

TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

PUBLIC HEARINGS

5-YEAR PRODUCTIVITY REVIEW

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**PRODUCTIVITY COMMISSION, L8, 2MQ, 697 COLLINS STREET,
MELBOURNE**

BEFORE:

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COMMISSIONER MICHAEL BRENNAN

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PARTICIPANTS

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COMMISSIONER ROBSON: Good morning, everyone, welcome to the public hearings following the release of our interim reports for the Productivity Commission's five yearly inquiry into Australia's productivity performance and productivity improving reforms. My name is Alex Robson, I am the Deputy Chair of the productivity commission, I am one of the Commissioners on this inquiry. My fellow commissioners, Lisa Gropp, who's with me today, and Michael Brennan, the Chair. Before we begin today's proceedings, I would just like to remind you of the Commission's mission, which is to provide independent research and advice to the Australian government on economic, social, and environmental issues affecting Australians.

And I would also like to begin by acknowledging the traditional custodians of the land on which we meet today, the Wurundjeri people of the Kulin Nation, and I would also like to pay my respects to Elders past and present. So, we'll just do a bit of an introduction, and then we'll get underway. So, the purpose of this public hearing is to receive comments and feedback on the interim reports, and to inform the production of our final report. We will then be working towards completing a final report having considered all the evidence presented at the hearings, and in submissions, as well as other informal discussions. The final report will be submitted to the Australian Government in February 2023.

This public hearing will be held across today and tomorrow. We like to conduct the hearings in a reasonably informal manner, but I do remind participants that a full transcript is being taken. For this reason, comments from the floor can't be taken, but at the end of the day's proceedings I will provide an opportunity for anyone who wishes to do so, to make a brief presentation. The transcript taken today will be made available to participants and will be available from the Commission's website following the hearings. Submissions are also available on the website. Participants are not required to take an oath, but are required, under the Productivity Commission Act to be truthful in their remarks.

Participants are welcome to comment on the issues raised in other submissions. I also ask participants to ensure their remarks are not defamatory of other parties. This public hearing is being conducted in person and by video conference. All participants who are registered to be here at this meeting have confirmed their understanding that they may be visible or audible online. If anyone has any queries about this or does not wish to be visible or audible online, please approach one of our enquiry team members today, or feel free to leave the hearing now. For any media representatives attending today some general rules apply. We ask that no video recordings are taken for the purposes of broadcast.

One of our staff at the back of the room can further explain these rules. Participants should be aware that any media representatives present may be using Twitter and other internet mechanisms to convey information online in real time, including participant's remarks. For those in the Melbourne office, in the unlikely event of an emergency requiring the evacuation of this building, the evacuation tone, whoop, whoop, whoop, will sound, please follow warden instructions to exit the building via the fire stairs and make your way to the assembly point located at the grass parallel to the tram line at the Wurundjeri Way. Participants are invited to make some opening remarks of around 10 minutes, keeping the opening remarks brief will allow us the opportunity to discuss issues in participant's submissions in greater detail. I would now like to welcome representatives from the Transport Workers' Union, please state your name and organisation for the record and we can get underway.

MR BOUTROS: Good morning, commissioners, my name is Jack Boutros, I am a strategic campaigner for the Transport Workers' Union of Australia, that's the union which represents workers across the road transport and aviation sectors. We have 70,000 members across the

country today, and we also represent members and transport workers in the emerging transport sector of the gig economy. Commissioners, I think I'm also joined today by Ashley Moreland, I haven't seen him pop up in the chat just yet, but I am assuming he will join hopefully soon. When he does, I might just give him a brief introduction. Now, he is a long-serving food delivery and rideshare worker with years of experience in the gig economy.

We'd like to, obviously, take the time just to thank you for inviting us here today and discussing what is an incredibly important topic in the IR review that's been produced by the Commission, specifically looking at the need for gig economy regulation. I, just in an opening statement, would like to briefly focus, I think, on that specific question of how to regulate the gig economy. I would like to outline just some of the challenges we see in the emerging sector, but also what we think can be done to ensure a safe, a sustainable, and above all a fair transport industry for both the businesses and workers. Commissioners, I don't think anything articulates some of the costs of failing to regulate the gig economy like a few names.

Those names, Commissioners, are the Bijoy Paul, Dede Fredy, Chow Khai Shien, Xiaojun Chen, Julian Trameaux, Ik Wong, and Burak Doğan. These are but some of the workers who have been killed while working in the gig economy in recent years. They, at a given point in time, Commissioners, laid on the side of the road, soaked in blood, delivery bags torn to bits, phone and food scattered along the side of the curb, never to see their communities again, never to hold their loved ones again, and never to work another day in their lives. These workers were killed, and countless others are being maimed and injured because our industrial relations systems fails to recognise them as workers.

They were provided no access to safe standards or work rights which would have otherwise prevented the deadly work pressures which they were placed under at work. And there has always been, Commissioners, in our industry, a deadly correlation between pay, contractual terms and conditions, access to protection, and deadly pressures that workers have to work under. Just to explain that briefly, Commissioners, when a worker in the road transport industry, be it on an app or otherwise, is paid a pittance of what they need to survive, the outcome of that is unsustainable work hours, and fatigue, obviously, becomes a really worrying threat in that scenario.

We find across the road transport industry gig workers and non-gig workers are pushing themselves to limits, 50, 60, 70-hour weeks just to earn a living and cover their costs. When you don't have protections like unfair dismissal protections, or unfair contract determination protections, the constant threat of having your livelihood stripped away by an algorithm permeates your entire experience at work. And the effect of that, of having that scythe hanging over your head is constant pressure to speed, to rush, to take all kinds of risks on the road. And we see, particularly in unregulated aspects of our industry, Commissioners, where workers and businesses alike aren't provided safe and sustainable standards, all kinds of deadly trends emerge.

We see workers and businesses forego maintenances on vehicles, they overload, they speed, they work fatigued, the use of stimulants increases, and the costs of these deadly trends are not just the lives of our workers, we share those roads with public road users too, and they are too often caught up in those fatal and tragic incidents. The degree of pressure, particularly in the gig economy, Commissioners, is born out in some recent surveys we've done. Those surveys of both the rideshare and food delivering industry found that in rideshare the average rideshare driver earns, after costs, an average of \$12 per hour, and in the food delivery sector it was an average of just \$10 per hour.

Now, at the same time rideshare drivers reported being involved in - a third of rideshare drivers reported being involved in a serious car accident, and a third of food delivery workers reported being seriously hurt or injured while at work. And to put that into perspective, Commissioners, when we were surveying these workers, they had been working at the time for an average tenure of two years. So, in a period of two years, on average, people in the food delivery sector were saying they were being seriously hurt or injured at work. 71 per cent of food delivery workers who responded to that survey said that they feared for being killed every time they started work.

Now, of course, these challenges are not just limited to the gig transport sector, or gig transport workers, the expansion of the gig economy has placed broader pressure on the transport industry, which was already under incredible strain. Our industry, Commissioners, has long been subjected to a race to the bottom in standards. That has traditionally been caused by contracting pressures that have originated from the top of transport supply chains. But the emergence of a gig economy has exacerbated this pressure, placing additional strain on standards today.

And I must ask, Commissioners, in a sector which already boasts the highest rates of - one of the highest rates of insolvencies in the country, and one of the highest rates of worker fatalities, how much more pressure can the thousands of transport businesses, and the 600,000 Australians employed in the industry endure? Now, the emergence of these gig economy platforms, Commissioners, has provided some benefits to consumers and workers. We at the Transport Workers' Union recognise that. It has provided, for example, lower barriers of entry to work, made certain kinds of work more accessible, and it has provided some efficiencies in the allocation and the completion of transport tasks.

However, flexibility does not equal productivity, Commissioners. And the failure to ensure safe and sustainable standards that underpins the industry has, in some respects, provided transport markets with a perverted flexibility to be unproductive. And a brief example of that, commissioners, is the terrible, terrible labour utilisation rates in rideshare, food delivery, and parcel delivery because workers generally remunerated on a piecemeal basis, we find that workers are often left hours waiting for an order, even just on a peak period, otherwise out there ready to work, food delivery bag in hand, or in their car waiting for the next job, and just simply not being utilised effectively.

We also find that the costs of those pressures that stem from the lack of regulation in the industry, and the safety crisis which has ensued are huge. In a 2016 ANU report the cost of heavy vehicle crashes alone in a single year was \$4.74 billion, that's just heavy vehicles, that's not including vans, couriers, light vehicles, bicycle couriers, all those in the gig transport sector today. Commissioners, I will say that we are relatively optimistic here at the Transport Worker's Union, because I think we're very well placed to address some of these challenges through IR policy reform.

There is a strong and growing consensus across the road transport industry about both the need for change, and how this change should be realised. In August, a delegation of stakeholders across the industry met with the Minister for Industrial Relations, the Honourable Tony Burke, to put forward a vision for what this regulatory change should look like. The delegation obviously including us, Commissioners, but it included major transportation clients, Coles and Woolworths, both who collectively, through their supply chains, control a third of truck movement through the country.

The major representative for employers in our country, the Australian Road Transport Industrial Organisation. And major transportation companies, which included Global Express, LinkBox, ACFS, StarTrack, FBT Transwest, and finally, it also included some of the major gig economy transport operators, Uber and DoorDash. The delegation jointly recognised both the pressures

placed on supply chains following the emergence of the gig economy, and following the lack of accountability on transport clients, and the connection, the really deadly connection this has with safety outcomes in our industry.

And to that end the delegation put to the government and to the minister through that meeting that the government must act to provide a dedicated independent road transport body which can set a safe and sustainable standards across the industry, both for businesses and for workers, regardless of their employment status, to ensure that these standards can effectively be enforced through a robust system of dispute resolution that can also ensure compliance. And most importantly, Commissioners, that these standards were actually, where possible, created and led by industry itself. Government is crucially important in establishing that body, and providing that body the ability to break deadlock, and independently determine standards where needed.

But otherwise, you know, such a framework should really facilitate and encourage industry to determine fit for purpose standards across specific sectors of the road transport industry. But also, for industry not to act if there are no problems in specific sectors, not to introduce burdens and standards where there might not be a need for that intervention to take place. So, I will stop there, Commissioners, once again, I would like to thank you for inviting us both here today, I think I have seen Ash join during my opening statement, which it's good to see you there, Ash. And I hope our evidence really does assist your deliberations today.

COMMISSIONER ROBSON: Thanks Jack, that was very helpful. I might just pick up on a couple of points, if I may, and ask you to expand and clarify. So, is the TWU, you're not seeking to apply the employer-employee relationship to these gig economies, you're really seeking a separate regulatory solution in the transport sector, is that a fair summary of what you're saying?

MR BOUTROS: Yes, if I could elaborate a little bit on that.

COMMISSIONER ROBSON: Yes.

MR BOUTROS: We've always seen, in our industry, a high rate of self-employed owner drivers. Our actual union has been founded by those owner drivers, and we've continued to represent them. In fact, we technically, not that we often make this clear, but technically we're the biggest small business association in the country, we have 14,000 owner drivers who we represent day in day out. And what those workers in those arrangements really value is their, you know, self-employed status. They value degrees of flexibility and autonomy which comes with their work.

But they also value the need to have certain standards and protections, which stem from the fact that they're incredibly dependent on a select few principle contractors for all their work. They don't have the ability to negotiate and determine standards, and obviously, that has really catastrophic implications for both their safety and their working conditions. So, we do take a nuanced approach to this, commissioners. We best describe work as being really carried out on a spectrum of dependency. You have people, regardless of the labels, who, you know, are genuinely entirely autonomous and run their own businesses.

You know, you think of an example like an electrician who's earning \$300,000 to \$400,000 a year, runs their own operations, and it would be really, I think, really silly to suddenly suggest that those workers, or those businesses really needed some kind of standards imposed. There may be some, but that's definitely not what the intention of what we're advocating for is. It's really to determine what is the extent of dependency that a worker works under, and what are the appropriate rights and entitlements that need to be put in place to protect that arrangement. I will

say though, commissioners, that you can't deal with the question of employment or independent contractor status in the gig economy as a whole.

There is a myriad of different sectors that it encompasses. There is a number of different relationships of work contained within it, and they have varying degrees of control and dependency. And in some certain arrangements there are sham contracting arrangements, there are places where there are workers who are treated like employees, and who really, you know, work on shifts controlled, have - see one or two clients, and are dependent entirely on a single company for all their work. But then there are other places in the gig economy where there is genuine flexibility, but still exists a need for standards which underpin that work.

COMMISSIONER ROBSON: And so, in terms of the boundaries of the regulatory solution you're providing, so, you mentioned, you know, the self-employed person with the small business. So, you're saying it wouldn't apply to them, but it would be, in terms of the boundary, it would be that, you know, that the person who's working on a platform - or how would you find that boundary?

MR BOUTROS: So, in our industry we really think that any body needs to have really broad scope and an ability to really enquire into specific arrangements. I don't think you can create a definition that says platform is in, or platform is out, or you know, whatever other means of which a body might seek or a legislation might seek to define it. It really has to be a case by case basis. We are dealing with a myriad of different work relationships, be that, you know, governed through an independent contractor arrangement, or an employment arrangement. So, there has to be a nuanced tailored approach. And the best way, we think, for that to actually be achieved is to have a body with the standing capacity to enquire into specific arrangement.

COMMISSIONER ROBSON: And then the same body would deal, I think you said, with dispute resolution as well?

MR BOUTROS: Yes, absolutely, particularly where there are standards enforced. You know, having those standards with out the ability to actually have them enforced is really pointless in some respects. So, there has to be, you know, more powers to ensure that. Where there is a standard, for example, say a food delivery worker, that they can actually be realised, where, you know, a given company might not be enforcing those standards or complying with them.

COMMISSIONER GROPP: Thanks, Jack. And that would apply, those standards would apply to employees as well, is that right, is it, across the board, or would it only be for the gig and the self-employed contractor?

MR BOUTROS: Yes, so, in our industry, we and a delegation, which met with Minister Tony Burke just a few months ago, are really advocating for a specialised division of the Fair Work Commission that can simultaneously adjust awards for employees and set standards for non-employees. And the reason for that is what we've always seen is that there is often work within sectors that is completed both - identical work that's completed both by contractors and employees. So, a commission and a body, and an industry, really, needs to be able to set standards almost in unison.

What can happen if you're only pushing up one side of the work spectrum is that it creates a perverse incentive for markets to actually shift to another pattern of engagement. Not because it's more productive, or it's necessarily more efficient, but just because you've kind of distorted the market by lifting up the costs of engagement on one side without doing so in an equally commensurate manner on the other.

COMMISSIONER GROPP: And do you see the model that you're sort of proposing to have wider - not, you know, the actual model could have wider application to other parts of the gig economy, a specialist bespoke regulator, if you like?

MR BOUTROS: Yes, look, I definitely think it could. I think that's where the government seems to have really taken this at the moment. And look, it is exciting because this has, to a certain extent, been tried and tested in the road transport industry for decades. We've obviously had state-based systems which have had the capacity to set standards in this way for different groups of transport workers. But I definitely think there is no reason why where there are similar dependent arrangements in other industries and where there is a need that, you know, stakeholders in those industries couldn't come together, through an independent body, to establish standards.

COMMISSIONER GROPP: Thanks. And in setting those standards, what sort of processes would you see being put in place? I mean, you said that it would take into account the views of the different parties, et cetera. But, you know, how would that happen, have you got that far in having way different views? I mean, there'll be diverse views, I imagine.

MR BOUTROS: Yes. Well, I could tell you how it happens, Commissioners, in New South Wales, where through Chapter 6 of the Industrial Relations Act the industry, which obviously includes the union, has the capacity to set standards. What generally happens is most standards are set through what's called consent applications. We come together with major transport operators and employer representatives and negotiate what we think is needed across specific sectors in the road transport industry. Of course, what is crucially important to that happening, both on our side, and on the employer's side, is that where there is disagreement that there is an independent body that has the power to break deadlock. That really binds us in negotiations, and really compels us to, you know, make compromises, and I think ends up in a really balanced position when we're making determinations about standards.

COMMISSIONER ROBSON: And do those standards in New South Wales, Jack, do they include things like the things you mentioned, like pay and hours, or is it purely just safety, or what do they do?

MR BOUTROS: No, they definitely do. I mean, it's - the actual framework was created over three decades ago, so there are some limitations in how it applies to the modern road transport sector. And there are definitely some reforms that are needed to that system, but it is quite broad. It covers just about anything it needs to cover. So, any kind of standard could be set as a minimal contractual standard, you know, across a given sector. But generally, where standards are created - it's based on a principle of cost recovery.

So, there will be a kind of agreement on what average costs across a specific sector for a category of contractor would look like, and then there are some calculations added on top of that over what labour time should be remunerated at, and they create schedules of minimum rates and conditions. Of course, all that is backed in by a broad system of dispute resolution, and there is also the ability to create other standards, which you know, speak to consultation rights, protections on good will, and different minima which are then enshrined in contracts across a given sector.

COMMISSIONER ROBSON: And what about the - has the TWU done any work, or do you have any views on insurance and the, you know, the use of insurance in the industry, and coverage, and whether that's an issue, and how that could be improved if (no audible response).

MR BOUTROS: Yes, well, look, we've been really rocked, particularly in the gig economy, by a number of instances where people have been really severely injured and tragically killed, and have not been provided any insurance whatsoever. We most definitely see that there is a need to ensure some basic protections universally. And given road transport is such a dangerous industry, the need to provide workers compensation insurance throughout that industry, I think, is an absolute must.

COMMISSIONER GROPP: And that would be paid for by who, the platforms, or?

MR BOUTROS: Yes, well, look, in the New South Wales system, at the moment, the most common occurrence is that it's actually passed on in the form of - it's factored into the rates, and then the owner drivers go out and take out their own workers compensation insurance. I don't think that's an ideal or effective approach. I think - there has been a number of conversations about how an industry system could be more effectively structured, and paid for. But I do think it most definitely has to be paid for by the industry in some shape or another. The system in New South Wales means that whilst the industry is paying for it, what often might happen is that a worker might not otherwise take out the workers compensation insurance.

COMMISSIONER GROPP: Can I just ask a general question, in terms of we've looked overseas for different models, and there's a movement, a creation of a third class of worker, as they call it, have you looked at those models, and if what you're proposing does it exist in any similar form overseas?

MR BOUTROS: Yes, look, there have been some really interesting innovative attempts to create standards in different jurisdictions. I think New York was mentioned in the Productivity Commission's paper, which I think is a very innovative and intelligent way to approach an earning standard, and has had some really interesting outcomes in that market, lifting productivity, labour utilisation rates, reducing wait times as well. There is real risk around the third category of worker, and we, just to be absolutely clear, do not support that approach.

What we find is the key failing of our industrial relation system has been that it's been contingent on drawing an arbitrary line and saying you're either on this side of the employment spectrum or you're on this side, you get all the protections, or you get none. That isn't solved by then creating more lines across the spectrum, and that's what a third category of worker effectively does. It would also have, potentially, perverse outcomes in that it provides an incentive for companies and business who might otherwise be engaging people as employees at the moment to suddenly rearrange work just to shift them into a third wave classification or definition just for the purpose of evading a standard or two.

COMMISSIONER GROPP: Thanks.

COMMISSIONER ROBSON: I think that we've covered it.

COMMISSIONER GROPP: Do you have anything else you wanted to raise with us?

MR BOUTROS: Well, I've seen - I think Ashley has since joined, and I wonder if he wants to, yes, share a bit about his experience.

COMMISSIONER GROPP: Absolutely.

MR MORELAND: Hi there everyone, pleased to be here, thanks for that invitation. Right, so, just to give you a bit of context, I've been in the gig economy for about five years now. I got into it when I was taking up full time study again as a mature age student, and it's been quite a surprising experience, you know, coming from 12 years of pay as you go employment beforehand, banking insurance industry work, and it's been a bit of a shock. I mean, to describe

it in a more general sense, I find it peculiar that in a modern developed economy, you know, practices like these companies engage in can be allowed to continue without regulation.

Just to give you a bit of insight, for example, with the food delivery work, it's true that you can work whenever you want, and that would seem to fulfil the flexibility criteria that the platforms tend to espouse, but in actual practice, if you actually try and work for multiple platforms simultaneously, you're going to get booted off very quickly. I recall doing it, even a couple of years ago, for example, and within a day I got a warning, and I wasn't even particularly slow doing the deliveries. I had had a couple of years' experience, I was wise in the way I was planning how I was going to deliver from one, pick up from the other restaurant so it wouldn't incur delays, and did it as quickly as reasonably possible.

Not always in maybe keeping with traffic laws, by the way, because of the pressures, and it just - I got a warning within a day or two. So, I guess, from a flexibility perspective, there really isn't any. It's a bit of a superficial veneer that the platforms paint, that you're meant to - well, allegedly work within. More recently I've been working with the rideshare - in the rideshare industry, which as you know, is probably an equally large sector within the gig economy, and it's got its own basket of issues. But they're equally as depriving of rights, I guess, from a worker's perspective.

For example, as an independent contractor, which we're all classified as, no matter whether you're food delivery or rideshare, we're meant to have the ability, when we're offered a job, to see all the details of that job so we can make an informed decision as to whether that's something we should reasonably do. And with Uber, for example, you're given all of about 15 seconds, the job only shows the estimated amount of money, and maybe a few other details, if you're lucky, as to what you're going to get if you accept it. And you've got to decide that very quickly as to whether you're going to do it.

And again, similar to the food delivery industry, if you think you're going to work on multiple platforms, it's a bit easier than the food delivery, but it's still not really a reasonable proposition because you're going to end up slow picking up a passenger, awkward scenarios where you're cancelling in the middle of dropping one or the other. It's just - it's untenable. So, from my experience there's very little flexibility. More concerning still though is I actually find that there's horrid sort of practices being engaged in by the management of these companies.

For example, with Uber, just in the past week, I had a passenger who was quite unstable. I nearly wanted the windows down so that we weren't going to be exchanging each other's, potentially germ laden air in the cabin of my small car, and you know, I said politely, in the absence of a mask are you all right with the windows down? And then he proceeded to launch - or turn it into an argument about me forcing him to wear a mask, which I wasn't doing at all. Now, he was obviously quite unstable, I made a very reasonable request, it is his right not to wear a mask, but it's not his right to force me to breathe his air, if you know what I mean, and remember, it is my work environment at the end of the day in this vehicle.

So, at the end of the trip it was very awkward. To be honest, I was waiting for a thump in the head, or something along those lines, because that is actually not too uncommon in our industry. And I lodged a safety concern at the end of dropping this passenger off, and within an hour of doing so, I actually got an account at risk warning, which on enquiry, I learnt means that basically if I have one more complaint, which obviously was this customer's retaliatory counter-complaint, by the way, to me raising a safety concern, that I'd be permanently deactivated. So, not only do we not have these rights in terms of, you know, anyone to appeal to when we're unfairly treated, because this is so obviously a punitive response to me raising a safety concern,

it's just - I just struggle to see how this is even allowed to occur in a developed economy, you know?

COMMISSIONER GROPP: And you're still involved in the sector, you're still doing the work?

MR MORELAND: Yes, well actually, just this week, after quite a hiatus from the food delivery, I went back to it, because to be honest, I am so concerned about continuing to do any more rideshare work lest I get deactivated that I am trying to make ends meet doing the food delivery, which by the way, is paid abysmally, and you really are, you know, again, no rights, and no true flexibility.

COMMISSIONER GROPP: At the moment we've got, you know, strong employment, for the moment at least, but you'd think that there would be, in terms of sort of giving you warnings, et cetera, after that, I mean, you'd think they'd be trying to keep people for the moment, but you're not seeing anything of that reflected in the relationship?

MR MORELAND: Sorry, you were breaking up just a tiny bit.

COMMISSIONER GROPP: You're not seeing - with the tight labour market, you'd think that the platforms would be keen to keep their workers at the moment, but you're not seeing that reflected in how they treat workers, is that right?

MR MORELAND: Definitely. I mean, I hear what you're saying, and that would make sense, especially in the context of the pandemic, because for example for the food delivery sector, I remember doing that during the pandemic and was actually relieved to find that there was a lot more work to be done. But I guess the consideration here is, I don't know, I think there's - when we established work groups for the first time with Deliveroo for example, we learnt that there was many, many thousands of workers employed, and by the way, there's very little checks or requirements put in place to become a worker on these platforms. I mean, yes, they do criminal checks, for example, and all these sort of things, but there's not much testing in the way of abilities or knowledge of road safety rules and all this kind of thing. You're literally just - you need to apply and just wait a couple of weeks and you're on.

COMMISSIONER GROPP: Not even training - - -

MR MORELAND: And I actually think that - say again, sorry?

COMMISSIONER GROPP: No training as such.

MR MORELAND: Very little training. It's like a fledgling industry that's got no real regulation in this respect. It's starting to creep in. SafeWork, for example, are starting to intervene a bit more and put in regulations like, for example, high vis for the food delivery guys on two wheeled vehicles, which is a big improvement, granted. But yes, it's just it's a bit of a wild west it really feels like, and yes. So, for example, we were just talking before about, you know, you were expecting this industry to be short of workers. Honestly, the way they treat the workers, it must be anything but.

And I think that, for example, with the government opening the doors to the wider world from what was it, December last year, the way it works, I'm told by people in the know in this industry, is that a lot of migrant workers will come to Australia, their end goal is to really be doing the rideshare. They arrive here, and because they can't - the rule for doing rideshare work is that you must have an Australian license for one year minimum. They end up doing the food delivery for the first year, which they don't need that - they don't have such a strenuous

requirement, so they can actually do that on our roads, and then they are allowed to get the Australian license and then immediately get on the Uber or other rideshare platforms.

And that is, by and large, the path that is trodden. So, for example, a lot of the guys in the forums for this kind of rideshare work at the moment, they're actually talking about how draconian the platforms are suddenly becoming. And to give you the inside view of it, it seems to be that they can foresee that all this wave of workers that came from December onwards who are suddenly about to get their Australian licenses are going to give a glut of drivers to this market which is so easy to get into, with very little restrictions, that, you know, they can treat existing drivers however they want.

COMMISSIONER ROBSON: So, Ashley, would it be fair to say - I mean, you - I think you said you've worked in a number of different platforms, would it be fair to say from your perspective that, you know, on the worker's side, you know, when we see sort of innovation in competition on the - you know, for consumers, but on the worker's side you don't see much innovation and competition to try to, you know, provide better conditions for workers on that side of the platform? And has it remained stagnant, or is it going backwards, or can you summarise that?

MR MORELAND: I would say overall it's going backwards, which is absolutely remarkable, given the revelation such as the Uber Files scandal, for example, from a few months ago, where it was understood that this platform actually purposely made a plan to exploit its workers to get the most benefit for the company, and the earnings. Yes, I would say, in my experience, it's definitely on its - getting worse. Particularly since - well, let's face it, I mean economic circumstances do influence the way the platforms are in terms of their leniency towards workers and that sort of thing.

So, for example, as I was explaining with the pandemic you did see these platforms act a lot more courteously, I guess, or reasonably with workers like myself who had been subjected to fabricated complaints of various kinds, be it the food delivery or the rideshare work. But now, of course, with market conditions moving more in favour of the platforms, given the glut of international workers, it really has got worse in a very short space of time.

COMMISSIONER ROBSON: Look, thanks very much, I think, unless you've got anything else to add, I think you've been very informative.

COMMISSIONER GROPP: Yes. Thank you both very much.

COMMISSIONER ROBSON: Yes.

MR BOUTROS: Okay, thanks. Thanks for your time.

MR MORELAND: Thank you.

COMMISSIONER ROBSON: Yes, so the next person we would like to hear from is, I think it's Peter, is it, Peter Scutt.

MR SCUTT: Yes.

COMMISSIONER ROBSON: From Mable, are you on the line, Peter?

MR SCUTT: I am on the line, can you hear me?

COMMISSIONER ROBSON: Yes.

COMMISSIONER GROPP: We can hear you, but we can't see you.

COMMISSIONER ROBSON: We can hear you; we can't see you.

MR SCUTT: I can't seem to turn on my video, I'm not sure whether it's - whether you're controlling that at your end.

COMMISSIONER ROBSON: Yes, I don't know. Anyway, we can get underway and see how you go if that's okay?

MR SCUTT: Yes, it's just not responding when I try and turn on the video, my apologies for that.

COMMISSIONER ROBSON: Why don't we make a start, and we'll see - we'll get the IT people here to see if they can - I don't think that it's from our end, but let's make a start if we could.

MR SCUTT: I am happy to do that.

COMMISSIONER ROBSON: Yes. Did you have an opening statement?

MR SCUTT: Yes, thank you, Deputy Chair. Dear Commissioners, thank you for the opportunity to testify here today, as Mable has already made a submission to your inquiry, I don't intend to speak at length. Instead, I might provide some context to our submission. Mable is a simple to use online marketplace that enables small businesses to enter the care economy, particularly in response to reforms in home care and disability support, and offers a complementary alternative to traditional aged care at home and disability support models. There are many entrenched challenges in the care economy.

Firstly, meeting consumers' demand for choice control over who supports them at home and in the community, how, when, and what they pay, recognising that people who need support have unique needs and preferences and live in communities around Australia. Secondly, ensuring more of the government funding ends up in direct care hours, rather than overheads. Thirdly, overcoming chronic workforce shortages and the need for a more diverse workforce to meet the inclusion goals of NDIS participants and the preferences of older Australians. Fourthly, and lastly, solving support challenges in thin markets such as regional, rural, culturally, and personations communities where there's a lack of choice offered in those services.

The solutions to these challenges are not obvious, the aged care minister is championing the need for innovation, and the NDIS minister is seeking a more effective and efficient National Disability Insurance Scheme. Innovations like Mable, founded on consumer choice control and leveraging digital technology, data, and community connection are responding to these challenges and offering solutions. Enhancing connection, safeguarding quality outcomes and efficiency. Our approach includes a multilayered approach to safeguarding and pathways to learning skills.

Mable gives older Australians and people with disability more choice, control, and flexibility to shape the care and support they receive in their own home and community, while attracting a motivated and complementary workforce. Since inception in 2014, Mable has facilitated more than 11 million hours of care and has more than 11,000 approved and active independent support workers across the country. The goal of our submission was to provide some helpful background on Mable's perspectives on defining digital platforms, understanding the unique and nuanced challenges in the care economy, and the potential value-add role of digitally enabled solutions.

Also, information on current contractual rates on the Mable platform, insurance provision on the platform, and some of the complexity involved in dispute resolution in the care economy. Thank you again, and I welcome your questions.

COMMISSIONER ROBSON: Thanks Peter. I think your submission talks about access to state-based workers compensation schemes, maybe could you outline and elaborate a bit on that. I mean, is it Mable's view that you think the platform, or platform worker should directly pay premium into these schemes, or how would that work, exactly?

MR SCUTT: Yes, I guess our comment there is that obviously - I guess this is in the context, also, that what's unique about the sector we operate in is that sole traders and small businesses could be operating, leveraging a platform or not leveraging a platform. So, those that choose to leverage a platform are essentially leveraging technology in the operation of their business, but they are equally able to operate off a platform, which is often not true of rideshare and food delivery where it's hard to actually be involved in these sectors, other than via the platform.

But I guess as a general principle, we think sole traders, whether they operate independent of, or leveraging a platform in their business should - we're supportive of them having access to state-based worker's compensation schemes. So, Mable is a platform when people operate via our platform, we have arranged on behalf of the people providing services by the platform professional indemnity, public liability, and personal accident cover, but we think extending insurance cover to workers compensation is a positive for all sole traders.

COMMISSIONER ROBSON: And so, your proposal is that you would pay that, or the worker would pay that, or how would that work?

MR SCUTT: I don't think we have a proposal in relation to exactly that, how the premiums would be paid. But essentially, again, the small businesses on our platform are operating independent businesses, and if they have access to workers comp scheme, we would work out how best to arrange the payment for those premiums.

COMMISSIONER ROBSON: And then more generally, I mean, I think you've said that there's no link between employment models and quality of care, do you want to expand upon that point a bit, because it does - you know, quality of care and safety, because it does go to the number of many issues in the sector.

MR SCUTT: Yes, I think that, you know, we were saying that because I think, you know, there's no evidence that sort of says that, you know, quality of care is better by an employed workforce or versus, you know, somebody that works independently. In fact, I think that's true of - you know, people that operate as sole traders in many sectors of the Australian economy, in fact, people often take comfort from the fact that they're dealing with somebody that runs their own small business. And by the nature of running your own business, you tend to be caring about your business and your client, because that's the foundation of having an independent business.

But you know, I think there's two issues, quality and safeguarding, and they're related but quite different. So, in terms of safeguarding, we operate a multilayered approach to safeguarding, everything from, you know, worker screening. So, if you're offering services via the platform, police checks, reference checks, working with children checks, qualification checks, all the screening you'd expect before somebody is able to offer a service in a sector like this. Another important safeguarding is people with a disability would say it's choice and control over who supports me that keeps me safe. We're involved in a safeguarding of good life conference the other day that was talking about the role of registration and safeguarding.

And overwhelmingly, people with a disability would say it's my choice and control that keeps me safe, and I have often been dependent on, you know, registered providers that haven't necessarily led to safe experiences in the past. So, that's another part of safeguarding, I think, being able to collect feedback from consumers through multiple channels, which is what technology allows. So, feedback, whether it's raving reviews, whether it's complaints, whether it's reporting incidents and being able to respond quickly to those is another aspect of safeguarding.

So, there's many aspects to safeguarding. But I think when it comes to quality, it's really quality of life that's important, and that's linked to the quality of the service, the cost of those services, how responsive they are to an individual's needs and preferences. And I think models like this, which is connecting people with people in communities everywhere around what's important to people in terms of getting the support they need to live an inclusive life is leading to quality outcomes, and we see that through all of the data feedback we have at Mable. And if people aren't feeling like they're getting a quality service on Mable, they can discontinue that service. They can find alternatives, they can rate and review that experience, they can lodge complaints, report incidents. And so I think it's a very comprehensive approach to safeguarding quality.

COMMISSIONER GROPP: Thanks, Peter. On the safeguarding issue you talk about, yeah, I mean, reviews and perhaps transparency. Is that pioneering in the sector or do other institutions do that as well?

MR SCUTT: So I think the, for example, in aged care I think there is some work being done by the Department of Health to introduce ratings and reviews in residential aged care. I think that's something that is seen as a big positive in terms of consumers being informed about their choices. So that's being introduced. I think we've had the ability for people to give feedback on their experience on Mable since inception, and I think it's positive in the sense that it celebrates great care and great outcomes. It also creates a layer of accountability. But I think those ratings and reviews being transparent on profiles really helps inform consumer choice.

COMMISSIONER GROPP: I notice - I think it's curated. Is that right?

MR SCUTT: It's essentially - the ratings and reviews - the ratings are not curated but the reviews are just reviewed to make sure there's nothing defamatory in any of those reviews.

COMMISSIONER GROPP: But you - but they're all put up - they're not sort of - whether it's positive or negative. Is that right?

MR SCUTT: The ratings are all put up. So if you get a one or two - - -

COMMISSIONER GROPP: So it's like a factory would, yes.

MR SCUTT: Yeah. So they're put up and the reviews just go through a moderation to make sure there's nothing in there that might be considered defamatory. But our view is the more information that is transparent to consumers, the better are they able to make decisions about what's the right support for them. And I think what's unique about the sector we operate in is people with a disability and people that are older that depend on care and support in their daily lives, inviting people into their life to do very intimate and personal things for them either at home or in the community, the choice over who is critically important and consumers have emphasised that time and time again.

So, I think a platform like Mable is really about connecting people with people. People that need support with small businesses that offer support and that ability to choose who supports you and

build a tailored team of support around your unique needs and preferences, and also meeting the needs and preferences of the support providers is, I think, really critical for quality outcomes.

COMMISSIONER ROBSON: And do you sort of monitor that degree of responsiveness on the consumer side? What's your feeling like if, you know, somebody does get a bad review or just a complaint or, you know, it's not working. You know, does it work, in that sense, providing more information in your experience?

MR SCUTT: I think, generally speaking, you know, the more important the consumer is, I think the more effective they're able to make choices about what's right for them, and that's not just about ratings and reviews, but if you look at, you know, the discussion in – a consumer discussion in the NDIS, you know, building the capacity of consumers to make more informed and better decisions in their life is part of what they hope the scheme does over time.

So ratings and reviews is definitely one component of that. But, you know, I think there's also this element of who's right for one person may be different to who's right for another, and so, you know, we're not sitting here as Mable trying to judge quality. We're letting the people that engage – people of our platform judge that quality and experience and help inform others.

COMMISSIONER GROPP: Does it inform you also perhaps about training and selection?

MR SCUTT: It doesn't inform us – it informs us about the ability to offer, you know, pathways to training and skills. So, you know, we have two key pathways that we enable independent support providers to access. One is the learning hub, which is really about professional development and the other is working with RTOs and TAFEs around accredited training. And we've been quite local in our support for training in the care economy moving towards micro credentials - flexible online learning and microcredentials. Recognising that the people that need to be trained live in communities around Australia. They're not always in regional centres or towns, they're in small communities and remote communities and outer suburbs and inner suburbs. So having more flexible ways to acquiring skills and accredited training, I think, is important.

But when we look at the learning hub from a professional development, you know, we're focussed on giving people access to lots of foundational understandings about what the NDIS is, the code of conduct, maybe about working safely. It could be about active support, which is about doing things with people, not for people, and then they can upskill in areas like, you know, autism or dementia.

But giving people an understanding of the different training options on the learning hub and how they might build their skills and knowledge is something we're very keen to do, and in fact, also very keen to enable training to be person-centred which is another big objective, I think, of people with a disability say, "I want to communicate the training that's really important to me for the people I engage because I'm a unique individual with unique needs." But definitely where there are complaints, I think the ability to potentially direct people to further training and learning that might help them improve their practice I think is another important thing that can be enabled by a digital platform.

COMMISSIONER GROPP: Okay. So people, if they go to the hub they can find an online course or something like that or perhaps be redirected to an RTO.

MR SCUTT: Yes. So the learning hub has more than 140 courses from subject matter experts. So, you know, if it's about learning about dementia – it could be Dementia Australia, La Trobe University, OPAN has courses on there to do with, you know, recognising abuse and neglect of older people. So there's a variety of training there that people can take advantage of and build

their knowledge and skills in the area of business that they're focussed on. But similarly, we also have pages on our website that direct people to accredited training opportunities.

So, recently with TAFE New South Wales, we offered the opportunity for people on the platform to enrol in a Cert III that's fully subsidised. So one of the great things about Mable, I think, is you're bringing people into the sector that can offer entry level services, like help with shopping, meal preparation, food delivery, et cetera. But if they're liking that work, they can then invest in professional development training via the hub, but then they can go and get a full qualification. And if, you know, particularly with Cert IIIs in individual support, only about 36 per cent of those Cert III's are completed. So a great opportunity is – that's sector wide data - The great opportunity is to invest in people that are already working in the sector that want to upskill and broaden their offering.

COMMISSIONER ROBSON: And workers pay for their own training. Is that how it works on the learning hub?

MR SCUTT: Well, the learning hub is offered without additional charge to support providers who are approved on the platform. So they get free access to the learning hub. And with accredited training opportunities, typically that's an area where there is interest from federal and state governments to make that training available at subsidised rates or in some cases, fully subsidised. And so what we try and do is let people know what the accredited training opportunities are in their state or area and then they take advantage of those opportunities. But they're definitely, you know, again what you see with small business is a real willingness to invest in yourself to improve your business and the service you offer.

And so we've had some amazing letters from – one letter that comes to mind is a letter from an RTO just saying they were involved in training a number of workers that work via the Mable platform, and they just said how self-directed, engaged, motivated they were to learn and a very different experience to what they've had in the past, training in the sector for a long period of time.

COMMISSIONER GROPP: Do you have any sense of how many of your workers do engage in either using the hub or doing, you know, further VET training?

MR SCUTT: I can take that on notice and come back with some better insights. But we certainly, for example, at TAFE New South Wales, opportunity – enrolment was closed in that very quickly. In other words, all of those opportunities were taken up within a few days. But I'll come back to, I think, there was something like 50 or 60 spots available, and I think that was closed in a couple of days. And then in the learning hub, you know, there's been, you know, there's widespread uptake of courses on that learning hub. But that includes things like, you know, people can access the NDIS work orientation module on that learning hub, for example, which is all about understanding the code of conduct and what the NDIS is all about.

COMMISSIONER ROBSON: And take us through, Peter, your experience with worker retention and tenure, and in terms of the labour market tightness. What's your experience been with that recently, and you know, what's it like across your sector. I mean, do people work, you know, two platforms at once, whether they pick and stick and for how long, in your - - -

MR SCUTT: So this is in the context of a sector that has chronic workforce shortages – have been well documented. And I think are going to be even more challenged by the growing demand of an aging population and also as the NDIS rollout continues and people start to utilise their plans more fully. So one of the ways, you know, I think about how we start the scheme is definitely to – again, you know, in the context of the workforce needs to be available in

communities everywhere. A bit diverse in terms of that workforce because people have unique preferences and the nature of care is changing under the NDIS.

So one of the things that we think about is that the long tail of participation in this sector will be really critical. Like, it won't be a sector we can actually only staff through people that want to work full time in the sector, for example. I think, you know, by its nature they're community based services and often people that want to work flexibly in this sector are working around other life commitments.

So we're talking about a long tail of students, retirees, people with a disability, people that are under-employed, people that have an interest or a life experience they want to share with somebody with a disability in their community. So we think that long tail of participation – people working five hours a week, 10 hours a week, 15 hours a week, three hours a week will be critical to having a functioning NDIS and a functioning care at home sector.

In terms of on Mable, you know, we have people that are operating very few hours a week and we have people that, you know, run a business. Whether they've got multiple clients and are operating 40 hours a week. And I think what's also unique about the sector we operate in is, you know, wage-based employment has been the norm in this sector.

So again, unlike the traditional platforms in rideshare and food delivery where there's very few options to offer that service outside of a platform, in our sector, wage-based employment is an option, being a small business, working independent of platforms is an option, leveraging a platform is an option. And so what you see in Mable is, I think the data that we have shared is about 45 per cent of people operate outside of Mable as well as on Mable, and about 14 per cent of those – that 45 per cent operate via another platform, with the remainder, you know, having clients outside of platforms or working casually in the sector is my understanding.

So one of the things that I think's going to be critically important is, you know, lots of diverse models to be able to respond to consumer choice and control, but lots of diverse models to be able to respond to the diverse workforce we need to bring into the sector to address the chronic shortages that exist in communities everywhere.

COMMISSIONER GROPP: Peter, where do your workers sort of come from? What would they be doing otherwise? You mentioned students and you mentioned people sort of semi-retired or who would otherwise perhaps be doing volunteer work. I'm interested.

MR SCUTT: Yes. I think it's a great question, because one of the – you know, so we're talking about these entrenched challenges and the care economy, right. One of the challenges that's been posed for the last 10 years is where is the care workforce going to come from? And usually the answer is, you know, often immigration. And that's obviously not been a window that's been opened, at least recently, that is reopening. But I think immigration certainly can play a role particularly, I think, in things like residential aged care, where there's often a wide variety of people needing all sorts of support in a given day that's often clinical in nature and having people highly trained in that environment I think can make sense.

When you get to home care and disability support, often there's – people are seeking real connection and local community understanding and social connection and language connection and cultural connection. So it's very personal. But I think one of these we say in response to where the workforce is going to come from. It's going to come out of the latent capacity in communities everywhere. We think this is much more a community based solution. So Mable's about connecting many communities and enabling people in those communities to support other people in their community. And there's this latent capacity of people in communities that will

support people in the community if it's on their terms and if they can do it around other life commitments.

So a good example of this workforce and what they're doing today is the town of Bell. So Bell is a town of 500 people west of Toowoomba. Really small regional town. No home care providers in the town, lots of older people at risk of having no support and having to leave town to go into another community to get residential aged care. And a person in that town reached out to Mable to say, "We've got all of these older people in town with no support, how do we bring the community together to enable a solution within the community?" And so Mable helped that town come together and now there's 39 people with home care packages. They never had them previously. Supported by 19 local residents in that town who are now earning income and have jobs and bringing income into that town.

And so a lot of them were living in those communities but largely underemployed. And so they were either handymen, you know, or people that had other caring responsibilities in the town, and now they're able to make their services available to other people in the town on their terms and earn income. And it's actually created a workforce solution that didn't exist in that town previously.

COMMISSIONER GROPP: Thank you.

COMMISSIONER ROBSON: In terms of disputes and complaints, Peter, take us through, if you could, the processes – both maybe on the consumer side and on the worker sides. So how does Mable deal with those? And in particular, you know, something like a dispute regarding pay, does that just happen between the worker and client or does Mable get involved in them?

MR SCUTT: When you say a dispute involving pay, what do you mean, exactly? (Indistinct.)

COMMISSIONER ROBSON: Well, so if the, you know, if the worker has worked a certain number of hours and they feel like, you know, there's some dispute about whether they're, you know, getting compensated in the right way. You know, first of all, does that happen, and second of all, you know, how do those sorts of things get resolved?

MR SCUTT: Yes. So again, you know, in the context of understanding that Mable's a horizontal platform in the sense that the parties connect via the platform and they agree the terms – they agree the services, the terms, the rates, you know, of each engagement. So unlike, again, vertical style platforms like food delivery and rideshare, we're not determining the service, we're not determining the rates. So these are people themselves coming together and deciding the terms. And so on the profiles of the sole traders offering services, small business offering services, they have indicative rates.

So the consumer will see those indicative rates when they're searching for people in their community or when they're posting jobs and people are responding, they've got those indicative rates, they'll then have a discussion around the actual services required and whether it's a good fit for both parties and the times of those services and if they decide that they've got an agreement, including on the rate for that particular engagement, they'll document that via the platform together and then when services are delivered, the support provider will capture that in a service log with service notes, that will go through to the consumer for acceptance.

So that is largely sort of real time being captured because the support provider – the quicker they submit their, you know, service log, the quicker they will get paid because we collect payment on their behalf. And so when you capture that information real time and it's going across to the consumer for acceptance, you're pretty quickly picking up whether there's a dispute over the rate or whether somebody turned up from 10 to 12 today or not. And so you sort of create a whole

transparency around that and a real timeliness to it that I think minimises the possibility for any dispute or misunderstanding.

But where it does occur, you know, again, because the parties are entering into that agreement directly, they have a generally great capacity to sort it out directly, including the consumer being empowered to discontinue service, right. If they felt they were being misled around a rate or that the service was being charged for ours that they, you know, weren't there for example, they can discontinue that service, they can rate and review that experience, they can lodge complaints via the platform, and where necessary, we'll sort of, help the party resolve the complaint but we'll also – or the dispute – but we'll also look at, you know, where's the avenue for continuous improvement around how the platform can operate to help the parties entering into, you know, effective agreements going forward.

COMMISSIONER ROBSON: And has Mable ever had to kick people off the platform, either workers or consumers?

MR SCUTT: Yes. I think that what we do do is, you know, we operate in sectors where there's really quite stringent codes of conduct. Mable has a code of conduct, there's an NDIS code of conduct that's soon to be introduced, an aged care code of conduct for people working in the sector and, you know, there are people in the sector that can be more at risk of, you know, abuse and neglect, for example.

So where there is a breach of a code of conduct, you know, we would tend to probably suspend somebody from the platform or err on the side of suspending them while we actually investigate the circumstances. And if we thought there was a material breach of a code or persistent breaches of a code, you know, then we would take the step to remove them from the platform. I think if we took that step, we would generally be advising the – for example, in the NDIS, the Quality and Safeguards Commission so they could decide whether to separately investigate and remove them from the sector. The idea is that where people that shouldn't be in the sector, are in the sector, we identified early and potentially they're removed from the platform and then, potentially, removed from the sector. So, yes, we've taken those steps.

COMMISSIONER GROPP: One last question from me, relating - you started off about worker's compensation. Can I just ask what the risks - the main risks - are to workers, and just what the prevalence of incidents is? Do you keep those figures? And how do you then deal with it? Is that a concern of yours?

MR SCUTT: Yes, so I'm certainly happy to take the - take it on notice, around the actual prevalence, to look at what data we can provide there. I think, you know, the risk is, you know, essentially, for the worker themselves, some form of injury. And, you know, we don't see a lot of that on the platform. I think we've always felt that we will see less incidents of that nature, because often the sector is operated where people working in the sector have felt undervalued and underloved and underpaid, and I think that's an environment where you can often have greater risk of injury, but I think when people are being empowered to work on their terms, and feeling valued, and setting their own rates, I think, you know, that they're - and you're a small business - I think there's a level of taking personal responsibility for yourself and your services, and I think that reflects in the fact that, you know, we don't see a lot of injuries. But there's certainly a personal accident policy that responds to cases where people do have that injury.

COMMISSIONER GROPP: I guess it - - -

MR SCUTT: And we do - - -

COMMISSIONER GROPP: - - - comes under training, as well, doesn't it, in terms of - would this be about lifting people, or moving things, or - - -

MR SCUTT: That's right. So, where things like - that's right. There's - if you want to offer hoist and transfer via a platform, it's under a category called personal care. Personal care, you need a Cert III or a Cert IV, broadly, to offer services, but high-risk services, like hoist and transfer or lifting, we look for experience in that area. Similar with medication assistance, we look for that module of training, and there would certainly be plenty of information and training around working safely in the sector. The other thing we've - on the learning hub. The other thing we've also done is provided access to a wellness hub, so people can also access, you know, counselling, and an online service that actually, sort of, supports them in their own, you know, health in working in the sector.

COMMISSIONER ROBSON: Thanks very much, Peter. Is there anything else you wanted to add?

MR SCUTT: No, I think - I've been very grateful for the opportunity to contribute to the inquiry, and, you know, certainly be happy if you wanted to reach out for any further clarification or information, and I'm happy to follow up on those things on notice, as well.

COMMISSIONER ROBSON: Okay. Well, thank you very much.

COMMISSIONER GROPP: Thank you.

COMMISSIONER ROBSON: So I think we're (indistinct) done. We're a bit early. We'll take a break for morning tea, and we will resume proceedings at 10.45.

MR SCUTT: Thank you.

COMMISSIONER GROPP: Thank you.

SHORT ADJOURNMENT

[10.13 am]

RESUMED

[10.39 am]

COMMISSIONER ROBSON: So we'll get started. I'll turn that off for a second. We might need IT in here to fix that up. Anyway, we'll get started. I'd like to call Jordan O'Reilly. Jordan, welcome. And if you could just state your name and organisation for the record, and then if you've got an opening statement, we'd love to hear it.

MR O'REILLY: Sure. So my name's Jordan O'Reilly, I'm the co-CEO and co-founder of an organisation called Hireup. And Katherine, do you want to do an introduction?

MS THOMPSON: Sure. My name's Katherine Thompson. I'm the national lead for government affairs for Hireup.

MR O'REILLY: So thank you very much for inviting us to contribute to this important productivity inquiry. I'd like to start with some opening remarks to frame our experience and our views in relation to this inquiry. In these opening remarks, I will first tell you a little bit about our work and our unique perspective, especially in relation to the social care sector and to the emerging platform economy. Second, I will briefly reflect on my support for this productivity inquiry and offer my, sort of, humble reflections on where the emphasis might be placed as a result.

So first, our work. As I said, I'm the co-founder and the co-CEO of an organisation called Hireup, which is an online platform that gives Australians with disability the power to find, hire and manage their very own support workers. Growing up I had a younger brother whose name was Shane and he lived with cerebral palsy, and he relied on disability support workers every day to help him live the most independent life possible. Managing support workers was part of our family routine, but the traditional system seemed broken.

Getting random workers turning up at the front door each day to provide support often felt like a lottery. Sometimes the workers who were sent by a local agency were a good fit, but more often than not, they weren't. Hireup was borne out of that experience. As Australia's first online disability support network, Hireup is built to put people in control.

We've grown rapidly since launching in 2015 and now serve 10,000 people with disabilities and their families on an annual basis. We have thousands more active monthly employees providing millions of hours of support every year and we create huge and positive social impact. The most unique thing about Hireup, however, is – and the thing that sets us apart from almost all other gig economy platforms in Australia, including the nine other platforms operating in the disability and aged care sector, is that we directly employ every single one of our support workers under casual and permanent contracts.

We follow the well-established industry award. We pay our workers their hourly wages, we pay their taxes, we pay them super, we provide insurance as well as a range of protections and entitlements that they deserve. We function in exactly the same way as any traditional employer in Australia despite the fact we have a modern platform powered business model.

In short, we're proving that you can absolutely combine the best of modern platform technology with a responsible labour model for workers without compromising on the things that people want. Cool technology, flexibility, efficiency and empowerment.

Our very existence in Australia is problematic for the vanguard of the current gig economy who are trying to protect the status quo for their own economic benefit, and who will tell you that their businesses simply will not work in an environment where they have to treat workers as employees. They say that it will threaten productivity. We say that's not right, and the platforms – especially those working in the Australian care economy should be more closely scrutinised on this point. So with all of that in mind, I hope you can see that our work with Hireup has put us in an interesting and quite unique position sitting at the intersection of the rapidly growing NDIS and as well as the platform, sort of, economy.

In terms of the disability sector and the NDIS, you may be interested to know that the NDIS has previously been described as the greatest nation building project on earth. We're currently investing \$30 billion a year to support people with disabilities and their families to live an ordinary life. The NDIS is a fundamental pillar of the Australian economy and will only increase in significance as we invest more into that scheme. I'm sure you've seen the recent budget estimates showing a 14 per cent increase in costs each year which is really quite remarkable.

As for the changing service landscape, the productivity commission itself reported in 2008-2009, that services were delivered by 2200 agencies, through around 11,500 service outlets. Fast forward to today: recent NDIS reports show that there are now over 130,000 individual service providers, many of whom are sole traders. That's a sixtyfold increase in just 12 years. And platforms in our sector who treat their workers as contractors have somewhere between twenty to forty thousand workers alone. There was nothing like that level of contracting pre-NDIS.

In terms of the more traditional workforce, the Department of Social Service estimates there are 270,000 workers in the disability sector, across 20 occupations, and that the sector will require another 80,000 people to fill workforce shortages over the coming years. In terms of the workforce makeup, despite the wide range of occupations, DSS show that 89 per cent of workers fall into the home care and community care support worker category, meaning the less skilled end of the spectrum, compared to, say, allied health practitioners, for example. It's also a highly feminised industry, with roughly 75 per cent of workers identifying as female.

And lastly, when it comes to safety, you may be surprised to learn that, according to the latest Safe Work Australia report, employees in the health care and social assistance industry made the highest number of serious claims of any industry, well ahead of workers in the construction, manufacturing and transport industries.

In summary, ours is a rapidly growing industry, of national importance. The sector has already exploded in terms of workforce and provider growth, with very little by way of meaningful oversight and regulation. The vast majority of workers in this space do home care and community work, where they're paid by the hour and their work is directed by either the person, the client, or the platform or business who engaged them. It's a highly feminised industry, with high injury rates, and it's an industry where workers are meant to have very clear entitlements, rights and protections owed to them under longstanding and well-established industry awards.

Of course, there are sole traders and entrepreneurs and aspiring small businesses in our sector, and those people need to be celebrated, and they need to be recognised and protected. But to say that the average home care worker or community care worker is an entrepreneur or a small business is quite frankly absurd. In most cases, these are workers who were attracted by the allure of "charging your own rates" and "becoming your own boss". In other cases, these are simply people working via an ABN because they were asked to by their client.

Everyone working in the disability sector deserves rights and entitlements and protections, no matter their employment status or how they're engaged, including via modern platforms who claim their workers are somehow different and are not deserving of any of it.

Speaking of the platform perspective, we all understand the gig economy is growing rapidly. Some reports estimate that the gig economy has tripled since 2015, and now account for around 250,000 workers in the Australian economy. We know there are nine platforms operating gig-style business models in the disability sector - in the disability and aged care sector. And, in the words of the recent Victorian inquiry into the on-demand economy:

Platforms' entry into the care sector has created new and important choices for recipients, enabling them to curate services to better suit their needs; and for care workers, offering flexible work opportunities. Some platforms offer care services under non-employment arrangements, while others employ their on-demand workers. There are legitimate concerns about the impact of platforms on this sector, particularly in relation to health and safety and insurance, unpaid work, and the long-term training needs of the workforce. Platforms using non-employment modes of engagement can provide services or workers at a lower cost than those complying with work laws, creating an uneven playing field, and impacting on the sustainability of employment-based workforces. It is in the public interest that work arrangements are lawful, sustainable and fair.

And we agree with all of that.

To summarise, we are deeply concerned about the unfair, unlawful and unethical work practices emerging across the disability sector, especially those driven by modern technology platforms.

We think gig economy practices, especially those characterised by the engagement of independent contractors, will have negative implications for workers, consumers, competition, and the overall economy, in the long run.

Our request is simple. We want to see sensible reform and regulation of gig economy platforms, especially in sectors as important as the disability and the aged care services.

So, finally, to emphasise our support for this inquiry, we were pleased to see the scope of this inquiry, and to read the ideas outlined in the report number 6, A More Productive Labour Market. As a major employer, of 10,000 or so workers, we see every day how better award and better bargaining conditions, as well as better regulation of the gig economy, would benefit workers, consumers, competing businesses, and the economy overall. We're extremely pleased to see that the benefits of platform organisations have been recognised, and the important contribution they can make to increase productivity, especially around better matching, flexibility, and competition. And we really welcome the opportunity to demonstrate Hireup as a shining example of innovation in action.

But I want to make one final point very clear. Any productivity gains achieved by leveraging unregulated technology platforms, who operate outside well-established industrial regulations frameworks, and that reduce the rights, entitlements, and conditions of working people by treating them as independent contractors or small businesses, will be no gain in the long run. In this very report, you've noted:

While the efficiency-enhancing aspects of platform-based business models could be at risk under certain regulatory approaches, it is important to consider where legitimate need for regulation remains. If platform-based business models were only viable because they avoid legitimate regulation, or because they are able to lower costs by increasing risks to public safety, then arguably they would not be a source of genuine, properly measured, productivity gains.

I believe that we're at a critical juncture in the development of the platform economy here in Australia, and that we must act now to ensure that the industrial relations system, including award and bargaining systems, are well set up to support productivity in the modern economy, and do not act as an incentive for new tech-enabled businesses to operate on the outside. And I believe that sensible regulation should be applied to all platform businesses, working across the economy, to ensure that practices are lawful, sustainable and fair, and do not create a race to the bottom under the illusion of increased productivity. Thank you very much.

COMMISSIONER ROBSON: Thanks, Jordan. I might just ask you a few questions around - so when did you start your business?

MR O'REILLY: So we started, officially, in January 2015.

COMMISSIONER ROBSON: Okay. And so - and you've been paying the award since then, or is it - or are you - is there scope for workers to go above the award, or how does that work?

MR O'REILLY: Yes, effectively, we've been following the SCHCADS Award since day one. It's fair to say that was a - it's a complicated document, as awards can be, and it's taken a whole bunch of time to really get it right, but we think that we're proving, over the last seven years - we've been following the award since day one, and we think that we're showing that it can absolutely be done, despite the challenges.

COMMISSIONER ROBSON: Yes, so take us through the calculus. When you were starting the business, you know, you would have had the choice between engaging independent

contractors and going - and the model you've chosen. I'm just interested in, you know, how that thinking evolved, and why you chose that particular business model, and then whether you - you know - and whether you think it now gives you a competitive advantage, or - you know, what's the - because, you know, we're interested in, you know, the overall system, but, you know, if there's instances where it can work, we're interested in how that actually happens. Yes.

MR O'REILLY: The first sort of honest reflection is, it's quite astonishing to me that we were able to choose.

COMMISSIONER ROBSON: Yes.

MR O'REILLY: Like, if we had made a different decision, we'd now be sitting here with 10,000 - well, presumably, if it had sort of worked in the same way - we could be sitting here with 10,000 contractors, and the huge implications that has for those people. So it was quite remarkable that we were able to just decide that. But, I guess, that's the situation.

We were encouraged very firmly, in the early days, to set our business up as a contractor marketplace. A lot of older and wiser people said to us, "This is the way of the future, and by doing that, you will take an arm's-length distance from the liability when things go wrong. You won't have to pay superannuation, and work all of that out. You won't have to pay tax. You won't even have to run payroll. Much more efficient and effective to run this as a contractor-based marketplace," and in fact, we were told that it just wouldn't work if we tried to set it up as an employment-based marketplace.

Despite the fact there was no real precedent for us to look at, we decided it was a sort of - the best I can - the best way I can describe it is a values-based decision, where we just sort of said, it didn't feel right. I should have mentioned in my opening comments, as well, I was a support worker for many years, while studying occupational therapy at university, and I wanted to provide support; I didn't want to, sort of, start a small business. That wasn't what I was doing. And so it just didn't feel right to set workers up as contractors simply because it would have been a more expedient business decision, and so we just decided to try with an employment arrangement.

What we've proven, in the seven years since, is that that's no impediment to productivity. We are one of the largest platform-based disability service providers in Australia. And so, I'm pleased that we've proven that it can be done. It's definitely not the most, you know, you can see where there's real complexity with the award and with responsibilities as an employer, but we're absolutely proving that it can be done.

COMMISSIONER GROPP: I was going to ask you about that because what are the additional costs of complying with awards, et cetera, and things. It took you seven years to figure it out or something, which is not a great advertisement for the award system. How does it constrain you? What are the additional costs that it imposes on you in terms of working out how much you have to pay people, because the awards are very complex and what categories people fall into. Can you take us through how you've dealt with that?

MR O'REILLY: Yes.

COMMISSIONER GROPP: What those costs are?

MR O'REILLY: I'm sorry if I misspoke there, I mean we've been going for seven years. Not all of that time - sorry, not all of that time's been spent just on the award.

COMMISSIONER GROPP: How long did it take you to figure it out?

MR O'REILLY: Well, I also don't want to characterise it as a cost, because I believe that the awards and the award system is important in principle.

COMMISSIONER GROPP: Sure. But I mean, compliance costs. I mean there might be an unnecessary, you know, there's unnecessary complexity that adds unnecessary cost.

MR O'REILLY: Well there's just a lot of complexity in terms of – and one of the challenges, one of the reasons that we're here and that I'm sharing the thoughts that I am is that we're – by complying with – not, sort of, 600 pages or something, that could be wrong, but you know it's a big document and there's complexity from working conditions through to pay rates. Complexity around sort of pay rates and pay tables and all sorts of stuff that has created a level of complexity that we've had to work through. But I think the principle of sticking to the award is a really important thing, and there's ways that we can see how you would improve it and improve productivity as a result. I think that would be a great thing across the disability sector, but it was important for us not to avoid it.

COMMISSIONER GROPP: Do the award classifications constrain how the people you employ and how you use them? I mean, is it – or do you have to, you know, this person can't do that particular task at that pay rate but they can do it at that pay rate. How does that effect the services you offer?

MR O'REILLY: Can you repeat the question?

COMMISSIONER GROPP: Well, it's just often there's a, you know, a person has a sort of, you know, what they can do.

COMMISSIONER ROBSON: The boundaries.

COMMISSIONER GROPP: The boundaries of what they can do for that pay rate. If they do that task, they have to get a different pay rate which makes it very complex to administer and it might effect services if they go to a home or something that they, you know, how long did they do that particular task? How long did they do that task and at different pay rates. How do you work with that?

MR O'REILLY: That level of, sort of, complexity has not been our experience with the award. There is a – under the SCHCADS Award there's a stream for, sort of, disability. One is home care - - -

COMMISSIONER GROPP: It's fairly broad.

MR O'REILLY: It's fairly broad. And we've been able to work within that. There's absolutely ways that we can improve the award and simplify it. It would create massive productivity gains across the whole sector. We work in coalition with hundreds of traditional service providers, all who are struggling with some of the complexity, all who are inadvertently getting things wrong. We can see if you were to simplify and, you know, work through a process where you keep alive the important rights and entitlements and conditions that are there but simplify things for businesses and workers, you'd get massive productivity gains there.

One of the points that I was going to make a moment ago is that where we see the real challenge is where there are either amendments or changes to the awards or there's, sort of, complexity that we must insist on, on behalf of workers – so I'll give you an example. There was a recent ruling that changed the minimum engagement times to two hours. Now, we work in a system of the NDIS where funding is provided on an hourly basis, and some individuals rightly say, "I don't want someone to support me for two hours."

COMMISSIONER GROPP: It means you have to pay them for two.

MR O'REILLY: You have to pay them for two. And individuals and their families will say, "Well, the NDIS isn't going to double my funding overnight." And so I'm going to have to, you know, we've had a significant number of people who have said, "I'm going to have to go offline. I'm going to ask my worker who was previously gainfully employed and rightfully employed and I'm going to ask them to get an ABN so they can continue to do the one hour shift for me."

So it's in those moments where we see the challenges of complying with an award and the challenges of two speed system where you'll have other platforms who will say, "You can, you know, full choice and control, you can do whatever you want." And so it creates a slippery slope in some cases. Not all cases, of course, but in some cases. And that's the stuff that we see. And that's where we sort of really scratch our heads and say, "How can we have the same workers on our platform and another platform where, you know, some have to follow these conditions, whereas on other platforms you don't."

COMMISSIONER ROBSON: And in your experience, what's the incidence of that in your business so where you have people who are employees. I mean, do you allow them then to work on another platform in terms of the employer-employee relationship and then if you do, you know, can you measure it and how do you cope with that and what's the - - -

MR O'REILLY: We take a fairly open approach to the employees on our platform. We don't try to restrain any sort of external trade off the platform, be it working with traditional organisations or with other platforms or, you know, by themselves. And we know for some workers it's the right thing to be working for multiple employers. And so we don't sort of try to restrain that, we don't monitor that. We want to be very supportive of people's individual choices, but where workers are increasingly engaged as independent contractors in the disability sector to work outside the industrial relations system, we've clearly got a two speed system and a problem as the on-demand inquiry in Victoria noted. You know, there is – this stuff has to be lawful, sustainable, and fair. And we risk creating all sorts of weird, uneven playing fields and undermining the sort of economic realities of the sector if we don't change.

COMMISSIONER GROPP: You'd be concerned with the further restriction of casual work (indistinct) surely. I mean you talked about the minimum of two hours, and I think there was one stage you were talking about three hours. But that would severely impact your business model, would it?

MR O'REILLY: My view is that it's important we weigh up the considerations of workers rights and entitlements and conditions and that the sector, you know, does and should continue to go through consultation around what's right for workers, what's right for, you know, in our case, service users on the NDIS. I think it's a really important process that we go through, but we can't have an industrial relation system that's getting tighter for one cohort in the market – in this case employers – with the ability just to decide to disregard those. I mean, that's going to create a real bizarre, uneven playing field. Make it harder to employ workers in the disability sector if you can legitimately contract tens of thousands of workers without following any of those rules and entitlements. So that's the challenge that we've had.

COMMISSIONER ROBSON: And do you get, you know, in your recruitment, do you – are the people you see coming to work for you – are they from the gig economy or are they just coming in fresh or from other areas? What's the crossover between the two in your experience? Does it sort of, you know, disaffected gig workers who say, "I'm sick of this, I want to now be an employee," or are they thinking about other things when they - - -

MR O'REILLY: The problem with the gig economy and with treating workers as independent contractors is it's fine when it's fine, it's only when things go wrong that we really hear about it. So I was talking a moment ago about what, you know, the profile about workers, but it's only when workers have catastrophic injuries and realise that they weren't covered by worker's compensation. It's only when workers are told by platforms where they're told that they're insured, and when something goes wrong they're told that they have to pay an excess to access – the insurance excess to access that insurance. It's only when things go badly. And in our case, you see a lot of embarrassment and a lot of shame and a lot of, sort of, withdrawal when things go wrong. But it's on that side of things where we see the challenges of the gig economy where workers just assume that they're protected and are entitled to rights and entitlements that they don't otherwise have.

We see it, again, with workers who don't really understand what the tax – you know, PAYG tax is all about or, you know, in their case small business tax who don't put their tax aside in a lump with a huge tax bill. Or when a disgruntled worker turns around to a participant on the NDIS and say, "You owe me for two or three years back payment of the superannuation. You should have been paying my super." These are the cases that aren't very well exposed. They haven't been investigated, and we see the challenges of this sector. And it's going well. It's excellent, you know.

And in our case, in our sector, people pay very high wages. That could change. You know, if the NDIS, you know, decided that they're going to reduce the amount that individual workers can claim. It can change if the supply/demand, you know, it's a huge supply constrained market right now. All of this is, you know, that we're assuming is taken for granted now, is the challenges on the gig economy side of things, and we see that impact.

In terms of our worker profile, these are home care and community support workers largely speaking. They're, for example, the archetypal work on our platform might be a third-year occupational therapy student, as indeed I was. It's, you know, working towards an OT degree, but is working, providing support work via a platform like ours. So that's - we don't really, sort of - we don't recognise, sort of, gig - disgruntled gig workers, or anything like that. These are people that are providing support in communities all across Australia.

COMMISSIONER ROBSON: And so your service: you engage someone as an employee, and then you match them with the consumer, and so that if they're not matched, they - you still pay them for not working? Or how does that work? And what's your, sort of, incidence of casual and permanent?

MR O'REILLY: Yes, so it's predominantly casual - an employment model.

COMMISSIONER ROBSON: Yes.

MR O'REILLY: We certainly started as a casual employment model; I think we leveraged that. You know, that's a - it's excellent that we have that in Australia. You know, I, for example, was a casual disability support worker through uni, as I said. If I was made to work permanently, I just couldn't have done that. So we started with a casual employment model.

One of the changes to the award system that - as part of the process was the conversion to permanency after a year, which we really welcomed that; it made us think harder about, what about people on our platform who wanted to work permanently? And we're proud to say that we've come up with a model for permanency, where we do engage workers, and pay them a - a permanent rate, and there's been some wonderful stories off the back of that, where people have

said, "I've been able to get a home loan," or a car loan, or whatever it might be. And it's wonderful that Hireup can offer that. We want to do more and more of that, going forward.

In terms of the casual model, people are engaged by the participants, and we pay them an hourly wage as a result.

COMMISSIONER ROBSON: So, in terms of your preferred model, you would just like to see the entire industry, basically, sort of - you know, in terms of a regulatory model - it would be similar to what you're doing, and everyone would just be regulated according to the award and an employer-employee kind of relationship; is that what you're after?

MR O'REILLY: I think the first thing that we're saying is that you can absolutely have modern technology and a secure employment model. The dominant narrative is that those things are mutually exclusive, and I just believe that's not right; I think that can absolutely be done.

I think, in the case where people are engaged, in our case, by the hour, you know, in - where we're clearly not part of the gig economy, depending on how you define it, is that the average relationship on our platform lasts many months. We got people that have been working the same relationship, week on week, with the same participant, directed by that participant in terms of their duties, paid by the hour, week to week, for many years - many years long. The fact - the idea that these workers are then not paid their superannuation - and we know, when people aren't made to pay compulsory superannuation, people, you know, won't pay that.

We think that there are rights and entitlements and protections that should be owed to the workers, however - you know - however we set that up, but we think that that's very important, and we think it's important that workers are owed those rights and entitlements and protections no matter how they're engaged. Would you add anything to that, Katherine?

MS THOMPSON: I think - as we've heard from some of the previous witnesses, and I think that we would agree, the barrier to entry could be quite low. So, as long as you've got these low barriers to entry to enter into a sector, where it's extremely easy, particularly within the NDIS, to come on as a sole trader/independent contractor, the second that industrial instruments get too complicated, people just abandon them. There's not a huge amount of incentive, from the individual level, to make things better, because it's so easy just to go around them, which - why wouldn't you, frankly?

So, I think, to answer your question, I think that the best way to increase productivity and get better outcomes for the sector as a whole is if everybody is, sort of, in the tent, and we're all working towards better outcomes, rather than, when things get a little bit too tricky, or when these two hour minimum shifts come in, you just walk out, and you go off-book, which is perfectly legitimate within the NDIS in its current form. There's very little incentive for everyone to stay in and make things better, when it's so easy just to leave.

COMMISSIONER GROPP: Would you - I mean, if people coming into the industry to supply services had better information about, say, super and tax, and to be more - you would - would you relax a bit more, that people were making choices, informed choices? Is that - however does that information - lack of information for people at the moment? About their insurance situation, for example.

MR O'REILLY: Yes, in short, I think that would be fantastic. I think that would be a great step forward, better information for people, because we do, as I said, see a lot of people who just, you know, well, either didn't have the information or didn't engage with the information, and then only, you know, find themselves - - -

COMMISSIONER GROPP: So do the platforms supply information, or was it often opaque?

MR O'REILLY: I won't speak on behalf of the other platforms in terms of what information is provided. But, look, this is why we're so passionate about this. I've had a number of phone calls with people who are friends of mine with disability, who have called and said, "My NDIS" - you know, words to the effect of, a situation to the effect of - "My NDIS plan has been cut by 25 per cent. I can't do with 25 per cent less support. I'm going to ask my worker or team of workers to get an ABN, and work offline, so I don't have to pay payroll tax that you apply, I don't have to pay the workers comp premiums. I can do it cheaper offline."

And so, when you say, would we be more relaxed about that? I think it's a - that would be a great - a step in the right direction, for sure, but there's clearly practices emerging across the sector, based on the sort of economic reality of what's going on, where people, as Katherine said, are opting out of things that we've previously agreed are important: things like worker's compensation premiums.

COMMISSIONER GROPP: And you're saying that the cheap - the relative prices of the two models is really because things are not being paid at all, like superannuation or workers comp, et cetera, not that there are actual cost difference - like, not just because of the cost of complying with the award system, and - versus the cost of doing it outside of that system. So it is just because things aren't getting paid; is that what you're saying?

MR O'REILLY: That's - that's it (indistinct).

MS THOMPSON: Yes, I mean, there's certainly a cost involved in making sure you're doing everything correctly, and, you know, you've got legal teams, and trust and safety teams. And we've got teams of people dedicated to return to work, for example, which is something that we wouldn't have to do if we were a contracting platform; it wouldn't be our responsibility to make sure injured workers got back on the job. It would be - you know. So there are certainly costs that Hireup have that we wouldn't need to have if we didn't employ. But, sort of like Jordan said earlier, we don't really see those as costs in a negative way: things that we're very happy to pay, because we think that it's the right thing, and it's better for the sector and the longevity of our scheme.

There's a sort of another part of the NDIS, which is in the registration space, which is the opt-in regulation. Hireup is registered; we opt in. Only 10 per cent of providers do, so 90 per cent choose not to be regulated by the Quality and Safeguards Commissioner. That's another sort of added expense that is nominally factored in when the NDIS set their prices.

So, I guess, to answer your question, there definitely are additional costs to being an employer that you wouldn't have if you didn't, but I think that they make us a better provider.

MR O'REILLY: And the challenge, of course, is where you pass through complex rules - be those NDIS regulations or award regulations - when you pass complex rules and costs through to participants, things like five per cent worker's compensation - when you pass those through, and others don't have to, you obviously create an unequal playing field. And the amount of wasted time and lost productivity in a sector dealing with those dynamics is huge, from our perspective.

So I don't - as I said in these comments, there are absolutely small businesses and entrepreneurs and, you know, aspiring businesspeople in the sector; we really - we shouldn't be making it harder for people to work in that way. But, as you can see, from our perspective, we see a lot of workers who are engaged, because it's just easier or it's cheaper. Where we try to pass through - where we have to pass through costs or complex rules, you know, it's hard for consumers to

understand that in the moment, and it creates this uneven playing field that makes it very hard to do business.

COMMISSIONER GROPP: Are you the only provider doing this, complying with the - well, with the employee-employer relationship, and therefore within the Fair Work system, or are there others like you?

MR O'REILLY: As far as I - well, as far as I know, we're in a segment, platform providers, and we focus on the disability sector only, but a lot of platform providers focus on aged care and disability. As far as I understand, there are about 10 what we'd call post-NDIS platform providers. As far as I'm aware, we're the only one that employs support workers and combines that with the platform technology. So that's my understanding.

One of the things that has been, again, particularly alarming to see, because I work very close with the community and out on the ground: the amount of traditional providers, new emerging providers who aren't technology-enabled - they're just like a traditional agency - who are contracting their workers. And I say to them, "Well, why did you decide to contract your workers?" And they say, "Because that's what the platforms are doing." The platforms, especially those that are big and have massive scale, are proving that you can just treat workers as contractors, so we're seeing more traditional providers - I am, at least, on my travels, anecdotally - seeing more people just deciding to treat workers as contractors.

So this sort of goes to the central point. We don't - I don't necessarily have a one size fits all solution, I don't think that would be appropriate for the disability sector. I can hope you see the challenges that we're trying to articulate.

COMMISSIONER ROBSON: And in terms of award simplification, can you take us through - can you elaborate on that a bit, you've spoken a bit about it, but what would you like to see in terms of award simplification which adds - is there anything specific that you could take us through, or?

MR O'REILLY: That is an enormous question.

COMMISSIONER ROBSON: Okay, fair enough.

MR O'REILLY: No, no, it's a great question, and it's a big question. I think there are - of course there are ways that we could improve and simplify the award. I think the lost productivity, if we had some big calculator that could calculate the lost productivity across the sector, trying to work out the award, it would be substantial. It acts as a barrier to people becoming an employer, and so, there are definitely ways that we can do that. But as Catherine said, the thing that we would just love to see across the disability and aged care sector is that we're all in the same tent pulling in the same direction.

We're all at the same table working out how do we get the balance right between, you know, employee rights, and entitlements and protections for a system, a \$30 billion system, combined with the wonderful elements of the NDIS, which is about choice and control. Like, that's a complex discussion. I think the key thing that we would like to see is that just everyone was in the same tent, and there wasn't this sort of open question of well, why, you know, why would a new provider take on the complexities of the award and then being a responsible employer if they don't have to?

COMMISSIONER GROPP: Yes, but I guess that goes, well, if you could solve that, maybe you would have fewer people taking up the other model. As you say, it sort of encourages that. In terms of your own experience, I mean, how much - I mean, you have to employ people to

figure all these things - these rules and regulations out, how many people do you have to devote to working on that? That you perhaps wouldn't have to if you had the other model?

MR O'REILLY: Dozens. Like, dozens of people across compliance, and pay roll, and our insurance teams, our return to work teams, our - you know, the duties that are put upon us, I think rightly so, as a major employer, large employer, in terms of WHS, you know, and return to work people, like this is dozens and dozens of people that we have to manage the complexities of employing a large number of people. And that cost, and that complexity just doesn't disappear because you decided to treat workers as contractors. That cost and complexity is just distributed.

And often, it's distributed out to participants, and so, as I said before, it's all well and good when you're earning a higher hourly rate, but if you have a catastrophic injury, and you need months of rehabilitation that you have to fund yourself, or you need a lot of return to work support, there's an entire industry around return to work, because it's a very complicated thing. And all of a sudden, an individual contractor is - takes that upon themselves, often you understand why employers are set up the way that they are.

COMMISSIONER ROBSON: And is that complexity in red tape, sort of, you know, constant, in your experience, or is it getting worse, or improving, or what's the dynamic of it over the last seven years?

MS THOMPSON: I think one of the ways to think about the NDIS and the award in particular is the award, the SCHCADS Award predates the NDIS. So, prior to the NDIS we had - it's not like we didn't have disability support systems, we did, we absolutely did. We had providers, we had all of that. The NDIS really changed the way the disability support is funded, and the way it actually works in Australia, and because the award predated that, the two just butt up against each other sometimes. So, they weren't designed in collaboration, so the award may change, and the NDIS has to respond to that, and then the NDIS might change, and then so it's no longer consistent with the award.

There're just a few little inconsistencies throughout, and that adds a huge amount of red tape for us. So, I think even that alignment, making that alignment stronger between the system that we're all funded by, and that we work within, that we're regulated by, and the industrial relations system that we have to work within, as long as the two are not made in conjunction with each other, it's always going to be difficult. So, I think that is one of the biggest challenges. And because higher up is almost exclusively NDIS funded participants, I don't know if that same problem exists outside of the NDIS, but within it, it's certainly a massive barrier.

COMMISSIONER GROPP: Some of the evidence that we've put into our interim report, and it was in our other report into aged care employment models about some of the gig workers receiving higher hourly rates of pay, perhaps on the award. Have you got any comments on that, or do you think that that's not - or that it's not sufficient additional compensation for perhaps these other superannuation and other protections, is that your view?

MR O'REILLY: Sorry, could you repeat the question, I just - - -

COMMISSIONER GROPP: We've seen evidence, and look we haven't got complete evidence here, but that some of the platforms, their hourly rates of pay are quite high, you know, and they're higher than the awards. But what you're suggesting is that perhaps that gap, that premium, still isn't adequate to compensate for perhaps superannuation, and insurance protections that you would be required to pay, is that right?

MR O'REILLY: Yes. I mean, the challenge that I have with - or the questions that come up in my mind when I read that sort of evidence is, number one, I think from what I've read, a lot of

that evidence is supplied by the platforms themselves. And so, that doesn't account for people that are, you know, not working with platforms that are on offer, and all those sorts of things. It's also the average rates of pay. So, some people are earning substantially lower, and quite substantially lower. We find people that are earning the lowest amounts will be the ones that start on the platform and then get taken off the platform, to my comment about the sort of where that evidence comes from.

And it's only true that those in the aged care and the disability space, it's only true that those rates are higher because the NDIS sets a very high hourly rate, but that could change very quickly. Stranger things have happened in the disability sector where those rates could be compressed, and then all of a sudden, in other words, the workers in this space are completely beholden to what the NDIS decides to do with pricing. And you can imagine a scenario in which that, you know, there's a squeeze on pricing, in which case workers are then exposed to, you know, being able to earn lower rates. And that doesn't then take into any - you know, it's only true that people's direct hourly rate is higher.

But as I said, if you have an injury, and we see dozens of people who have profound injuries, who are working as contractors, who then have to pay for all of their rehabilitation and work through the return-to-work system. So, I think we'd basically say a lot more investigation needs to be done and to consider the, you know, a broader picture than just the information that the platforms might say about what the average hourly wages are. And so, the last point I would make, if you take the five per cent worker's comp premium, and you take five per cent payroll tax, I understand no one wants to pay payroll tax, I understand that NDIS participants might not see that as an efficient use of the funding, but if you've got a workforce of thousands and thousands and thousands of people and you're avoiding the payroll tax, if you apply those sorts of costs, the margin between an employer and an independent contractor starts to vanish very quickly.

COMMISSIONER GROPP: Just one last question. I mean, you said that you'd like to see to be playing the same - abide by the same rules, really. But in the immediate term, what sort of steps would you like to see taken to - would it be, you know, workers compensation, or - applying the same rules across the whole sector probably might be something that's a bit more of a - not necessarily happening any time soon, perhaps, or whether it should, but what immediate steps would you want to see?

MR O'REILLY: Do you want to?

MS THOMPSON: Yes, I can kick it off, anyway. I think that we need to really look at our definitions and what we mean by the terms we used in this space, and you know, independent contractor and employee, those terms, legally, are more than 10 years old, and they don't account for the platform, and the role of the platform, and the control exerted by the platform. So, I think really looking at the question of is a worker a small business just because they have an ABN, and really looking at that sort of digital sham contracting within the disability and aged care sector, and probably within others as well, but we'll speak for our own.

So, I think really looking at what is going on in there, how much control do these workers have between the control exerted by the platform around who can get on, and who gets kicked off, and what happens in between. And the control exerted by the participant on the NDIS around how the work is conducted, and the time, and the pay rate, and that kind of thing. How much control does that worker actually have at the end of the day, and is that worker a genuine sole trader, small business, or is that worker really an employee when it all comes down to it? So, I think really looking at those terms, and the definitions of those terms in the context of today, as opposed to the context of the pre-platform space.

COMMISSIONER ROBSON: Okay.

MR O'REILLY: One of the reasons that we're here, and I try to communicate this as clearly as I possibly can to friends, and you know, people across the sector is that there's an enormous pressure exerted on our business, an enormous time spent just on this question alone, which is the classification of our workers. And I don't have the solution, I don't think there's going to be a one size fits all or a fast solution, but we do need this question looked at. Because if we're thinking about productivity, I think for businesses like ours, and many, many others across the sector, and when I say others I mean employers, I mean other contracted work, this open question that causes a lot of lost time and inefficiency.

If you don't have to follow a whole bunch of complicated rules, and others are actively choosing not to, and I think more and more people over the coming half decade, decade, are going to head in that direction. And so, I think now is the time for real scrutiny on this issue, and we would appreciate that because it would help us answer this complicated question that we're sort of wrestling within terms of, you know, how we set up and conduct the business. But my personal view is that workers in this space, there's very, very clear entitlements, and rights, and protections that people are owed.

Not everyone understands that before they engage in the work, but it's really important that those are protected, and elevated. I think all of us in terms of the platforms, or traditional businesses in this sector have a responsibility to be part of this conversation to make sure that we can agree on the rights, entitlements, and protections of workers who are doing this really important work are owed.

COMMISSIONER ROBSON: Thanks very much for your time.

MR O'REILLY: Thank you very much.

SHORT ADJOURNMENT

[11.31 am]

RESUMED

[11.41 am]

COMMISSIONER GROPP: Okay, we'll start Simon, if that's okay with you?

MR SMITH: Yes, great.

COMMISSIONER GROPP: So, can we just ask you to introduce yourself, and then give any opening remarks, about up to 10 minutes or so.

MR SMITH: Sure, I would be very happy to do that.

COMMISSIONER GROPP: Thank you.

MR SMITH: So, my name is Simon Smith, I am the group advocate for PEXA, I've been with PEXA for about two years, and I sort of present the PEXA story as a case study with a deep background in regulation and in the public sector. Most luckily, I was a regulator. I was the secretary to the Department of Industry in New South Wales, working for Mike Baird, and started out as an environmental regulator. I even had the job director of regulatory innovation, and I've done probably over a thousand benefit cost assessments on red tape reduction, and so forth.

So, I sort of thought that this PEXA story would be really very interesting and useful for the commission, because it's an example about how our orthodox regulatory frameworks are struggling to adapt when technology makes a big change possibly within a particular sector. So, before PEXA, as I think you probably know, the process of transacting property, and moving funds to purchase property, and updating records of ownership, was performed using paper. So, you probably remember the - if you've been involved, you know, all the lawyers coming together with all their documents, and cheques, and meeting in a room and handing over the documents to each other.

You know, I give you my documents, you give me your cheque. Often finding that somebody's name was misspelt, and the process falling over, and it had to be redone. So, about a decade ago New South Wales and Victoria started experimenting with the electronic lodgement of documents to update the register, but I think at the time the banks said this is ridiculous, we don't want a different system in every State, what we need is a single national platform to make this work. And so, in a remarkable agreement, done through the COAG process, four state governments, three or four state governments invested in a private company which was formed for the purpose, and the banks also invested into setting up the company.

And then together - so the banks put the capital in, and the states put the operation in, and together that company invented simultaneous financial settlement and document lodgement, which no other country has, to our knowledge. And over the last 10 years the PEXA company has with over 10,000 firms, you know, within the property transaction businesses, so there'd be lawyers, conveyancers, and financial institutions, and set up a platform now that delivers in a very significant way to benefit Australia. Sort of I think what used to cost \$500 million now costs half of that, which has resulted in very significant economic savings, but it is also much quicker, and safer, and more secure.

And so, on the basis of all of that work, PEXA has now opened up in the UK, and because they have got a terrible system with - you know, it can take months, or even longer, or years, to be able to actually settle on purchasing of a property, this has been a big problem, and so we've had very strong support from the Bank of England and the UK land registry to get ourselves setup in the UK to offer an equivalent service, which we have now done. So, it's a terrific Australian success story of government working with the private sector to introduce technological productivity enhancement. So, by way of background, what I thought would be relevant were some points that I've observed about how some of the regulators have struggled in digital productivity business.

So, we've put some of those in our submission. So, for example, there's been - you know, it's been thought useful to introduce competition into our sector, but the skills of the regulators then involved, I mean, they are land registry administrators, they are not competition regulators, and they've sort of just jumped to the idea, well, competition means - well, you know, they think of airlines, or telephone companies and say, look, we've got one, we want another one just like it.

So, that would be good, that would introduce competition and lower prices, et cetera, but having two the same is not really as useful as having a more innovative approach to enable integration and evolution of business models so that you can have, you know, continuous productivity improvement, but it's kind of gone down the path of saying, we've got one, so we want two, two will be better than one because it's competition, and so, that's what we want to do. But it's kind of like no one has really asked the hard question, well, what is the problem you're trying to solve, is the market big enough to need two of these things, what are the other opportunities?

So, for example, there could be continuous evolution of how property transactions as a whole are completed. So, at the moment we have exchange of information of funds between the

conventional participants. But there's no sort of law of nature that says it has to be done that way. In other countries it's done a different way, in different states it's done in a different way. And so, Queensland, I think the real estate agent prepares the contract of sale, but that doesn't happen in other states. So, the point is the regulators have struggled with applying orthodox models into an existing model.

Or similarly, when in pursuing the competition reform, the regulators just decided, well, the new competitor should just be provided services to access the incumbent's customers for free. And so, when we pointed out that would mean that our business model would become unsustainable, they said, yes, well, actually we don't really have expertise in that. So, we're probably wrong, we better get that referred off to an economic regulator to give us some advice about what those things are, so now IPART in New South Wales is going through a process to review those fees.

Or another example is on - you know, obviously, there's a lot of valuable and useful data that is assembled in the process of executing property transactions. We've had requests from Commonwealth Government, both from the ACCC and from the Treasury, I think it was, who, you know, they obviously wanted data to be able to examine whether or not property refinances had been conducted in a timely way, or whether there's - you know, they're deliberately slowed down in order to retard refinancing. So, we said sure, we're happy to give you the data, but our own state regulators said, no, no, you can't give that information to the ACCC because it wasn't obtained for that purpose.

Or we've had a request during COVID to provide information on internal migration so as to help the Commonwealth Government, you know, better plan services and support, because there were fairly big changes in migration internally when more people were moving to regional areas and away from the city. So, what we're saying is that, you know, they're good people, our regulators, and they're looking at the laws in front of them, but they really don't have much guidance and when being asked about issues beyond expertise.

So, I guess our purpose of our submission is to say that really there's a fair bit of work that needs to be done to upskill a lot of the small regulators, you know, the local governments, the boutique state regulatory agencies, and even the larger regulatory agencies about how to be effective as a regulator in industries that are in digital transformation. How to avoid the trap of just, you know, if you think about that classic example in New South Wales, When Uber was on the horizon, the government just said, no, no, we like taxis, taxis are all - that's the way we do things around here, we're not having it.

So, I had some eyesight to - there were a couple of start ups in New South Wales that were about to - which were offering a service which I now know is exactly the same as Uber but they got brushed off and say we're not having that kind of new entrant reform in New South Wales. And it just took until the big gorilla from overseas, Uber, came in, and just started doing it in - you know, ignoring the laws, accepting the penalties, and whatever, they just did it, and the customers liked it so much that the government was then forced to retract.

But wouldn't it have been better if there was a more forward-looking regulatory approach that enabled new technologies and new models to come into place? So, just to wrap up my opening submission, I guess our suggestions are there's some specific infrastructure that's needed for better digital transformation in Australia. So, that goes to making it easier for people to prove who they are. Because at the moment, for example in property, you have to prove who you are to your conveyancer, to your lender, potentially to the real estate agent, you can do that over and over.

Reforms to make electronic signatures more accessible and simpler for people to use, because it's what they expect. In our own case, some reform about the use of data. But systematically, I think if you could look into, and perhaps recommend some principles that said if you are a specialist regulator, you shouldn't attempt to reinvent the wheel where there are already laws and skilled regulator who'd look after things. So, with that argument to say we're not doing enough on privacy in the proposed thing that we intend to do, we say, well, we're using the same methods that are used to protect personal health information in your jurisdiction.

They say, no, no, we want our own privacy we will invent just for your industry. And I think that's insane. Like, there are people who do privacy, we should just have a common approach to it, you know, recognising different levels of protection are needed. And I've listed another - a whole suite of things, like protection of IP, or approach to consumer protections and so forth, where it would be really good if specialist regulators could be directed to just apply the model. Get them to tuck under the wing of these specialists who are setup to look after those things.

And then, finally, I really do, as an experienced regulator, believe that there's not many places to go if you're a regulator looking for support and guidance on how to be an effective regulator in a digitally transforming world. Most of the laws that they administer are predigital, and they kind of have to make up as they go. So, some kind of arrangements of principles, and training, and education, even a branch just of people to phone up if they're stuck, because PEXA's only a fairly small company, but we are listed on the stock exchange, though we do have some experienced people who can mount our arguments, but there would be lots of firms who are inventing stuff who just have no ability to take these things up with the regulator and get satisfaction, you know, in a modern approach put in place, and so, opportunities go missing. So, I just think there's this kind of upskilling thing that they need to bring the regulators into the modern era. So, I would be happy to answer any questions, and thank you for attention. Sorry, I can't hear you. I think you might be on mute; I can't hear you.

COMMISSIONER ROBSON: Can you hear me now? Can you hear me now, Simon?

MR SMITH: Yes, I can.

COMMISSIONER ROBSON: Okay, that's good. Sorry about that, thank you. I've just got a couple of questions about PEXA, you know, isolated to that experience. But then also some more general questions around data and digital, which I think you alluded to. And one question around PEXA is, you know, you said it was a private company right from the start setup between the states and the commonwealth under the COAG process, I mean, how important was that to the subsequent development, or was that just sort of incidental? What was the role of, you know, setting up a private company versus doing it in some other way, in your experience.

MR SMITH: Yes, so, just to confirm, the Commonwealth was not a party to the deal

COMMISSIONER ROBSON: Okay.

MR SMITH: Just the three/four State governments.

COMMISSIONER ROBSON: Okay.

MR SMITH: It was absolutely critical because the banks had been trying to digitise the process but couldn't do it on their own. Registries has been trying to digitise the process and were going to end up with multiple systems, and they, to be honest, didn't really have the resources and capability to do it. And it also required a lot of simultaneous co-operation from regulators to accommodate the digital ways of working, which wouldn't have happened, I don't think, without the state governments being on the inside. So, I think in that - because, you know, property

transactions, it's a very traditional activity. And you know, we had to have 10 years of getting people to come onboard, and to participate in the process, and I think just getting the key stakeholders involved through ownership was a matter critical - the states did sell out their interests and made a handsome profit, which was good for them, but you know, then it was sold to private equity, and then it was, last year, it was listed on the stock exchange.

COMMISSIONER ROBSON: And then is your sort of technology, to what extent is it being impacted by, you know, distributive ledger, and blockchain technologies, or is it a totally separate, you know, thing, or what's the relationship between what you're doing and those which are basically, you know, some kind of recordkeeping devices and tracing through property rights along, you know, a chain of transactions? Is that similar to what you do, is it something completely separate and do you see a, you know, a thread or an opportunity there, or how do you think about that?

MR SMITH: It's a potential opportunity, and there are some blockchain firms getting involved in property. But at the moment the state governments are the custodian of the record of ownership, and under state law, under Torrens Title, the states guarantee who owns the property. You know, they take responsibility for that. So, at the moment the disruption would need to be permitted by the state governments to abandon their central role of guaranteeing title in favour of a blockchain record, and we're just not seeing any signs of that.

COMMISSIONER ROBSON: Yes. And do you think there are other opportunities for, you know, ownership of other, you know, big consumer items, like cars, or you know, other sort of paper-based registry schemes, you know, licensing, birth certificates, these kinds of things. Is that - or is the - you know, the real property sector, that's where the real gains were?

MR SMITH: I think it was probably the largest area of administrative deadweight.

COMMISSIONER ROBSON: Yes.

MR SMITH: Which is why it picks it up, I think.

COMMISSIONER ROBSON: Yes, okay.

MR SMITH: I mean, there are some other examples. Like, there's other registries of, you know, such as equipment that could be modernised, for sure. But I think sort of the deeper thing, the deeper question is about, probably, states would wait and see what's going on with distributive ledger technology before taking the step of relinquishing the field.

COMMISSIONER ROBSON: Yes. And then one last question from me, and then I'll hand over to Lisa, is just, you know, obviously in the current environment on security of data, how are you dealing with that, and what's your take on, you know, from your perspective, on the situation there?

MR SMITH: Well, our take is that it's just a vital part of our business every day. You know, we all see the, you know, the examples of the loss of data, and what PEXA does, you know, it's a vast amount of money that PEXA directs between buyers and sellers through the RBA, and with the financial institution. So, obviously, it's just - like, our board asks about it every meeting. You know, like what are we doing on at the core of our business, that's just a constant focus for - - -

COMMISSIONER ROBSON: Yes.

MR SMITH: And you know, that's our number one job, is to keep it safe, and that's what we've been able to do, and we've provided a demonstrably safer system. But for example, you know, where there has been fraud in property transactions in the past, and where there's been cyber incidents between the ultimate property - like between the vendor, and their own lawyer. So, for example there was an example in Western Australia where a criminal got in between and (no audible response) - - -

COMMISSIONER ROBSON: We just lost him. Can you hear us?

COMMISSIONER GROPP: We've lost him, I think.

COMMISSIONER ROBSON: Yes.

COMMISSIONER GROPP: He's back again. Are you there? I think we've lost him.

COMMISSIONER ROBSON: Can anyone else hear us, is it at our end, or at Simon's end?

UNIDENTIFIED SPEAKER 1: Yes, we can still hear you.

COMMISSIONER ROBSON: Okay. All right, we'll just wait. Sorry about this, everybody.

COMMISSIONER GROPP: He's left the call, he might dial back in.

COMMISSIONER ROBSON: Yes, I think he's logged off and then will log back on.

COMMISSIONER GROPP: Shelby, could you see if he's coming back in? He might not know it's him, he might think it's us.

MR SMITH: Hello, can you hear me?

COMMISSIONER ROBSON: Yes, got you now. You were just talking about security of technology. Go ahead.

MR SMITH: Yes. So, I think there's just no doubt cyber will forever be an issue, and we have to just get better at managing the risks of it.

COMMISSIONER GROPP: Yes, I was going to broad it out a bit, Simon, because I think there's obviously other areas where paper based exchange of data and information is rife, including in the health sector, and I guess is there any lessons more broadly for those other sectors where it plays different issues, obviously, but you know, what are the - you are talking about principles, but more broadly do you have any lessons that might be relevant? Have we lost him again?

MR SMITH: Sorry, can you hear me now.

COMMISSIONER ROBSON: Yes.

COMMISSIONER GROPP: Yes. I think his connection is really bad, we might have to - hello?

MR SMITH: Hi, yes, I can hear you.

COMMISSIONER GROPP: Okay.

MR SMITH: Yes. I suppose the strength of the PEXA example is that all of the key stakeholders were part of it, and it was done together.

COMMISSIONER GROPP: Yes.

MR SMITH: And it just could not have happened in Australia, or in the property sector without it.

COMMISSIONER GROPP: Yes, I was going to raise that, because having them all aligned is critical, presumably.

MR SMITH: Yes, that's right. And we get just, you know, like having all those different state governments with slightly different legislation and approach. They would never have come on board, really, without - I mean, I recall that at the time I was working in Department of Premier and Cabinet, and with the general council of Premier and Cabinet, became the board director, representing the New South Wales government on the board of the company, and I think that it was always the fact that the - you know, that it was a significant asset, or prospective asset for the state meant that it had the full support from the Premier. And it was only on that basis that the land registries were all fully engaged in the process.

COMMISSIONER GROPP: Yes.

MR SMITH: And there's just so much red tape and anachronistic, or at least archaic regulation that was involved at the time, it just required a lot of horsepower to reshape the model.

COMMISSIONER GROPP: Yes. So, we have sort of occupational barriers, et cetera, and, I mean, a certain interest protecting things, it makes the job much harder, presumably.

MR SMITH: And I also think that - I mean the company, in the form it was established, was extremely entrepreneurial.

COMMISSIONER GROPP: Yes.

MR SMITH: It was like a start-up, it was a small company, very minimal, it wasn't having to work through, you know, the usual inter-government committees and so forth, and that was also - it seemed to combine the best of the agility of the private sector with the buy in and engagement of the states.

COMMISSIONER GROPP: Okay.

COMMISSIONER ROBSON: Is there anything else you wanted to add, Simon? That's been really informative.

MR SMITH: No, but just a very sincere plea to consider this idea of some guidance for the regulators on digital support. You know, I remember in times past I'd been involved in education programs for regulators, you know, where experienced people are brought together and they - you know, such as yourselves, or others, to provide, at least, some principles, so that poor little companies or poor little regulators who don't know quite what to do, at least some principles to look to on how to do all of these things. You know, to sort of define the areas where there already are specialists, and they shouldn't be duplicated, or you know, where to go to get help, et cetera.

COMMISSIONER ROBSON: I mean, I guess the other issue too in this area is it is a very competitive space internationally, and to the extent that, you know, we have regulations or approaches here that are inconsistent with, you know, the rest of the world, that's an important consideration as well. And you mentioned the UK in your particular example, but that would be - you know, the cost of getting these things wrong in an international context could be quite high.

MR SMITH: Yes, well, you'd just get left behind.

COMMISSIONER ROBSON: Yes.

MR SMITH: I mean, it's just such a - I just think that PEXA is a good example of how you don't have to have a big multinational company to be coming in and impose its way of doing things on your country. You know that it is possible, but the regulators have to be nimble and openminded, and able to adapt the frameworks to take the benefit of the systems as they are.

COMMISSIONER ROBSON: Okay. Thanks very much, Simon.

MR SMITH: All right, thanks for your time.

COMMISSIONER GROPP: Thank you.

COMMISSIONER ROBSON: All right. So, we've got Luke. Luke are you online, I think I saw his face popup at some point.

MR COLEMAN: I am indeed, yes, I am here, I just put myself on mute while you were finishing up with the previous guest there.

COMMISSIONER ROBSON: How are you, Luke?

MR COLEMAN: Very well, thank you, thanks for making the time to have me on.

COMMISSIONER ROBSON: Yes. So, welcome, and if you could just state your name and where you're from, formally, and then if you want to make an opening statement, go ahead, and then we'll follow up with some questions.

MR COLEMAN: Perfect. Well, thank you, my name is Luke Coleman, I am the head of government and corporate affairs at Vocus. Vocus is the fourth largest telco in Australia, and the operator of Australia's second largest fibre network. So, our submission to the review is focused on recommendation and information request 3.1, investing in regional digital infrastructure. And in my previous life, before joining Vocus almost four years ago, I was an advisor in the office to the former communications minister when the last review of the USO was conducted back in 2016 and 2017, around the time that the regional broadband scheme was being legislated and put in place.

And so, universal services and regional telecoms delivery has been a bit of a passion piece of mine for a number of years. So, to provide a brief overview of Vocus's submission to the enquiry, we are highlighting that today, and I think this is something that the productivity commission has already recognised in your own paper, that today we have numerous overlapping pieces of either taxes, or levies, or direct government subsidies for at least five different regional communications funding programs, which are all broadly trying to solve the same problem.

In total, those programs are costing more than a billion dollars a year going towards regional communications, but what we wind up with is a patchwork of technologies that are used for varying purposes. Some delivering fixed line voice, others delivering mobile, others delivering broadband. And they've come about that way because historically there has never been one technology which has been able to tick every box. So, it's the case today that we have the standard telephone service, being a plain old, fixed line telephone service that is provided by Telstra, and funded under what's now known as the universal service guarantee, what used to be called the universal service obligation.

Which is about \$250 million a year, 100 million of which is taxpayer funding, the remainder of which is funded through the telecommunications industry levy, and that guarantees that anyone living in regional Australia can have a fixed line telephone. Secondly, that same premise that's getting a subsidised fixed line telephone can also get a broadband service through nbn, which in

a regional area would be delivered over nbn's fixed wireless or satellite networks. Now, those loss-making fixed wireless and satellite networks were also funded by the taxpayer in the initial rollout of the nbn, and on an ongoing basis are also cross subsidised by industry through the regional broadband scheme levy.

Now, third, that same premise in regional Australia that's got a fixed line through the USG, it's got a broadband service delivered by the nbn. It might also have a mobile voice and broadband service available to it, which has been funded through the mobile blackspot program, another federal taxpayer subsidised program. That same premise again might also have a fixed wireless voice and broadband service provided by a third-party operator, which has been funded through the regional connectivity program, another federal government taxpayer subsidised program for rolling out communications infrastructure.

And finally, that same premise that has those four different types of communications technology available to it might also have access to an ADSL service which is provided over Telstra's copper network, which as I mentioned earlier, is subsidised through the universal service guarantee, and Telstra has an obligation, something called the copper continuity obligation, to keep that old copper network alive, even in places where the nbn is available, even in places where there's mobile coverage, voice and broadband, and where the regional connectivity program might have also delivered alternative fixed wireless services.

So, you can look at any of those individual programs in isolation and they would make sense, because what is delivered over Telstra's copper network to be a plain old telephone service can't be delivered over nbn satellite network, because it's not built to provide voice services. And the mobile blackspot program, well, that's there to expand mobile coverage, but for some premises in regional Australia, they still might not have access to mobile coverage, so they still depend on the copper lines. So, in isolation all of these programs make sense, because to date there has never been one technology which can solve all of those regional communications problems.

And what Vocus is trying to highlight in our submission to the productivity commission's enquiry is that we are on the cusp of one service which can tick all of those boxes, and it is a new technology, it is now live in Australia through one operator, and over the next two or three years, I think it's safe to say there'll be at least four operators, and that technology is called LEO satellites, which stands for low earth orbit satellites. The reason that LEO satellites are such a ground-breaking technology and are capable of resolving these various overlapping programs is that LEO satellites dip about 300 kilometres above the earth service.

Now, contrast that with traditional satellites, what we called GEO satellites, for GEO satellites it's 36,000 kilometres above the earth's surface. And so, to make a phone call using a traditional GEO satellite takes about 600 milliseconds for that signal to bounce from the earth all the way up to that satellite and back down again so that you can make that call. 600 milliseconds is far too long, what we call latency in the telecommunications industry, to have a normal phone conversation. The lag is simply too long between you are speaking and you hearing what the person on the other end of the call has to say.

LEO satellites solve that, because they're only 300 kilometres above the earth, the laws of physics mean that that signal, to bounce up and down to a LEO satellite, only takes 20 milliseconds, or 40 milliseconds to get up and back again. So, even on a bad day, if that signal was going slow than it normally would and it took 60 milliseconds or even 80 milliseconds, now, that is still well within the bounds of what would be a normal voice service phone call. And so, not only is it for voice though, of course, LEO satellites have been built to deliver very high-speed broadband. The service which has already launched in Australia, which is built by a company called Starlink, a division of SpaceX.

Starlink is offering broadband services that are between 50 and 150 megabits per second, and speed tests that have been conducted online through companies like Ookla, which provides a speed testing service, is showing an average speed which is pretty close to 150 megabits per second. Now, compare that to nbn satellites, which are only about seven years old, even less than seven years that they've been in operation, they will provide an average speed of up to 25 megabits per second. And at peak time, in the evening, when lots of people are streaming television shows, those speeds will be slower, and services will be rationed.

The satellite technology has just moved so quickly over the past decade that a LEO satellite today can just provide dramatically faster broadband speeds and voice services in a way that nbn satellites aren't capable of. And that's not to say that nbn satellites aren't very, very good. If you're living in a regional area, it's a much better service than what would have ever been previously available to you, but the technology has advanced very quickly, and what's now available through LEO satellites is infinitely faster than you would have experienced over nbn satellites.

So, our recommendations that we've made in our submission just recognise this fact that we've got this new technology that can solve all of these problems in regional Australia, and that there is a far more economically rational way of funding regional telecommunication services. We no longer need the overlapping universal service guarantee, regional broadband scheme, regional connectivity program, mobile blackspot program, copper continuity obligation.

If you've got LEO satellites that could be subsidised to end users in regional Australia, all that end user requires is a dish, which retails for just under \$1000, and then there's a monthly service which is about \$130 a month, which could be subsidised, almost like a voucher program that individuals now have a choice. So, they might choose, if there was a subsidised voucher style program, that they might want to just use a mobile broadband service, because they're in an area that has 4G or 5G coverage. The subsidy could go towards that, if that's what the user chooses. They might choose to stick with their nbn satellite service, or many of them will probably make the decision to choose a LEO service, if they had that choice.

Currently, those users are locked into one of these services which are centrally funded through the government, and made available, but for the first time in history, because of the advent of LEO satellites, you've got competition and choice for the overwhelming majority of premises in Australia. If the coverage claims of the mobile operators are accurate, Telstra has mobile coverage throughout 99.6 per cent of premises in Australia. So, that would mean that only, you know, 0.4 of a per cent of premises would need to get a voice service that could be delivered by a LEO service rather than on a fixed-line copper service.

So, because we've got that competition and choice, no longer a need for a centralised or centrally funded program, let users choose the most appropriate service for them. So, I have been talking your ears off now for the last 10 minutes or more, so why don't I leave my introductory remarks there and welcome any questions you might have.

COMMISSIONER ROBSON: Thanks Luke. No, that was really interesting. Just take us through the - I mean, you sort of advocated for a voucher kind of scheme, it sounds like, where the, you know, the consumer can choose whatever bundle they want under that voucher. I mean, why would a LEO - take us through the economics of why LEOs need a subsidy at all. Is it the costs are higher to serve regional areas, or I mean you mentioned a dish, I mean, presumably everybody has to get the dish. So, what's the economic case then, you know, in particular for regional areas needing a subsidy in the first place?

MR COLEMAN: Sure.

COMMISSIONER ROBSON: For the LEO technology in particular.

MR COLEMAN: Yes. So, the price of a LEO service is universal. You could get it in one of the major cities, it is going to cost you the same to buy a dish, and the same monthly cost to get a LEO service, as in the most remote location in Australia. So, it's an even cost no matter where in the country you are. Going to your question about why it should require a subsidy. Well, it doesn't currently get a subsidy. It's a completely commercial service, it's out there competing in the market, but it's competing on an unequal playing field, because it's competing against a subsidised home phone service, which is subsidised through the universal guarantee. It's competing against a subsidised NBN satellite service which has been delivered, first of all, on taxpayer funding to establish that service, but is subsidised on an ongoing basis through the regional broadband scheme which is a levy on all of NBN's competitors that goes towards the cost of NBN providing the satellite service as a loss-making service.

It's competing against the services on mobile that have been subsidised through the mobile blackspot program, and it's competing against fixed wireless services that have been subsidised through the regional connectivity program. And so what I'm really advocating for here is that all of those disparate programs that are currently pouring in either taxpayer funding or funding via their competitors through levies should simply be available to consumers. That amount of funding doesn't need to be set for those other technologies.

If a consumer wants to make the choice to go for a LEO satellite service, then they should simply be able to have that choice rather than having everything centrally funded through other government-run programs. You might find that if the government made a decision, okay, we're going to stop subsidising USO, regional broadband scheme, mobile blackspot program, regional connectivity program; instead, we will establish a contestable amount of funding, however much that might be, a few hundred million dollars a year, but it's currently contributed towards these other programs so that a consumer might say, well, I actually don't need a fixed line telephone service; I would much rather get my designated subsidy amount, which could be a set amount per month per user.

You know, completely hypothetically, let's say that amount is \$50 per month, but a user might say, well, I'd prefer to spend that to go towards my LEO satellite service that I choose to purchase, and I'll simply pay the gap. I'll pay the additional 70 or \$80 a month to get that service. Another user might say, well, I'll take my \$50 hypothetical subsidy per month and I'll put that towards a mobile broadband service because I've got the availability of mobile broadband where I live. I think it's not just about subsidising LEO services specifically; it's about making the USO contestable because for the first time the technology has made contestability an option.

COMMISSIONER ROBSON: And what's the coverage like at the moment and how do you see it evolving, you know, over a timespan where, you know, it would be, sort of, potentially more widespread to be able to, you know, do the kind of thing that you're talking about, you know, broadly across regional Australia?

MR COLEMAN: Sure. Yes. So, the way LEO satellites are being deployed around the globe - and it's important to remember how the technology works. Because they're so close to the Earth's surface, LEOs are currently spinning around the world very, very quickly, so they're providing coverage to different parts of the world as they move around the Earth's orbit. So they're being deployed from the south up towards the equator, and so currently the coverage is there over all of the southern parts of Australia, most of the east coast of Australia as far as Cairns, but there's not yet coverage to all of the Northern Territory and all of the northern parts of Western Australia.

As that coverage continues to be rolled out over the next year or two, we will have 100 per cent coverage of the Australian population. And as the other operators come online, so presently Starlink is the only commercially available service, but there are at least three other providers hot on their heels to provide LEO services. You'll have 100 per cent population coverage through as many as four different LEO providers. Now, the technology is as dependent on the satellites in the sky as it is on the infrastructure on the ground.

So the reason that Vocus is advocating for LEO satellites - we don't fly satellites; we don't own any satellites; but we provide the ground infrastructure for LEO satellite operators. So that means the satellite dishes that connect the satellites back into the broader internet on the ground are connected via Vocus' fibre, and we will also build the physical infrastructure to operate those what they call ground stations on the Earth's surface. So, to answer your question, 100 per cent coverage of the Australian population within the next 12 to 24 months, and competitive coverage over the next two or three years as the other operations come online.

COMMISSIONER ROBSON: So, in terms of then the cost to regional and remote areas, I mean, it's the ground station and infrastructure where you might expect there to be a higher cost relative to urban areas; is that right or - - -

MR COLEMAN: No. Well, from a consumer's perspective, no, because a consumer will pay the same price for their own satellite dish.

COMMISSIONER ROBSON: Yes, yes.

MR COLEMAN: You know, the cost of physically building that infrastructure, yes, will - may be marginally higher in a regional area because of the cost of getting workers out there to build the infrastructure, of transporting the infrastructure out there, but from an end user's perspective the cost is the same regardless of which area they're in.

COMMISSIONER ROBSON: And then in terms of, you know, congestion on this type of technology and latency and quality that you mentioned, how does that compare with other technologies?

MR COLEMAN: So, the current commercial offerings that are in market - and again, it's one operator that's available in market now - they offer an unlimited service for around \$130 a month. It is not rationed at any time of the day like an NBN service is; however, it is important to acknowledge that it is the very early days of that service being available, and so as more users come online, yes, networks will fill up, and so I can't predict what might happen in future with the kind of throughputs you can see, but it will remain the case that the speeds available on LEO satellites will be dramatically better than what is available on traditional satellites.

And in my cases in regional areas on terrestrial fixed-line and fixed-wireless technologies, the service is marketed as providing between 50 and 150 megabits per second. Speed tests online have shown many users getting speeds even faster than that, as fast as 300 megabits per second which is faster than most fixed-line NBN connections. But yes, as the network becomes more congested and has more users on it, we can expect those speeds to be within that normal range of 50 to 150 megabits per second. But the latency issue doesn't necessarily change. Those satellites will always be the same distance above the Earth's surface, and so we'll still have that 20 millisecond latency that makes a voice call or a video call like we're on now perfectly acceptable and I would say indistinguishable from a terrestrial technology.

COMMISSIONER ROBSON: And so you mentioned Starlink. I mean, how are they being commercial in this space in the absence of what you're talking about? What are they just sort of cherry picking or how are they - you know, how are they entering the market or do you think

there would be more market penetration if they had this sort of extension of the USG that you're talking about?

MR COLEMAN: So, at the moment it's a completely commercial product. So if you are an end user, you would go online and you would purchase a dish for just under \$1000 that you set up manually at home. It takes a couple of minutes, that it automatically - once you physically put the dish either on the ground or on your rooftop it automatically configures and connects in a matter of minutes, and then you're paying that 130 or so dollars per month to use the service. So, having a USO style subsidy available, I think, would increase usage because it's - services like Starlink are fighting with one hand tied behind their back because they're the only non-subsidised service in regional Australia competing against a bunch of other services that are subsidised and, arguably, technically, in theory, are to what a Starlink makes available both in terms of speed and latency.

And so yes, I would say that there's a strong argument that if it was on an equal playing field in terms of receiving a government subsidy for those services, that you would expect penetration to be higher because consumers wouldn't be contributing 100 per cent of the cost of both buying the dish and the monthly price of that service as consumers are receiving a subsidised service through all of those other alternative technologies.

COMMISSIONER GROPP: Thanks. Can I just ask, just going back to an earlier question of Alex's about (indistinct) they provide commercially, but - because the USGs, et cetera, are compensating for the additional costs of providing those services in remote areas, and you're saying that with Starlink or - you know, that there's not really an additional cost; it's just same cost wherever you provide it. So, in terms of - talking about 130 bucks a month and \$1000 for the dish, how does that compare to the retail prices of the other services at the moment?

MR COLEMAN: Sure. So, an NBN satellite service, which will give you up to 25 megabits per second speeds and isn't capable of providing voice, you'll see in the market from sort of \$55 and upwards, depending on how much data you want to download monthly. So these do have a quota attached to them of how much monthly data you can get and at what times of the day you can access it, peak times versus non-peak times. So, the starting point on price, you'd say less than half the cost, but for a vastly different experience. Mobile broadband services - now, similarly, mobile broadband services are also the same price whether you're living in a city or in a country area. It's nationally uniform pricing for mobile services.

So, again, it will depend on how many gig of data you wanted to purchase per month. The thing with voice on mobile, it's effectively provided unlimited free voice calls on mobile. You - overwhelming majority if not all mobile plans now, you simply pay for the amount of data that you have included. So this another reason - putting aside LEO sats for a moment, another reason to reconsider the viability of an ongoing subsidy for the fixed-line voice network USG is that 99.6 per cent of premises in Australia have mobile coverage with voice services that are effectively unlimited for whatever monthly plan you've purchased.

That's going to be dramatically cheaper than the cost of a monthly home phone service, and so why do we continue to subsidise a fixed-line voice service if mobile services are available and are probably cheaper, and they also have the ability to provide mobile data services. Now, the argument that will probably be raised by many people in regional Australia is that the fixed-line voice service is something of a lifeline, that people can be concerned when mobile coverage goes down, if perhaps there's a bush fire and a nearby mobile tower has been affected by a natural disaster, that they could be left offline.

Now, the reality is, of course, fixed-line voice services can be just as easily affected by natural disasters or bushfires. They aren't - there is no silver bullet. There's no service which is not affected during natural disasters, and if anything, a mobile service is far more effective because the first thing you're going to do in a natural disaster like a bushfire is grab the mobile, jump in the car, and evacuate. Having a working mobile service as long as coverage is available is infinitely superior to sitting at home and using a fixed-line voice service.

So, sorry, I know I've gone slightly off track from your question there about, kind of, the different prices, but I think part of reforming the overlapping regional funding programs that we have available here is a recognition that what might've been useful in the past and is seen by many people in regional Australia is a lifeline in reality isn't the perfect service that many people might think it is, and now we're at a point where we've got competition; we've got contestability; we've got availability; we've got coverage. The time is now right to reconsider these things in a way that wasn't even possible 12 months ago before LEOs services became a commercially viable option.

COMMISSIONER ROBSON: And if governments were to tender out, you know, for bids for the kind of services you're talking about, are there any regional areas where you would expect that may be - you know, that service providers wouldn't bid for, to provide that service? You know, barriers in terms of - are there just remote areas where the company is just going to say no way, I'm not going to do that with this technology, or it doesn't work like that? What's your view on that?

MR COLEMAN: I know that this is something that the Productivity Commission had raised in its discussion paper about, you know, if you were moving to a contestable USO model, would you do it on a geographic basis, that you would pick a certain geographical region and seek tenders for that region. Now, I think with LEO satellites, that model doesn't make sense anymore because they have national coverage or, I should say they will have national coverage in a short amount of time.

You are able to provide a service anywhere in Australia that you can deploy a satellite dish. So it's no longer facing the issue of building a new tower, whether it's to deliver a fixed wireless broadband service or to deliver a mobile service because the satellites are in the sky providing universal coverage. The only thing that the end user needs is a dish so that they can connect to the satellite. The only area that I can foresee where there is an element of geographic coverage in a satellite service would be in maintaining a service, so that if you were living in an extremely remote location and your dish stopped working - maybe it's damaged by hail or extreme weather - to get a technician out to fix the dish - they might be coming from hundreds of kilometres away.

So there could be an argument that you might have a geographic contract with a service provider for remediation services, but even then, you may well find that it is more economically efficient to simply send that person a new satellite dish to get it up and running rather than having a contract for a defined geographic area. So, the geographic question posed in the Productivity Commission's paper makes sense if you're thinking about terrestrial technologies, but I think LEO satellites again - it breaks the model that we've all been depending on for so many years when it comes to regional service delivery because it's available effectively universally.

COMMISSIONER ROBSON: All right. Thanks, Luke. Is there anything else you wanted to add?

MR COLEMAN: No, I think I've given it plenty of coverage - forgive the pun - and really grateful for the opportunity to speak and to explore my passion for regional telecom services. Thanks so much for having me.

COMMISSIONER ROBSON: Excellent. Thank you very much.

COMMISSIONER GROPP: Thanks, Luke.

COMMISSIONER ROBSON: So, we will now take a break for lunch and resume at 1.15.

LUNCHEON ADJOURNMENT

[12.25 pm]

RESUMED

[1.16 pm]

COMMISSIONER ROBSON: Welcome back, and we'll hear from the next speaker in a moment, but I just want to mention again for those of you who are not in the room, at the conclusion of today's scheduled participants, I'll ask if anyone else would like to briefly appear at this hearing, and if you would like to do so, please speak with one of our team. With that being said, I'd now like to call Gary McLaren. Gary, if you could state your name and in what capacity you're appearing, and then also happy to hear from you in terms of an opening presentation.

MR McLAREN: Right. Thanks very much. Yes, thanks for the opportunity to talk with you about the inquiry here. So my submission's about the investing regional digital infrastructure part of the interim report. For my introduction, I was the chief technology officer at NBN Co from 2009 to 2014. I'm here in a personal capacity, not representing anyone in the organisation just as an interested public citizen. Given my background with telecommunications in Australia. I've also worked overseas in Hong Kong, as a chief technology officer with a fibre broadband company, and I'm now a consultant for Hardiman Telecommunications who provide advice and due diligence for mergers and acquisitions in Asia, Europe and Africa.

So just a few opening remarks. If I could just go into - I have provided a nine-page submission, so I'll just try and summarise some of my comments briefly, and obviously very much open for question. So, first of all, I'd like to commend the Productivity Commission on highlighting significant problems in telecommunications and the telecommunications industry in Australia, and that is the inefficient nature of funding the necessary ongoing investment in Australia's regional telecommunications infrastructure. Unlike the urban and large regional cities, investment in regional telecommunication is in many cases uneconomic. Returns on investment make it unattractive without some form of government subsidy.

In Australia this is especially the case given low population density, and that's even though regional Australia is a source of much of Australia's economic wealth. But despite this obvious problem, Australian telecommunications policies have always struggled to come up with a sustainable long-term policy for investment in regional telecommunications. Instead, the investment decisions have been hidden by state-owned monopolies. Initially it was the Postmaster General's department, Telecom Australia, and now NBN with minimal transparency and mainly in response to political rather than economic drivers.

In my nine-page formal submission I fully support the Commission's suggestion for market-based mechanisms to deliver a more efficient way for delivering the universal service guarantee; however, in my opinion this doesn't go far enough. To create a competitive market-based

mechanism, it is necessary to have a long-term sustainable funding arrangement in place to ensure that an efficient market can develop for investing in infrastructure and serving regional Australia. My submission highlights that approximately \$1 billion per year of subsidies are currently being ploughed into regional broadband infrastructure.

Approximately half of these subsidies are via industry levies such as the 1990s USO and the more recent regional broadband scheme. The other half is from a range of ad hoc federal and state government grants to schemes such as the Regional Black Spot program for mobiles and the Regional Connectivity program, and other specific initiatives. The regional broadband scheme with funding of – which provides a subsidy of approximately \$600 million per year is particularly narrowly cast in that it is only imposed on high speed broadband providers, such as NBN Co and a small number of its competitors.

In my opinion, the scheme along with other regulatory arrangements were imposed to protect NBN Co from competition and in the hope that a monopoly would result along the lines of the old Telecom Australia monopoly for fixed telephony. A more efficient and effective funding scheme is needed for regional Australia that covers fixed mobile and satellite infrastructure. I have suggested for some time that all of the current funding arrangements should be replaced by a centrally managed fund that promotes efficiency, using competition where possible to ensure Australia's regional broadband services do not fall inalterably behind those of urban services.

What I proposed previously, and I think it needs to be brought to the Commission's attention, is that a levy with approximately 2.5 per cent on all of Australia's telecommunication retail services, given that it's a market of about \$40 billion per annum, would raise the equivalent of \$1 billion per annum that is currently being spent in an ad hoc manner as mentioned earlier. A centralised fund managed by an existing government agency or a new agency would be tasked with obtaining the most efficient and effective outcomes for regional Australia using the proceeds of such a levy. In the days of Telecom Australia, the government relied on engineers and accountants to manage the implicit cross subsidy necessary to fund investment for a universal telephone service.

This was also the plan with the hopeful reincarnation of the supposed fixed broadband monopoly with NBN Co. However, the onward march of technology is threatening the NBN Co fixed monopoly as mobile operators begin to offer equivalent services using 5G. The cherry picking of urban customers by these operators will see NBN Co's internal funding mechanism break down, requiring ever more government funding. As a result, NBN Co should also be funded from this universal retail funding levy, but only to the extent it is the most efficient service provider.

More effective and efficient investment will improve the economic and social growth prospects for many regional areas. Both those that are currently disadvantaged and those that are contributing significantly to our overall economic growth. Furthermore, efficient investment should also have the objective of improving the resiliency of telecommunication networks in regional areas. Given the increasing disasters to be expected from the effects of climate change, this will help communities respond and adapt more quickly to the changing world around them.

It is important the reforms are made as soon as possible, especially given the review of NBN Co's special access undertaking that is now underway. Embedded within the draft SAU is the hidden cross subsidy mentioned earlier. If it is accepted, it will be difficult to undo an arrangement that will become more unsustainable as technologies continue to provide more efficient options to service regional Australia. I would be keen to have a discussion or answer any questions based on my submission and just those remarks. I'm missing - I think they're on mute.

COMMISSIONER GROPP: Can you hear that?

MR McLAREN: Yes, I can hear that.

COMMISSIONER GROPP: You can hear us now.

COMMISSIONER ROBSON: Can you hear us now?

COMMISSIONER GROPP: Okay. Okay, thanks.

COMMISSIONER ROBSON: Okay. Sorry about that. Thanks for that, Gary. In terms of your proposal for funding using an industry level - so, if I understand it correctly, this would replace all of these existing mechanisms, so it wouldn't be in addition to; is that what you're advocating?

MR McLAREN: So, obviously we have very much a hodge podge of different mechanisms with the old USO and Regional broadband scheme as industry levies. So that's approximately half of the \$1 billion subsidy that's being put into regional broadband infrastructure, and the rest are direct government grants. So, I think with a retail levy across the whole industry, you would raise the equivalent amount of money and replace the ad hoc arrangements currently being used. And it could be obviously, I think, used more efficiently, so to get a better outcome of more resilient networks, and to provide, you know, a better outcome overall that's better coordinated and managed, with competition for provision being a key part of that.

COMMISSIONER ROBSON: And then in terms of that competition, you know, in remote and regional areas, do you think that would be - there would be a sufficient number of players to serve those markets and to bid for that - you know, for the work? You know, in certain areas there might only be one or two or - - -

MR McLAREN: I think this has always been seen as the problem, that there won't be sufficient competition. You know, it's part of the problem that caused the downfall 20 years ago when something like it was attempted. I think one of the problems is that without a sustainable future funding mechanism that the industry can see is a sustainable long-term funding mechanism, then you only get existing players with existing infrastructure looking to participate, and it won't encourage new entrants or international entrants like we have with satellite providers, who obviously see this infrastructure as clearly long-term infrastructure. Funding being seen by the industry to be political and short-term in nature, there is not obviously a response from the market anywhere near that could be done if it was seen as a sustainable long-term funding arrangement that was put in place for regional broadband.

COMMISSIONER ROBSON: And then in terms of the services and prices you would charge, is the idea then that, you know, those would be set by this body or a different body? How would that work exactly?

MR McLAREN: I think, yes, that would need obviously regulation.

COMMISSIONER ROBSON: Yes.

MR McLAREN: There are clearly - it's very difficult to have competition managing the price level, so it has to be a regulated outcome with benchmarking probably against the equivalent type services in the metropolitan areas to - obviously for equity and fairness reasons, especially on the residential and small business side. And that would then be part of the tendering process for competing companies to obviously provide the networks and the services within that revenue envelope.

COMMISSIONER ROBSON: And we heard previously today about low-earth orbit satellites. What's your view on those? Is that a technology you can see evolving in this space to, you know, address some of the issues that you're talking about?

MR McLAREN: It clearly has a role. It's clearly already a solution for various people anecdotally. I don't think there's been much research, but the market has already developed in Australia where people are paying a reasonably high premium for better broadband in regional areas. And I think that a clear outcome that could be - could point a way to the future in some of the remotest parts of Australia. But I'd like to also emphasise that it's not just satellite or even a fixed wireless area of NBN Co's footprint that is loss making. NBN Co's fibre and fixed footprint goes to probably 93 per cent of the country, and there's probably a good 15/20 per cent of those premises that are also loss making. It's not just these wireless and satellite technologies. So there are areas in regional towns that are certainly loss making and would not be funded on any economic free market.

COMMISSIONER GROPP: Is your levy sort of constructed the same way as the current levy or are you just talking about a bigger quantum? Is that - - -

MR McLAREN: No, it's very different.

COMMISSIONER GROPP: Okay.

MR McLAREN: The current industry levy - so it's charged at - on the wholesale revenues essentially of the operators. That's the USO levy. Now, the regional broadband levy is on retail. It's basically a fixed amount. I would see it as a similar way - I would put it in simple terms to a top-up of the GST on telecommunication services at a retail level. So it could be - could adopt many of the GST mechanisms, but just be constrained to - with what a well-defined carriage service in regulatory terms.

COMMISSIONER GROPP: And in terms - - -

MR McLAREN: It would cover mobile services, not just fixed line services - - -

COMMISSIONER GROPP: Sorry? They - - -

MR McLAREN: It would cover mobile.

COMMISSIONER GROPP: Cover mobile as well. Okay (indistinct) next question. But also in terms of the quantum, the 1 billion you're talking about - \$1 billion per annum, and you're talking about long term, but would that come down with new technology with potential for, you know, climate change, et cetera. It would still stay at the amount or do you see it coming down over time potentially if technology costs came down?

MR McLAREN: It could come down over time. There shouldn't be anything that would prevent that, you know. If the fund, you know, could - if it essentially could act as a funding mechanism with a longer-term horizon, but what is clear is that investment in telecommunication is an ongoing requirement. It has been for a century now already where these networks are not like your water networks, your road networks, your electricity networks. These networks need top-up funding on a scale that is less than 10 years to keep pace with technology. These are not long-term investments that only have capital requirements every 30, 40 years. And that is a fundamental difference in telecommunications that I think the Australian policy makers really have never come to grips with. This is a fast-moving risky capital environment for investment.

COMMISSIONER ROBSON: And 2.5 per cent. How much would that cut into margins of certain operators in particular, you know, if there's new entrants into this market? Would it

potentially act as a barrier to entry or is it sufficiently low that it wouldn't do that and if the costs were passed on to consumers, what would that look like, do you think?

MR McLAREN: For the investors in networks, they are typically operating with EBITDA margins of 40 to 50 per cent.

COMMISSIONER ROBSON: Yes.

MR McLAREN: So that's the investors. Obviously there is a layered structure of wholesale and retail on top of it. So some operators that are just operating on a retail margin and are essentially re-sellers of networks, then that would be a significant amount in terms of there may be a margin for them that's less than 15 per cent. But for the investors, which is the key market that I think this should be addressed at, it's not anywhere near as consequential. And remember that we already have half of that \$1 billion subsidy being funded by the industry already. So that cost is already being carried by the industry, but it's just being done in a very inefficient way on a very narrow base which is very much in favour of the mobile operators.

COMMISSIONER ROBSON: Okay.

COMMISSIONER GROPP: I guess another related question is to do with the cost-reflectiveness for regional businesses, et cetera. If it's permanently cross subsidised by a levy, perhaps those, you know, businesses are effectively being subsidised out in those regions. Do you have any thoughts on that?

MR McLAREN: Yes. So, we essentially I think in Australia already have an accepted policy that we do subsidise our regional cousins in the bush. I think that's a well-accepted fact of life, but what we don't have is a very efficient structure for essentially delivering that subsidy. So we are - as I said that \$1 billion is being put into regional telecommunications infrastructure already, every year, but I don't think we'll get anywhere near the efficiency out of it. I think argument being that this levy and a more competitively managed framework for providing those funds to industry will end up with much better outcomes so that the residential and business customers that are paying that levy in the city would see more regional investment and essentially a more effective outcome than what we're getting at the moment.

But I don't think it's news to many people when we hear mainstream media complaints about regional broadband. There's a continuing feature of our public life in this industry, and has been for 20 or 30 years. And so I think the problem is well understood. The investment is lagging. The investment is now only responding to political calls for action and not in a sustainable way because of the fragmented nature of the funding and the non-transparency being hidden behind things like NBN Co and previously Telstra.

COMMISSIONER GROPP: Are you proposing a central organisation to run this - the statutory corporation or - - -

MR McLAREN: Existing agency or a new one. Obviously that's up to the detail, but yes, it would need to obviously be the main agency that was ensuring the efficient delivery of those funds to the private sector, and to NBN Co.

COMMISSIONER ROBSON: And take us through what your view, Gary, would be in terms of the counter-factual if something like this isn't done. What could we expect to see happen over the next decade or so if you could get out your crystal ball and, you know, what do things look like in the absence?

MR McLAREN: So what I think you'll find is that the investment in Australia would continue to lag, and maybe even lag more appreciably. There is little to no commercial incentive for NBN

Co to invest in these areas, and there's little to no incentive for other players to enter the market because of the perceived dominance of NBN Co anyway. So, essentially the only response you have to the market need is via the political track, of the ownership of NBN Co as it was for Telecom Australia previously and Telstra. The privatisation of Telstra obviously struggled through this whole question as well, and so it eventually got through. It was mainly this question that was the reason why it got held up for so long.

And again, if there is any future push to privatise NBN Co, this will be the thorn in that privatisation process. This will be the fundamental issue that will either make it work or won't make it work. So I think you'll have, you know, longer to be able to get to more efficient outcomes for NBN Co because of this hidden cost subsidy that's basically the monster under the sheets that no one wants to raise and get out and into the public debate. And so it's better to put it, you know, on a more transparent, more sustainable footing up front and get that working before we think about any future privatisation of NBN Co.

But I think the overall effect for the regional consumer and businesses will just continue lag investment in infrastructure that will provide those services. We have a regional telecommunications inquiry every three years by legislation. If you go back and read them, they all say exactly the same thing. Regional infrastructure investment is lagging. That's been going on for 15 years. If you go back and read the last four reports, nothing is done because the funding mechanism has never been seriously addressed in a non-political way. It's a case of we get the same result forever.

COMMISSIONER ROBSON: Okay. Any other questions? Is there anything you wanted to add, Gary? That's been very good.

MR McLAREN: No. Always available to help out with any other questions. I had provided previous input into the USO and everything else, so it's a bit of a passion of mine.

COMMISSIONER ROBSON: Very good. Well, we appreciate your time and, yes, thanks very much for presenting.

MR McLAREN: Okay. Thank you very much.

COMMISSIONER GROPP: Thank you.

COMMISSIONER ROBSON: Thank you. I don't know if our next speaker is here. So it's Don on the line? He may not be on yet.

MR NUCH: I'm not seeing Don's name on the list online at the moment.

COMMISSIONER ROBSON: All right. Well, should we take a break until he's scheduled to come in at 1.55. So, we'll take a quick break and then come back then.

SHORT ADJOURNMENT

[1.41 pm]

RESUMED

[1.52 pm]

COMMISSIONER ROBSON: Can you hear me?

DR PERLGUT: This is Don. I can hear you, although I'm not quite certain who's speaking. Hi.

COMMISSIONER ROBSON: Okay. Sorry. I'll put my camera on. There we go. So you've got Alex Robson and Lisa Gropp.

COMMISSIONER GROPP: Hi Don.

DR PERLGUT: Hello. Lovely to see you today. Thank you.

COMMISSIONER ROBSON: All right. Thanks, Don. So we'll get started. If you could just say, for the record, your name and the capacity in which you appear, and then we'll hear from you. If you've got an opening statement, that would be good, and then we'll take the conversation from there.

DR PERLGUT: That's great. Thank you very much. My name is Don Perlgut, although I should note for the record my legal name is Donald Perlgut. I am the CEO and company secretary of Community Colleges Australia Limited which is a not-for-profit association of not-for-profit organisations that are adult and community education providers. We abbreviate the term, adult and community education, frequently as ACE or ACE, sometimes referred to as community education providers by the National Centre for Vocational Education Research. Is that a sufficient open identifier?

COMMISSIONER ROBSON: Yes, that's very good. Thank you.

DR PERLGUT: Okay. Shall I continue with an opening statement?

COMMISSIONER ROBSON: Go ahead. Thank you.

DR PERLGUT: Okay. First of all, I want to acknowledge that I'm coming to you from Indigenous land, the CCA head office. We refer to ourself as the CCA, I should say. Is on the - is in the Sydney CBD and we are on the lands of the Gadigal People of the Eora Nation, and I honour their Elders, past, present and emerging. I want to thank the productivity commission and the commissioners and others very much for giving me the opportunity to talk with you today. I want to talk with you about a number of things which are very close to my heart, as well as to our organisation's advocacy and representation activities.

As I mentioned before, we represent the not-for-profit adult and community education providers around Australia. In broad terms, our providers to roughly 10 per cent of total VET activity. I'll give you just the figures that in 2021 calendar year, there were some 4.3 million students enrolled in national vocational education credited courses which actually was an increase of about 9 per cent on the previous year of those numbers. Some - about 3.2 million were enrolled in - that's about 74 per cent - in private training providers; about 778,000 in TAFE; and there were about 450,000 representing ten and a-half per cent of the total VET activity enrolled in adult and community education or ACE providers.

Just as a - give you a sense, we are small, but we are very significant in certain areas, and I'll give you some details of what those are. I'm going to cover a few different things today or briefly I'll identify them and we can go into those as you wish, in terms of more, but I really want to do this - I want to reinforce the importance of tackling Australian inequality especially because if we tackle inequality in Australia, we will become a more productive country. I also want to make the point that Australia's VET system needs more resources and reform. We are too focused on private profit and not sufficiently focused on social and economic outcomes.

In addition to that, I will make the note that Australia's VET system is one of our greatest equalisers, and also with - we're some 4.3 million participants between, say - I think it's 15 and 64 every year - clearly the most extensive of any of the educational services that we have. My final point is that the not-for-profit ACE sector is an underutilised resource and I will tell you

some of the reasons for that. I need to give you just a bit more background about the ACE sector. We have a history in Australia that goes back to 1833 with the development of the Sydney Mechanics Institute which was established that year.

We have a direct history that goes back to 1913 with the establishment of the WEAs, known as worker education associations. They were setup that year because somebody from the UK wandered around Australia in 1913. He had six or seven months. That's when people had more time for their visits to this country. And at the end of his visit there were WEAs located in Adelaide, Sydney CBD, Wollongong known as WEA Illawarra, and Newcastle known as WEA Hunter. All four of those organisations have existed continuously to this date which is a continuous existence of 109 years which is well more than almost all other, excepting a few Australian universities - all other post-secondary institutions in Australia.

The branding of the ACE sector, the not-for-profit ACE sector, is often confused with TAFE and with private-for-profit providers. I want to make it very clear. There is a very big distinction between the not-for-profit ACE sector and the community education sector. What they do, how they do it, what their mission. We are for-purpose organisations and for-profit VET institutions. These are often glossed over by that or ignored, and it is crucial to understand that. There's a public perception that the ACE providers are involved primarily in things like yoga, painting, whatever.

This was the case till maybe 20 years or so ago. Up until that time, it would say 90 per cent of the business of the activity, it is now only 10 per cent of the business. All up, we are talking about roughly almost 400 ACE providers in Australia, a significant number, maybe of them located in regional and rural areas, and an additional maybe 1500 ACE providers that are not delivering accredited training. As I've mentioned about the students, we're representing over 10 per cent of the students, but the other thing to mention is that our sector has some of the best performance of lifting unemployed people into employment. We start with a much lower base, but we lift to - we have a much greater percentage increase.

And our sector has a very important role in two crucial areas of national workforce and productivity importance, and those are aged care and early childhood learning, both of which have become established high priorities by state governments, especially - I note both New South Wales and Victoria have made extensive comments on that, as well as the Commonwealth Government. The other area is - that's aged care and early childhood learning. In aged care, for instance, 23 per cent of accredited government funded aged care students in New South Wales each year study with a not-for-profit ACE provider.

In Victoria those numbers are 19 per cent. So, to deal with aged care workforce - and we do have a workforce problem totalling, I understand, somewhere between 40 and 45,000 person shortfall of aged care workers. To deal with that, clearly the ACE sector has a very important role to play. Our sector also does a very unusual and high amount of work in regional and rural locations and is often one of the very few deliverers of education in those areas.

Our sector by and large over performs when it comes to reaching people with a disability where we have the highest percentage, much higher than TAFE or the for-profit providers, reaching people - percentage wise, I should say - people who are from Aboriginal or Torres Strait Islander, meaning Indigenous or First Nations background, and people who are age 45 plus. 45 plus, somewhat hilariously now, is now determined to be older workers. I am more than 45. You might be able to tell. Nevertheless, when it comes to the workforce, as you probably know, 45 plus is now termed old.

Our sector does very well in reaching and engaging those, but our sector is particularly well also in engaging what we would call more broadly high-needs learners. Now, I don't want to take too much time, and this will need time for discussion, but I did want to give some background about identifying four key areas that we are very, I would say, expressing a high degree of concern about what's that. I mentioned about our importance, and I mentioned the importance of that as ensuring higher productivity for Australia.

I will make the point that we do not believe - and there is important data that shows this - particularly coming from Dr Don Zoellner who comes from Charles Darwin University in Alice Springs in the Northern Territory, that the marketisation of VET - and he analysed deep numbers going from both New South Wales and Victoria - that marketisation in New South Wales - it's called - sorry - Smart and Skilled which is now up for a new tender this month - has not succeeded in increasing the number of disadvantaged and vulnerable Australian into VET and, in fact, in some ways has discouraged people, especially people in outer regional and in remote areas where there has actually been a decrease in provision. I want to make a special case for foundation skills.

Now, that's a bit of a technical term that I do not like. Doesn't necessarily mean a lot to people, but we're referring to language, literacy, numeracy and digital skills. We need proper funding and true outreach. True outreach because it is not - if you're familiar with the Kevin Costner-starring film where he had the phrase, 'Build it, and assume that they will come.' The film was called Field of Dreams. It is not the case when you're engaging with vulnerable and disadvantaged adult learners. You cannot simply provide it and assume that the learners will show up and say, 'It's online; they'll be there.' It does not happen. It is not the case.

Place-based learning, especially for disadvantaged and lower level and high-needs learners and especially for people that have some disadvantage in terms of literacy and numeracy is - that is absolutely essential. Digital delivery is not the answer, and there's a fair bit of literature on this which we can refer to if we wish. My final point for you is about - there are some barriers for Australia's community or aged sector in achieving its potential to assist Australia in becoming more productive and becoming a more productive economic nation.

The first of these, you may not be surprised, but it is one that the Productivity Commission report or the draft report noted which is the free TAFE proposal has the potential to unbalance the whole VET system if it is not combined with proper guardrails. Now, I would make a point that we are not opposed to the TAFE system. We regard the TAFE system as the anchor institution for Australian VET, very essential that it receive proper funding. Nevertheless, free TAFE at its sort of grossest, if it is just put out that way, may very well mean that people who are inappropriate to study in certain qualifications in TAFE may very well sign up for those and have unsuccessful experiences.

Those include young people, and many disadvantaged people, and there's some very interesting and instructive reports, particularly coming out of the VET FEE-HELP policy disaster which you might recall, and the Productivity Commission would've examined at previous times.

In December of 2016 there was a major report from the Australian National Audit Office, the ANAO, which really analysed how the - because that program - the VET FEE-HELP program was run so badly that it was particularly disastrous for Indigenous Australians and for people from lower incomes.

We also anticipate that if free TAFE is done badly - and I'm not saying that it will be, but we do not yet see that the guardrails and the policy settings are there to ensure that it is done correctly - it has the potential to do some major unbalancing. The two final points I wanted to make was that it is essential to fund outreach and engagement of high-needs low-income and other

vulnerable workers, and it cannot be done on the cheap. This is really a crucial one. And my final point is we strongly believe that community development - in other words, must be acknowledged as part of the post-secondary learning experience.

Learners, in our view, cannot and should not be viewed as individual consumers, but as part of a continuum of local businesses, community organisations, and community networks. And this is reflected in the NCVER definition of what a community education provider is, that it keeps community development at its heart. That is my opening statement. Thank you. Happy to have discussion.

COMMISSIONER ROBSON: Thanks, Don. And I'll just add that our chair, Michael Brennan, has joined the discussion. I might just ask you about - you mentioned some work. I think it was Don Zoellner you had mentioned and on marketisation. What exactly do you mean by that and what does that work show, you know, in your opinion? Just expand on that a little bit.

DR PERLGUT: I'm going to give you the summary, and I won't try to sort of look at any specific notes when I give this. The summary that he did was that the New South Wales and the Victorian approach to extending government funding to the for-profit providers took place in different timeframes and in different means and mechanisms, and he has a number of academic papers that I can send links on, and he's very happy to share that information, and easy to find.

However, he does point out that both of them effectively arrived at the same place. One thing that they were very successful in doing was to increase the number of providers of government-funded VET, but I'm not so certain that increasing the number of providers is necessarily a good thing, but it was very successful in doing that, but it was not necessarily successful in increasing the number of people from vulnerable and disadvantaged backgrounds. He points especially to, in both New South Wales and Victoria - and this is doing the big analysis, looking at time sequences of learners and where they've lived over time, that especially learners in outer regional areas - in other words, outer regional, you know, would be familiar people in - well, Broken Hill is technically outer regional, Griffith, Hay, Moree probably sits in that. Mildura probably sitting in the outer regional sense. That outer regional have actually had a reduction in the amount of vocational education training available to them and amount of learners.

And there's some really crucial reasons for that. One of those crucial reasons is that when for-profit providers are engaged in education - and it's that effectively they want to make a profit. It is not profitable to go to what we often call 'thin markets' or it is not profitable to go to areas where you have high-needs learners. Therefore, for-profit enterprises will have a tendency to go to learners who do not exhibit high needs, therefore are easy to find, easy to reach, easy to teach and easy to get through.

Whereas the ACE sector and, of course, substantially the TAFE sector, do not have that luxury because it is part of our makeup and our very genesis to do it. The Don Zoellner definitely showed that. Subsequent work, including a report that came out from the NCVR a couple of years ago, showed - and I'm quoting from this from memory - that in areas that had a high percentage of ACE providers - this is regional areas - that, in fact, the delivery of foundation skills, language, literacy, numeracy, was actually done much more effectively than areas that did not have a high percentage.

That's my interpretation of the essence of Dr Don Zoellner's work, but it is very detailed; it is very explicit, and it is very important to consider. The other thing I would say is the amount of effort and the amount of money spent on delivering vocational education and training is often equivalent to the quality. Maybe not always. There certainly can be inefficiency in waste, but as

I said earlier, it is not possible to do things on the cheap, and that when we have instances where people try to cut corners through putting people online that need some face-to-face instruction, not giving people student support, not giving people proper learning engagement, that the outcomes, even though they might somehow 'pass' the qualification, but the actual learning outcomes and employment outcomes are inferior. I hope I've answered that question.

COMMISSIONER ROBSON: That's very good, thanks. And do you have any aggregate data or research on the - you mentioned this unmet demand for foundational skills. In terms of the size of the problem, what are we talking about, in your estimation?

DR PERLGUT: I'm going to turn around to some of it. Okay, I will refer you to a recent report and a very valuable report released by the Reading Writing Hotline. Reading Writing Hotline is a national service for literacy learners that receives queries and puts them in contact with providers. The Reading Writing Hotline is funded by the Commonwealth Government, and has been funded for some time, and is a successor organisation to the Adult Literacy Information Office, and I would give some - where is it - whatever the right phrase is - that is that back in the early 1990s, when I worked for ABC Television, I worked very closely developing adult literacy television series with the predecessor organisations to the hotline. That's just by way of background.

So I have a long history in this area, but in terms of reaching out and literacy. The hotline released a report, and they surveyed respondents. These were respondents - 382 of them were literacy teachers. They were not necessarily surveying students. There will be, I understand, from the Commonwealth Government invested a significant amount of money to surveying of the literacy needs in the Australian community sometime over the next year or two. Details to be worked out, but nevertheless they surveyed a number of providers, and they found a number of really crucial things.

One of them, of course, is across the board providers were - and there was some really crucial thing about unmet community needs. And I'm just going to give you two or three quotes and then I'll stop because you'll have other stuff but, 'Calls to the hotline often indicate there are many needs in communities not being met by the current language, literacy, numeracy classes. The unmet need most cited by respondents to the survey was the need for individual and tailored literacy assistance.' 64 per cent of the providers said that. The second-most cited unmet need was for, 'Wraparound supports to address barriers and enable participation.' That's what I'm calling outreach. That was 52 per cent. Just over half of them said that.

This was followed by, 'Help them with form filling.' 49 per cent said that. Now, I'm just going to give a parenthetical aside from this point. Form filling during COVID-19 with so many things going online, and also during a time of disasters where people are filling in forms for insurance and everybody else, form filling for people of low literacy has become more fraught than ever. Okay, going back to my point. And two final points that came out of the report was pathways into accredited courses, 47 per cent of the respondents said there were not sufficient. And the other point I'll quote is lack of accredited or non-accredited courses delivered in community settings, right? Not institutional, but community settings. 43 per cent of the respondents said there was a greater need. The report is there. It's available, of course. It's very, very worth going through, and I'm certain that people in the Reading Writing Hotline and their consultants that put it together would be happy to provide more information. I brought out - I noted for myself some of the highlights. Thank you.

COMMISSIONER de FONTENAY: Thanks, Don. This is Catherine de Fontenay, Commissioner, Productivity Commission. It was a great pleasure to meet with you and other members of the association earlier this year. I just wanted to ask whether your organisation has a

view on whether it would be a good idea to extend income-contingent loans to VET students. And you mention that yoga and those types of courses are now only representing about 10 per cent of your offering. Part of our recommendation was that those types of courses be excluded from income-contingent loans, and so I'd be interested in your view as to whether there is a clear dividing line between - let's call it the yoga macramé end of the spectrum and then courses that people take for the purpose of gaining employment. Thank you.

DR PERLGUT: Catherine, thank you very much. And thank you again for the previous opportunity to provide engagement and discussion for the inquiry. Yes, our organisation has a very strong view about the extension of income-contingent loans. The first thing I will note is replacing the VET FEE-HELP program with VET student loans has by and large been a public policy success.

Now, that's partly because we're dealing with what was probably one of Australia's worst public policy disasters, with billions of dollars badly spent, and an enormous amount of shall we say angst and government - let's call it inefficiency undertaken. VET student loans which I haven't looked at in some detail now for some - maybe a year or so, but nevertheless, in my understanding, is running at roughly maybe a-third or less than a-third of what the total VET FEE-HELP was, and that's probably where it needed to be, and it seems to be running without any perceivable major issues.

However, we have noticed, and there have been a couple of different proposals, one of which came from a recent summary from - recent report to the New South Wales Government, and there was another one which may have come from the Productivity Commission or somewhere elsewhere. And forgive me for not remembering that specific one, but expansion of VET - the VET student loans to - even down to Certificate III level. Community Colleges Australia strongly opposes that, and we have a rationale on that which I'll have to sort of look up to actually get that detail.

But we strongly oppose that on the basis that so many of the people who are due to study at Certificate III level tend to be from relatively - not all, but from relatively low income, and almost all - but again, not quite all - but a very large number coming from low educational backgrounds. We all know that people who are working in the aged care sector with their Certificate III are receiving an average of about 23.50 an hour. I do understand that the tribunal is going to increase that by 15 per cent, which will take them up to \$27 roughly or that per hour. Nevertheless, we are not talking about a large amount of money. I also acknowledge that Australia's HELP system which is, you know, income contingent, is very unlike the American system which just locks in and insists that people start paying, which as we all have - know - those who have followed it - created some significant political problems and some attempts by the current Biden Administration to forgive some of those loans. And it's finding its way through whatever it needs to find its way through.

Nevertheless, we do not believe that these are suitable for people if the Australian Government and state governments are interested in encouraging people to participate, especially at that Certificate III level where we are really talking about entry level for crucial qualifications like aged care, child care and a whole host of others. We believe that they should be directly funded, and perhaps with some small co-payments, there's some big discussions about making things free versus, you know, not totally free. I will leave that to the economists to discuss, but the income-contingent loans can leave people with substantial debts, and particularly for people who are not necessarily going to earn a great deal of money. I do not believe that is a proper public policy.

And the other thing is the people who will be pushed into that may very well find themselves signing up for things which they believe are free. Just what happened in the worst days of the VET FEE-HELP. And you go oh, no, no, no, but people are going to tell them. It's going to be written there. They're going to tick boxes. People will say that, and I'll say yes, they will say all that, and then they say, 'How much do I have to spend?' and then the person says, 'Oh, nothing. It's on the never never.' 'Oh, well, sure, I will sign up.'

Now, we have some openness to discussions about Certificate IV level that we do believe that it might very well be suitable for some Certificate IV qualifications to be done on income-contingent loans. However, we do strongly believe that if that is to proceed, that it should first be done on a pilot basis with careful selection of what those qualifications are, depending on who the client groups will be and what the areas of needs are, and the anticipated capacity of those future learners to pay down the track so that they are not 10, 20 and 30 years later carrying a debt. And you might then say to me, 'Oh, but it's still income contingent', and I say to you I know a large number of people in their late 20s and early 30s who are starting out and are carrying debts of - from university, and they didn't do expensive university courses, but because of inflation now, seven per cent for the 12 months running till the end of September, and the CPI, and then CPI on their loan is added, seven per cent of whatever they were outstanding. Because of all that, they have effectively not paid off any of their loans and are finding it, believe it or not, a drag on their ability to purchase houses and units. This is not something that we need more of in Australia. Thank you.

COMMISSIONER GROPP: Thanks. Can I just take you back, though. Because earlier, you said that you didn't favour free TAFE courses either, because people did courses, spent time on things that they didn't get a job in at the end of the day. So what level of payment are you looking at, particularly if you're not in favour of income-contingent loans? So how would you set the payments to - not to encourage, but not discourage, in that case?

DR PERLGUT: There's debates on this, okay? That's the first thing. But let me go back to the free TAFE. We are not opposed. We know that free TAFE is happening. I am not Don Quixote, tilting at windmills, ensuring that things - trying to say things that are not going to happen and will stop. No. What we are saying about free TAFE is, it needs to have proper policy settings and guardrails to ensure a number of things. The first of those is that people are not inappropriately recruited into TAFE courses that they should not be in. And I will return, and it may not be the best - the nicest analogy, but I will return to the VET FEE-HELP policy disaster.

VET FEE-HELP was very well-known for recruiting people into courses of study for which they were manifestly unsuited and that they would not complete. If free TAFE is run in a way, without ensuring that vulnerable and disadvantaged and certain learners are not properly supported in their choice of TAFE courses and where they're going, that creates potential problems on the basis that, 'it's all free; it doesn't matter'. Well, actual fact, it does matter. Now, whether or not there is some small co-payment, these are matters for, I think, policy discussion. Community Colleges Australia does not have a formal view on that; I have my own views, you know? I have my personal views, I always think that there is some small co-payment; however, I do acknowledge that Australia has a significant number of people for whom buying, spending an extra \$10 or \$20 or \$50 is a significant expense, um, and, you know, getting access, high-quality to the access and digital exclusion is significant. So I don't want to be the person to say, "Oh, no, nothing should be free in education"; I do not believe that entirely. I think that more research needs to be done in that.

But my key point is, the way that that is rolled out, the way that it is advertised, the way that students are recruited and the way that students are brought in and that they are advised as they are brought in about what the alternatives are, all of these are essential policy settings. I do not yet see at this stage, either on a state or on a Commonwealth level, that those settings have been there. There's been one small change, but I do not believe that it is necessarily going to be significant. The one change is that in the budget announcement, which was whenever it was, a couple of weeks ago, that the announcement included that free TAFE would also be available in exceptional circumstances - and they used that phrase, "exceptional circumstances" - for not-for-profit, First Nations organisations, delivering education and training that might not otherwise be covered by TAFE.

Now, presumably, it might mean other not-for-profits, but it does say "exceptional circumstances", and to the best of my knowledge, all that is going to have to be approved by the state or territory TAFE. At this stage, I do not necessarily anticipate that that small out clause will be utilised. So remember, I am not opposed to free TAFE per se; I am opposed to a willy-nilly, offering it to everybody and all that comes. But my final point on this one is one I did mention before, is I believe that we in Australia have to do something we have not been able to be successful in doing yet: we have to create proper pathways in our VET system to ensure that we have pathways from one to another, and a classic example would be people operating and studying the foundation skills, meaning Certificate levels I and II, and the Certificate level III level, up to TAFE.

We do not have established pathways in New South Wales where I live, nor really in Victoria where we do a great deal of work. We had some reasonable work in South Australia, which has sort of fallen by the by. The best of my knowledge, we do not have that in Australia. We need that as an essential, and I would say increasingly urgent requirement, as we start to add additional funding, especially to TAFE. People are going to be flocking to TAFE, but we need to ensure that people flock to TAFE in the right courses, in the right areas, and in the right ways.

COMMISSIONER GROPP: I just want to just follow that up. You talked about "small co-payments". So what sort of amount are you talking about? And say, for your courses, what do people pay up-front?

DR PERLGUT: Yes. There's a difference of opinion on this on our sector, and again, Community Colleges Australia does not have a formal view on this. There are some of our members that are very happy to offer things on a totally free basis, especially to people who are the most disadvantage; there are others that would like small co-payments, even a five or \$10, to ensure that that is there. So there's not much more I can say on that. It's not an area that we, as an organisation, have looked into in any great depth and that we are aware of. But I do go back to my point, is that there are a very large number of low-income Australians for whom significant amounts of - even moderate, modest amounts of money, could be seen to be very serious imposts on them.

COMMISSIONER GROPP: Would you differentiate across types of courses?

DR PERLGUT: I would have to think more about that, in terms of different types of courses. And again, but let me say, different types of courses, I think part of the whole thing is to ensure that when you are rolling out a free system of study, irrespective in TAFE or anywhere else, to ensure that the right people are signing up. So that's why yes, different types of courses. I mean, one of the great things that - you know, TAFE has moved into things like aeronautical engineering and similar things. This is good for TAFE and it's probably very good for the country; however, we do not want people that have low literacy and low numeracy, leaping into that - you know, the Diploma in Aeronautical Engineering without having done the basics.

We're entering a point where we need to be doing lots of re-examination. Now, one of the things that the Reading Writing Hotline report identified was, believe it or not, the high level of disadvantage, the numeracy - okay, the report knows that one in five Australians, 20 per cent of Australians, have some level of low literacy and numeracy; two in five indigenous Australians have low level. And other low literacy and numeracy, numeracy is consistently pointed to by workplaces as one of the greatest areas of challenge and difficulty. It's not one that people on the street necessarily think about, but it is one that we do need to be thinking about, as we become a more technologically advanced, service-level economy. I hope I'm answering your question, I've gone a bit sideways to do that.

COMMISSIONER de FONTENAY: Thanks Don. Just one more question. You mentioned that you had concerns about online learning, but a lot of your institutions are in outer regional areas. I'm just curious that you don't see - that you don't find that there is some potential for facilitating learning in those locations if people can access better materials online. Is that not something that you've found in your teaching, that it's been helpful to use online materials as well as face to face?

DR PERLGUT: That's a very good question, and the short answer is, absolutely, there is tremendous potential and I would say, at this stage, I can say with quite a high level of confidence that every single one of our member organisations has incorporated elements of digital delivery. I'm not using the word "online", but I'm using "digital delivery", I mean digital interaction in some way, shape, or form. Nevertheless, let's focus especially on the needs of disadvantaged and also some of the low-level qualifications, such as that Certificate III. The idea - and there are providers that do this - that you will do a Certificate III Individual Support (Aged Care), you will do it online, and that with everything online, and that somehow other than trying to shove you off to some sort of work experience, that you are going to get a proper education and training, is simply not true.

I refer back to the Reading Writing Hotline report. The Reading Writing Hotline report - and I'm quoting from this - says, "Provision of language of language, literacy and numeracy programs is best done face to face".

Now, we're talking about that foundational skills level, right? But we're also talking easily 20 per cent of Australians. This is not a teeny tiny number. Then it continues, "The move to digital delivery tended to disproportionately disadvantage literacy and numeracy learners due to limited digital literacy skills, lack of access to secure internet. Print-based resources are preferable for adult language and literacy learners. Lack of access to home computers," meaning the hardware, not just the internet access, and, "Insufficient self-directed learning skills to manage online programs." This has been examined in great detailed and that report examined it in great detail, summarising the 382 respondents. My personal experience is the same. Absolutely. At the low level it is essential.

Now, as you move up the educational and the income ladder, and as we know, the two are inextricably linked, there comes a point that the equation starts to invert. If you are going to be doing a Diploma in Management, sure, do most, if not all of it online. I don't see there's particular challenges and difficulties in doing a lot of that, but when we were down and when we were looking at that Certificate I, II and III which is the overwhelming majority of what ACE providers do, we are talking about online learning to be not an effective means.

Adding bits and pieces such as, you know, doing some course work, you know, doing some testing and grading, sure. So we're not people filling, you know, pencils in boxes and things like that. But by and large, the results, in our experience, is it is inappropriate for low-level and high-needs learners.

COMMISSIONER BRENNAN: Don, it's Michael Brennan here. Just a question or two questions that go back to your points about foundation skills and foundation learning. First I just want to test a hypothesis with you and then kind of tease out, if it's true, what one would do about it.

So it seems to me that one of the issues around foundation learning is that there are certain contexts in which people are likely to come into the system for some foundation skills. One might be the adult migrant English program, one might be people who have come into the VET system via TAFE or an RTO to do a Certificate II in something or other and the TAFE or the RTO's decided that they need a bit of foundation skills. And I guess one might be in the employment services market if there's a view that someone's employment prospects – so they're in the labour market. They're on income support. The provider has decided it would be advantageous for them to get some additional literacy and numeracy skills.

But presumably, that's leaving a vast number of people out there who have challenges either in the job market or just fully engaging in society by virtue of low literacy or numeracy. But that's a group that's difficult to touch. You sort of almost need, I think you were kind of replying earlier, an active outreach – active recruitment strategy for you to get out there and try and encourage people into a foundation course which may be of benefit.

So I wanted to test, firstly, is that hypothesis right that you think we've got some existing entry points which are kind of piggybacking on existing policy avenues, but then this vast reservoir of people out there. And if that is true, what's a mechanism by which you can get out there and identify people who would benefit from literacy and numeracy foundation skills and encourage them into a system like community education or something else that could fulfill that?

DR PERLGUT: Michael, that's a very good question. I'm going to answer it in probably two to three ways and I'm going to finish in answering your major question. Just in terms of work, workplace delivery is another thing I need to make note, and the hotline report showed – and this is a quote, - “Workplace delivery of language and literacy is low and many people currently working are unable to access language, literacy and digital skills courses outside of work hours.” So we do have a challenge, and a significant number of people who are currently employed are actually having significant challenges with literacy.

But let me address the point about outreach. This is one of my favourite topics, and let me state for the record I was trained as a town and social planner. And when I undertake my work in post-secondary education, I bring two things to it; I bring a community engagement approach, but I also bring a physical approach to the notion that people – that much learning takes place in physical environments. But let me make this point; to do it properly, we need proper leading by the Commonwealth government in association with the states and similar things to ensure that people – and as we are talking about at least a million or more and it's probably two to 4 million Australians that have some significant literacy problems amongst indigenous Australians. As I said before, two out of five.

One way to do it is to do campaigns. I'm a veteran of 1990's International Literacy Year known as ILY. I was the ABC project manager – that's the Australian Broadcasting Corporation project manager for International Literature Year where the ABC worked very closely with a number of providers, with the Commonwealth Department of Social Services, then Education Employment Training and with TAFE New South Wales as well as other advisors to develop and deliver both in radio and television, substantial number of literacy teaching courses and to promote through community service announcements and elsewhere that people could undertake extended learning and they would be referred to the then-Adult Literacy Information – ALIO hotline which has now been taken over by the Reading Writing Hotline.

You may be familiar with the SBS TTV series called Lost for Words. There was two different series. The second series has recently been released, and I know at least – I know one of the key teachers on that series, Jo Medlin, who was the president of the Australian Council for Adult Literacy known as ACAL, and one of the students named Graham from Tamworth Community College who participated in a recent Community Colleges Australia conference and was interviewed by our master of ceremonies.

One of the things which comes out of my experience with the ABC during that period in 1990, International Literacy Year, and subsequently in 1994 when we did a second series with TAFE and where we did major promotions, is people need to pick it up, and so often it is not necessarily reaching the person with the literacy needs but reaching somebody who knows them and it gets referred to them.

For us to achieve the full potential, in my view, in Australia, as I said, we cannot wait for them to come. It's not Kevin Costner building his field – his ball field in the corn fields of Iowa and expecting the 1920s Black Sox walking out of the fields to play baseball with him. What we need to do is genuinely go out. I don't want to extend the metaphor of the corn field, it is not corn fields that we're going out to. But we're going out to in the Australian community in all the various places, some of them are harder than others. Remote Australia – remote indigenous Australia has its own challenges and needs its own strategies, and I understand that the current Commonwealth government is starting to address some of those and that's very good news, but as I said, provision of literacy is insufficient.

I believe that national campaigns utilising social media, printed media, face to face, all sorts of interesting things. At one point there was an egg company that printed on the eggs, "Need reading help? Ring 1800 XXXXXXXX." There's a lot of different ways to do campaigns, and we in Australia are some of the best in the business when it comes to campaigns.

I'm going back to some of the early ones where, you know, where we were trying to prevent people from getting AIDS. Let us apply this to foundational skills, it will be in all of our interests to do so. I hope I've answered that question and I hope you can feel the passion in my voice when I say this.

COMMISSIONER BRENNAN: It's palpable, Don.

DR PERLGUT: Thank you.

COMMISSIONER BRENNAN: Thank you, very much.

COMMISSIONER GROPP: I think unless Don wants to add anything, I think we're done.

DR PERLGUT: Thank you very much. I believe I've covered all my high points and I thank you very much for your time and your attention and I wish you the best of luck. Community Colleges Australia and I as an individual are happy to answer further questions during your final weeks of consideration. Thank you.

COMMISSIONER GROPP: Thanks very much, Don. Okay (indistinct). We have Dr Peter Hendy. Welcome.

DR HENDY: Hello.

COMMISSIONER GROPP: It's Lisa here. Lisa Gropp.

DR HENDY: Can you hear me?

COMMISSIONER GROPP: Yes.

DR HENDY: Lisa, how are you?

COMMISSIONER GROPP: Very well. Don't laugh like that, Peter. I'm joined by our chair, Michael Brennan, and fellow commissioner, Dr Catherine de Fontenay.

COMMISSIONER BRENNAN: G'day, Peter.

COMMISSIONER de FONTENAY: How do you do.

DR HENDY: G'day everybody. That's good.

COMMISSIONER GROPP: Can you hear us okay?

DR HENDY: I can. So what's the format? What do you want me to do?

COMMISSIONER GROPP: Well, I'll just ask you to introduce yourself for the transcript. So your name and your organisation, and then some opening remarks.

DR HENDY: Sure, all right. Well, so today I am the CEO of the Independent Higher Education Australia. Independent Higher Education Australia is the representative of the independent or private sector in the higher education space. We have 74 members, of which we have four universities, three university colleges, and 67 other institutes of higher education, and our collective membership covers 75 per cent of the student population that is covered by the independent sector. So we feel that we can speak on behalf of the whole sector, and not just the membership. And our submission to you, regarding the Keys to Prosperity review, is that there are a number of - anomalies in terms of the regulation of the private or independent sector, in higher ed, that keep the sector back from fulfilling its full potential. There are, principally, competitive neutrality issues between the independent and private providers and the public universities here in Australia. Now, we don't want to give a false impression of the sector. The sector is only 10 to a bit more per cent of total higher education. In Australia, the public university system completely dominates and overwhelmingly dominates, but we believe that the private providers do provide for Australia an element of innovation and nimbleness that helps in advancing the sector, and the value-add of the higher education sector to the Australian economy.

We've got another of, as I say, competitive neutrality issues. The biggest one probably relates to how Commonwealth-supported places are funded. We basically still have, in the higher education sector, provider-focused funding rather than student-centred funding. If you look at other welfare programs, if you like, through out the federal government sphere - and I don't need to tell you this, but just to remind you - from schools to child care to provision of Medicare, to the new NDIS system, what is - the focus tends to be the patient, the client, the student, whereas we're still a bit behind in higher education. And so that's something that I could talk to you a bit more about, and basically what we're asking is that what should be implemented in Australia is exactly the forms that the 2008 Bradley Committee Review into higher education proposed, as I say, in 2008. And so there's been a lot of work on these issues and how we should implement economic reform in the area, but to date they haven't been implemented, and then there are specific issues that run off that, that I can talk to if you like. So I might stop there, because I'd rather you ask me questions about what you might have seen in our submission, rather than talking about something you don't want to hear about.

COMMISSIONER GROPP: Thank you. I'll kick off, then. Just what you were talking about in terms of those competitive neutrality issues. Have you got any assessment - given that we're looking at it through a productivity lens - on the impact on student choices, et cetera, from those - from the - in relation to variations of different access to, say, student loans or Commonwealth-

funded places? What are the impacts on student choices and training, and therefore, down the track, on productivity? Have you looked (indistinct) aware of anything about the impacts?

DR HENDY: So to the direct impact on productivity, no, because I feel it would be - based on my experience in years past, including as Assistant Minister for Productivity in a past life, it's pretty hard to measure this stuff, and I take note that it would be - that I don't know the veracity of a model that would show that there is a direct productivity improvement, in terms of numbers. But I think that - - -

COMMISSIONER GROPP: But (indistinct).

DR HENDY: Sorry?

COMMISSIONER GROPP: In terms of the impact on student choices, of course, I guess there's the immediate impact.

DR HENDY: I can't see you, Lisa, just so you know.

COMMISSIONER GROPP: Sorry, I lost you. Sorry. Hi.

DR HENDY: Okay, that's great. That's much better. Sorry, what was your question?

COMMISSIONER GROPP: Just in terms of more the immediate impact on student choices.

DR HENDY: Well, to go through the argument, which I think you'd appreciate, is that there is two levels at which you can argue there is a case for student-centred funding. One is that the system - that particular process would lead to individual choices being collectively accumulated into a better outcome for signalling to the sector, that's higher-education providers, where the job and skill shortages of the future lie. So I would argue, for example, that government focusing in recent years - doesn't matter who's in government - on specifically providing focus on skill shortages would be better, rather than initiating particular programs and picking what you think are the skill shortages today and what they could be in the future, what will be better is to set up a system - essentially, a demand-driven system that would provide student choice, indicating to the marketplace where the skill shortages will be in future. Because we currently have a view where skill shortages are today, but where the skill shortages will be in a year from now or two years from now in a particularly economically challenging environment, both globally and domestically, I don't think any government, any bureaucrat in Canberra can actually accurately forecast what that will be. But collectively, students making choices across a million students about where they think the job potentials are in the future, is a better signal. And I suspect you might have some sympathy for that point of view. And that's an efficiency-productivity issue.

The other thing is an equity issue, which isn't the same thing, as we know. But the equity issue is that today, you can have two students living in, you know, Western Sydney, in a suburb in Western Sydney, and both kids went to the same primary and high schools, but one decides to take a course and has the marks to get into University of Sydney, which is one of the most elite universities in the world, and the one next door decides that they're interested in a more niche career ambition, and they decide on an independent institute of higher education that's not funded by the public purse, and they are treated massively differently even though they're both domestic students. The one going to one of the most elite universities in the world is massively subsidised by the Federal purse and goes off to that elite university, and the one who's not going to the elite university, but because of their career choice, is going to an institute of higher education, isn't subsidised. Basically, not subsidised at all and has to pay full freight on their fees, and that's an equity issue - a domestic student equity issue that affects lower

socioeconomic and other categories that I understand federal governments of whatever political persuasion are interested in addressing.

So, for example, we can tell you that – and we have it in our submission, that the equity criteria like students with disability, lower socioeconomic and whatever. Independent higher education providers don't do as good a job as public universities, but public universities by and large are billion dollar corporations, and our members aren't. In fact, a lot of them are medium-sized businesses, not even large businesses, and yet their scores, according to Table A in our submission on p6, show they're not actually very far behind public universities.

If the government at the federal level want us to hit certain targets in terms of equity target groups, one way we could meet those targets is actually if the federal government would reduce the regulatory and competitor neutrality burdens that we have.

COMMISSIONER de FONTENAY: Thanks, Peter. I was just wondering what your view is off the possibility of a voucher type of system so that you – to take a crude version, all students with an ATAR above a certain cut-off receive a voucher to attend university, and they can use their, essentially, Commonwealth supported place anywhere that they choose.

So, one challenge that we have been wrestling with is that sometimes those types of systems serve only to reinforce the dominance of the existing strong reputation players in the sector. So, I'd be interested to know what your view is of a voucher type of system.

DR HENDY: So, a variation of that system is what was proposed by the Denice Bradley chaired review in 2008. I don't know. Voucher – using the word 'voucher' tends to be a bit of a toxic word in the political debate in Australia. So, whether you use that term or not, the fact is students seem to – or client-centred funding is a better way to go in terms of meeting the overall public interest test that I think governments want to implement.

The important thing here is that – just to say it is that this is something – if you had a student-based funding, then one of the areas where governments in recent past have been talking about reform, but rarely are able to implement it. That is the interaction between the VET sector and the higher education sector.

That is solved by moving to this sort of funding because what happens is that you provide the funding to the student, and they can choose whether it's a VET sector provider or higher education provider according to what course they want to do, and I think that that would be – so, you wouldn't just – I mean, I think that would be a better way to consider how to do this.

Now, when the Bradley committee did their big review in 08, they realised that the other side to this coin is a question about ensuring quality provision of education and that you don't – the public purse is not subject to roting because of dodgy providers, and in the past, there has been instances where poorly thought out rollout of policy has led to a spike in the roting of the – of provision of public moneys.

However, the solution to that is having good quality control. So, it's very important that whatever we do with TEQSA, and you'll know, I'm guessing, who TEQSA is, but if you don't, let me know, and ASQA do their jobs in quality standards assurance for both the VET and the higher end sector, and given – and once you're satisfied – and this was what the Bradley review said.

Once you set up a national system, which we do have now, that adequately assures quality of providers, then you can then provide focus for funding on students wherever they go because the system as a whole ensures that all the providers that they may choose, whether that or higher

end, are quality.

COMMISSIONER de FONTENAY: So, that would be if the – let’s call it voucher for the sake of clarity – that would be the case if there were a voucher system that applied to all students. What about – what is your view of a voucher student – system that applied only for the higher-end segment which - - -

DR HENDY: That’s just – yes.

COMMISSIONER de FONTENAY: Where students only – where there was a limited number of said vouchers? So, there was a cap on the number of government supported places.

DR HENDY: Our view would be that you would – you would start – so, what Bradley proposed which I think is sensible back in 08, not that long ago, was that you would start with the public universities. You would then extend it to the – and then once in – you – so, they were looking at two things.

They were looking at the national quality standard system as well as a funding of that, and, so, they were recommending what eventually became TEQSA, and they were – what they said was that if – once – as you were creating TEQSA and setting up the national system, you would student with funding – student-centred funding only for public sector universities because there was an undeniable acceptance of the quality in that sector.

Then you would – with the TEQSA model of quality standard setting, you would – you could then – once you were satisfied that was working properly, that would extend to the whole higher education sector of providers and – and, so, you would then – if it was then the case and you would think it was acceptable, a government could also expand it to the VET sector, but – so, you could do it in stages depending on your – what would be the word – your comfortable – to the extent to which the government was comfortable that the quality wouldn’t be jeopardised. You can still, however, with that whole system cap it. You can decide that because of a certain budgetary constraints that you would only have a certain number of funding of a certain number of students’ places, which is what happens today.

COMMISSIONER BRENNAN: So, Peter, Michael Brennan here, I think you’ve answered my question, but just for clarity, I mean, you’re talking about neutrality of funding, and I can think of sort of three ways in which you can think of that. One is that within the AQF levels that are the traditional domain of universities having greater neutrality between public and private providers which, I think, is your core argument, and that’s largely about Commonwealth supported places. There’s then this kind of niche area, I guess, where there’s qualification that’s at the same AQF level, but can be provided by a university or, perhaps, a private RTO or a – or a TAFE or something.

There’s a neutrality question there as to whether they’re getting the equivalent funding and access to an income contingent loan, perhaps, and then there’s the third element of neutrality which is what Catherine and I take it you’re saying was the sort of – the last element in the Bradley evolution, namely, greater neutrality if and between different AQF levels so that somebody starting a Certificate III or a Certificate IV would be getting a similar level of support or access to kind of similar mechanisms for support, as people agree.

DR HENDY: Yeah. We’re – on behalf of my members, I’m not pushing a particular line with respect to the third element. So, you can – at the moment, governments have made a decision that they actually do have different categories of funding for different types of - so they’ve got generic categories for different types of degrees, for example, as you will know. So it’s called “jobs-ready graduates scheme”, as it’s called now, and depending on what the federal

government makes a decision on, you know, you get a certain amount of subsidy from the taxpayer if you do medicine, if you do an economics degree or an arts degree or an engineering degree, that - I mean, if you're putting a purist economic argument, you would say that the money that was paid wouldn't have regard to that, and that the difference would be potentially funded by the student. But I'm not at the moment making any particular comments about, you know, how you calculate what the student contribution should be.

COMMISSIONER BRENNAN: That's almost a fourth category of neutrality, the neutrality between courses within an AQF level. But I think I'm getting the point.

DR HENDY: But can I just pick up on something, just to be sure. It was the way you phrased for regarding - so TAFEs can be what they call dual-sector registered organisations. So TAFEs and VET providers can also be higher education providers. And so where they're doing what you would technically - not even technically, what you literally would call the same thing that a university was doing, a bachelor's degree, say, when they do that, they are actually registered to be a higher education provider under TECSA. So that's how the system works, so that they're not separately - it's not separate. It's not a separate category, it's the same category.

COMMISSIONER BRENNAN: If others are okay, just shifting gear slightly, Peter. So your membership, it will include institutions that are funded, or who are predominantly delivering bachelor's qualifications and so therefore would currently - is this right - have access to income-contingent loans but not Commonwealth-supported places because of the sector that they're in, but presumably have members as well who are getting revenue from other mechanisms. So these are, like, you know, the business schools or sort of niche providers of various trainings; they're operating more at fee-for-service kind of market, that aren't necessarily providing a bachelor's qualification or something. Like, are you doing that sort of training as well?

DR HENDY: So that's right, that's right. That's right. They do - which you would regard as VET training. So they'll be registered as RTOs as well. But not all of them. So just to give you a sense of it, of our 74 members, only 19 are active dual-sector providers. So only 19 actively do VET courses. Thirty per cent are registered to, but to my understanding, don't. And when I'm talking about my members, you can basically take as read, that's the sector as a whole; the same sort of proportions. So I should mention something which we regard as an anomaly, specifically with respect to something you just raised. So yes, our members, students do get VET - sorry, FEE-HELP, but they - for the privilege of getting that, they pay a 20 per cent surcharge. So when they're - so in my example before, of the two kids living next door to each other and one goes to Sydney Uni and one goes to, I don't know, the College of Law or the Australian Institute of Music or whatever, the one who goes to the College of Law or Australian Institute of Music, doesn't - they don't have FEE-HELP. Twenty per cent is actually added to the burden of their debt, as an administrative fee of the Federal Government. If you go to Sydney again, to say it again, not to belabour the point but it's true, to one of the most elite universities in the world, you don't have that 20 per cent surcharge put on you and there is no clear argument of why that happens, except that it does. And in fact, during the pandemic that we've just had, the Federal Government has waived that 20 per cent, but now the pandemic is essentially passed, it is being reimposed. So they're reimposing a 20 per cent tax. And 20 per cent's quite sizeable, as you would appreciate.

COMMISSIONER de FONTENAY: Yes. So Peter, supposing that the sectors were - some of these policies were changed and there was more growth in the independent sector, one thing that we have noticed for the main universities is that there is very little differentiation. So Melbourne University and Sydney University, and La Trobe University are very similar in terms of the

offerings, in terms of the level of those offerings. Can you talk a bit about the level of product differentiation that will be available in the market if the independent sector were to grow?

DR HENDY: Well, that's a very good question because it is an issue that, if you were to extend CSP places, if you want to call it that, to the private sector, there would be a trade-off because you would lose a degree of autonomy in setting your fees, because you would expect that the Federal Government would, as they do with public universities, have a view about that and would insist on greater control over fees and things like that. So that is an issue that would have to be faced by the private sector. There are members of ours, who are large members, who have said that even if this were to occur, they wouldn't utilise it and they would just stay purely private, and they would just charge and be private providers because they believe they have a niche market where they are very, very competitive, and today that's how they compete. They actually have this differential, and yet they compete, and they compete effectively and thrive. The second thing - the second part to my answer is that in the private or independent area of the higher education sector, 45 per cent of students are international, and we're not talking about that part of the sector at all.

COMMISSIONER de FONTENAY: Okay, so there you're speaking a bit to the differentiation in terms of prices between the independent sector and the regulators. Could you talk a bit about the, sort of, on the - in terms of the higher education offerings that are more similar to what is offered in universities, do they offer product differentiations in the market? So are the offerings that they're presenting, in terms of what you're learning or the way you're learning, creating some variety, some differentiation, you know? Some choices for students in the market?

MR HENDY: Yes. So certainly today, that is the case. And to give you some hard evidence on that, I refer you to the QILT surveys that are produced by the Department of Education on student satisfaction levels. The private providers, independent providers, are the - tend to be the highest-ranking in all those different categories that are presented for the undergraduates - this is for the undergraduates in particular, so that's for the graduate degrees, not the post-graduate degrees. It's a little bit more even with that, but whereas the elite G8 by and large in QILT surveys are at the bottom of the rankings, my members are at the top of the rankings. So they are actually providing student satisfaction in terms of teaching all aspects of services to the students, but also in terms of students' perception of their student outcomes at the end of their courses, because these surveys do account for - they do go to students who have finished their degrees and are commenting on how they believe their degrees have helped - have been provided and how it helped them in their careers.

The second thing is - and this is a bit more anecdotal. So that's hard evidence, if you want, those surveys, and there's a trend line over many years as they've been conducted. But the second is that my members tell me that one of their differentiation points is that they are much more attuned to ensuring students have workforce participation during the course of their degrees, and that - and one of their niche market successes is they're closer to the employment market in Australia and are able to get internships or whatever it is that their students need to help them do their courses. That's more anecdotal, but the quilt survey overall results would suggest that that is true.

COMMISSIONER GROPP: Thanks. Can I just switch to micro credentialing, Peter, and what your members - we're hearing this from industry - there's great, you know, demand for it, but are you seeing that, and also what are you thinking of putting something in your submission about a pilot exercise, but - - -

DR HENDY: Yes.

COMMISSIONER ROBSON: - - - what are your members doing to address that and what's the role for policy in that, if any?

DR HENDY: The main role for policy is standard setting, to be honest. To have acceptable standards in definition of what is micro credentials and a lot of the debate, I find, on micro credentials is not necessarily that is on micro credentials; it's about short courses generally. And so there's a bit of a mixture. When people are talking about micro credentials, which was the buzzword of the year, they're actually really talking about short courses. And the higher education sector, VET sector, and business groups have been tossing and turning about this for quite a while.

As you know, I used to - I now represent education providers, but I've had jobs in the past where I've represented the business sector overall, and I do know that there is a bit of a - on the business side, there is concern about ensuring that micro credentials do not usurp what is otherwise regarded as necessary accreditation for, you know, a particular degree and something like that. And this is where - if I could call it again - standard setting comes in at the federal level, that it is made clear what exactly is defined as micro credentials. Basically, the government has been active on this, and at - I don't know.

I think it was around about March that they came out with some definitions of what it should be. I think one of the things about micro credentials that they had in their standard setting was that they have to involve exams so that it's just not doing a course for 10 hours. You actually have to have an examination to test the student's take-up of the relevant knowledge, so I don't know if that helps you, Lisa, but that's all I've got.

COMMISSIONER GROPP: Thanks. I think we're done with questions, Peter. Have you got anything you wanted to finish with?

DR HENDY: No, no. I really want to thank you for your time, and put this on the agenda. I thought you'd - there is something I'd like to mention that you probably know of, but just in case you didn't IPART in New South Wales is doing a review of competitive neutrality, and one of the - currently right now - and one of the things they are looking at is the scope of the bodies in New South Wales that are subject to competitive neutrality principles. This is going back - all the way back to COAG principles that were set up in 1995 whenever it was. And they are reviewing them. Universities are explicitly exempt from competitive neutrality principles in New South Wales and, to my knowledge, in every state in Australia. And they are reviewing that issue, and just like for you, we've put in a submission and argue the case.

COMMISSIONER GROPP: Okay. Thank you. That's really helpful.

UNIDENTIFIED SPEAKER: Thank you, Peter.

DR HENDY: All right. Well, thank you very much.

COMMISSIONER GROPP: Thank you very much. Okay. Ladies and gentlemen, that concludes today's scheduled proceedings. For the record, is there anyone else who wants to appear today before the commission? Okay. I adjourn these proceedings. The Commission will resume tomorrow on Tuesday 8 November 2022 at the same location in Melbourne. I'm not sure what time. Thank you.

MATTER ADJOURNED AT 3.16 pm

UNTIL TUESDAY, 8 NOVEMBER 2022

TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

PUBLIC HEARINGS

5-YEAR PRODUCTIVITY REVIEW

MONDAY, 8 NOVEMBER 2022

PRODUCTIVITY COMMISSION, L8, 2MQ, 697 COLLINS STREET,

MELBOURNE

BEFORE:

COMMISSIONER ALEX ROBSON

COMMISSIONER LISA GROPP

COMMISSIONER MICHAEL BRENNAN

PARTICIPANTS

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COMMISSIONER ROBSON: Good morning, everyone. Welcome to the public hearings following the release of our interim reports for the Productivity Commission's five-yearly inquiry into Australia's productivity performance and productivity-improving reforms. My name's Alex Robson, I'm the deputy chair of the Commission and I'm one of the commissioners on this inquiry. My fellow commissioners are Lisa Gropp, who's here with me today, and chair Michael Brenna. Before we begin, I'd just like to remind people of the Productivity Commission's mission, which is to provide independent research and advice to the Australian government on economic, social, and environmental issues affecting the welfare of Australians.

And I'd also like to acknowledge the traditional custodians of the land on which we meet today, the Wurundjeri people of the Kulin Nation. I'd also to pay my respects to elders, past and present. The purpose of this public hearing is to facilitate public scrutiny of the commission's work, and to receive comments and feedback on the interim reports. We're grateful to all the organisations and individuals that have taken the time to prepare submissions and to appear at these hearings. This is the second and final public hearing for this inquiry. We will then be working towards completing a final report, having considered all of the evidence presented at the hearings and in submissions, as well as other form of informal discussions. The final report will be submitted to the Australian government in February 2023. Participants and those who have registered their interest in the inquiry will be advised of the final report's release by government, which may be up to 25 parliamentary sitting days after completion.

Now, we like to conduct all hearings in a reasonably informal manner, but I'd like to remind participants that there are clear structures in our legislation for how these hearings are legally backed, and a full transcript is being taken. For this reason, comments from the floor cannot be taken, but at the end of today's proceedings I'll provide an opportunity for anyone who wishes to do so, to make a brief presentation. The transcript taken today will be made available to participants, and will be available from the Commission's website, following the hearings. Submissions are also available on the website. Participants are not required to take an oath, but are required under the Productivity Commission Act to be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions. I also ask participants to ensure their remarks are not defamatory of other parties.

All participants who have registered to be here at this hearing have confirmed their understanding that they may be visible or audible online. If anyone here has queries about this or does not wish to be visible or audible online, please approach one of our inquiry team members here today, or feel free to leave the hearing now. For any media representatives attending today, some general rules apply. Please see one of our staff for a handout which explains the rules. Participants should be aware that any media representatives present may be using Twitter and other internet mechanisms to convey information online in real time, including participants' remarks.

This public hearing is being conducted in person and via teleconference. For those in the Melbourne office, in the unlikely event of an emergency requiring the evacuation of this building, the evacuation tone, "whoop, whoop, whoop" will sound. Please follow warden instructions to exit the building via the fire stairs and make your way to the assembly point located at the grass parallel to the tram line at Wurundjeri Way. Participants are invited to make some opening remarks of no more than five or 10 minutes. Keeping the opening remarks brief will allow us the opportunity to discuss matter sin participant submissions in greater detail. I'd now like to welcome Jon Davies. Jon, welcome here today, and if you could please state your name and organisation for the record before you begin, and then we'll hear from you an opening presentation. Thank you, Jon.

MR DAVIES: Yes, thanks, Alex. Jon Davies, CEO, Australian Constructors Association. This is the association that represents the major contractors operating in Australia, across all three key, main sectors, horizontal, vertical, construction services. We are 100 per cent advocacy focused, we're not like some other industry associations that sort of do a lot of member services; we're just purely focused on creating a more sustainable construction industry, and construction, unfortunately, is Australia's productivity laggard.

In a wide field of poor performers, construction stands head-and-shoulders above all else. Construction is the only industry where productivity is now worse than it was 30 years ago. Why is this important? Construction is the nation's fourth-largest industry in terms of employment, and contributes between seven and eight per cent of GDP. It's also the industry that governments are relying on to lead the nation's economic recovery, with the federal government alone spending \$61 billion over the next four years on infrastructure. If construction could just close the gap in productivity growth with other major industries, it would result in an annual saving to the economy of \$47 billion every single year, and this at a time when the government is figuring out how to pay for worthy initiatives such as the NDIS.

Importantly, productivity improvements are the only real solution also to addressing the capability and capacity constraints that exists within our industry. Just last year, Infrastructure Australia identified a 105,000 shortfall right here, right now; I understand the update to that report is due very soon and will indicate a doubling of that number. And I was fortunate enough to present at the Jobs and Skills Summit, which was focused on immigration and training, amongst other things, but these will not solve the problem that the industry faces. Every other major jurisdiction around the world is doing exactly the same thing we are doing: they're spending big on infrastructure, and so there's huge international competition for resources. And unfortunately, the attraction of Australia as a destination for the skilled migrants has come off. We've had floods, we've had bushfires, we've got a high cost of living, and just to cap it all off, we locked everyone up during covid.

Training as well, as much as that is a worthy thing to do, we're technically at full employment; who is it we're going to be training? We're going to be upskilling people from one industry to another, again, very worthy, but it's not going to generate the volume of people that we need. The only solution to this problem is to get more efficient with the resources that we already have, and to be honest, a large part of this lies in the white-collar space. For sure, we can get more productive at how we pour concrete, for example, but the real opportunity lies in how we procure, deliver, and govern projects. So, the white-collar space. We spend huge amounts of money on procurement processes that tie up hundreds of people, preparing documents that many people won't read, and just to give the illusion - we would contend, to give the illusion of value for money.

But value for money is more than just lowest price at the tender box. It is about improving innovation, digital adoption, sovereign capability, diversity and inclusion, and environmental sustainability. But these things are rarely assessed at tender stage, and if they are, they're never valued. We also have an issue where we prescribe, to the last nut and bolt, how things are to be delivered rather than, sort of, saying, well, this is the solution that we're looking for; this is the outcome that we're looking for, and allowing the market to come up with the best solution. We also have a situation where clients prepare tenders - information for tenders, so at an early stage in a project they'll go out and maybe get some geotechnical work done, and then they pass that information out at tender stage, but importantly, they say to all of the contractors bidding, "You're not allowed to rely on that information."

So, what happens: all of those contractors have to engage a whole bunch of geotechnical consultants themselves, three, four different contractors, just to do the same thing over again. Contracts encourage withholding of information rather than the open and transparent sharing of information that is required for a greater adoption of digital technologies. Project specialists are required to be on projects from the beginning all the way through to the end, even though they may only be required for a couple of months in between. Roles are duplicated by clients and contractors just so they can keep an eye on each other in this adversarial environment.

We have situations where it is stipulated what the project team - what experience the project team should have, even though the contract has a great big stick that if the contractor doesn't perform, you know, there's an opportunity to seek redress. So, we'll have a situation, say, for example, with a \$100 million project in Western Sydney, road project, where it will say that the project manager has got to be an engineer; he's got to have 20 years' experience, 10 years of which has got to be working in Bankstown, five years of which has got to be on a particular type of bridge bearing, while in the current market the biggest problem is that person is a unicorn, but even if you could find them, what does a project manager do? A project manager manages people.

And unfortunately for those of - engineers in my industry, quite a lot of the time engineers are probably some of the worst people when it comes to managing people. Very good at technical solutions, but not necessarily best at managing people. So why do we keep stipulating this? Designs are reviewed multiple times by different reviewers who feel compelled to comment in order to justify their engagement. In fact, it's a great definition. I think the definition of all care and no responsibility is some of these design reviews that we have. And it also stifles innovation because there's nothing compelling those reviewers.

In fact, quite a bit it compels them not to approve things that are innovative, things that are different. So, how do we address this issue? As the bankroller of much infrastructure, the federal government has an important role to play in coordinating and incentivising reform. ACA proposed one way to do this was through the creation of a rating tool, the future Australian infrastructure rating, where all federal government projects will be rated against a number of key reform areas, and that score made publicly available.

No need to put a whole bunch of money on the line here; this can work within existing governance, the existing governance framework, but by publishing those scores, that would drive improved outcomes because imagine a situation whereby a metro project in Sydney gets a 5 out of 10 score, and a metro project in Melbourne gets an 8 out of 10 score. You can just imagine the focus that would then be directed at the delivery agencies in Sydney as to why they weren't delivering the same sort of value for money. But, you know, equally, this scheme could form part of the updated national partnership agreement.

That national partnership agreement is due for renewal and needs to be in place for 1 July 2024. But, you know, ultimately productivity will not improve until we move from the view that value is lowest possible price at the tender box, and incentivise real value for the Australian taxpayer. This is not just an economic problem; as I said before, it's a people problem. And we've just published since our last submission - and we'll leave a copy for you - a new report called Disrupt or Die which talks to the productivity problem, but equally and probably more importantly talks to the people problem.

Gen Z, Gen Y don't want to come to work in an adversarial industry with long inflexible hours, where Excel spreadsheets are still considered to be the height of technology, and no consideration is given to environmental improvement. So if we don't change, we will simply run out of workers. That's the reason for the title Disrupt or Die. So, we really need to change, and

it's not incremental change we're calling for; it's significant disruption in how the industry operates. And it was good to see some commentary around the construction industry in the draft reports, the interim reports, but to be quite frank, we don't think that there's enough focus on the construction industry given the size of the opportunity and the problems that exist. Thank you.

COMMISSIONER ROBSON: Okay. Thanks, Jon. I have a couple of questions and then Lisa, if you have any. You mentioned that the productivity slowed down in the construction industry in Australia. Is that similar in other parts of the world or is it just an Australian phenomenon? What's going on particularly in the advanced economies?

MR DAVIES: Look, we're not alone, for sure, in this. There is quite a famous McKinsey report from five/six years ago that identified this as a global phenomena and, sort of, identified, you know, savings in the trillions of dollars worldwide if we can address this problem. I think Australia has got some unique issues in terms of some of the governance structure, especially around the federated nature of the country and how money is granted to the states, and the states have then responsibility for delivering that infrastructure, and so therefore the federal government has historically, sort of, hidden behind that and said, 'Well, you know, it's not our responsibility; all we do is we hand the money to the states.'

But I think that is shirking that responsibility. I think there are things that could be done and should be done in that space, and we can certainly look at - one of the things that happened in the UK - they came out a couple of years ago with a construction playbook which identified best and documented best practice in terms of procuring, delivering government projects. And they said to all the delivery agencies, 'You've got to, you know, use this or give us a good explanation why you're not doing that.' And when we sort of talk to the federal government here about a similar concept, they say, 'Oh, yes, well, they - you know, it's the UK. They do things - it's a different system of governance', but, you know, it wouldn't take too much to look at those state governments as essentially delivery agencies, and so I think that we've - we haven't been focused enough on this. We've been making excuses around this. But - sorry - to come back to your original question, this is a problem worldwide.

COMMISSIONER ROBSON: And, you know, you talked about the white collar, you know, opportunities for productivity gains there. What's your sense of the size of that opportunity? And I think you mentioned, you know, if construction had improved productivity by X, there would be some sort of dollar gain, but just that white collar component. What's your sense of the size of the gains that are possible?

MR DAVIES: Look, it's probably difficult to say because we're comparing multi-factor productivity rates there - - -

COMMISSIONER ROBSON: Yes.

MR DAVIES: - - - to come up with that \$47 billion opportunity. So there's a lot of different components to that. But we certainly believe - there's two sort of important parts about the white collar bit. I think that there is a significant opportunity there, but probably the biggest consideration is that that is where the easiest gains lie. You know, we - it wouldn't take much to change procurement processes and to - you know, for example, New South Wales now - transport for New South Wales is allowing contractors to rely on information that they provide as part of tenders. And that's just at a - you know, a stroke of a pen decision that can lead to very substantial improvements. And that's what we believe. Blue collar - there is an opportunity in the blue collar space, but that sort of stuff takes a lot longer to achieve. The real here and now gains are that white collar space.

COMMISSIONER ROBSON: And, you know, there is this - in infrastructure projects at least in Australia and around the world there's systematic underestimation of costs. What's your sense of that and, you know, have you got any solutions to address that issue?

MR DAVIES: Yes, sure. You're right. That is a huge problem because what happens is that we - politicians come to market or go to the public and say, 'Right. We're going to build this road from A to B. It's going to be delivered by next Christmas and it's going to cost \$200 million.' And that announcement is made on a P50 estimate at best. And then what happens is things come to pass and estimates are developed further, and there's an "Oh shit" moment where they go, well actually no, we can't do that anymore. But because of the political issue of backtracking on that, then that is the start of a downward spiral where pressure gets put onto contractors to push the price further and further down. And as an industry we have been too guilty in the past of playing that game and accepting that. Saying yes, we can price that risk even though we can't really quantify it. And then we all know the outcome of that. We see it play out on a daily basis where projects are in the news, cost blowouts, big claims being put in. Snowy Hydro's probably the latest example of that.

The solution to this is to take more time at the tender stage to work through, develop the design and to look at what the risks are and try to mitigate some of those risks. So, for example, common risk will be utility risk. There are things that can be done in terms of advanced works to relocate you to the teams that can help in that space. But one thing I'd certainly recommend the commission look at and consider is a concept - a growing concept called Should Cost models. Now Should Cost models aim to provide an earlier and better indication of project cost before the design is developed such that designers can actually be held accountable to a budget rather than the other way around as happens at the minute.

A project is designed, the cost is what the cost is and then that goes to market. But Should Cost modelling is a way to improve that. We just provided an opportunity to a consultancy firm that specialises in this out of the UK to do a full leadership piece on that for us. And it's certainly something that's getting traction in the UK as being a solution to this problem.

COMMISSIONER ROBSON: And have you done any work or had thoughts on this issue of, you know, new projects versus maintenance of existing infrastructure and the extent to which, you know, that decision is being distorted at the, sort of, governance level?

MR DAVIES: Look, I think my members would not take too kindly to me suggesting that we should be doing more maintenance and building less projects, but for sure there is something to be said for getting more benefit out of existing assets and sweating those assets for longer. I don't think enough work has been done on that issue, but you will always have the problem there with the politics. It's not sexy coming out and announcing a new maintenance upgrade versus announcing a new project. I think that's the biggest issue there.

COMMISSIONER ROBSON: Well I'll ask one last from me. On reconstruction following natural disasters, I think there's a view that, you know, for many of these projects it just replaces what's been there rather than building something that might be more resilient against future natural disasters. Have you done work on that?

MR DAVIES: Not specifically, but absolutely. We have to - to quote the phrase - build back better, because we spend so much money - these natural disasters seem to be coming around more and more frequently, and it's not cost effective just to put back what was there, and, you know, and it'll just be repairing it again in five years' time when it floods again. I think absolutely there is a case for when we do build back, making them more resilient to - that infrastructure more resilient to natural disasters.

COMMISSIONER GROPP: What I was going to ask – I know that the private sector doesn't build huge infrastructure projects, but it does do big projects, and so when you're building private sector projects for – what are the procurement processes like there? And are these new techniques and digital techniques, et cetera, used more there? Or do you have to have government as sort of the leader to drive those?

MR DAVIES: I think that's a really good question, Lisa. I think the example would be, public-private partnerships where because the consortium that's building that also has the responsibility for operating and maintaining that for a period of time, they take a lifecycle view of costings. So, when projects are being developed – and this is a great one from a digital perspective, because Building Information Modelling digital engineering, the substantial benefit of that investment accrues during the operation of the asset, because what that does is it makes a whole bunch of information more readily available to make it easier to operate and maintain that asset. It's all about managing information. It's not about a 3D model on a computer screen. But it does cost money to invest and set that up at the start of the job.

So traditionally, unless a client actually specifies that, a contractor will not offer that because there's no substantial benefit to them doing that. But in those sort of PPP's where you're looking at that lifecycle cost, it makes complete sense to invest in those digital technologies, but one of the other barriers, and I sort of mentioned it in the opening just then to adoption of digital technologies. You know, I get asked this a lot. There is no shortage of digital technologies in the construction space. Absolutely not. There's thousands. I get maybe calls once or twice a week from new providers of digital technologies.

All we need to do is look at what are the barriers to implementing those technologies, and one of the biggest barriers is the form of contract that we use encourages hoarding of information – holding of information, because it can be used in claims against someone or to defend a claim from someone. And a lot of these technologies are fundamentally based on open and transparent sharing of information.

So until we remove some of those roadblocks – and the investment decision is another roadblock, we will still be stuck where we are now in 30 years' time. So BIM digital engineering was developed 30 years ago, and yet we still get excited when we see a 3D model on a computer screen which has been, sort of, point 5 down here on a scale of one to 10. We need to look at what are the barriers and remove those barriers.

COMMISSIONER GROPP: Going to, I guess, a lot of the procurement – it's the skills of the procuring agency. I mean they must face barriers in finding people who can, you know, have the knowledge and the skills to get up those – the tender documents, et cetera. So is that part of the limitation? So they stick with what's been around for a long while – so it's risk minimisation in a sense?

MR DAVIES: I think there's two aspects there. Absolutely, I think there's a lot of conservatism in some of these delivery agencies. More from a point of view of, you know, the finger pointing that will go on if something fails. We're too afraid to fail in the infrastructure space, and I guess there's a good reason for that because, you know, there's safety considerations as well. But I think there's room to do a lot more in that space. But the lack of resources one is a big issue which is why one of our recommendations in this report, Construct or Die, is greater use of what we call enterprise delivery models.

So enterprise delivery models can address a number of problems. So enterprise delivery models bring together, as the name suggests, an enterprise. So lots of different elements of the supply network to deliver, generally speaking, a program of work. So the level crossing removal

program here in Melbourne could be described an enterprise delivery model. The MRPV suburban roads upgrade project can be described as an enterprise delivery model. And so you only bid that work once.

So you go through the process of selecting your enterprise, your contractors, your sub-contractors, your designers, and you do that once, and you try and keep those people together for a long period of time. So you're reducing tendering cost, but what you're also doing is by keeping those people together, you're maintaining the knowledge on the job. So lessons learnt. But you're also improving outcomes.

So the great example is with a level crossing removal program. What those different teams that were pre-qualified for to do those level crossings, one of the conditions for them getting another level crossing once they've completed one, is that they need to achieve certain minimum conditions of satisfaction on that job. And those minimum conditions get progressively raised as that program of work goes. So you're getting better productivity, you're getting more innovation, you're reducing the churn of people and maintaining that knowledge base on the job.

COMMISSIONER GROPP: So would that be described as a form of relational contracting then?

MR DAVIES: Yes. Usually in those it would be more of that sort of relationship style of contracting, you're right. So more of the – or collaborative style contracting where you – from a commercial perspective, it's usually some form of cost reimbursable, whether it's what we'd call incentivised target cost, or the more traditional alliance-style contracting. But where the parties are actually incentivised, financially, to deliver better outcomes - if they improve on the estimated cost, you know, they're entitled to a share of those savings; similarly, if they go over, a share of the overrun - but what those models also do - back to my point before - is, they take a broader based view of value for money. So they do incentivise improved outcomes on local content, diversity, inclusion, environmental sustainability, all of these other issues that we all know are important, and should be important for government organisations.

COMMISSIONER GROPP: Could you elaborate a bit more on this - I think the acronym is FARE - mechanism? And just - and this is about, sort of, having published ratings of outcomes, and how that would work, and who's going to - how objective are these ratings?

MR DAVIES: Yes, so it would have to be undertaken by an independent body. In conversations with Government, we were asked our views on that, and we're agnostic, really. It could be something that could be undertaken by, you know, a reformed Infrastructure Australia; they're going through the process - a review of Infrastructure Australia at the moment.

But it could equally be done by an existing rating - independent rating body. So you've seen - and one of the reasons for us coming up with this idea was seeing the success of existing ratings schemes, like the Green Building Council Green Star scheme; the Infrastructure Sustainability Council environmental sustainability initiative in the infrastructure space. They have both driven really improved outcomes in the environmental sustainability space. And what we said: well, why don't we take that model, and just add some other key reform areas into there, as well, and track that, as well?

And the other thing I didn't mention, as well as, sort of, shining a spotlight on the government agencies that are doing well and those that are not doing so well: contractors and designers are competitive bunch. They will be seeking out opportunities to be associated with high-scoring projects. So that will be another thing that will put pressure on those delivery agencies to provide those opportunities where they can innovate and do better.

COMMISSIONER ROBSON: So the idea is that it would be a sort of systematic, ex post evaluation, put into some sort of rating, and then the common - that sort of best practice would then diffuse into common practice. Because I think what we've heard from you today is that there's not enough diffusion of - and that's a - - -

MR DAVIES: Correct.

COMMISSIONER ROBSON: - - - thread that's coming out in our inquiry across other areas, as well, but - - -

MR DAVIES: Yes.

COMMISSIONER ROBSON: - - - is that the - - -

MR DAVIES: Yes. No, that's right. We think that the - that one of the main roles that the federal government can play is in that sharing of best practice. And whether that's through Infrastructure Australia or some new body, as I say, we're sort of agnostic about that. But, as an industry, we are woeful at learning lessons and sharing best practice.

And I think part of that problem - we spoke to that enterprise delivery model example - is - part of the problem is that we are a very transient sector, in terms of the people. There is very little longevity of employment, and people move from contractor to contractor, designer to designer, project to project. And when you have that movement around the industry, all of the - sort of - the good stuff tends to get lost. And so we'd need to find a way to address that.

COMMISSIONER GROPP: Can I shift to the - you've talked about white-collar barriers - to some blue-collar barriers, which you said will take much longer to deal with. But - and you've mentioned, in - you know, things like licensing, et cetera, and I guess workplace relations probably comes in there. Could you, perhaps, just talk through some of those issues.

MR DAVIES: Yes, sure. I think - there's a couple of things. For sure, industrial relations - we need to improve industrial relations in this country. We - again, back to the jobs and skills summit - one of the things that I said is that government, industry and unions need to, like, leave behind the baggage of history. There is too much baggage there. There's a lot that we all agree on, and we need to start focusing on those areas of agreement. And this is certainly one of those areas where we can improve. It's not about putting people out of work; it's about upskilling people. And I think we need to talk in those terms.

But I think one of the biggest issues, from a blue-collar perspective, in the actual doing the doing work, is the - back to the conservatism and the prescription that exists in - and how things are procured, telling people down to the last nut and bolt, literally - you know, "This table: it's got to be this thickness of wood, sourced from Ukraine, with that type of finish." You know, there's no opportunity for any innovation there whatsoever. And until we sort of untie those sort of two - the arms that we've had tied behind our back, we're not going to see any - you can't - it's - innovation is impossible in those circumstances.

COMMISSIONER GROPP: So it's the regulations which are input-based, rather than - and that goes across the board for safety requirements, et cetera?

MR DAVIES: Yes, look, I think we've become overly conservative in a range of areas. Not safety, I think; safety is so important. But certainly in the design space, and the multiple levels of design review that we now see on projects that are adding no value whatsoever, but are actually acting as a handbrake on innovation.

COMMISSIONER GROPP: And what about occupational licensing? Is that an issue for you, or was that - - -

MR DAVIES: It is. It is. And I'm glad you raised that one, actually, Lisa. It is. You know, the harmonisation of licensing requirements in this country: it's a huge problem, and a barrier to people moving from - in between states. Why this could not become taken over at a federal level, I don't know. But that would certainly make life a lot easier.

COMMISSIONER GROPP: There is now automatic mutual recognition across some states, at least. Queensland is not participating. But have you noticed any benefit from that, in - - -

MR DAVIES: I think it's still early days, to be honest. Whilst there is notionally that - supposedly - that automatic recognition, what I'm hearing is that it's not quite as automatic as that. But it's certainly a step in the right direction.

COMMISSIONER GROPP: And associated with that is, of course, scope of practice, where an electrician has to do everything. But is that still an issue where you could perhaps have lower - less risky tasks being done by people who don't have the full qualification?

MR DAVIES: At the risk of raising the ire of the unions, yes, I do believe that that is possible, but it cannot be something that compromises safety; that is important. But for sure. And, you know, it's not just in the blue-collar space. One of the things that we've sort of said is, it takes six, seven years to train an engineer, for an engineer to go through uni and to come out and to be ready to act as a site engineer. But that's not to say you have to wait six years for them to be useful. In the legal profession, you have the concept of a paralegal. Why can't we have a paraengineer, and a recognition that, at a certain point in time, we can use that engineer to do a number of tasks?

COMMISSIONER GROPP: And while you said, you know, migration - skilled migration is not the answer to the issues at the moment, but those barriers still apply to skilled migrants sometimes, as well, when they can't get licences. Is that something you've come up - - -

MR DAVIES: Yes, it's a huge issue. I was just at an Engineers Australia lunch yesterday, where this came up. There's - and again - an interesting - some good work being - happening here in Victoria, where they're looking to put skilled migrants on internships until their skills and qualifications get recognised. So, rather than having them driving Ubers around town, waiting for that to happen, they're actually out, practising - doing what they're trained to do, and adding a whole bunch more value, until that recognition comes through. And I think that that is a great scheme, that we are certainly advocating other jurisdictions to look into.

COMMISSIONER ROBSON: You mentioned a national partnership agreement. I mean, in your view, what should that include, and what should it look like? Big question, but have you got any thoughts?

MR DAVIES: Yes, well, I think - it is a big question, but I think it's a simple answer. I think the government has got to take more interest in how that money gets spent. I mean, the current iteration of the national partnership agreement has some requirements in there around Indigenous content and compliance with the building code. Well, the building code has just been decimated now, anyway, so that one's out. Indigenous engagement: sure, that's - that's a very worthy requirement to have. But why not have some stipulations in there about improving productivity, about reducing embodied carbon, about improving diversity and inclusion in the industry? You know, it wouldn't be hard to do, and I must admit, my background is not from association world, government world; it's contracts and commercial, for the members I now serve. So I struggle to understand why a Government would not put pre-conditions on how that money gets spent.

COMMISSIONER ROBSON: Thanks very much.

MR DAVIES: Thank you very much. I'll leave - - -

COMMISSIONER GROPP: Anything else you want to - - -

COMMISSIONER ROBSON: Yes, anything you want to say?

MR DAVIES: No, other than, as I say, just to reiterate, I think the construction sector, I'd love to see the construction sector have a far bigger billing in your final report, appearance in your final report. Thanks.

COMMISSIONER GROPP: Thank you.

COMMISSIONER ROBSON: We'll just take a short break for about five minutes and then we'll get the next (indistinct).

SHORT ADJOURNMENT

[10.21 am]

RESUMED

[10.28 am]

COMMISSIONER ROBSON: Okay. So we'll get started again and I'd like to welcome our next speaker, David Foreman. David if you could state your name and your affiliation before you start and then we'll hear an opening presentation from you. And then we'll get started on the discussion. Thanks for coming.

MR FORMAN: Thanks. David Foreman, I'm the Director of Government Relations and our Director of Industry for TechnologyOne. And thank you for giving me the opportunity to present. If you can indulge me for a few moments, I might explain why the software company thinks it's got something to say to you. I think we've actually got a bit of an optimistic story to tell about what's happening and perhaps could happen more quickly.

TechnologyOne is an Australian software business founded 35 years ago, still headquartered out of business – out of Brisbane, sorry. We provide the ERP software, began providing financial software for business. That expanded to a full ERP Suite. One of only a small number of companies in the world that provide that full suite enterprise-level technology. Given that we've been around for 35 years, we've been through a lot of iterations of technology. We've survived those by virtue of reinvesting 20 per cent of revenue year on year in R&D. The technology has completely transformed from green screen technology through graphic user interface technologies, and now in the last few years we've transitioned entirely to SaaS, or software as a service.

Over the last few years, as we've transitioned to software as a service, a number of our customers have transitioned with us at different rates. There are now very few that are on premise. Implementations of our software. But some obviously were quicker in making the transition and moving to our natively-written SaaS software and others. A few years ago, what our - our CEO, having heard a number of anecdotes from some of those more forward-leaning customers, came to the business and said these customers are telling us stories about how the software is changing their business in the most fundamental ways; what could this mean for - on a national level?

What happen more broadly? So you'll have to throw little questions like that across the fence to us. We commissioned two economic consultancies, Inside Economics and IBRS, to go out and examine that question. What they did was then to look regionally and across a number of verticals, local government, government education, intensive assets, or critical infrastructure, health community services, and financial and corporate sectors. Examined what were the technology mixes in each of those sectors, looked in each of the regions of the states and territories of the country at what the industrial mix was in each of those regions, and asked the question what would happen were there to be an uplift, a diffusion of these new technologies more rapidly over a 10 year period, a three-year transition across all of those sectors, across all of those regions to this new generation of technologies.

And they did that by virtue of a literature review of about the last 15 or 20 years of global literature around the experience of transition to SaaS, and then a series of 68 in-depth discussions with organisations who had made that transition asking them on a kind of no free lunch basis what you can identify as areas where you've made savings. And not just our technologies, but across all SaaS technologies. They then modelled that up and estimated the total value across a 10 year period, the total value to the economy of the potential savings which they calculated at \$224 billion over the period in net present value, and then they ran that through the Monash multi-factor regional GE model to model up the second order effects which they calculated in the 2030, that being an uplift of GDP base of 1.3 per cent which - we asked them to go back and make sure that they were confident because they're pretty big numbers, and they came back and said they'd taken the most conservative estimates at all points.

The thing that really caught our attention, though, was - and that validated our conviction that there was something going on here which was more than what we'd seen before as we transitioned from one generation of technology to another was that within that \$224 billion in direct savings, 32 per cent of it was reduced total cost of ownership which makes sense. You don't have to buy and run the kit yourself. 54 per cent of it was labour productivity gains that the organisations had realised, which presented at an enterprise level in all sorts of different ways, but to us demonstrated that there was something bigger going on here.

So, his next question over the fence from - the CEO's next question over the fence to us was go find out why people aren't acting in their own interests, then. What's stopping them? This is the original research report. That's my dog-eared copy. We've spent the last - we were interrupted by COVID. Our program of releasing this and going out and having discussions has been a little bit more piecemeal than we originally intended, but we have spent from the release of this report in August of 2021 until now - we have spent our time going out and speaking to communities of stakeholders and customers and end users both to understand what it is that they've experienced more deeply, but also to understand what it is that they had to do to get to the point where they made that leap in technology.

We think - we don't think we've got all the answers. We do think we know enough to have made a contribution to - in response to the second of the Commission's papers in this process which was a really - I thought, a really good and deep paper that spoke to some of these barriers about slowing diffusion of technology. We've got some views around some of those issues, and we think that there's potentially a role for government based on what we've seen government do successfully in the past that can not only act in the interests of government agencies and governments overall themselves, but also drag through broader changes and the kinds of things that we have focused on are patterns of government becoming better and more informed buyers, and also things that government can do by virtue of their market power as on the demand side to effect changes in the supply side. Happy to leave it there if you want to ask some questions, but I think those are the two - for me, the two areas of focus. And as I say, we're trying to engage

discussion. We don't believe we've got all the answers, but we think we've got some insights that are perhaps helpful.

COMMISSIONER BRENNAN: I just wonder if it's worth expanding a bit on that.

MR FORMAN: Yes.

COMMISSIONER BRENNAN: I think that's exactly where we'd be interested in going. The headline question, why aren't businesses acting in their own interests.

MR FORMAN: Yes.

COMMISSIONER BRENNAN: But, secondly, to what extent is there a role for government either because there are barriers that are regulatory or cultural or whatever.

MR FORMAN: Yes.

COMMISSIONER BRENNAN: But - and particular if it is the latter, yes, does government as exemplar or government as - - -

MR FORMAN: Yes.

COMMISSIONER BRENNAN: You know, where government is a regulator, for example, does the uptake of a technology solution sort of drive digital uptake even in the regulated community.

MR FORMAN: Yes.

COMMISSIONER BRENNAN: Or whatever. Do you have a bit of a - if you could expand a bit on that. Where do you see the scope for - - -

MR FORMAN: Yes.

COMMISSIONER BRENNAN: legitimate government action that drives uptake that isn't, you know, too intrusive.

MR FORMAN: Yes. We think that there is a regulatory question, but this is one of the things we want to explore further in another piece of work, and that's around the - whether auditors and regulators are all equally informed about the nature of technology. So, for example - and this is often at the enterprise level as well in government agencies. We, for example - software as a service is interesting because it changes a little bit around the perception of what scalability is because you're providing an application as a service rather than hardware as a service.

When we had the first adoption of cloud-based infrastructure, it was often spoken about a scalable up. What's interesting about software as a service is it's scalable down. So, to take the most - in my opinion, the most powerful example of that is cybersecurity. Probably a little over two years ago we achieved assessment against the IRAP cybersecurity process of federal government assessors being suitable to store data up to and including protected level classified data.

We uplifted all of our agencies to that - all of our federal government agencies of which we have 80 - all of them to that level immediately at no extra cost, and then we introduced the same architecture across our entire customer base, because not only is that the right thing to do, but it's actually more efficient for us. So, we've got some cost to get that, but then operating it on one platform is more efficient. The interesting question becomes, though, when you get to a large agency - so, our larger agencies would include the treasury, department of prime minister and cabinet, department of agriculture, forestry and fisheries or fisheries and forestry, one or the

other. They have a level of internal expertise to go through the process of satisfying themselves that their whole use of the application meets the cybersecurity on them from the government.

Smaller agencies benefit from exactly the same uplift in what we provide, the people in their organisations maybe pretty - much more difficult to access. Much thinner on the ground. Much lower level of expertise. It might be someone who's doing this who's trying to be a cybersecurity expert while doing historically everything else. So, the questions that they're asking may reflect documentation that speaks about infrastructure as a service, not about software as a service. Larger agencies can get that, and they can adjust their expectations on us.

Smaller agencies might find that harder, and so a piece of research that we're discussing doing now is to understand what it is that the regulatory agencies, the auditors and the cybersecurity organisations are providing down to those levels. So, that's a very long way of saying I don't have the answer, but we think there is an issue there to be explored. Is it the major issue? I don't think so. We're usually able with a bit of effort to help those organisations certainly with regard to cybersecurity, to help those organisations to understand in fact they get into a better place, even though the questions that they're asking can't be answered in the way that they expect them to be answered.

Other issues, though, go to the level of - the degree to which technology still remains siloed at the senior executive level. Again, we see a lot of this present in problems around cybersecurity, but it happens at all levels as well. In fact, at the buy side, through the buying process it's probably a little bit worse. Senior executives tend to seek their advice from domain expertise in their technologies sectors more, and rely on it more unquestioningly than they would in other parts. That would be as an example that I use in one of our - in the second paper.

We could all kind of have a bit of a guess at what the real cost of owning and running a car is because we've got one, and so we can by extension have a guess at all of the costs of owning and running a fleet of cars, and compare that against someone who makes an offer that says I'll just provide you with a car service. Executives aren't good typically at understanding all of the costs that are embedded in their business of running on-premise technology to support on-premise applications.

And so often - as I've said, this paper found a 32 per cent saving in total cost of ownership. We'll often have conversations with people who have absolutely no visibility into areas of cost that we know exist in their business in running technology, but they don't know those costs are even there because they're so embedded and washed through and difficult to identify.

COMMISSIONER ROBSON: Take us through some of those costs and examples in an organisation like that.

MR FORMAN: Licensing for technologies that might be used to integrate different applications together to a technology. Costs to take an application and make it available in a mobile - on a mobile device, all of which would be for an integrated SaaS-based ERP or those would be either available through the integration part through repeatable tools - out of the box tools - or which are a function of the nature of the technology itself, that - for example, our technology is available in its full suite of functionality on any device because it's natively browser based. Technology that's based on an on-premise application, if you want to try to make that available externally there are a whole bunch of other technologies that you've got to layer in between to take that and make it capable of being rendered and used, and usually only a much thinner level of the function - part of the functionality.

COMMISSIONER ROBSON: And are there any - you mentioned this 24 billion figure.

MR FORMAN: Excuse me. Yes.

COMMISSIONER ROBSON: How is that in your results - is that broken down between sectors and are there any sectors where it was particularly large savings available or is it, you know, uniform or - - -

MR FORMAN: It's not uniform, interestingly, in that - especially in the way that it breaks down between total cost of ownership and productivity gains. So, for the health and community service, the total cost of ownership savings were quite meagre compared to a lot of others, but that's because they have historically under invested, so to such an extent in technology, and so they have such a long way to catch up. The flipside of that, though, is - and again, this was exposed a few years ago through the cybersecurity incident that affected the National Health Service in the UK where the national health service in large parts of it were completely brought down by a cyber attack that exploited vulnerabilities in some very old Microsoft operating systems.

Some of them are so old that they had been decommissioned and not supported by Microsoft anymore. But under investment in those technologies caused that massive problem. So if you - that under investment is typical across a lot of industries, and health and community service is one that's been heavily exposed to that because obviously if you choose between spending a dollar on a patient and a dollar on a machine that seems to be working, they put the dollar on the patient and the machine will just keep churning along. And very often what we're finding is there was a - one of the events that I mentioned that we hosted to speak about this - CIO of a university in this roundtable said he was highly motivated to move to this technology because he could see all of the downstream productivity gains that were being realised by other universities. To persuade the board, though, he warned them about cybersecurity and the fact that they had this - a risk that they could not mitigate, and that risk was enough for them to make an investment only to realise later that this thing more than paid for itself. So, again, finding that point of leverage with executives is one of the things that we're exploring.

COMMISSIONER GROPP: David, can I take you - I'm not a tech person, but - - -

MR FORMAN: Neither am I.

COMMISSIONER GROPP: In your second submission to us, you - I'll call it a more concrete example about potholes, and about local councils adopting - - -

MR FORMAN: Yes, it's a great story, yes.

COMMISSIONER GROPP: But I'd like you to sort of perhaps elaborate on that.

MR FORMAN: Yes.

COMMISSIONER GROPP: But also it was more than one council, I understand.

MR FORMAN: Yes.

COMMISSIONER GROPP: So how did they come together to agree to share costs, et cetera, and how did - - -

MR FORMAN: So, each of those councils have done it independently.

COMMISSIONER GROPP: Okay, okay.

MR FORMAN: The council that did it first is one of those that I was speaking about earlier that has been really forward thinking in adopting the technology. So, the story is that they use our

asset management system that's integrated to all of the other parts of the finance system. So, that is available remotely. You could go out and you could log something on your phone as a fault, and it would go immediately into the system. What we did, though, is partner with a little company based out of Brisbane called Retina Visions who had developed a technology to stick a little protocol-based camera on the front of garbage trucks, and this could be just something as cheap as the cheapest phone with a video capability.

And stick it on the front of the truck which is driving around the streets every day. The technology is able to identify defects in the road or in signage or on the curbing. Identify that through some sort of smart AI, triage it through the same smart, and continue to learn through the same sort of smart AI technology to say, well, that pothole might be bigger, but that one's deeper so that one's going to cause more damage if there's rain. Our system's IP's IP, so data is data coming into our system. That camera sends that triage information into our system which goes into their core enterprise software, issues work orders against that list of priorities which goes to another device to the people whose job it is to fill the pothole so that when they come in, in the morning, they can go out and tell them go here. It can be an image, a location, they can take a photograph and close the job, go from side to side.

I was unaware of this, but an enormous proportion of the telephone traffic into councils is people ringing up saying there's a pothole in my street. And so much of the saving has been getting ahead of that. A similar example - - -

COMMISSIONER GROPP: You said it went from council to council. I'm interested in how?

MR FORMAN: We communicated it.

COMMISSIONER GROPP: And you – you, okay.

MR FORMAN: And so because a lot of our – we have very large customer base in local councils, I think. About 73 per cent of the population is in a council that's served by our technology. So we've been able to introduce that little company and its technology into a number of councils which, I mean, and it's obviously a great story and there's a next sort of phase of the development of that technology is to experiment in whether we can go into – which is where the real money is going to be I think the real savings - into ducts and pipes. Pipes above the surface of buildings and drains. Because the technology's completely agnostic as to where the data's coming from as soon as it hits that system.

And that's where the sort of techy bit that captures the imagination is the camera on the front of the truck, really smart. The real power is in resolving the defects with no one touching it until someone's got a shovel on the site. And all of the paperwork, or all of the human interaction from the person picking up the telephone at the council to having to send an email or filling in the form to someone, the old ways of doing things. All of that is smoothed out. And so when you hear those examples, you start to see where the 54 per cent comes from.

COMMISSIONER GROPP: So the companies presumably they would be trying to sell their services as well, but you think it – the confusion came more from – you had to be a practiced and more - - -

MR FORMAN: The fact that we – the fact that we had an existing customer base, that was their target market – made us an attractive partner to them – the fact that they could add value to our system, made them an attractive partner for us. And there are others who are doing similar things. But as I say, I think the story of the real value is a whole end to end business transformation process.

COMMISSIONER GROPP: Thank you.

MR FORMAN: The other issue that we have – just to skip onto another point – the other issue that we have been forced to think about is what we’re talking about here is this transition from an own-operate model to a consumption-based model fundamentally. The business model that – excuse me – sits behind how we did business was still also in transition. So we used to do what every other software company did. We would sell you a piece of software and we also would implement that piece of software for you, but it’s under a separate commercial arrangement. Or you might go to another party and they would implement it for you. And so there’s a completely separate activity.

If you go to a third party and this is where I think many of the horror stories around technology failing to meet its promise and projects blowing out really stems from. If you think about the incentives for software companies, incentives for software implementation company and then incentives for a company that might be supporting that software, it might be three different entities. The company implementing the software has got a massive incentive to offer you a price, a low as possible price to get in the game and then to extend that over time and if the project takes longer than expected and you’re still paying, what’s the disincentive to that? It’s only what you built in the contract to start.

The incentive for us as a software company is to get you up and running and telling other people how great our software is. The incentive for someone who’s – as we say, feeding and watering the software. Keeping it running on the infrastructure, is to keep themselves in a job. So those guys at the end, are the guys feeding and watering software, running on a – someone else’s hardware somewhere. They’ve got an incentive to discourage you from going to a SaaS service because they’re threatened. That’s all provided as a SaaS service. It’s pure consumption.

The next – and I think that’s starting to – I think businesses are starting or enterprise are starting to get their mind around that bit. The next bit though is and we were guilty of this as well, because we were charged twice. We were charged for implementation and for the – and then this ongoing consumption cost – this really came home to us when we were dealing with a very large Federal Government agency that wanted to go from on-premise to SaaS. And they understood what was at stake and the benefits of it. But they said to us, our problem is, we haven’t budgeted for it and can’t budget for this bubble where we’ve got – we can’t retire all of those other bits of hardware, all those other licenses, because they’re running your application. So we can nominally say that bits gone, but it’s - they’re running all these other applications as well.

So we’re paying for your consumption software. We’re paying for the implementation and we can’t retire any of the costs. What we did with that organisation was we kind of water bedded it along the period. Just say in first year, they would pay no more than what they were paying just before the license fees associated would be on premise software. And we scaled it up over time. In effect, we said to them, we will subsidise your digital transformation to get you to a point where you can realise the value of turning off some of those other things, but that’s kind of on you. We will take the hit up front.

What we’re now starting to do is to say, that’s a little bit hard for them. So why don’t we treat the cost of implementation in exactly the same way as we treat the cost of R & D as being imbedded in the subscription. And then the risk is on us if it overruns. Because our path to profitability is that much longer. So in order for us to do that there’s some other kind of benefits that are emerging for the customer as well which is our incentive is to get things up and running as quickly as we can. So we identify the parts of the software that are the most immediately valuable to the customer and we put those in under this one price model which means they’re

getting that time to value shortened really quickly. And if we mess up, it's on us. The cost is on us.

So that we've only just announced that in the last month or so and we're calling it SaaS plus. But I think that potentially is really transformative of the supply side. And again, I think that's where governments can start to – we did what we did with that large agency because they were a big customer that was important to us.

Government's collectively, if they're able to be less prescriptive, what they come to market for, less prescriptive in the way they expect to be charged. I think they can start to say to software or technology providers, 'Well, what can you do for us?' You tell us what you can do. Put a bit of imagination to this. And I know that that's very difficult, because it – Governments like to have very, very precise documentation when they come to market. And again, sometimes possible outcomes get lost and they get lost in the translation.

COMMISSIONER BRENNAN: So on that, David, you think there are some success stories in the ICT procurement world as a result of SaaS? I mean, this has bedevilled you know, Government ICT procurement is kind of nightmarish and in part because of the constant threat of cost overruns, delays, auditor-general's reports, you know.

MR FORMAN: Yes.

COMMISSIONER BRENNAN: All that suite of things. I mean, have you got some examples of where you see some success stories of SaaS kind of taking a bit of the heat out of that traditional procurement?

MR FORMAN: Yes. So the example that I gave you of the large agency was our first foray into really sharing the risk. The – we operate in the UK as well. And we have signed some first couple of customers to the SaaS plus model in the UK already. So even before our announcement of this, we did that in the UK with – I think it was a university customer or a council customer. But I can come back to you with more. I can take that on notice and come back to you with that if you like.

Again, this is really nascent stuff for us and it's really challenging for our business model. But ultimately, it's addressing things that technology has to address because that – switching costs are massive and the risks around switching based on experience loom very large in the minds of everyone, but especially government. But how we address that, those issues, really will be a determinate of whether this – the diffusion can be accelerated. And so that's – and that sits fairly and squarely, I think with the supply side to use its imagination but it needs a bit of a prompt.

COMMISSIONER GROPP: What about your private sector customers? Are they at the same – well, they have got risks that need to be managed too, are they more open to that or how do you manage?

MR FORMAN: Most of our – the verticals in which we operate are government or public sector or associated with public sector, so – but yes. If you look at airports, you've got a lot of airport customers. And it's a huge issue for them. We've not started yet. I don't think we've signed any airport customers to this model because we're rolling it out in a way that we can manage internally.

But there's no question that a lot of discussions that we have is not just about the merits of technology, but – okay, that's great, but how are we going to stop me from being here in five years saying to you, okay, I can pay for five years and now it still doesn't work.

That again, it's part of the issue is whether – if you have a completely separate agency that – agent that's doing the implementation then you've got to think about how you're going to manage that but there's the idea of – like that – inevitably resolves into really complex contractual negotiations to say here's the risk that I'm willing to accept and then if it all goes to custard, then there's years of litigation around what the contract factually says. So the way we've tried to do it through the contractual obligations on either side, hasn't – it hasn't worked, has it? We can see it doesn't work.

COMMISSIONER ROBSON: And you've recommended it being a sort of introduction of a SaaS first policy across Government. Are there other jurisdictions in advanced economies where that's been done?

MR FORMAN: No. Well, not that I'm aware of.

COMMISSIONER ROBSON: what does best practice look like?

MR FORMAN: Not that I'm aware of. But again, I've been around technology government space for a long time and I remember that when we took a long time for us to get Cloud First, implemented as a policy even though other jurisdictions had done it. But it has had exactly the effect that we'd argue it would have, which is – all it does is causes an agency to have to go if they wish to refresh their infrastructure. They have to ask the question, would I be better acquiring that infrastructure as a service and buying the tin.

And in almost every case now, it's not even the question anymore. Whereas if you go back 10 years those – when the policy was first introduced, there was an enormous suspicion and resistance and nervousness about that. And that's also had a knock on effect into the private sector. So for me, the – it's not a novel policy concept that I'm speaking to in SaaS First. All we're saying is if you're looking to refresh an application, you should first ask the question is this available as a SaaS application and if it is, why wouldn't you do it to – to cause some of those people who are resistant to change, often for very good reasons, but perhaps borne out of some ignorance. To cause those people to go out and answer that question, 'Why wouldn't you do it?'. That will shift the mindset and what you'll find is to be fair, most of the – most of our Federal Government customers or those 80 customers, I think, all bar a very small number of our customers, and I'm talking about a number of five or six, have transition to SaaS.

And those five or six, there are a couple who have got very, very specific security agents which we'll go on to address. So it's not so much our – we've kind of done our bit with the application and the journey – the companies that – the agencies are on the journey. But there isn't that systematic perspective that they take that says from where we are, this hybrid world now we expect to be in a world that's almost exclusively SaaS. They're still looking at application by application.

COMMISSIONER ROBSON: Take us through the cyber security is a huge issue ordinarily and even more so at the moment, are there specific cyber security issues associated with SaaS and then also privacy issues as well compared to more traditional forms of software?

MR FORMAN: Yes. Historically, again, going back a decade or so we were first arguing about Cloud First. There was a resistance to the idea of well, I can't see that piece of tin, therefore, it must be less secure. I think there was a really pivotal moment in about 2019 when the Australian cyber security centre provided advice. I think they called it anatomy of a cloud assessment, something like that. Where the introduction to that advice to agency is – was words to the effect of before you – when you start making a decision, that whether to go cloud, you

need to ask yourself whether you can manage security on the premise. And what they were really saying was you might think you've got this, but you don't.

I think that really changed the thinking of a lot of executives who were able to say to their ITs, 'Are you sure about this,' so that was important. What we've seen subsequently at – you're right, the risk of cyber security is – and I've seen some visibility of this for a long time, is the risk is growing and the activity's growing explosively and has been for as long as I can remember. And I had hoped to bring one of my colleagues who is responsible for our SaaS platform, but he isn't available.

Speaking with him recently, he said the number of – sort of scanning events that we see on our platform now, has increased just in the last few months, 100 fold or more. There are thousands of people just scanning, looking for vulnerabilities every minute. The – from a decade ago until now, the – it's no longer any doubt in my mind that cyber security defences are – is a scale gain. A scale gain but one where we've got to be more educated about what the shared responsibility is between you and me. So I can make available to you, the ability to manage the administrative rights for your software. But if you give away your username and password to someone, that's on you, not on me.

We've kind of got to work together to lift that education posture while we're doing the technology thing on the other side. I'm not sure whether that answers your question. Did you have any - - -

COMMISSIONER ROBSON: It was more around the differences in terms of cyber security between more traditional forms of software acquisition. So own operate and install one side versus software as a service and what if I had the - - -

MR FORMAN: Own operate? It's all on you.

COMMISSIONER ROBSON: Yes.

MR FORMAN: It's on me if I find a vulnerability in my software to say to you, hey there's a problem. Here's a patch, come and get it. It's over here. Come online, find it. I'm telling you that it's there, put it into your instance of my software, but that's on you to do and that's on you to make work if you've done something funky in that software as implemented it. That's on you. Now it's on us. If there's a problem at any level of our software, we fix it and we just - you probably don't even know. We just roll it out, and we roll it out to everyone at the same time.

Again, to go back to that NHS example, some of those national health trusts were using Windows XP which was out of support, and the problem was so bad that Microsoft agreed to go back and provide a fix especially for them, but they had had - software was something like 17 years old, and the fixes had been available. The patches had been available for years, but not implemented because what you're trying to do is to make sure that the person who's using the application, which might be a scanner for some device - might be running a scanner for some medical device - the worst thing that can happen is that you play with that software and stop it working because the damn thing is worth \$4 million, and all of the clinicians are going to be screaming if you fiddled with it and stopped it.

So, it's working. I'm not touching that. I'm going to put my efforts over here, and I'm so busy anyway that I don't have time, and the advice that Microsoft published to say hey, there's a patch; you should put it in. They don't even see that. We have people who just do that. So that's - it's a completely different way of doing business because it's a completely different cybersecurity environment today to what it was even five years ago.

COMMISSIONER ROBSON: Do you think that would make some potential adopters nervous, though, in the sense that - I mean, I can see the benefits, but then, you know, just then saying from an organisation - so I've now contracted out cybersecurity as a service.

MR FORMAN: Yes. Yes.

COMMISSIONER ROBSON: Which may happen anyway, but do you think that's a potential barrier to more widespread adoption of - - -

MR FORMAN: It has been, and again, that's where we see there's a potential role for government to say to a provider like us who's serving government, you need to attest to these standards, and we'll keep lifting those standards, which they do through the ISM and other means. You need to attest to those. We have IRAP assessment every year. I think we're required to do it every two years, but we do it every year, and we're continually getting - we have a rolling, I think, six firms coming in trying to do penetration tests so that we know that we're always going to meet that standard.

And while that - and we - and the IRAP assessment is available only to government customers. But as I said, that's - our entire platform is architected to that. So every other customer is dragged through, and the more that they become educated that these things exist and by virtue of the fact of this kind of reverse scalability thing, that they're going to benefit from every dollar we spend over here for the Department of Prime Minister and Cabinet means that a small St Vincent de Paul is benefiting from the same thing, the more that they can have reliance that we do have - that we are providing a level of cybersecurity that they would never really be able to match. Thank you.

COMMISSIONER ROBSON: Thanks very much. Have you got anything that you want to add at the end or - - -

MR FORMAN: No. Look, only that we are - we're continuing to - as I suggested, to try to find ways to dig more deeply into this both through those kinds of immediate interactions and also through potentially other pieces of work. We're doing a piece of work with one of our government customers in New Zealand that we've just kicked off. This was really valuable to us, but by nature of the fact it was arm's length, it's all completely anonymous, so we don't know who's provided these examples, but we're working with one of our government customers in New Zealand who's just starting on this journey to map the before and after picture which again we want to communicate. So much of this is about agencies being able to see the benefits that others have received and said I want what they've got.

COMMISSIONER ROBSON: Thanks very much.

MR FORMAN: Thanks. And of course we're open to any other - if you've got any questions on notice, please, we're dead keen to participate in any way we can help. Thank you. Thanks.

COMMISSIONER ROBSON: Yes, okay. Have we got them online? Can you hear us, Vicki?

MS THOMSON: Loud and clear.

COMMISSIONER ROBSON: Okay. So, welcome. So if you could just state your name and the organisation that you're representing today, and then we'll hear from you an opening statement, and then we'll begin the discussion.

MS THOMSON: Excellent. So, Vicki Thomson, chief executive of the Group of Eight universities, and I'd also like to introduce Dr Philip Chindamo who is our chief economist who is also available for the tricky economic-type questions that I'm sure you may have. So, I might

just - if you can indulge me, I've just got an opening statement which I'd like to make, and then we can get into questions. So, thank you very much for the opportunity to set out very clearly our strong views on this vital subject. We have the greatest respect for the Productivity Commission's intent regarding this matter, and it makes the Group of Eight universities that I represent both enthused and relieved that finally the criticality of what we do within our universities and, in particular, our research-intensive universities is being taken seriously as a central driver of Australia's productivity.

And here, of course, I refer to R&D, innovation, and of course education. These areas are really at the heart of what the Group of Eight through our graduates, our researchers, and our commercialisation teams can and do deliver. And I don't say it lightly that, frankly, we believe Australia cannot deliver the productivity growth it must do without us and the broader university sector. Our submission to the Productivity Commission combines the expertise of economists from across our universities, seven of which are ranked in the world's top 100, and there's no argument from our leading economists who contributed to this particular submission that Australia and, indeed, nations around the globe are facing significant economic challenges.

Australia's research-intensive universities are committed to being part of the economic solution and, indeed, we strongly believe we're integral to that solution. I don't need to tell you at the table that productivity is the only long-term factor driving living standards. We know that long-term productivity growth relies on innovation and human capital. Australia must invest more in knowledge creation and human capital if we are to have profitable and innovative businesses, secure high-wage employment, and address challenges such as an aging population, climate change, and national security needs. And this is core to a future Australian economy that is more diverse, complex, and robust as will be demanded to be successful as a nation into the 2020s and beyond.

Our submission sets out recommendations to boost productivity growth and put Australia in a very strong position to face the challenges ahead. So if I just deal with research first, because that's our very strong area of focus. Investment in R&D is critical and will deliver substantial economy-wide returns, yet R&D investment has been patchy and our research effort is moving away from the all-important basic research. It is, we believe, simply unacceptable that Australia lags behind our competitor nations by so much and has done so for so long. It casts a pall over any chance of being a more sovereign nation or of every Australian having access to the living standards they should expect from what was once known as the lucky country.

Basic scientific research is a key driver of innovation and productivity. Innovations don't occur in a vacuum; they rely on basic scientific research, as we've seen recently with the rapid development of COVID-19 vaccines and a plethora of other examples. The IMF in examining post-COVID-19 pandemic strategies for boosting long-term growth highlighted the critical importance of basic research, and I quote here: 'Basic scientific research is a key driver of innovation and productivity, and basic scientific knowledge diffuses internationally further than applied knowledge.' Importantly, the IMF found that a 10 per cent increase in basic research is estimated to lift productivity by 0.3 per cent on average, and it also says that basic scientific research in advanced economies is underfunded. So, to gain any productivity momentum, it therefore appears logical that we must change what has occurred in other areas of the economy over past decades while at the same time involving the Group of Eight and research intensive universities far more in the recovery process.

The Federal Government's share of total R&D has been in decline since the mid-nineties and business is also moving away from funding research. It gives me no pleasure to criticise business, the business sector, but it frankly deserves some criticism. Since 2008, the GFC

period. Business expenditure or BERD on R&D as a share of national – total national R&D fell 10 per centage points by 2020 to 53 per cent of total R&D expenditure.

And as our submission sets out, business has been and continues to walk away from funding research and it's universities which are picking up the slack. And it's particularly the Group of Eight universities, because we undertake 70 per cent of all university-based research in Australia.

So in contrast to BERD, that business investment, HERD which is the higher education investment, as a percentage of GDP, has risen from 0.54 per cent in 2008 to 0.61 per cent in the survey conducted by the ABS in 2020. And that's significantly higher than the OECD average of 0.44 per cent of GDP. It might surprise you to know it certainly did surprise me, that in Australia, the Group of Eight universities alone, just the eight universities, almost meets the OECD average for higher education spending on R&D, or HERD as we call it, as a percent of GDP.

That lopsided commitment is not good enough by anyone's standards, we believe. It should also be noted that government is commissioning national research from universities while only paying for less than half the costs. So that requires universities and again, primarily my universities, to support the national research effort using their contingent funding and that is mainly international student fee revenue. Again, that's not good enough. We are recommending the adoption of a full economic costing model, bespoke to the Australian context and one which reduces the reliance on cross-subsidies from student fee income.

This decoupling is important if we're serious about building sovereign capability. COVID-19 has shown very clearly how important industries can be disrupted due to a range of external factors, not of Australia's making. So the key question we need to ask ourselves is this. Given the criticality of an active and high quality R & D sector to Australian prosperity, are we comfortable allowing this to be reliant on external forces that lie beyond Australia's control? Expenditure on HERD is beneficial from an economy-wide productivity perspective. For every \$1 billion invested in Group of Eight university research, an estimated additional in-year economic output of 9.2 billion is generated across the rest of the Australian economy. And that's not us saying that. Those figures come from an independent assessment conducted by the highly respected firm, London Economics, which we will be releasing in the next few weeks. The Federal Government has set a target to lift investment in R & D expenditure to 3 per cent of GDP, obviously very challenging in the current economic environment but strongly supported by the Group of Eight.

A national research strategy is recommended by the Group of Eight in our submission which targets spending where it delivers the greatest return and best targets national priorities will support that goal. The strategies should prioritise funding for basic or Blue Sky research, improving incentives for universities to conduct basic research, support industry and university collaboration on R & D, support access to the international collaboration of funding, such as Horizon Europe, which is the world's largest research fund run by the EU. And review the R & D tax incentive scheme so that it truly incentivises collaboration.

Also critical to productivity is a skilled and educated workforce. Obviously nothing can be achieved without people. You'll note that in our submission, we propose abolishing the Job-ready Graduates scheme. It was out of touch and unrealistic when it was introduced and frankly, it's highly questionable whether there was any depth behind the reasoning or rationale to its introduction.

All that has succeeded in doing is damaging future productivity growth by erroneous funding focus and denying what is required for the nation's good. The Group of Eight raised concerns

about the previous government's Job-ready Graduates package from the outset. We said it wasn't fit for purpose then, and the recent National Skills Commission report has more than confirmed that. The JRG actually acts as an impediment to skills creation. It creates disincentives for universities, particularly in relation to STEM courses such as engineering and IT which we know are already experiencing critical shortages.

We have been required to teach more with less. Our own internal Group of Eight estimates at the commencement of Job-ready Graduates indicated that by 2024, Group of Eight universities will be expected to teach an additional five thousand equivalent full time students with a decrease in base funding of almost 100 million dollars. Frankly, in the current climate, we cannot afford to waste our time and limited resources on models or policies that have proven to be ineffective.

Therefore, once again, the Group of Eight recommends that the JRG be abolished in favour of a much simpler model for university teaching funding by having a fixed student contribution and a commonwealth contribution to reflect the variability of qualification costs.

In closing, I just want to emphasize the importance of the Universities Accord which this government has committed to and I understand that will get underway before the end of the year. We think that that's an absolutely fantastic opportunity to address many of these recommendations, in partnership really with the work that you're doing with the Productivity Commission. We think there's an opportunity to (1) look at genuine funding reform, so Government and tax payers get the best value; (2) to review the current legislative and regulatory barriers to productivity and; (3) to develop a university sector that can meet the 21st needs of Australia. We think with the right policy leaders, universities can and should be leaders in our productivity revival. And now, happy to take questions, expand, comment and as I said, please note that I've got Dr Philip Chindamo, our chief economist who's really been the driving force behind the development of this submission to the productivity commission.

COMMISSIONER ROBSON: Thanks very much, Vicki. I just have a few questions and if Lisa's got some as well. Now, you mentioned spending on R & D as a metric. I mean, that's a measure of inputs, effectively. But I guess what we're interested in from a, you know, an economy-wide perspective is the output that you get with those inputs. Do you have anything, you know, where you can directly measure those outputs per dollar spent? Because ultimately you know, if we could reduce spending but have more output, that would be, you know, productivity enhancing and cost reducing. So take us through some of your thoughts on that.

MS THOMSON: Yes. So you're talking about the tangible economic output of research as opposed to the actual output impact of research, which has on our everyday lives, like developing vaccines and all of the things we do. You're talking about, I think I mentioned in my statement, you know, the investment in research and the dollar return that we get, or the economy gets as a result of that input. That's what you're referring to, right?

COMMISSIONER ROBSON: Well, I'm just saying from a policy point of view, is it, you know, appropriate, or is it the end of this story, just to say well, we spend less therefore, we should spend more? I mean, ultimately, I would have thought what you want to be emphasizing is the fact that well, you know, we're spending you know a certain amount and here's what we're getting. And you know, to take - - -

MS THOMSON: So the – yes.

COMMISSIONER ROBSON: Yes.

MS THOMSON: So the first thing I'd say is that first of all, any investment in research is exactly that. It's an investment from government as opposed to an outlier. You know, because they are getting a return on their investment. And Philip, I might ask you here just to go through some of the data that we've had, which we haven't released yet, but from our London Economics analysis which, just to provide some context for you, London Economics did an economic impact analysis for the Group of Eight in 20 – was released in 2018 based on 2016 data. We've updated that and we're about to release that. It's a very economic analysis of our output, but what we've done is actually looked at the 2020 year, which is obviously the first year of COVID, so you've got to ameliorate some of the figures that really – the impact has really hit us probably in 21, 22 and beyond. And we specifically wanted to look at our economic impact in a broader economic context on both research, but also on innovation, start-ups, spin-outs, commercialisation, because whilst I focussed in my opening statement on basic research, our universities obviously do a lot more than basic research, we're actually significantly large in terms of industry engagement and in that sort of commercialisation start-up, spin-out area where obviously we employ – those companies employ people, et cetera. But Philip, can I ask you just to maybe go through some of those figures?

MR CHINDAMO: Thanks, Vicki. And thanks for the opportunity. So yes, London Economics have undertaken a study for us that looks at the – I suppose the outputs or the productivity impact of expenditure on R & D and in particular expenditure on higher education R&D through the Group of Eight universities in Australia and those estimates suggest that for every billion dollars of expenditure, there's an economy-wide productivity return of \$9.2 billion. Now, that study is based on econometric evidence of the productivity spill-overs after you account for obviously the costs of the money and also the different types of expenditure. So whether it's BERD, whether it's expenditure on research institutes as opposed to universities, and the like, so it controls for those other factors. And so we're not simply saying that because R & D expenditure is relatively low, that it simply should be increased as an input measure. We're saying that that expenditure has productivity-wide benefits in terms of outputs and outcomes.

And that's the key argument that we're putting forward in terms of the R & D strategy. In terms of the quality of Group of Eight universities research, as Vicki mentioned, we are rated world class by independent assessors. And more broadly, Australian universities in terms of overall performance relative to the OECD, we bat well above our average in terms of the quality, the output of research per capita as well as our university and industry collaboration on things like applications for patents and so forth. Australia is well ahead of like countries. And so we see that as a promising area to further improve on, so in our submission, for example, Chart 12 shows university and business collaboration on patents and shows we've performed relatively well.

COMMISSIONER GROPP: Philip, can I just come in there? So, just on that payoff for the 1 billion, that's quite a large return. Is that for an additional, is that the marginal return or – I mean, because that's very important to know if that – how much more would be worthwhile putting into basic research. And I'm just not sure what that figure is telling us.

MR CHINDAMO: Yes, it is – sure. It is the marginal return. We acknowledge and we understand there are quite a wide range of estimates in terms of productivity spill-overs to R & D expenditure. We've obviously looked at what the Productivity Commission itself has estimated over the past which has been quite a wide range. But we've also looked at what internationally those estimates have been as well as domestically. So for example, we looked at the CSIRO estimates, they were studied, and looked at R & D expenditure, not only university expenditure and they had various estimates in there ranging from a benefit-cost ratio of 3.5 to over 20. So we acknowledge that's a big range.

But our estimate is – I suppose it's in the middle of the various estimates that we've looked at and we think it's a relatively conservative estimate.

COMMISSIONER ROBSON: And so is that analysis, is it – I think you mentioned, is it economic impact analysis or is it cost benefit analysis? Because those two things are very different. What do they – do they sort of do a welfare analysis or is it just sort of multiplies or what is it?

MR CHINDAMO: Yes, it's based on an econometric analysis that looked at the estimated productivity spill-overs and it does take into account the costs – the financial costs from the Government of that expenditure. And so it looks at that as well. So it's not a full cost benefit analysis. It's a mix of essentially economic impact analysis where the calibration of the multiplier is drawn from econometric analysis.

COMMISSIONER ROBSON: Okay. All right. And then is there a sense in that modelling or you know, is there a thought experiment that could be done, you know, in our innovation paper, we do talk about the diffusion of you know, existing ideas and adoption and adaptation of ideas as to form of innovation itself as distinct from R & D. Is there a sense in that modelling where you know, you could say well, if we improved the diffusion of R & D spending, you get an even bigger uplift? Is that something that you can do with that modelling, do you think or what should - - -

MR CHINDAMO: We haven't directly addressed that in the modelling to date. We're focussed pretty much on the R & D expenditure. We do have a section that looks at – if you can broadly define diffusion from our Group of Eight universities spin out companies. So these are companies that have taken the IP from a Group of Eight universities and developed into businesses and the like. The data on there is quite, I suppose, preliminary in the sense that a lot of these companies are in their infancy. So they've only started and we're looking at only the year 2020. But we do have some estimates there about what are the employment and revenue impacts from essentially people taking university IP and developing spin-out companies, so we have some case studies as well as some quantitative estimates in that report.

MS THOMSON: It is fairly limited though, because it just looks at Australian based spin-outs. It doesn't look at the international based spin-outs. So I'm not sure, to be honest with you, how robust that element of it is. It's been really hard to basically track down the information to support the output of that.

COMMISSIONER ROBSON: I might pick up on that. I mean, in terms of the spin-outs and so on, are there barriers either in government policy or in other institutional arrangements where, you know, you think that sort of activity could be more extensive? Is there anything that's holding back those sorts of arrangements?

MS THOMSON: Philip, I might hand to you, just to talk about the R & D tax incentive.

MR CHINDAMO: Sure. So in terms of the R & D tax incentive, we've said in our submission that it can be better targeted and we see that essentially, one area that it could be improved is how it's actually facilitates collaboration with university researchers in particular, PhD students. So one area or one limitation for these companies is to tap into our PhD cohorts and being able to utilise their skills a lot more. And so we see that as a reform area through the R & D tax incentive as a way of enhancing that collaboration. We note there are various programs, even some recently announced on national PhD or industry PhD schemes and the like and there are various benefits of those programs but we feel that actually – and what's required is scale in terms of enabling that uptake of essentially highly qualified PhD students from our universities.

MS THOMSON: There's also an issue with just capacity in terms of our commercialisation workforce if you like. And again, to Philip's point about how you scale that, so I know for our universities for example, at the University of Queensland, they in and of themselves which would be the exemplar of university commercialisation output in Australia, earning more revenue than CSIRO themselves, but where they have the handbrake on, sort of growing it, amongst many, is the talent pool of people coming through and building a commercialisation workforce to support the training and you know, the commercialisation process, if you like, within our universities and in industry.

And so I think, you know, I've been around the sector now, for two decades, and we've had this discussion for two decades around the sort of lack of porosity of movement between PhD students and industry and I think part of the issue, and it's not sort of a – it's anecdotal, I guess, but – although, you know, Australia's industry base is largely made up of SME's. We don't have the big corporates here. We don't have the big corporates doing in-house research which is why we're doing 70 per cent of Australia's university-based research. That is higher than in other countries. Universities aren't normally that research intensive because you've got those industry partners. So the nature of our economy makes it very difficult and one of the things that we have been trying to do which is probably out of the domain of this, but it does go to the heart of what Philip mentioned in terms of how do you scale it, is trying to see which industries are taking our PhD students and tracking our PhD's over sort of the five, 10, 15 year timeframe to see whether our PhD students are actually in businesses or industry, doing what their PhD was or whether they're doing something different. Which also might be okay. But it's actually really hard to get a sort of – you know, a grasp of that particular data. So there's a lot of work to be done there, but in terms of the specific answer and how you scale, because there are some great programs happening, in you know smaller areas, the challenge is how you actually scale that up, and I'm not sure, Philip, we have an answer to that, do we, in our submission? No.

COMMISSIONER GROPP: Just on that, because as you will have seen from our paper on Innovation for the 98 per cent, we deliberately focused on - not so much on basic research, acknowledging that that's very important. We weren't dismissing it, but just thought it was time perhaps to put some - shed some light on the diffusion across the companies' enterprises and government enterprises that might be doing some innovation for their own firm at the frontier, if you like. And, yes, I mean, that absorptive capacity for firms and having skills and whether it's PhDs or certainly university graduates who have some research experience, and - but you're saying there's not much data or, sort of, tracking them so we don't really know where they're going, and that would be interesting in itself.

I mean, whether we can get more information. But in terms of the programs that are being run - and there's the industry PhD program which is a relatively new one, and Philip talked about R&D and perhaps - I mean, I guess there are some PhDs involved in those programs, but you'd want a more formal recognition of that to encourage it. But yes, I mean, how do you - are there other ways of not linking PhD so much to basic research in firms, but just collaboration more broadly? Is that something that you look at because we sort of flagged that as one way of improving absorptive capacity in business.

MS THOMSON: I'll let Philip pick up on a bit of that, but I should emphasise that when we're talking about research, our focus is not just on basic research. Our focus is on the whole pipeline, and so a lot of our PhD students are working in industry on collaborative research projects which are not just blue sky research. They're actually in there solving problems, and we've got lots of examples of where that happens. I guess my commentary from my opening statement was that we worry that basic research is kind of being ignored, and if you don't have the basic research you will not have the innovation at the end of the pipeline. I mean, that's just

- there's a continuum there that you can't ignore. I get what you're saying in terms of some firms will just do something, you know, in terms of innovation which is not predicated on basic research, but that doesn't preclude our PhDs. They're not all sitting there just doing basic research. They're doing deep dives, for sure. So - and there are many programs that are run at a very small scale to get our PhDs into industry and vice versa to sort of, you know, have movement across. But we're not getting that level of scale. So, Philip, I might - sorry, I just wanted to highlight that basic research is just not what all we're talking about. But Philip, anything you wanted to add in terms of some of the areas that we did look at?

MR CHINDAMO: I suppose one slight difference to what - if I can put it this way - the Productivity Commission were a little bit sceptical about in interim reports was the geographic colocation of universities and businesses and other, I suppose, organisations. I don't know, Vicki, if you want to talk about some of the examples we have that we think are worth looking at further.

MS THOMSON: Yes. I mean, really - and can I ask you in answering that question - I'm interested in your views, which - we interpreted it as kind of thinking that maybe colocation is not necessarily something that will drive the economic output and productivity of our research. Just before I answer the question, I'm just interested to know, have I interpreted that correctly as to what your views are of colocation?

COMMISSIONER GROPP: I guess where we were coming from was more where you have deliberate policies to engineer it. Sure you'll get colocation and you'll get organic clustering in precincts, et cetera, and that's fantastic, but it's where I think you have a policy, like a planning thing to design it and say that you will - you know, we think these things have to be sort of organic I guess.

MS THOMSON: Yes. So I think they have to be a bit of both frankly. And so if you think about the biomedical precinct in Melbourne, Sydney, Sydney Uni, UNSW, or the health precinct out at Western Sydney with Sydney Uni and Westmead Hospital, there's many examples where the sorts of things that governments can do, particularly state governments, to help that along is, you know, offering tax incentives and all of those sorts of things which they do to bring them together.

And it is a bit of both. I mean, research itself is often a bit organic which makes it very hard, I know, when policy makers are saying, well, how do we put a prescriptive policy together to develop a precinct, you know, in X. But certainly, pulling together SMEs, particularly in defence - if I think I'm in Adelaide at the moment, and I know the university sector here is doing that in a particular area at Lot Fourteen where they're bringing together - there's incubators; there's the universities. Not just the Group of Eight universities. Not just Adelaide University rather. There's defence. There's primes.

You know, once you've got your anchor tenant, if I can put it in that sort of clunky way, the rest will come. So that required input from the state government, universities, federal government. So, I don't think it's a situation of governments saying, well, let's just make it happen, but I don't think it's a situation of government saying we're going to set up this precinct here. It's got to be a little bit of both because it's got to be where the expertise is. And if you look at where our universities are, it is in that biomedical space, in the health space, in the defence space, quantum computing, for example.

So, we've got very good examples of where precincts have worked, basically because universities - if I can of Melbourne and Monash, they just thought, well, we're just going to get on and do it. And so I guess that's a bit to your point, right? Do you let it happen organically or

do you put the incentives around for not just universities, but for businesses and SMEs and primes to stump up and come and collocate and be part of that. And our experience to date with those big precincts is that once you've got that big kit infrastructure sitting there, whether it's the anchor tenant or the universities or whoever it is or it's Thales or Naval or think of it - you know, CSL, then you'll get the SMEs coming in, and that's when you need, I think, the incentives for that scale of the industry sector to be able to come in easily enough without a lost sort of opportunity cost for them in not doing so if that makes sense.

COMMISSIONER ROBSON: Thank you. Sorry, I was going to ask, moving on to a different topic now on the international student fee revenue. I think you mentioned the cross-subsidy. So maybe you can expand upon that in the sense that, you know, do you regard it as a - there's a cross-subsidy there, but is it distorting and, if it is, in what way? And then I think you also mentioned an economic costing model. I mean, what is exactly the size of that cross-subsidy across your members because this is one of the things we grappled with early on was just the idea that perhaps that could be made more transparent and the extent to which you know it is driving you know outcomes in you know in other - for domestic students in terms of teaching quality and so on, but maybe I'll let it to you to expand upon those.

MS THOMSON: Well, I would contest the argument that it's driving outcomes in terms of teaching quality, but that's - we can go to that in a moment.

COMMISSIONER ROBSON: Okay.

MS THOMSON: In terms of the international fees and student fees cross-subsidising research, this is not a new phenomena and it's something that we've said probably for the last seven or eight years at least that I've been at the Group of Eight that we have operated on a very distorted funding model with government investment in research has declined and universities, particularly ours, have picked up that slack if you like by funding research through international student fee revenue.

And whilst a level of cross-subsidisation in any business model is perfectly fine and it happens in other businesses, and if we look at us as businesses that's what we are - whilst that is appropriate, it's the level of cross-subsidisation, and if I'm frank with you I think we've now ripped the band aid off if you like thanks to COVID because when students stop coming, then we always knew what the problem was, but we understood what the problem was not just for universities and research output, but for the broader economy, and you would've seen that in terms of CBD impact, et cetera. Skills crisis et cetera not having international students here. So this is not just about the role of international students at universities.

It's the role of international students in an economic context for the broader economy. And that's something that we've never really wanted to speak about before because - for a whole lot of reasons which I don't - I'm sure you understand when we're talking about international students. They're more than cash cows, and the risk is that that's how they're seen. But getting back to our universities and our research, so we have a significant proportion of international students. I think it's one in three international students who study at an Australian university are at our Group of Eight universities. That's an indicator of our quality, frankly, and it is very much a demand driven system in terms of students coming. And during COVID, we actually maintained our share of our largest market, which is China, albeit that we were teaching online for, you know, we still are teaching online for the majority of those students who still can't get here. But from our perspective, it's not sustainable to fund the national research effort based on international student fee revenue.

So, if I look at it globally – and I'm now using not the 7.2 or 7.3 billion dollars we spent on research, because I'll use the 6.3 which was our last figure that I had – I think our cross-subsidy was around about 4 billion. And Philip, you can correct me if I'm wrong, but it's around about \$4 billion that we had to find. We get about two and a half roughly – and I can give you these exact figures – from government industry, other sources, but primarily there was a gap or around \$4 billion, and most of that came from international student fee revenue. Around 6 to 7 per cent came from philanthropy – we've got a very small philanthropic base here in Australia compared to our competitor nations, US, Canada, et cetera. So most of that comes from our international student fee revenue. So, you know, I'm not an economist, but I don't have to be one to know that is not a sustainable operating model.

So to your question about the full economic costing model, if you then also park that but dovetail it with the way we're currently funded through our NHMRC ARC grants, which is partly – about half of the funding we get covers the cost of our research. We have to go and find that money from somewhere else, so we go and find it from our international student fee revenue in the main. There is industry money, et cetera, but in the main, from that source. So if you have a full economic costing model, what you're actually doing is you are funding the entire cost of that research project.

So what the government calls indirect costs, we would assert very strongly that they are not indirect costs, they are the direct costs of research. It's your kit, it's your electricity, it's your people, et cetera. That is not an indirect cost. It's a direct cost of doing that piece of research. The natural consequence of full economic costing, which is a model operating in the UK – and that's why I deliberately said an Australian context full economic costing model – is that you will do less research, but it'll be better funded. So that research will be funded.

So these are the decisions at the policy making level that government needs to make – and it's why I made the point in my opening statement about research priorities and targeting your research funding from government to where those research priorities are. And if there's, you know, we want to do research in other areas, well that's fine, we go off and we find money to do that from somewhere else wherever that might be. But in the main, if we're doing research, which is essentially commissioned by the Australian Government which we are doing the bulk of, we need to ensure that we're doing that in the areas of national research priorities to be defined – that's a constant conversation – and that we're funding that research through a full economic costing model.

So this is not – and I should have maybe said that at the outset to your first question – of course we'd always like more money – but our first starting point is not just throw more money in the pot and everything will be fine, it's actually how do we better target the funding that we've got? Because we're nothing if not realistic. We know that there's not, you know, there's not money to be thrown into a pot which is why we're really focussed on how do you get to 3 per cent of GDP, because that will help us get to a better funded research model in Australia.

Philip, I don't know if there's anything you wanted to pick up on that that I've covered off.

MR CHINDAMO: No.

MS THOMSON: Or correct me on anything.

MR CHINDAMO: No, that's fine.

COMMISSIONER BRENNAN: Sorry, Vicki, it's Michael Brennan here. Just to be clear about that though, I mean, that account that effectively says government – you know, because of the limitations of government direct funding of research – that is, as a consequence of that we

need to go and seek out revenue from international students, that's how we fill that research gap, kind of implies that if government did magically come along and say, "Yes, we're going to significantly boost ARC and NHMRC funding," we just wouldn't have as many international students or we'd charge them a lot less? I mean, is that plausible? That universities would sort of tamp down on that and say, "Yes, we don't need that revenue source anymore, government's come to the party." I mean, is that your contention?

MS THOMSON: No. So you kind of – there's a couple of different issues there Michael, because our international students – and this is why – I mean, it's an uncomfortable conversation that I would only have this conversation with the Productivity Commission because we wouldn't refer to our international students quite as blatantly as I have in terms of that revenue source. The fact is, our international students – and it may sound cliché – but they play a significant role, particularly in terms of our soft diplomacy in the region and a whole lot of other things. So I'm sticking to the lane of the economic input-output of students.

The natural consequence from our perspective would not necessarily be fewer students, but it might mean, actually, that you've got more revenue to put into teaching or to assets or to whatever it might be as opposed to cross-subsidising it into research, and I also don't think we'd ever be in a situation where there wasn't some small cross-subsidy because I don't know of any multi-billion dollar business - in some cases with our big universities like Monash, Melbourne, Sydney - where there wouldn't be some cross-subsidisation. I mean, that's just a normal business model, right? It's the level and extent and the reliance that we have which we've seen throughout COVID – thus my reference to ripping the band aid off – when students don't come and they vote with their feet and they go elsewhere or they just don't come, that is a major vulnerability. Not just for our universities, but for our broader economy.

So, I can't answer that explicitly by saying there'll be fewer students, because I'm not sure that we'd necessarily want fewer students. Not saying we want more students either, but I'm just saying that it's a kind of related but sort of separate dialogue if that makes sense.

COMMISSIONER ROBSON: Okay. Any others?

COMMISSIONER BRENNAN: Just a quick one, I think it's a quick one. Going back to Philip's earlier point about spinoffs and commercialisation where there are case studies of those. I mean, do you have a basic sense of the sorts of sectors that they tend to operate in? I mean, I'm imagining it's probably in areas like energy and ICT and, you know, perhaps manufacturing, that sort of thing, or am I wrong? Is it more broadly based than that where we're seeing, maybe health – you know, where we're seeing kind of spinoffs of commercialise-able IP that sits within a university into a private sector company?

MS THOMSON: It's across all areas. Agriculture, you know, drone technology, health and medical – which wouldn't surprise you – defence, Philip – I haven't got the case studies in front of me, but I can't think of an area where we're probably not in in terms of our start-ups and spinouts.

MR CHINDAMO: Yes. Climate change. There's a whole range. Biomedical.

MS THOMSON: Yes.

COMMISSIONER BRENNAN: And a quick supplementary to that, you talked about the potential collaboration with PhD candidates, scholars, you know, going into industry, et cetera, which is kind of, I guess, thinking about the output of the universities in terms of the students, you know, graduating, albeit these ones with higher qualifications going out into industry. What about academics themselves? I mean, how prevalent is the practice of academics doing some

consulting in industry, you know, including with SME's or indeed, with government, and is that an easy thing to do?

MS THOMSON: So, there's a lot of poaching going on of our academics. So if I look at the IT industry – and in fact, we had a roundtable not that long ago in Melbourne, and part of our challenge with, for example, teaching IT, is not a lack of students as opposed to STEM engineering - our IT deans tell us that they're certainly got demand - it's we don't have enough people to teach the actual IT subjects because they're being poached into, you know, the Googles, et cetera and being paid at a rate that our universities can never match them. So we lose good people from academia into particularly those sorts of companies.

So one of the things that we did discuss with them is how can we make it so that you can still have the expertise, but you don't actually take them from us, so that they can actually still be teaching the students, because we know there's an IT shortage. I mean, this is just one box example.

But there is a lot of movement between academia and universities both ways. So, you know, we have a lot of professional people who come in and teach our courses and we have people who go back. But again, it gets back to this challenge of how do you scale that so it becomes normal operating procedure as opposed to, you know, a few here and a couple of hundred there or a few, you know, here and there. And I think that could be a challenge.

And also we have, you know, I think a fairly – I'm veering into territory that I'm not familiar with necessarily, but our industrial agreements are also a bit of a handbrake as well on our academics, in terms of our teaching research. You know, that kind of crossover that they do. And I know that's a constant battle for our universities in dealing with, sort of, the industrial agreement that we've got.

COMMISSIONER BRENNAN: I mean, we'd be really interested in any information, case studies, examples you've got about where that works well, you know, what some of the ingredients of that success are. Where you feel there is a really rich connection and exchange between academics and industry business – that isn't necessarily of that, to take the earlier example, the commercialisation route. You know, there's some IP here which we're then spinning out, but just the kind of person to person connections, you know, where you've seen approaches to that that appear to be highly successful. What the ingredients of that are?

MS THOMSON: Yes, happy to provide that to you.

COMMISSIONER ROBSON: Vicki, you mentioned – we'll turn now to the question of domestic students and subsidies. You mentioned you know, your analysis of the Job-ready Graduates program and you're advocating, I think you said, a fixed student contribution. Is that an absolute dollar amount or is it the share of costs or what is the - - -

MS THOMSON: No, we think a single – sorry, I'll be very upfront with you. It's a very simple solution, but with a complex kind of calculation that's going to have to get to the Government contribution site which we haven't turned our attention to. So in the UK for example, it's a flat 9000 pound fee for all students. Put aside medicine, so just quarantine that, that's slightly different for us as well. In Australia, I think we've got four, five different clusters and there's funding all over the place, and as I said, it's a total disincentive. It didn't deliver what it's supposed to, for example, it's a net 16 per cent cut in funding for engineering students. If the kid wants to be you know, a lawyer, they're not suddenly going to go, 'No, I'll go and do engineering, because I don't have to pay so much.' It just doesn't work. And I think you've raised that yourself.

So I'm reluctant to sort of put a figure. I can, but we haven't – it's not – with no basis, and no sort of economic modelling or any further discussion other than we think it's an elegant solution, say you had like a \$10,000 flat fee, for students, and then you've got to allow for some variability but in a simple way, not the convoluted way which Job-ready Graduates does, where you might just have a high and a medium and a low or a low and a medium for particular courses which takes into account the variability of both delivering those courses and you know, where they are, because we don't believe that necessarily teaching a degree in one university might be the same as teaching a degree in a different university. So that's where I think we're going to get into a very complex discussion with government. So it sounds simple in theory but it happens in the UK and I'm certainly keen to find out how that kind of works from the Government side of things from the UK model. And I think that's where from our perspective, the Accord would be really important to actually pick some of those areas. But yes, a flat fee for students. So please don't take \$10,000 as the figure.

COMMISSIONER ROBSON: Yes.

MS THOMSON: But we have just sort of bandied that around, but with absolutely no rationale.

COMMISSIONER ROBSON: I guess then that takes us to, you know, the extent to which whatever, you know, dollar figure you're talking about, would that cover costs and then you'd allege the discussion about, well, what kind of costs and then you'd, you know, thinking about efficient costs and benchmarking across universities and transparency of cross-subsidies which we had a bit of a discussion on and then also teaching quality, you know, so you could have a very low cost solution, but it might also be low quality and some students might be fine with that. Others may not be. So you know, those are the sorts of things that the discussion would, I think, quickly lead to. Have you got any thoughts or reaction to that?

MS THOMSON: Yes. Philip, I might just ask you to pick up here, this – our sort of view on an efficient cost.

MR CHINDAMO: Sure. We understand the concept of an efficient cost and we understand that it's been applied in other areas of service provision and the like, but we really, I suppose, have some issues with that as a content. We don't think there's a homogenous delivery of qualifications between, let alone the Group of Eight universities and the sector, more broadly. So there would be issues as to how you, I suppose estimate the efficient cost of delivering or providing a particular qualification.

And we acknowledge that you, yourself, also point out that there are other factors that have nothing to do with efficiency or productivity that may influence the cost estimate. So we don't think that a unique, efficient cost is necessarily the way to go, but having perhaps a low, medium band of costs as Vicki explained earlier, that then the Government would provide its contribution on those bands, but not the five or so bands that we have now, we think that more simple approach would be a way to go. And we acknowledge that if you did go down the efficient cost path, it would require a lot of data and a lot of modelling for each individual university and again, if you choose the medium cost, what does it necessarily do in terms of incentives or disincentives. It may not necessarily improve things dramatically.

COMMISSIONER ROBSON: For some of your members, I think we've had examples where, you know, the students have satisfaction surveys and acknowledging that the – I've been on the end of those. The - - -

MS THOMSON: Were you satisfied?

COMMISSIONER ROBSON: No, no. Whether students were satisfied with my teaching. But you know, so in terms of measuring teaching quality, and then you know, controlling for that and improving it within universities, do you have any thoughts around that? Because at the end of the day, I mean, teaching quality, you talked about human capital investment, you know, that is one of the key drivers of students getting a good course and of course, the problem with, you know, a service like universities is the consumer may not be aware of the quality going in. They may not even be aware of the quality going out and they may not realise until much later, the quality of the education that they've received. So you know, how can we incentivise better teaching quality within universities in terms of measurement and improvements in that sense?

MS THOMSON: So this is a vexed issue and one that exercises us, because we know where we sit on QILT and it's kind of, you know, not where we would want to sit. We sit high up on everything else and then on quality indicators we take a hit. And so our universities – we are exercised – in fact we've got a meeting tomorrow to discuss partly this very issue, because every time a QILT comes out, we're sort of somewhere down the bottom, and yet we're high quality universities with, you know, and there's a whole lot of things that go into that, of course. The cohort that you attract although that can't just be the reason, and I accept that, but we attract a particular cohort of students, but we want to be able to attract a very broad group of students who will come to the university because they think they're going to get a good quality education. And then we look at all of our other indicators we've had, you know, the highest retention rates, the lowest attrition rates, the best graduate employment outcomes.

So if you look at those three measures, and that's all above the national average, if you look at those three measures, we're doing really well. We're getting them in, we're keeping them there, we're teaching them and they're getting a great job in the main. And so there's some sort of lack of correlation between the experience that they're telling us and then the output that they're having and they're staying. So I don't have an answer, other than to acknowledge that it's a vexed issue and one that exercises us and one that we work at really hard, you know, to address.

I guess, kind of simplistically, you know, I look at Monash University with 82,000 students. It's kind of ironic that we are elite universities, but we're huge universities with the exception of ANU. You know, average of sort of 35, 40,000 students and then some of the universities that do perform very well on those indicators are smaller universities, smaller private universities who have got a capacity perhaps to reach in, in a way that we don't for those surveys, you know.

So I mean, again, it's anecdotal and we kind of are exercised around how and why and it has been that way since I've certainly been with the Group of Eight. So I wouldn't want to leave here with you thinking, that, 'Well, we don't care because we're really good quality, so they'll come' because that's certainly not the issue. And there is an issue with students, even if we were to assert that we are very good on teaching quality, if the perception is we're not, that's a problem.

COMMISSIONER ROBSON: Do you think part of the answer, thinking more broadly about the system, is to allow, you know, teaching only universities or encourage that in whatever way possible, or you know, more along the lines of a US style, you know, liberal arts colleges and so on, or is that not the way things should be done?

MS THOMSON: So I have to say this is probably more Vicki Thomson speaking as opposed to the Group of Eight. Don't take this as a Go8 position. But we do discuss it. And I think this is the point with the – this process, the Productivity Commission process which is why we put so much energy into this and also the Accord process, is that we have to have those discussions about whether or not, is that the answer? To have teaching only or community – more community colleges, you know, a greater variety of offerings. Greater seamlessness between

you know, post-secondary, whether it's through from vocational education and training into universities.

And certainly the provider category standards which is basically what we are working under in terms of what our standards of categories are, I think without putting words in Peter Coaldrake's mouth, is that's where they were sort of heading. By putting a threshold on the quality of research you do, over a period of time, because you know we have to do research as part of our sort of legislative definition, but if you start to ramp up the quality of research, those universities that, you know, may be doing a small amount of research, still high quality, but could be a very small amount of research, may be better placed, focussing on teaching, where they're really good at it, but we don't kind of put the same focus on that, I guess.

So at the moment we're trying to be all things to all people and I think the provider category standards is trying to drive us to that point of a discussion, and I think this report, your report and the Accord process is where we need to have that very honest discussion within the sector about what that actually means. Should we have 39 comprehensive universities all doing teaching and all doing research for example, or do we look at a liberal arts kind of model that the US has? I don't know the answer to that, but I think it's – we're long overdue for a debate. We haven't had reform to this sector since the Dawkins era. So that's 40 years ago. We're a very different country now than we were 40 years ago and so we – and more of the same obviously, isn't sustainable.

COMMISSIONER ROBSON: Okay. I think we're out of time, so thank you very much.

MS THOMSON: Thank you.

COMMISSIONER ROBSON: Is there anything else that you wanted to add?

MS THOMSON: Not from me. Philip, anything from you? No. And we're happy to come back and we'll certainly provide some of those examples. I think Michael, you asked for in terms of the examples of that movement between universities. I'm happy to come back at any time.

COMMISSIONER BRENNAN: That'd be great. Thanks, Vicki, and thanks Philip. Good to see you again.

MR CHINDAMO: Thank you, Michael. Bye.

COMMISSIONER ROBSON: Okay. Moving on. Yes? Okay. So I'd now like to welcome David Chung. I think he's online. David, if you can just state your name and your affiliation and then you've got an opening statement. If you can present that. And then we'll continue with the discussion.

MR CHUNG: Okay. Yes, my name's David Chung, as mentioned. And I'm from a company called Knowledge By Design. But the submission, I'm actually giving you guys, is actually from a business of ours just starting up, it's like a start-up within our company called 88.io. It's a bit tough to come in at the tail end, but I'll try to do my best to keep you guys entertained so you don't fall asleep after so many hours of hearing.

COMMISSIONER ROBSON: Thank you.

MR CHUNG: Okay, but I think it's probably sound really interesting because all through the path today, you see that from the hearing from what I term as top-down type productivity enhancement. So what they do is really about set up some policies, the government look at them, like some of them, push down to industry, industry then push it down to the consumers.

So what we have been doing and how we started was because we're looking at the COVID problem, so there's a big problem with COVID and Echo and Google actually have this solution but it does not – it's not powerful enough to actually isolate where the virus is.

And on the other spectrum, all these contact traces which the Government employed, they try to isolate and they'll try to find where it is and again, because, I'm not going to tell you where I am, minute by minute, and neither are going to be a lot of other people. So it's a big privacy problem here. So there's this gap between the Apple and Googles who can see everything, but legally, they can't actually disclose. And the Government, who doesn't have the capability to actually isolate them. So what we did is we cover these technologies, it's actually it has been in research for a while with IBM. Homomorphic encryption. And somehow if you believe that you enable us to both give the Government the visibility and also protect the privacy of the citizens. So that's where it started, as a solution for COVID.

But as you guys probably know by now, COVID is gone. Well, the death rates still quite high apparently, but except in China the lockdowns are gone so probably be useful in China, but anyway, so that's how the whole thing started. Is to give this ability while preserving privacy. In terms of the distance very useful in boosting productivity in a lot of areas. Personal productivities or – are final where I've been and how many times have they used the toilet, how many times have I wear a pair of shoes, so this sort of – well, I – can I call it situational awareness could be very useful, not just for health reasons like for COVID and stuff, but you know, I won't be wasting my time or money, no understand for that – if I knew that I've got an extra pot of milk in the fridge et cetera. So this is the general comment on what it does.

Now, you guys are into policy, so you putting things down, so what this guy doing is, what I'm trying to do is to have tools that actually try to push it up by giving people this ability. You'd still find it on our site that we actually increasing productivity in certain ways. COVID is one of them. So Scomo got a Dr Alan Finkel who did this contact tracing report and Dr Finkel said that look two days is the gold standard of contact tracing and we need to our simulation with our contact tracing through the citizens that actually drop it down to about two minutes.

So that's a fairly massive increase in productivity. In more recent cases, Medicare and Optus, when they got hacked, and I think Medicare was about 10 million customers. So if you go this traditional way of actually Medicare coming going down and telling customers hey, you've got to be careful and look out for the next year or two for any suspicious transaction. That's going to be extremely unproductive. Whereas if you have all these – if you use our technology of the bottom up, where everybody would be tracking and logging their ID in a secure way. Protect their privacy, whereas telling the bank who they are, then again, there'll be a productivity gain.

So the idea is actually to increase productivity in (indistinct) which of course is a personal one, then there's Google industry, it's very interesting. Well, I didn't catch many of these hearings. I caught one from **JON DAVIES**. And he was mentioning this morning about – oh, we got tons of digital technology and we've got so much technology. If (indistinct) technology's not a problem. The problem is actually data and my – what we're trying to do is to open up that data that was previously locked inside, Google, Apple, Facebook and return it back to the consumer. So they can get time to do it back to the Government or back to themselves, their families, their business. So the idea is to actually free up that data that is available. About where **MR DAVIES** did this morning, managed to go look, it's all locked up, you know, inside of and stuff like that.

Just because there's no incentive to actually – for people to share and once this been done, it actually that's good incentive for people to share information. I'll give example. In there, we

have this Coles and Woollies. So one of my colleagues was saying, 'Hey look, what sort of privacy policy is it, if Coles can see Woollies data?'

The idea is this. You've got all these loyalty points, you've got all these things, so data is logged up in all these silos and you can only access it. So you know, Woollies have their own – own data, Coles have their own data. But if I'm a customer, I can now make money by selling my data, say to Coles seriously, I don't know, I just bought 2 bottles of milk from Woollies. Suddenly Coles will have access to Woollies data. Not from their loyalty points, company, but data from customers.

And customers – that they'll be collect themselves can then be used not just to fight COVID but to increase the general well-being of themselves and also make some money by selling them there. So they are now a producer of data and they are also now – they get income from where they sell to Woollies or Coles or for the competitor. But they're the only one with visibility across everything.

Now, I'm not just talking about competitors in supermarket, it is a – across – across industry. So I could be Uber. Now, Uber actually got a lot of data, they've probably got more data about road conditions than use of the Transport Department but what happen now is if I'm the consumer, I will be in that Uber car, I will be in that New South Wales train or the ferry. So suddenly all this data will then be available to the department of transport or whoever to make use of it. And I'm trying to make a point that – in the submission I mentioned about IMF – about the problems with data, and I believe that their problems that IMF was concerned about is because of these big providers holding the data and grabbing the value of the data and then slowly dishing them out.

So we are like a free market economy, but say, compared to China, we just, like, let more control. But unfortunately, our data is not really free. They're actually all hold up into these big companies, and we are now innovating at their pace or innovation at their rules, right, or where they can make money.

So that is a major problem where the economy on the surface is free, but underlying, the data is not. The data is actually locked up and it's being controlled by these big cloud platforms. And that's actually a problem for most cloud platforms. I do not have time to look at the other – listen to the other hearing – but a few of them actually, like – I think one of them is actually NDIS. Some sort of ticking and helping people out and stuff like that.

So all these cloud platforms sounds good initially, but basically they are holding data and they are actually setting the rules. So they are not that productive because it's very hard to innovate within a platform because they've got their own board of directors. You know, they've got their own way of doing things for their profit. But whereas with the bottom-up, the data is stored with the citizen, it's up to me to decide whether I want to give to Coles or give to the Productivity Commission or give to the New South Wales transport department.

That is the major difference between the top-down type of policy where you just set up regulations and say, "Hey, you do this, you know, you do that," as opposed to something like this where the citizens themselves have the data and they are the one who give that – whether it's to Coles or to whoever. And at all levels – it's not just personal, but you know, industry level, even government level. We're finding potholes, for example, right. We were looking at lot of rain in Sydney and there are a lot of potholes on the road, so now people will get rewarded if they ring a number 13113, and then they can say they see pothole and then keep driving. And then all this data belongs to them. Whoever say pothole will have the data stored under their own asset as an information asset. And the next person who see the same pothole will get added,

and if there are six of them, then we are pretty sure that it's good enough to warn the other drivers there's a pothole in front.

So this example of how – I'm not saying pothole will damage productivity, but you know, it's kind sort of action, it probably would effect productivity somehow. But this is just the way in where people are working together, storing data themselves instead of on the platform, it's going to help a lot. Especially in big spending.

That's right, this morning I think one of the commissioners was questioning Jon and said, "Hey you know, so we built all these, what about the maintenance costs, you know, of maintaining it and how do you do the trade off?" "I'm going to spend so much on say a submarine, should I swap or not swap?" The focus of this is just consumer feeding back to the industry. So in this case, say defence, it'll be the consumer feeding back to the government and say, "Look, you know, we're really getting hacked man, from this country. You should do something about it." So we have many - the feedback between a consumers back to producers, but it doesn't stop people between producers and producers to actually share its information as well, as long as we can use the same thing to track how that information is flowing. And that's the whole idea of this thing is to compensate people for really minute things. Like helping out with a pothole or answering a question on the street, et cetera.

So by knowing the data sometimes before you decide on a submarine, you can get a much more better feel of the geopolitical situation. Just one case just down here, the local government decided to block our road, so we say, "Hey look, please don't block it. We want cars to come through," and the council decided to block and we said, "Look, how many cars are coming through this road for the past year?" they cannot give us the data. So it was something like this. Who knew exactly how many cars come through the road, what kind they came through. It will help both the council and us.

Now, because the government against nobody, of course they win and the road got blocked now, but the problem is if we cannot use our data it can effect infrastructure projects way, way, way in the in front. Before the whole – look, there's been studies – even get started, look, they'll know exactly where to actually do the thing. If we knew, okay, look, there are really 10 cars only per day, then I'll just shut up and do nothing. But that uncertainty is going to create problems.

Another thing – it's about **VICKI THOMSON**. We just heard in that last bit as well. She made submissions about universities, and again, it's a top-down thing. So I have to be – I'm a (indistinct) as well, I came through there, but the thing is the whole syllabus and stuff like this is very, very top-down. So take a look at, you know, what's happening. For something like this, you know, literature, that's probably okay, but for something like high-tech, even though the entrepreneurs – not many are really PhDs. You know, they are really people who actually learn through necessity. Not through policies, not because, you know, someone offered a course, but they didn't really need to.

Now, by pushing computing, this is what we are going. It's a crossover of an offering to everyone - whether it's a billionaire or a refugee – by doing that, we believe that they can then innovate themselves not at the quantum level, but at the everyday level. Right. So I'm going to do this to increase my communication with that guy. I'm going to broadcast with someone. That can be done. You don't need coding. You don't need to teach them coding, but you do need to teach them how to mix and match all these blocks, and that's what we are offering, this ability to mix and match blocks for people who are not really computer literate.

So it's very fine grain. I mean, my degree was really tough – was an engineering degree, but I learned so much rubbish. Not rubbish, they're useful, but they're not really applicable to

computers. I was learning about generators and hi-fi's and stuff like that. But imagine I could use all fine grain and I can just learn right there as I need to. One fit person on YouTube right, is probably giving Australians a lot of skill upgrades. I was going to YouTube to learn things. They have published (indistinct) because that is not a traditional channel, not a top down channel, that's the same on demand channel that we are talking about now where I'm giving everyone with just a mobile phone - \$49 from Woolies – that ability to control their digital environment. And I think that is the difference. Once they control that, they will not go to uni, but they might learn to innovate by just mixing and matching.

One of the programs we have here is actually training up AI. So, say, retirees, they're probably bored from the afternoon, they can sit down and actually train. But unlike what they're doing at Google and Apple, these retirees who are getting money for themselves because the training they are doing actually goes inside their own - what we call part of the cyberspace – and then they can then dish it out to, I don't know, maybe Coles, Woolies or maybe back to Google if they want to use their ability to train. The whole computing environment has changed now.

It's not how smart you are, how much code you do, with AI the killer is actually data. And the promise – all of this data being concentrated in – well, they are foreign, I guess, in Google and Apple and not in here. We really need to just get the – this data belongs to the citizens. It really should be back to where we are and then let us decide whether I want to give it to the government, or Coles or wherever and not have no say. I don't think that is an equitable way of distributing access or even wealth, and this is getting worse and worse every day.

Okay so sorry, I've just dragged on – I apologise to the commissioners, but that's the idea. So data is a major economic input and we really should cherish it and use it, and I think that improvement in the liquidity, the ability to share data will help all industries. Whether it is, like, construction or education or whatever.

Okay, the last point. We have been trialling this in New South Wales. So if you go into our system by just 88.io, you will see many new – we have Australian maps and also American maps as well – overseas maps. But only the New South Wales one is really high resolution. And I have to praise the development here, because unlike other states, the New South Wales government really followed through in the open data policies. So actually, as a nobody I can access detailed overhead photos of the whole of New South Wales. So I can now pinpoint exactly where a person has entered a pub and transmit a virus to someone else. I cannot do any of that with any other states. I have to pay and I have to go through a really big process. So here, the government of New South Wales is ahead in terms of giving us, the citizen, this open data to access these offerings. And if you go there now, you will see that New South Wales is much better in terms of resolution or locating where you are.

Okay, and also one – okay, now, I better don't – it's technical there. I have to apologise for this sort of incoherent thing. We were looking at going to VCs probably next month or so. And government is the last place we're going to visit. After everything is gone then we're going to go to the government. But because there's a time frame here, we thought this was important enough and is mature enough to actually tell you guys about it.

So at least you can say, look, something like that is there. It could improve productivity in the opposite way. You know, for the citizen standing in the street than government. And it's something that you guys should be aware of. It could potentially improve the productivity of all the people who have sent submissions in. The situational awareness or just data visibility will help. Most people just think, "Look, I've got extra data I'm going to, you know, analyse more," but one thing not many people know about is that it gives you extra options.

So if you know about something, there might be a way – it’s got nothing to do with, like, productivity, as in, I can optimise my company ability, it’s about to get you thinking about extra options available. And sometimes one piece of data may change, you know, a person’s life or even, I don’t know. Whether Iraq or Ukraine will happen, but if they can see that clearly, they might oppose. And by freeing up the data and letting people own their own data again instead of hogging it in the cloud, yes, I think that would improve the productivity a lot. Yes.

COMMISSIONER ROBSON: Okay. Thanks, David. Sounds like an interesting technology. Did you have any questions, Lisa?

COMMISSIONER GROPP: I don’t know whether you’re aware, there’s a consumer data right which has been rolled out in the finance sector and other industries where companies – where people can access their own transaction data essentially. But what you’re proposing, you wouldn’t have to get it – you’d generate your own data. Is that right?

MR CHUNG: It’ll be in parallel, so if you deal with a bank, they’re going to grab the data so you can’t do that. The main difference is now people – imagine a refugee here, because the difficult part of what we managed to do is we don’t really need to be a billionaire, so anyone could grab the data. So in your example, they will have the financial data at the banks, but the difference is you will now have your data. And guess what, you will have data of Westpac, National, across everything. And that data you can now sell. Now you can do it for free to government as part of a taxation arrangement, but, you know, you could also sell to commercial people. But the difference is you are not grabbing a duplicate copy.

So we are not replacing – I think this is very important. We are actually giving you reliable ability, because most things is – if I want to do something like that, you’ll say, “Oh my goodness, if I lose the mobile or you know, if my home got burgled, they’re going to steal all my data.” The main innovation here is that the phone is actually just your keys. All your data is actually shared – like in my case, in my in-laws, you know, in my friend’s locations. So if you don’t trust me – your data to be stored – distributed, you know, in many other people’s places which you know, like, really your friends or your employers or whatever. So I’m talking about duplication of capability, not a replacement of what was there.

COMMISSIONER ROBSON: No questions? Thanks very much, David. So, ladies and gentlemen, that concludes today’s scheduled proceedings. And just for the record, is there anyone else who wants to appear today before the Commission? All right. If not, I’ll now adjourn the proceedings and this concludes the Commission’s public hearing for the Productivity Inquiry for today and for the inquiry. Thank you very much.

MR CHUNG: Thank you.

COMMISSIONER ROBSON: Thank you.

MATTER ADJOURNED [12.34 pm]