differentials are repeated in the predominantly male South Australian membership.

APPENDIX C

Comparison of Victorian State Scheme with typical Private Sector Scheme.

Design features

	State Scheme	Private Scheme
Effective normal retirement age:	60	65
Salary for computation of benefits (FAS):	Annual rate of salary on final day at work	Average of salaries received over 3 years prior to retirement
Allowance for future inflation:	Pensions fully-linked to CPI	None

Benefits

On age retirement at normal age after 30 years' service:	Pension of 66 2/3% x FAS, up to 30% of which may be commuted	Lump sum of 4.5 x FAS
On ill-health retirement:	Pension of 70% x FAS if total potential service of at least 30 years	Lump sum equal to normal age retirement benefit assuming current salary unchanged
On death:	Pension to spouse of 66 2/3% x member's actual or prospective pension, plus benefits to dependent children	If death in service, lump sum as for disablement benefit. If death after retirement, no benefit.
On resignation:	Return of member's own contributions, or (after long service) option to deferred pension	Return of member's own contributions plus interest. This sum further increased by, say, 10% for each year of service between 5 and 15.

Contributions

By Member:	Depend on age at entry and salary progression. Effective overall rate for long-serving member is about 6 1/2 % of salary	5% of salary
By employer:	Payments from Revenue to pensioners as and when each liability arises.	Matches member contributions with payments of, say, 12% of salary into the same fund and at the same time as the member pays.
<u>Funding Method:</u>	Member's contributions invested in Superannuation Fund. No prior provision for employer liabilities.	All contributions invested and liabilities funded during member's working lifetime.

APPENDIX D

Comparison of Victorian, South Australian and Commonwealth Schemes.

Design Features

	<u>VIC</u>	<u>SA</u>	<u>C'WEALTH</u>
Membership:	Compulsory	Voluntary	Compulsory
Form of main benefit:	Pension	Pension	Pension
Effective normal retirement age:	60	60	60-65
Salary for computation of benefits (FAS):	Final salary	Final salary	Final salary
Allowance for future inflation:	CPI-linking of non-commuted pension	CPI-linking of original pension	CPI-linking of 'employers' share of pension
Other:		'Half-rate' membership allowed	* Option for member to make extra contributions and benefit by their accumulated amount.

Benefits

On age retirement at normal age after 30 years' service:	Pension of $66 \frac{2}{3}\%$ x FAS, 30% commutable	Pension of $66 \frac{2}{3}\%$ x FAS, 30% commutable	* Pension of 50% (45%) at age 65 (60) plus benefits derived from members' contributions
--	---	---	---

On ill-health retirement (assuming total potential service of at least 30 years):	Pension of 70% x FAS	Pension of 66 2/3% x FAS	* Pension of 70% x FAS (option for partial commutation on severe terms)
On Death:	Pension to spouse of 66 2/3% x member's actual or prospective pension, plus benefits to dependent children	Pension to spouse of 66 2/3% x member's actual or prospective pension, plus benefits to dependent children	* Pension to spouse of 67% x member's actual or prospective pension, plus benefits to dependent children
On resignation:	Return of member's contributions or (after long service) option to deferred pension	Return of member's contributions, plus interest addition if service exceeds 5 years	* Return of member's contributions plus interest, or option to deferred pension

Contributions

By member:	Depend on age at entry and salary progression. Effective overall rate for long-serving member is about 6 1/2 % of salary	Depend on age at entry. Within range 5% to 6% of salary	5% of salary * plus option to contribute up to 5% more. Payment of extra contributions secures benefits of equivalent value to these accumulated contributions
By employer:	Payments from revenue to pensioners as and when each liability arises		

Funding Method

Member's contributions invested and accumulated. No prior provision for employer liabilities.

APPENDIX H

VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

1. Australian Barley Board Staff Superannuation Fund.
2. Chairman General Sessions - County Court (Jurisdiction) Act 1968 (No. 7705).
3. City of Melbourne Gratuities Scheme.
4. City of Melbourne Officers' Superannuation Fund.
5. Coal Mine Workers' Pensions Fund (The).
6. County Court Associates Superannuation Scheme (The).
7. Egg Board Staff Superannuation Scheme (The).
8. Gas and Fuel Corporation of Victoria Superannuation Fund.
9. GEB Superannuation Fund(a).
10. Governor's Pension - Constitution Act 1975 (No. 8750),
Constitution (Governor's Pension) Act 1979 (No. 9251).
11. Greyhound Racing Control Board Superannuation Plan.
12. Harness Racing Board Staff Superannuation Scheme(b).
13. Hospitals Superannuation Fund.
14. Judges - County Court - County Court Act 1958 (No. 6230)
Judges - Supreme Court - Constitution Act 1975 (No. 8750).
15. Legal Aid Committee Staff Superannuation Fund.
16. Local Authorities Superannuation Scheme.
17. Melbourne and Metropolitan Board of Works Provident Fund.
18. Melbourne and Metropolitan Board of Works Superannuation Scheme.
19. Melbourne Underground Rail Loop Authority Superannuation Scheme.
20. Metropolitan Fire Brigades Superannuation Fund.
21. Metropolitan Transit Authority Retiring and Death Gratuities Scheme (The).

22. Mint - The Mint Act 1958 (No. 6323) (The).
23. Parliamentary Contributory Superannuation Fund.
24. Pilot Service Staff Fund (The).
25. Police Pensions Fund.
26. Port of Geelong Authority Superannuation Scheme
27. Port of Melbourne Authority Superannuation Scheme.
28. Port Phillip Pilot Sick and Superannuation Fund.
29. Port Phillip Pilots Staff Life Assurance and Pension Scheme (The).
30. State Bank of Victoria Provident Fund (The).
31. State Electricity Commission Employees Retirement and Benefit Fund.
32. State Electricity Commission Superannuation Fund.
33. State Employees Retirement Benefits Fund.
34. State Superannuation Lump Sum Fund.
35. State Superannuation Scheme.
36. Supreme Court Associates Superannuation Scheme (The).
37. Tobacco Leaf Marketing Board Superannuation Fund (The).
38. Totalizator Agency Board Superannuation Fund.
39. Victorian Dried Fruits Board Superannuation Plan.
40. Westgate Bridge Authority Employee Superannuation Fund (The Colonial Mutual Life Assurance Society Limited).
41. Westgate Bridge Authority Staff Superannuation Plan (National Mutual Life Association of Australasia Limited).
42. Zoological Board of Victoria Superannuation Fund.

- (a) This is the formal title, on trust deed, for the Grain Elevators Board's Superannuation Fund.
- (b) Reference to this scheme includes the National Coursing Association of Victoria.

APPENDIX H (CONT.)

PUBLIC SECTOR SCHEMES

ABBREVIATED TITLES

1. Australian Barley Board.
2. Chairman General Sessions.
3. City of Melbourne Gratuities.
4. City of Melbourne Officers'.
5. Coal Mine
6. County Court Associates.
7. Egg Board Staff.
8. Gas and Fuel Corporation.
9. Grain Elevators.
10. Governor's Pension.
11. Greyhound Racing Control Board.
12. Harness Racing Board.
13. Hospitals.
14. Judges - County Court
Judges - Supreme Court.
15. Legal Aid Committee.
16. Local Authorities.
17. MMBW Provident.
18. MMBW Superannuation.
19. MURLA
20. Metropolitan Fire Brigades.
21. MTA Gratuities.
22. Mint.

23. Parliamentary.
24. Pilot Service Staff.
25. Police Pensions.
26. Port of Geelong.
27. Port of Melbourne.
28. Port Phillip Pilot Sick and Superannuation.
29. Port Phillip Pilots Life Assurance.
30. State Bank.
31. SEC Employees.
32. SEC Superannuation.
33. SERB.
34. Superannuation Lump Sum.
35. State Superannuation.
36. Supreme Court Associates.
37. Tobacco Leaf Marketing Board.
38. TAB.
39. Vic. Dried Fruits Board.
40. Westgate (CML).
41. Westgate (NMLA).
42. Zoo.

APPENDIX I

LIST OF ORGANISATIONS AND PERSONS MAKING SUBMISSIONS TO THE INQUIRY

Agriculture, Department of - per The Hon. Daniel Eric Kent, M.L.C., Minister of Agriculture

Australian Institute of Marine and Power Engineers - La Trobe Valley Sub-Branch

Association of Consulting Actuaries of Australia (The)

Association of Professional Engineers, Australia (The)

Association of Professional Engineers, Australia, Federated Gas Employees Industrial Union and Gas Industry Salaried Officers Federation
(Joint Submission)

Association of Professional Engineers, Australia (Victorian Branch), Municipal Engineering Division

Association of Professional Engineers, Australia, Metropolitan Transit Authority (Tram and Bus Division) Group

Association of Professional Scientists of Australia

Association of Retired Principals of Technical Schools

Association of Superannuation Funds of Australia (The)

Australian Labor Party, Preston Branch

Australian Medical Association Executive

Royal Australian Nursing Federation

Hospital Employees' Federation of Australia

Hospital Pharmacists' Association of Victoria

Ambulance Superintendents' Association of Victoria

Hospital Administrative Officers' Association of Victoria

Hospital Medical Ancillaries Association of Victoria

Victorian Institute of Marine & Power Engineers, Hospital Branch

Hospital Dentists' Association of Victoria

Australian Medical Association, Resident Medical Officers' Association

Victorian Ambulance Administrative Officers' Association

Hospital Scientists' Association

(Joint Submission)

Australian Railways Union
Council of Academic Staff Association
Country Fire Officers Association
Hospital Employees Federation No. 2
Municipal Officers Association
Technical Teachers' Union of Victoria
Victoria Colleges Staffs' Association
Victoria Police Association
Victorian Public Service Association
Victorian Secondary Teachers' Association
Victorian Teachers' Union
(Joint Submission)

Baynes, S. M. (Mrs.)

Bazley, George and Pauline

Bransgrove, Ian (Mr.)

Buckland, H.
Robinson, H. L.
Troy, J. M.
(Joint Submission)

Butcher, F. G.

Butterworth, Brian (Mr.)

Caddy, J.
Robinson, H. L.
Troy, M.
(Joint Submission)

Christie, Ross (Mr.)

Colls, J. S.

Community Welfare Services, Ministry of - per The Hon. Pauline Toner, M.P., Minister for
Community Welfare Services

Council of Academic Staff Associations in Victorian Colleges of Advanced Education

De Stephanis, J.

Dunstan, I. L.

Dixon, The Hon. Judith Lorraine, M.L.C.

Dwyer, Joan (Ms.), Chairman, Equal Opportunity Board

Equal Opportunity Board

E. S. Knight & Co. - Consulting Actuaries

Evans, Bruce J. (Mr.), M.P.

Federated Engine Drivers and Firemen's Association of Australasia (State Electricity Commission Staff Sub-Branch - Victoria)

Federated Engine Drivers and Firemen's Association, Victorian Branch

Federated Municipal and Shire Council Employees Union of Australia (Victorian Division) (Preliminary Submission and Final Submission)

Federation of Victorian School Administrators

Fisher, Frank (Mr.)

Fitzgerald, Peter (Mr.), Ministerial Adviser, Law Department

Garing, Maxwell Berner (Mr.)

Gay Legal Rights Coalition

Halsall, Peter (Mr.)

Ham, Frances (Mrs.)

Health Commission of Victoria, Ministry of Health

Hospital Administrative Officers' Association (The)

Housing, Ministry of - per Dr. Roy V. Gilbert, Director of Housing

Industrial Affairs, Ministry of - per The Hon. Steven Marshall Crabb, M.P., Minister for Industrial Affairs and Minister of Transport

Legal Aid Commission of Victoria

Leonard-Kanevsky, Peter (Mr.)

L'Estrange, L.

Lewis, Jean E. (Mrs.)

Life Insurance Federation of Australia

Magennis, Robert (Mr.)

Miles, K. J.

Ministerial Advisers and Press Secretaries, per Ms. Sue Brooks, Ministerial Adviser, Treasurer

Municipal Officers' Association of Australia, Federal Executive

National Mutual T & G

Newman, J. M. (Mr.)

Nolan, Lois Lesley

Olsen, Sidney J. (Mr.)
Ombudsman of Victoria - Mr. C. N. Geschke, O.B.E.
Outram, Richard (Mr.)
Overseas Service Bureau
Patton, Nancy E.
Perry, Leslie G. L.
Plumbers and Gas Fitters Employees Union, Melbourne Branch
Public Service Board of Victoria
Quinn, Denis (Mr.)
Regan, Thomas (Mr.)
Renolds, E. J. (Mrs.), Senior Education Officer, Westernport Region
Retired State Employees Association (Victoria)
Richards, Larry (Mr.)
Road Construction Authority, Ministry of Transport
Ronan, Malcolm J. (Mr.)
Samuel, G.
Shand, D. A.
Simmonds, Keith L.
Smith, J. R. (Mr.)
Solicitor-General, Mr. H. C. Berkeley, Q.C.
Speck, R. H. (Mr.), Dental Surgeon
State Electricity Commission of Victoria
Stewart, L. A. (Jnr.), (Mr.)
Swift, E. (Mr.)
Szomanski, Eugeniusz
Treasurer's Consultative Committee on Superannuation
Trembath, S. (Mr.)

United Fire Fighters' Union (Victorian Branch), Contributors Committee, Metropolitan Fire Brigade Superannuation Fund

Victorian Ambulance Services' Association

Victorian Colleges Staff Association

Victorian Consultative Council on Rehabilitation

Victorian Hospitals' Association Limited (The)

Victorian Parliamentary Former Members Association

Victorian Public Service Association

Victorian Public Service Association, Electorate Officers Division Sub-Committee, Victoria

Victorian Teachers' Federation (The)

Victorian Women's Advisory Council to the Premier

Waldron, B. J. (Mr.), Auditor General for Victoria

Waldron, G. R., The Honorable Chief Judge of the Victorian County Court

Walker, The Hon. Evan, M.L.C., Minister for Conservation

Wood, Phillip R. (Dr.)

APPENDIX J

LIST OF ORGANISATIONS AND PERSONS GIVING EVIDENCE TO THE INQUIRY

Anderson, J.M. (Mr.)	- Consulting Actuary to the State Employees Retirement Benefits Board	20 July
Arnold, V.H. (Mr.)	- Actuary	25 July
Australian Barley Board	- Mr. B.D. Banbury (Secretary)	8 July
Australian Mutual Provident Pty. Ltd.	- Mr. Kevin Mooney	8 July
Australian Professional Engineers Association (Victorian Branch)	- Mr. J. Fleming (President)	6 July
Australian Tramways Unions	- Mr. N. Maddock	27 July
Australian Workers' Union	- Mr. W.G. Bodkin	20 July
Campbell and Cook	- Mr. Bruce Cook (Senior Partner)	8 June
	- Mr. Desmond Keleher	29 June 15 July 25 July
Cannington, W.G.F. (Mr.)	- Consultant Actuary and Manager, Tobacco Leaf Marketing Board Superannuation Fund.	6 July
City of Melbourne, Corporation of	- Councilor K. Chamberlin Mr. A.S. Bramich Mr. R.J. Dye	27 July
College Councils Association of Victoria	- Mr. G.A. Richards (Executive Officer)	3 August
Colonial Mutual	- Mr. C. Morley Mr. G. Forbes	4 July 8 July
Country Fire Authority	- Mr. L.J. Newell (Chairman) Mr. L.A. Cruickshank (Acting Secretary)	29 July
Distributed Computer	- Mr. D. Hayward	12 September

Networks Pty. Ltd.	(Managing Director) Mr. W. Goldsworthy	
E.S. Knight and Co.	- Mr. Ron Champion Mr. Bob Burgess Mr. G.I. Burgess	8 June
Federated Gas Employees Industrial Union	- Mr. M. Burr (Secretary)	6 July
Footscray Institute of Technology	- Mr. R.D. Mills (Director)	3 August
Gas and Fuel Corporation of Victoria	- Mr. N.A. Smith (Chairman) Mr. P.N. Cooper Mr. P.J. Quinn Ms D. Anglin	6 July
Gas Industry Salaried Officers Federation	- Mr. I. Cole (Secretary)	6 July
Grain Elevators Board	- Mr. P. Seletto (Deputy General Manager) Mr. B. Lang Mr. J. Punton	21 July
Greyhound Racing Control Board	- Mr. E.A. Wallish (Secretary)	14 July
Harness Racing Board	- Mr. D.G. Williams (Administrative Manager)	15 July
Hospitals Superannuation Board	- Mr. J. M. Ryder (Chairman) Mr. A. Rackemann (Manager) Mr. W.R. Shepherd Mr. R.A. Campbell	13 July
Industrial Affairs, Ministry of	- Mr. M. Wright (Executive Assistant to Director) Mr. I. Oostermeyer	24 June
Legal Aid Commission	- Mr. J. A. Heffernan (Assistant Director) Mr. K. Jordan	22 July
Life Assurance Federation of Australia	- Mr. N. Renton	22 July

Local Authorities Superannuation Board	- Councillor W. Thwaites (Chairman) Mr. L.M. Rodriquez Mr. P. Slape (Municipal Employees' Union nominee)	25 July
	Mr. G.A. Weaven (Municipal Officers' Association nominee)	
	- Mr. A. Biggins (Computer Facilities Manager)	12 September
Marine Board	- Mr. A. Wagglan (Chairman) Mr. Ron Webster, Captain John Taylor Mr. John Mc Coy	30 June
Melbourne College of Advanced Education	- Dr. J.J. Ryan (Vice-Principal)	3 August
Melbourne Underground Rail Loop Authority	- Mr. W. Daniels (Assistant General Manager)	4 July
Metropolitan Fire Brigades Board	- Mr. G.M. Ryder (Chairman) Mr. F.N. Fisk Mr. A. Connolly Mr. D.G. Watt	4 July
Metropolitan Transit Authority	- Mr. F.D. Snell Mr. W. Aird	27 July
Municipal Officers Association	- Mr. A.R. Paterson Mr. A.M. Denny Mr. R. Harrison Mr. K.D. Mann Mr. J. Brindley Mr. N. Campbell	15 July
	- Mr. T. Tuohey	27 July
National Mutual Life Association of Australasia Limited and T & G Insurance Group	- Mr. G. Whittaker Mr. G. Forbes	22 June
	- Mr. C. Morley Mr. J. Fox	4 July
Owen, David	- Consulting Actuary	22 June
Palmer, Trahair, Owen and Whittle	- Mr. Chris White	10 June
Parliamentary Superannuation Fund	- The Hon. C.T. Edmunds (Trustee) Mr. Mal C. Hastie (Secretary to Trustee)	21 July

Plumbers and Gasfitters Union -	Mr. C. Wallace (President)	6 July
Police Association	- Mr. T. Rippon (Secretary) Mr. L. Allemand	4 August 18 November
Police Superannuation Board	- Mr. D.J. Mc Pherson (Chairman) Mrs. Tipping Mr. D.J. Lawrey (Former Secretary)	4 August
Port of Geelong	- Mr. G.D. Murray (Chairman) Mr. Neil G. Samuels Mr. J. Des Allen	1 July
Port of Melbourne	- Mr. A.S. Mayne (Chairman) Mr. K. R. Trueman Mr. D. Taplin	30 June
Public Service Board of Victoria	- Dr. R.B. Cullen (Chairman) Mr. R.T. Viney Mr. A. Phillips	24 June
Public Trustee, Office of	- Mr. P.T. Spencer (Public Trustee) Mr. K. Shaw	22 July
Printing and Kindred Industries Union	- Mr. E. Snell	18 November
Solicitor General	- Mr. H.C. Berkely, Q.C.	29 July
State Bank of Victoria	- Mr. H.E. Torrens (General Manager) Mr. J.V. Gregory Mr. G.J. Walker (Provident Fund Officer)	14 July
State Electricity Commission of Victoria	- Mr. Charles Trethowan (Chairman) Mr. L.W. Harcourt (Manager, Superannuation Fund)	8 July
State Employees Retirement Benefits Board	- Mr. G.M. Fry (Chairman) Mr. E.F. Rowlands Mr. Burnie K. Dawes Mr. Stan G. Belcher	20 July
	- Mr. G.M. Fry	27 July

State Superannuation Board	- Mr. Mal Hastie (Secretary)	10 June
	- Mr. J.M. Ryder Mr. Mal Hastie Mr. P. Leonard-Kenevsky Mr. J.W. Mathie Mr. C. Stevenson Mr. S.J. Bates	18 July
	- Mr. J.M. Ryder Mr. Mal Hastie Mr. W.P. Leonard-Kanevsky Mr. J.D. Malone Mr. C. Stevenson Mr. W.S. Bates	28 July
	- Mr. J.M. Ryder Mr. S. Bates Mr. C. Stevenson Mr. P. Leonard-Kanevsky Mr. P. Truslove Mr. R. Aspinall	12 September
Superannuation Advisory Group	- Mr. J.M. Ryder (Chairman) Mr. G.M. Fry Mr. P. Leonard-Kanevsky Mr. S. Bates	5 August
Technical Teachers Union of Victoria	- Mr. C.D. Quick	20 July
	- Mr. P. Crocker Mr. R. Cameron	18 November
Totalisator Agency Board	- Mr. Jack Rutter (General Manager) Mr. Alex Forsyth Mr. Robert Foo	29 June
Treasurer's Consultative Committee	- Mr. J.M. Ryder (Chairman) Mr. M. Wright Mr. R. Cameron Mr. P. Leonard-Kanevsky	5 August
Victorian Dried Fruits Board	- Mr. J.D. Fergus Black (Chairman)	8 July
Victorian Egg Marketing Board	- Mr. D.J. Foster (Chairman) Mr. A.T. Harrison Mr. C.L. Jefferson	25 July
Victorian Public Service Association	- Mr. J. Malone Mr. M. Hansen	18 November

Victorian Secondary Teachers Association	- Mr. B. Henderson Ms. P. Ferguson	18 November
Victorian Teachers Union	- Mr. J. Fitzwater Mr. P. Leonard-Kanevsky	18 November
Westgate Bridge Authority	- Mr. G.M. Comben (General Manager)	4 July
Zoological Parks and Gardens	- Mr. James H. Sullivan Mr. Alan Embury Mr. Stuart Adams	29 June

APPENDIX K

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:

(a) The Honourable P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS
OF THE LEGISLATIVE ASSEMBLY

Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-

- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Tuesday, 14 June 1983

14. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable Evan Walker moved, by leave, That the Honourable A.J. Hunt be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable G.P. Connard be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS OF THE
LEGISLATIVE ASSEMBLY

Tuesday, 6 March 1984.

5. ECONOMIC AND BUDGET REVIEW COMMITTEE - Motion made, by leave, and question - That Mr. Richardson be discharged from attendance on the Economic and Budget Review Committee and that Mr. Ramsay be appointed in his stead.

(Mr. Fordham)-put and agreed to.

ECONOMIC AND BUDGET REVIEW COMMITTEE

SUMMARY OF VICTORIAN PUBLIC SECTOR
SUPERANNUATION SCHEMES

Ordered to be Printed

PREFACE

The Economic and Budget Review Committee is constituted under the Parliamentary Committees (Joint Investigatory Committees Act) 1982 to investigate and review matters referred to it under the following Terms of Reference:

- to inquire and report to the Parliament on any proposal, matter or thing connected with public sector or private sector finances or with the economic development of the State where the Committee is required or permitted to do so (by or under its Act).
- to inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee which is laid before either House of Parliament pursuant to a requirement imposed by or under an Act.
- to inquire into, consider and report to the Parliament on any matter arising out of the annual Estimates of Receipts and Payments of the Consolidated Fund or other Budget Papers.

TERMS OF REFERENCE OF THE INQUIRY INTO VICTORIAN PUBLIC SECTOR SUPERANNUATION SCHEMES

On 21 December 1982, the Governor-in-Council approved of the Terms of Reference of the Inquiry.

- A. The adequacy of present provisions for the management of all Victorian public sector superannuation schemes, including:
- (a) structure and management of schemes;
 - (b) representation of contributors;
 - (c) actuarial assessment and valuation;
 - (d) reporting to Government and contributors, and contributors' access to information; and
 - (e) auditing requirements.

(iii)

in terms of the efficient operations of these funds and the protection of the interests of contributors and the Government.

- B. Whether uniform provisions for the management of schemes are feasible and desirable, and if so what these might be.
- C. Whether existing administration of schemes is efficient and administrative costs are reasonable.
- D. Whether the current organisational structure of superannuation schemes in the Victorian public sector is the most suitable having regard to:
 - (a) differences in the financial independence of various agencies and authorities involved;
 - (b) possible benefits from reduction of duplication and economies of scale; and
 - (c) any disadvantages from competition between schemes.

and whether a reduction in the number of separate schemes is feasible and desirable.

- E. Whether the terms and conditions governing eligibility for membership of various schemes are reasonable in comparison with other schemes in Australia and whether these terms and conditions are equitable between different employees.
- F. The appropriateness of the current benefits, having regard to:
 - (a) the needs of contributors, superannuants and beneficiaries;
 - (b) comparable benefits for public sector employees in other States and in the Commonwealth Government and those prevailing in the private sector, also having regard to any differences in salary packages and to the role of the superannuation in the recruitment and retention of Victorian Government employees; and
 - (c) vesting.

and including the reasonableness of provisions governing breaks in service, resignation, early retirement, ill health retirement, retrenchment or redundancy.

- G. The adequacy of portability and preservation arrangements between schemes, and between them and other Australian superannuation schemes.
- H. The suitability of the present basis of Government funding of the various schemes including the funding of administrative costs, and the future financial implications for Government of existing basis of funding.
- I. Whether the existing investment powers and pattern of investments of these schemes is optimal from the point of view of contributors and of the Government; and whether existing arrangements provide the most efficient mechanism for maximising the investment income of the schemes.
- J. Future options for public sector superannuation, including new relationships between public sector and private sector superannuation schemes.
- K. The adequacy of the existing legislative and regulatory framework for the operation of schemes and the appropriate legislative framework for any recommended changes in the structure and operation of schemes.

The Committee is required to report to Parliament by 31 December 1983 if Parliament is then sitting or if the Parliament is not then sitting within seven days after the next meeting of Parliament.

As it was not possible for the Committee to report by 31 December 1983, approval has been granted for an extension to 30 June 1984 if Parliament is sitting or within seven days of the next sitting.

COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P.	(Chairman)
Hon. D.K. Hayward, M.L.C.	(Deputy Chairman)
Hon. G.P. Connard, M.L.C.	
Hon. B.P. Dunn, M.L.C.	
Mr. P.M. Gavin, M.P.	
Hon. J.V.C. Guest, M.L.C.	
Mr. J.D. Harrowfield, M.P.	
Mr. A. McCutcheon, M.P.	
Mr. P.J. McNamara, M.P.	
Hon. J.H. Ramsay, M.P.	(From 6 March 1984)
Mr. J.I. Richardson, M.P.	(Until 6 March 1984)
Hon. G.A. Sgro, M.L.C.	
Mr. A.J. Sheehan, M.P.	

Inquiry into Victorian Public Sector Superannuation Schemes

SUB-COMMITTEE MEMBERS

Mr. B.J. Rowe, M.P. (Chairman)
Mr. P.M. Gavin, M.P.
Hon. J.V.C. Guest, M.L.C.
Mr. J.D. Harrowfield, M.P.
Hon. D.K. Hayward, M.L.C.
Mr. A. McCutcheon, M.P.
Hon. J.H. Ramsay, M.P.*
Hon. G.A. Sgro, M.L.C.

RESEARCH STAFF

Ms. H. Silver, Director of Research
Mr. Paul Belin
Mr. Andrew Hemming
Mr. Ron McDonald
Mr. Rod Overall
Mr. Gary Smith

ADMINISTRATION

Mrs. Elke Barbian, Secretary
Mr. Graeme George, Acting Secretary
Mrs. Muriel O'Gorman
Ms. Anne Ruck
Mr. Jacques Collard

* Alternative Member from 13 March to 4 April 1984.

CHAIRMAN'S INTRODUCTION

As part of its Inquiry into Victorian Public Sector Superannuation, the Economic and Budget Review Committee examined the detailed provisions of 42 schemes. In undertaking this review the Committee found a lack of information and relevant statistical data. As a consequence, the Committee initially had to develop its own data base. This report encompasses a summary of the detailed provisions of benefits, contributions, eligibility and other matters pertaining to these schemes. It is an important component of the Committee's data base and is produced in order to provide a reference source for interested parties.

The Committee has been greatly assisted in the preparation of these summaries by the Office of the Government Statist and Actuary. The collection of such a mass of material from a variety of sources has involved considerable work and the Committee expresses its appreciation of this major contribution to its work.

B.J. ROWE, M.P.

Chairman.

CONTENTS

PREFACE	... ..	(iii)
CHAIRMAN'S INTRODUCTION	... ..	(xi)
1.	Australian Barley Board Staff Superannuation Fund.	1
2.	Chairman General Sessions - <u>County Court (Jurisdiction) Act 1968 (No.7705)</u>	3
3.	City of Melbourne Gratuities Scheme.	5
4.	City of Melbourne Officers' Superannuation Fund.	8
5.	Coal Mine Workers' Pensions Fund (The).	12
6.	County Court Associates Superannuation Scheme (The).	14
7.	Egg Board Staff Superannuation Scheme (The).	17
8.	Gas and Fuel Corporation of Victoria Superannuation Fund.	21
9.	Grain Elevators Board Superannuation Fund	25
10.	Governor's Pension - Constitution Act 1975 (No. 8750), <u>Constitution (Governor's Pension) Act 1979 (No. 9251)</u>	28
11.	Greyhound Racing Control Board Superannuation Plan.	31
12.	Harness Racing Board Staff Superannuation Scheme	35
13.	Hospitals Superannuation Fund.	38
14.	Judges - County Court - <u>County Court Act 1958 (No. 6230)</u> Judges - Supreme Court - <u>Constitution Act 1975 (No. 8750)</u>	44
15.	Legal Aid Committee Staff Superannuation Fund.	47
16.	Local Authorities Superannuation Scheme.	50
17.	Melbourne and Metropolitan Board of Works Provident Fund.	55
18.	Melbourne and Metropolitan Board of Works Superannuation Scheme	58
19.	Melbourne Underground Rail Loop Authority Superannuation Scheme	61
20.	Metropolitan Fire Brigades Superannuation Fund.	64
21.	Metropolitan Transit Authority Retiring and Death Gratuities Scheme (The).	67
22.	Mint - <u>The Mint Act 1958 (No. 6323) (The)</u>	70

23.	Parliamentary Contributory Superannuation Fund.	71
24.	Pilot Service Staff Fund (The).	75
25.	Police Pensions Fund.	78
26.	Port of Geelong Authority Superannuation Scheme	81
27.	Port of Melbourne Authority Superannuation Scheme.	83
28.	Port Phillip Pilots Sick and Superannuation Fund.	87
29.	Port Phillip Pilots Staff Life Assurance and Pension Scheme (The).	91
30.	State Bank of Victoria Provident Fund (The).	94
31.	State Electricity Commission Employees Retirement and Benefit Fund.	98
32.	State Electricity Commission Superannuation Fund... ..	101
33.	State Employees Retirement Benefits Fund.	105
34.	State Superannuation Lump Sum Fund.	111
35.	State Superannuation Scheme.	114
36.	Supreme Court Associates Superannuation Scheme (The).	119
37.	Tobacco Leaf Marketing Board Superannuation Fund (The).	122
38.	Totalizator Agency Board Superannuation Fund.	125
39.	Victorian Dried Fruits Board Superannuation Plan.	129
40.	Westgate Bridge Authority Employee Superannuation Fund (The Colonial Mutual Life Assurance Society Limited).	132
41.	Westgate Bridge Authority Staff Superannuation Plan (National Mutual Life Association of Australasia Limited).	135
42.	Zoological Board of Victoria Superannuation Fund.	138
APPENDIX A	Extracts of the minutes and votes of the Legislative Council and the Legislative Assembly.	140.

SCHEME NUMBER 1
AUSTRALIAN BARLEY BOARD STAFF SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employer:** Australian Barley Board,
Grain House,
123-130 South Terrace,
G.P.O. Box 1169,
ADELAIDE, 5501

1.2 **Scheme Style:**

A lump sum scheme.

On normal retirement at age 65, after 30 years service a lump sum equal to 4 times Final Average Salary over last 3 years (FAS) is payable.

2. ELIGIBILITY

Compulsory for all members of staff.

3. CONTRIBUTIONS

3.1 Member - 5% of salary.

3.2 Employer - 13% of salary.

4. BENEFITS

4.1 **Retirement Benefits:**

On normal retirement at age 65, staff receive a lump sum equal to 13.333% of Final Average Salary over last 3 years (FAS) for each year of membership to a maximum of 7 times FAS.

On early retirement at ages 60-64, with the approval of the Board, a similar benefit is payable using the actual years of service.

4.2 Death Benefit:

A lump sum equal to final annual salary (not averaged) times 13.333% times number of years of prospective service.

4.3 Disability Benefit:

Equal to death benefit.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation Benefits:

Refund of contributions plus 1/25th for each year of fund membership, plus 5% of final annual salary (not averaged) for each year of fund membership.

5. INVESTMENT POWER

The Funds are in the form of insurance policies with Colonial Mutual Limited and form part of a fund pool which is invested in shares, debentures, property and other items.

6. RESTRICTIONS

Death and Disablement benefits may be restricted on health grounds.

SCHEME NUMBER 2

CHAIRMAN GENERAL SESSIONS - COUNTY COURT (JURISDICTION) ACT 1968

(No. 7705)

1. OVERVIEW

1.1 **Administrator:** State Superannuation Board,
35 Spring Street,
MELBOURNE, 3000

Tel. 651 3222

1.2 **Scheme Style:**

On normal retirement at age 60 with at least 10 years service as Chairman of General Sessions, a pension equal to 50% of final salary is payable.

2. ELIGIBILITY

Chairman of General Sessions.

3. CONTRIBUTIONS

3.1 **Member:** Nil.

3.2 **Employer:** An annual amount equal to the pensions actually paid from Consolidated Revenue.

4. BENEFITS

4.1 **Retirement Benefit:**

On normal retirement at age 60, the pension is 5% of final salary for each year of service as Chairman of General Sessions up to a maximum of 50% of final salary after 10 years.

The pension is non-commutable and not automatically indexed.

4.2 Death Benefit:

On death in service or in receipt of pension, a widow's pension is payable.

4.3 Disability Benefit:

On permanent incapacity, a pension equal to 50% of final salary is payable irrespective of years of service.

4.4 Spouse Pension:

(a) On death of Chairman in service:-

The widow's pension is 25% of his final salary payable until her death or remarriage.

(b) On death in receipt of pension:-

The widow's pension is 50% of his pension prior to death payable until her death or remarriage.

4.5 Children's Pension:

Not applicable

4.6 Resignation Benefit:

On resignation after age 60 and 10 years of service the benefit is the same as retirement benefit.

5. INVESTMENT

Not applicable.

SCHEME NUMBER 3
CITY OF MELBOURNE GRATUITIES SCHEME

1. OVERVIEW

1.1 **Employer:** Superannuation Officer,
City of Melbourne Gratuities Scheme,
Town Clerk's Department,
Town Hall,
MELBOURNE 3000

1.2 **Scheme Style:**

The scheme is non-contributory.

A lump sum retirement benefit, being a multiple of final weekly salary for each year of service.

After 30 years service, an employee retiring at age 65 would receive 75 weeks pay.

2. ELIGIBILITY

All employees of the council except those who are contributing to the City of Melbourne Officers' Superannuation Fund.

3. CONTRIBUTIONS

3.1 **Member:** Nil.

3.2 **Employers:** \$343,276 paid in 12 months to September, 1983.

4. BENEFITS

4.1 **Retirement Benefits:**

On normal retirement at age 65, the employee will receive a lump sum of final weekly pay times years of service times a factor related to

number of years service. The factor is a non-linear sliding scale starting at 1.0 for 5 to 10 years service through to 3.0 for 40 or more years service.

Early retirement at ages 60-64 with approval of the council employee receives a similar benefit.

4.2 Death Benefit:

Death benefit is calculated in a similar manner using actual service to day before death. The benefit is only payable to a wife, children or other proven dependant. If none of these apply, then no benefit is payable.

The benefit has minimum values as defined in sections 4.4 and 4.5.

4.3 Disability Benefit:

Equal to death benefit using actual service.

4.4 Spouse Benefit:

The spouse receives a lump sum of final weekly pay times number of years service times the factor relating to length of service with a minimum of \$200 being payable.

4.5 Child Benefit:

The child benefit is a minimum of \$100 per child when taken in conjunction with any other spouse benefit payable. If no spouse benefit is payable then the benefit is the greater of the \$100 per child and the death benefit calculated in the normal manner.

4.6 Resignation Benefit:

No benefit is payable

5. INVESTMENT POWER

Not applicable

6. RESTRICTIONS

All employees must pass a medical examination before position is confirmed. If the person does not pass the medical, then employment does not take place.

No benefits are payable if a member normally retires after less than five years service.

SCHEME NUMBER 4
CITY OF MELBOURNE OFFICERS' SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employer:** Council of City of Melbourne,
Swanston Street,
MELBOURNE, 3000

Tel: 630421

1.2 **Scheme Style:**

On retirement at age 65, after 30 years service, a partially indexed but fully commutable pension of 60% of final average salary (over last 2 years).

2. ELIGIBILITY

A person appointed as an Officer of the Council of City of Melbourne may apply to join.

3. CONTRIBUTIONS

3.1 **Member's:**

Age related contribution rates applied to salary at entry varying from 5% at age 18 to 9% at ages 40 and over.

Additional contributions relating to subsequent salary increases are based on the ages then. These vary from 6% at age 18 to 9% at ages 40 and over.

3.2 **Employer's:**

Twice the total contributions of members.

4. BENEFITS

4.1 Retirement Benefit:

On normal retirement at age 65 (male and female) or early retirement after age 55, the benefit payable is a pension equal to $2\% \times \text{Final Average Salary (FAS)} \times \text{completed years of service up to 30 years plus } 0.5\% \times \text{FAS} \times \text{completed years of service in excess of 30}$.

The pension is indexed at a rate recommended by the fund's actuary. The rates have been lower than the increases in CPI.

All or part of the pension is commutable to a lump sum at the rate of 11 to 1 at all ages of retirement.

4.2 Death Benefits:

- (a) On death in service if officer has not passed the medical examination at entry and not completed 5 years service, the benefit payable is:
 - (i) to a single member a lump sum equal to member's own contributions plus 3% simple interest; and
 - (ii) to a member survived by an eligible spouse or dependent child 3 times the above benefit plus dependent children's benefit.
- (b) On death in service if officer has completed 5 years service or has passed the medical examination, the benefit payable is :
 - (i) a lump sum of 4 times salary at date of death; or
 - (ii) an 'eligible spouse' pension.

Dependent children's benefit is also payable.

- (c) On death while in receipt of permanent disablement pension the benefit payable is an eligible spouse pension plus dependent children's benefit where applicable.

4.3 Disability Benefit:

- (a) On permanent disablement, the benefit is a prospective retirement pension at age 60 provided the officer has completed 5 years service or has passed the medical examination. From 15 November 1983 the benefit may be commuted.
- (b) If the officer has not passed the medical and with less than 5 years service the benefit is a lump sum equal to the retrenchment benefit at date of disablement
- (c) If the disablement is not considered to be permanent by the Trustees, an ill health benefit is payable. It is a lump sum equal to the retrenchment benefit on date of ill health retirement.

4.4 Spouse Pension:

An "eligible spouse" will receive a pension of 62.5% of the amount of pension being paid to a pensioner or the member's prospective retirement pension at age 65 if he died in service.

4.5 Children's Pension:

An annual pension of \$780 is paid in respect of each dependent child if the member is survived by an "eligible spouse".

The rate is doubled for orphans.

4.6 Resignation and Retrenchment Benefits:

On resignation the benefit payable is a lump sum equal to the member's total contributions to the Fund multiplied by a factor that varies with completed years of service. As an indication, this factor is 1.18, 2.03, 3.14, 4.43, after 5, 10, 15. and 20 years service respectively.

On retrenchment the benefit payable is a lump sum equal to member's total contributions to the Fund multiplied by a factor that varies from 3.18 after 1 completed year of service to 5.31 after 20 years.

5. INVESTMENT POWER

Practically no restrictions.

6. RESTRICTIONS

6.1 Short Service:

Benefit on accrued basis according to completed years of service.

6.2 Substandard Health:

Members who did not pass the medical examination at entry would have the death and disability benefits reduced if occurred within first five years of service.

SCHEME NUMBER 5
THE COAL MINE WORKERS' PENSION FUND

1. OVERVIEW

1.1 **Administrator:** State Superannuation Board,
35 Spring Street,
MELBOURNE, 3000

1.2 **Scheme Style:**

At normal retirement aged 60, a weekly pension which is not commutable is payable. It is increased from time to time. Presently the pension for a married member is \$151.20 per week.

2. ELIGIBILITY

Permanent employees of the Wonthaggi Coal Mine. The Mine closed in 1968 with the responsibility for the scheme retained by the Department of Minerals and Energy. The scheme was closed to new entrants at that date. Administration of the scheme was taken over by the State Superannuation Board on 1 April, 1983.

3. CONTRIBUTIONS

The cost of pension payments come out of the Victorian Consolidated Fund

4. BENEFITS

4.1 **Retirement Benefits:**

The pension is specified under the Coal Mines Act 1958 as amended by various Coal Mines (Pensions Increase) Acts. For an unmarried member, the pension is presently \$91.15 per week. For a married member, the pension is presently \$151.20 per week.

4.2 Death Benefit:

A death of a married member, in service or in receipt of a pension, the benefit is a spouse pension plus children's pensions.

4.3 Disability Benefits:

A pension equal to the benefit for normal retirement is payable.

4.4 Spouse Pension:

The spouse pension is specified under the Acts mentioned in section 4.1. The pension ceases upon re-marriage. The pension is presently \$90.15 per week.

4.5 Children's Pension:

A pension is payable in respect of each child or step-child under the age of sixteen years who is totally or mainly dependent on the contributor.

As there are no children presently eligible for a pension, no rate is available.

4.6 Resignation Benefits:

Upon resignation, a refund of contributions paid by the member prior to the closure of the mine.

5. INVESTMENTS

Not Applicable.

6. RESTRICTIONS

Not Applicable.

SCHEME NUMBER NO. 6
THE COUNTY COURT ASSOCIATES SUPERANNUATION SCHEME

(Associates to Supreme Court Judges have an identical scheme.)

1. OVERVIEW

1.1 **Administrator:** Public Trustee,
Law Department,
221 Queen Street,
MELBOURNE, 3000.

Tel: 602 0181

1.2 **Scheme Style:**

On death or reaching age 72, a lump sum equal to members and Government contributions plus investment income is payable.

2. ELIGIBILITY

Associates to County Court Judges under the age of 71 years are eligible to join but it is not compulsory.

3. CONTRIBUTIONS

3.1 **Members':** 2½% of salary.

3.2 **Government:** 6¼% of salary.

4. BENEFITS

(Note: Members and Government contributions are credited into separate funds viz member's fund and Government fund with interest credited to and expenses debited from the appropriate funds.)

4.1 Retirement Benefit:

On reaching age 72 a lump sum equal to member's and Government's funds is payable.

4.2 Disability Benefit:

On ill health retirement a lump sum equal to member's and Government's funds is payable.

4.3 Death Benefit:

On death before age 72 a lump sum equal to member's and Government's funds is payable to member's legal representative.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation Benefit:

(a) On resignation a lump sum equal to member's fund is payable but if the member has 10 or more years service and over 60 years of age at date of resignation the Government's Fund is also payable.

(b) On resignation due to death of a judge and not appointed an associate again after 6 months, the benefit is member's and Government's funds irrespective of age and period of service.

5. INVESTMENT

The member's and Government's funds are invested in the Public Trustees' Common Fund.

6. RESTRICTIONS

Not applicable.

SCHEME NUMBER 7.
THE EGG BOARD STAFF SUPERANNUATION SCHEME,

1. OVERVIEW

1.1 **Employer:** The Victorian Egg Marketing Board,
Cnr. Chandler and Kirkham Roads,
KEYSBOROUGH. 3173

Tel: 798-7977

1.2 **Scheme Style:**

A Lump Sum Scheme.

On retirement at age 65 a category A member joining after 27 June 1979 will get a lump sum of 5 times Final Average Salary (FAS) after 40 years membership.

2. ELIGIBILITY

Any employee may apply to join after 6 months service. There are 3 categories of members: A, B and C.

3. CONTRIBUTIONS

3.1 **Member's:**

Category A and B	-	4% of salary.
Category C	-	5% of salary.

3.2 **Employer's:**

9.25% of members' salaries until next actuarial review, 1 July 1983.

4. BENEFITS

4.1 **Normal retirement Benefit:**

A lump sum payable on normal retirement between ages 60 and 65 inclusive, or between ages 55 and 60 with employer's consent.

- Category A: Past service benefit (if any),
- plus 10% of FAS for each year of fund membership before 27.6.79,
 - plus 12½% of FAS for each year of fund membership after 27.6.79,
- Category B: Past service benefit (if any),
- plus 5% of FAS for each year of non-contributing fund membership,
 - plus 12½% of FAS for each year of contributing fund membership.
- Category C: 20% of FAS for each year of fund membership.

4.2 **Death Benefit:**

On Death in service a lump sum is calculated in the same manner as retirement benefits assuming the member remains in service until age 65 with salary at date of death.

4.3 **Disability Benefit:**

On total and permanent disablement retirement from service a lump sum is calculated in the same manner as retirement benefit assuming the member remains in service until age 65 with salary at date of disablement.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation and Retrenchment Benefits:

On resignation the benefit is:

(a) If there is less than 5 years service the return of member's contributions accumulated with 6% p.a. compound interest.

(b) If there is more than 5 years service:

(i) return of member's contributions accumulated with 6% p.a. compound interest, and

(ii) 40% of amount (a), and

(iii) 1% of amount in (a) for each month of service in excess of 60 months but not more than 120 months.

On retrenchment the benefit is a lump sum equal to twice the member's contribution with 6% p.a. compound interest.

5. INVESTMENT POWER

Practically no restrictions.

6. RESTRICTION OF BENEFITS

6.1 Shorter Service:

This is determined on an accrued basis

6.2 **Substandard Health:**

Death or disability benefits may be reduced if insurance applied for by the trustees is not granted on terms acceptable to the trustees.

SCHEME NUMBER 8

GAS AND FUEL CORPORATION OF VICTORIA SUPERANNUATION FUND

1. OVERVIEW

1.1 **Administrator:** Secretary to Board of Administrators,
Gas and Fuel Corporation Superannuation Fund,
G.P.O. Box 388D,
MELBOURNE. 3001

Tel: 63 0391

1.2 **Scheme Style:**

A fully commutable pension scheme.

On normal retirement at age 65, a partially indexed fully commutable pension of 52.5% of Final Average Annual Rated Salary over last year (FAARS).

2. ELIGIBILITY

Permanent Corporation employees aged 16-55 years.

3. CONTRIBUTIONS

3.1 **Members':**

6% of salary adjusted annually in October.

3.2 **Corporation:**

12% of total members' rated salaries.

4. BENEFITS

4.1 Retirement Benefit:

On normal retirement at age 65, a pension equal to $1.75\% \times \text{FAARS} \times$ years of membership (max 40) payable for life.

On early retirement within 10 years of normal retirement with permission of the Corporation, the pension is:

$1.75\% \times \text{FAARS} \times$ actual years of membership \times discount factor. Currently the discount rate is 1.5% p.a. from 0-5 years short of normal retirement date and 4% p.a. from 5-10 years.

The pension is indexed at a rate determined by the trustees. Currently the rate is a minimum of 5% p.a..

Commutation of the pension in full or part is permissible. The conversion rate varies from 10 to 1 at age 65 to 12.61 to 1 at age 55.

4.2 Disability Benefit:

Member has the option of pension or lump sum benefit:

(a) The pension option is 1.75% of FAARS for each year of membership from entry to normal retirement date (max 40 years).

(b) The lump sum option is the greater of:

(i) 3.5 times annual rated salary at date of disability; or

(ii) $12.5\% \times \text{FAARS} \times$ no. of years of membership from entry to normal retirement date (max. 40 years).

4.3 Death Benefit:

(a) On death in service spouse may take a pension or lump sum:

- (i) The pension benefit is a spouse pension plus children's allowance.
- (ii) The lump sum benefit is the greater of:
 - (i) 3.5 times annual rated salary at date of death; or
 - (ii) $17.5\% \times \text{FAARS} \times \text{no. of years of membership from year of entry to normal retirement date (max. 40 years)}$.

For a member without dependants the benefit payable is a lump sum equal to members own contribution with interest at 4% p.a. compound.

- (b) On death in receipt of pension the benefit payable is a spouse pension plus children's allowance.

4.4 Spouse Pension:

$\frac{2}{3}$ of $1.75\% \times \text{FAARS} \times \text{no. of years of membership from entry to normal retirement date (max. 40 years)}$.

The pension ceases on death or remarriage.

4.5 Children's Pension:

20% of the spouse pension for each child under 18 years of age up to a maximum of 5 children.

On death or remarriage of spouse or member survived by children only the rate is doubled and the total minimum payments are 3.5 times member's annual rated salary at date of death.

4.6 Resignation and Retrenchment Benefit:

- (a) On resignation the benefit is a lump sum equal to member's own contributions plus interest at 4% p.a. compound.
- (b) After 5 or more years of membership an additional amount of $2.5\% \times \text{number of years membership to resignation} \times \text{difference of}$

actuarial reserve and the above amount. The actuarial reserve = $0.16 \times \text{years of membership to resignation} \times \text{FAARS} \times \text{a factor depending on years of future membership to retirement.}$

- (c) On dismissal the benefit is the return of members own contributions.
- (d) On retrenchment the benefit is a lump sum equal to the full actuarial reserve.

5. INVESTMENT POWER

Practically no restriction.

6. RESTRICTIONS

6.1 **Shorter Service:**

Benefits are on accrued basis depending on years of membership. But for some death and disablement benefits minimum amounts are guaranteed.

6.2 **Standard Health:**

Members with substandard health are in class 'F'. The minimum death and disability lump sum benefits are reduced from 3.5 to 2.5 times salary. They pay the same contributions as class 'D' members and they automatically become class 'D' after 10 years of 'F' membership.

SCHEME NUMBER 9
GRAIN ELEVATORS BOARD SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employer:** Grain Elevators Board,
43 Lonsdale Street,
G.P.O. BOX 2289 U,
MELBOURNE. 3001

Tel: 662-2477

1.2 **Scheme Style:**

- (a) Whole of life, endowment or pure endowment policies purchased from Colonial Mutual Life Assurance Society Ltd.
- (b) Benefit level is 14% of final salary for each year of membership.

2. ELIGIBILITY

By invitation from Employer. The Fund is now closed to new members.

3. CONTRIBUTIONS

3.1 **Member:**

Members contribute at a rate not exceeding 5% of salary.

3.2 **Employer:**

Employer contributes for the balance of the cost to secure the insurance policies.

4. BENEFITS

4.1 Retirement Benefit:

Retirement age is usually 65 but may be any age agreed by employer and member.

On age retirement a lump sum benefit (from endowment policies purchased from time to time) equal to 14% of final salary for each year of membership plus ownership of any whole of life policies purchased by employer in respect of member plus any fund amount allocated to the member.

4.2 Death Benefits:

On death in service the benefit payable is the total from insurance policies purchased plus any fund amount allocated to the member.

4.3 Disability Benefits:

On disablement the resignation benefit is payable unless the insurance policies purchased in respect of the member provide total and permanent disablement cover. The fund amount allocated to the member is also payable.

4.4 Spouse Benefit:

Spouse benefit on death is the death benefit described in 4.2.

4.5 Children's Benefit:

Children may share in the death benefit.

4.6 Resignation and Retrenchment Benefits:

On resignation, member may choose one of the three options:

- (a) Surrender values of the insurance policies.
- (b) Paid up value of the insurance policies.
- (c) Ownership of policies granted in lieu of existing policies.

If a member has no definite preference, (a) is assumed. The fund amount allocated to member is also payable.

On dismissal, the surrender value of insurance policies is payable.

5. INVESTMENT

C.M.L. ordinary (non-superannuation) policies.

6. RESTRICTIONS

Short service reduces the benefit level which is dependent on years of membership.

Members in poor health suffer from restrictions on insured policies.

SCHEME NUMBER 10

GOVERNOR'S PENSION - CONSTITUTION ACT 1975 (No. 8750)
CONSTITUTION (GOVERNOR'S PENSION) ACT 1979 (No. 9251)

1. OVERVIEW

1.1 **Administrator:** State Superannuation Board,
35 Spring Street,
MELBOURNE. 3000

Tel: 651-3222

1.2 **Scheme Style:**

On retirement or resignation after 5 years as Governor of Victoria, a pension equal to 60% of the current salary of the Chief Justice of Victoria.

2. ELIGIBILITY

Governor of Victoria.

3. CONTRIBUTIONS

3.1 **Member:**

Nil.

3.2 **Employer:**

An amount equal to the pensions actually paid from the Consolidated Fund.

4. BENEFITS

4.1 Retirement Benefits:

On age retirement with at least 5 years service as Governor of Victoria, the benefit payable is a non commutable pension equal to 60% of the current annual salary of the Chief Justice of Victoria.

The amount of pension is reduced by any pension entitlements from public Service in the British Commonwealth of Nations.

4.2 Death Benefit:

On death in service or in receipt of pension, a widow's pension is payable.

4.3 Disability Benefit:

On permanent disablement, the benefit is a non-commutable pension equal to 60% of the current annual salary of the Chief Justice of Victoria.

4.4 Spouse Pension:

The widow's pension is equal to 37.5% of the current annual salary of the Chief Justice of Victoria. The pension is payable until death or remarriage. The pension is not applicable if marriage to the Governor occurred after his retirement.

4.5 Children's Pension:

Not Applicable.

4.6 Resignation Benefit:

With at least 5 years service as Governor of Victoria, the benefit is a pension equal to 60% of the current annual salary of the Chief Justice of Victoria.

5. INVESTMENT POWER

Not applicable as payments come out of the Consolidated Fund.

SCHEME NUMBER 11

GREYHOUND RACING CONTROL BOARD SUPERANNUATION PLAN

1. OVERVIEW

1.1 **Administrator:** Greyhound Racing Control Board,
3rd Floor, Racing Industries Centre,
1 Queens Road,
MELBOURNE. 3004

Tel: 26 2508

1.2 **Scheme Style:**

Lump sum benefits with A.M.P.

On retirement at age 65, an executive member receives a lump sum benefit of 6 times Final Average Salary (over last 3 years) (FAS) after 24 years service.

2. ELIGIBILITY

2.1 **Executive Staff Employees:**

Immediately upon joining the service

2.2 **Staff Employees:**

After 3 months service.

3. CONTRIBUTIONS

3.1 **Member:**

5% of Salary

3.2 Board:

For the current period:

Executive Staff: 19.2% of their salaries

Staff: 7.2% of their salaries.

4. BENEFITS

4.1 Retirement Benefit:

On normal retirement at age 65 or early retirement between ages 60 and 65 with the consent of employer the benefit is a lump sum equal to:

- (a) 12.5% of FAS for each year of staff membership; plus
- (b) 25% of FAS for each year of executive membership.

In the case of female staff who participated in scheme prior to 1 March 1982 the rate used in (a) above is 10%.

4.2 Disability Benefit:

- (a) On total and permanent disablement the benefit payable is a lump sum equal to normal retirement benefit assuming the member continues in service in the same membership category and salary at date of disablement.
- (b) On temporary disablement, a monthly payment of 1/12th of 12½% of the total and permanent disablement benefit until member recovers, dies, engages in remunerative work, qualifies for total disablement benefit or attains normal retirement age.

4.3 Death Benefit:

On death in service the benefit payable is a lump sum equal to the normal retirement benefit assuming the member continues in service in the same membership category and salary at the date of death.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Withdrawal Benefits:

On resignation, a lump sum equal to:

- (a) Member's contributions to 28 February 1982 plus interest at 4% p.a. compound; and
- (b) Member's contributions thereafter plus interest at 6% p.a. compound; and
- c) 10% of (a) and (b) for each year of membership exceeding 5 up to a maximum of 100% extra.

On dismissal the benefit is a lump sum equal to member's own contributions without interest.

5. INVESTMENT

The assets of the fund are in investment units in A.M.P.'s No. 2 Statutory Fund. Trustees may determine proportion of capital used to purchase units in shares, properties, resources, fixed interest, Government bonds and interest bearing deposits.

The fund has been in 'A' discretionary units allowing A.M.P. to do the selection of proportions.

6. RESTRICTIONS

6.1 Shorter Service:

The lump sum benefits are on accrued basis depending on years of membership

6.2 **Substandard Health:**

If assessed by A.M.P. to be worse than their class 3 health rating death cover may be declined or a special benefit arranged.

SCHEME NUMBER 12.

HARNESS RACING BOARD STAFF SUPERANNUATION SCHEME

1. OVERVIEW

1.1 **Employer:** Harness Racing Board,
1 Queens Road,
MELBOURNE. 3004

Tel: 267-1611

1.2 **Scheme Style:**

A lump sum scheme.

On normal retirement at age 60, a member with 30 years service will get a lump sum equal to 4.425 times his final average salary (over 3 years).

2. ELIGIBILITY

Any full time permanent employee of the Board who has completed twelve months service with the Board is eligible to join.

3. CONTRIBUTIONS

3.1 **Member:**

5% of salary

3.2 **Board:**

8.5% of salary (the maximum rate specified by the trust deed).

4. BENEFITS

4.1 Retirement Benefits:

On normal retirement at age 60 (male and female) or early retirement after the age of 55, the benefit is a lump sum equal to 14.75% of final average salary (over the last 3 years) for each complete year of service with the Board subject to the maximum of 5.163 times the final average salary.

4.2 Death Benefit:

On death whilst in the service of the Board, the benefit payable is a lump sum equal to the prospective retirement benefit based on salary on the review date preceeding date of death.

4.3 Disablement Benefit:

On total and permanent disablement whilst in service, the benefit is a lump sum equal to the prospective retirement benefit. The benefit may be paid by monthly instalments over 5 years.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

NIL.

4.6 Resignation Benefit:

A lump sum equal to return of member's contributions with interest at 4% per annum compound.

5. INVESTMENT POWER

Practically no restriction. Investments are made on the Board's behalf by the Australian Eagle Insurance Co. Ltd.

6. RESTRICTIONS

6.1 **Short Service:**

Benefit on accrued basis.

6.2 **Substandard Health:**

Evidence of health will not normally be required except for benefits outside the "free cover" limit set by the Insurance Company.

If health is found to be substandard the benefits on death and total and permanent disablement may be modified on an individual basis.

SCHEME NUMBER 13
HOSPITALS SUPERANNUATION FUND

1. OVERVIEW

1.1 **Administrator:** Hospital Superannuation Board,
555 Collins Street,
G.P.O. Box 4083,
MELBOURNE. 3001

Tel: 616-7620

1.2 **Scheme Style:**

Benefits are provided in both lump sum and pension form.

Lump sum part - On retirement on or after age 60, 3 times adjusted final Fund salary.

Pension Part - On retirement at age 65, a fully indexed partially commutable pension of 25% of adjusted final Fund salary.

2. ELIGIBILITY

All full time employees (except trainee nurses) of participating institutions (mainly hospitals, elderly people's and children's homes) who are under age 65 may apply to join.

3. CONTRIBUTIONS

3.1 **Members':**

Lump sum part - 3½% of salary

Pension part - 2½% of salary

Supplementary contributions are allowed.

3.2 Employer contributions:

- Lump sum part - 3½% of salary
 - plus a levy of ½% of salary
 - plus for class "B" institution employees: 1% of salary.
- Pension part - 3.91% of salary for current three year period.

3.3 Lump sum part is funded.

Pension part is based on pay-as-you-go.

4. BENEFITS

4.1 Retirement Benefits:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership (maximum 30 years).

Pension part - 1/120 of adjusted final Fund salary for each complete year of membership (maximum 30 years).

- (a) For early retirement at age 60 or after, the pension part is reduced by 5% at age 60 reducing linearly to zero at age 65.
- (b) Provision for females to retire early after age 55 is made for lump sum part.
- (c) Commutation of up to 30% of pension is allowed from age 70. Commutation of retirement pension before age 68 is also allowed provided certain conditions are met.

- (d) Supplementary contributions are returned with interest. The rate credited for the year 1982 was 9%. This is payable when leaving the fund for any reason.

4.2 Death Benefit:

- (a) On death in service:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership to age 65 (maximum 30 years).

Pension part - Spouse pension equal to 2/3rds of member's pension assuming member died at age 65 for years of membership calculation (maximum 30 years).

- (b) On death while in receipt of a pension:

Lump sum part - Nil.

Pension part - Spouse pension equals to 2/3rds the amount the member's pension would have been without any commutation. The spouse of a limited benefits pensioner would receive the full pension, i.e. it would not be reduced to 2/3rds.

4.3 Disability Benefits:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership to age 65 (maximum 30 years).

Pension part - 1/120 of adjusted final Fund salary for each complete year of membership to age 65 (maximum 30 years).

4.4 Spouse Pension:

Spouse pension equal to 2/3rds of members prospective or notional pension is payable on death in service or in receipt of pension respectively.

4.5 Children's Pension:

Lump sum part - \$156 p.a.

Pension part - \$650 p.a. on death of a contributor or pensioner.

Orphan's pension:

Lump sum part - \$312 p.a.

Pension part - \$1300 p.a. on death of a contributor or pensioner.

4.6 Resignation and Retrenchment Benefits:

(a) On Resignation:

Lump sum part - return of member's contributions with 6% compound interest.

Pension part - return of member's contributions plus interest from 1/7/83.

An alternative deferred lump sum benefit equal to member's account balance (being member and employer contributions less management charges and charges for death and disability cover, plus interest) accumulated with interest payable at age 60 for males 55 for females is available.

An alternative deferred pension benefit may be payable at 60 or 65 depending on circumstances.

(b) On retrenchment:

Lump sum part - 10% of adjusted final Fund salary for each complete year of membership.

Pension part - return of member's contributions plus interest from 1 July 1981.

Marriage Benefit: (female members only)

If a married female member resigns having married during her membership or within three months of her resignation

- a lump sum benefit equal to member's account balance at the time of marriage plus the member's resignation benefit subsequent to her marriage.

5. INVESTMENTS

Investments may be made in Trustee securities, loans guaranteed by Victorian Government, mortgages and properties in Victoria etc., and through the life offices.

6. RESTRICTIONS

Members with less than 30 years service have their lump sum and pension benefit reduced on a pro-rata basis.

Also for -

Lump sum part - poor health members are classified into categories 2,3,4,0, for death benefits and categories B,C,D,O, for disability benefits. Their death and disability benefits are reduced according to a scale based on the combination of categories.

Pension part

- poor health members are classified either as limited or service contributors. Their death and disability benefits are reduced.

SCHEME NUMBER 14

JUDGES - COUNTY COURT - COUNTY COURT ACT 1958 (No. 6230)

JUDGES - SUPREME COURT - CONSTITUTION ACT 1975 (NO.8750)

1. OVERVIEW

1.1 **Administrator:** Law Department,
221 Queen Street,
MELBOURNE. 3000

Tel: 602-0181

1.2 **Scheme Style:**

No legal trust set up to administer the scheme. Pension benefits are defined in section 83 of the Constitution Act 1975 and paid out of the Consolidated Fund.

On retirement at age 60 after at least 10 years service, the benefit payable is a non-commutable indexed fortnightly pension equal to 60% of annual salary (excluding allowance) currently applicable to the office he held immediately before retirement.

2. ELIGIBILITY

Every Judge of the Supreme and County Courts is eligible.

3. CONTRIBUTIONS

3.1 **Member:**

Nil.

3.2 Government:

Amount required for benefits in payment

3.3 Funding:

Not funded.

4. BENEFITS

4.1 Retirement and Resignation Benefits:

On reaching age 60 and provided 10 years of service as Judge of the Courts have been completed, the benefit payable is a fortnightly pension equal to 60% of salary for the time being applicable to the office that he held immediately before retirement or resignation.

There is no provision for conversion to lump sums.

The pension ceases on accepting appointment to any judicial office in or outside Victoria.

4.2 Death Benefit:

On death of a Judge or a former Judge of the Courts, spouse or children pension is payable.

4.3 Disablement Benefit:

On permanent incapacity disabling him from the due execution of his office before reaching age 60, a retirement pension is payable.

4.4 Spouse Pension:

A fortnightly pension that equals 3/8ths of the annual salary for the time being applicable to the office he held immediately before his death.

The spouse pension ceases on death or remarriage.

4.5 **Children's Pension:**

Where there are eligible children but no spouse pension is payable, the pension applicable to each child is the spouse pension entitled divided by four or number of children (whichever is greater).

An eligible child includes an adopted child or step child under the age of 16 or under the age of 25 if receiving full time education.

5. INVESTMENT POWER

Not applicable.

6. RESTRICTIONS

Normal Retirement and Resignation

6.1 **Shorter Service:**

Benefits only available after 10 years service as Judge of Supreme and County Court.

6.2 **Substandard Health:**

Not applicable.

SCHEME NUMBER 15
LEGAL AID COMMITTEE STAFF SUPERANNUATION FUND

1. OVERVIEW

1.1 **Administrator:** Legal Aid Commission of Victoria,
179 Queen Street,
MELBOURNE. 3000

Tel: 607-0234

1.2 **Scheme Style:**

Lump sum benefits from accumulation of contributions.

On normal retirement at age 60, a lump sum equal to member and Commission contributions with interest is payable.

2. ELIGIBILITY

Permanent staff of the Commission are eligible but membership is not compulsory. Fund is closed to new members.

3. CONTRIBUTIONS

3.1 **Member:**

5% of Salary

3.2 **Commission:**

5% of members salaries except in respect of one member where Commission pays 15% of salary.

4. BENEFITS

A separate account (known as member's account) is kept for each member. The account is credited with member's contributions, Commission contributions in respect of him, investment and other incomes and debited with expenses and premiums on insurance policies for the member.

4.1 **Retirement Benefit:**

On retirement at age 60 the lump sum benefit is equal to the balance of member's account together with proceeds (if any) from insurance policies effected on member's behalf.

4.2 **Disability Benefit:**

On ill health retirement the lump sum benefit is equal to the balance of member's account at date of ill health retirement together with proceeds (if any) from insurance policies effected on member's behalf.

4.3 **Death Benefit:**

On death in service the lump sum benefit payable to the dependent spouse and children or legal representative if no such dependant is the balance of member's Account at date of death together with proceeds (if any) from insurance policies effected on member's behalf.

4.4 **Spouse Pension:**

Nil.

4.5 **Children's Pension:**

Nil.

4.6 **Resignation:**

(a) On resignation, the lump sum benefit payable is

- (i) that part of member's account attributable to his own contributions; plus
- (ii) 25% of that part of the member's account attributable to Commission contributions for each year of membership with the exception of first and second years where the proportions are 10% and 15% respectively; plus
- (iii) that part of proceeds (if any) from insurance policies attributed to the member.

(b) On retrenchment the lump sum benefit is equal to balance of member's account at date of retrenchment together with any proceeds from insurance policies effected on member's behalf.

5. INVESTMENTS

With Public Trustee.

6. RESTRICTIONS:

Not applicable.

SCHEME NUMBER 16
LOCAL AUTHORITIES SUPERANNUATION SCHEME

1. OVERVIEW

1.1 **Fund Administrator:** Local Authorities Superannuation Board,
15 Queens Road,
MELBOURNE. 3004

Tel: 267-1444

1.2 **Scheme Style:**

Benefits are provided as a combination of lump sum and pension with partial integration with social service benefits at low wage levels. Employee and employer authorities may elect to have contracts for higher than the minimum lump sum benefit level.

For 30 years service a fully indexed pension of 25% of salary and a lump sum of at least 3 times salary is provided.

2. ELIGIBILITY

Membership of the scheme is compulsory for all permanent employees of local authorities except City of Melbourne. Other employees must join after one year's continuous service.

Female employees may join a special category "Class 3" without medical examination.

3. CONTRIBUTIONS

	<u>EMPLOYEE</u>	<u>EMPLOYER</u>
Lump Sum Retirement and death benefits	3.5%	3.5%
Disability Benefits	-	1.25%
Pension Benefits	2.5%	2.59%
Addition required for minimum lump sum provision	-	0.95%

In addition, extra benefits may be provided with increased contributions by agreement with employees. The minimum total extra contributions are 3% of salary.

Lower pension benefits contributions are provided for employees paid less than 1.5 times the minimum wage.

4. BENEFITS

4.1 Retirement Benefits:

Class 1 and 2 members:

Normal retirement age is 65 (male and female). Early retirement after age 60 at the member's option is permitted. Late retirement after age 65 is permitted, but no contributions are payable after age 65.

The benefit is both lump sum and pension:

- (a) The lump sum at age 65 is the endowment assurance amount with accrued bonus bought by payments of 7% of wages and salary applied on annual premium basis. Salary increases are in effect catered for by way of incremental premium policies.

There is a minimum lump sum benefit of 10% of salary for each complete year of membership up to a maximum of 30 years - this guarantee is unfunded. On early retirement the actuarial reserve is payable subject to the minimum lump sum provisions.

- (b) Pension benefit is 25% of salary for 30 years of service with pro-rata benefit for shorter service. Pensions are CPI indexed.

Commutation to a lump sum is permitted in part where entitlements to social security fringe benefits can be proved. the initial conversion is for a period of between 2 and 5 years at rates determined by the fund's actuary.

Class 3 members:

For each member a separate account is maintained to contain employee's contributions and employer's contributions in respect of retirement and death lump sum benefits less administration expenses plus interest earnings.

On age and early retirement the member gets a lump sum equal to the credit in the account (subject to the minimum lump sum provision) and the pension benefit described above.

4.2 Death Benefits:

Class 1 and 2:

On death basic lump sum and pension benefits are payable. The lump sum is the endowment benefit including bonus subject to the minimum lump sum benefit provision. A pension is payable to spouse.

Class 3:

The lump sum part is the credit of the account subject to minimum lump sum benefit provisions except prospective years of membership is excluded.

4.3 Disability Benefit:

Class 1 and 2:

On disability (continuous or recurring due to injury, ill health or infirmity) is a lump sum equal to endowment assurance benefit including bonus subject to the minimum lump sum benefit provisions, payable in instalments at the Board's discretion. A pension of 25% of salary is also payable for service including prospective services to age 65 of at least 30 years. Pro-rata benefits are paid for shorter service.

Class 3:

Lump sum part: Endowment benefits at a reduced scale.

Pension part: A lump sum of 8.75% of salary received 1 March 1961 or later commencement date in the scheme.

4.4 Spouse Pension:

Spouse benefits are a pension of $\frac{2}{3}$ rd the pension paid to a deceased pensioner spouse, or $\frac{2}{3}$ rd of the pension which would have been payable if the deceased contributor has retired on his date of death. On a contributor's death the legal representative (usually the spouse for a married contributor) may expect to receive the lump sum payable. Male spouse must show dependency to receive a pension.

4.5 Children's Pension:

Children's pension of \$650 p.a. are provided for. Orphan's pensions are at double rate.

4.6 Resignation Benefits:

Class 1 and 2:

On resignation the member receives the actuarial reserve held for that member's endowment assurance lump sum benefits, plus the member's past contributions for pension benefits.

Class 3:

On resignation a lump sum equal to the credit in the account including interest up to the withdrawal date plus past contributions for pension benefits. On transfer to another local authority benefits may be transferred. Temporary breaks in service are permitted.

A deferred retirement benefit is available on resignation over age 30 instead of the cash resignation benefit.

5. INVESTMENT

Investments are made direct by LASB in loans to local authorities, statutory authorities, real estate mortgages and ownership of property.

6. RESTRICTIONS

6.1 **Short Service:**

Short service members have the lump sum benefit reduced to the lesser amount purchased by annual contributions payable over a shorter period of service.

Pension benefits are reduced pro-rata for less than 30 years service.

6.2 **Substandard Health:**

All applicants must undergo a medical examination and are allotted to one of classifications 1, 2A, 2B, 2C or 2D depending on medical condition. With the exception of Class 1 they suffer successively greater reductions in the death benefit as impairments worsen. On disability retirement impaired lives receive reduced lump sum and pension benefits to offset the cost of the extra risk, the most impaired class (2D) receiving only lump sum benefits.

SCHEME NUMBER 17

MELBOURNE AND METROPOLITAN BOARD OF WORKS PROVIDENT FUND

1. OVERVIEW

1.1 **Employer:** Melbourne and Metropolitan Board of Works,
625 Little Collins Street,
P.O. Box 4342,
G.P.O. MELBOURNE. 3001

Tel: 615-4438

1.2 **Scheme Style:**

A lump sum benefits scheme.

On retirement at age 65, a member who has contributed 5% of his wages to the fund for 40 years will get a lump sum of 5.6 times his final average wage.

2. ELIGIBILITY

Persons not eligible to join the MMBW Superannuation Scheme may apply to join after completion of twelve months continuous service.

3. CONTRIBUTIONS

3.1 **Member:**

The member contributes 2.5% or 5% of his wage as selected by him. He may change his rate of contribution at any time with the proviso that if he is increasing his contribution then he may be liable to have a medical examination.

3.2 Board:

The Board contributes such amounts as recommended by the actuary. The Board pays \$3 million per year for the current 3 year period.

4. BENEFITS

4.1 Retirement:

On age retirement at 65 or within 5 years of normal retirement date a lump sum is paid to the contributor equal to:

- (a) 5 per cent of his final wage for each year of pre-fund service; plus
- (b) 11 per cent of his final wage for each year he contributed 2.5% of his wages to the fund; plus
- (c) 14 per cent of his final wage for each year he contributed 5% of his wages to the fund.

4.2 Death:

On death in service a lump sum is paid in the manner of S4.1 with the term of the membership extended to the normal retirement date and with the assumption that rate of contribution and wages remained the same until that date.

4.3 Disability:

On disability retirement a lump sum is paid in the manner of S4.2 with the last day of service used as if he had died on that day.

4.4 Spouse and Children:

No spouse or children's pension on death of members.

4.5 Resignation, Dismissal and Redundancy:

On resignation a lump sum is paid equal to the sum of contributor's contributions plus 2.5% of that total for each complete year of service.

On dismissal a lump sum equal to contributor's total contributions.

On redundancy, a lump sum calculated in the manner of S4.1 with the date of redundancy taken as the date of retirement.

5. INVESTMENTS

Practically no restriction.

6. RESTRICTIONS

6.1 **Short Service:**

Benefit depends on duration of service.

6.2 **Substandard Health:**

No special provision.

SCHEME NUMBER 18

MELBOURNE AND METROPOLITAN BOARD OF WORKS
SUPERANNUATION SCHEME

1. OVERVIEW

1.1 **Employer:** Melbourne & Metropolitan Board of Works,
625 Little Collins Street,
G.P.O. BOX 4342,
MELBOURNE 3001

Tel: 615-4438

1.2 **Scheme Style:**

On retirement at age 60, subject to 30 years minimum service a fully commutable but non-indexed pension of 70% of annual salary at the date of retirement is payable for five years certain and for subsequent lifetime.

2. ELIGIBILITY

2.1 Compulsory for persons who hold staff positions.

2.2 Persons in the General Division appointed to staff positions may join, but once joined they must remain.

2.3 Married women who commence work and women who marry have six months in which to elect not to continue as a contributor.

3. CONTRIBUTIONS

3.1 **Member:**

Rates according to age at entry with a maximum of 9% of salary.

3.2 Employer:

An amount equal to twice members contributions plus an amount determined by the actuary. It is 2.9 times members contributions for the current 3 year period.

4. BENEFITS

4.1 Retirement Benefit:

- (a) On age retirement at 60 after 30 years service a monthly pension equal to 70% of final annual salary payable for 5 years certain.
- (b) For early retirement at age 55 or thereafter (providing having completed 15 years of service) pension is calculated on a sliding scale and then reduced by an amount determined by the Actuary.
- (c) At the discretion of the trustees it is possible to commute the whole of any pension to a lump sum benefit.

Options for pensions payable for 10 year certain or reversionary pension are also available.

4.2 Death Benefit:

- (a) On death in Service the balance of the contributor's fund account or four times the annual salary at death whichever is greater.
- (b) On death while in receipt of pension if death occurs within five years after retirement only the balance of the five years shall be paid unless other options are taken at retirement.

4.3 Disability Benefit:

On disability retirement a lump sum is paid equal to that which would have been paid had the contributor died.

4.4, Spouse and Children Benefits:

Generally no spouse nor children pensions are available. But on retirement a contributor may have the pension adjusted to be payable during the joint lifetime and then the lifetime of the survivor of contributor and spouse.

4.5 Withdrawal Benefit:

On resignation, dismissal or transfer to a position which does not carry pension rights, a lump sum equal to contributions paid plus compound interest at 5% p.a..

5. INVESTMENTS

Practically no restriction.

6. SPECIAL CASES

- 6.1 Persons not eligible for this scheme may be eligible to join the Provident scheme.
- 6.2 Normal retirement age may be 65 depending upon date of entry.
- 6.3 If a contributor retires between 15 and 29 years of service, pension is calculated on a sliding scale of 52% at 15 years and 1 1/6% for each additional year of service.

SCHEME NUMBER 19

MELBOURNE UNDERGROUND RAIL LOOP AUTHORITY SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employer:** Metropolitan Transit Authority,
Tram and Bus Division,
50 Queen Street,
MELBOURNE, 3000

Tel. 618 3333

1.2 **Scheme Style:**

The Fund is managed by National Mutual with lump sum benefits. On retirement at age 65 after 30 years service a lump sum of 7 times the salary received by the member in the twelve months preceding retirement is payable.

2. ELIGIBILITY

Officers of the Authority may apply to join.

3. CONTRIBUTIONS

3.1 **Member:**

8% of Salary

3.2 **Employer:**

19% of Salary for the current three year period.

3.3 **Funding:**

Life Office (National Mutual) pooled investment fund.

4. BENEFITS

4.1 Retirement Benefit:

On retirement between ages 60 and 65 or earlier if through ill health, a lump sum equal to 23 1/3% of salary received by member in the 12 months preceding retirement for each year of membership in this and previous superannuation plans plus any additional contributions made by Authority in respect of the member.

On early retirement any time before age 60, the benefit is 23½% of salary received by the member in the 12 months preceding retirement for each year of membership to actual retirement date discounted by 1% for each year that the retirement date precedes member's 60th birthday plus any additional contributions by employer in respect of the member.

On late retirement after age 65, benefit is lump sum equal to retirement benefit with interest.

4.2 Death Benefit:

Benefit is same as retirement benefit at age 65 based on actual salary at death.

4.3 Disability Benefit:

Benefit is same as retirement benefit at age 65 based on actual salary at disablement.

4.4 Spouse's and Children's Benefit:

&4.5

No spouse or children pension is available.

4.6 Resignation and Dismissal Benefits:

(a) Resignation

- (i) Members who joined at the commencing date of this scheme : early retirement benefit is payable.
- (ii) Members who joined after the commencing date of this scheme : a lump sum equal to members contributions with 6% p.a. compound interest increased by 10% for each year of service exceeding five - subject to 100% increase.

(b) On dismissal:

- (i) Member admitted on Fund commencement date:

Early retirement benefit is payable.

- (ii) Member admitted after Fund commencement date:

A lump sum equal to member's contributions with 6% p.a. compound interest.

5. INVESTMENT

The fund is in National Mutual's EFG Managed Fund investment pool. It currently participates in the property, share, government securities and cash classes of the EFG Fund.

6. RESTRICTIONS

6.1 **Short Service/Poor Health:**

Benefits are accrued according to years of service.

SCHEME NUMBER 20
METROPOLITAN FIRE BRIGADES SUPERANNUATION FUND

1. SCHEME OVERVIEW

1.1 **Employer:** The Metropolitan Fire Brigades Superannuation Board,
35 Spring Street,
MELBOURNE. 3000
Tel. 63 9175

1.2 **Scheme Style:**

Benefits are mainly provided in pension form. Commutation of up to 30% of pension is permitted on age retirement. (40% to contributors of previous scheme).

On age retirement at 65 after 30 years service an indexed pension of 70% of final salary is provided.

2. ELIGIBILITY

Membership is compulsory for all new permanent full time employees of the Metropolitan Fire Brigades Board. Approximately 60 contributors had elected not to join this scheme when it came into operation.

3. CONTRIBUTIONS

3.1 Employees contribute 7% of current salary.

3.2 Employer contributes a percentage (between 10.5 and 13) of employees current salary. This is 12% for the current three year period.

3.3 Funded by employee and employer contributions.

4. BENEFITS

4.1 Retirement Benefit:

Age retirements (male & female) are normally at 65. Indexed pension at 70% of final salary after 30 years service is payable. Pension is on a pro-rata basis for shorter service. Early retirement after age 55 is permitted with reduced pension.

4.2 Death Benefit:

On death in service or as pensioner, spouse and children pensions are payable for both male and female members.

4.3 Disability Benefit:

On disability retirement a pension equal to age retirement pension at 65 assuming final salary is current salary.

4.4 Spouse Pension:

Spouse benefit is a pension of $\frac{2}{3}$ rds the pension paid to a deceased pensioner spouse, or $\frac{2}{3}$ rds of the pension which would have been payable if the deceased contributor had retired on his date of death.

Spouse pension is not affected by lump sum conversions.

4.5 Children's Pension:

Childrens' pension of 10% of the disability pension that would have been payable at death of contributor for each child up to 3 children. Higher rates are payable for orphans.

4.6 Resignation Benefit:

On resignation with less than five years service the benefit is return of contributor's contributions. Between 5 and 20 years of service interest is added at the rate of 4% and a further amount of $\frac{1}{12}$ th of contributions plus interest for each year of service.

For 20 years or more contributions plus interest at the rate of 4% plus an amount of one and two thirds contribution plus interest is payable.

5. INVESTMENTS

Investments may be made in Trustee securities, loans guaranteed by Victorian Government, mortgages and properties in Victoria, etc.

6. RESTRICTIONS:

6.1 Short service and poor health members

- (a) Members with less than 30 years service have their pension benefits reduced on a pro-rata basis.
- (b) Members are classified into full, limited and service contributors after medical examinations.
- (c) Limited benefit and service contributors receive reduced benefits on death or disability. They pay the same contributions as full contributors.

SCHEME NUMBER 21

THE METROPOLITAN TRANSIT AUTHORITY RETIRING AND DEATH GRATUITIES

1. SCHEME OVERVIEW

1.1 **Employer :** Melbourne & Metropolitan Tramways Board,
616 Little Collins Street,
P.O. BOX 4258,
MELBOURNE, 3001

Tel: 620 291

1.2 **Scheme Style:**

Lump sum gratuity benefits.

On retirement at age 65, an employee with 40 years service will get a lump sum of 128 weeks pay.

2. ELIGIBILITY

Full time employees of the MMTB with at least 10 years service.

3. CONTRIBUTIONS

3.1 **Members:**

Nil

3.2 **Employers:**

An annual amount required to pay the benefits during the year.

3.3 **Funding:**

Not funded.

4. BENEFITS

4.1 Retirement Benefit:

On age retirement at 65, a lump sum is payable. The rates are given on scale 'A' and vary with years of service completed. They start with 20 weeks pay after 10 years service to 160 weeks pay after 50 years service.

On early retirement between ages 60 and 64, a lump sum is payable. The rates are given in scale 'B' and start with 20 weeks pay after 10 years service up to 78 weeks pay after 39 years service. For 40 or more years service scale 'A' rates apply.

4.2 Death Benefit:

On death a lump sum is payable. The rates are given in scale 'A' (i.e. same as normal retirement). The number of years of service is calculated assuming employee had remained in service until age 60.

4.3 Disability Benefit:

On total incapacity, a lump sum is payable according to the rates given in scale 'C' which start with 20 weeks pay after 10 years to 78 weeks pay after 39 years service. For 40 or more years service scale 'A' rates apply.

4.4 Spouse and Childrens Benefits:

&4.5

No spouse or children's pension is available

4.6 Resignation Benefit:

On resignation before age 60, a lump sum is payable according to the rates given in Scale 'E' which start with 12.5 weeks pay after 20 years service to 25 weeks pay after 45 years service.

5. INVESTMENTS

Not applicable.

6. RESTRICTIONS

6.1 **Substandard Health**

Employees certified as unfit for usual occupation may be granted a lump sum benefit according to scale 'D' with rates starting at 10 weeks pay after 10 years service to 70 weeks pay after 45 years service. But employees over age 60 retiring medically unfit after 30 years service are given the benefit of scale 'A' rates.

SCHEME NUMBER 22
THE MINT ACT 1958 (No. 6323)

1. SCHEME OVERVIEW

1.1 **Administrator:** State Superannuation Board,
35 Spring Street,
MELBOURNE, 3000

Tel. 651 3222

2. ELIGIBILITY

Permanent employees of the Victorian Branch of the Royal Mint.

The Branch was closed in March 1969 with the responsibility of administration transferred to the Commonwealth Government and the scheme was closed to new entrants.

3. CONTRIBUTIONS

The cost of pension payments comes out of the Victorian Consolidated Fund.

4. BENEFITS

It is believed that the original benefits were modelled on those received by pensioners of the Royal Mint in United Kingdom. However, the details of the scheme could not be located.

The Victorian Department of Management and Budget supplements the pensions, from time to time, broadly in line with the State Superannuation pension increases.

5. INVESTMENT

Not applicable

6. RESTRICTION OF BENEFITS

Not applicable

SCHEME NUMBER 23

PARLIAMENTARY CONTRIBUTORY SUPERANNUATION FUND

1. OVERVIEW

1.1 **Administrator:** Trustees of Parliamentary Contributory
Superannuation Fund,
State Superannuation Board,
35 Spring Street,
MELBOURNE, 3000

Tel. 651 3315

1.2 **Scheme Style:**

Fully indexed pension fully commutable to lump sum.

On retirement after 20½ years as member of the Parliament of Victoria a fully indexed fully commutable pension of 75% of basic Parliamentary salary is payable.

2. ELIGIBILITY

Compulsory for members of the Legislative Council and Legislative Assembly of Victoria.

3. CONTRIBUTIONS

Members:

11½% of gross salary plus additional contributions (not exceeding 10% of salary) to Supplementary Retirement Account

Governments:

Determined by scheme's actuary as the amount required to pay for the expected benefits for the current 3 year period. It is currently \$4.9 Million per year.

4. BENEFITS

The balance of Supplementary Retirement Account is payable on ceasing to be a member.

4.1 Retirement Benefit:

- (a) A pension is payable on ceasing to be a member if he or she has received salary as a member for:
- (i) a period of 15 years or more; or
 - (ii) a period of 8 years or more and is defeated at an election or if he or she resigns or does not seek re-election owing to good reasons which satisfy the Trustees; or
 - (iii) 6 years or more, has served in 3 or more parliaments, is over 60 years old and does not seek re-election.

The basic pension is 50% of basic Parliamentary salary, increasing by 1/6% for each month of service in excess of 8 years until a maximum of 75% after 20½ years is reached.

- (b) On ceasing to be a member and not being entitled to pension benefit due to:
- (i) defeat at election; or
 - (ii) resignation or not seeking re-election owing to good and sufficient reason which satisfy the Trustees;

a lump sum of 3½ times member's contributions is payable.

- (c) In other cases (except death or ill health retirement) the benefit is a lump sum of 1½ times member's contributions.

All or part of the pension may be converted into lump sum as follows:

- (a) If under the age of 66 years at date ceasing to be a member, or if ceasing to be a member at the next election after attaining the age of 66 years and this cessation does not cause the holding of by-election:

conversion rate is 10 to 1; and

- b) For others:

Conversion rate is $(10-Y)$ to 1,

where Y is $1/24$ multiplied by every month by which member's age exceeds 65 years at time of cessation.

Pension is indexed according to current basic Parliamentary salary.
Conversion to lump sum does not affect spouse pension.

4.2 Death Benefit:

On death of a member or former member, a spouse pension is payable. A child allowance is payable if there is no spouse or on death of spouse.

4.3 Disability Benefit:

On ill health retirement, a pension on same basis as "retirement" is payable. The member is deemed to have served at least 8 years if he has passed the medical exam at entry. Ill health pension cannot be converted into lump sum.

4.4 Spouse Pension:

The greater of:

- (a) $2/3$ rd of pension payable to member or former member; or

(b) 40% of current basic Parliamentary salary.

Spouse does not include a person who married a former member after he ceased to be a member.

4.5 **Children's Allowance:**

At a rate that the trustees think fit in respect of each child subject to a total maximum of spouse pension.

5. INVESTMENT

Made by and in the name of State Superannuation Board after considering any report furnished by the fund's actuary.

6. RESTRICTIONS

6.1 **Substandard Health:**

Medical examination at entry to Fund is not compulsory but on failure to attend or pass such medical the member would not be eligible for ill health pension unless he had completed 8 years as a member.

SCHEME NUMBER 24
THE PILOT SERVICE STAFF FUND

1. OVERVIEW

1.1 **Administrator:** Port Phillip Sea Pilots,
Pilots Office,
126 Nelson Place,
WILLIAMSTOWN, 3016

Tel: 397-5271

1.2 **Scheme Style:**

On normal retirement at age 65 (male and female) or optional choice at age 60 for women, the benefit is a lump sum being the accumulated value of the member's and employer's contributions less cost of administration and death cover plus interest.

2. ELIGIBILITY

Permanent employees of the Pilot Service over 21 years of age after 12 months of employment.

3. CONTRIBUTIONS

3.1 **Employee** - 5% of salary.

3.2 **Employer** - 10% of salary.

4. BENEFITS

4.1 **Retirement Benefits:**

(a) On normal retirement, the member is entitled to the amount credited to his retirement account being the accumulation of his contributions and Pilot Service contributions less the cost of administration and death cover plus the interest accrued in the account.

- (b) On early retirement at age 60-64 or, with the consent of the employer, age 55-59, the member is entitled to his portion of the retirement account including interest plus at the discretion of the trustees part or all of the Pilot Service portion of the retirement account.
- (c) An option of pension or annuity instead of lump sum is available on application.

4.2 Death Benefit:

On death in service, a lump sum equal to 3 times the member's annual salary is payable except for members over 55 who have taken up the option of applying for death benefit reducing by .3 of annual salary at each annual review date, consequently increasing contributions to his retirement account.

4.3 Disability Benefit:

Upon retirement due to being totally and permanently disabled, an amount equivalent to that for the death benefit is payable, i.e. 3 times annual salary.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation Benefit:

The member shall be granted a leaving service benefit of a refund of his contributions plus interest. In addition, the trustees, with the consent of the employer, may pay to the member such additional amount as determined by the trustees.

5. INVESTMENT

The death cover is purchased from the Commonwealth General Insurance Corporation and the retirement accounts are managed by AETNA Pty. Ltd. and so no direct investment is made by the fund.

6. RESTRICTIONS

6.1 **Shorter Service:**

The cost of death cover increases with age at entry. Therefore older entrants tend to have lower retirement benefits when this is debited against the retirement benefit account.

6.2 **Ill Health:**

No medical is required for initial death coverage of less than \$125,000 but evidence of good health is required above that amount.

SCHEME NUMBER 25
POLICE PENSIONS FUND

1. OVERVIEW

1.1 **Employer:** : Victorian Police Force,
Police Headquarters,
380 William Street,
MELBOURNE 3000
Tel. 320 3333

1.2 **Scheme Style:**

Benefit is in the form of a pension. Upon retirement at age 65 after 30 years salary pension is 2/3rds of final salary.

2. ELIGIBILITY

Compulsory for Police Cadets to contribute to the fund. There are no new members as the police superannuation is now part of the State Superannuation Fund. In 1981/82, most of the members of the fund transferred to the State Superannuation Scheme.

3. CONTRIBUTIONS

Employee - 4½% of salary.

Employer - Balance as required.

4. BENEFITS

4.1 **Retirement Benefits:**

- (a) On normal retirement at age 65 after 30 or more years service, the pension is 2/3rds of final salary. The benefit is reduced by a sliding scale if less than 30 years service.

- (b) On early retirement aged 60-64, the pension is reduced on a linear scale to 75% of full pension at age 60 plus 5/12% for every month over 60 years of age.

4.2 Death Benefit:

A spouse benefit and child benefit (where applicable) is payable. Otherwise a refund of contributions is made to the estate. If death occurs while on duty, a special spouse benefit is payable.

4.3 Disability Benefit:

If the member is disabled while not on duty an ordinary pension is payable as defined for retirement.

If disablement occurs while on duty, a special pension is payable. This pension is at least the value of the ordinary pension.

4.4 Spouse Benefit:

- (a) The pension is based on the rank of the member at death. It is increased from time to time.
- (b) The pension is increased to 16/45ths of the annual pay of the member if death occurred while on duty.

4.5 Child Benefit:

Where spouse pension is payable, 10% of final salary per child under 18 to a maximum of 30% for three or more children.

Where spouse pension is not payable, the pension is:

- (i) 45% for one child;
- (ii) 40% for each of two children;
- (iii) 30% for each of three children; and
- (iv) total 100% for four or more children.

4.6 Resignation Benefit:

Providing the member is not dismissed a refund of contributions is payable.

5. INVESTMENT POWER

Not applicable.

6. RESTRICTIONS

6.1 Shorter Service:

Most pensions are dependent upon length of service.

SCHEME NUMBER 26
PORT OF GEELONG SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employer:** Port of Geelong Authority,
65 Brougham Street,
P.O. Box 344,
GEELONG, 3220

Telephone: (052) 221644

1.2 **Scheme Style:**

An accumulation fund consisting of contributors' and Authority contributions. Interest from investments is distributed to each contributors account at end of each year.

2. ELIGIBILITY

Employees of the Authority who have completed one year's continuous service and under 59 years of age may apply to enter the fund.

3. CONTRIBUTIONS

3.1 (a) Contributor who commenced before age 45 - 5% of salary

(b) Contributor who commenced after age 45 :

$\frac{100\%}{\text{prospective service to age 65}}$ x salary.

3.2 Authority pays 1.75 times employees contributions. Payments being made at least twice yearly. Authority also pays management cost.

3.3 Funding is by accumulation of contributions and interest.

4. BENEFITS

4.1 Retirement Benefit:

- (a) On age retirement at 65 a cash sum equal to contributor and Authority contributions and accumulated interest.
- (b) Early retirement benefit is payable at age 60 or after. The benefit is the cash amount equal to total of Contributor and Authority contributions accumulated with interest to date of early retirement.

4.2 Death Benefits:

- (a) On death of a contributor with dependants a cash sum equal to total contributor and Authority contributions accumulated with interest to date of payment plus a cash sum equal to the estimate contributor and Authority contributions based on current salary to age 65.
- (b) On death of a contributor without dependants. Similar to that with dependants but excluding Authority contributions.

4.3 Disability Benefit:

On ill-health retirement a cash sum equal to total contributor and Authority contributions accumulated with interest to date of payment plus a cash sum equal to the estimate contributor and Authority contributions based on current salary to age 65.

4.4 Resignation Benefit:

On resignation the benefit is a cash sum equal to total contributions by contributor accumulated with interest.

5. INVESTMENTS

Investments must be made in Trustee securities

SCHEME NUMBER 27
PORT OF MELBOURNE AUTHORITY SUPERANNUATION SCHEME

1. OVERVIEW

1.1 **Employer:** Port of Melbourne Authority,
World Trade Centre,
G.P.O. Box 4721,
MELBOURNE, 3001

Tel. 611 1777

1.2 **Scheme Style:**

On retirement at age 65 a fully CPI indexed and partially commutable pension of 70% of final salary. Virtually identical to the State Superannuation Scheme.

2. ELIGIBILITY

All full time employees may apply to join but they may be classed as full or limited members or be excluded from joining depending upon a medical examination. Application must be made within three years of joining or by age 24, whichever is the latter.

3. CONTRIBUTIONS

3.1 **Members:**

An age related contribution rate multiplied by the number of units to be contributed for. Cost of the additional units resulting from salary increases is based on age when the units are effected. Maximum contribution 9% of salary.

Deductions made from first pay on or after 1st March and 1st September.

3.2 Employer:

5/7ths of benefits paid and any shortfall arising from member's 9% maximum contribution. (Currently these total to approximately 90% of benefits paid.)

4. BENEFITS

4.1 Retirement Benefits:

For a new member, no. of pension units contributed for =

initial salary

130

For salary increases after entry additional pension units =

salary as at 1st (Feb./August) - units previously contributed

130

- (a) On normal retirement at 65, a fully indexed partially commutable fortnightly pension of \$91.00 p.a. per pension unit. This amount is usually 70% of final salary after at least 30 years membership.
- (b) On early retirement after age 60 but before age 65, the pension is reduced according to a sliding scale. The pension is fully indexed according to CPI for Melbourne for previous 12 months.
- (c) Commutation of up to 50% of pension or \$46.50, whichever the greater, provided a minimum pension of \$34 per fortnight is retained, is allowed. The commutation rates are determined by the fund's actuary and vary according to age or date of retirement. This commutation does not affect the amount of spouse pension.

4.2 III Health Benefits:

For a "full" contributor, the benefit payable on ill health retirement is the same as normal retirement.

4.3 Death Benefit for "full" or "limited" contributor:

On death in service of a single, divorced or widowed member the benefit is a lump sum equal to refund of member's contribution.

On death of a married member in service or in receipt of pension the benefit is a spouse pension plus children's pension.

4.4 Spouse Pension:

The spouse pension is 2/3rds of member's entitlement.

Pension is fully indexed and up to 30% or \$26.50, whichever is the greater provided a minimum pension of \$20 per fortnight is retained, may be commuted to a lump sum which is only payable after spouse's 60th birthday. The pension ceases on remarriage at which time a lump sum of three times the annual rate of pension to the spouse is payable. The pension can be reinstated if the spouse again ceased to be married but only after a minimum of three years after the date the spouse became remarried.

4.5 Children's Pensions:

A pension equal to 10% of the contributor's pension or \$312 p.a. whichever is greater for each child is payable. If more than three children the pension will be a total of 30% of contributor's pension or \$312 p.a. per child whichever is greater. The benefit will be increased for double orphans where there is no spouse eligible for a pension benefit. Pensions normally cease at age 18 but may continue to age 25 in the case of a full time student.

4.6 Resignation, Retrenchment or Dismissal:

- (a) On retrenchment, less than 10 years service a lump sum equal to member's contributions is payable. Upon retrenchment, 10 or more years service, a lump sum equal to $3\frac{1}{2}$ times the amount of the member's contributions is payable.

- (b) Upon resignation or dismissal, a lump sum equal to member's contributions is payable.

5. INVESTMENT POWER

All contributions are retained by the Port of Melbourne Authority which credits interest to the Superannuation Account at the rate earned by the State Superannuation Fund.

6. RESTRICTIONS

6.1 **Short Service**

For contributors with less than 30 years of service, the pension units contributed for benefit calculations are reduced proportionally.

6.2 **Substandard Health:**

- (a) Upon acceptance to the fund, contributors are classed as either "full" or "limited" contributors.
- (b) "Full" contributors receive benefits described in Section 4 above.
- (c) Where a "limited" contributor has been a member for more than 10 years, benefits as described in Section 4 are payable.
- (d) Upon ill-health retirement of a "limited" contributor with less than 10 years of service, a lump sum equal to $3\frac{1}{2}$ times the member's contribution is payable.

SCHEME NUMBER 28
PORT PHILLIP PILOTS SICK & SUPERANNUATION FUND

1. OVERVIEW

1.1 **Administrator:** Pilot Superannuation Board,
Marine Board of Victoria,
6th Floor,
530 Little Collins Street,
MELBOURNE, 3000

1.2 **Scheme Style:**

The fund is financed solely from deductions from gross pilotage receipts. Pension benefit with commutation option, for up to 50% of pension. On normal retirement at age 65, after 25 years service, the benefit payable is a pension equal to 45% of Retirement Remuneration. 50% of this pension can be subject to indexation.

2. ELIGIBILITY:

Pilots licensed by Marine Board of Victoria to conduct ships in and out of Port Phillip, Melbourne and Geelong are eligible.

3. CONTRIBUTIONS:

After consulting its actuary the Pilot Superannuation Board obtains Governor in Council approval for a percentage of gross pilotage receipts to be credited to the fund. Currently it is 12.5%. Based on the Fund contributions and Pilots' remuneration figures to March 31 of the current financial year, this represents 32% of Pilots' present remuneration.

4. BENEFITS:

4.1 **Retirement Benefits**

On normal retirement at age 65 or early retirement between 60 and 65 a pension (which may be subject to indexation) equal to 1.8% of retirement remuneration for each year of service to actual retirement date.

"Retirement remuneration" is the amount determined by the Superannuation Board as at 1 July in each year having regard to the annual rate of remuneration of Pilots at 31 December then last past and the expected income and expenditure of the fund - currently this amount is \$47,124.

The pension is also reviewed at 1 July each year with reference to proportionate increases in the C.P.I. or "Retirement Remuneration" (whichever is the lesser) but other suitable indices of change in living costs may be used. Up to half of the pension is commutable to lump sum at the rate of 10 to 1 at age 65 and a sliding scale increasing to 10.345 to 1 at age 60.

4.2 Death Benefits

- (a) On death in service, the benefit payable to widow is:
 - (i) a pension of 31.25% of the member's prospective retirement benefit at age 65; plus
 - (ii) a lump sum equal to 16 times the annual pension calculated in (a); plus
 - (iii) a children's pension.

- (b) On death of a Pilot pensioner receiving pension:
 - (i) the benefit to the widow is a pension equal to 62.5% of pension being paid at death of Pilot pensioner.

- (c) On death of a deferred pensioner the benefit payable to widows is:
 - (i) a pension of 31.25% of deferred pension; plus
 - (ii) a lump sum of 16 times the annual pension calculated in (i); plus

(iii) a children's pension.

4.3 Disability Benefit:

On retirement due to infirmity, sickness or injury the benefit payable is a proportion of prospective normal retirement benefit based on Retirement Remuneration at date of actual retirement. This proportion increases from 50% at entry to 100% after five years service.

4.4 Spouse pension:

The widow's pension payable on pilot or pilot pensioners death ceases on remarriage but it may be reinstated if she becomes a widow again and proof of the need for financial assistance is provided.

4.5 Children's pension

<u>No. of Dependant Children</u>	<u>SCALE</u>		
	<u>Percentage of member's prospective pension at age 65 or actual pension being paid</u>		
	(2)	(3)	(4)
1	30%	60%	40%
2	45%	90%	60%
3 or more	60%	120%	75%

On death of a member or pensioner survived by a widow, dependent children receive pension of scale (2).

On death of a member or pensioner not survived by a widow, dependent children receive pension according to scale (4).

On death of widow dependent children receive pension according to scale (3).

4.6 Resignation Benefit:

Nil

5. INVESTMENT POWER

Victoria Government stock, Victoria Municipal corporation debentures, first mortgage of freehold land in Victoria or other securities approved by Governor in Council.

6. BENEFIT RESTRICTIONS

6.1 **Short service:** Benefit on accrued basis.

SCHEME NUMBER 29

THE PORT PHILLIP PILOTS STAFF LIFE ASSURANCE
AND PENSION SCHEME

1. OVERVIEW

1.1 **Administrator:** Port Phillip Sea Pilots,
Pilot Office,
126 Nelson Place,
WILLIAMSTOWN, 3016

Tel. 397 5271

1.2 **Scheme Style:**

At normal retiring age 65 (men) or 60 (women) the benefit is a lump sum being the maturity value of all the endowment assurance policies purchased on behalf of the member.

2. ELIGIBILITY

Permanent employees of the Pilot Service provided that the employee is at least 20 years of age and has had at least one year's continuous service.

3. CONTRIBUTIONS

Member:

Up to 5% of salary

Employer:

Pro rata up to 10% of salary on 2 for 1 basis plus cost. Currently this is 10.126%.

4. BENEFITS

4.1 Retirement Benefits:

On normal retirement a lump sum benefit is payable. This is the endowment assurance amount with accrued bonuses bought by employee and employer contributions on weekly premium basis. Salary increases are catered for by way of purchasing new policies.

4.2 Death Benefits:

On death in service a lump sum is payable being the endowment assurance benefits plus the accrued bonuses.

4.3 Disability Benefits:

Member would be entitled to surrender value of own policy and Trustees would allow payment of surrender value of employer's policy.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation Benefits:

On resignation, the member receives a lump sum being the surrender value of the endowment assurance policies for which he or she is contributing. At the discretion of the trustees he or she may also get part or all of the surrender value of the policies for which the employer is contributing.

The member has the option to continue the policy and contribute directly to the underwriting friendly societies.

5. INVESTMENT

As the benefits are in the form of life assurance policies through the United Endowment Benefit Scheme, and underwritten by friendly societies no direct investments are made by the Board.

6. RESTRICTIONS

Short Service: due to the higher age at commencement, the benefit of a member joining at age 40 (say) will be less than that of a member joining at a younger age even though both may pay the same contribution.

SCHEME NUMBER 30
THE STATE BANK OF VICTORIA PROVIDENT FUND

1. OVERVIEW

1.1 **Employer:** State Bank of Victoria,
State Bank Centre,
385 Bourke Street,
MELBOURNE, 3000

Tel. 602 7711

1.2 **Scheme Style:**

On retirement at age 65, a fully commutable fully indexed life pension of 70% of final average salary (last two years). The benefit is reduced if actual membership is less than the qualifying membership period.

2. ELIGIBILITY

Clerical and Legal employees:	Compulsory
Technical and Specialist employees:	Optional
Casual and Part-time employees:	Not eligible.

3. CONTRIBUTIONS

3.1 **Members:**

Currently 6% of salary

3.2 **Employer:**

Currently 12% of salary

4. BENEFITS

4.1 Retirement Benefits:

On retirement at age 65 a fully CPI indexed pension of 70% of final average salary. The benefit is reduced if actual membership is less than qualifying membership period (Ref. Section 6.1). On early retirement between ages 60 and 64, the pension is reduced by 1.4%, of salary for each year short of age 65.

On early retirement between ages 55 to 59 with consent of the Commissioners the pension is further reduced by 2.8% of salary for each year short of age 60.

Part or all of the retirement pension may be commuted to a lump sum according to a sliding scale that starts at 9.29 at age 55 to 8.25 at age 65.

4.2 Death Benefit:

- (a) On death of a member with dependents in service or retirement a widow's pension is payable automatically but a widower's pension is payable only if dependency is proved. A children's allowance is also payable except on death of age pensioner.
- (b) On a death of a member without dependents in service return of member's contributions with interest.

4.3 Disability Benefit:

On disability retirement a fully indexed (but non-commutable) maximum pension of 63.0% of final average salary is payable provided the qualifying membership period is satisfied. On attaining age 60, the pension becomes fully commutable.

4.4 Spouse Pension:

- (a) If death of member occurs on or after age 60: a fully commutable, fully indexed pension (not affected by remarriage) of 67.0% of member's retirement pension is payable assuming member retires the day before death.
- (b) If death occurs before age 60 a fully commutable fully indexed pension (not affected by remarriage) of 67.0% of member's retirement pension is payable assuming member retires at age 60.
- (c) If a member dies after retirement in receipt of pension: a fully commutable fully indexed pension of 67.0% of member's pension is payable.

4.5 Children's Pension:

A fully indexed dependent child allowance is payable currently at \$1070 p.a. for each child on the death of a member, or disability retired member.

4.6 Resignation Benefit:

On resignation a lump sum equal to the member's accumulated contributions with interest is payable.

5. INVESTMENT

Practically the same investment powers of the State Bank Commissioners. Currently investments are mainly in first mortgages and advances, semi-government and first charge industrial debentures, properties in Victoria, etc.

6. RESTRICTIONS

6.1 Short Service:

The qualifying membership period is 35 years for members joining after 13 October 1969 and 25 years for members joining before that date.

Where a member does not meet this qualification the pension benefit is reduced by 1/420ths or 1/300ths respectively for each month actual membership less than that required period, i.e. on a pro-rata basis. Currently only about $\frac{1}{2}$ % of members are in this category.

Members who retire between ages of 55 and 60 must have had at least 20 years membership to qualify for pension benefits.

6.2 Poor Health:

Members with pre-existing medical conditions may be classified as a limited member after the compulsory medical examination at entry. These members will have their invalidity and death in service benefits reduced.

An initial percentage of benefit cover is assigned at entry. The cover is increased in even steps to full cover at age 60.

SCHEME NUMBER 31

STATE ELECTRICITY COMMISSION EMPLOYEES RETIREMENT
AND BENEFIT FUND.

1. OVERVIEW

1.1 **Employer:** State Electricity Commission of Victoria,
Monash House,
15 William Street,
MELBOURNE, 3001

Tel. 615 0433

1.2 **Scheme Style:**

At age 65 after 30 years' membership, the lump sum benefit payable is four times the average annual wage for the last two years (FAAW).

2. ELIGIBILITY

Compulsory for all permanent wage-earning employees, provided a minimum of 50% of normal hours is worked.

3. CONTRIBUTIONS

3.1 **Members:** 3.25% of salary.

3.2 **Commission:** 6.5% of salary.

4. BENEFIT

4.1 **Retirement Benefits:**

(a) On normal retirement at age 65 years, the lump sum benefit payable is membership period (maximum 30 years) x FAAW x 2/15.

If over 30 years membership, the benefit is increased by additional completed years x FAAW x 0.02 to a maximum additional benefit of 0.2 x FAAW.

- (b) On early retirement after age 60, the benefit is similar to normal retirement, except the actual membership period to early retirement date is used.

4.2 Death Benefit:

On death in service, the benefit payable is:

- (a) in the case of a surviving widow or dependent widower or eligible child, the lump sum which would have been payable if membership continued until age 60, and based on FAAW at date of death. If death occurs between 60 and 65, the early retirement benefit is paid; or
- (b) in the case of a financial dependant, one-half of FAAW, plus resignation benefit; or
- (c) if neither of the above, the resignation benefit.

4.3 Invalidity Benefit:

On invalidity before age 60, the benefit payable is the lump sum which would have been payable if membership continued until age 60 at the present FAAW. If invalidity occurs between ages 60 and 65, the early retirement benefit is payable.

4.4 Spouse Benefit:

After retirement - Nil.

4.5 Children's Benefit:

After retirement - Nil.

4.6 **Resignation, Dismissal or Retrenchment Benefit:**

For resignation or dismissal, the benefit is:

- (a) member's contributions, plus interest at 4% p.a., if membership period is less than 10 years; or
- (b) one and one-half times member's contributions, plus interest at 4% per annum if membership period is 10 years or more.

For retrenchment, the benefit is three times member's contributions, plus interest at 4% per annum.

5. INVESTMENT POWER

Practically no restrictions.

6. RESTRICTIONS

6.1 **Shorter Service:**

Lump sum on accrued basis.

6.2 **Substandard Health:**

Depending upon the initial medical examination, limits may be placed upon the benefits (except age retirement) payable to the member.

SCHEME NUMBER 32

STATE ELECTRICITY COMMISSION SUPERANNUATION FUND

1. OVERVIEW

1.1 Employer: State Electricity Commission of Victoria,
Monash House,
15 William Street,
GPO Box 2765Y
MELBOURNE, 3001

Tel. 615 0433

1.2 **Scheme Style:**

Upon retirement between ages 60-65, after 30 years' membership, an indexed and partially commutable pension equal to two-thirds of the being the average salary for the last two years (FAS).

2. ELIGIBILITY

Compulsory for all permanent staff employees, provided a minimum of 50% of normal hours are worked.

3. CONTRIBUTIONS

3.1 **Member:**

6.5% of salary.

3.2 **Commission:**

13.0% of salary, plus 3.3% of salary to assist in the long term actuarial stabilisation of the fund subject to review at the triennial actuarial valuation.

3.3 Cost of Living Adjustments:

Commission contributes on pay-as-you-go basis.

4. BENEFITS

4.1 Retirement Benefits:

On normal retirement between ages 60-65, pension =

$$\frac{\text{FAS} \times \text{Membership Period (maximum 30 years)}}{45}$$

If over 30 years' membership, an additional 1/3rd of FAS for each year to maximum of 70% of FAS.

On early retirement at ages 55-59, pension is calculated as above and then reduced by a sliding factor.

Up to 50% of the pension can be converted to a lump sum. The pension commuted may include the same percentage of the spouse's pension. The commutation factors are age related. Pensions are indexed according to Melbourne CPI.

4.2 Death Benefits:

On death in service, the benefit payable is:

- (a) in the case of a surviving widow or dependent widower, one year's FAS lump sum, plus spouse pension, plus child allowance; or
- (b) in the case of a Specified Beneficiary, one year's FAS lump sum, plus resignation benefit, plus child allowance; or
- (c) if neither of the above, the resignation benefit.

On death of a pensioner who was a member the benefit payable is:

- (a) in the case of a surviving widow, pension plus child allowance, plus, upon death of the widow, the residue (if any) of the amount which would have been payable if 50% of the member's pension had been commuted on the date of retirement, less the total amount of pension already paid; or
- (b) in the case of a specified beneficiary, child allowance plus the residue of the specified beneficiary benefit as at retirement date, less the total amount of pension already paid; or
- (c) if neither of the above, the resignation benefit, less the total amount of pension already paid as above.

4.3 Invalidity Benefit:

On invalidity before age 65, the benefit payable is one year's FAS lump sum, plus a pension for life based on FAS at date of invalidity and membership to age 65, plus child allowance.

In addition to permanent and total disability retirement, partial and temporary disability pensions may be paid in other disability situations.

4.4 Widow's Pension:

An indexed pension equal to 67% of member's pension.

If member was retired, the pension is not affected by remarriage of the widow, but if death occurred while still in service, remarriage of widow would reduce the pension payable, except where the member had contributed in excess of 40 years.

Up to 50% of the pension may be commuted where the death occurs during service.

A dependent widower pension not exceeding 67% of female member's pension may be payable.

4.5 Children's Benefit:

A benefit of \$21.50 per week is payable until the child reaches 16 years of age or later if education and dependency continues. This benefit may be doubled if the death of the member makes the child an orphan.

The benefit is indexed but not commutable and may be payable direct to the child.

4.6 Resignation, Dismissal or Retrenchment Benefit:

For resignation or dismissal, the benefit is:

- (a) contributions, plus interest at 4% p.a. if membership is less than 10 years; or
- (b) one and one-half times contributions, plus interest at 4% p.a. if membership is 10 years or more.

For retrenchment, the benefit is three times contributions, plus interest at 4% p.a.

5. INVESTMENTS

Practically no restrictions.

6. RESTRICTIONS

6.1 Shorter Service:

Pension on accrued basis.

6.2 Substandard Health:

Member may be given a poor health rating in which case all benefits except normal retirement benefit and death after age retirement benefit are reduced.

SCHEME NUMBER 33

STATE EMPLOYEES RETIREMENT BENEFITS FUND

1. OVERVIEW

1.1 **Administrator:** State Employees Retirement,
Benefits Board,
35 Spring Street,
MELBOURNE, 3000

Tel. 651 3599

1.2 **Scheme Style:**

Lump sum and pension benefits.

2. ELIGIBILITY

2.1 Compulsory for Road Construction Authority employees who are not in the State Superannuation Scheme and "exempt" employees of Victorian Government Departments after 12 months service if under age 57. Membership is optional if aged between 57 and 65.

2.2 Other groups of employees are brought in by "Order-in-Council" and it then becomes compulsory for all those employed thereafter.

3. CONTRIBUTIONS

3.1 **Employee:**

A percentage of salary ranging between $3\frac{1}{2}\%$ for employees receiving minimum wage or less, up to 6% for those receiving at least $1\frac{1}{2}$ times the minimum wage.

3.2 Employer:

Determined by the actuary, and designed to eventually meet all employer share of outgoings, including administration. Currently this is 7.62% of salary.

3.3 Scheme is not funded but operates on pay-as-you-go basis, similar to State Superannuation scheme, except that the employer contribution is assessed as shown in 3.2 above instead of being collected for individual cases.

4. BENEFITS

Benefits (except on retrenchment) are reduced by the amount of any gratuity paid to member.

4.1 Retirement Benefit:

- (a) On normal retirement at age 65, after 30 years contributory service, a lump sum of three times Adjusted Final Salary plus an annual pension of 25% of Adjusted Final Salary, fully indexed.
- (b) On early retirement between ages 60-64, the normal retirement pension is reduced by 1% for each complete year by which 65 exceeds the retirement age.

On late retirement:

- (a) Between ages 65 and 66 the benefit he or she would have received a 65 plus interest on lump sum part.
- (b) After age 66 benefit same as in (a) except pension is at a higher rate for age determined actuarially.

On reaching age 70, pensioner may apply for conversion of part of his pension to a lump sum, at a rate determined actuarially.

4.2 Death Benefits:

- (a) On death of a married contributor before age 65. The lump sum the contributor would have received at age 65 plus a spouse pension of $\frac{2}{3}$ of the prospective pension at age 65, after reducing the benefits on account of prospective service, by the percentage applicable to the member's medical classification, if below A.
- (b) On death of a married contributor after age 65 benefits as above calculated as if he had retired on date of death.
- (c) On death of married pensioner a spouse benefit of $\frac{2}{3}$ of pension that the pensioner was receiving on his death and if he was a disability pensioner, the balance of any lump sum.
- (d) On death of single contributor lump sum is payable, to his estate.
- (e) On the death of a contributor or pensioner benefits are payable to children who are under the age of 18 years or full-time students who are not more than 25 years of age.

4.3 Disability Benefits:

- (a) A temporary pension of 50% of salary may be payable for six months with possible extension of another six months or a normal disability benefit of a lump sum and pension after allowance for prospective service to age 65, and reducing the benefits on account of prospective service by the percentage applicable to the member's medical classification if this is less than A. The lump sum may be held, paid in full or in instalments with interest until age 65, at the Board's discretion.
- (b) Disability pension may not be commuted.
- (c) Benefits may be altered or cease on changes of extent of disability.

4.4 Spouse Pension:

Full spouse pension is payable (subject to a Court direction to pay part to a de-facto spouse) if marriage occurred prior to a contributor's retirement or if it occurred prior to a disability pensioner reaching age 60 or at least five years before a pensioner's death in which case the spouse's pension may be reduced if more than five years younger than the deceased.

Spouse pension is subject to an income test after one year of payment and may not be converted to a lump sum.

4.5 Children's Pension:

Payable on death of a contributor or pensioner:

A pension calculated by multiplying \$650 by A/B where A is the Consumer Price Index number for the quarter ended 30 June or 31 December (whichever is the later) prior to the death of the contributor or pensioner and B is the Consumer Price Index number for the quarter ended 30 June 1982. The amount is doubled if the child is an orphan. These pensions are indexed.

4.6 Resignation or Withdrawal Benefits:

Refund of contributions with interest less cost of member's share of death and disability cover, but not less than member's own contributions, or if contributor's age is between 30 and 60 an option of deferred benefit payable at age 65 or death is available.

Retrenchment Benefits:

May elect to receive:

- (a) a lump sum equal to three and one-half times the total amount of contributions paid or payable by the member to the fund; or

- (b) refund of contributions with interest less cost of member's share of death and disability cover; or
- (c) deferred benefits payable at age 65 or death.

Any gratuity payable is not deducted from resignation benefit.

5. INVESTMENTS

Investments may be made on trustee securities, loans guaranteed by Victorian Government, mortgages and properties in Victoria etc.

6. RESTRICTIONS

6.1 **Short Service:**

If the contributory service is less than 30 years, the retirement benefits payable are reduced proportionately.

6.2 **Substandard Health:**

All members are medically examined and classified at entry.

In the event of death before retirement or disability before age 60, the benefits for future service (to age 65) will be reduced according to the classification B,C,D and E.

However on death due to traumatic bodily injury, this benefit reduction may not apply.

The board may reduce the classification to a lower level if contributor fails to disclose details of his medical history.

7. COMMUTATION OF PENSIONS

A contributor who retires between age 60 and 65 may apply to the board for a reduction in the pension payable and to receive a lump sum payment in

consideration of the reduction of the pension, subject to conditions approved by the Treasurer of Victoria. The reduction period cannot exceed five years or extend beyond the pensioner's 70th birthday.

SCHEME NUMBER 34
STATE SUPERANNUATION LUMP SUM FUND

1. OVERVIEW

1.1 **Administrator:** State Superannuation Board,
35 Spring Street,
MELBOURNE, 3000

Tel. 651 3222

1.2 **Scheme Style:**

A lump sum scheme.

On age retirement on or after age 60, the benefit payable is a lump sum of $2\frac{1}{2}$ times member's contributions accumulated with interest.

2. ELIGIBILITY

- (a) Any person who was a contributor to the Married Women's Superannuation Fund immediately prior to 1st January, 1982, or
- (b) A part time officer of the State public service who elects to join and whose contractual hours of duty are more than 15 hours per week.
- (c) No medical examination is required for entry.

3. CONTRIBUTIONS

3.1 **Member's:**

5% of salary (as defined in the Superannuation Act).

3.2 **Government:**

Amount required to pay for the balance of the benefits.

4. BENEFITS

4.1 Retirement Benefits:

On age retirement at or after age 60, a lump sum of $2\frac{1}{2}$ times member's contributions accumulated with interest (currently at 12.56% p.a.) is payable. The lump sum may be converted to pension at a rate determined by actuary.

4.2 Death Benefits:

On death in service, the lump sum payable to the estate is $2\frac{1}{2}$ times the member's contributions accumulated with interest.

4.3 Disability Benefit

On retirement on account of ill health, the benefit is a lump sum of $2\frac{1}{2}$ times the member's contributions accumulated with interest. No conversion to pension is provided.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation Benefits:

A refund of member's contribution to the fund accumulated with interest.

5. INVESTMENT POWER

Similar to that of the State Superannuation scheme.

6. RESTRICTION

Not applicable.

SCHEME NUMBER 35
STATE SUPERANNUATION SCHEME

1. OVERVIEW

1.1 **Administrator:** State Superannuation Board,
35 Spring Street,
MELBOURNE, 3000

Tel. 651 3222

1.2 **Scheme Style:**

On retirement at age 65, a fully CPI indexed and partially commutable pension of 70% of final salary provided at least 30 years of service has been completed.

2. ELIGIBILITY:

Compulsory on appointment for full time permanent staff in State Government Departments; specified staff in boards, commissions or services. Trainee teachers, police cadets and part time employees cannot join.

3. CONTRIBUTIONS

3.1 **Member:**

An age related contribution rate multiplied by the number of units to be contributed for. Cost of additional units resulting from salary increases is based on age when the units are effected. Maximum contribution is 9% of salary.

3.2 **Employer:**

5/7ths of the benefits paid during the year, plus any benefit shortfall arising from member's 9% maximum contribution.

4. BENEFITS

4.1 Retirement Benefits:

For a new member, number of pension units contributed for

$$= \frac{\text{initial salary}}{130}$$

For salary increases after entry additional pension units

$$= \frac{\text{salary as at 1st March}}{130} - \text{units contributed for in previous year.}$$

Subject to a maximum of 9% of member's salary. On normal retirement at 65, a fully indexed partially commutable fortnightly pension of \$91.00 p.a. per pension unit. This amount is usually 70% of final salary after at least 30 years of membership. On early retirement after age 60 but before age 65, the pension is reduced according to a sliding scale. The pension is fully indexed according to CPI for Melbourne for previous six months.

Commutation of up to 30% of pension to lump sum is allowed. The commutation rates are determined by the fund's actuary and vary according to age of retirement. This commutation (known as cash option) does not affect the amount of spouse pension.

4.2 Ill Health Benefits:

For a "full" contributor, the benefit payable on ill health retirement is the same as normal retirement subject to 30 years service to prospective retirement age of 65.

4.3 Death Benefit:

On death in service of a single, divorced or widowed member the benefit is a lump sum equal to refund of members' contribution less the cost of Funds' share of children's pension.

On death in service or in receipt of pension of a married member the benefit is a spouse pension plus children's pensions.

4.4 Spouse Pension:

The spouse pension is 2/3rds of members entitlement (i.e. ignoring the reduction of pension from cash option). Pension is fully indexed and up to 30% may be commutable to lump sum which is only payable after spouse's 60th birthday. The pension ceases on remarriage but can be restored on ceasing to be married.

4.5 Children's Pensions:

A pension equal to 10% of contributor's pension for each child to a total of 30%. Pensions normally cease at age 18 but may continue to age 25 in the case of a full time student. The benefit will be increased for double orphans where there is no spouse eligible for a pension benefit.

4.6 Resignation, Retrenchment and Dismissal Benefits:

On resignation, discharge or dismissal, a lump sum equal to member's total contributions payable.

On retrenchment, a lump sum equal to $3\frac{1}{2}$ times member's total contributions is payable.

5. INVESTMENT POWER

Commonwealth Government, Local Government and public instrumentalities securities and guaranteed loans, properties and land in Victoria, mortgages, and short term deposits.

6. RESTRICTIONS

6.1 Shorter Service:

For contributors with less than 30 years of service, the pension units contributed for benefit calculations are reduced proportionally.

6.2 Substandard Health:

On entry contributors are classified according to medical assessment into three categories, viz. "full", "limited" and "service" contributors.

"Full" contributors receive benefits described in Section 4 above.

"Limited" and "service" contributors pay the contributions and receive normal retirement benefits at the same rate as "full" contributors.

On Ill Health Retirement:

- (a) A "limited" contributor with less than four years service and less than age 60 at date of retirement or with less than two years service but age 60 or over or a "service" contributor gets a lump sum of $3\frac{1}{2}$ times member's total contributions.
- (b) A "limited" contributor with four or more years service or with two years or more service and age 60 or over gets a pension at $\frac{2}{3}$ rd of rate appropriate to the number of units contributed for.

On Death in Service:

- (a) A "limited" contributor's spouse receives the full benefits.
- (b) A "service", single, divorced or widowed contributor's benefit is a lump sum equal to member's total contributions to the fund less the cost of providing children's pension.
- (c) A "service" married contributor - the benefit is a spouse pension equal to:

$$\frac{2}{3} \times P \times \frac{Y}{60-A}$$

where P is the amount of pension contributing for;
Y is the number of years the deceased was a contributor; and
A is the age at entry of deceased to the Fund.

On Death in Receipt of a Pension:

For a "limited" contributor, the spouse pension payable is at the same rate as the ill health pension.

SCHEME NUMBER 36
THE SUPREME COURT ASSOCIATES SUPERANNUATION SCHEME

1. OVERVIEW

1.1 **Administrator:** Public Trustee,
Law Department,
221 Queen Street,
MELBOURNE, 3000

Tel. 602 0181

1.2 **Scheme Style:**

A lump sum benefits scheme.

On death or reaching age 72, a lump sum equal to member's and Government contributions plus investment income is payable.

2. ELIGIBILITY

Associates to County Court Judges under the age of 71 years are eligible to join but not compulsory.

3. CONTRIBUTIONS

3.1 **Member's:**

2½% of salary.

3.2 **Government:**

6¼% of salary.

4. BENEFITS

(Note: Members and Government contributions are credited into separate funds. viz: member's fund and Government's fund with interest credited

to the appropriate funds and commission charged at the rate of 2½% of member fund and payment out.)

4.1 Retirement Benefit:

On reaching age 72 a lump sum equal to member's fund and Government's fund is payable.

4.2 Disability Benefit:

On ill health retirement a lump sum equal to member's and Government's fund is payable.

4.3 Death Benefit:

On death before age 72 a lump sum equal to member's and Government's fund is payable to member's legal representative.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Withdrawal Benefit:

- (a) On resignation a lump sum equal to Member's Fund is payable but if the member has 10 or more years service and over 60 years of age at date of resignation the Government's Fund is also payable.
- (b) On resignation due to death of a judge and not appointed an associate again after six months the benefit is Member's and Government's Funds irrespective of age and period of service.

5. INVESTMENT

The member's and Government's funds are invested in the Public Trustees' Common Fund.

6. RESTRICTIONS

Not applicable.

SCHEME NUMBER 37

THE TOBACCO LEAF MARKETING BOARD SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employer:** Tobacco Leaf Marketing Board,
461 Bourke Street,
MELBOURNE, 3000

1.2 **Scheme Style:**

At the age of 60 the lump sum benefit payable is equal to the employee and employer contributions plus interest.

2. ELIGIBILITY

By invitation from the board.

3. CONTRIBUTIONS

3.1 **Member:**

Member nominates an amount from time to time.

3.2 **Board:**

Board nominates an amount from time to time.

4. BENEFITS

4.1 **Retirement Benefits:**

On normal retirement at age 60, the lump sum benefit payable is the amount credited to the member's total account being employee and employer contributions plus interest.

On early retirement at the discretion of the board, the benefit payable is the amount credited to the total account at that stage.

4.2 Death in Service:

On death in service, the amount in the total account may be paid by a lump sum or annuity or pension at the discretion of the trustees.

4.3 Invalidity Benefit:

As for early retirement.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation, Dismissal or Retrenchment:

(a) For dismissals, the benefit is the amount equal to the member's contributions plus interest.

(b) For resignation or retrenchment, the benefit payable is:

(i) member's contributions plus interest, if membership is less than five years; or

(ii) member's contributions plus interest plus a pro-rata amount of the employer's contributions plus interest if membership is between five and 20 years; or

(iii) as for early retirement if membership more than 20 years.

5. INVESTMENT POWER

Practically no restriction.

6. RESTRICTIONS

There are no restrictions.

SCHEME NUMBER 38
TOTALIZATOR AGENCY BOARD SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employer:** Totalizator Agency Board,
1 Queens Road,
MELBOURNE, 3004

Tel. 268 2100

1.2 **Scheme Style:**

Retirement Benefits are in both pensions and lump sum forms.

(a) **Lump Sum:**

Return on basic own and supplementary (if any) own contributions with interest.

(b) **Pension:**

After 30 years pensionable service, a non-indexed pension of 50% of pensionable salary. Commutation of pension at retirement is at the discretion of the trustee.

2. ELIGIBILITY

Permanent employees of the Totalizator Agency Board are eligible.

3. CONTRIBUTIONS

3.1 **Member:**

5% of salary plus supplementary own contribution (if any).

3.2 Employer:

12.5% of members salaries for the current three year period commencing 1.8.1983.

4. BENEFITS

4.1 Retirement Benefits:

- (a) On normal retirement at age 65 or after, the benefit payable is:
 - (i) basic pension of 1 2/3rds% of pensionable salary for each year of pensionable service subject to a maximum of 50% of pensionable salary; plus
 - (ii) member's basic own contributions accumulated with interest.
- (b) Member's basic and supplementary contributions may be converted to additional pensions provided total pension does not exceed 70% of pensionable salary.
- (c) Pensions are non-indexed and may be commuted to lump sums at the discretion of the trustee.
- (d) Early retirements between ages 60 and 64 have benefits similarly calculated as normal retirement benefits but based on Pensionable Service, Salary and accumulated contribution on actual retirement date.
- (e) Early retirement between ages 55 and 59 inclusive the benefit is calculated in the same manner but reduced by 4% simple for each year earlier than 60.

4.2 Death Benefit:

- (a) On death in service the benefit payable is:

- (i) member's basic and supplementary contributions accumulated with interest; plus
- (ii) a dependent widow pension of 62.5% of member's basic pension had he remained a member until age 65; plus
- (iii) a children pension.

If member is not married, only benefit (1) is payable to nominated beneficiary or legal representative.

- (b) On death of a pensioner who was a member a dependant reversionary pension of 62.5% of member's pension is payable.
- (c) On death of a widowed pensioner a dependent orphans pension is payable.

4.3 Invalidity Benefit:

On invalidity before age 60, the benefit payable is:

- (a) a pension equal to $2\frac{1}{3}$ rd% of pensionable salary for each year of Pensionable Service to age 65 subject to a maximum of 70% of Pensionable Salary,
- (b) return of member's Supplementary contributions with interest.

4.4 Spouse Pension:

A pension equal to 62.5% of member's pension ceasing on remarriage. A lump sum equal to twice the annual pension is payable at date of remarriage. A dependent widow may commute a pension to a lump sum at the discretion of the trustee.

4.5 Children's Pension:

- (a) For children living with a widow who is in receipt of pension an additional pension of 20% of widow's pension for each child subject to a maximum of 60% of widow's pension.

- (b) For dependent orphans under custodianship the benefit is member's projected pension to age 65 x a factor depending on number of children.

4.6 Resignation or Dismissal Benefit:

- (a) On resignation prior to age 55 or dismissal, benefit there is return of members total contributions with interest.
- (b) On resignation after five years or more membership an additional benefit is payable, expressed as a percentage of member's total contributions plus interest. The additional benefit varies from 10% after five years to 100% on completing 20 or more years.

5. POWERS OF INVESTMENT

Practically no restriction.

6. RESTRICTIONS

6.1 Shorter Service:

Pension on accrued basis.

6.2 Substandard Health:

Member may be classified by the Board as Reduced Benefit Member. Benefits (except age retirements) payable to the member are reduced in accordance with a table notified to the member.

SCHEME NUMBER 39
VICTORIAN DRIED FRUITS BOARD SUPERANNUATION PLAN

1. OVERVIEW

1.1 **Employer:** Victorian Dried Fruits Board,
116 Wellington Parade,
EAST MELBOURNE, 3002.

1.2 **Scheme Style:**

Individual members' accounts contain allocated employee and employer contributions accumulated with interest net of the cost of insurance cover against death and total permanent disablement.

Benefit level for 40 years service is about five times salary as a lump sum.

2. ELIGIBILITY

Scheme is optional for all full-time staff with at least a year's service, as well as part-time staff working at least half time.

3. CONTRIBUTIONS

3.1 **Employees:**

5% of salary at last annual review date.

3.2 **Employer:**

7½% of salary at last annual salary review date, but may offset this with benefits forgone from resignations, etc.. A policy of distributing forgone benefits as a bonus interest credit has been adopted.

4. BENEFITS

4.1 Retirement Benefits:

Age retirements (male and female) are normally at 65. Early retirements after age 60 at members option is possible. Late retirements are permitted. The benefit is employee and employer contributions accumulated with interest (at present 15%). There is no provision for deferred retirement.

4.2 Death Benefit:

Death benefits are payable on death in service only. The benefit is the employee and employer contributions accumulated with interest, plus an insured amount of one-eighth of salary at last annual review times future service in years including fractions to age 60.

4.3 Disability Benefit:

Total and permanent disablement benefit is the employee and employer contributions accumulated with interest, plus an insured amount of one-eighth of salary at last annual review date times future service in years including fractions to age 60.

No benefit is specified for temporary disablement.

Retirement due to sickness or accident (not total and permanent) has a benefit of employee and employer contributions accumulated with interest.

4.4 Spouses Benefit:

Spouses' benefit on death in service only is the death benefit above.

4.5 Childrens Benefit:

Children's benefits are not separately specified but children may share in the death benefit.

4.6 Resignation Benefit:

- (a) Resignation benefit is at the trustees discretion.
- (b) Retrenchment benefit is employee and employer contributions accumulated with interest.
- (c) Dismissal benefit is the resignation benefit.

5. INVESTMENTS

A.M.P. deposit administration plan, but other investments are possible.

6. RESTRICTIONS:

Short service reduces the accumulated benefit.

Members in poor health suffer a reduction in the insured benefit part.

SCHEME NUMBER 40

WESTGATE BRIDGE AUTHORITY EMPLOYEE SUPERANNUATION FUND (THE COLONIAL MUTUAL LIFE ASSURANCE SOCIETY LIMITED).

1. OVERVIEW

1.1 **Administrator:** Country Roads Board -
West Gate Bridge,
P.O. Box 127,
PORT MELBOURNE, 3207

Tel. 645 1599

1.2 **Scheme Style:**

A lump sum scheme.

A male member retiring at age 65, after 30 years of class (2) membership, the benefit is a lump sum of 4.5 times the member's final average salary (over last five years).

2. ELIGIBILITY

Permanent employees engaged prior to 30 June 1982 of the former authority were eligible to join. The fund is now closed to employees engaged after 1 July 1982.

3. CONTRIBUTIONS

3.1 **Member:**

Class (1): 2½% of salary.

Class (2): 4% of salary.

3.2 Board:

Class (1): $8\frac{3}{4}\%$ of members salaries.

Class (2): $7\frac{1}{4}\%$ of members salaries.

4. BENEFITS

4.1 Retirement Benefit:

On normal retirement at 65 (male) or 60 (female), a lump sum benefit equal to:

- (a) 10% of final average salary for each year of class (1) membership;
plus
- (b) 15% of final average salary for each year of class (2) membership.

4.2 Death Benefit:

The benefit payable on death in service is a lump sum calculated similar to normal retirement benefit but based on salary at death and years of membership to normal retirement age.

4.3 Total and Permanent Disability Benefit:

On total and permanent disablement, the benefit payable is a lump sum calculated similar to normal retirement benefit but based on salary at disablement and years of membership to normal retirement age.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension:

Nil.

4.6 Resignation:

The benefit payable is a lump sum equal to member's contributions plus 1/30ths of the total for each year of fund membership.

5. INVESTMENTS

Investment of fund in Colonial Mutual Life Society Deposit Administration's Fund being part of the No. 1 Statutory Fund of the Society.

6. RESTRICTIONS:

For shorter service retirement benefit on an accrued basis.

SCHEME NUMBER 41

WESTGATE BRIDGE AUTHORITY STAFF SUPERANNUATION PLAN
(NATIONAL MUTUAL LIFE ASSOCIATION OF AUSTRALASIA LIMITED)

1. OVERVIEW

1.1 **Administrator:** Country Roads Board,
West Gate Bridge,
P.O. Box 127,
PORT MELBOURNE, 3207
Tel. 645 1599

1.2 **Scheme Style:**

Life Office (National Mutual) Managed Fund with lump sum benefits.

For a male member retiring at age 65 after 30 years service, the benefit payable is a lump sum of 4.5 times Final Average Salary (over last three years). For members who joined after 1.9.1981 the benefit would be 5.1 times Final Average Salary.

2. ELIGIBILITY

Employees engaged prior to 30 June 1982 were eligible to become members after six months of continuous service with the former West Gate Bridge Authority. There are two categories of membership: A and B. Membership of the fund is now closed to employees engaged after July 1, 1982.

3. CONTRIBUTIONS

3.1 **Member:**

Category A - 4% of salary

Category B - Nil.

3.2 Employer:

Category A - 14.8% of salaries

Category B - 1.3% of salaries.

4. BENEFITS

4.1 Retirement Benefits:

(a) Category A:

(i) **on retirement at age 65**, a lump sum of 15% of Final Average Salary for each year of service prior to September 1981; plus

17% of Final Average Salary for each year of service after 1 September 1981; or

(ii) **on early retirement between ages 60 and 65**, with the consent of the Board, a special lump sum benefit is payable based on service completed; or

on retirement after age 65, the benefit payable is the normal retirement benefit plus interest.

(b) Category B: Nil.

4.2 Permanent and Total Disablement Benefit:

For Categories A & B on permanent and total disablement at any time, the benefit payable is a lump sum equal to the death benefit.

4.3 Death Benefit:

(a) For category A on death in service the benefit is a lump sum that would have been granted had member retired in service with unchanged salary to age 65.

- (b) For category B lump sum equal to 15% of salary for each year of potential membership to age 65 subject to a maximum of 5.25 times salary.

4.4 Spouse Pension:

Nil.

4.5 Children Pension:

Nil.

4.6 Resignation & Retrenchment Benefits:

(a) Category A:

- (i) on **resignation**, benefit payable is a lump sum equal to member's own contributions with interest at 8% p.a.; plus 10% of this amount for each year of service in excess of 5 subject to a maximum of 10 such years; whereas
- (ii) on **retrenchment**, benefit is a lump sum equal to member's share of Fund as calculated by the Actuary.

(b) Category B:

No resignation or retrenchment benefit.

5. INVESTMENT

Fund money is invested in the property, venture, cash, share and Government sectors of National Mutual Investment Pool.

6. RESTRICTIONS

6.1 Short Service:

Benefit on accrued basis.

SCHEME NUMBER 42
ZOOLOGICAL BOARD OF VICTORIA SUPERANNUATION FUND

1. OVERVIEW

1.1 **Employers:** Zoological Board of Victoria.

1.2 **Scheme Style:**

A lump sum retirement benefit, being a percentage of final salary for each year of membership.

2. ELIGIBILITY

Compulsory for salaried staff, voluntary for employees. Non contributory membership otherwise.

3. CONTRIBUTIONS

3.1 **Employee:**

Salaried Staff	-	6½% of salary.
Employees	-	5% of salary.
Board	-	Balances required.

3.2 **Employer:**

Board pays balances required.

4. BENEFITS

4.1 **Retirement Benefits:**

(a) On normal retirement at age 65 salaried staff receive 16% of final salary per year of contributory membership and employees receive 12% of final salary per year of contributory membership.

- (b) Executive Officers receive 20% of final salary per year of contributory membership.

4.2 Death Benefit:

An amount equal to prospective retirement benefit if salary continues unchanged for non-contributory members two times salary for Executive Staff, one and one half times salary for salaried staff and one times salary for employees.

4.3 Disability Benefit:

Equal to death Benefit. Not applicable to non-contributory members after age 60.

4.4 Spouse Pension:

Nil.

4.5 Children's Pension

Nil.

4.6 Resignation Benefits:

Member's contributions plus 8% compound interest up to 6 years membership increasing to twice that amount for 10 years membership or more.

5. RESTRICTIONS:

Shorter service/substandard health.

Death and disablement benefits may be restricted on health grounds.

Committee Room, 11 April, 1984.

APPENDIX A

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Friday, 2 July 1982

34. JOINT INVESTIGATORY COMMITTEES - The Honourable W.A. Landeryou moved, by leave, That contingent upon the enactment and coming into operation, this Session, of legislation to establish Joint Investigatory Committees:
- (a) The Honourable P.D. Block, B.P. Dunn, G.A. Sgro, D.K. Hayward and A.J. Hunt be members of the Economic and Budget Review Committee;

Question-put and resolved in the affirmative.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Thursday, 20 October 1982

8. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable A.J. Hunt moved, by leave, That the Honourable P.D. Block be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable J.V.C. Guest be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS
OF THE LEGISLATIVE ASSEMBLY

Thursday, 1 July 1982

36. COMMITTEE APPOINTMENTS - Motion made, by leave, and question - That, contingent upon the coming into operation of the Parliamentary Committees (Joint Investigatory Committees) Act 1982-

- (a) Mr. Gavin, Mr. Harrowfield, Mr. McCutcheon, Mr. McNamara, Mr. Richardson, Mr. Rowe and Mr. Sheehan (Ivanhoe) be appointed members of the Economic and Budget Review Committee.

-(Mr. Fordham)-put and agreed to.

EXTRACTED FROM THE MINUTES OF THE PROCEEDINGS
OF THE LEGISLATIVE COUNCIL

Tuesday, 14 June 1983

14. ECONOMIC AND BUDGET REVIEW COMMITTEE - The Honourable Evan Walker moved, by leave, That the Honourable A.J. Hunt be discharged from attendance upon the Economic and Budget Review Committee and that the Honourable G.P. Connard be added to such Committee.

Question-put and resolved in the affirmative.

EXTRACTED FROM THE VOTES AND PROCEEDINGS OF THE
LEGISLATIVE ASSEMBLY

Tuesday, 6 March 1984.

5. ECONOMIC AND BUDGET REVIEW COMMITTEE - Motion made, by leave, and question - That Mr. Richardson be discharged from attendance on the Economic and Budget Review Committee and that Mr. Ramsay be appointed in his stead.

(Mr. Fordham)-put and agreed to.

6.87



