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	Date: <u>31/12/12</u>
	Member: <u>McPherson</u>
Tabled	Tabled, by leave
Incorporated, by leave	Remainder incorporated, by leave
Chair at the Table:	

1984873


Access Request
CBRC Dec No. 3393
Copy No. 128 01/12/2011
Leader of the Opposition
Official Copy - 30/10/2012

SECRET

CABINET BUDGET REVIEW COMMITTEE

DECISION

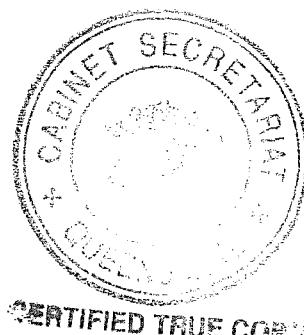
Brisbane, 01 December 2011

Decision No.: 3393, (Submission No.: 4332)

TITLE: Lifting the moratorium on the recovery of historic overpayments made to Queensland Health staff and the commencement of a progressive, managed and controlled recovery process

COMMITTEE decided:

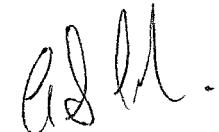
1. To note the work undertaken to address outstanding historic underpayment claims and the implementation of the state-wide underpayment claims program to finalise any remaining outstanding claims.
2. To note that the value of current outstanding historic overpayments amounts to \$78.6 million as at 30 October 2011.
3. To endorse a progressive approach to lifting the moratorium on the recovery of overpayments and that the first tranche of the recovery will focus on high value overpayments and employees who leave the department.
4. To endorse that the Minister for Health will notify the Premier and Minister for Reconstruction upon completion of the first tranche of the recovery process.
5. To note that the recovery of individuals' overpayments will not occur until the Government announces the lifting of the moratorium and the rollout of underpayment claims program for such individuals has occurred.
6. To note the implications of not lifting the moratorium.



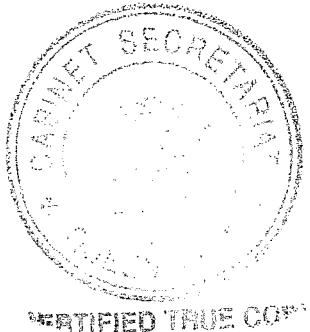
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Decision No.:3393

CIRCULATION: Implementation Responsibility
 Department of Health and copy to the Minister for Health
Departmental Records
 Department of the Premier and Cabinet
 Treasury Department
 Department of Public Works
 Department of Justice and Attorney-General
Perusal and Return
 All other Committee Members



Cabinet Secretary





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Access Request
CBRC Sub Att No. 4332
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Leader of the Opposition
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SECURITY CLASSIFICATION "A"**SUBMISSION TO CABINET BUDGET REVIEW COMMITTEE****COVERSHEET****TITLE**

Lifting the moratorium on the recovery of historic overpayments made to Queensland Health staff and the commencement of a progressive, managed and controlled recovery process

MINISTER

Minister for Health

OBJECTIVES

That the Cabinet Budget Review Committee (CBRC) endorse the lifting of the moratorium on the recovery of overpayments to Queensland Health staff and the commencement of a progressive, managed and controlled recovery process.

SUMMARY

As at 30 October 2011, overpayments made to Queensland Health staff total approximately \$94.6 million. Of this, approximately \$12.7 million has been repaid and \$3.3 million waived, with an outstanding balance of \$78.6 million. Salary overpayments continue to occur each fortnight, with an average of \$1.7 million accrued each pay period. In June 2011, Queensland Health notified approximately 38,000 individuals of overpayments they had received and sought recovery.

On 10 July 2011, a moratorium was announced that temporarily suspended the recovery of overpayments made to Queensland Health staff. This was done to enable the Department to strengthen its focus on addressing historic underpayments.

Based on a number of factors, including the existing mechanisms for facilitating the expeditious resolution of underpayment issues and the fact that staff have been encouraged to raise underpayment issues over the past 18 months, it was expected that the number of outstanding historic underpayments would be relatively low. Trials at both The Prince Charles Hospital and Princess Alexandra Hospital supported this expectation, with less than one percent of staff at each site reporting an underpayment claim during the trial period. As a result, Queensland Health has commenced a statewide underpayment claims program to address any final remaining historic underpayment claims which may be in the employee base.

Queensland Health has also focused on reducing the number of new underpayment and overpayments by proposing a change to the pay date (to facilitate the inclusion of more than 10,000 payroll forms that are, on average, not included in each pay run), redesigning business processes and providing additional training for line managers and payroll staff.

As a result of this progress regarding underpayments, Queensland Health is seeking CBRC endorsement to lift the moratorium on the recovery of overpayments. Queensland Health proposes to commence recovery by:

- implementing a 'highest to lowest' prioritisation approach (based on outstanding overpayment balances) and recovering monies on a tranche-by-tranche basis. Approval will be sought from the Health Minister for each recovery tranche, to ensure a managed and controlled manner in which monies are recovered;
- commencing recovery from staff accepting voluntary separation packages; and
- commencing recovery from staff who leave Queensland Health in the future.

No action will commence until the lifting of the moratorium has been announced.

If staff do not engage with Queensland Health regarding their overpayment or elect not to repay monies owed, further consideration will be given to whether the debt will be collected and the process by which this would occur.

Should the Government decide not to lift the moratorium, there may be significant cost and tax implications. Increased impairment provisions will also need to be made to future Queensland Health financial statements (refer paragraph 96).

RESULTS OF CONSULTATION

- **Is there agreement?** See paragraphs 85 to 88 of body of submission.

RECOMMENDATIONS

That the Cabinet Budget Review Committee:

1. note the work undertaken to address outstanding historic underpayment claims and the implementation of the statewide underpayment claims program to finalise any remaining outstanding claims;
2. note that the value of current outstanding historic overpayments amounts to \$78.6 million as at 30 October 2011;
3. endorse the lifting of the moratorium on the recovery of overpayments;
4. endorse a progressive approach to the recovery process that focuses first on high value overpayments and employees who leave the Department; and
5. note the implications of not lifting the moratorium.



GEOFF WILSON MP
Minister for Health

27/11/2011

BODY OF SUBMISSION

OBJECTIVES

1. That Cabinet Budget Review Committee (CBRC) endorse the lifting of the moratorium on the recovery of overpayments to Queensland Health staff and the commencement of a progressive, managed and controlled recovery process.

BACKGROUND

- **Context**

2. Issues associated with the implementation of a new payroll and rostering system by Queensland Health and CorpTech in March 2010 have been widely reported, including the issues regarding underpayments and overpayments made to staff.

- ***Key priorities following implementation of the new system***

3. The most significant immediate issue arising from the implementation of the new system was the generation of no pays and underpayments to staff. A range of measures were implemented to stabilise the system and establish processes for employees who were impacted by underpayments.

4. This included an immediate focus on reducing no pays, the provision of emergency cash to affected staff and mechanisms for processing ad hoc payments to address any underpayments. Queensland Health also established a statewide payroll hotline and increased payroll resourcing to ensure that staff enquiries could be addressed and payroll forms processed.

5. These mechanisms have been in place since mid 2010 and have progressively reduced the number of historic underpayments, as well as continued to address new underpayments. This now means that underpayment issues are rectified and monies paid to the staff member as soon as possible after the matter is raised with payroll.

6. Over the past 18 months, staff have been encouraged, and had the opportunity, to raise any underpayment claims so that they can be resolved.

- ***Recovery of overpayments***

7. Since the implementation of the new system, Queensland Health has also faced the challenge of managing increasing numbers of overpayments made to staff. These were initially recovered automatically.

8. In June 2010, following union requests and a recommendation by the Queensland Industrial Relations Commission (QIRC), Queensland Health ceased the automatic recovery of overpayments. At this time, Queensland Health made a commitment that it would not recover any overpayments until the payroll system was stabilised.

9. As a result of the significant efforts to stabilise the system, including measures to support staff in rectifying any underpayment claims, in February 2011 Queensland Health commenced consultation with unions regarding the process for recovering overpayments. An Employee Overpayments Program was established in March 2011 to recover approximately \$62 million from an estimated 38,000 staff.
 10. Queensland Health undertook significant consultation with the Australian Taxation Office (ATO) in April and May 2011 regarding the tax treatment of overpayments. This was done to ensure that all available avenues were pursued to minimise the tax impact of overpayments for staff at the end of the financial year.
 11. At this time, the ATO advised that if Queensland Health notified all employees of their overpayment debt by 30 June 2011 and the Department's intent to recover, overpayments relating to 2010-11 would not be treated as taxable income for the financial year. Refer **Attachment 1** for a copy of the advice provided by the ATO.
 12. As this differed from the approach adopted in 2009-10, the ATO also advised that approximately 10,000 employees with 2009-10 overpayments would need to be issued with amended payment summaries to reflect the overpayment as a loan rather than assessable income. This was done to ensure consistent tax treatment of the overpayment across financial years.
 13. To meet ATO requirements and ensure employees were minimally impacted by overpayments at the end of the financial year, Queensland Health commenced the recovery of outstanding overpayments in June 2011. This was done by sending overpayment notification letters and an overpayment intent form to 38,000 staff members over a period of one week.
 14. Despite attempts to ensure that the approach adopted was clear and that overpaid employees were aware that they were able to resolve apparent issues (particularly underpayments) with a case manager prior to entering any repayment agreement, there was significant criticism of the adopted approach. In particular, unions sought resolution of outstanding employee entitlements (i.e. underpayments) prior to repayment of any overpayment amounts.
- *Announcement of the moratorium on the recovery of overpayments*
15. On 10 July 2011, a moratorium was announced that temporarily suspended the recovery process so that Queensland Health could strengthen its focus on addressing historic underpayments. Since this time, staff have not been contacted about their historic overpayments, except where:
 - the employee returned a repayment intent form agreeing to their overpayment and nominating a repayment plan; and
 - the employee contacted Queensland Health regarding their overpayment.
 16. Staff are always welcome to voluntarily repay an overpayment and this remains unchanged under the moratorium.

17. At the time the moratorium was announced, the outstanding salary overpayment balance was \$58.5 million. As recovery efforts have been stalled by the moratorium, and salary overpayments continued to occur each fortnight, the outstanding salary overpayment balance has since increased by \$20.1 million. (Note this excludes interim cash payments.)

- ***Focus on addressing new and historic underpayments***

18. Since the announcement of the moratorium, Queensland Health has focused on a number of initiatives to address both outstanding historic underpayment claims and the occurrence of new underpayments each fortnight.

19. Queensland Health has also engaged Ernst & Young to conduct an independent review of all payroll-related initiatives and validate the program of work being undertaken by the portfolio. This will ensure that the approach, benefits, milestones, implementation plan, engagement strategy and issues management process of each project complements and aligns with the other initiatives and contributes to a cohesive, holistic overall solution to the payroll situation.

New underpayments

20. Queensland Audit Office audit activity confirms that the systems and processes implemented by the Department currently minimise the potential for salary underpayments. This was noted in the Auditor-General's letter to the Department in September 2011.

21. Nonetheless, underpayments continue to occur each fortnight. The recent Auditor-General's report noted that the majority of both underpayments and overpayments now occur as a result of issues regarding the submission and processing of forms, rather than due to deficiencies in the SAP payroll framework computer system (see *Report to Parliament No. 11 for 2011: Results of audits at 31 October 2011*).

22. Queensland Health data analysis shows that approximately 10,000 submitted documents remain unprocessed for each pay run. This does not include a significant number of additional forms that are either not prepared or not submitted to QH Shared Service Partner (QH SSP) until after the pay run takes place. These unprocessed or delayed forms continue to result in both underpayments and overpayments for staff each fortnight.

23. As noted in paragraphs 4-6, processes remain in place for any staff member who has been underpaid to raise the issue with payroll for immediate rectification via an ad hoc payment. Emergency cash payments are also available on a case-by-case basis.

24. Additionally, Queensland Health is proposing a change to the pay date that would provide additional time for the processing of forms and significantly reduce (but not eliminate) the number of both underpayments and overpayments each fortnight. This would result in more predictable and reliable pay outcomes for staff. The details of this proposal are included in the CBRC Submission titled *Queensland Health pay date change*.

25. Other current Queensland Health initiatives that focus on improving payroll outcomes for staff, and therefore reducing both underpayments and overpayments, include the redesign of business processes associated with payroll and rostering and the development of additional training for line managers and payroll staff.

Historic underpayments

26. Notwithstanding the avenues available to staff over the past 18 months to report any outstanding underpayments, Queensland Health recognised that some claims dating back as early as March 2010 may remain outstanding that have not yet been drawn to the attention of the Department.
27. It was expected that this number would be relatively low given:
- the mechanisms in place to facilitate the expeditious resolution of these issues;
 - the stabilisation in the number of ad hoc payments made to staff each fortnight (These have remained relatively constant since July 2010, as shown in **Attachment 2**, page 8. Note that while not all ad hoc payments relate to underpayments, they correlate with underpayment activity. There were 1,600 ad hoc payments per pay in September 2011.); and
 - the inbuilt system functionality that enables automatic payment of any prior period adjustments that have resulted in underpayments.
28. This expectation was also consistent with the comments of the Auditor-General in his letter to Queensland Health in September 2011, which noted that the total amount of underpayments is relatively low compared to the amount of overpayments.
29. Nonetheless, Queensland Health was aware of the possibility that claims may be made by staff who suspected they had been underpaid at some point in the past 18 months, but could not provide specific detail regarding timing or cause. Resolution of such claims would require a full audit of the staff member's pay. If the number of staff making such claims were significant, the resources and logistics involved in addressing these underpayments would be challenging.
30. To assess the likelihood of this occurring, Queensland Health conducted trials at The Prince Charles Hospital (TPCH) and the Princess Alexandra Hospital (PAH) encouraging staff to report any underpayment claims prior to 24 July 2011. These trials were designed to provide the Department with an indication of the level and nature of enquiries that could be expected across the state and highlight any issues that may impact the approach or resourcing strategy for any statewide activity.
31. The trial results suggest that the expectation of relatively low numbers of underpayment claims is accurate. Findings from TPCH and PAH, which are outlined in **Attachments 3–7**, included the following key points:
- Fewer than one percent of staff at each site reported a new underpayment claim during the trial period (41 at TPCH, 37* at PAH).
 - A significant number of the claims made at each site related to the three month period immediately following implementation (39% at TPCH, 46%* at PAH).

- The number of cases with a high degree of complexity is relatively low (21% at TPCH, 16%* at PAH).
- The majority of staff with claims had specific information to support their claim. Very few staff made a claim based on a suspected underpayment with no supporting information (2 cases at TPCH, 0* cases at PAH).

(* Note that figures provided for PAH are as at 18 November 2011, with one week of the trial yet to be conducted. The trial concluded on 25 November 2011.)

32. Based on these findings, Queensland Health was confident in implementing a statewide underpayment claims program to address any final remaining historic underpayment claims. This involves encouraging staff to report any underpayment claims that occurred prior to 24 July 2011 to the statewide hotline. This program commenced on 25 November 2011 and will conclude on 16 December 2011.
33. Underpayment claims relating to dates after 24 July 2011 will be managed as part of ‘business as usual’ arrangements (ie between the employee and their local payroll hub).

- ***Current status of overpayments***

34. As at 30 October 2011:
 - Queensland Health has overpaid approximately \$94.6 million, comprising \$84.0 million in salary overpayments to 68,648 staff and \$10.6 million in interim cash payments to 7,344 staff.
 - Approximately \$12.7 million has been repaid and \$3.3 million waived, with an outstanding balance of \$78.6 million.
35. Salary overpayments will continue to occur each fortnight, with an average of \$1.7 million accrued each pay period across the pays of 3,959 staff members (based on the average of pay periods 1-22 in the 2011 calendar year).
36. Functionality to recover historic overpayments automatically was implemented during the November 2011 system release. While this auto-recovery functionality could be activated at any point, a consent award clause variation would be required before this could occur.

- ***Previous Consideration by Cabinet***

37. On 17 June 2010, CBRC approved a variation to the salary sacrificing principles for the FBT liability incurred as a direct result of underpayments or overpayments relating to the implementation of the Queensland Health payroll system (Decision No. 2989).
38. On 8 July 2010, CBRC noted a waiver of minor salary overpayments to staff up to and including \$200 between 8 March and 30 June 2010 (on the basis that it would not be cost efficient to seek recovery of a large volume of minor payroll adjustments) (Decision No. 3002).

39. On 29 October 2010, CBRC noted Queensland Health's progress regarding the implementation of the Payroll Implementation Program (Decision No. 3090).
40. On 9 May 2011, CBRC noted a waiver of Queensland Health salary overpayments for a cumulative amount up to and including \$200 between 1 July 2010 and 30 June 2011 (Decision No. 3204).
41. On 11 July 2011, CBRC noted the details of a settlement reached with health unions to resolve ongoing concerns regarding the repayment of overpayments, rectification of underpayments and progression and tenure arrangements for payroll staff (Decision No. 9904).
42. On 31 October 2011, the department presented a brief summary of the issues and a high level overview of the proposed solution to CBRC.

ISSUES

43. As a result of the progress made regarding underpayments and the commencement of the statewide underpayments program (refer paragraph 33), Queensland Health is seeking CBRC endorsement to lift the moratorium on the recovery of overpayments.
44. Queensland Health's overpayments analysis is provided in **Attachments 8-10**.
45. Should CBRC endorse the lifting of the moratorium, Queensland Health proposes to commence recovery by:
 - implementing a 'highest to lowest' prioritisation approach (based on outstanding overpayment balances) and recovering monies on a tranche-by-tranche basis. Approval will be sought from the Health Minister for each recovery tranche, to ensure a managed and controlled manner in which monies are recovered. Refer to paragraphs 48-53.
 - commencing recovery of overpayments from staff accepting voluntary separation packages (VSPs). Refer to paragraphs 54-62.
 - commencing recovery of overpayments from staff who leave Queensland Health in the future. Refer to paragraphs 63-64.
46. Note that no action will commence until Government announces the lifting of the moratorium.
 - **'Highest to lowest' prioritisation approach**
47. As a significant portion of outstanding overpayments is owed by individuals who have been overpaid high value amounts, Queensland Health is proposing to focus first on initiating discussions with those staff (both current and past) who have the highest outstanding balances.
48. This prioritisation approach (highest to lowest) would enable the case management team to focus attention on resolving those cases that are likely to be of greatest concern for Queensland Health staff.

49. It is proposed that the first tranche of the recovery process cover approximately 230 current and former employees. The cumulative outstanding balance for these staff members is over \$6 million. The proposed approach Queensland Health will adopt for these employees is as follows:
 - Individuals with the highest outstanding balances will be identified.
 - A thorough data cleansing process will be undertaken to identify individuals that should be removed from the recovery process (e.g. individuals that have either repaid or entered into a repayment agreement, individuals with complex payroll issues or individuals that are deceased or terminally ill). For the 230 people forming part of tranche one, approximately 30 have been removed as a result of this process.
 - Each current employee will receive a letter requesting they bring to the Department's attention any outstanding historic underpayment claims. These will be resolved prior to any overpayment recovery occurring. Approval has been received to distribute letters to current staff members forming part of tranche one of the recovery process, requesting they bring to the Department's attention any unresolved underpayment claims. These letters highlighted to the staff member that this was a precursor to the recovery of their high value overpayment.
 - Each individual will be appointed a case manager who will take into account their particular circumstances regarding their overpayment and work with the staff member to reach a mutually agreeable outcome. This will be achieved via proactive case management using telephone conversations, face to face meetings and follow up activities scheduled at agreed times.
 - The Department will adopt an integrated case management approach by individual so that the same case manager will address both any underpayment (if there is one) and overpayment (or any other pay issue which is raised by the employee).
 - A significant number of payroll case managers will be assigned to facilitate resolution of high value overpayments for identified staff.
50. Queensland Health will only commence recovery of overpayments from individuals after they agree with the assessment of the amount owed or where independent verification of the figure has been obtained.
51. Additionally, the Department proposes that existing employees may elect to take up to two years to pay outstanding amounts through 52 fortnightly instalments from their pay. If a staff member terminates their employment from Queensland Health during that time, arrangements will be made to finalise all overpayments during the separation process.
52. Overpayment notification letters to individuals will be approved by the offices of both the Minister for Health and the Premier. In addition, approval will be sought from the Health Minister for the commencement of each recovery tranche, to ensure a managed and controlled manner in which monies are recovered.

- *Recovery of overpaid monies from staff accepting VSPs*

53. Queensland Health is currently in the process of implementing the voluntary separation program in a phased approach across the state.
54. As part of phase one, 112 VSP offers were made in October 2011 by Queensland Health to staff holding relinquished positions in the organisation. Formal termination for this group commenced from Sunday 13 November 2011. No overpayment recovery action was taken for staff members in this group.
55. As part of phase two, VSP offers will be issued from 9 November 2011 by Queensland Health to a further 805 corporate staff. This includes 488 staff with overpayment debts worth approximately \$709,800. (This is an average of \$1,454 per person).
56. These staff will terminate employment with Queensland Health between 4 December 2011 and 16 December 2011.
57. Additionally, phase two will extend into early January 2012, when VSP offers will be made to Clinical and Statewide Services (CASS) staff. Staff receiving VSP offers from this group are yet to be finalised and therefore the number of staff with outstanding overpayment debts are yet to be determined.
58. In recovering overpaid monies from these staff, the Department proposes to undertake the following steps:
 - contact phase two VSP recipients seeking settlement of their overpayment as part of their termination pay.
 - where it is not possible to settle outstanding debts as part of the termination pay, case managers will negotiate an alternative suitable repayment agreement as part of the exit process for these staff.
59. The option of finalising a VSP payment contingent on settlement of outstanding overpayments has not been considered due to current sensitivities regarding the overpayment recovery process.
60. Pending approval of this request by CBRC and an announcement regarding the lifting of the moratorium, Queensland Health will contact all VSP recipients with overpayment debts prior to 14 December 2011 (time permitting) to discuss their outstanding overpayments.
61. Detailed overpayment analysis and case management assistance will be provided to any staff member seeking such assistance. Depending on the number of enquiries and the available resources, it may take some time for Queensland Health to respond to all enquiries.

- *Recovery of overpaid monies from staff who leave Queensland Health*

62. As at 7 September 2011, \$11.185 million has been overpaid to former employees, of which \$10.5 million remains outstanding. This figure will continue to increase as staff terminate from Queensland Health and overpayments are not recovered.
63. Queensland Health proposes to implement a recovery process for staff terminating from Queensland Health in the future. In recovering overpaid monies from these individuals, the Department proposes to contact staff prior to their termination, seeking settlement of their overpayment as part of their termination pay.

- *Recovery process for staff who do not enter into a repayment agreement*

64. It is possible that some individuals will not engage with Queensland Health regarding their overpayment or elect not to repay monies owed. In this event, further consideration will be given to whether the debt will be collected and the process by which this would occur.

- *Impact of not lifting the moratorium*

65. A summary of the maximum potential cost and tax implications as a result of not lifting the moratorium is provided in **Attachments 11**. This advice has been independently verified (refer **Attachment 12**).

2009-10 and 2010-11 overpayments

66. Should the moratorium remain, Queensland Health will need to consult with the ATO to confirm the tax treatment of overpayments. In May 2011, the ATO advised Queensland Health that overpayments forming part of the June 2011 notification process could be treated as loans, rather than assessable income, for tax purposes. This advice was provided on the basis of a commitment from Queensland Health to expeditiously notify and recover outstanding monies from employees.
67. If the moratorium is not lifted, it is possible that the ATO may advise Queensland Health to write-off older loans (incurred in 2009-10 and 2010-11), which would attract a significant tax liability for the Department, in addition to the write-off cost. Refunds may also be required to staff members who have repaid their loans, to ensure an equitable write-off process. This would directly impact Queensland Health's cash flow.
68. All overpayments advised to employees as part of the June 2011 notification process are currently accruing fringe benefits tax (FBT) and Queensland Health is currently liable for any FBT liability incurred by employees as a result of these loans (maximum projected cost for 2011-12 is \$5.5 million – a recurrent cost which will reduce over time).

69. Additionally, these loans may impact the Reportable Fringe Benefit Amount (RFBA) on employees' payment summaries. RFBA may affect income tests for Commonwealth benefits and surcharges (e.g. Medicare levy surcharge).
70. No recovery of these overpayments will mean:
 - the FBT liability for Queensland Health will continue until the monies are repaid (assuming Queensland Health continues to bear the FBT liability on behalf of the employee); and
 - employees will continue to attract RFBA on future payment summaries, until the monies are repaid. This amount incurred may increase if the minor fringe benefit exemption is no longer able to be applied to these loans (as Queensland Health is obliged to consider prior and future years when applying this exemption).

2011-12 overpayments (and future overpayments)

71. Should the moratorium remain, overpayments from the 2011-12 financial year will be treated as assessable income on the employee's 2011-12 financial year payment summary. This may impact the employee's tax assessment, as the employee's assessable income will increase by the value of the overpayment.
72. Queensland Health is also liable to pay the ATO the tax component of any unacknowledged overpayments on behalf of the employee at the end of the financial year (between \$9 million and \$39 million, depending on individual marginal tax rates). Once the moratorium is lifted, Queensland Health will then need to recover the overpayment (net value) as well as the tax component.
73. The payroll system records overpayments (by default) as loans. Changing the overpayment to be assessable income on the payment summary requires payroll to undertake a manual process, which will need to commence from March 2012 to ensure the process is completed prior to the generation of payment summaries.
74. Additional payroll staff will be required to process the 300,000 manual adjustments required to convert overpayments from the default loan position to assessable income.
75. Once the employee has formally acknowledged the loan in the next financial year (assuming lifting of the moratorium in the future), Queensland Health will need to issue the employee with an amended payment summary (manual process), where the overpayment reverts to being treated as a loan, rather than assessable income. The employee may need to lodge an amended tax return assessment to the ATO.
76. Employees may submit no financial disadvantage claims (under Queensland Health's No Financial Disadvantage policy) to cover any costs incurred as a result of issuing amended tax assessments to the ATO.
77. Should Government decide to write-off these overpayments, this would attract a significant tax liability for the Department, and a superannuation liability, in addition to the write-off cost. In addition, refunds may need to be provided to staff who have repaid overpayments, to ensure an equitable write-off process.

Queensland Health financial statements

78. Should the moratorium not be lifted, increased impairment provisions for overpayments will need to be made in Queensland Health's future financial statements. For the 2010-11 financial year, there was an ongoing discussion with the QAO regarding the recognition of salary overpayments as a receivable on the balance sheet. Should the moratorium not be lifted, this may increase the likelihood that Queensland Health will need to record the overpayment balances as a salaries and wages expense (in the profit and loss statement) in the 2011-12 financial statements. This will impact the Department's profit or loss position for the 2011-12 financial year.
79. In addition, the Department may receive a qualified audit opinion from the QAO for the 2011-12 financial year if it disagrees with the accounting treatment of overpayments.

CONSULTATION

• **Community**

80. Extensive consultation has been undertaken with the health unions through both ongoing fortnightly all health union meetings and additional sessions. A number of unions have agreed in principle with the proposal, under the proviso that outstanding underpayment claims are addressed prior to any recovery commencing. United Voice Queensland is withholding its agreement while an outstanding industrial dispute remains unresolved.

• **Government**

• *Department of the Premier and Cabinet*

81. Consultation has been undertaken with the Department of Premier and Cabinet, through regular cross government payroll meetings. Additional consultation has also taken place with the Office of the Premier.

• *Queensland Treasury*

82. Consultation has been undertaken with Queensland Treasury through regular cross government payroll meetings.

• *Other Departments*

83. Consultation has been undertaken with the Department of Public Works and Justice and Attorney General through regular cross government payroll meetings.

RESULTS OF CONSULTATION

- **Community**

84. A number of unions have agreed in principle with the proposal as part of enterprise bargaining discussions. While no union has expressed objection, one union (United Voice Queensland) is withholding its agreement while an outstanding industrial dispute remains unresolved.

- **Government**

- ***Department of the Premier and Cabinet***

85. The Department of the Premier and Cabinet recommends that the submission proceed to CBRC for decision.

- ***Queensland Treasury***

86. Queensland Treasury is supportive of the proposal to lift the moratorium.

- ***Other Departments***

87. The Department of Public Works and Justice and Attorney General and Queensland Audit Office are supportive of the proposal to lift the moratorium.

RURAL/REGIONAL IMPACT STATEMENT

88. Nil.

EMPLOYMENT AND SKILLS DEVELOPMENT IMPACT STATEMENT

89. Nil.

CLIMATE CHANGE IMPACT STATEMENT

90. Nil.

FINANCIAL CONSIDERATIONS

91. Under section 73 of the Financial Accountability Act 2009, Queensland Health is obliged to recover overpaid monies to staff.
92. As at 30 October 2011, \$78.6 million of salary overpayments and interim cash payments remains outstanding.
93. Recovery of monies from staff will reduce the outstanding overpayment balance; however, overpayments generated through the payroll system increase, on average, at a rate of \$1.7 million each fortnight to 3,959 employees (based on data from up to 30 October 2011).

Queensland Health financial statements

94. Queensland Health's 2010-11 financial statements included an overpayment impairment provision of \$17.372 million, comprising:
 - \$10.851 million for overpayments relating to terminated employees that the Department has deemed unlikely to be recovered;
 - \$1.521 million for the 2010-2011 \$200 waiver, endorsed by CBRC in May 2011; and
 - \$5 million relating to estimated unrecoverable employee overpayments (this is Queensland Health's best estimate of overpayments deemed unlikely to be recovered).
95. Impairment provisions made in the financial statements for bad debts due to overpayments will increase as the moratorium continues (i.e. debts will be harder to recover due to increased terminations, debts unlikely to be recovered and additional waivers, etc).
96. Should the moratorium not be lifted, Queensland Health may need to record overpayment balances as a salaries and wages expense (in the profit and loss statement) in the 2011-12 financial statements. This will impact the Department's profit or loss position for the 2011-12 financial year.

IMPLEMENTATION

97. The implementation of the progressive recovery process will be managed by the Payroll Portfolio, which sits within the Human Resource Services Division of the department.
98. The progressive recovery process will commence once lifting of the moratorium has been announced.
99. Overpayment notification letters to individuals will be approved by the offices of both the Minister for Health and the Premier. In addition, approval will be sought from the Health Minister for the commencement of each recovery tranche, to ensure a managed and controlled manner in which monies are recovered.

PUBLIC PRESENTATION

100. Ministerial media release will be considered and may be issued at appropriate points during implementation.

ADDENDUM**CONSULTATION DETAILS**

Title of CBRC Submission: Lifting the moratorium on the recovery of historic overpayments made to Queensland Health staff and the commencement of a progressive, managed and controlled recovery process.

DEPARTMENT	OFFICER	DATE
Office of the Premier	Hon. Anna Bligh, Premier	Ongoing
	Peter Shooter, Senior Policy Advisor	Ongoing
	Owen Wareham, Policy Advisor	
Department of Premier and Cabinet	John Bradley, Director-General	Ongoing
	Bronwen Griffiths, Associate Director-General	
	Justin Murphy, Director Economic Policy	
	Tina Davey, Executive Director, Health and Policy Coordination, DPC	
	Dr Bruce Visser, A/Director, Health Policy and Coordination, DPC	
Treasury Department	Walter Ivessa, Assistant Under-Treasurer	Ongoing
	Jeanette Miller, Team Lead	
Department of Public Works	Natalie McDonald, Director-General	Ongoing
	Mike Burnheim, Assistant Director-General	
	Phillip Hood, Executive Director, QSS	
Justice and Attorney-General	Barry Leahy, Associate Director-General	Ongoing

LIST OF ATTACHMENTS

- ATTACHMENT 1:** ATO advice regarding overpayments notification process
- ATTACHMENT 2:** State of Play as at 28 October 2011
- ATTACHMENT 3:** Commencement of a statewide underpayment claims program
- ATTACHMENT 4:** TPCH underpayments results summary
- ATTACHMENT 5:** PAH underpayments results summary
- ATTACHMENT 6:** Underpayments trial daily enquiries PAH vs TPCH
- ATTACHMENT 7:** EY TPCH Review
- ATTACHMENT 8:** Overpayments analysis (20 September 2011)
- ATTACHMENT 9:** Overpayments cost of recovery
- ATTACHMENT 10:** Overpayment analysis
- ATTACHMENT 11:** Overpayments potential tax outcomes
- ATTACHMENT 12:** PwC advice regarding tax implications

Mr John Cairns
Deputy Director-General
Human Resource Services
Queensland Health
GPO Box 48
Brisbane Qld 4001

Dear John,

Thank you for your letter of 15 April 2011. Given that you are now confident that the data in your payroll system accurately reflects overpayments made to employees, the processes outlined in your correspondence appear to be appropriate and consistent with the advice we provided at our meeting on 14 April 2011. The following comments may be of assistance:

Amounts to be Recovered

- You should seek to recover the entire amount of overpayment, not an amount net of tax withheld.

2010-11 financial year

- We agree that employees should be notified at the earliest opportunity of salary overpayments to which they are not beneficially entitled and which they are obliged to repay. The overpaid amount is not ordinary income of the employee and therefore, that amount should not be included on the payment summary issued to the employee.
- Whether employees repay the overpayment immediately or by an agreed repayment schedule is not relevant to the employees' taxation position. This is a matter between Queensland Health and the relevant employees.

2009-10 financial year

- In relation to the 2010 financial year, we agree you should also notify employees of your decision to recover overpaid amounts as soon as possible.
- Because the 2010 payment summaries will have incorrectly reflected the level of income, you will need to issue the relevant employees with amended payment summaries and to provide the ATO with a copy of the amended payment summaries. The employees will need to request amendments to their assessments.
- As noted above in respect of the 2011 financial year, the repayment of overpayments, either immediately or by way of an agreed repayment schedule, is a matter between Queensland Health and the relevant employees. It has no income tax implications for either the 2010 or 2011 years.

If employees dispute the overpaid amounts

- An employee who has received a payment summary excluding an amount you believe has been overpaid may demonstrate that the amount overpaid was either a lesser or nil amount.
- In these circumstances, you will need to issue a further amended payment summary to the employee and to the ATO to exclude only the agreed overpayment, if any.
- To assist employees to meet their income tax return lodgment obligations and to minimise the likelihood that they will have to request unnecessary amendments to their assessments, it is desirable that any disputes be resolved quickly.

We would be happy to work with you and your staff in preparing guidance to assist your employees on these issues. You may wish to contact Mr Peter Nash on telephone number (02) 935 43224 to discuss this further.

Yours sincerely,



Erin Holland
Deputy Commissioner of Taxation

11 May 2011

ATTACHMENT 2

Payroll Portfolio Plan Update

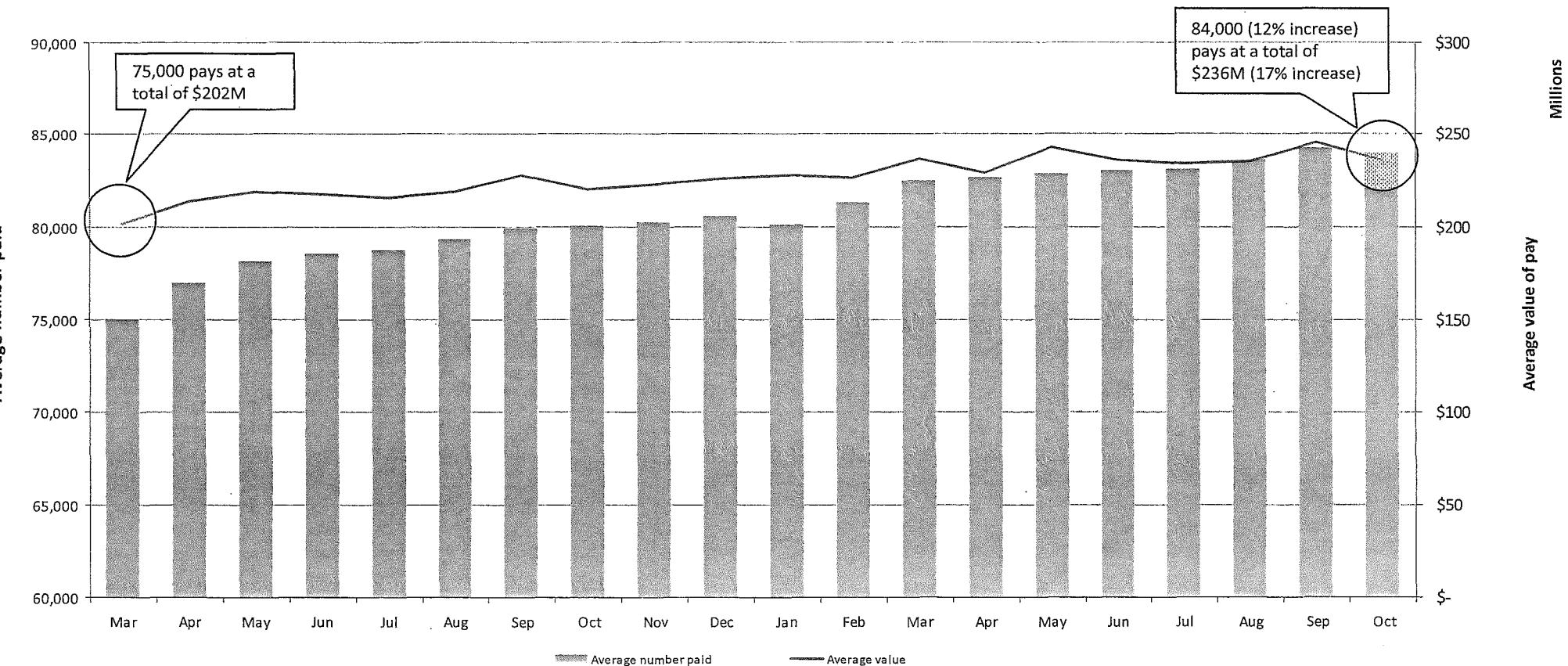
State of Play



Cabinet-in-Confidence

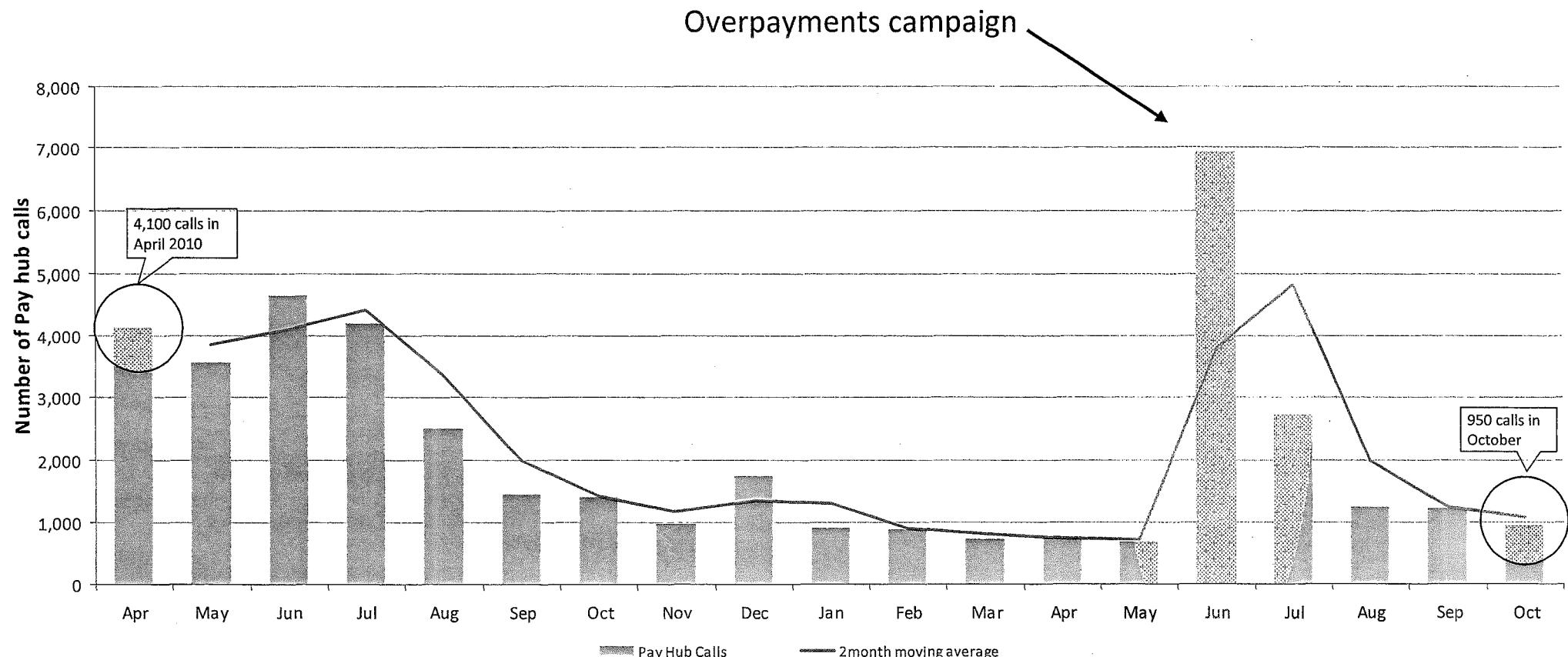
Average value of pay per month

As at 19th October 2011



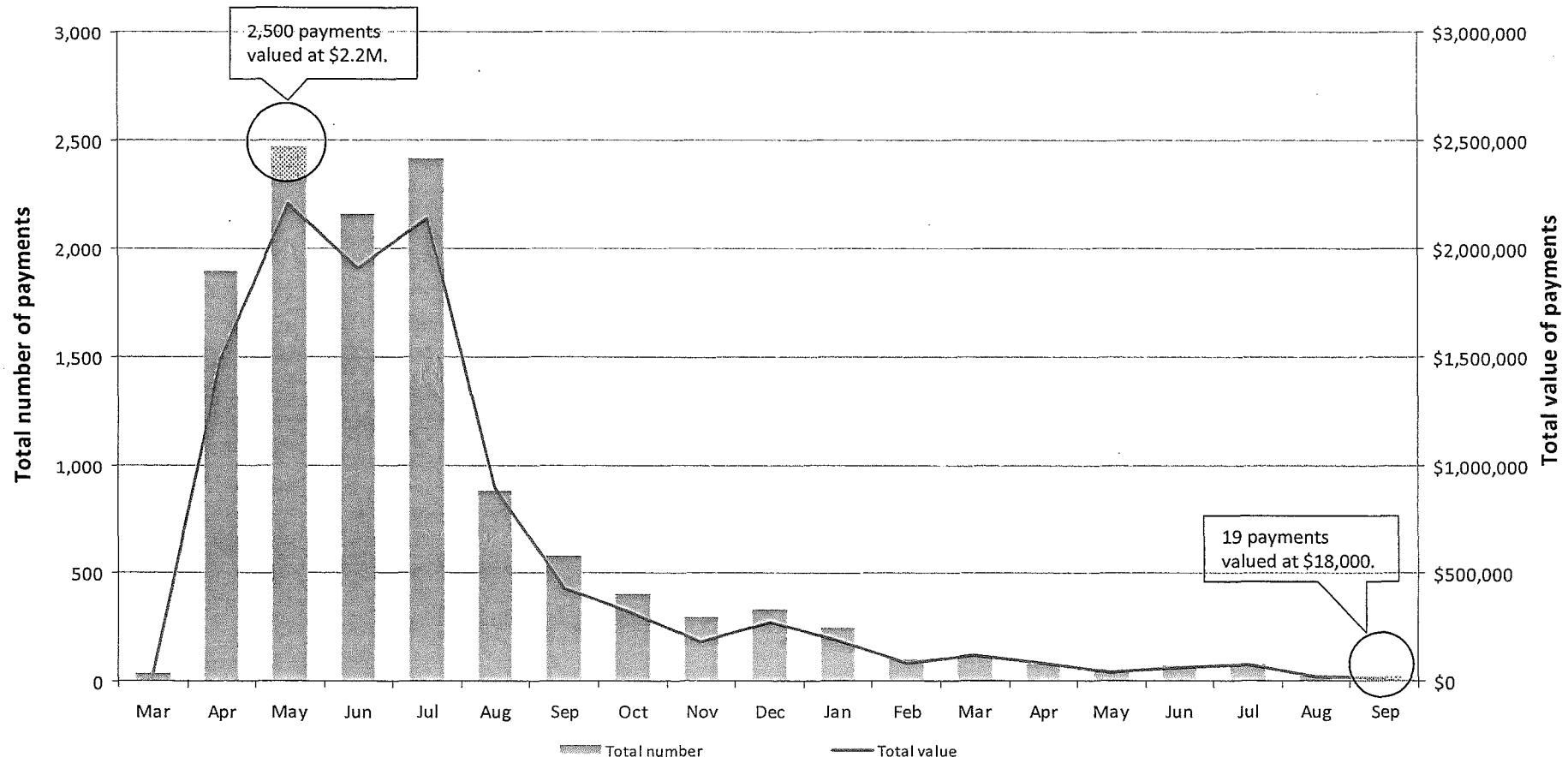
Number of calls to the payroll hotline

As at 19th October 2011



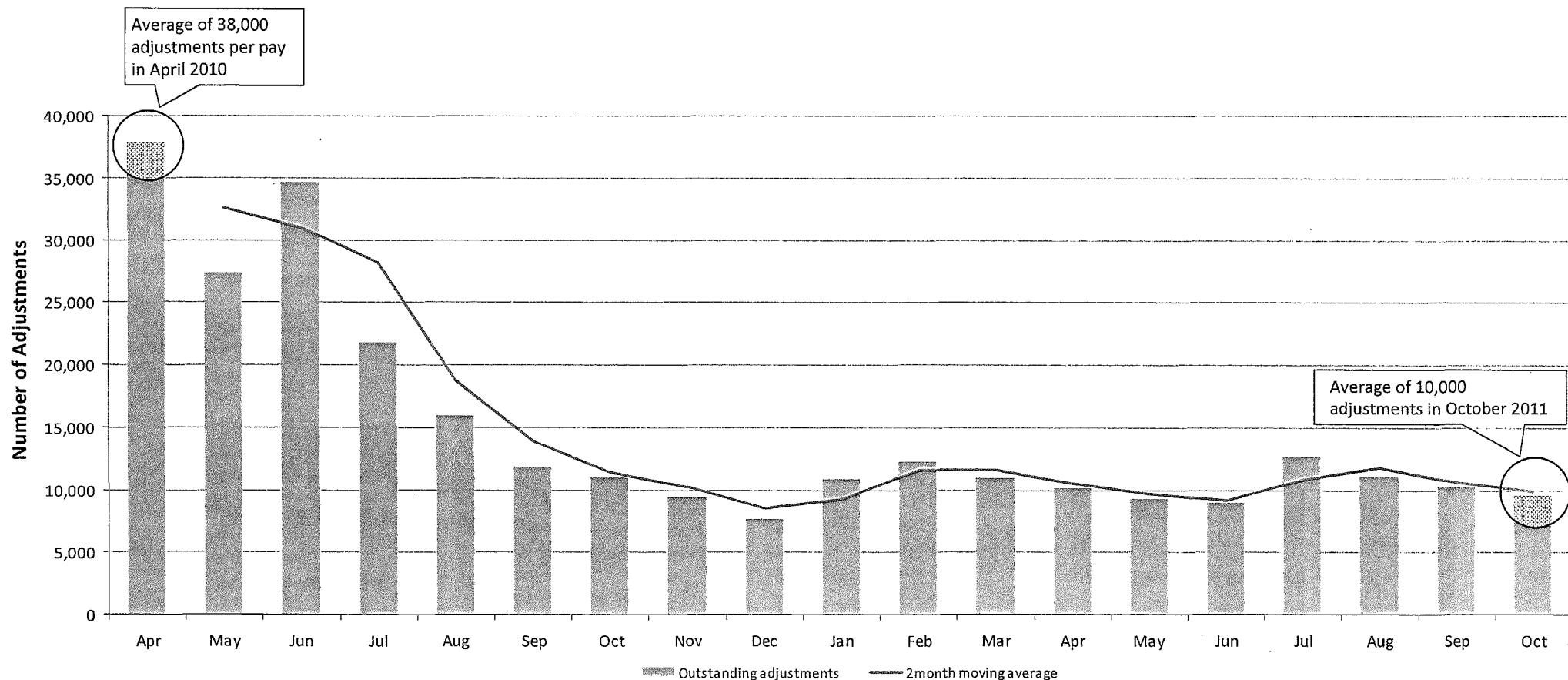
Number of emergency payments

As at end of September 2011



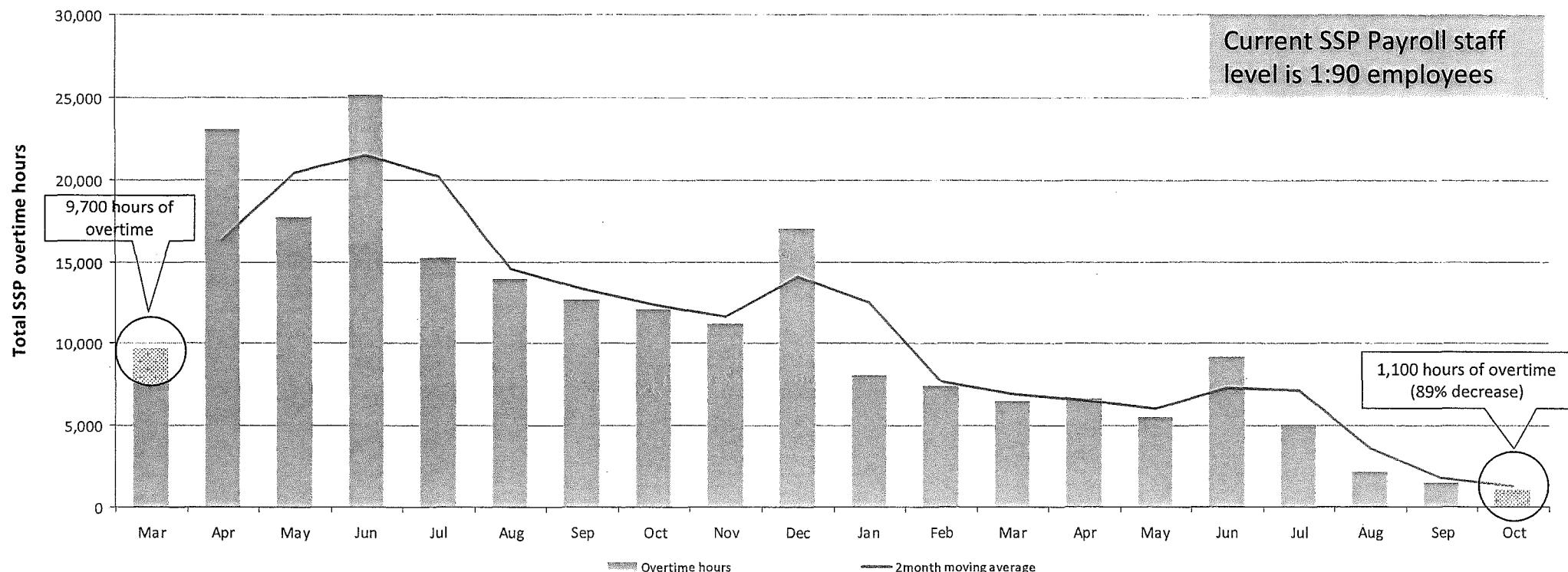
Average outstanding adjustments

As at 19th October 2011 - at end of pay cycle



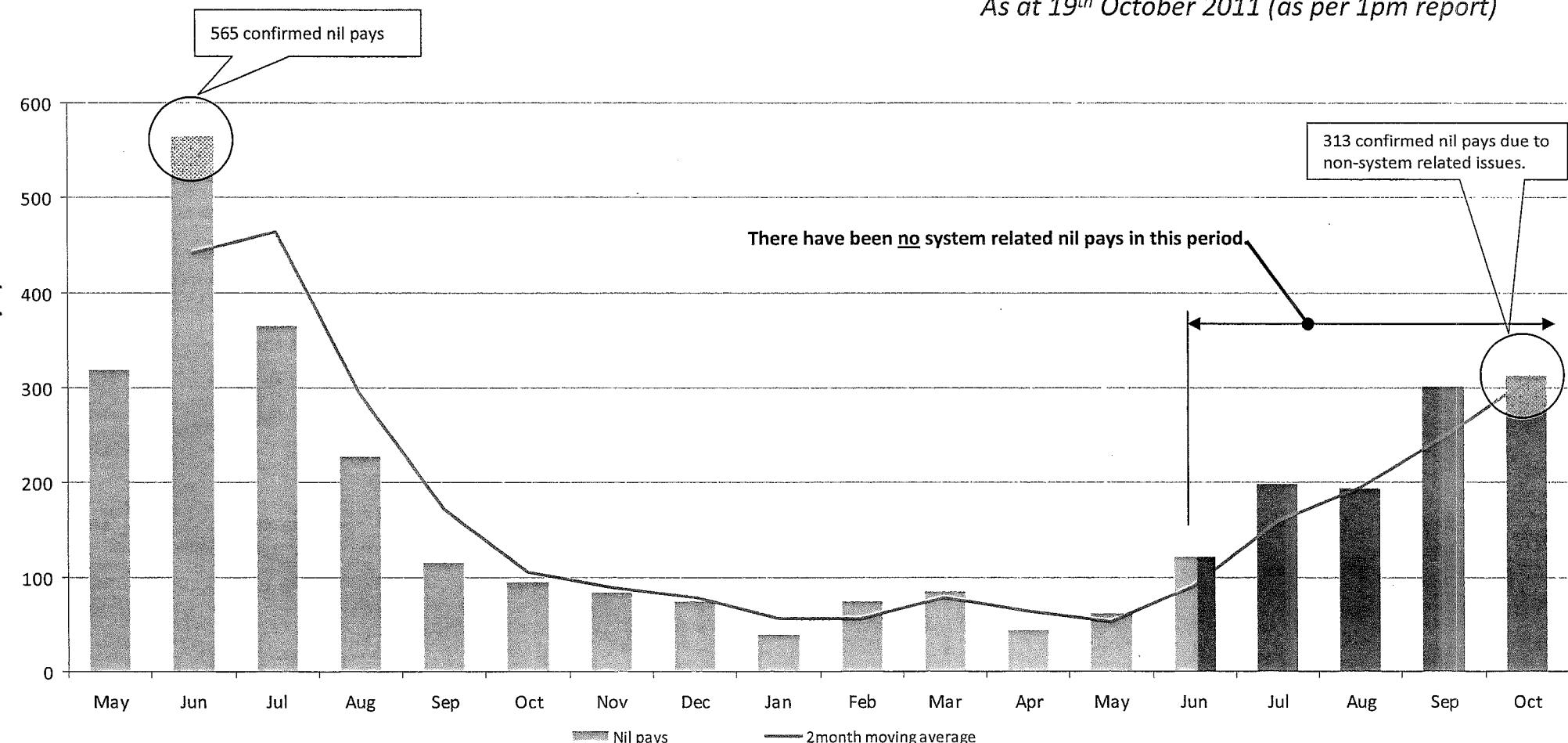
Total hours of overtime for SSP

As at 19th October 2011



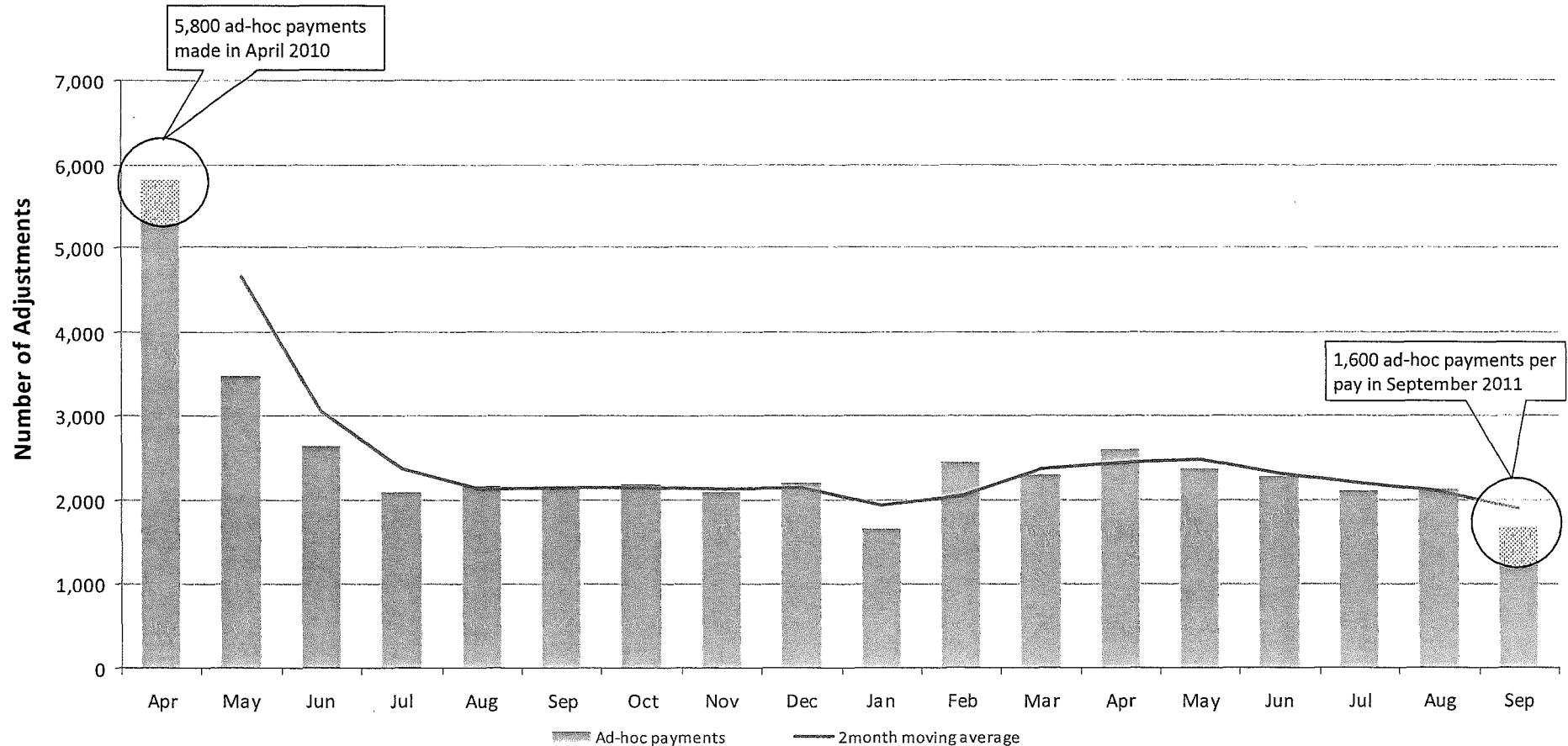
Nil pays

As at 19th October 2011 (as per 1pm report)



Average Ad-hoc payments by month

April 2010 to September 2011



STATEWIDE UNDERPAYMENTS PROGRAM

On 10 July 2011, the Queensland Government announced a moratorium on the recovery of overpayments to strengthen focus on addressing outstanding underpayment claims. As a result, a project was established within the Payroll Portfolio to develop and implement processes to support a statewide underpayments program.

A significant amount of work has been undertaken in preparation for the commencement of the statewide underpayments program, including:

1. underpayment claims trials at The Prince Charles Hospital and Princess Alexandra Hospital;
2. development of relevant business processes to support the broader statewide underpayment program;
3. preparation of a comprehensive communication plan to ensure key stakeholders are educated and prepared for the statewide program; and
4. development of a tailored underpayments tracking database, called the Payroll Personal Enquiry System (PPES), including training of key users.

Underpayment claims

- The statewide underpayments program is proposed to address historical underpayments.
- Underpayment claims will be categorised and managed as either a historical claim or a 'business as usual' claim:
 - a. historical underpayment claims relate to pay runs prior to 24 July 2011 (prior to pay period 3 of 2011) and employees will be asked to log their claims centrally via the Statewide Hotline; and
 - b. business as usual underpayment claims relate to pay runs after 24 July 2011 (pay period 3 of 2011 and after) and employees will be asked to contact their local payroll hub for management and resolution, as per business as usual arrangements.
- It is necessary to distinguish between these two types of underpayment claims to ensure that business as usual claims continue to be expeditiously addressed by local payroll hubs.

Underpayments program trials

- Queensland Health undertook underpayment claims trials at The Prince Charles Hospital (TPCH) and Princess Alexandra Hospital (PAH). TPCH underpayment claims trial extended from 12 October to 4 November 2011 and the PAH trial will extend from 27 October to 25 November 2011.
- During TPCH underpayment claims trial, 0.9% of the total staff of 4,361 had an enquiry.
- It was found that on-site case managers were not utilised during these trials and did not increase resolution speed so it is proposed that they be excluded from the statewide program.
- Additionally, the majority of staff with claims had specific information to support their claim which means the classification of enquiries has been easier than expected.

Statewide program – process for addressing outstanding underpayment claims

- Following the successful trial at TPCH, a statewide program will commence in November 2011.
- Employees will be encouraged to report their outstanding underpayment claims to the Statewide Hotline within four weeks of the date of commencement.
- Claims logged after this four week program will still be addressed.
- All claims logged through the Statewide Hotline will be entered into a new underpayments tracking database (Payroll Personal Enquiry System (PPES)), which will enable clear reporting on the number, resolution status and cause of resolved underpayment claims.
- It is anticipated that some staff may continue to seek assistance from local payroll hubs. These underpayment claims can be logged by the payroll hub as they all now have access to PPES.
- At the conclusion of the four-week notification period, Queensland Health will undertake an assessment of logged claims (number, root cause and complexity of resolved cases) and determine an appropriate resolution and resourcing strategy for the remaining unresolved cases. It is not possible to make this assessment now as the anticipated volume and complexity of claims cannot be accurately determined.
- The backlog of underpayment claims will be resolved in accordance with the assessment and subsequent resourcing strategy.
- Based on the findings from the trials, underpayment claims can take some time to resolve. This is because the case manager often requires information from a source outside of payroll in order to investigate a case. This is typically a line manager or the employee. The process can be iterative, and resolution actions may occur over several pay periods. Cases are closed after final confirmation is received from the employee.

Resourcing strategy for addressing historical underpayment claims

- Based on the findings from TPCH underpayment claims trial, Queensland Health has determined a preliminary strategy for addressing historical underpayment claims.
- Staff will be directed to report any historical underpayment claims to the Statewide Hotline who will log the claim in PPES.
- The Statewide Hotline has been sufficiently resourced to manage approximately 700 payroll enquiries on a week day and approximately 300 payroll enquiries on a weekend. Call volumes will be monitored and the resourcing structure amended as required.
- Once a historical underpayment claim is logged in PPES, it will be directed to a team within Payroll and Establishment, which will be made up of approximately 5 employees, who will triage the claim to one of three areas:
 - a. the Rostering Centre;
 - b. the central Managed Response Unit; or

- c. case managers from the Managed Response Unit who are located in local payroll hubs.
- The Rostering Centre will receive those underpayment claims which do not include any details (i.e. date or amount of underpayment) about the underpayment. Approximately six employees from this team will be responsible for providing staff, who require it, with a Time and Wages Report to allow them to check their records to determine if and what they have been underpaid.
- The central Managed Response Unit, which will be made up of approximately 20 employees, will receive those claims which are determined to be complex based on a number of criteria. This central unit will also manage any underpayment claim relating to the period prior to 8 March 2011 when the Lattice payroll system was in operation.
- Up to approximately 30 case managers from the Managed Response Unit will be located in local payroll hubs. These case managers will receive the remainder of historical underpayment claims for investigation and will work with the Service Coordinators in the payroll hubs to draw on information from the hubs to resolve underpayment claims.
- To support the investigation and resolution of underpayment claims and the distribution of case managers to local payroll hubs, the Department proposes to re-task approximately 20 staff members (AO4 classification) from the central Analysis and Recovery Team. This team is within the Queensland Health Shared Service Partner (QHSSP) and was established to case manage overpayments. These staff members will be re-tasked to the Managed Response Unit within QHSSP.
- Following the underpayment claims assessment (to be undertaken at the conclusion of the program), the Department will be in a position to determine whether an alternative, longer-term resourcing strategy is required. Should the number of historical claims received exceed the capacity of the Managed Response Unit to respond to the claims within a reasonable timeframe, the Department may source additional resources to assist with case management.
- The number and location of any additional resources will be driven by the assessment of logged underpayment claims undertaken after the conclusion of the program.

Statewide program communication

An awareness program will be conducted to educate employees about the underpayment claim process.

- A detailed overview of the communications to be undertaken has been prepared. Communication materials will require approval at the Ministerial level.
- It is proposed that activities be run at both a corporate and District/Division level. Key activities planned include:
 - a. a special broadcast to launch the statewide underpayments program;
 - b. a letter to each employee to advise of the outstanding underpayment claims program;
 - c. an update on the QHEPS homepage;
 - d. payslip messages during the program period;
 - e. multiple E-alerts (weekly throughout the program period);

- f. posters in key staffing areas;
 - g. a screen saver;
 - h. key staff briefings; and
 - i. health union briefings.
- Other frontline staff will also be a conduit for information and will be used as a channel for disseminating messages. Briefings and information packs will be provided to these stakeholders to assist with communication activities at the District and Division level.
 - As a critical source of information for staff, the Statewide Hotline will also receive a briefing on the underpayments program and be provided with relevant scripting.
 - All communication materials will clearly articulate the process for managing underpayment claims for pay runs pre and post 24 July 2011.

Payroll staff briefings

- Local payroll staff are a critical part of the underpayments program, both as a contributor to the process as well as a source of information for staff.
- It is therefore crucial that all local payroll staff receive a comprehensive briefing on the process for managing both the outstanding underpayment claims and business as usual underpayment claims.
- Payroll staff briefings will commence prior to the start of the statewide underpayments program and communication materials will be provided.

Industrial issues

- Minimal issues are anticipated to arise as the initiative is a support mechanism for Queensland Health to address outstanding underpayment issues.
- It is anticipated that Together, who represent payroll staff, will have an interest in the mechanics of the process to report and resolve underpayments and specifically any workload issues for payroll staff. Additionally, Together may have interest or concern regarding case managers from the Managed Response Unit travelling to hubs and the re-tasking of Analysis and Recovery Team members to the Managed Response Unit.
- To mitigate this, Together will be contacted directly by the Payroll Portfolio team to advise of the process to follow and gain an understanding of any concerns Together may have.
- All unions will be updated on the process at the next health union payroll meeting.

Consultation

- Queensland Health has already engaged health unions regarding the underpayments trial, statewide program and supporting business processes. However, an ad hoc health union briefing will need to occur prior to the commencement of the statewide program in November 2011.
- Health unions will need to be consulted in regards to the timing, process, rationale and communications for the statewide program. It is proposed to undertake this consultation following Ministerial approval of the proposed approach.

Financial implications

- The incremental operating expenditure cost for the statewide underpayments program is approximately \$451,000. This cost consists of locating the central Managed Response Unit staff in payroll hubs across the state (travel and accommodation costs) and sending all Queensland Health staff a letter to notify them of the underpayments program.

ATTACHMENT 4

Underpayments Program

Trial at The Prince Charles Hospital (TPCH)

12th October – 4th November 2011

Final Report

7 November 2011

Cabinet-in-Confidence



Underpayments at The Prince Charles Hospital (TPCH)

Queensland Health is planning to commence a state-wide historical underpayments program in late 2011 to encourage staff to report their outstanding underpayments for resolution.

Queensland Health conducted a trial of the program at The Prince Charles Hospital from 12 October 2011 to 04 November 2011. The rollout of the state-wide program will be informed by the key findings in this report.

TPCH staff were encouraged to report their outstanding underpayment claims for the period prior to 24 July 2011.

Employees were offered an appointment with an on-site case manager. 500 appointments with on-site case managers were made available for TPCH staff.

On-site case managers were experienced payroll officers sourced from the Complex Case Team and the local Chermside payroll hub.

Queensland Health supported the trial with a strong communications campaign involving direct-to-staff broadcasts, line manager memos, information sheets, posters, screen savers and intranet posts.

Communications were verified with physical checks on posters and sampling random line managers.

Queensland Nurses' Union encouraged their members to participate in the trial by emailing all of their TPCH members and posting details of the trial on their website three times.

All health unions were given information packs about the trial and encouraged to promote the trial to their members.

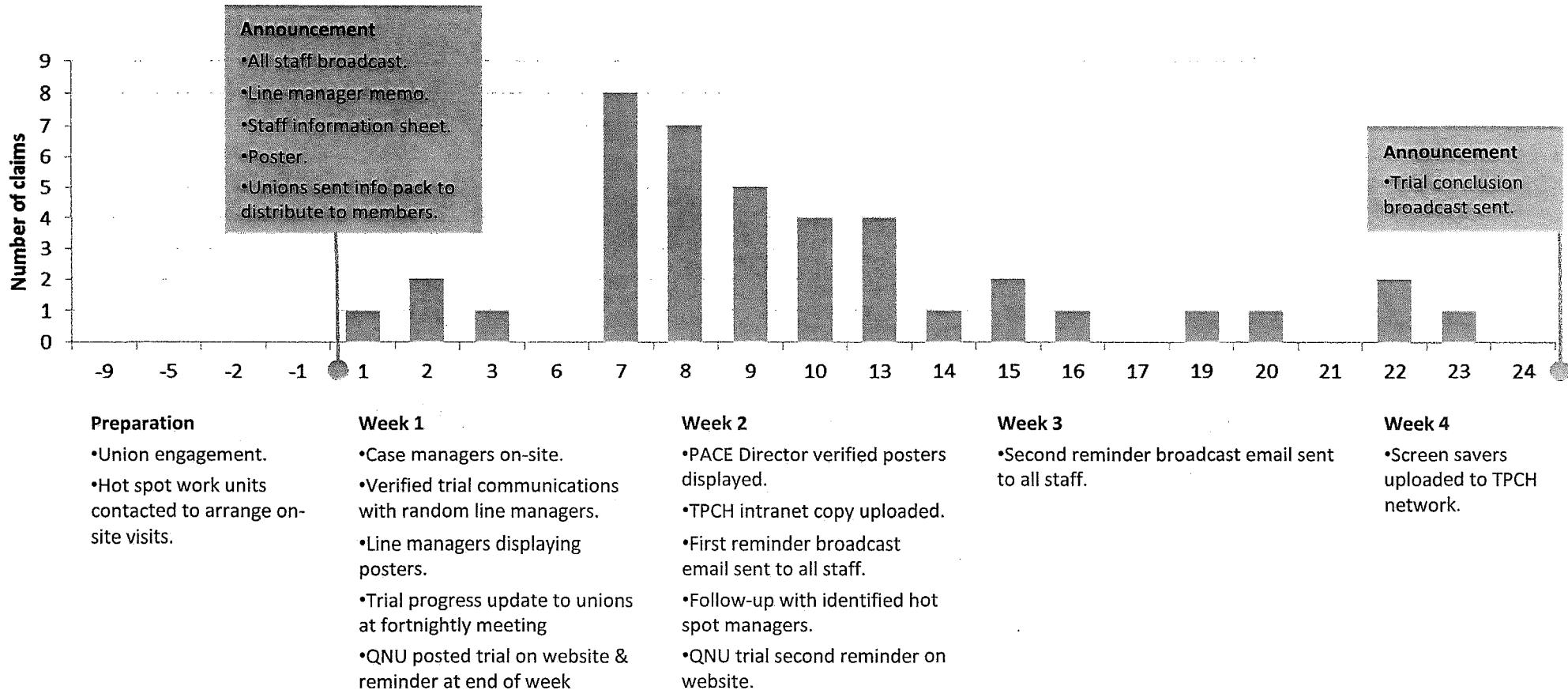
Queensland Health also proactively targeted work units across TPCH to find employees with underpayments. The TPCH Executive and PACE Director identified six payroll "hot spots" to target. These work units included Intensive Care Unit, Main Operating Theatre, Medical Imaging, Cardiac Investigations, Ward 1A, Patient Administration Support Services.

Metropolitan Linen Services, and Building and Engineering Maintenance Services were also proactively targeted because their physical location is some distance from the main building. These work units welcomed this approach, however, the response was overwhelmingly that there are few employees with underpayments.

TPCH employees				
Occupation	Staff *	Enquiries during trial	% of staff	
Professional and Technical	628	11	1.8%	
Nursing	1,833	25	1.4%	
Medical (incl. VMOs)	467	2	0.4%	
Operational	620	2	0.3%	
Managerial and Clerical	778	1	0.1%	
Trades, Artisans and General	35	-	0.0%	
Total Streams	4,361	41	0.9%	

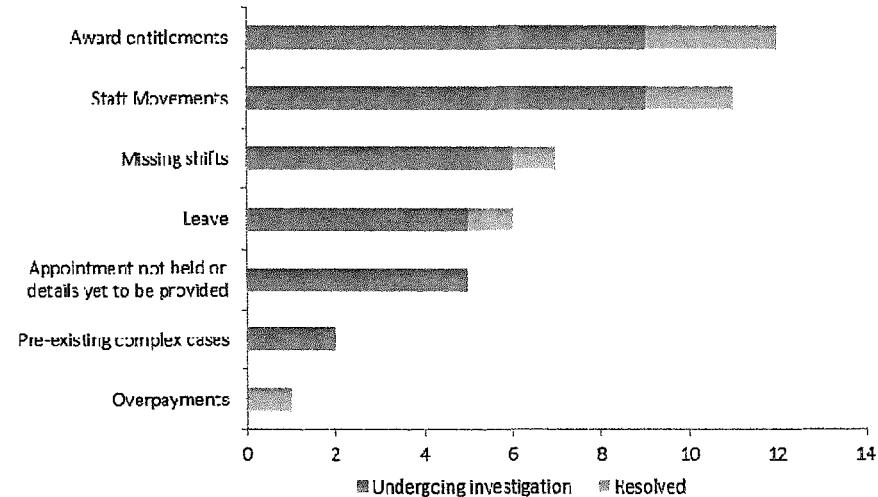
* Staff head count at 31st Oct 2011

Communications program during TPCH trial

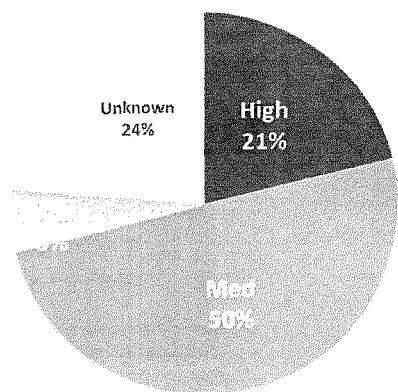


Claims analysis

Cases relate to ...



Complexity of cases



TPCH trial summary

Category	Enquiries	Resolved	Undergoing investigation
Movements	11	2	9
Missing shifts	7	1	6
Leave	6	1	5
Award entitlements	12	3	9
Appointment not held or details yet to be provided	5	0	5
Trial total	41	7	34
% of hospital staff (4,361)	0.9%	0.2%	0.8%
Overpayments	1	1	0
Pre-existing complex cases	2	0	2
Total	44	8	36

High complexity

For example: Escalation to SWOT, PACE, multiple SAP/Workbrain adjustments (concurrent, etc).

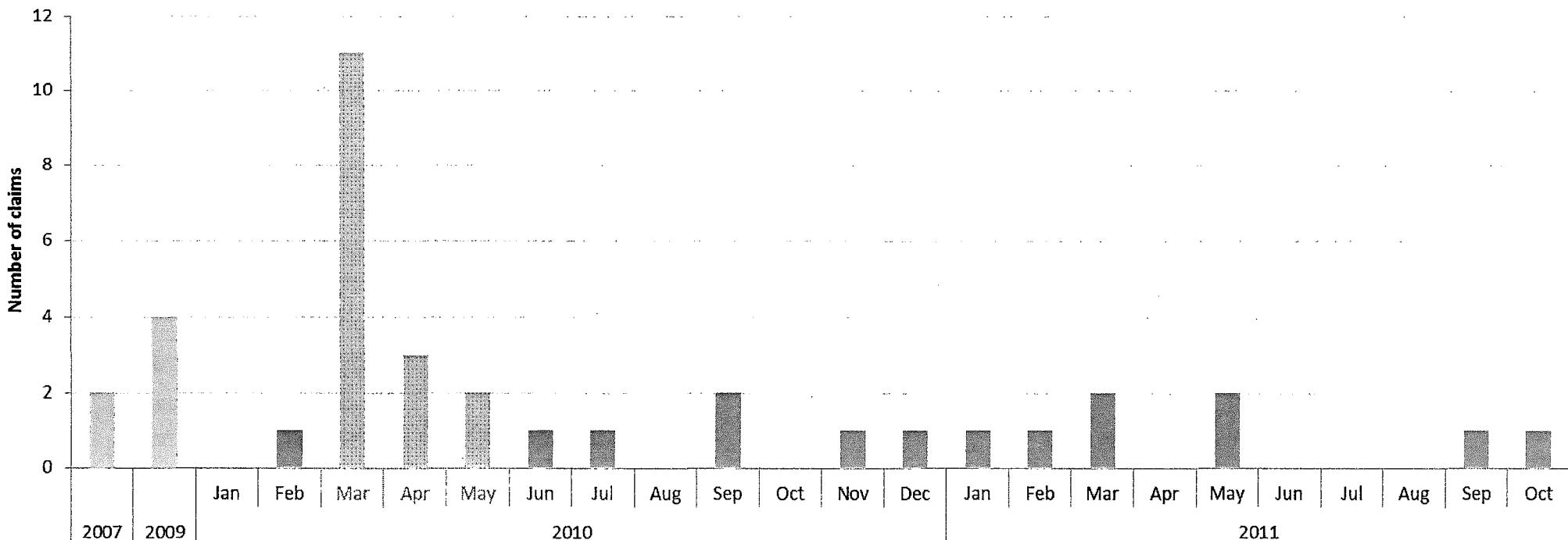
Medium complexity

For example: Basic SAP/Workbrain adjustments, referral to Line Managers, Payroll Hubs, Payroll Archives.

For example: Missing AVAC, Leave application, payment explanation.

Claims by time period

39% of enquires related to the first three months after system go-live.



Note: Timeline is not to scale and only shows months where claims were received.

Key findings from the trial

- <1% of the total staff of 4,361 had a new historical underpayment claim.
- Majority of claims related to **staff movements and award entitlements**.
- Majority of claims related to issues within the first 3 months after the March 2010 go-live.
- The trial did flush out internal issues with the process followed within the complex case team.
- Resolution times are heavily dependent on both line manager and employee reactivity.
- Majority of staff with claims had specific information to support their claim which means the classification of enquiries has been easier than expected.
- The number of staff who have made a claim with no supporting information (just a feeling) was 2.

Process changes

Case managers will be deployed to hubs.

Case managers often require collaboration from payroll officers in hubs. Cases also often require source documents like AVACs or Movement Forms from hub archives. Case managers will be deployed into hubs to support payroll teams with some of the additional workload from the statewide program. Closer collaboration will help cases be resolved sooner.

Resolution expectations need to be managed.

The case manager often requires information from a source outside of payroll in order to investigate a case. This is typically a line manager or the employee. The process can be iterative, and resolution actions may occur over several pay periods. Cases are closed after final confirmation is received from the employee. Cases can take many weeks and even months to resolve even where the case manager is actively investigating and pursuing the case.

Temporary re-tasking of some complex case team members is required to bolster case manager numbers.

Approximately 15 case managers from the Finance and Overpayments teams will join the Underpayments team during the statewide program. If less than the expected number of enquiries are received, these officers will return to their normal duties.

ATTACHMENT 5

Underpayments Program

Trial at the Princess Alexandra Hospital (PAH)

26th October – 25th November 2011

Progress Report at 18 November 2011

Cabinet-in-Confidence



Underpayments at the Princess Alexandra Hospital (PAH)

Queensland Health is planning to commence a state-wide historical underpayments program in late 2011 to encourage staff to report their outstanding underpayments for resolution.

Queensland Health is conducting a second trial of the program at the Princess Alexandra Hospital from 26 October 2011 to 25 November 2011. The rollout of the state-wide program will be informed by the early key findings in this report.

PAH staff are encouraged to report their outstanding underpayment claims for the period prior to 24 July 2011.

Employees are offered an appointment with an on-site case manager. 1,000 appointments with on-site case managers are available for PAH staff.

On-site case managers are experienced payroll officers sourced from the Complex Case Team and the local Meadowbrook payroll hub.

Queensland Health is supporting the trial with a strong communications campaign involving direct-to-staff broadcasts, line manager memos, information sheets, posters, screen savers and intranet posts.

Communications were verified with physical checks on posters and sampling random line managers.

Queensland Nurses' Union encouraged their members to participate in the PAH trial by posting details of the trial on their website twice.

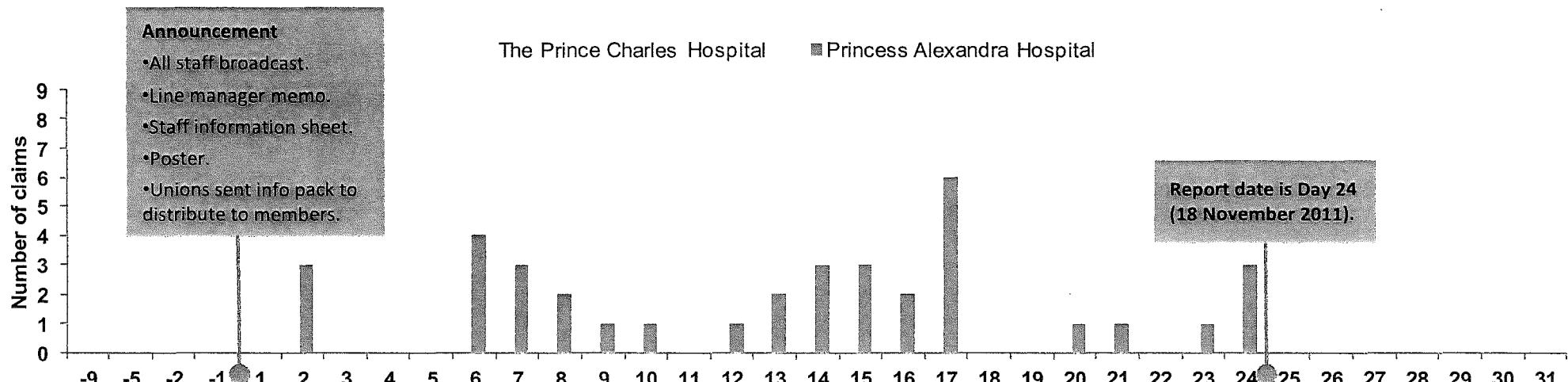
All health unions were given information packs about the trial and encouraged to promote the trial to their members.

This trial at the PAH follows the first trial at The Prince Charles Hospital (TPCH). The PAH trial commenced prior to the conclusion of the TPCH trial. Hence the format of the trial, with on-site case managers, is the same. It is important to note that one of the key findings made after the conclusion of the trial at TPCH was that on-site case managers would not be used in the statewide program.

PAH employees			
Occupation	Staff *	Enquiries during trial	% of staff
Managerial and Clerical	1,364	8	0.6%
Nursing	2,863	17	0.6%
Medical (incl. VMOs)	948	6	0.6%
Operational	1,039	1	0.1%
Professional and Technical	1,050	5	0.5%
Trades, Artisans and General	81	-	0.0%
Total Streams	7,345	37	0.5%

*PAH staff head count at 31st Oct 2011

Communications program during PAH trial



Preparation

- Trial at The Prince Charles Hospital.

Week 1

- Case managers on-site.
- Trial information uploaded to PAH intranet.
- Screen savers uploaded to PAH network.
- Line managers displaying posters.

Week 2

- Follow-up with identified hot spot managers.
- QNU posted trial on website in two posts.
- Verified trial communications with random line managers.

Week 3

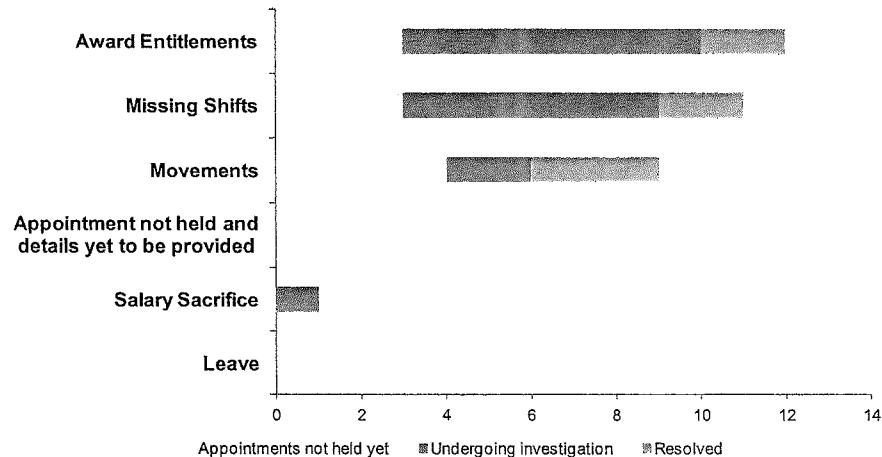
- Trial progress update to unions at union meeting.
- Follow-up with identified hot spot managers.

Week 4

- Sending reminder broadcast email to all staff.
- Trial progress update to PACE Directors.

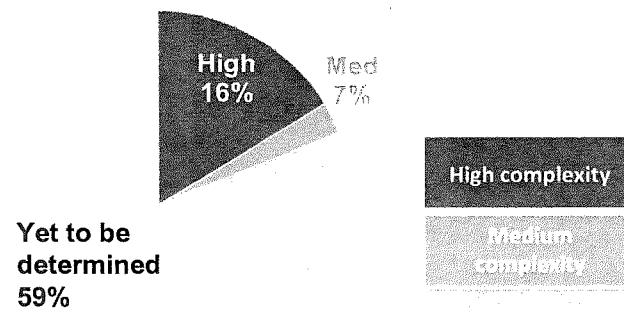
Claims analysis

Cases relate to ...



PAH Summary				
Category	Enquiries	Resolved	Undergoing investigation	Appointments not held yet
Leave	0	0	0	0
Salary Sacrifice	1	0	1	0
Appointment not held and details yet to be provided	4	0	0	4
Movements	9	3	2	4
Missing Shifts	11	2	6	3
Award Entitlements	12	2	7	3
Trial Total	37	7	16	14
% of hospital staff	0.5%			

Case complexity



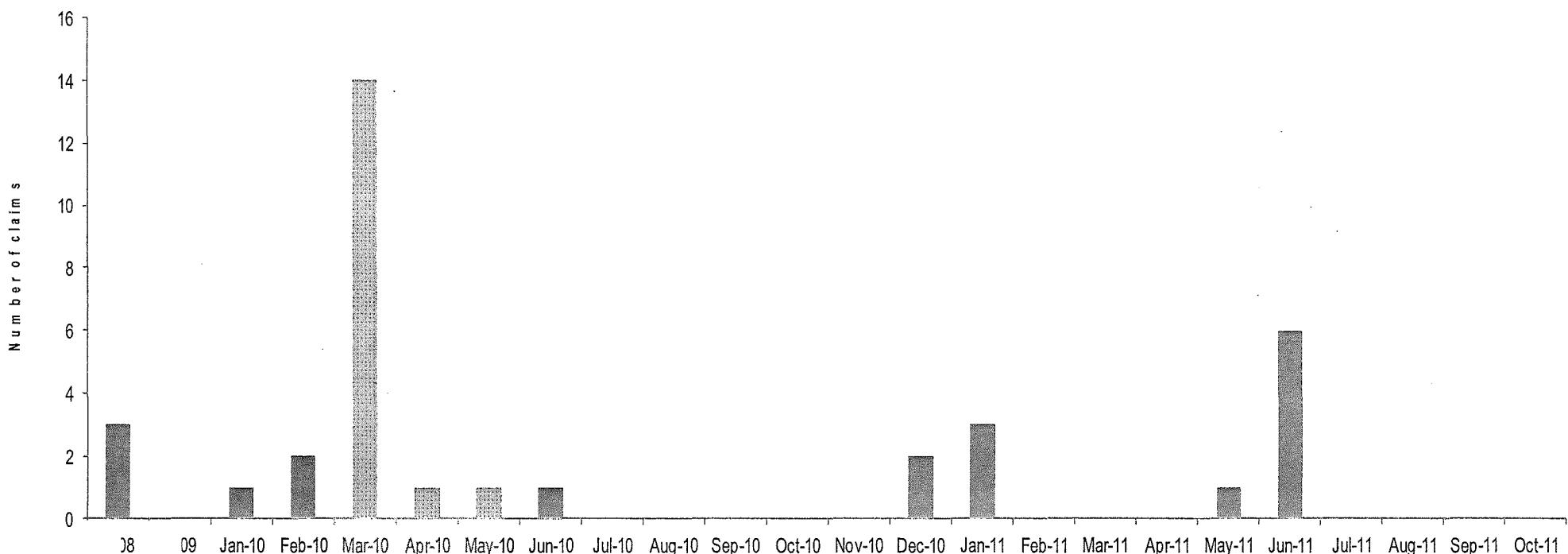
For example: Escalation to SWOT, PACE, multiple SAP/Workbrain adjustments (concurrent, etc).

For example: Basic SAP/Workbrain adjustments, referral to Line Managers, Payroll Hubs, Payroll Archives.

For example: Missing AVAC, Leave application, payment explanation.

Claims by time period

46% of enquires related to the first three months after system go-live.



Note: Timelines not to scale

PAH figures match TPCH

PAH trial findings

<1% of the total staff of 7,345 had a new historical underpayment claim.

Majority of claims related to **award entitlements, missing shifts and staff movements**.

46% of claims related to issues within the first 3 months after the March 2010 go-live.

Resolution times are heavily dependent on both line manager and employee reactivity.

79% of staff with claims had specific information to support their claim which means the classification of enquiries has been easier than expected.

To date, no staff have made a claim without supporting information or a specific query.

Similar finding as
TPCH trial?

YES

YES

YES

YES

YES

YES

Process changes relevant to the Statewide Underpayment Claims Program

Case managers will be deployed to hubs where required.

Case managers often require collaboration from payroll officers in hubs. Cases also often require source documents like AVACs or Movement Forms from hub archives. Case managers will be deployed into hubs to support payroll teams with some of the additional workload from the statewide program where this is warranted. Closer collaboration will help cases be resolved sooner.

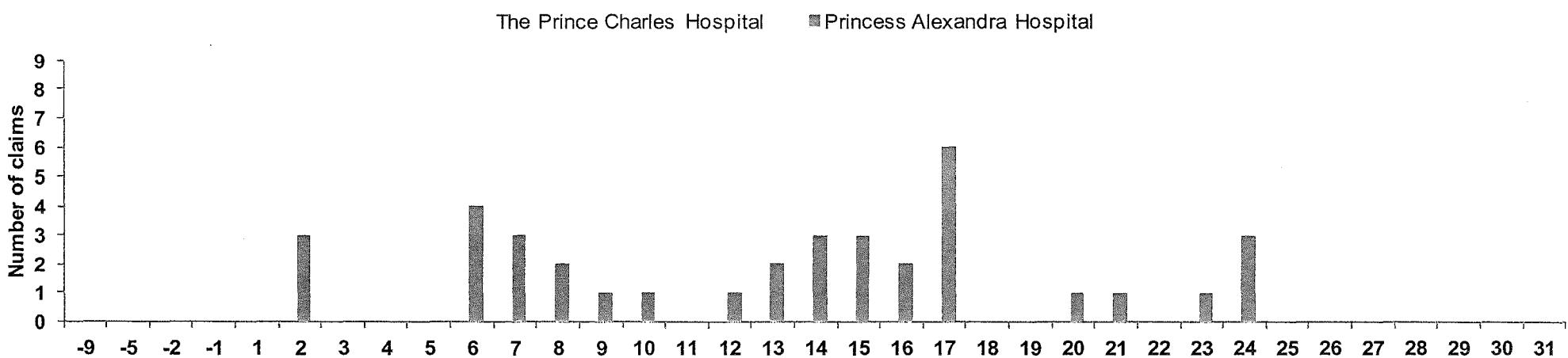
Resolution expectations need to be managed.

The case manager often requires information from a source outside of payroll in order to investigate a case. This is typically a line manager or the employee. The process can be iterative, and resolution actions may occur over several pay periods. Cases are closed after final confirmation is received from the employee. Cases can take many weeks and even months to resolve even where the case manager is actively investigating and pursuing the case. Progress reporting will focus on active case interaction rather than work in progress status.

Temporary re-tasking of some complex case team members is required to bolster case manager numbers.

Approximately 15 case managers from the Finance and Overpayments teams will join the Underpayments team during the statewide program. If less than the expected number of enquiries are received, these officers will return to their normal duties.

Trial daily enquiries – PAH vs TPCH





1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

8th November 2011

Queensland Health
The Prince Charles Hospital Underpayments Pilot: Process Review

Private & Confidential

Dear Richard,

At your request, we have conducted a high-level process review of the Queensland Health underpayments pilot ("the pilot") at The Prince Charles Hospital ("TPCH"). We understand the objective of this pilot was to firstly understand both the quantum and makeup of the historical underpayments (i.e. prior to July 24, 2011) within the employee base and to secondly, test the process that was developed to conduct the pilot.

Taking this into consideration, our approach has included:

- ▶ Engagement and consultation with a sample of Queensland Health staff at TPCH that raised underpayment queries during this process and in some instances their divisional managers. This sample was informed through discussions with key managers at TPCH
- ▶ Engage with the Lead Case Manager for the pilot.
- ▶ Review the metrics derived from the pilot which was provided to Ernst & Young in the report titled "*Underpayments Program: Trial at the Prince Charles Hospital 12th October – 4th November 2011*" to assist us with our findings. Specifically this report provided the key case management metrics from the Payroll Personnel Enquiry System ("PPES").

It should be clearly noted that we have only conducted a high level process review of the pilot within a short timeframe and have deemed complex case and overpayment related queries out of scope.

Overall, our findings indicate that the underpayments case management program trial at TPCH is working to meet its objectives. All staff we consulted with as part of this review reported satisfaction with the process and outcomes to date. Further, communication of the process to staff has been comprehensive and staff were provided with several opportunities to lodge their claims and meet with case managers.

To date, there have been 41 new underpayment staff queries raised out of a possible 4,361 population size which is lower than original planning expectations. From the queries that were raised, we engaged a sample of the staff who identified the following pilot success factors:

- ▶ Technical capability and experience of case managers such as knowledge of Queensland Health awards and ability to identify issue root cause
- ▶ The opportunity to meet face-to-face with a single case manager and communications following the initial meeting
- ▶ The outcomes achieved, including the resolution of simple underpayments
- ▶ Pilot visibility through a variety of communication mechanisms (such as posters, intranet sites, screen savers, emails etc.)
- ▶ Format and agenda of meetings and the ability to review their pay details on the 'live' system
- ▶ The agreement that individual cases would not be closed until they were satisfied with the process and outcome

Although in the lead up to the pilot there were sufficient levels of staff awareness (through the establishment of significant communication channels and distribution of relevant materials), our engagement with managers and staff in regards to the lower than expected query rates may be linked to:

- Concerns that overpayments may be identified
- Staff feeling overwhelmed by the complexity of their case and therefore not bringing their claims to the attention of case managers
- Inability to easily identify their specific pay issues

It should be noted that feedback from our consultations indicate that Queensland Health has put in place reasonable measures and actions to facilitate and address the concerns provided above and give staff ample opportunity to come forward with their underpayment issues.

From the above, we have identified a number of improvement areas stemming from the pilot that could be applied to a broader rollout:

- **Improve the reporting capability of PPES:** It was reported that PPES, which documents case management activity, is limited in its reporting capabilities such as reporting case progress and timeframes to address cases. This would assist follow up and upward reporting on case management activity. Note: Ernst & Young understands that this functionality is currently being developed.
- **Case resolution:** It is important that cases continue to deliver outcomes in a reasonable timeframe and that staff continue to report their satisfaction with the resolution of their case. Specifically simple cases should be assigned with an efficient and realistic turnaround time. For more complex issues, case managers should manage the expectation with the staff member and state that their issues may take additional time to fully resolve.
- **Logistics:** The case management team require sufficient meeting rooms and resources to conduct case meetings in a suitably private environment. It is also important that if an on the ground case management process is used again, sufficient period of notice is provided to staff prior to case managers arriving on site to allow staff to make necessary arrangements and to prepare documentation.

As part of the next steps for a broader rollout, Ernst & Young recommends Queensland Health consider the following:

- **Case manager capability:** Ongoing success of this process relies on case managers having the required skills and expertise to provide quality case support. Therefore, Ernst & Young recommends that experienced case managers be deployed within payroll hubs to ensure that face to face meetings with staff continues to be productive. Should local experience not be available, Queensland Health should deploy key case managers from centrally located teams.
- **Communication and marketing the underpayments rollout:** Communication should set clear expectations on the process and continue to endeavour to alleviate staff concerns around participation (provided above). Further, these communications should promote the success of the pilot at TPCH to encourage participation.

ATTACHMENT 8

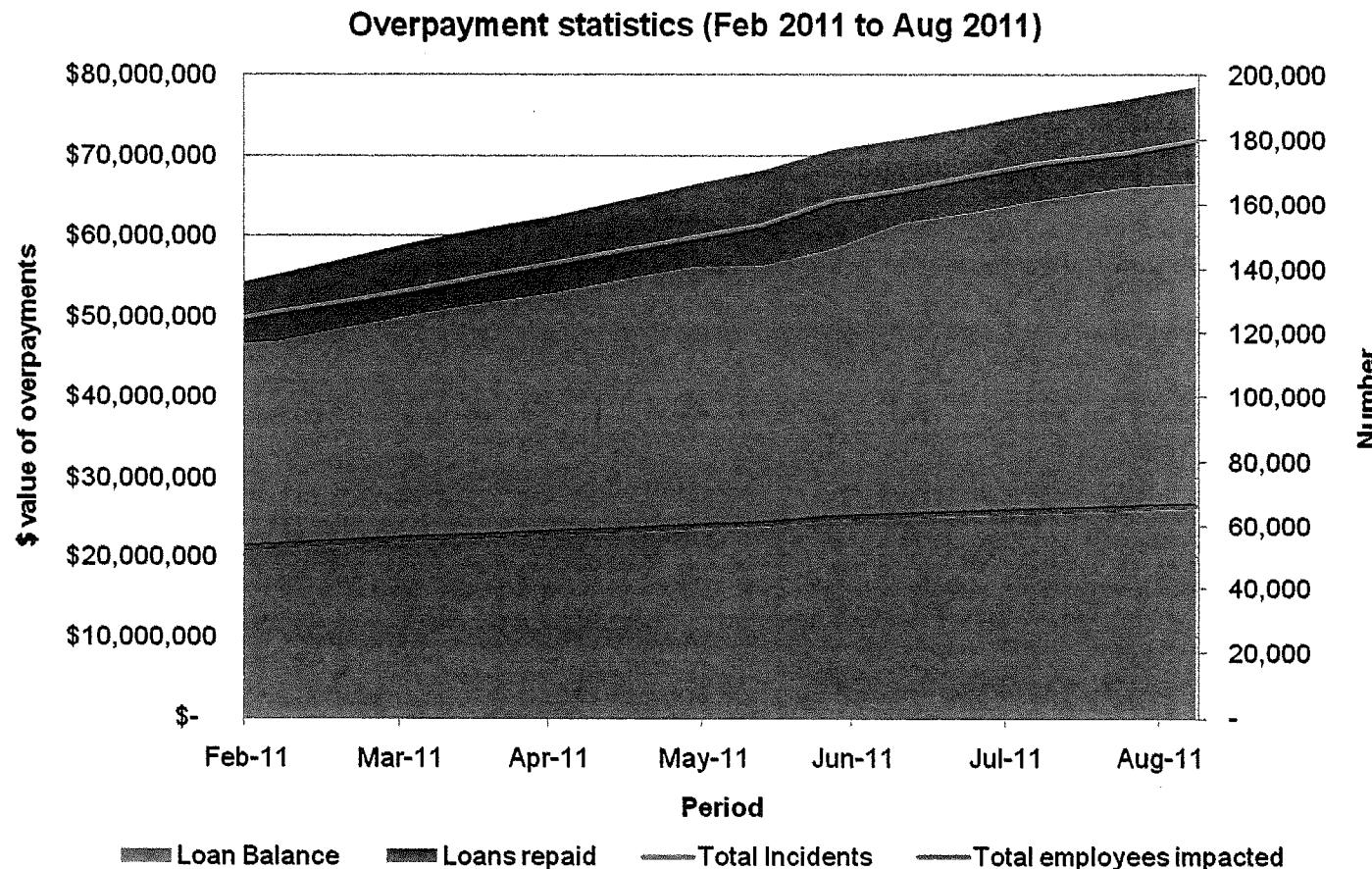
Overpayments Analysis

20 September 2011



Cabinet-in-Confidence

Salary Overpayments – Summary Statistics

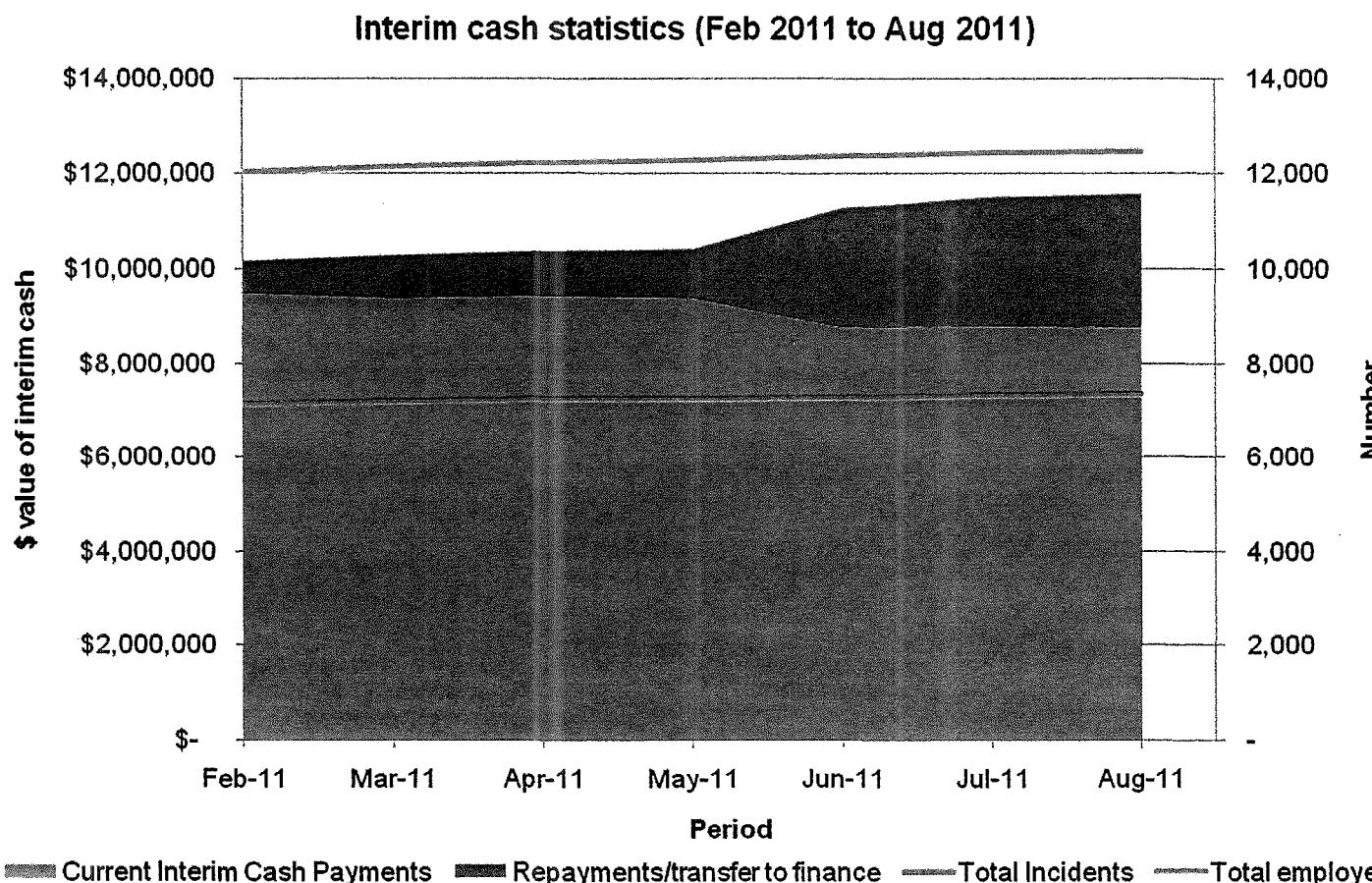


Commentary

- Overpayment loans currently amount to \$78.6 million, a total of 179,638 incidences impacting 66,069 employees.
- \$11.7 million has been recovered (and waived).
- In each pay period there are approximately 4,000 overpayment incidences amounting to \$1.8 million in overpayment loans.
- Overpayments continue to grow at a steady rate each pay period.
- Over 43,000 employees have more than 1 overpayment.

*Source: Finance report on employee overpayments and Interim cash – 20/02/2011 to 7/09/2011

Interim Cash– Summary Statistics



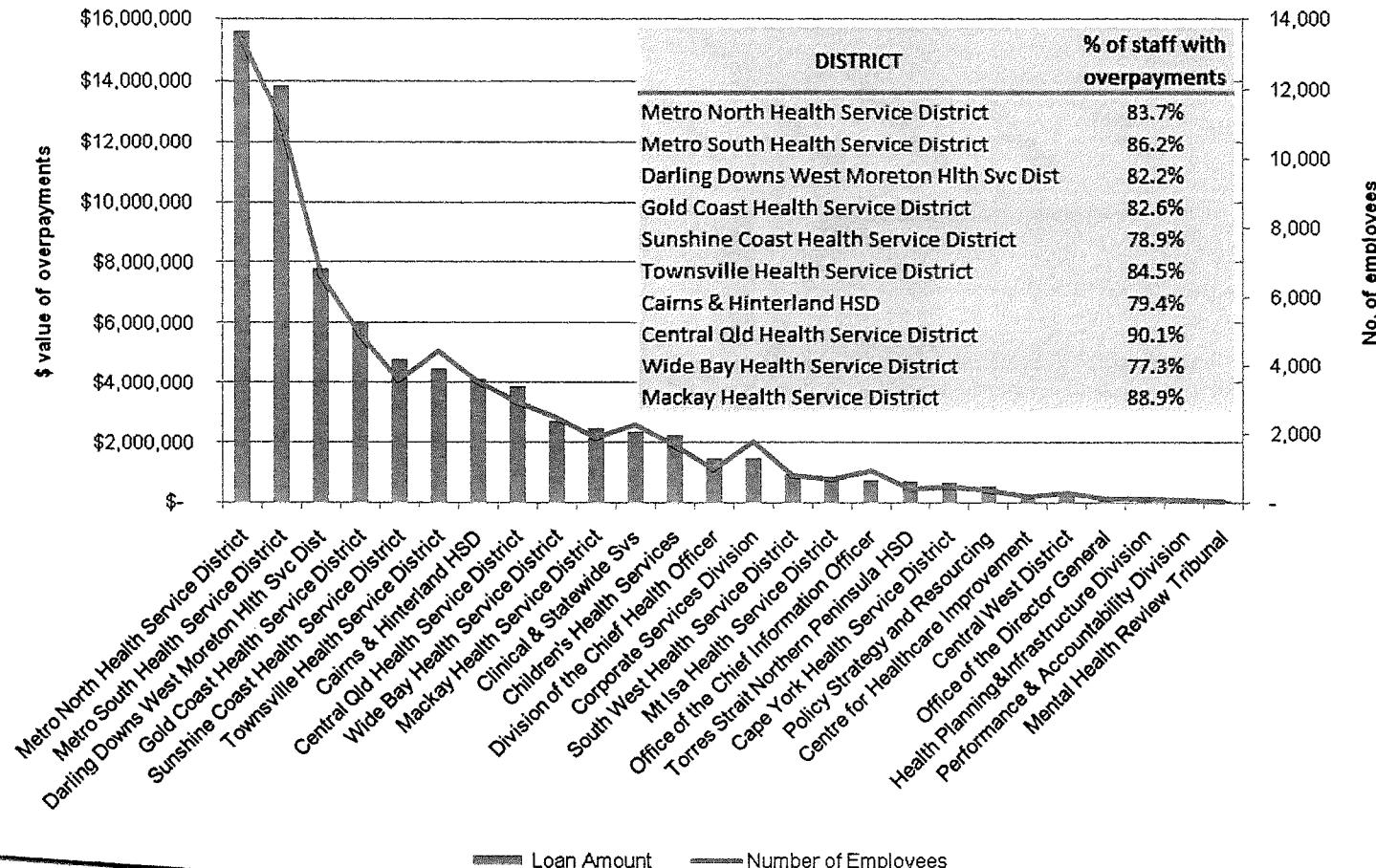
Commentary

- Interim cash loans currently amount to \$11.6 million, a total of 12,499 incidences impacting 7,337 employees.
- \$1.9 million has been recovered (or waived).
- The highest interim cash loan is \$33,473.

*Source: Finance report on employee overpayments and Interim cash – from 28/02/2011 to 31/08/2011

Overpayment – District Statistics

Value and number (employees) of overpayments by district

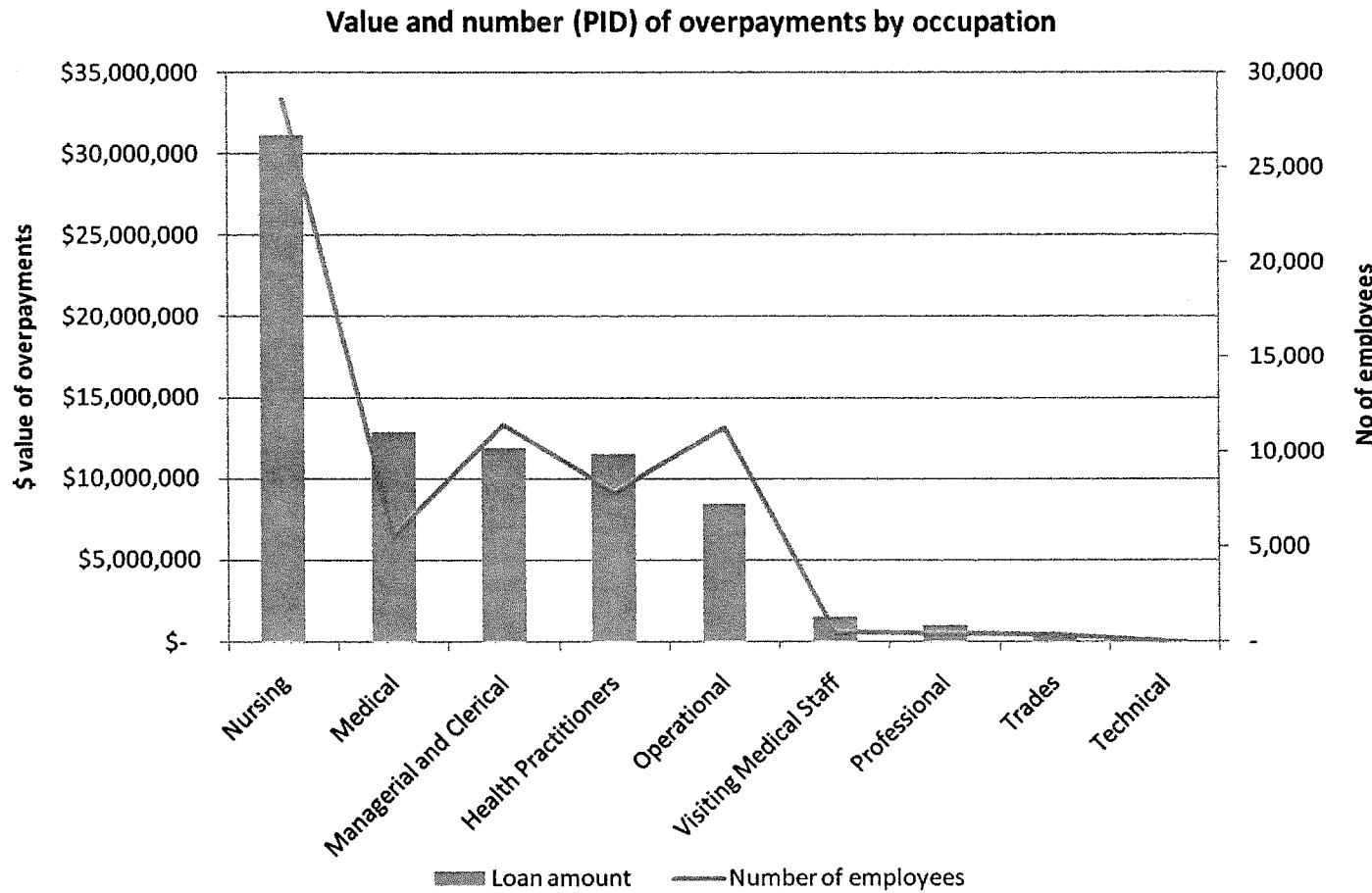


Commentary

- The largest five districts account for more than 60% of the overpayments.

*Source: Employee debt report – from 8/03/2010 to 07/09/2011

Overpayment – Occupation Statistics



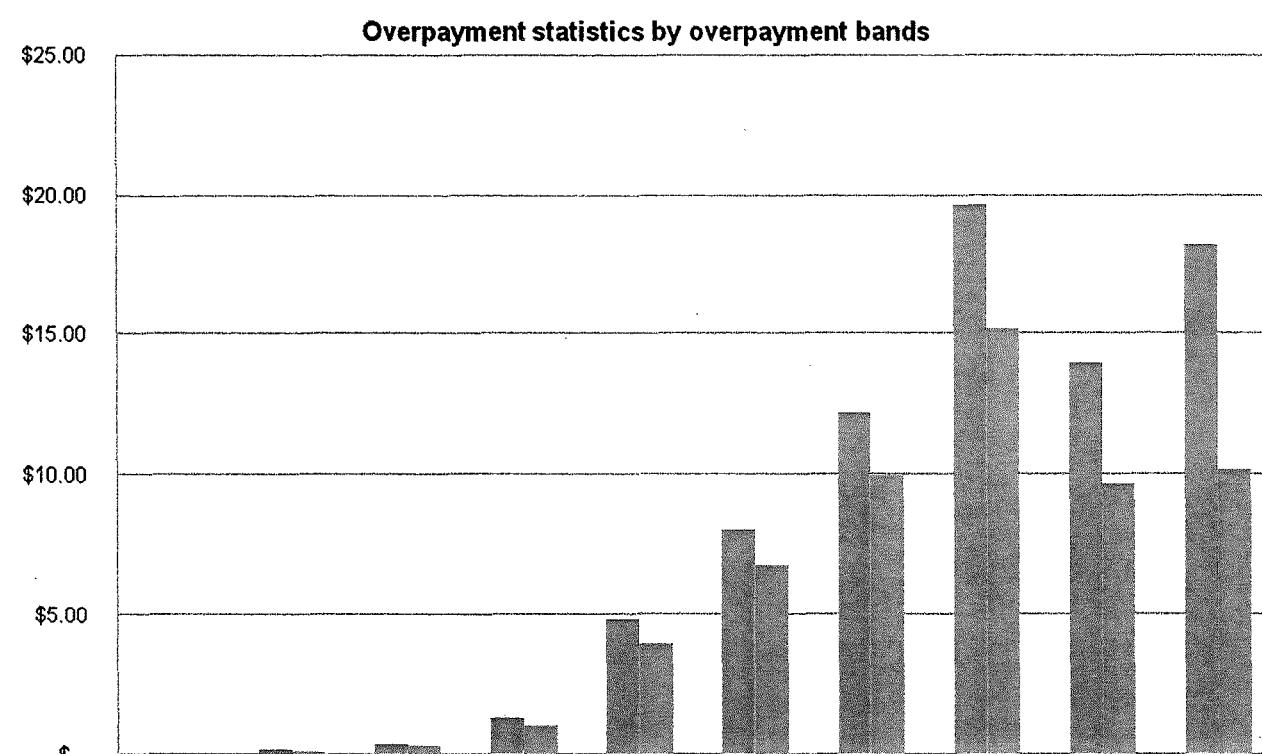
Commentary

- Nurses have the highest incidences and value of overpayments - \$31 million affecting over 28,000 employees.

*Source: Employee debt report – from 8/03/2010 to 07/09/2011

Overpayment – Banding Statistics

\$ value of overpayments (millions)



Commentary

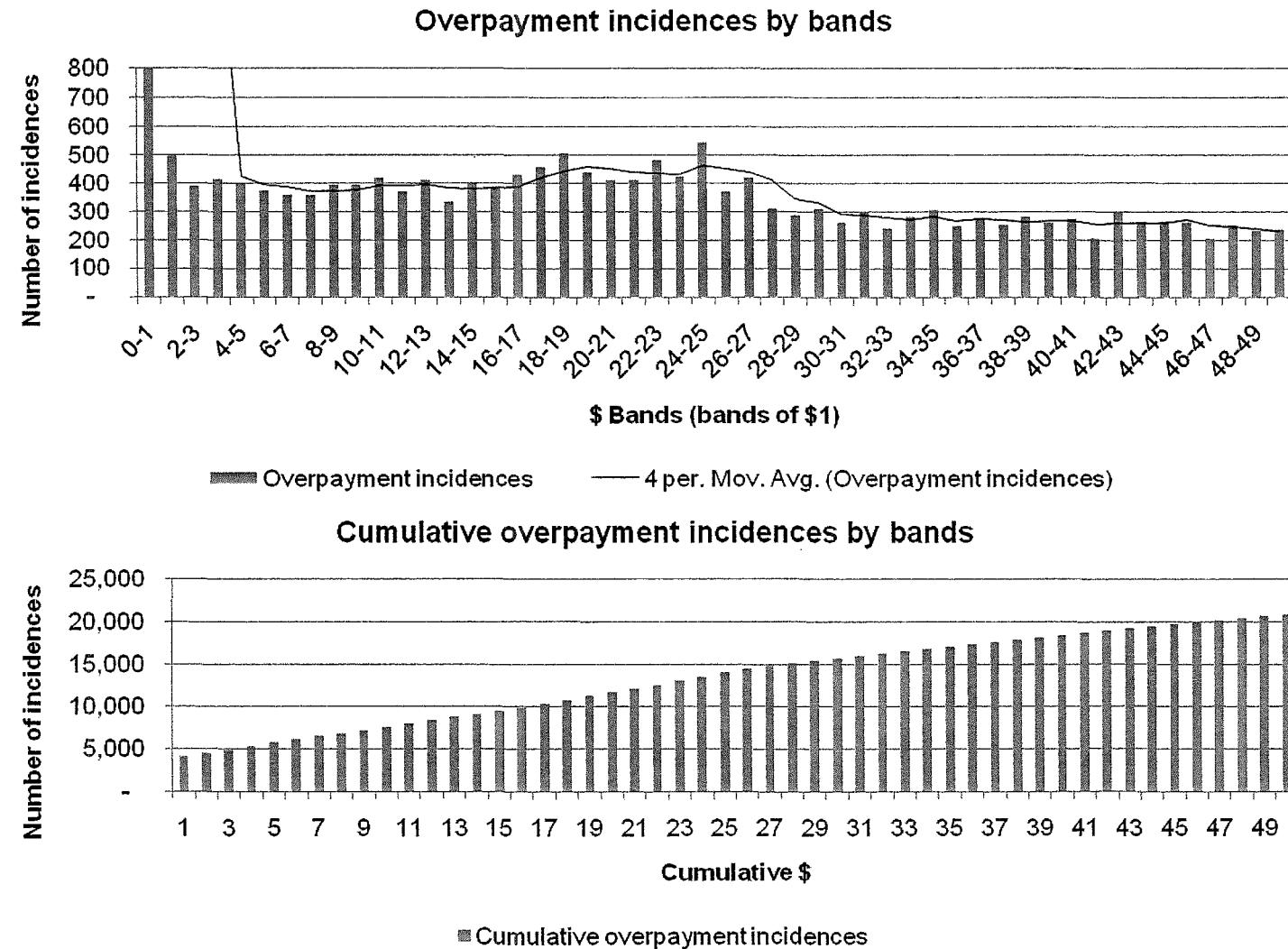
- About 27% of employees account for \$64 million of overpayments.
- Recovery rates have been better for higher value overpayments.
- If you pursued overpayments greater than \$5,000, 3,000 staff will need to be case managed but you would be able to recover over \$30 million.

*Source: Employee debt report – from 8/03/2010 to 07/09/2011

Loan Amount: The value of the overpayment loans created to date.

Loan Balance: The balance outstanding from overpayment loans after repayments and waivers

Overpayments— Rounding and Small Balances

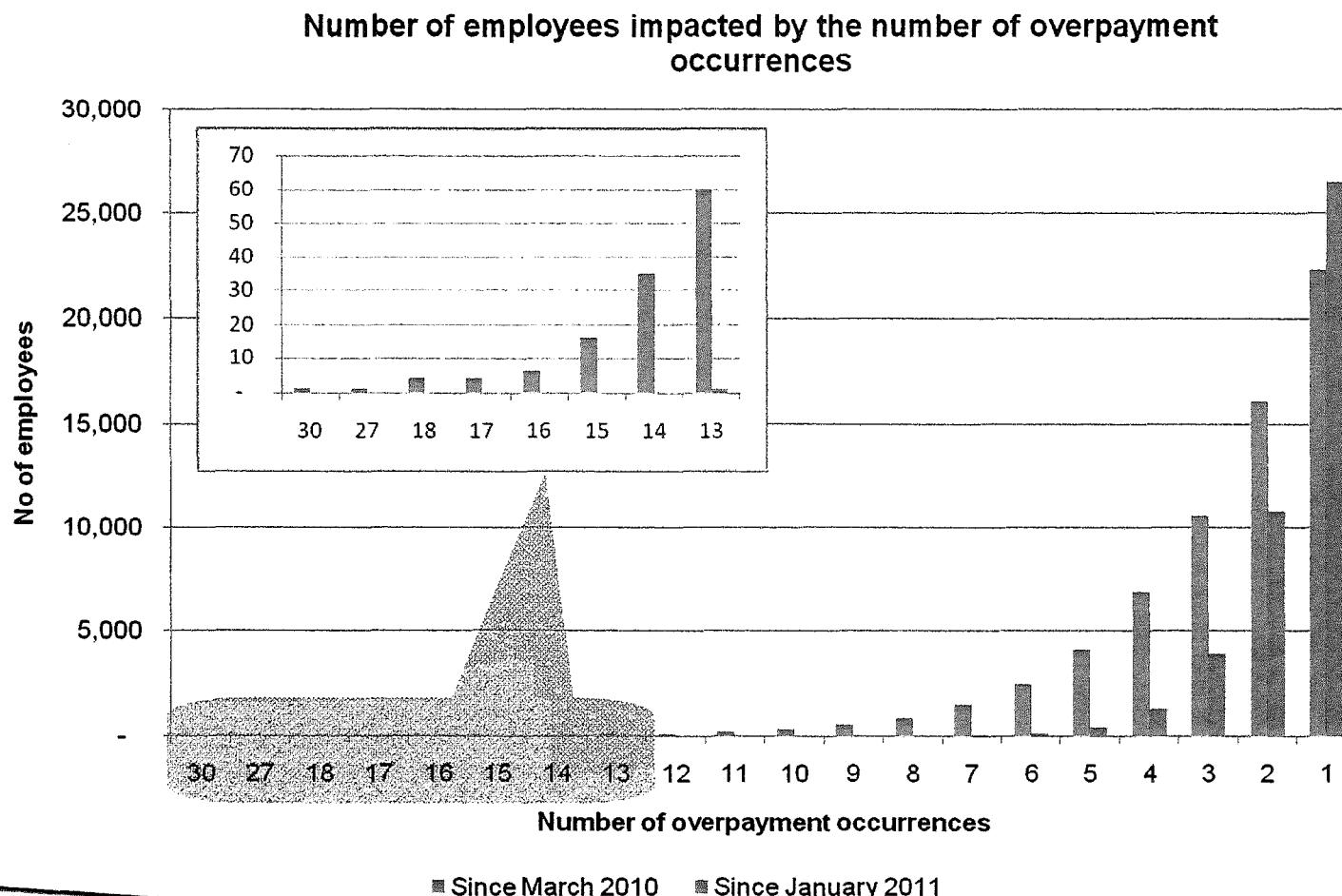


Commentary

- From January 2011 there are 4,072 overpayment incidences where the value of the overpayment loan created is less than \$1.
- The majority of the less than \$1 loans are related to rounding errors.
- Other small loans are due to the 'netting off' of positive and negative prior period adjustments.

*Source: Employee debt report – from 8/03/2010 to 07/09/2011

Recurrent Overpayment by Employees

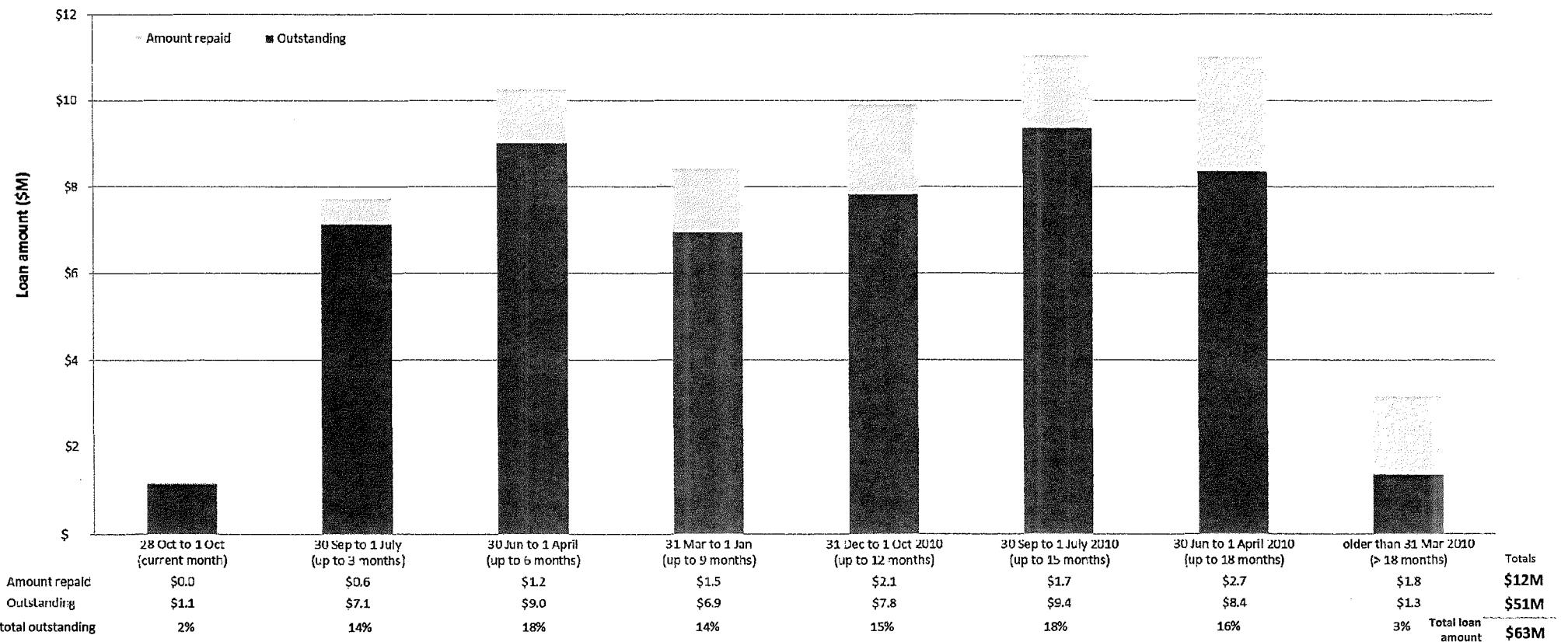


Commentary

- The vast majority (55,000) of staff have received between 1 to 4 overpayments since March 2010.
- The highest number of overpayment incidences is 30 overpayments for 1 staff member.
- Over 43,000 staff members have been overpaid at least twice.
- In this calendar year over 40,000 staff have been overpaid and 16,000 staff have been overpaid at least twice.

*Source: Employee debt report – as at 07/09/2011

Salary Overpayments Analysis



Note:

- Includes active employees only.
- Ageing as at 28 October 2011 based on employee debt report of 16 October 2011.

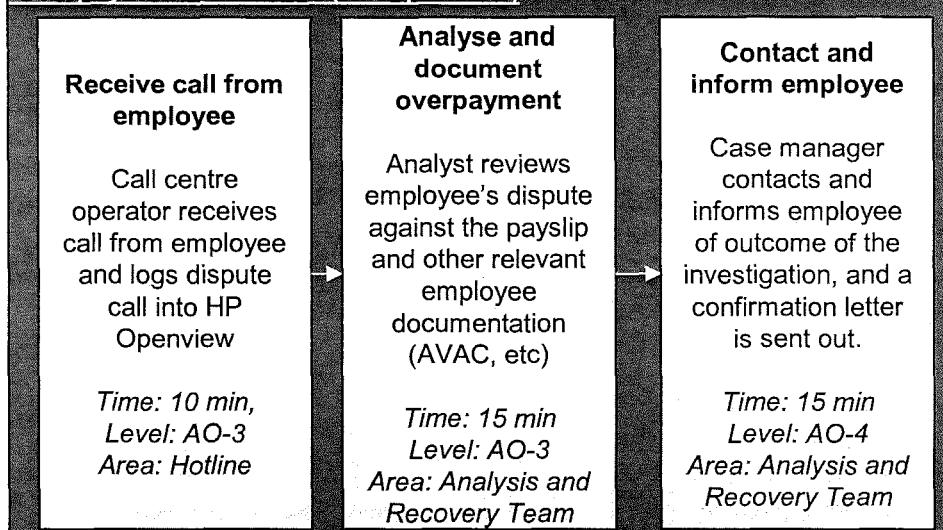
Cabinet-in-Confidence



Cost of recovery of overpayments (business as usual)

ATTACHMENT 9

Overpayments database (HP Openview)



Assumptions

- Salary cost (includes base salary, superannuation, LSL accrual, leave loading, annual leave, sick leave and payroll tax)
 - AO-3 = \$35.57 per/hr.
 - AO-4 = \$41.64 per/hr.

Cost per call

Activity	Time	Cost/hr	Total cost
Cost of call assuming overpayment correct			
Receive call from employee	10min	\$ 35.57	\$ 5.93
Analyse and document overpayment	15 min	\$ 35.57	\$ 8.89
Contact and inform employee	15 min	\$ 41.64	\$ 10.41
Cost of call assuming overpayment correct			\$ 25.23
Cost per call assuming successful dispute			
Make changes in SAP to amend overpayment	30 min	\$ 41.64	\$ 20.82
Cost per call assuming successful dispute			\$ 46.05
Weighted average cost per call			\$ 29.39

Weighted average cost per call is based on 20% of calls requiring overpayment amendments

Cost of recovery of overpayment – results of analysis (based on an average pay run)

Average cost per call: \$29.00

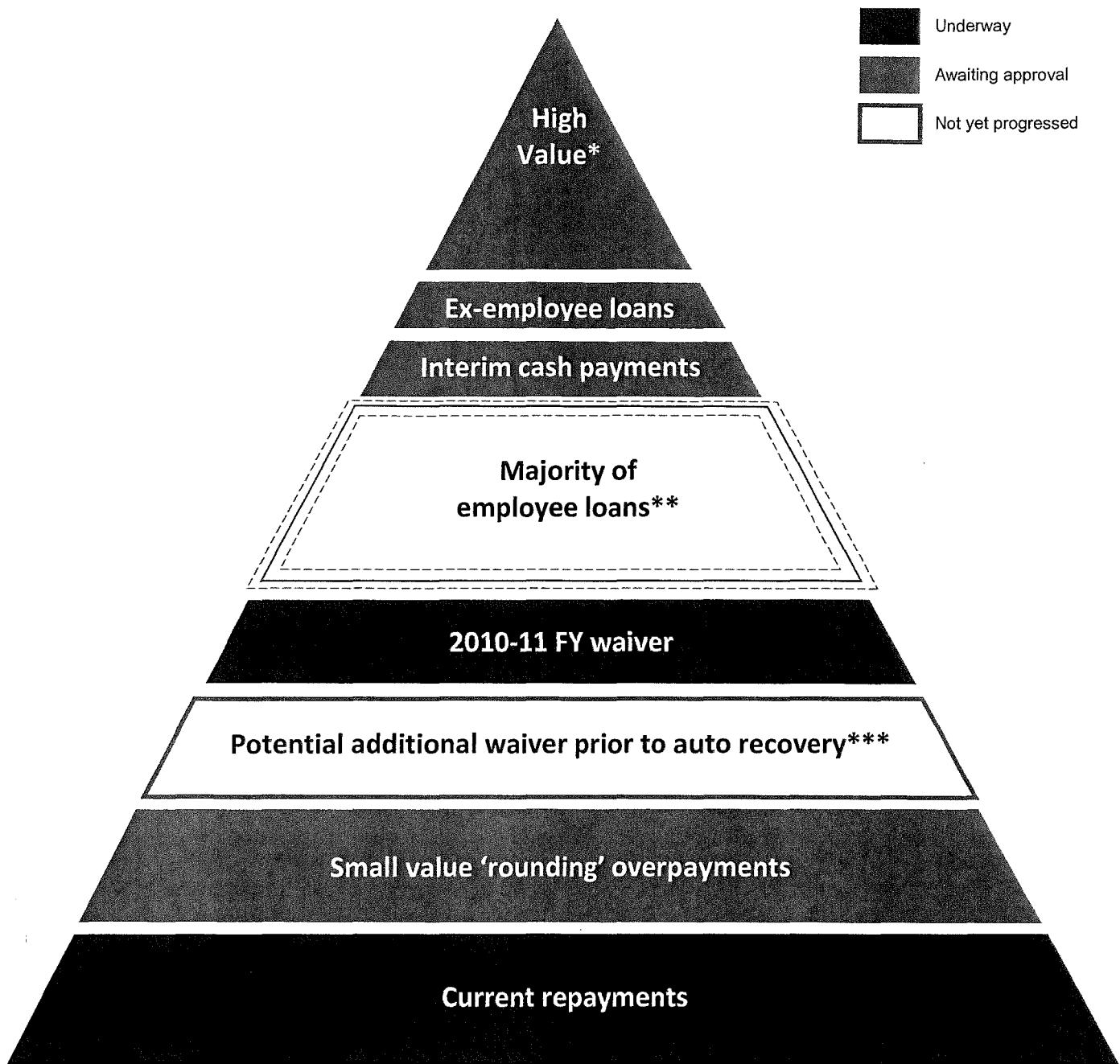
Threshold values	<\$1.00	<\$2.00	<\$3.00	<\$4.00	<\$5.00	<\$6.00	<\$7.00	<\$8.00	<\$9.00	<\$10.00	<\$15.00	<\$20.00	<\$50.00	
Average number of employees	182	229	248	269	289	307	325	342	361	380	472	574	960	
Total \$ value of loans created	\$ 16	\$ 57	\$ 111	\$ 191	\$ 290	\$ 403	\$ 531	\$ 679	\$ 864	\$ 1,071	\$ 2,401	\$ 4,565	\$ 21,399	
	5%	\$ 267	\$ 337	\$ 364	\$ 395	\$ 425	\$ 451	\$ 478	\$ 503	\$ 531	\$ 558	\$ 694	\$ 844	\$ 1,411
	10%	\$ 535	\$ 673	\$ 729	\$ 791	\$ 850	\$ 902	\$ 955	\$ 1,005	\$ 1,061	\$ 1,117	\$ 1,387	\$ 1,687	\$ 2,822
	20%	\$ 1,070	\$ 1,346	\$ 1,458	\$ 1,581	\$ 1,699	\$ 1,805	\$ 1,911	\$ 2,011	\$ 2,122	\$ 2,234	\$ 2,775	\$ 3,374	\$ 5,644
	30%	\$ 1,805	\$ 2,019	\$ 2,187	\$ 2,372	\$ 2,549	\$ 2,707	\$ 2,866	\$ 3,016	\$ 3,183	\$ 3,351	\$ 4,162	\$ 5,062	\$ 8,466
	40%	\$ 2,140	\$ 2,693	\$ 2,916	\$ 3,163	\$ 3,398	\$ 3,610	\$ 3,821	\$ 4,021	\$ 4,245	\$ 4,468	\$ 5,550	\$ 6,749	\$ 11,288
	50%	\$ 2,675	\$ 3,366	\$ 3,645	\$ 3,954	\$ 4,248	\$ 4,512	\$ 4,777	\$ 5,026	\$ 5,306	\$ 5,585	\$ 6,937	\$ 8,436	\$ 14,109
	60%	\$ 3,210	\$ 4,039	\$ 4,374	\$ 4,744	\$ 5,097	\$ 5,414	\$ 5,732	\$ 6,032	\$ 6,367	\$ 6,702	\$ 8,325	\$ 10,123	\$ 16,931
	70%	\$ 3,745	\$ 4,712	\$ 5,103	\$ 5,535	\$ 5,947	\$ 6,317	\$ 6,687	\$ 7,037	\$ 7,428	\$ 7,819	\$ 9,712	\$ 11,811	\$ 19,753
	80%	\$ 4,280	\$ 5,385	\$ 5,832	\$ 6,326	\$ 6,796	\$ 7,219	\$ 7,643	\$ 8,042	\$ 8,489	\$ 8,936	\$ 11,099	\$ 13,498	\$ 22,575
	90%	\$ 4,815	\$ 6,058	\$ 6,561	\$ 7,116	\$ 7,646	\$ 8,122	\$ 8,598	\$ 9,048	\$ 9,550	\$ 10,053	\$ 12,487	\$ 15,185	\$ 25,397
	100%	\$ 5,350	\$ 6,731	\$ 7,290	\$ 7,907	\$ 8,495	\$ 9,024	\$ 9,553	\$ 10,053	\$ 10,611	\$ 11,170	\$ 13,874	\$ 16,872	\$ 28,219

Source: Employee debt report (1 January 2011 to 7 September 2011)

Where it is more economical for the Department to manually manage disputes rather than write off overpayment loans

Average \$ value of loans created	\$ 0.09	\$ 0.25	\$ 0.45	\$ 0.71	\$ 1.00	\$ 1.31	\$ 1.63	\$ 1.98	\$ 2.39	\$ 2.82	\$ 5.09	\$ 7.95	\$ 22.29
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Overpayments Analysis



*Cumulative balance of employees who have received ≥\$10K in one overpayment

**The number and value of these loans will continue to increase until the auto recovery functionality is implemented. Once auto recovery is implemented, the number and value may increase or decrease, depending on whether the auto recovery program recovers less than or more than the number of overpayments generated each pay period (\$1.8m)

***Potential additional \$200 waiver from 1 July 2011 – 1 December 2011

Overpayments Analysis

Category	Number of employees (approx)	Total value (balance) (approx)	Avg value / employee	Brief number	Brief status in correspondence system
High value	450	\$6.7M	\$15,000	BR051608	Will provide update at mtg
Ex- employees	5,000	\$10.5M	\$2,100	BR051611	Will provide update at mtg
Interim cash	5,900	\$8.8M	\$1,500		n/a
Majority	30,000	\$30M	\$1,000		n/a
2010-11 FY waiver (2nd waiver)	22,200	\$1.7M	\$80		In progress
Potential 3rd waiver	12,000	\$1M	\$80		n/a
Rounding	7,120	\$630*	9 cents	BR051651	Will provide update at mtg
Current repayments	18,700	\$19.8M**	\$1,060	BR050920	Awaiting confirmation of approval

*Some may be eligible for the 2010-11 FY waiver

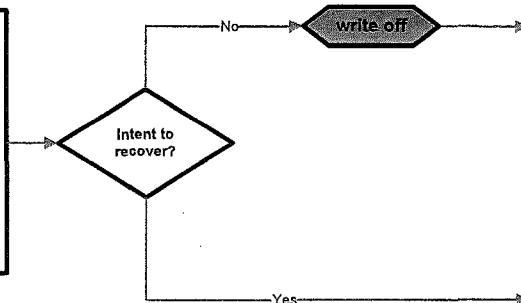
** Comprises ~\$13m from current repayment agreements, plus ~\$6.8m worth of agreements yet to be processed

***Potential additional \$200 waiver from 1 July 2011 – 1 December 2011

2009/10 & 2010/11

Total overpayments made: \$81m

- \$71m salary
- \$10m interim cash
- Overpayments treated as loans for tax purposes.
- This was based on consultation with the ATO and a commitment to:
 - A high level of confidence in the accuracy of QH data
 - A notification process advising employees that they had been overpaid and that QH would seek to recover the money
 - A genuine commitment to expeditiously recovering overpaid monies

**Tax**

- Overpayment becomes a **debt waiver fringe benefit**.
- QH liable to pay ATO debt waiver FBT: \$70m (assuming \$81m waived) + partial-year FBT: \$4m
 - QH can undertake a recovery process to recoup the FBT (\$70m) from staff (not the practice adopted under the new payroll system, as approved by CBRC to date)

RFBA (affects income tests)

- Debt waiver fringe benefit generates a higher RFBA for employees (amount x 1.87)
 - Eg employee with \$4,000 debt → RFBA on payment summary impacted by +\$7,477
- Un-recovered loans from the June 2011 notification process will accrue FBT up to date of write-off

Repayments made to date (refer notation box below)

- Refunds ~\$10.5m (net) – included in \$81m figure.
 - PAYG refund process may result in discrepancies. Potential QH superannuation liability of \$2.5m

Queensland Health
Potential cost: \$155m
Administrative impact: High

Employee
Overpayment waived
RFBA impact: Medium-high
(depending on individual circumstances)
FBT liability (if QH recoups FBT)
Refunds: PAYG and superannuation may result in discrepancies

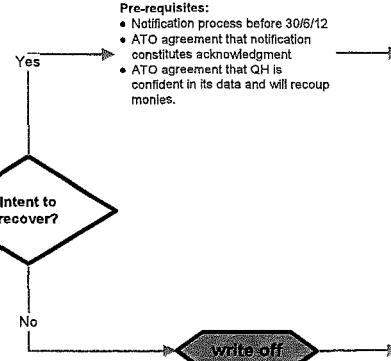
Queensland Health
Potential cost: \$5.5m (reducing recurrent)
Administrative impact: Low

Employee
Overpayment to be repaid
RFBA impact: low-medium
(depending on individual circumstances)
FBT liability (if QH recoups FBT)

2011/12

Projected overpayments: \$46m

- \$45m salary overpayments (based on accrual: 3.517m/h)
- \$1m interim cash payments

**Tax**

- Overpayment becomes a **loan fringe benefit** (following notification)
- QH liable to pay ATO loan FBT component: FBT: \$3m (reducing recurrent)
 - QH can recoup the FBT (\$3m) from staff (not the practice adopted under the new payroll system, as approved by CBRC to date)

RFBA (affects income tests) – refer notation box below

- RFBA on future payment summaries may be affected if the loan is not repaid and the notional interest (7.8%) on the loan exceeds \$300 in an FBT year (1 Apr – 31 Mar).
 - Employees need to have \$3,846 outstanding to be affected (refer notation box below)
 - Eg employee with \$4,000 debt → RFBA on payment summary impacted by +\$583

Queensland Health
Potential cost: \$3m (reducing recurrent)
Administrative impact: High

Employee
Overpayment to be repaid
RFBA impact: Low-medium
(depending on individual circumstances)
FBT liability (if QH recoups FBT)

Queensland Health
Potential cost: \$62m – \$95m
Administrative impact: Extreme

Employee
Overpayment waived
Tax Impact: Medium-high
(depending on individual circumstances)

Tax treatment: loan vs assessable income

- Trigger = formal acknowledgment of overpayment (intent to recover), upon which an overpayment transfers from being assessable income to loan.
- Assessable income attracts PAYG
- Loans attract fringe benefits tax

Minor fringe benefit exemption:

- The \$300 exemption relies on the benefit being irregular and infrequent
- If the loan was to be a long-term loan (ie not recovered / not written off), it is questionable whether the minor exemption would continue to apply

Write-off considerations

- Any overpayment write-off would need to be based on loan amount, to ensure equitable application
- Refunds would likely need to be provided to employees who had partially/fully repaid overpayments
- This rationale was applied to 2009-10 and 2010-11 debt waivers

Refunds

- Default position: cash payment (gross) – subject to PAYG
 - This may result in some employees being advantaged and others disadvantaged, due to discrepancies between the marginal tax rate applied for cash payment and the employee's actual marginal tax rate (tax return)
- QH can attempt to negotiate an alternative arrangement with the ATO to restore the overpayment as a loan (refund the repayment and then waive the loan)



Private & Confidential

Mr Richard Mathews
Executive Director, Payroll Portfolio
Queensland Health
GPO Box 48
BRISBANE QLD 4001

16 November 2011

Dear Richard

RE: Overpayments – Potential Tax Outcomes

We have reviewed the analysis prepared by Queensland Health representatives in relation to the potential tax outcomes of overpayments to employees for the 2010, 2011 and 2012 years. The relevant document is shown as Appendix A.

Subject to the following assumptions, in our view the potential costs of the scenarios outlined have been determined on a reasonable basis. The potential costs may change depending upon when any decision to write off the loans is made, the timing of repayments by employees, and the outcome of negotiations with the Australian Taxation Office (ATO).

1. Background

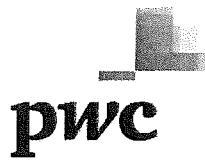
We understand Queensland Health want to be fully informed of the tax consequences of the possible scenarios arising from overpayments to employees. The analysis prepared by Queensland Health representatives sets out the possible tax implications and costs of the likely scenarios.

We have accepted the estimates provided by Queensland Health representatives of the estimated total overpayments of \$81M in respect of the 2010 and 2011 years, the projected overpayments for 2012 of \$46M, and the loan repayments made by employees to date. We have not carried out a review of these estimates.

2. Process

The process undertaken was as follows:

- The relevant overpayment scenarios were mapped by Queensland Health representatives.
- The scenarios were then costed by Queensland Health representatives with the assistance of the Queensland Health Director (Taxation), Steve Lawrie.
- Steve Lawrie (Queensland Health Director (Taxation)) and Louise Burke (Queensland Health representative) then met with Jane Madden, Tax Partner of PricewaterhouseCoopers (PwC) on 20 October 2011 to review the scenarios, assumptions and costings.



- Over the following days the scenarios were refined and reworked by Queensland Health representatives with input from Steve Lawrie, Queensland Health Director (Taxation) and Jane Madden of PwC.
- The final version of the analysis was cleared and agreed to by Steve Lawrie, Queensland Health Director (Taxation) and PwC on 21 October 2011.

3. Assumptions

3.1. General assumptions for all years

1. The FBT rate is 46.5%.
2. If loans are not written off, it is assumed the ATO continues to accept that the overpayments are loans subject to FBT and does not seek to treat the overpayments as salary. The ATO could take this alternate view if there are insufficient attempts to recover the loans from employees.
3. The interest rate applicable to employee loans from overpayments is 7.8% per annum for FBT purposes. This rate is subject to change.
4. Any recoupment of FBT from employees is ignored as it is not currently the practice of Queensland Health to seek recoupment of FBT arising from overpayments.
5. The \$300 minor fringe benefits tax exemption contained in Section 58P of the Fringe Benefits Tax Assessment Act 1986 (the 'FBT Act') applies. If the loans are outstanding for a significant length of time, this exemption may not continue to apply because the exemption relies on the benefit provided being irregular and infrequent.
6. Eligible employees are not entitled to any further FBT exemptions pursuant to Section 57A of the FBT Act. This section provides FBT exemptions to employees of public benevolent institutions, health promotion charities, certain hospitals and public ambulance services.
7. Any workers' compensation and payroll tax implications are ignored.

3.2. Assumptions for 2010 & 2011 years

1. If the \$81M overpayments for 2010 and 2011 were to be written off, this occurs in March 2012 and the FBT liability on the loans ceases at that date.
2. If loans were to be written off (a debt waiver), then employees are reimbursed for loan repayments made by them before the write-off occurs. To achieve this, employees are reimbursed for any loan repayments made and then the total loan of \$81M (including repayments of \$10.5M) is written off.
3. The ATO may not agree that Queensland Health can reimburse employee loan repayments and then write-off the total loan balance (including the repayments). If this occurs, the reimbursement of employee repayments of \$10.5M may need to be done by increasing

employees' salaries. An increase in salary will give rise to an additional superannuation liability calculated at 12% of gross salary. For the purposes of costing the \$2.5 million superannuation liability, the employee repayments of \$10.5M are grossed up for income tax at the maximum marginal income tax rate of 46.5% (including medicare levy of 1.5%). The flood levy is ignored.

4. The FBT of \$5.5M on loans arising from overpayments to employees is calculated for a full year on the total outstanding loan balance for 2010 and 2011 of \$81M, ignoring the employee repayments of \$10.5M during the year.
5. An FBT liability will arise on the balance of the loans outstanding during the year. The FBT liability will reduce if employees make repayments. The FBT liability on loans outstanding for future years is not included in the costings.

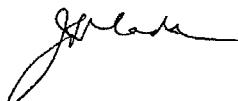
3.3. Assumptions for 2012 year

1. Projected overpayments for 2012 of \$46M have yet to be notified as loans for tax purposes. If 2012 overpayments were to be written off, this will be increased salary to the employee. Any increased salary paid to employees will be grossed up for income tax purposes. The income tax will be deducted and remitted to the ATO by Queensland Health. For the purposes of the costings, the maximum marginal income tax rate by which the overpayments are grossed up is 46.5% (including medicare levy of 1.5%) and the minimum marginal income tax rate is 16.5% (including medicare levy of 1.5%). The flood levy is ignored.
2. Repayments made to date of \$5.2M are included in the projected overpayments of \$46M and will be reimbursed to employees as increased salary grossed up for income tax as explained in 1. above.
3. The increase in salary (from 1. above) will give rise to an additional superannuation liability of 12% of the grossed up salary. The \$7M to \$10M range for the superannuation liability reflects the minimum and maximum marginal income tax rates used to gross up the increased salary.

Conclusion

Should you have any further queries in relation to this matter, please do not hesitate to contact me on 07 3257 8510 or 0412139025.

Yours sincerely



Jane Madden
Partner