LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into annual and financial reports 2019-2020 and ACT budget 2020-2021)

Members:

MR A COE (Chair)
MR M PETTERSSON (Deputy Chair)
MR A BRADDOCK

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 24 FEBRUARY 2021

Secretary to the committee:
Ms A Jongsma (Ph: 620 51253)

By authority of the Legislative Assembly for the Australian Capital Territory

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APPEARANCES

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Amended 20 May 2013

The committee met at 9.31 am.

Appearances:

Barr, Mr Andrew, Chief Minister, Treasurer, Minister for Climate Action, Minister for Economic Development and Minister for Tourism

Chief Minister, Treasury and Economic Development Directorate
Miners, Mr Stephen, Acting Under Treasurer
Vroombout, Ms Sue, Acting Deputy Under Treasurer, Economic, Budget and Industrial Relations
Salisbury, Mr Kim, Executive Group Manager, Revenue Management, Economic Budget and Industrial Relations
McAuliffe, Mr Patrick, Executive Branch Manager, Asset Liability Management, Economic and Financial, Economic Budget and Industrial Relations

THE CHAIR: Good morning and welcome to the public hearings of the Standing Committee on Public Accounts, our inquiry into the annual and financial reports and the estimates for 2020-21. The proceedings today will examine the expenditure proposals and revenue estimates in the budget outlook paper.

Please be aware that proceedings today are being recorded and transcribed by Hansard and they will be published in due course. The proceedings are also being broadcast and webstreamed live. When taking a question on notice, it would be useful if the witness could confirm clearly that the question is being taken on notice. Could you please confirm that you understand the implications of the privilege statement and that you agree with it.

Mr Barr: Yes.

THE CHAIR: On Monday you discussed the long-term strategy to get back into surplus, or to get out of debt. You mentioned cash surpluses, asset sales and inflation as being some of the contributing factors to getting back. Noting that there are a few variables beyond your control in that mix, how much of a dependence will there be on land sales in order to claw back the debt that has accrued?

Mr Barr: Land sales revenue, from memory, is certainly in the top 10 revenue sources, but in the lower half of the top 10 revenue sources for the territory. So GST, all of our own-source taxation lines, commonwealth grants for specific purposes, and national partnership payments are clearly the major revenue sources, so they would be the major contributors.

I see land sales revenue as being a contributor to funding future infrastructure, perhaps more than I would see it as a contributor to paying down any debt. There could be exceptions to that, depending on the nature of the land sale. I would perhaps distinguish that that is the expansion of residential housing from, for example, land sales associated with major project development within the City Renewal Authority area or in some of the identified urban infill sites.

That would probably be the best distinction to draw in that, in large part, the revenue from land sales for suburban land, for residential blocks, has to cover the infrastructure costs both below ground and above ground—obviously the roads, schools, parks, all of that. So it will also depend on where the development occurs as to whether there is existing infrastructure you can plug into, and that the development costs of a new estate are more or less than the revenue that is achieved.

THE CHAIR: Are you saying that the dividend from the SLA has to contribute to other expenses related to that estate?

Mr Barr: Some parts of the SLA development process are to the development costs, and then on top of that the budget has to finance new schools, health infrastructure, roads, community amenities, community facilities and the like. They are not directly hypothecated, obviously.

THE CHAIR: But things like parks, they should be covered?

Mr Barr: It would depend. If that was a community-level facility, then yes, that would be part of the estate development plan; but when you then add something else on top, which is often the case, then the revenue associated with the new suburb as a totality goes into consolidated revenue, and is then allocated out for infrastructure priorities.

What has been pretty clear over Canberra's self-governing development history is that most of the revenue from new estates is re-invested back into new estates. It is obviously appropriate and necessary to provide the level of community infrastructure for new areas, but I note as an observation on the history of self-government that that leads to some resentment in existing areas that do not see the same level of infrastructure investment because that happened in the past. Practical examples: we needed to build colleges and other facilities in Gungahlin because they were already built in Tuggeranong. You would not not build something in—

THE CHAIR: The long and the short of it is: are land sales actually delivering a surplus when you consider the development and the population growth?

Mr Barr: It depends. It depends on the price of land and then the level of—

THE CHAIR: Is growth actually helping our bottom line or not?

Mr Barr: Not always, no. No. That is a fascinating question. I have asked Treasury on numerous occasions. It is very complex to model. The assumption that it always does is not correct; it depends very much on where the development occurs. Obviously, the more remote from the rest of the city's infrastructure and the more expensive or challenging the terrain is in which to develop a new estate, the less likely it is to contribute.

THE CHAIR: Therefore, if land sales are not necessarily leading to windfalls for the territory and are therefore not necessarily contributing to surpluses, surely that means you need to run cash surpluses in the budget in order to get the ACT back into surplus and to remove the debt?

Mr Barr: Yes. In terms of the component of land sales that is suburban residential development, yes. I think the asset sales that I refer to would be in infill sites that attract a particular premium that are on top of what would be considered business as usual. The point here is that I am not expecting new suburban development to cross-subsidise the rest of the city or to be a cash cow for debt repayment. There will be some asset sales and some land sales that could contribute to that task or that, hitting the market at the right time, would also either fully or partially offset an infrastructure investment.

The best example of that, clearly, is light rail, where we have used land sales and the proceeds of those land sales to invest in the transport infrastructure. There is also a question of the initial capital injection from the sale and then also what level of economic activity that then generates in an ongoing revenue stream. I think where you are getting to is that, yes, you cannot rely on land sales exclusively to pay down debt; and that is certainly not the strategy we are pursuing.

THE CHAIR: Does the ACT have a working figure for the amount of capital required for each additional person by which the ACT grows?

Mr Barr: Again, it depends on where that growth occurs.

THE CHAIR: But you can still have an average.

Mr Barr: Sure. It depends also on the age of the person. So we have a life cycle expenditure—

THE CHAIR: I am specifically talking about as it relates to new land that is sold by the SLA, in particular in new estates. If, for instance, you know that an additional person is going to therefore have a requirement for an extra \$30,000, \$40,000 of capital outside of that estate—contribution to your schools, a contribution to an expansion of health services—surely that can be factored in and that can, in a way, give a fairer picture of what the SLA dividend really is or what the growth dividend is?

Mr Barr: There are a number of issues there. It is very difficult to get an average person; you can certainly track it by particular age cohorts. For example, territory government expenditure peaks for those at school age, so five to 18, and then as people get older and they consume more health services. The type of resident who consumes the least amount of territory services is someone over 18 but in the younger cohort, which is the single largest demographic in the ACT, and so it is through the life cycle. You would need to then determine who is moving into particular estates.

The other question, of course, is what existing infrastructure is there versus what needs to be augmented. So that is why you could say that, at a macro level—

THE CHAIR: Yes, but that is why you can still have averages, though.

Mr Barr: Sure, but averages are useless in this context. At a macro level that is why we have shifted to 70 per cent infill because clearly that leverages off our existing infrastructure.

THE CHAIR: That is right. That figure, surely you have got either actuarial advice or economic advice that indicates what are the more sustainable growth paths for the budget?

Mr Barr: Sure. Then the other question that we need to factor in is the level of population density within a new estate, so how many people per square kilometre.

THE CHAIR: Yes, and that is what actuaries do.

Mr Barr: Yes. So we have a range of different datasets, but there is not a single average for the ACT and that will depend on where the development occurs. What I can say with absolutely certainty is that the more expensive and more remote the new area of development is, then the higher the infrastructure costs will be and the more expensive it will be to provide services. The closer into the existing footprint and existing services, the lower the marginal cost of that additional resident will be. That is very clear.

THE CHAIR: Marginal cost?

Mr Barr: Yes. So it is really along a spectrum, and then it is also a fact that the age and employment status of the new resident—depending on who they are and where they live and what services they consume and needs they have—will determine that. So there is no point doing averages, but it is insightful to guide decision-making, both land-use planning and service provision planning.

THE CHAIR: So the long and the short of it is that asset sales are not going to be the driving force for paying down debt?

Mr Barr: No, not the largest one, but they can contribute.

THE CHAIR: So cash surpluses is really where it is at?

Mr Barr: In large part, yes, and, obviously, the inflationary impact over the time value of money.

THE CHAIR: If we are looking at cash surpluses, what is the time line?

Mr Barr: It is outlined in the budget papers. We return to operating cash surpluses in the next fiscal year. We may even do it in this fiscal year based upon improved revenue. Then those operating cash surpluses increase over the forward period.

THE CHAIR: In the consolidated financials?

Mr Barr: Yes. As an indicator of the government's fiscal policy stance, we are not likely to return to a headline net operating balance service ahead of the commonwealth. The commonwealth, I think, have marked out a journey over the rest of this decade. It obviously will depend a bit on their revenue recovery; they will update that in their May budget and they may bring forward their anticipated return to balance and then to surplus. But it is a long journey back for them and given that they contribute about 55 per cent of our budget, what they do obviously has a very big impact on what happens for the territory. I add that announcements like this morning of $132.5 million towards the light rail extension, help.

Mr Miners: On page 49 the net operating cash is set out. You can see in table 3.1.4 at the time of the EOFYU we expected to return to surpluses in net cash by 2022-23 as at the budget has come forward to 2021-22.

THE CHAIR: In the GGS?

Mr Miners: This is net operating cash. In the GGS, yes.

THE CHAIR: Whereas, of course, the consolidated accounts naturally are quite different, and surely that is the bottom line that will have the biggest impact on debt?

Mr Miners: The bits that are not in the GGS are set-up as entities that are intended to run and operate on a commercial or semi-commercial basis. They will have boards and are run in a way that will make investment decisions to reach that.

THE CHAIR: True, but that includes ACTION Buses or Housing ACT, does it not?

Mr Miners: Yes, but the cost of running ACTION Buses is funded through the budget, so there is actually a budget number already in the bottom line.

THE CHAIR: Surely it is the consolidated account that gives it the actual impact for the net financial liabilities?

Mr Miners: If we focus on GGS as the bit the government is directly controlling, the PTs are set-up to run on that basis, so the government gives them the capacity to do that and make investment decisions on that basis.

THE CHAIR: But the territory is still on the hook for them, though?

Mr Miners: It is, and it is normally through community service obligations or other payments that are being made. They are actually factored into the budget already.

THE CHAIR: Yes, but they are limited by guarantee and the guarantee is issued by the ACT government?

Mr Miners: I am not sure that you would build a guarantee into your cash position, though.

THE CHAIR: But if you look at the debt of Icon Water, for instance, which comes into the consolidated—

Mr Barr: Yes, but it is not inconsistent with every other utility in the country, and they are benchmarked against that. So the idea that they would have no debt is extraordinary.

THE CHAIR: Of course, and they are going to have assets as well; but there still has to be consideration for that when we are having a discussion about whether it is an accounting surplus or whether it is a surplus that is actually paying down net debt.

Mr Miners: All jurisdictions operate on a GGS basis when they are producing their budget bottom lines, and it is done for a reason because BDEs have a different operating environment. It is not uncommon or inconsistent.

Mr Barr: It is a bit unrealistic to set a different benchmark for us than for every other government operating in the Western world.

THE CHAIR: We could have a discussion about the EBF and whether we are fully complying with that, but anyway.

MR PETTERSSON: The ACT economy has performed well in the middle of a global pandemic. Could you tell the committee about some of the more dire economic predictions regarding the pandemic?

Mr Barr: Certainly when we put together our August economic update and the Under Treasurer, as per the pre-election budget update requirements, provided the PBU, there was a great degree of uncertainty. The commonwealth budget in October then provided a nationwide view on both expected conditions within the Australian economy and then what might happen globally.

It would be fair to surmise that the ACT has done better within Australia than we were expecting; Australia has done better than the commonwealth were expecting; and the world has done slightly worse as a result of the public health crisis getting worse in Europe, the US and parts of Asia. That has had a pretty dramatic impact on world growth—the International Monetary Fund and others have been downgrading their expectations on global growth; but Australia and the ACT are faring better, and that is clearly reflected in our update in this budget.

The next set of economic data that will be closely pored over will be the national accounts figures for the final quarter of 2020 and then into the first quarter of 2021. We are also closely following the labour market—hours worked, total employment levels, unemployment levels and then the longer-term trends.

Because the ABS data sample sizes for ACT, Tasmania and the Northern Territory are so small, there is constant back-casting revision of our data. So we really want to look at this at more on a quarterly, half-yearly and annualised dataset. The ABS and the ATO have been able to provide some further or contemporary data in relation to the single-touch payroll system, for example, that is providing us with an additional set of information on the labour market.

In essence, we lost more than 10,000 jobs out of the 240,000 that we had going into the pandemic. Most of those have come back largely because the job losses were related to public health restrictions rather than an underlying economic issue. So with the easing of restrictions and the management of the pandemic, those jobs have flowed back but not necessarily into exactly the same sectors that were there before. There has been some shift in employment within the territory and we will continue to monitor that.

I am expecting the next phase to be a much smaller number of industry sectors still impacted by other health directions, principally at a national level. That is largely international border controls and quarantine requirements that still obviously severely limit international travel, which impacts on two very big industries for the ACT—international education and national tourism.

MR PETTERSSON: What were some of the specific predictions that you—

Mr Barr: We were expecting our economy to shrink, instead we managed, with a couple of other states—WA and I think the Northern Territory—to still record economic growth in the calendar year 2020, which makes us pretty remarkable in the world in that context. It is very clear that there is an absolute correlation between managing the pandemic and economic outcomes, and you see that demonstrated within Australia in that the parts of the country that had more severe outbreaks had a more severe economic downturn, and you see that replicated globally in the UK, where they just completely lost control of it and their economy shrunk by 25 to 30 per cent. Ours grew by two per cent. That is a massive contrast and it is all about pandemic management; that is very clear.

That said, what you will then expect is that there will be a very sharp rebound in those economies that had a massive slump. We are still going to have a bit of a rebound because our growth dipped from what it was previously, but it will not be as pronounced as the economies that went into deep depression. They will bounce back but we did not go into deep depression and so our bounce back will not be as large.

Mr Miners: Having been involved in economic and budget forecasting for the best part of three decades, this is certainly the toughest time in forecasting that I have seen in that time. One of the key things to note is that at the time when this first hit, I was giving a number of speeches, and by the time I would finish a speech on what I thought was going to happen it would be out of date because things were just moving that quickly through the process.

One of the things that has happened in particular is that at the time of EOFYU when the crisis was first hitting, we were very cognisant of what the downside could potentially be and very worried about what that downside could be. At the time of both EOFYU and the PBU, we produced bands on what we thought might be a range, and those bands had upside and downside ranges in them. We are now operating slightly above the upside from what we saw at the time of EOFYU. So, for example, if I look at GSP, the upside forecast for 2019-20 was tracking at about 1.5 per cent for 19-20 on the upside. The actual outcome was 2.4 per cent. So we are certainly tracking on that upside.

As Treasury became more familiar and looked at what the impacts were going to be, we have been surprised on the upside at just how well the ACT economy has weathered it. I think that a lot of that came from, as the Treasurer said, some very positive responses from governments around the country, both in terms of the health response but also an economic response to support the economy. We saw confidence bounce back very quickly right across the country, and the ACT as well, in response to those initiatives. I think those are the factors that have pushed us towards that upside scenario.

MR BRADDOCK: I am interested in learning more about the territory's decision-making process surrounding when the government is offering infrastructure spending on a match-match basis. For example, we have had, this morning, the light rail but there have also been other instances like John Gorton Drive, Parkes Avenue and so forth. Does the territory decision-making happen before the federal government has committed or afterwards?

Mr Barr: It can vary. In the case of light rail, we obviously had committed to the project and it was a multi-year advocacy approach from us to get the commonwealth to contribute. Light rail stage 1 is another example where we committed and then found a way utilising a commonwealth program—the asset recycling initiative—to get a commonwealth contribution.

In other instances, because the commonwealth own the asset but there is a benefit to the territory, they will seek to partner with us but they would be the lead agency. An example is Parkes Way within the parliamentary triangle, so between the two bridges but obviously on the edge of our CBD. That is both a bit of a traffic bottleneck but a commonwealth-owned asset and its alignment is rather important to a future infrastructure project in the CBD. That is one where we have talked to them and highlighted the issue but said, "This is your asset," so in their budget they came forward with some funding. They pointed out to us that we would be a beneficiary in that if the road was somewhat realigned and shifted, it would free up some land for us, so they asked, "Can you partner with us," and we said yes.

In other instances, the commonwealth will put up a particular project that we may not be inclined to support and we may not do it. They tend to not get that much publicity unless the commonwealth wishes to make a political point out of our decision not to partner with them; but there is collaboration, particularly in the transport and infrastructure areas, where they will talk to our directorate. We will put forward a list of projects through the Infrastructure Australia process.

I can make the general observation that it has been harder but not impossible—because we have done it—to get commonwealth co-investment in public transport than it has been in road projects; but I have secured from the Tony Abbott government and the Scott Morrison government $200 million of commonwealth funding towards light rail. That does not happen by accident—a lot of persistence and putting the projects through the commonwealth process of assessment. It has been a journey on light rail.

MR BRADDOCK: I congratulate you on those, but I am more interested in those projects where the commonwealth of an ideological bent may be announcing in public a project like a road expansion duplication, which then creates commitment or an expectation of the ACT to match funding.

Mr Barr: I guess that that argument has been had around Monaro Highway, and there are a number of issues to unpack in that context. Given what is happening on the New South Wales side of the border and the obvious flow into that road, I do not think that there was a choice other than to augment it. The reality at the macro level is that that is not a sustainable long-term policy response—to just keep on widening roads. That often shifts congestion somewhere else and can induce further demand onto the transport network. We also have to counterbalance that with a reality of an increasing population.

So if you took either argument to its logical extreme, you would either build no roads ever—which I do not think is feasible—or you just keep on widening every road and ultimately Canberra looks a lot like Los Angeles. Either is valid. We try and find a point that is a reasonable level of infrastructure and then you also have to contemplate infrastructure utilisation. A common challenge in Canberra is that in our peak 90 minutes morning and afternoon there is a bit of congestion pressure on road infrastructure, but the rest of the time you often can be the only vehicle on a road at certain points.

I observe that there certainly is a policy shift and there is an investment shift as the city has grown away from let's just add another lane as the approach to addressing increased population, demands on infrastructure, and the smarter utilisation of that infrastructure. I have discerned that trend in the 15 years that I have been in this building and involved in budgeting—there is certainly more money being invested in public transport infrastructure and walking and cycling infrastructure.

We also have to recognise that at this point in time the majority of people utilise private vehicles for transportation. It still remains for most the most convenient and effective way to move around the city. The challenge from a zero net emissions perspective is how we transition private vehicles from being a large contributor to our emissions to a much smaller contributor to emissions. We obviously have policies and programs underway, and we are seeing a global market shift towards zero emission vehicles, so I can see the glide path on that.

The question is—and this goes back to where our discussion started this morning—around where new population will be accommodated. We have a definite shift in terms of utilising existing infrastructure and seeing transit-oriented development, both commercial and residential, focused on our major transport corridors that are well serviced by public transport. As you project ahead over the coming decades as Canberra's population continues to grow, I think that the mode shift is inbuilt in the planning framework.

I neglected to mention walking infrastructure. That is another really significant opportunity for Canberra in that we have a polycentric distribution of employment, unlike most Australian cities. We have a couple of centres, obviously, that have a larger than their current population share of the employment distribution. That is why the City Renewal Authority has been tasked with increasing the residential population in the CBD. Because there are a lot of jobs in the CBD. The more people who live in the CBD, the more people can walk to work and not need to commute.

MR BRADDOCK: My question is, if the federal government has a different ideological approach to what mode of transport is required versus what the territory has, you have the federal government pulling the territory out of alignment from where it wants to go.

Mr Barr: Sure. That risk plays out for all states and territories; but it is not that the commonwealth have not invested in public transport projects. Have they had in the past a preference for road? Yes. Is it shifting? I think it is, and today is another example. That is not the only rail project the commonwealth have jointly funded with a state or territory government. They have been partnering with the Queensland government on the Gold Coast light rail expansion and Brisbane's cross city rail. There is any number of projects.

If I were to make a general statement, state and territory governments have been doing more investment in this area for longer than the commonwealth. Again, on a day when the Deputy Prime Minister has enthusiastically talked about the benefits of light rail and better cycling and walking transport infrastructure that is associated with the project for Canberra, let's celebrate that.

THE CHAIR: I refer to page 16 of the Pegasus report, the review of the ACT budget. A chart plots the previous forecast with regard to the return to surplus, and you can see a bit of a trend there. Treasurer, you mentioned the likely return to surplus that we have coming over the coming period. In light of the last 10 years or so, how confident can we be about this particular forecast? If this is such a difficult period to forecast, as Mr Miners just said, if it could not be achieved in the previous eight or nine years, what hope do we have of having an accurate forecast this time around?

Mr Barr: You are right—it is a very uncertain economic environment, although there are certainly some things that are looking more positive. As Mr Miners indicated, as it has traditionally been, Treasury has been very conversative in its estimates and its forecasting.

THE CHAIR: Does the past not show a fair bit of ambition and optimism rather than conservatism?

Mr Barr: Well, no. I am looking at page 273 of the BP 3, in terms of the history over the last 15 years or so. Two major shocks have contributed to the two largest deficits you see in appendix F on page 273. In 2014-15 it was Mr Fluffy, which I presume—touch wood—is a once-in-a-lifetime issue. As you then see from a deficit of $479 million in 2014-15, we tracked our way back into surplus in 2017-18 and 2018-19. We then obviously got hit with COVID and you see the deficit figure for 2019-20 and what we are projecting for 2020-21, with an improving position over the forwards.

That is a conservative outlook based upon a degree of caution and a view that we may not necessarily see the GST revenue return to where it would otherwise have been. I think that there is a couple of hundred million dollars a year difference in terms of the pre-COVID forecasts to what we have now. The history tends to be that, all things being equal, forecasts at budget time ahead of a fiscal year have slightly overestimated how much the territory will spend both in capital and recurrent.

THE CHAIR: Particularly capital.

Mr Barr: Yes, particularly capital. The territory has somewhat underestimated commonwealth decisions in the period from their budget in May to the end of the fiscal year, where there has traditionally been a rushing out the door or an advance of payments to the states and territories.

THE CHAIR: Aren't they all upside risks?

Mr Barr: Yes, some of them are. That is right.

THE CHAIR: How does that describe the previous eight or nine years?

Mr Barr: It demonstrates that if you go back and look at forecasts and then actuals—we have achieved this before—coming from $500 million down to an $81 million surplus within the space of a forward estimates period. It has been done before in the last five years, so my view is, yes, there is more on the upside.

THE CHAIR: But if you look at that table—

Mr Barr: The Pegasus one? I am not interested in what Pegasus has to say. I am talking—

THE CHAIR: Is that table accurate or not?

Mr Barr: I have not checked the veracity of every data point in terms of Pegasus's table. But I am interested in actuals and I am looking at the actual outcomes at appendix F of BP 3.

THE CHAIR: Yes, but these are actual. We are talking about forecasts. That is why this particular table is the basis of my question.

Mr Barr: My point is, I have not verified whether Pegasus in that table has accurately reflected every forward estimates forecast.

THE CHAIR: So do any of those lines stand out as being incorrect to you?

Mr Barr: I do not know; I have not looked at it. But I am happy to go away and verify every single data point.

THE CHAIR: This is an inquiry, in part, into this document.

Mr Barr: Yes, but I did not author this, and I do not necessarily agree with everything in it.

THE CHAIR: No, I understand. But we are charged—

Mr Barr: I am going to what we have authored.

THE CHAIR: As a committee we are charged with also inquiring into this.

Mr Barr: I appreciate that, yes.

THE CHAIR: So I think it is reasonable that you should be able to and be prepared to answer questions on this.

Mr Barr: I am happy to answer questions, but I cannot verify someone else's report. If I can verify it and I disagree with it, I can tell you why; but I have not personally gone back and checked through the last 10 years of budget papers to see whether this table accurately reflects Treasury forecasts for that time.

THE CHAIR: Okay. On that basis, how do we even conduct today's hearing if we are not allowed to refer to this because you are—

Mr Barr: No, I am not saying that you are not allowed to. I am just saying that I have not personally verified it. You asked me a question, "Is that table right?" I do not know. I have not checked.

THE CHAIR: In that case, based on what is in this report and based on figure 11 on page 16, what factors have changed or what changes in the methodology for forecasting has taken place that will give the public more confidence in the forecasting in this year's budget compared to the forecasting in previous years' budgets?

Mr Barr: I do not know that they have changed any methodology. It is forecasting; it is estimates. It is not an exact science.

Mr Miners: One of the things with forecasts, as the Chief Minister pointed out, is that they are based on information you have at the time and situations change. For example, one of the drivers of changes in budget outcomes versus forecasts was, as the Chief Minister said, Mr Fluffy. That changed the circumstances and changed the estimates. That will give rise to pushing deficits or increasing deficits. The same with COVID—COVID was not built into our forecasts. When those shocks happen then things will change.

That is why there is an annual budget process; and through that process we will look at the circumstances at the time and provide the best advice that we can, using methodologies. We will change methodologies where we think that is appropriate. For example, in our economic forecasts for EOFYU we had a slight change in methodology. Previously we would build a lot of these things up from the bottom; in EOFYU we looked at a lot of the top-down forecasts for the country as a whole coming out of Reserve Bank and the commonwealth Treasury and leveraged off their forecast to realign our position.

We will change things, but it will always be based on the best information we have at the time. The one thing about forecasts is that I can guarantee you the world will be different in four years and the number will be different, but I cannot tell you exactly how it will be different because I do not have that information at this time.

THE CHAIR: So there are no changes in the forecasting methodology for this year compared to previous years. Obviously there are different conditions, but the actual forecasting methodology is the same?

Mr Miners: Different information is being taken into account.

Mr Barr: I go to page 273, appendix F—that is the actual outcome. So to answer your question—

THE CHAIR: But we are talking about forecasting.

Mr Barr: Yes, but the essential question you asked me was how do you get from a big deficit back into surplus, and I am showing you in the actuals from 2014-15 to 2017-18 and 2018-19 that I have done it before as Treasurer and we can do it again.

THE CHAIR: Mr Pettersson.

MR PETTERSSON: Thank you. I always feel bad going to it: the Pegasus report—

Mr Barr: Yes.

MR PETTERSSON: is sceptical on claims that the ACT government provided stimulus throughout the COVID pandemic. I was wondering whether you have any evidence to the contrary.

Mr Barr: That is an opinion. There is no actual basis for it. I am not sure that it is going to be particularly productive to be debating Pegasus's opinions. If the view was that we had done nothing, then we would not have forgone hundreds of millions of dollars of revenue and spent hundreds of millions of dollars on both public health and economic support. The impacts of those decisions are there in the territory's bottom line.

I guess what I found was, perhaps, less informed was their view that our share of state final demand was the basis on which they made that assertion. I do not think that that is the best metric with which to be making an assessment. If their preference was that we had not forgone hundreds of millions of dollars of revenue and we had not sought to provide extra expenditure and that none of that counts then fine, they are welcome to that view, but I just disagree.

MR PETTERSSON: What measures could you use to more accurately measure the ACT government's impact?

Mr Barr: We can put a dollar figure on revenue forgone and expenditure undertaken. There are a range of other things that are not necessarily directly financial, in a budget sense, that went to regulatory reform or provision of special circumstances to enable businesses to adapt to the pandemic trading conditions. That would be another example, together with our share of national partnership funding.

I note in the report that they have an interesting academic discussion about whether it is national governments or sub-national governments who should be leading economic responses to shocks. That is, for what it is worth, a useful discussion. Clearly, the commonwealth has more policy levers and a budget that is a hundred times larger than ours with which to deploy, as well as constitutional responsibility in certain areas that are beyond our remit.

If Pegasus's argument was that we should have provided a wage subsidy scheme or we should have increased unemployment benefit or we should have eased income taxing, these are all things that sit with the commonwealth. There was a recurring theme through their report around vertical fiscal imbalance. There is vertical fiscal imbalance in this country. When every state and territory government, as they were then, gave up income taxing powers to the commonwealth around the time of the Second World War, it cemented vertical fiscal imbalance as a feature of our Federation. It is what it is.

Did Malcolm Turnbull float an idea of states and territories having income taxing powers? That lasted a week. Is it frustrating that there is VFI? Yes. Would it be better if there was a greater alignment of where expenditure occurred with where tax revenue was collected? Yes, that would probably be preferable in an ideal world. But it is pretty hard to see the commonwealth giving up income taxing or company taxing powers at this point or handing other revenue streams—for example, excise taxes—to the states and territories.

We have the model that we have, and we have got to operate within that. All the commentary on moral hazard and the hard barriers to increased revenue and expenditure et cetera are wonderful academic thoughts but are not grounded in any practical reality of operating within the Australian Federation. It is interesting commentary but utterly useless in the context of the way the Australian Federation works.

MR PETTERSSON: In terms of the stimulus measures that the ACT government did implement, are there any lessons learned from those? Would you do anything differently?

Mr Barr: A pretty clear motto was go hard, go early. I would say that lessons were learnt from previous stimulus responses during the global financial crisis, for example. I will confess to being a student of Australian economic history at ANU from 1992 to 1995—well entrenched still. I would say that lessons have been learnt all the way back to the Great Depression. The policy response then was austerity, which deepened the economic downturn.

I think you could say that, as a general rule, over a century, the Australian government response to economic responses has become more sophisticated and more targeted. We have more data available. I guess at the end of this there will be an assessment of perhaps what worked most effectively. I do not know that there is any single measure that I would say failed, but some obviously did more than others. I think that that sort of assessment will ultimately be undertaken and there will be lessons there for when the next economic shock arrives. I think that both the commonwealth and the states and territories learnt a lot from what worked and what did not in the GFC. We had a contemporary example of a decade ago to apply to our policy approaches this time.

MR PETTERSSON: What were the measures that you thought were the most effective?

Mr Barr: I guess that each economic shock is different. This one had particularly devastating effects on certain parts of the economy; it was not economy wide. Your capacity to target assistance to subsectors of the economy that were experiencing an economic shock that was driven by a public health shock was the other thing that was different. It was not that there was something fundamentally wrong with the essentials of the economy. It was that for reasons of protecting public health, certain activities had to be shut down. That required a very different economic intervention than a more general downturn in the economy or an economic impact that was distorting in seeing investment resources shift from one area of the economy to another. This was not technology driven. It was regulatory driven, in that certain activities were regulated to zero, but not necessarily in a planned way, and it had to happen really quickly and, fortuitously, it seemed, for a relatively short period of time.

This would be a different level of economic support than would be necessary, for example, if a decision were taken by the Australian government that all coal power production and coal mining would need to shut down by 2030. That would require a very different level of economic intervention and response than a decision to have a public health direction in place for weeks or months. You have got to be able to tailor your economic responses.

Thinking back over the last 30 years, there was a transition necessary to manage tariff reductions and a shift in terms of Australia's industry base. That was managed over several decades with assistance to particular industries in the transition. The longer you have to deal with an adjustment, it is, I think, arguably easier to address the challenges. Probably the next best thing is the short, sharp change because you know that you are in for a certain period of time with a targeted intervention and then you can withdraw it.

The one that is most difficult is what Australia has been living through in its backwards and forwards debate over emissions reduction. That has led to a long and drawn-out process with policy shifts back and forth, a lot of uncertainty and stifling investment, making it really difficult to manage a transition that could have been managed better. In all of this, as much certainty as you can give helps too. In the context of a pandemic, there is a lot of uncertainty and it is hard for government policy to fully address every element there.

MR PETTERSSON: Thank you.

THE CHAIR: Mr Braddock, we have got just three or four minutes. Do you want to ask your question now or hold over until after the break?

Mr Barr: Ask the question.

MR BRADDOCK: The answer might come after the break! I will give you a chance to think about it. Judgements about Pegasus's philosophy and values aside, they do raise some questions about the capital works reserve.

Mr Barr: Yes.

MR BRADDOCK: Can you take me through the terms of accountability and oversight that are required for that?

Mr Barr: Yes. I can say from the outset that the capital works reserve is yet to be utilised. There are reporting mechanisms within it. It is effectively their—

MR BRADDOCK: What are those?

Mr Barr: Reporting to the Assembly. The legislation that enabled it within the amendments to the Financial Management Act require reports to the Assembly. Essentially, it is there if a project starts to gather a head of steam and runs ahead of its current appropriated funding profile. It was put in place in order to address what was perceived as a barrier within the public sector that people would only operate within the fiscal parameters of the—

MR BRADDOCK: Frames of the budget.

Mr Barr: Yes. We put it in place globally with a set of rules around accessing it, including a requirement for the Treasurer to sign off, reporting to the Assembly and the like. I will take it on notice and give you the legislation—

MR BRADDOCK: Thank you.

Mr Barr: and the explanatory memorandum because it was in the last parliament. I regret to say that it has not yet been called upon. The reason that there has not been any reporting on it to the Assembly is that we have not used it yet. The reason for that is that no department directorate has yet been able to accelerate a program to the point that it has gone beyond what they have been appropriated.

Mr Miners: That is correct. Just to add to the Treasurer's comments: it is set in legislation and has requirements around it, so it is very clear. That reporting to the Assembly is a key part of it. The other key thing is that it is not additional appropriation for projects. What it does is allow it to be brought forward. Anything that is brought forward into the current spend, the current year, comes off the future year. So it is not in addition to spending. It really is there to encourage directorates to get ahead of the program if they can and make sure that the funding is there.

MR BRADDOCK: Thank you.

THE CHAIR: Thank you.

Hearing suspended from 10.28 to 10.45 am.

THE CHAIR: I turn now to the question of government expenses, particularly with regard to employee expenses. The FTE count is on the increase. I will get the page number for you.

Mr Barr: 305?

THE CHAIR: That is right. If you go to the appendix? You have also got the GGS expenses on page 129, which is probably 127 of the printed copy.

Mr Barr: The printed version.

Mr Miners: Correct.

THE CHAIR: That could be recommendation 1 of the report, by the way.

Mr Barr: What happened?

Mr Miners: The explanation—

THE CHAIR: It would be a blank page, I am sure.

Mr Miners: It is. When the first printed versions came out, page 1 skipped the inside pages. The online version starts from page 1, so there will be a two-page difference on everything in the budget outlook.

THE CHAIR: All good.

Mr Barr: Again, that happened—

Mr Miners: It was not intentional this time either.

THE CHAIR: You have got the FTE increasing, but then you have got the employee expenses not increasing and, in actual fact, going backwards in 2021-22. I was wondering whether you were able to give a rundown on that situation.

Mr Barr: Sure. That is principally the cessation of the Jobs for Canberrans program. There are a number of time limited positions that will come to an end at the end of this fiscal year. That is the principal factor. There may have been some other minor ones within directorates around programs ending, but the biggest reason is Jobs for Canberrans ending.

THE CHAIR: Right. There are increases, up to 23,347 in 2020-21. What are you saying will be the whole-of-government staffing numbers, roughly, for 2021-22?

Mr Barr: I guess the number at the end of this fiscal year, minus discontinuing positions, plus any new positions funded in the budget.

THE CHAIR: Okay. Turning to table 3.4.2 on page 127 of the printed copy, what numbers are embedded in your assumptions there?

Mr Barr: I will get Treasury to do that. The other factor that I would point out, of course, is that there is obviously a wage level factor that is—

THE CHAIR: I am going to come to that as well, yes.

Mr Barr: Yes; as in how many people employed at particular salary points will have an impact on the global number.

THE CHAIR: That is right.

Mr Barr: I will invite the Under Treasurer to talk us through this one.

Mr Miners: The way that these are forecast is that we typically forecast wages. Basically, it is the base that agencies have. We do not formulate their total wages bill from a central level. They have got a level of funding for an existing level of staff and they will add to that the wages around new staff. They will do that and enter that into the system for us. Any changes in the outyears are due to changes in staff due to either policy initiatives or new ones that have been made or initiatives that are ceasing and therefore the staff are no longer funded.

THE CHAIR: In 2019-20, the FTE was 22,626. Then it increases to 23,347 for 2020-21. How many of those were part of the Jobs for Canberrans as part of the COVID response?

Mr Miners: I can tell you a little bit about Jobs for Canberrans.

Mr Barr: We will get the number.

Mr Miners: The total number of people employed through the Jobs for Canberrans was 569. There were some people who moved between a couple of jobs there, but 569 was the employment number. Again, it will be up and down. It is the number through the scheme. It does not necessarily reflect it, given the staffing points of these numbers, in the table in the appendix.

THE CHAIR: When do those 569 jobs expire?

Mr Barr: It varies. Some expired last year and some in quarter 1 of this fiscal year and then a range were extended to 30 June of this fiscal year, so the middle of this year.

THE CHAIR: So they are all going to come to an end this financial year?

Mr Barr: Unless there is a decision in the next budget round to extend some positions further, then, yes, they are all currently budgeted and scheduled to end as per the commitment in the program. That is based on the assumption that we are through the worst of the pandemic and that the labour market has recovered.

The sorts of activities that people in the program undertook were many and varied, but they included augmenting call centre capability in Access Canberra and the COVID hotline, undertaking work in Namadgi National Park on bushfire repair, so those in recovery, through to additional cleaning in schools and on public transport et cetera. As the pandemic risk reduces with, obviously, better public health measures and vaccine rollouts et cetera, the need for some of those positions ongoing would not be there.

We will obviously, in the budget round, make some assessments around what the call centre volume is for Access Canberra and assess whether we are still experiencing demand above pre-COVID levels, whether that may require some additional positions, either on a temporary or permanent basis. We will make that assessment in the next budget round. At this point, the additional, from memory, $1 million that was put into the Jobs for Canberrans scheme allows it to continue through until 30 June for those positions that we have extended to that point.

THE CHAIR: The numbers for 2021-22 and then the outyears—is there a percentage growth that you somewhat crudely apply in the absence of anything else?

Mr Barr: It is at a very high level. A sort of metric that I use as Treasurer is to benchmark against population growth, noting that there might be ins and outs based on either a shuffling of responsibilities within the Federation—an example was when NDIS was established, which saw a transfer of roles out of ACT government—or if we picked up a new responsibility that required us to employ more.

There are a couple of directorates for whom the employment levels are very closely linked to population growth. Education is one example. Every time another 21 students or part thereof enrol in a public school, that triggers an additional teaching position and that is part of both our class size policy and the national education funding agreements. My experience is that every year in the history of self-government there have been more staff employed in Health to meet demand growth there. Those two agencies, as you can see from appendix K, are the two largest by a very long way.

Regarding growth in the other agencies that is population linked, there is a bit in Transport Canberra and City Services and in Community Services to a certain extent, although that depends on what level of service delivery is undertaken within that directorate or given to the community sector to deliver; and there was the NDIS impact on employment in that area.

THE CHAIR: A host of EBAs are up for renewal.

Mr Barr: Whole-of-government ones must be 2022-23.

THE CHAIR: What assumptions do you make for the budget in light of that?

Mr Barr: There are provisions for the forward estimates on wage increases.

Mr Miners: There are provisions. There are two sets to that. Part of it is just provision in agencies. Agencies have growth factors through their estimates that basically increase their estimates over time. Then there is an additional estimate that we use around wages to make sure that we have got the total approximately right. I am just going to confirm it. Two per cent over the forward estimates is, I think, what we are tracking there.

THE CHAIR: For wage growth. That is a combination of promotion and base salaries increasing or the pay points?

Mr Miners: That is basically what is sitting in the bottom line. It picks up all those factors. Agencies need to make decisions around how they are going to staff the levels that they are going to staff and where things sit and then make those within an envelope. We do not go in and monitor the exact number of staff. We monitor the total wages bill. As long as they are staying within that, then they need the flexibility to align staff as best they can.

THE CHAIR: Finally, are there any planned redundancies for this financial year?

Mr Barr: No.

THE CHAIR: How many redundancies have taken place this financial year already?

Mr Barr: Involuntary, I do not think any. Ones that might relate to misconduct or otherwise I think we discussed with the other committee and the Public Sector Standards Commissioner on Monday afternoon. I will take it on notice.

THE CHAIR: But no involuntary redundancies this year?

Mr Barr: No. There is certainly no government-wide program—

THE CHAIR: Not government-wide, but are you aware of any in the agencies?

Mr Barr: That could be related to misconduct or—

THE CHAIR: No, but—

Mr Barr: I am not. There is certainly no budget—

THE CHAIR: I doubt that they would be categorised as involuntary redundancies, would they, if they were misconduct related?

Mr Barr: Certainly, it is an employment separation.

THE CHAIR: Yes, that is right, but you are not giving a payout.

Mr Barr: I do not believe that there are, but I will check.

THE CHAIR: If you could take that on notice, it would be good.

Mr Barr: Yes.

THE CHAIR: Thank you.

MR PETTERSSON: Chief Minister, following your comments yesterday about the JobSeeker rate, can you explain to the committee the effects that the JobSeeker rate has on the ACT budget?

Mr Barr: Its implications are principally in relation to payments apportioned to the proportion of income for public housing tenants, together with, I guess, some flow-on impacts within the Community Services Directorate and the provision of either concessions or programs that, effectively, we have to provide for the necessary additional support for households for whom the unemployment benefit is not sufficient for the basic living costs.

In a conversation with the Deputy Chief Minister, she advised me that Housing had advised her that during the COVID period, because of the additional COVID supplements, the level of on-time payment of people's public housing rent had significantly increased and levels of debt from public housing tenants had reduced. I guess that it is no great surprise that, with income beyond $40 a day, people have been able to not incur additional debt, and in some instances, in fact, live above the poverty line and pay back debt that they owe to various creditors.

Its implications are greatest, obviously, for the individuals and individual households, but there is a small benefit to the territory budget. More broadly, the economic impact is that that money is spent in our economy. The major beneficiaries of that money being spent in our local economy, aside, again, from the individuals who have a better life as a result, are local businesses. That, in turn, feeds into a greater level of demand for labour, which creates more jobs and gets more people off unemployment benefit. It is quite a virtuous cycle.

I will reiterate the statement that I made yesterday: an increase to JobSeeker is welcome. If this is seen as the totality of any future increase, that is a problem. If this is the beginning of a series of annual increases that lift that rate, then it is welcome. I acknowledge that it is the biggest increase, aside from inflation adjustments, for several decades. I also acknowledge the point that has been made by economists, by the Reserve Bank Governor, by councils and social services around the nation that, if this is the totality of what the commonwealth is going to do in this area, it is not enough and it will not lift people out of poverty. I will adopt a glass half full perspective here, or in this instance a glass a little fuller than it was before, and say: this is good; let there be more of it; this cannot be the only move from the commonwealth in this area.

But they have at least made a start. They showed during the pandemic that it is possible to do more, and we know the economic benefits that will come from it. They have put in place a range of mutual obligation requirements, in addition, for this. I do not personally believe that there are a lot of people who turn down employment and the opportunity for a better life in order to live on $40 a day. I do not think that is the position that most people take. Even if you did take that view, then there is still a question of how you would expect someone to live on what is less than a daily parliamentary travel allowance for the members and senators who come to this city each day. That is a fascinating juxtaposition of what is important. People on $200,000 a year or more are being given more in a travel allowance and a sitting allowance to come to Canberra than a million or more unemployed people.

MR PETTERSSON: Does the ACT government have an eye to what a suitable rate to alleviate poverty in the ACT would be?

Mr Barr: The ANU have an analysis that talks about in the order of, I think, a little over $800, and then there are other agencies that have a view—I think it is called the Henderson poverty line—that it would be a little over $1,000 a fortnight.

MR PETTERSSON: Thank you.

THE CHAIR: Mr Braddock.

MR BRADDOCK: I would like to ask some questions about community grants. Without delving into any one particular scheme—

Mr Barr: Sure.

MR BRADDOCK: but more broadly, I have received constituent feedback that there might be some skews, or biases, built into community grants, in that they might be more skewed towards community groups that have existed for an extended period of time versus new ones, or they might be skewed towards ones where English is their primary language and not their second language. It is also where they are—I will not say "politically astute"—more aware of government processes. Could you please provide me some information on how—whilst I am sure public servants apply due diligence—we are also ensuring those groups that may need them more actually access those grants?

Mr Barr: At the outset, I think those are fair observations in terms of who accesses government programs. Clearly, there is a benefit for being attuned to the process and understanding how these things work. The longer a community organisation has been in existence, clearly the better its understanding of the grants process.

I think the institutional issues are not so much about a bias against new groups, except perhaps in the context of assessment criteria for a grant, where demonstrating past experience in delivering a program or an outcome would be difficult if you were a brand new group. This does put the public servants who are undertaking assessments or the independent panels who undertake assessments for grant projects in a degree of difficulty because, obviously, there is accountability also about where government grants go. There needs to be an appropriate balance struck.

It is an area that I know some directorates have given some more thought to—in terms of having different tiers of grant programs, which in some regards is linked to either a quantum of money or the risk associated with a grant program—in order to try and address this. Smaller grants are less risky if an allocation is made to an organisation that is, for whatever reason, either through no fault of its own or through malfeasance, not going to deliver on the outcome of the grant objective. The risk is minimised because the quantum is smaller. That can be a way that new organisations can effectively build up to being the beneficiaries of a larger grant in the future if they can successfully acquit a smaller one as part of a program.

The other way this has been supported is to have an auspicing body. I know that the regional community services have done this in the past. A new organisation might be auspiced by Northside Community Service or Gungahlin community services who will act as not quite a guarantor but an experienced party who can assist the new organisation with governance, acquitting grants, providing advice on applications and the delivery of particular programs and projects.

That model has worked well. I have seen that in the work, for example, of a consortia of community sector organisations in the LGBTIQ space, where we have had a couple of really longstanding organisations but then a range of emerging ones. What has worked effectively as an initial basis is that the new organisation partners with the existing one to deliver a new program and then, as they build up their capacity, they are then in a position to apply as a stand-alone entity in future. That is one way of addressing it.

MR BRADDOCK: I suppose my question is: what is the government doing to address these skews going forward?

Mr Barr: We have facilitated all of those sorts of outcomes to provide early advice to organisations around reasons why they may not be successful or eligible for a particular grant program. I know, not so much from personal experience because I have not been the minister for multicultural affairs, that the Office of Multicultural Affairs and the minister's office work closely with the wide variety of multicultural groups around access to programs and projects in that space to address the English as a second language challenge.

I guess the other area that brings Treasury into the process of it has been around how we might benchmark the operation of grants programs in terms of both their efficiency for an administrative cost to dollars granted perspective and also in endeavouring to have a whole-of-government standardisation of application processes that can make it easier for groups to do so, so Treasury are able to advise on what is best practice. They see every business case that comes through and it is often the case in the budget round that Treasury will go: "Hey, Multicultural Affairs, have you seen how Sport do their program? They've got a fantastic web interface. It's a lot easier for grant applicants. If you want to get your new grants program up and get Treasury support for it in the budget process, why don't you talk to Sport or potentially even use the same technology portal in order to make it easy for people to apply for grants?" That is, I guess, a practical example.

MR BRADDOCK: Yes.

Mr Barr: Anything else, Stephen, that you would like to add?

Mr Miners: No, except that there are guidelines around grants, and we are currently going through a process of reviewing them. I cannot remember off the top of my head what they say. They are about making sure that we have grants programs that are effective, that work and that are good value for money, and that we are actually getting what is being achieved through them. I will certainly have a look at those and make sure that there are no inherent biases. There is certainly no case specifically as to which groups you should give it to. It is basically making sure that we do it on a very consistent basis and that there is a really clear framework around the way that it is done.

Mr Barr: If I can just add one other thing from recollection from my time in Sport and Recreation. There was an annual grants round for community sports and recreation. It was several million dollars during my time, and I think it continues now. We carved out a proportion of that for multicultural sport and disadvantaged groups. We tried to ensure that there was a part of the grants program that was reserved exclusively for groups that were not getting access through the general round. The other thing that we did was add criteria for sporting organisations within the general round funding: what were they doing to provide more services or engagement with particular communities?

Going back even further, there was a policy bias in favour, through tax credit purposes and through the community club scheme, of investment from clubs into women's sport, for example, because we had identified that there was a significant gender imbalance in where grants were going. There are policy interventions that we can make in carving out and restricting pools of grant money for groups that have been missing out, in addition to the other things that we have discussed.

MR BRADDOCK: I would suggest, given that these skews are occurring and you say that it is a fair assessment that they are in place, further policy work or intervention is required to ensure that the money is going in the most appropriate way.

Mr Barr: As I say, I think that is fair as a general statement, but I do not want you to take from my statement that agencies are not looking at this and there have not been some very successful interventions over time. Can you do more? Of course.

MR BRADDOCK: Absolutely, and that is my point. Thank you.

Mr Barr: Yes.

MS LEE: Can I have a supplementary on this, Chair, if I may? Treasurer, one of the concerns that have been raised with me time and again by community organisations when they receive grants is the uncertainty of ongoing funding, so the one-offs, either for a year or two years.

Mr Barr: Sure.

MS LEE: Are you able to provide the committee with a list of the community grants that are in that category, like the one- or the two-year category?

Mr Barr: That could involve a lot of work. There is only a small number of directorates that have grants programs. It is probably best to direct that to the Community Services Directorate. They do the bulk of it. Health and Sport would be the other ones that immediately come to mind.

MS LEE: Environment?

Mr Barr: I think that it would take a lot of people a lot of time to go through every single grant that the ACT government provides. I make the general comment—

MS LEE: I understand, yes.

Mr Barr: that this has been recognised in Community Services by moving to multi-year agreements; but I that think there will always be annual grant rounds for particular areas. That said, a number of them have made the decision to carve out and allow for multi-year agreements. Within Sport, for example, there is a triennial, so three-year, funding arrangement. If it looked to go beyond a three- to four-year period, that is effectively the budget cycle and the political cycle—

MS LEE: Sure.

Mr Barr: There have been efforts to move beyond one year.

MS LEE: Right. Obviously there is a difference between a one-off project—those are the ones that you expect the one-off grants for—and ongoing funding, but they were able to get funding for only one or two years.

Mr Barr: Yes.

MS LEE: Does your directorate or any of the directorates keep data on that sort of breakdown at all?

Mr Barr: Directorates would, for their grants programs. I think it would also be publicly accessible on the websites because they publish a list of who gets the grants, the amount and the duration. That is publicly available. It just goes on the directorate websites, or it may even be presented in their annual reports, in terms of who has received a grant above a certain threshold.

MS LEE: Perhaps not in a way that it is easy to read about the percentage.

Mr Barr: Possibly not, no.

MS LEE: Okay.

Mr Miners: Certainly, as Treasury, we do not collate all of those into a single list.

MS LEE: Thank you.

MR BRADDOCK: Chair, can I ask a supplementary to the supplementary?

THE CHAIR: Sure.

MR BRADDOCK: Even with three-year grants, I have had community service providers say that they can barely get a program up and running and start getting some runs on the board before it comes to the end of a three-year cycle.

Mr Barr: Yes.

MR BRADDOCK: You said that it is very difficult, but I would be interested to understand what are the options available for the territory to start looking into extensions and going to an ongoing basis, where a program is successful.

Mr Barr: There are some tenders that involve larger sums that become a five-year or a five-year with an option for extension, in certain directorates. Beyond that it does get very difficult. Those ones, I hasten to add, tend to be where there is a joint ACT-commonwealth government national partnership agreement. One of the frustrating things in the past has been that those agreements have been kicked on just 12 months at a time, but over the last few years we have resolved a few of them.

I look at Stephen and laugh because this is a standing agenda item for the Treasurers meeting. Treasurers get the frustration that you guys have expressed through their portfolio ministers. That gets bounced up to Treasury to try to resolve. We have been around this merry-go-round a few times; but it is better than it was. I think that the commonwealth say, "Look, we give you as much certainty as we can, but we've got budget pressures et cetera."

MR BRADDOCK: Where the federal government is not involved and it is purely a territory matter, is it possible to look at, for example, our three-year grants and what extension or other arrangements might be utilised to keep a good program running?

Mr Barr: It is conceivable, within the bounds of not binding future governments and then, I guess, the quantum of money and capacity, to have to go back to the market to tender. There are certain procurement rules that are in place as well; no community organisation gets a job for life.

MR BRADDOCK: They do not expect that.

Mr Barr: Yes. It is where you find that sweet spot. There would be many examples where one year has turned into three, three have turned into five and five with an option within the community sector directorate reform program. I remember back to my time as minister in this area when we were having these conversations. I know that things did improve at that point in terms of duration. I am not as intimately involved in the day-to-day contract negotiations or policy settings in that directorate. When Minister Stephen-Smith appears, this will definitely be a thing worth exploring with the minister and her officials.

Mr Miners: The only other thing I would point out is that some of these arrangements are much more in procured services or contracts; they are not necessarily grants. We do make a distinction between what is a grant program and what are community services.

MR BRADDOCK: Thank you.

MS LEE: I would like to go to our credit rating. In the annual report, at page 184, there is a bit of a strange accountability indicator. I would like to ask a clarifying question before we go on to substantive questions. Accountability item d talks about "submission to credit rating agency"; the target is "1", and the result is "1". Is there any circumstance where the ACT government would not make a submission to the credit rating agency?

Mr Barr: Probably not, but it is an output of government.

MS LEE: I just found it very odd because I could not fathom a situation—that is why I had to ask.

Mr Miners: Until this year, we would have said that the budget in financial year 1 fell the same way, and it turned out that this year there was a financial year where we did not release a budget—

MS LEE: But we are still delivering it, yes.

Mr Miners: So the world can change. There may be reasons why there is not a credit rating done for a particular reason. It is really there as an indicator to show that we are actually engaging with the credit—

MS LEE: At this stage you do not see any reason that that might be the case?

Mr Barr: No. Unless Standard & Poor's said, "We do not need anything from you; it is all good."

MS LEE: Happy days.

Mr Miners: The alternative is that they may start rating twice a year, in which case—

MS LEE: You might need to increase that. In terms of that credit rating, is that submission publicly available?

Mr Miners: Our submission to them?

MS LEE: Yes.

Mr Miners: No, it is not; but it draws on information that is publicly available, so it is in the budget papers. There is nothing that we provided to them. With a lot of what we do, we actually sit down with them. There is actually a presentation to them that draws on the information that is in the budget papers.

MS LEE: Are you willing to provide that submission to the committee?

Mr Barr: It is not a written submission, as Mr Miners indicated. We do not have a *Hansard* of the day that is spent. I spend half an hour to an hour with them; then there is a question-and-answer session. That is not the—

MS LEE: There is no collated written submission per se?

Mr Barr: No. The collated written submission is the budget.

MS LEE: That is the total of it; all right.

Mr Barr: Yes, I am happy to give you the budget. You have it in front of you.

MS LEE: Thanks for that. Save the tree! What are the specific fiscal measures that are reviewed, assessed, looked at and discussed in determining the credit rating?

Mr Barr: Standard & Poor's report on that is in their bulletin. I will get you a copy of the bulletin. That might be the easiest way to do it—in their rating report. It is on their website, but we will print one out and get it to the committee.

MS LEE: Okay. Mr Miners, what were you saying?

Mr Miners: The discussion follows around those sorts of indicators. They are assessing the viability of the territory. They will check our sustainability, the liquidity situation—

MS LEE: Sustainability of?

Mr Miners: the budget. They will talk a lot about the investment program. They will talk about the projected level of headline net operating balance. It really does follow through the same sort of information that is in the budget papers and against the indicators that they use to make the assessment.

MS LEE: Thank you for providing me with a copy. Is there any further information that you can provide in terms of the specific indicators at this time? You went through a few, but are there any others?

Mr Miners: We can certainly provide a list of the standard metrics. That is in their publications, anyway. There is nothing more I can add to that. They do their own calculations against all of these numbers. They are all set out quite clearly in their publication.

MS LEE: What are the thresholds, if you like, measuring against those indicators that would trigger a downgrade?

Mr Barr: A very good question. They do not tell us.

Mr Miners: Yes. Clearly, they have things in their mind. Again, all of these numbers change over time and it depends on the circumstances that they are looking at. They may have indicators on particular metrics, but the rate at which those metrics is changing will also be taken into account, and they apply judgement over the top of it all as well. There is no fixed level where I can say, "If this goes above this rate, then we will get a credit downgrade." They take a lot of factors into account in doing it.

MS LEE: Surely, from the ACT government's perspective, and that of Treasury officials, when you go into that day of discussion, you want to be putting forward the best footing; and you want to be putting forward every indicator and making sure that it is there. You must have some idea of, "Hold on, we need to make sure that this is a"—

Mr Barr: I think that the best indicators are based on their actual decisions. The factors that they have publicly outlined around their ratings downgrades for New South Wales and Victoria are on the public record, as is their commentary on putting the Australian government and the ACT government on a negative outlook, and for the various other decisions that they make. You can get some insight into their thinking based upon their stated reasoning, but it is not like they just plug 10 numbers into a matrix, then out pops the rating.

MS LEE: No, I get that.

MS LEE: If it was that black and white, we would not be here.

Mr Barr: Yes.

MS LEE: The incoming government brief to the Treasurer says:

> The current gap between spending and taxation is not, however, sustainable over the medium term, and as soon as practically possible the Government will need to put in place a more detailed strategy to return the budget to balance and start repaying debt.

What are the likely financial impacts by way of the higher cost of debt in the event that we do have a rating downgrade?

Mr Barr: Victoria went from AAA to AA and it was 10 basis points, which is 0.1 per cent on their interest rate. Across Victoria, the Victorian Treasurer said that the difference was $10 million a year. Victoria is 12 times larger than us, so if you are doing an extrapolation, they have more debt than us as well, and the impact of a credit rating downgrade would be less than $1 million a year in interest payments—so bugger all. It is more a political talking point than it is a practical one in terms of cost of borrowing, which is the point that the Reserve Bank governor made to all of us. But we live in a political world, Ms Lee, and I am absolutely certain that you would definitely issue a press release. You have not issued a press release congratulating us on being the only one still with a AAA credit rating—

MS LEE: Is that what you wanted? Sorry about that, Andrew!

Mr Barr: but I am certain that you would issue one if we no longer held it. Its practical implications would be virtually nothing, given that most of our borrowings are already locked in at the prevailing interest rates that we borrowed at the time. With the Reserve Bank entering into the market at the moment the way they are, buying Australian semi-government bonds to the tune of hundreds of billions of dollars, it has no practical effect at this point in time.

MS LEE: The answer that you provided, Treasurer, was in the context of what the Victorian situation is, but has there been any assessment done by Treasury at the ACT level about what that might look like, in terms of calculating risk, obviously, moving forward?

Mr Barr: It would be about 10 basis points, wouldn't it?

Mr Miners: Yes.

Mr McAuliffe: Five.

Mr Barr: Five to 10.

MS LEE: Five to 10?

Mr Barr: Yes. Its implications could be several hundred thousand dollars a year—about $600,000 or $700,000 a year on our next borrowing, if our credit rating was downgraded before we went to the market.

Mr Miners: There are other factors in the borrowing market that will swamp that. That sort of movement is one that we would see on any issuance. We are looking at far more factors than simply the credit rating.

MS LEE: Of course.

Mr Barr: What the US fed reserve chair had for breakfast probably has a bigger impact. If he did not have enough coffee and he was grumpy in a press conference, that would shift the market way more than—

MS LEE: Did you have an assessment of when Mr Barr has his coffee? As Acting Under Treasurer, in providing that advice in the incoming brief about the concerns raised, do you have any concerns about any departure from the principles of responsible fiscal management under the FMA? Obviously, there is a pretty serious concern that has been raised in that incoming brief.

Mr Miners: No. In a way, that comment in the brief is just a statement of fact. At the current time, the government has a fiscal strategy that is focused on providing support to the economy to manage through COVID-19, and Treasury's advice has been that it is entirely appropriate. Over the longer term, there will be a challenge to return the budget to balance. I think that is a challenge that, unless I am mistaken, the government is well aware of. It is a challenge that is there, and that is what future decisions will need to be focused on. I cannot comment on what those future decisions will be. Even the path out clearly is uncertain at the moment, as we work out what is going to happen. We are publishing upside and downside ranges, and the path out will vary depending on what the actual outcomes are.

MS LEE: Are you talking about the uncertainty in terms of the current pandemic or are you talking about—

Mr Miners: I am talking about both, but with the way that we have done the forecasts, it does have a central forecast; then it looks at some upside and downside scenarios. The extent to which decisions need to be taken will depend on the extent to which those upsides or downsides are realised into the future.

MS LEE: Yes, of course.

Mr Miners: There is nothing particularly unusual. They are probably greater at the moment.

MS LEE: Given, obviously, that it has been an ongoing deficit, and way before the pandemic, is that of concern to you?

Mr Barr: It has not been. If you go to—

THE CHAIR: Page 300—the statement of risks?

Mr Miners: No, the long-term—

Mr Barr: Yes, the fiscal aggregates. I was looking at it a moment ago. Here we go—appendix F, at page 273. As we were discussing in the earlier session, the Fluffy crisis was the last major crisis, which saw the budget deficit reach nearly $480 million. Over the subsequent years—2015-16, 2016-17, 2017-18 and 2018-19—the fiscal position recovered reasonably quickly, effectively to a balanced budget in 2016-17 and small surpluses in 2017-18 and 2018-19. Then COVID hit; so we will have to do the same sort of fiscal rebound and recovery through the next period as that we achieved from 2014-15 to 2018-19. We have run surpluses in the last three years, 2018-19 being the last surplus.

MS LEE: I might come back to that in a little while. You talked about, obviously, the detailed strategy that needs to be put in place to bring the budget back into the black and into a good position. What is the status of that strategy?

Mr Barr: We spent the first hour this morning on that. That was Mr Coe's question, to open the session, so I will refer you back to that. I will not spend another hour on it.

MS LEE: No, I understand that. Where I am coming from is: where is it up to in terms of—

Mr Barr: I answered all of that this morning.

MS LEE: Okay. Will you be bringing that as regular updates to the Assembly or the public?

Mr Barr: Through the budget process and the midyear update. We would report on that twice a year.

THE CHAIR: I refer to page 303—electronic page 301—at table J.4, which shows the impact of a 0.25 percentage point increase. Is that a blanket increase on all borrowings, including those that have already been fixed in bonds?

Mr Miners: No, it picks up the future borrowing program. It is a change in the future amounts of borrowing that would be required to cover the cost—

Mr Barr: That is at 0.25, whereas the Victorian experience is considerably less than that.

THE CHAIR: That is right, but this is $10 million for a 0.25 increase.

Mr Miners: I might ask Pat McAuliffe to come to the table and answer that, Treasurer, if that is all right.

Mr Barr: Yes.

THE CHAIR: I wonder how that correlates to a few hundred thousand dollars. I trust that you are okay with the privilege statement?

Mr McAuliffe: I am okay with the statement, yes. What I have done for that sensitivity is that, across the forward years, we have new borrowings estimated, which are in that borrowings table. We have assumed that they will be undertaken at fixed rates, but when we set the budget, we base the fixed rates off the forward-looking curve at that point in time.

THE CHAIR: This is just increasing that curve by 0.25?

Mr McAuliffe: Yes. If, in 2023, the rate that we have estimated for that borrowing rate in that year increases or decreases by 25 basis points, that is for the change in the cost.

THE CHAIR: Just an entire movement of that curve?

Mr McAuliffe: That is exactly right.

THE CHAIR: Going back to what you said earlier, Treasurer, about a five or 10 basis point move, if a 25 basis point move is $9 million a year—

Mr Barr: No, it is not.

Mr McAuliffe: Those estimates are based on that forward-looking program. If we have an assumed borrowing amount in a couple of years time of, say, $2½ billion, I have assumed $2½ billion times a 25 basis point movement, as an example. In the short term, if we had a credit rating downgrade and if, on our estimated cost of funds today on our billion dollars that we are going to borrow, we get a downgrade, it is likely that, on that particular issue, there may be somewhere in the range of a five to 10 basis point impact, which would translate to—

Mr Barr: Several hundred thousand dollars.

Mr McAuliffe: That is right.

THE CHAIR: I note, of course, that this is just the downside of an increase, not the upside of an increase, in terms of our investments and cash in bank as well.

Mr Barr: Yes, there are counterbalancing—I think that was in the earlier—

THE CHAIR: Is this net borrowing?

Mr McAuliffe: No, that is based on our new gross borrowing requirements.

THE CHAIR: Just gross; okay.

Mr Barr: At table J.3 there is a sensitivity analysis—

THE CHAIR: The other way; that is right—for the assets.

Mr Barr: Yes.

MS LEE: Going back to the incoming brief and Treasury's advice, there is another bit where it says:

> Moreover, continuing to run deficits will reduce the Government's capacity to respond to any future economic shocks and if sustained may lower the ACT's capacity to access market finance, putting at risk the Government's capacity to deliver services.

Acting Under Treasurer, I know that you referred briefly to it earlier, but for how long has your office held these concerns?

Mr Miners: Again, I do not think that these are concerns because it is a statement of fact: if you continue to run deficits, it reduces your capacity to deal with shocks. In the briefing we are making that very clear; again, it is something that we would have conversations on and raise if we thought that it was getting into that territory. It is just saying that those are the implications of that, and that there is a need to address the fiscal situation. Part 2 of the government's announced fiscal strategy is restoring the public finances after the impact of COVID-19 has passed and systematically reducing debt over the long term. We will work with the government to implement their strategy to do that.

MS LEE: When did you first raise this—I know that you do not like me saying "concerns"—statement of fact, if you will, with the Treasurer and Chief Minister?

Mr Miners: We have discussions every year as part of the budget around the level of debt and the strategy, going forward. It is not something whereby suddenly I need to have this conversation. This is a part of ongoing fiscal management that is continually taking place about the level and scope for the territory to manage shocks about new impacts on credit ratings, whether that is in a positive or a negative way; we have those in both directions. I would say that it is a fairly normal thing for Treasury and the Treasurer to discuss on a regular basis.

MS LEE: With the reference to the risk to the government's capacity to deliver services, does Treasury have a view, or has it provided any advice, about what services that might include?

Mr Miners: No.

MS LEE: Is there, in your view, a need to change the funding of infrastructure, which has usually been done through debt? Do you have any advice or views on that?

Mr Barr: It has not usually been done through debt; it has usually been done through asset sales, with a debt component. A combination of the two, in fact, has been the source of finance for infrastructure. We have utilised territory cash to pay for some infrastructure. With others, there are multigenerational implications. For example, through the water utility, building Cotter Dam was a 100-year project, so that was not funded out of cash reserves. There was a borrowing arrangement—

MS LEE: A combination.

Mr Barr: for an asset like that.

MS LEE: Is that something that, from a Treasury official perspective, you need to look at?

Mr Miners: Again, I will not go into the nature of any policy advice that we provide.

MS LEE: No; the nature of how it is funded, though.

Mr Miners: Do I think that the current level of borrowing is sustainable? The simple answer to that is: that is what the credit rating is around. Again, it is something that treasurers and treasuries will discuss all the time, in terms of funding sources for different projects. It is not something on which I am seeing a red flag or something about which I am losing sleep at night. We do have access to credit, and at the moment that is not something that is worrying me.

MS LEE: Treasurer, if I can ask the same question of you as I asked of the Acting Under Treasurer: do you have any concerns about some of the services that might be at risk, as outlined in the advice?

Mr Barr: No, only those that are subject to a commonwealth-state-territory funding agreement. If the commonwealth were to withdraw their support, that would have significant implications for service-level delivery not just here but in every state and territory.

MS LEE: In terms of the unsustainable ongoing gap between revenue and expenses, what is Treasury's advice about how best to approach that and deal with closing that gap?

Mr Miners: Again, that is something that will be in the formal advice to the government as we go through a budget process. It is not something that—

MS LEE: Do you have something to add, Treasurer?

Mr Barr: It is both. It will require revenue to rebound to its pre-pandemic levels. As we have discussed today and on Monday, the single largest revenue source for the territory is the goods and services tax. There is a couple of hundred million dollars each year that is the gap at the moment between where it was and where it will need to recover to. Across the forward estimates period that is $800 million; that is nothing to sneeze at. There are also our own-source revenues that are improving and are very much tied to economic conditions. That is the revenue side, in large part. Between GST, the commonwealth partnerships that I discussed earlier, particularly for health, education, housing, community services and the like, plus our own-source revenue lines, that is 80 or 90 per cent of the territory budget; so there is your revenue—that side of it.

On the expenditure side, our single largest expenditure is in salaries and wages—our employee base. That cannot grow at a rate beyond the level of population growth. That is a pretty indicative metric of whether the public sector was growing too large. Then there is expenditure beyond wages and salaries on programs and services—how much we put into the community sector, business grants and those sorts of areas of expenditure.

In essence, boiling this down to two metrics, revenue needs to grow faster than expenditure in order to close the gap. That will be the big picture fiscal challenge, not just for the ACT but for the commonwealth and every other state and territory over the coming period.

In light of that, I will watch with interest the attitude of the parliament towards increasing revenue and not demanding massive increases in expenditure across multiple areas. My experience over 15 years has been that it is all care and no responsibility, in that we get motion after motion calling for more expenditure on everything, motion after motion calling for less revenue to be collected, and then an expectation that somehow the books are magically balanced. It does not work like that, so there is discipline on all of us, Ms Lee. That is what I will be watching with interest.

I will remind everyone of this conversation, because in order to get back to where we need to be, revenues have to grow faster than expenditure. I am going to repeat that. I will give you all advance notice that something that I will have to talk about a lot as the territory Treasurer over the next four years is that revenues have to grow faster than expenditure. The sum part of all of our collective decisions and engagement in the political process, if we care about getting the budget back to balance, is that we have to factor in those two things.

MS LEE: Which presumably you do, as Treasurer.

Mr Barr: I do. As I indicated, I have done this before, to get back from a $500 million deficit to a surplus after Mr Fluffy. I would endeavour to adopt the same approaches. It is not an austerity agenda but it is not a spendathon either. I take on board the advice that Treasury has given, but I do not intend to run $600 million deficits each year into the future. That is not sustainable.

I will need the assistance of the Assembly in order to achieve the task of a balanced budget. You will provide that assistance in critical commentary; I am guaranteed of that, because I have had the entirety of my political career experiencing that. All I am asking for here is that there is an understanding that we will not be able to meet every expenditure request that comes forward. We can have arguments over priorities, and that is entirely appropriate, and there will be a lot of different views. We are unlikely to reach consensus on every last dollar that is being spent. But there are cheap politics available, and we have had a decade of that. I know you and I have spoken, and you have publicly expressed a desire to have a different approach. So here is the chance; I look forward to it.

MS LEE: Not at the expense of the community, obviously.

Mr Barr: No, I am not suggesting that. But if the idea is that, every time we cannot fund something, because we have to reduce the deficit, that is somehow an outrageous result for the community, that is not fair; equally, it is not fair to say that taxation cannot increase in order to contribute to closing the gap.

To make an observation, we have clearly set out some tax increase limits in relation to some of our revenue items. With rates, for example, I have been very clear about that, and I do not intend to deviate from that path. I expect that the biggest area of revenue increase will come from improvement in economic activity and a recovery of the GST. I am certainly looking at that as being a big contributing factor. Why? Because it is our single biggest revenue source; it is one-quarter of our revenue. If that does not recover then the task is very hard.

MS LEE: You have talked about priorities and the two areas that are the biggest factors in expenditure. Do you, as Chief Minister and Treasurer, have any plans or thoughts about which areas will provide the best opportunity for bringing our expenditure back to—

Mr Barr: It is not about bringing expenditure back. Expenditure will increase. It is around what is the rate of that expenditure increase. There are some things that are locked into the forward estimates that are as a result of national partnerships, enterprise agreements or otherwise, that are in large part fixed for the short term. There is not a massive amount of flexibility on the expenditure side. Obviously, there is some discretionary spending, and the timing of that spending is another factor for the government to consider in terms of when certain things are undertaken. We retain discretion in that regard.

There is no area that will be singled out for cuts. There will not be cuts. I do not intend to achieve the outcome through cuts, but we will not be able to grow expenditure in certain areas at a rate greater then revenue growth. That is the benchmark. If revenue growth is at five to six per cent across the total revenue lines, that is your upper expenditure limit for growth in particular portfolio areas.

MS LEE: Talking about revenue growth, can I take you to table 3.1.1 on page 46 of the budget outlook? There is a line item there in terms of the growth that is forecast for the forward estimates; then below that, as you mentioned, Treasurer, are the rolling expenses. The calculations for the percentage growth are not there, but I sat down and did them. You can do it, if you want to check mine. The revenue growth over the budget and the forward estimates is around four per cent—consistent, and that is on average. The expenditure growth, if you calculate it, is around 2.3 per cent. When was the last time over, say, the last decade that we have had expenditure growth at its lowest?

Mr Barr: I imagine in the period 2014-15 to 2018-19.

MS LEE: Do you know what the percentage was?

Mr Barr: I would need to take that on notice.

MS LEE: Yes, take that on notice.

Mr Barr: There were a couple of abnormals in 2007-08, 2008-09 and 2009-10, as that related to the global financial crisis. The additional revenue that we received at that time largely came through the commonwealth, through the Building the Education Revolution program and a number of other Rudd government programs at that time. That economic stimulus flowed through state and territory budgets. That would perhaps be another area where we would have received it as revenue, which would have been a headline and operating balance improvement, and it would have gone out on the outlay side of the territory budget as capital, because it was being invested in territory-owned assets—namely, schools. That would probably be another period when you would have seen that, but that is impacted somewhat by the accounting treatment of the ins—the revenue and the expenditure.

Mr Miners: Typically, periods of low growth, and particularly a year of low growth, will follow a year of high growth, simply because it pushes the base up. If you have initiatives that are providing a one-off stimulus, as they come out you will get a period of low growth. That is typically what would drive it.

MS LEE: I know that you have taken on notice, Treasurer, the question I asked about the lowest growth in expenditure, but are we able to find out, on notice, for the last decade, each growth in that regard?

Mr Barr: Yes. The revenue and expenditure total territory amounts will be available. That is relatively straightforward.

Mr Miners: Yes, calculated from public information.

MS LEE: In terms of assuming that the current government policy remains the same, does Treasury have any concerns or thoughts about whether the forward estimates contained in this budget are going to hold up?

Mr Barr: That is a very similar question to Mr Coe's earlier one.

MS LEE: I am trying to phrase it differently.

Mr Miners: The forward estimates produced are the best estimates we can produce based on the information at this time.

Mr Barr: At the time that the budget was put together, which is now seven months back.

MS LEE: Yes, I understand that.

Mr Miners: As I have said before, this is a particularly difficult time to forecast. There are greater uncertainties than we have seen, and that is why the government has produced a range of upside and downside scenarios. I should note that what we are producing is largely a central forecast. There is upside risk. These numbers could quite conceivably come in better than anticipated, simply because there is upside risk to the economy as well.

MS LEE: How do you weigh that up? Are there more significant and more upside risks than downside risks? Is that something you can say?

Mr Miners: We try and go as central as we can in producing a set of forecasts. We do try to balance those risks. In various situations, certain elements will have more upside than downside. For example, if you look at the vaccine rollout—that has both an upside and a downside; we are trying to balance out how effective it is in actually stopping the transmission of disease versus how effective it is in just reducing the symptoms of disease—it is how quickly that rollout takes place and how well it rolls out across Australia and trying to balance the upside and downside of that from a health perspective and then flow that through into an economic perspective and then into a budget perspective.

We try and go as central as we can, but in some cases there may be a particular risk where there is more upside or downside on particular risks, and the statement of risks covers off some of those.

MS LEE: What I am trying to get at is this. Is this 2.3 per cent—as I said, you can do the sums if you want; I sat down and did the calculations—moving forward, realistic?

Mr Barr: The point here is that in the base year that you are making the assessment against, there is an increased level of expenditure that is a one-off, namely COVID-related. So they come out. If you strip that out, you get a different set of growth metrics, because there is certain expenditure that is—what is the phrase that Frydenberg uses ad nauseam?—targeted, temporary and time limited. It is three Ts: targeted, temporary and time limited. There is certainly an element of that contained within the expenditure for the previous fiscal year and the current one that we would not have to carry forward.

In relation to the upside-downside risk equation, it is perhaps always in the nature of a Treasurer to want to focus on the upside, but I can report an obvious tangible—now achieved—upside. $132.5 million today is one practical example. That is not in this, so that is an improvement.

The advice from the commonwealth Treasury is that the GST pool is looking to have an upside benefit. We do not know yet the full extent of that, as it will need to play out over the rest of the fiscal year. I get a monthly report from Sue and her team on own-source revenue, and that is also tracking above what was forecast in these budget papers. I see three key areas of upside that are quite significant. Treasury may bring down my good mood by suggesting that there are downside risks that I have not—

MS LEE: That is the Treasury officials' job.

Mr Barr: Indeed: risks that I have not factored into my mud map of the territory's forward fiscal position. We will have those conversations more deeply as more data becomes available and we get into the budget round. It is a challenge, but we are not the only government facing the challenge, and our challenge is not as great as that of many other governments.

I look to equivalent jurisdictions. I am in a better position than my Northern Territory counterpart, who has a more difficult way back. I am probably in a better position than my Victorian counterpart, who also has a more difficult way back. But there are some economies. I would love to be in the position of the West Australian Treasurer. Unfortunately, we do not have a booming mining industry at the moment or the political heavyweight nature to be able to strike a GST deal in the way that they have.

THE CHAIR: Frack Namadgi?

MS LEE: That is not a policy, by the way.

Mr Barr: I rule that out. We are in a better situation than most states and territories, but not quite as good as WA. That is a fact.

MS LEE: Treasurer, you mentioned using the best available at the time and all of that. Is it of any concern to you that between the forecast—I get that it was an estimate; it was a forecast—you provided in August and the actual budget, there was a significant gap? I understand some of the reasons that have come out about why that may have been, but is that of any concern to you as the minister in charge of receiving advice on it?

Mr Barr: If the difference was based on an accounting error—not being able to add things up or there being some obvious administrative error—then yes, I would have concern. But I do not, because that is clearly not the case in this circumstance. Every government has had to adjust its forward positioning—some better, some worse—as a result of the pandemic.

Rest assured, though, that over the nine years I have had the pleasure of being the territory's Treasurer, I have had more than one discussion about the difficulties around forecasting and the obvious political points that are made when forecasts do not end up being exactly where the numbers are. This is a problem regardless of whether you are Labor, Liberal, Greens, National Party or One Nation—whatever political colour you have if you are in this role. I do not do the forecasts; Treasury do. It is not a party political thing.

MS LEE: No, and that is why I asked you as the minister responsible.

Mr Barr: The business of forecasting is a very difficult one. Economics is, as they say, a dismal science. There is an upside and a downside to absolutely everything, as we have been discussing. I am aware that one of my key policy goals is to get as close as we can to full employment. That is a very worthy thing to do, I believe. But the economic downside of that will be skills shortages. Employers will say they cannot get people they want, because everyone will be fully employed. Economics—it is a dismal science.

Mr Miners: Could I add to that? Am I concerned by the variance? No, I am not, simply because it is very easy to judge it with hindsight. At the time that we were doing those estimates back in August, we did not know a lot of this information. We did not know about the rollout or how effective that would be in terms of the vaccine breakthrough. We did not know whether there would be further outbreaks of COVID-19 in states and how that would affect state borders. Since that time, the way we have approached that has changed, with these short, sharp lockdowns that are having different effects.

If I look back at that time, I would say I would probably make the same sorts of assumptions, just based on that information at the time. If I looked back and said, "What the hell were we thinking?", then I would be worried. But that is not the case.

When I look back at that, to be perfectly honest, to throw in a plug for my team, I think they have done a great job in coming up with some scenarios in a plausible way for estimating at a time when we really did not have as much information as we would have liked.

Mr Barr: I should add that we were the only jurisdiction in Australia to attempt to publish four-year forward estimates. No-one else was prepared to have a go at it. I think it is important to acknowledge that, and Standard & Poor's did as well.

Mr Miners: Yes, indeed.

Mr Barr: We looked at a number of different scenarios and made the effort, which I thought was a good thing. If I could send Stephen forward in time to observe what happens and then come back in time and provide me with the advice: "This month you should do this," I certainly would, but unfortunately—

MS LEE: Wouldn't we all like that?

Mr Barr: our time travel program has not yet reached that level. We could send him forward, and he might not come back.

Mr Miners: That is right.

Mr Barr: He might like the future.

MS LEE: We could be under a Canberra Liberals government.

Mr Barr: Well played, Ms Lee.

MR PETTERSSON: What are the risks to the ACT's economic outlook from the commonwealth's decentralisation agenda? I was wondering if you could outline what that risk is.

Mr Barr: In its nature, it would be a decision to continue to relocate Australian public service employment outside the ACT. It is a commonly misunderstood point that the majority of the Australian government's employment is outside the ACT. But about 40 per cent of it is here. That percentage has hovered around 40 per cent. It was 41 or 42; it might be 39 at the moment or 38. If that were to drop to 35 or 30, you would start getting into pretty significant economic implications.

There are about 240,000 jobs in the economy, give or take the monthly fluctuations. The commonwealth employs about 60,000 of those; that is one in four. If you took a significant portion of that employment out of Canberra, it would have flow-on effects. That would be less income in the city, less money that would then be spent in business, less demand for a variety of goods and services within the economy. Your average commonwealth public servant is on a salary of somewhere between $85,000 and $100,000. Each public servant that goes is that amount of money out of the economy, plus potentially their partner and household et cetera. It obviously has a flow-on economic impact.

MR PETTERSSON: Are there particular departments that the ACT government has an eye on to see what their future holds?

Mr Barr: I dare not speculate on where they might go next. There have been some very unusual and counterproductive decisions. The one thing I have been pleasantly surprised at is the absolute refusal of some staff to leave Canberra even if their agency has moved. They quit and try and find another job in Canberra. They will not be relocated to Armidale, for example, as we saw, famously, with that particular Barnaby Joyce initiative. The end result of that decentralisation was an agency stripped of nearly of all of its staff and capability, massive dislocation costs and a more expensive operation. And the services it is meant to deliver were not effectively delivered. The great benefit for us was that some of the staff who worked in that organisation now work for the ACT government, so we have picked up some talent out of it.

As a policy, it is silly. If the commonwealth feel they want to put more employment into the regions, that is fair enough, but they can definitely look at Sydney and Melbourne, where there is a very high concentration of commonwealth employment, and make the decisions there rather than singling out Canberra for that particular program.

MR BRADDOCK: I have a question as a new MLA. Are business cases developed for new policy decisions?

Mr Barr: Yes.

MR BRADDOCK: Would I be able to get a copy of some of those business cases?

Mr Barr: No; they are cabinet-in-confidence.

MR BRADDOCK: Then I just ask for the justification for the expansion of cabinet. I was glad to hear about the fiscal restraint you were going on about earlier, but what was the justification for the expansion of cabinet by 11 per cent from last term to this term?

Mr Barr: We examined this in the ACT executive estimates two days ago. In large part, we are dealing with an expanded government, a two-party government, with more ministers from your party than has been the case previously. It is the first time a governing arrangement has had 16 members to draw upon to form a ministry.

The Assembly determined that the maximum size for the ministry would be nine and that that was the optimum, but you have to also have sufficient non-executive members to be able to perform all of the functions, so not everyone can be in the executive government, although most people get the opportunity at some point in their parliamentary career, with the notable exception of some who have been in opposition for a period of time over the last couple of decades.

I made an assessment, based upon the governing and parliamentary agreement, in terms of the requirements around the implementation of that. There was a desire by the Greens party to have representation in the executive that was proportionate to its representation within the governing parties. I made an assessment of how many portfolios each individual minister should have.

I drew upon my own personal experience in this place, having served as a minister for longer than anyone else now, and having been part of a ministry of five, six, seven, eight, and now nine—at one point, I had nine portfolios, was attending 13 different COAG ministerial councils, and was working 90 to 100-hour weeks to be across all of that. That is just not physically sustainable for an individual, and I do not think it is fair. I had to look at work-life balance as well. I have to manage a lot of A-type personalities who are very ambitious and have grand things they wish to achieve as part of their reason for running for public office.

To manage this in a two-party alliance or coalition, depending on how you would characterise it, I sought to offset the additional cost—which is very small—of expanding the ministry by bringing the allocation that would otherwise have gone to a non-executive member to partially offset the executive costs and absorbed many of the marginal costs across the whole executive.

That is how we have managed to do this. Yes, it does come at a small additional cost, but it was envisaged by the Assembly, I think unanimously, that the ideal size for the executive would be nine members. It is also consistent with other jurisdictions of our size with parliaments that have 25 members.

MS LEE: Can I ask a few follow-up questions from the very long discussion that we had. I just keep thinking of more things.

Mr Barr: You are being emailed them.

MS LEE: You will be glad to know there is a combination of emails and stuff that I thought about. First, I want to clarify this. You took on notice a question about the growth percentage terms in terms of expenditure. That was over four-year periods in the last decade. I thought I had made that clear, but perhaps I did not.

Mr Barr: So not year by year, but over the forward estimates?

MS LEE: Yes, and when were the lowest in a four-year period. I just wanted to make sure that was clarified. That was not picked up, obviously.

Acting Under Treasurer, you referenced taking into consideration things like the vaccine rollout. Is there a particular vaccine rollout program that is in place? What have you made that assumption based on?

Mr Miners: No. Our assumptions are set out on page 15. We are basically making assumptions that the COVID-19 vaccines are rolled out from February 2021, reaching population-wide coverage across Australia by the end of 2021 and are effective in minimising the health impacts of COVID-19.

MS LEE: That is based on the generic Australian rollout?

Mr Miners: Yes.

MS LEE: It is not anything particular that you have taken into consideration?

Mr Miners: No.

MS LEE: I just wanted to clarify that. I want to move to interest payments. The budget talks about rising global debt levels which may lead to credit tightening and financial instability, particularly if interest rates rise. It also talks about taking advantage of the historically low rates. The commonwealth finance minister warned that we cannot count on low interest rates forever. We talked about this previously. The only reference you have is in table J.4 on page 303, which talks about the impact of a nominal 25 basis point difference. Can you explain what is envisaged by the reference to global interest rates rising and the expected impact that would have on the ACT budget.

Mr Barr: The second part of that was the discussion we had a couple of questions ago. Stephen, do you want to deal with the first part?

Mr Miners: Yes. Interest rates, as you say, are low. There are a couple of things I would point out. Where they move is going to be very dependent on both the global and the national situation. Nationally, the Reserve Bank Governor has come out indicating that interest rates are going to stay low—I am paraphrasing slightly—for at least three years. He has come out and said that quite publicly. We are going to be in for a period of low interest rates for a number of years nationally, subject to other events.

Globally, there is always a risk that, as economies pick up and as pressure moves, that can put upwards pressure on interest rates. The impact for us is really on the forward borrowing program and the costs to borrow. But it also has a flip side in that it flows through our returns as well; there is an increase in returns, potentially, from our investments as well. The borrowings at the moment are locked in; they will not change. This would only have an impact on the new borrowing program.

Mr Barr: It is probably useful to quote the Reserve Bank Governor from the Reserve Bank *Statement on monetary policy*, February 2021:

> The Bank announced another package of monetary policy measures in November. This included lower rates for the cash rate target, bond yield target, Term Funding Facility and remuneration on exchange settlement balances. It also included a program to purchase $100 billion of government bonds over a period of about 6 months.

That bond purchase from the RBA is Australian government bonds, but also state and territory government bonds. We are getting a very small part of that. We are not seeking to borrow $100 billion, but we are in the market for about $1 billion. Our population share is 1.7 per cent. These are not absolutes, but as a rule of thumb the RBA might look at 1.7 per cent of a $100 billion program, that being around $1.7 billion, as broadly what the ACT would be looking for.

We are not going to be borrowing our population share of that RBA $100 billion pool, but it indicates that the paper will go through the Australian domestic banks, momentarily, and then be bought by the RBA. They are doing this with a view to making the cost of debt to government—they are giving us three years of certainty and saying that they will continue to intervene in the market to the extent necessary to give us that certainty.

This is an extraordinary intervention by the RBA. The only thing they could do that would be more extraordinary than this would be to buy the bonds and then retire them and not require them to be repaid. I am a bit cheeky in meetings with the treasurers when we get the opportunity to talk to the Reserve Bank Governor, but I have not yet asked him to retire government bonds without repayment.

MR BRADDOCK: Why not?

Mr Barr: That would be a measure of quantity.

MS LEE: Are you saying other treasurers have?

Mr Barr: We have talked about it and what a great thing it would be. It would have some inflationary impact, but not that much. Then again, it is a stated policy objective of the RBA to get some inflation back into our economy. That is why they are doing the quantitative easing. The whole point here is that they want to give confidence to the commonwealth and the states and territories. This is the most surety we have had in the bond market in living memory. It is an unprecedented level of RBA intervention.

We can have a long discussion about modern monetary theory, but that would be a bit dull. Suffice it to say that, whilst they are not saying they can endlessly print money, our government debt is being bought by the Reserve Bank of Australia. It is not as though we are shipping the money off overseas; it is a pretty in-house transaction that is going on at the moment for reasons of economic support.

MS LEE: You may have already answered this, but I want to confirm something from an earlier discussion. Does the government make any forecasts or assumptions on what the interest rate will be in the forward estimates? You referenced the 0.1, but I do not know if it is a formal assessment or just an assumption.

Mr Miners: We just used the assumption of the yield curves, what is visible in the market.

MS LEE: Mr Coe asked about the interest rate going up by a basis point. Are you able to provide, on notice, the schedule of payments based on that assumption?

Mr Miners: I am not quite sure I follow.

Mr Barr: I do not know what you mean.

MS LEE: The interest payments if the interest rate is up.

Mr Miners: Page 198 might answer that. That has the total external territory market borrowings. It has the profile of the issuance we have out there. It also has the interest rates on each of those issuances.

MS LEE: These are all the fixed funds that you are talking about?

Mr Barr: Yes.

Mr Miners: Yes.

Mr Barr: It is table 3.8.10, on fixed bond rates on issue.

MS LEE: These are all fixed numbers?

Mr Barr: Yes. You will see that there is a 2022 maturity of around $550 million at an interest rate of 4.25 per cent. When we refinance that, we will get an interest rate that will certainly have a number one in front of it, we are hoping—

Mr Miners: We hope so.

Mr Barr: That will lead to an interest saving on that bond line. You will see we have $1.1 billion on a shorter maturity, April 2023, at one per cent. We are probably not going to get one per cent over a 10-year period. Much as we would like it, we are probably not going to get one per cent. Looking at our next substantive maturity, 2024, it is again another four per cent. As I understand it, if the RBA guarantee continues to that point, we might even want to refinance that earlier—we will have that conversation—at a rate lower than that. The prognosis in the short term is that the bond refinancing will lead to lower interest repayments on our market debt.

MS LEE: Thank you.

Mr Barr: I will add that that contributes to an improvement in the headline net operating balance and a reduction in expenses.

THE CHAIR: With regard to election promises, the Treasury has a defined role, as part of the Election Commitments Costing Act. What is the standing of the commitments that have been costed by Treasury that are therefore commitments that an incoming government would take on board? Does Treasury actively work on those commitments following the election or does the incoming government give directions that supersede the commitments that have been processed during the campaign?

Mr Barr: It is a bit of both. Treasury have done costings on all the things that were submitted in the process, so they are aware of those. When they come forward in the budget process, there would be a refresh and an examination of the costings undertaken in 2020 and whether they are still accurate for 2022, 2023 or whatever the time frame is.

Principally, though, the guidance will come from cabinet, based on the advice of the Expenditure Review Committee, based on the letters of authorisation that I as Treasurer provide to ministers to bring forward items that are contained within the parliamentary and governing agreement or are election commitments of the governing parties. That is how the formal process works.

I will write to ministers and say, "I would like you to bring forward business cases for the following parliamentary and governing agreement items or the following election commitments," noting that in some instances the parliamentary agreement items reflect almost a direct overlap in election commitments from the Labor Party and the Greens. As an example, we both committed to providing, I think, \$2 million to \$3 million in additional expenditure on tourism and marketing—exactly the same commitment. We do not deliver that commitment twice; we deliver it once. Therefore, two election commitments became one business case because they were identical, effectively.

There are some examples of election commitments that are like that. There are others. For example, the Labor Party put forward a policy commitment around the sustainable household scheme. We said we would provide interest-free loans of between \$2,000 and \$15,000 for a variety of products. The Greens party put forward an election commitment that indicated they were happy with our program and wanted to provide some additional benefits for the purchase of some items that were not contained within the Labor Party election commitment. In the parliamentary and governing agreement, we reached a consensus and, within the confines of the fiscal envelope that was the Labor Party commitment, added some of the additional items that the Greens party wanted. The commitments were merged, honouring both agreements.

THE CHAIR: I understand that more political process and that negotiation, but I am also interested in the departmental processes in tracking and developing election commitments. Does Treasury have a role in proactively preparing that after the incoming government brief or are the election commitments—everything on the Treasury website—pretty much just in the past and Treasury never needs to go back there?

Mr Barr: Treasury would go back there in assessing the business cases as they come forward as budget bids. To give a hypothetical example, I guess it would be possible for the governing parties to say, "Sorry, the cupboard is bare; we are not doing any of that." That has been done in Australian politics before. It would be equally possible for the governing party to say, "Okay, we want to do all of that, plus we want to do 10,000 other things as well."

THE CHAIR: Does Treasury maintain a checklist of election commitments that the Labor Party and/or Greens have made, and what is the status of those?

Mr Barr: The checklist, such as it is, would be the policies that are submitted and are on the costings website. I do not believe Treasury do the monitoring of that; it is done by the Cabinet Office. It is the same directorate, but it is not done by Treasury per se. That is done at my request. I do not have to do that, but I do, in order to keep track of our progress in implementing.

THE CHAIR: So you have not charged Treasury with a responsibility or a mandate to develop all the costings that have been submitted?

Mr Barr: I have already done the costings.

THE CHAIR: Developing the policies and developing implementation.

Mr Barr: Where it relates to Treasury. I have mandated Treasury to begin work on the Sustainable Household Scheme and the concessional loans arrangements that relate to Treasury as a portfolio agency. But Treasury is not developing policy or programs for other agencies. They will provide advice to me, as Treasurer, on whether what is coming forward from the directorate as part of a bid from a portfolio minister accords with the election commitment: whether it is what they said they would do and whether it is consistent with the fiscal parameters around the project or program. Treasury have already provided me with advice that a couple of bids were seeking more money than we committed to in the election. I was well armed in that ERC meeting to go, "No, this is more than what we committed to. We are spending only what we committed to."

THE CHAIR: I imagine some directorates try to cajole cabinet into convincing them.

Mr Barr: Suffice to say that nothing gets past Treasury when it comes to whether this is what was committed to in the campaign.

THE CHAIR: Are you able to provide a reconciliation of what election commitments are outstanding?

Mr Barr: Yes. Most of them are, because we are at the first budget of the term.

THE CHAIR: A number have been incorporated.

Mr Barr: Some have been, yes. Yes, we do. Both the Greens party and the Labor Party have determined to provide annual updates on the implementation of our—

THE CHAIR: Of the agreements?

Mr Barr: Yes.

THE CHAIR: That is why I am specifically asking about the costings.

Mr Barr: Yes. That is largely a political exercise, more than a bureaucratic one.

THE CHAIR: Which goes to the original question as to what the role is. If the executive is doing it, if the Cabinet Office is doing it as a part of the directorate, then there is application.

Mr Barr: For the parliamentary and governing agreement questions, yes. I can then ask, and I do, how we are tracking against those. We do publish that information. But the list of election commitments is very transparent, and it is there on the Treasury website.

I presume I am not the only party interested in whether those commitments are being delivered. We have nine members of the opposition and three Greens crossbenchers who are very determined to hold the executive to account on the delivery of those commitments, as well as an eager media who follow this every single day, and community interest groups. And, as Mr Pettersson said—that is a good observation—

my parliamentary colleagues also provide that level of interest in and scrutiny of these matters, together with every interest group in a particular area. There is no shortage of sets of eyes looking at whether we are doing what we said we would do—no shortage at all. I absolutely guarantee you that the second we are not, there is often more than one press release issued.

THE CHAIR: The reason for me asking this is to see whether there is a consolidated list of where Treasury is at on progressing the election commitments?

Mr Barr: No; that is contained within the budget papers. The lists are kept more informally at a political level and as requested by cabinet. Not every election commitment has a financial implication. There were commitments to introduce legislation and things like that that do not fall into the budget process. That is why it is Chief Minister's and the Cabinet Office who undertake that level of advice to us.

THE CHAIR: Still, a lot of those are submitted, as part of the election costings, as zero.

Mr Barr: Yes, there are some things that are. But not every commitment that was made was a—

THE CHAIR: That is right, but they still have been processed through Treasury, often with nil cost.

Mr Barr: Yes, to assess whether there are any financial implications. A zero return is not saying that there is a ledger within Treasury. They are not doing that.

MS LEE: I want to go to page 47, the technical adjustments. Can you explain to me what the nature of those is, what those adjustments are? What are they from?

Mr Barr: The revenue ones or the expenses?

MS LEE: Both.

Mr Barr: On the revenue side, Suburban Land Agency, City Renewal Authority and Icon Water dividends have either increased or decreased from what was published in the last budget. That reflects, in this instance, that the dividends are $235 million or thereabouts, higher than originally forecast in this current fiscal year, and will be a little over $58 million higher in the next fiscal year but somewhat lower in the two outyears. The main reason is that the Suburban Land Agency has sold more land more quickly than was originally anticipated. I would foreshadow that, as part of the four-year Indicative Land Release Program, we will be looking at adding additional supply into the market in fiscal years 2022-23 and 2023-24, in order to ensure that there is a continuity of land supply. So the dividend issue will be adjusted again in the next budget.

GST revenue is the increase in GST, the size of the GST pool. The other commonwealth grants revenue is an increase in commonwealth grants. That is now further increased by $132 million as a result of the light rail announcement today. The investment income and taxation revenue adjustments are reflecting our own-source revenue increases from what was projected in August. The investment income is an increase on that type as well.

I am going to leave it to Stephen to talk about other parameter and technical adjustments. That is the “miscellaneous everything rolled together” version.

Mr Miners: It is, yes. I do not have the full list of everything that is in there. There are a range of smaller adjustments that hit across a range of agencies. They could be right through the receipts from collection of a particular revenue line. For example, the tip fees may be moved in terms of what has been collected. Those sorts of things may be picked up here. There is a real range of very small adjustments.

MS LEE: Is that something you can take on notice? Is that easily available?

Mr Miners: If you like, I can come back after lunch with a bit of a breakdown, but some of them are very small, so I would not want to give you the full list.

Mr Barr: The sum total of all of them in the current fiscal year is just under $6 million, so it is not much money in a $7 billion budget. Nevertheless, they are all consolidated.

Mr Miners: They are not all necessarily negative either.

Mr Barr: Going to the expense side, Stephen, do you want to go through provisions, rollovers, interest expenses and grants?

Mr Miners: Yes. There are a number of provisions that we put in for things that the government has made decisions on but that still have to flow through. They will hit the outyears. There are provisions for conservative bias allowance, trying to adjust for inaccuracy in estimates to get a more accurate bottom line. There are things like the ones we talked before, about wages provisions and those sorts of things, that will flow through into a provisions line. They are things that we think are going to happen at a whole-of-government level but do not want to allocate to agencies just yet.

Going to revised funding profiles and rollovers, we work with agencies ahead of every budget to work out what funding is going to move between years. These are things you will often find. Missing there is what we are spending from the previous year that is flowing into the current year and, similarly, movements across those years. All the rollovers will net to zero. If there are slight changes in funding profiles, again, they will net to zero over time. You just will not see it in this table because there are years on either end.

The interest expense is exactly that: the expense we pay on interest, and movements there.

Going to commonwealth grants, that is the expense side of the commonwealth grants—in other words, the money we receive and the movements in the spending of those funds. There would be some on the revenue side, but when we spend it, and we are spending those grants, that gets picked up there.

With the other parameters, you can have small ones looped together. Again, I am happy to come back after lunch, if I can, with some of the larger ones in that category.

MS LEE: Thank you.

THE CHAIR: We will suspend for lunch.

Hearing suspended from 12.38 to 1.44 pm.

THE CHAIR: We are on budget paper No 3, the budget outlook.

MR PETTERSSON: Chief Minister, could you tell the committee more about the government's commitment to creating 250,000 jobs in the ACT by 2025?

Mr Barr: This is one of the key economic indicators that the government is focused on, so I place this one very highly amongst the economic objectives that we are seeking in this parliamentary term.

We were at a point of around 242,000 jobs in the territory pre-pandemic. We have seen that number decline somewhat, rebound again and then decline a little, subject to the future revision of this month's figures, which I suspect will happen, given what is happening with other indicators.

At the time when we put forward this objective, the labour market analysis that had been undertaken by commonwealth Treasury and reinforced by ACT Treasury was that there would be two impacts in the economic recovery post pandemic and that we needed to look not only at the level of employment but also at the number of hours worked. The previous history of economic recoveries had been that businesses tended to give existing employees more hours before they took on new employees.

It remains to be seen whether some of the government incentives at the federal level related to what I think is called JobMaker—another in the trilogy of job-related program titles. There may be some displacement effect associated with that, although I see that it has had a bit of media attention in recent days. I am sure commonwealth Treasury would have provided advice to the commonwealth that they structure the scheme in a way that would not lead to that.

But inevitably what will come is an increase in the hours worked by existing employees, so more hours for part-timers, and part-timers potentially becoming full time in certain industry sectors. Then what is expected to flow after that is an increase in the number of people who are employed.

This is a dual objective in terms of the quantum of people employed, as well as having the benefit of reducing the number of unemployed people, noting also that the stronger our labour market is—the more job vacancies we have in our economy—the more it tends to act as an attractor for interstate migration from elsewhere in Australia as people come into Canberra for those jobs, so that contributes to our population growth. It also assists in addressing some of the potential skills shortages that might emerge in certain industry sectors as a result of an economy transitioning towards full employment.

Clearly the more people who are employed, the fewer people will be in poverty. The more people who are employed, the more taxpayers you have and the broader your tax base is, and the more expenditure there will therefore be in your economy. So it has the added benefit, obviously, of increasing aggregate demand across the economy, which will benefit everyone.

MR PETTERSSON: You mentioned just then and previously an aspiration to reach full employment. How close to full employment would a goal like 250,000 jobs get us?

Mr Barr: Based on the current labour force and the current labour participation, it would get us there. It would get us largely where we were pre-pandemic. There are many different measures of full employment, but the one that I think has been more useful is that we had more job vacancies than unemployed people prior to the pandemic. That gives you a sense that, with the obvious movement in the labour market and the potential skills mismatch, there were more jobs available than there were people seeking work. So that is a pretty good measure of a full employment goal. At 250,000, that gives a bit of room for population growth and/or participation rate increase—although I do note that we have a well above national average level of workforce participation. Canberra is very much a working city. There are demographic reasons for that but there are also realities around our economy that it continues to grow and produce jobs.

MR BRADDOCK: I am just trying to understand where the money goes. I am going to refer to a couple of pages and figures and tables. The first one is page 126, figure 3.4.2. I am comparing that to page 107, table 3.3.2. Whilst in the rough ballpark, there are some inconsistencies there of a few percentage points plus or minus, and I am trying to understand what would be driving that. Let us answer the question first as to why there might be discrepancies between those two items.

Mr Barr: One is GGS sector and 107—is that to do with the ABS?

Mr Miners: Yes. The table on page 127 and the chart on 126 derive from the ABS classification. The table on 107 I thought was coming from the same basis. The table on 126 includes superannuation and the table on 107 does not include superannuation.

MR BRADDOCK: Thank you—that clarifies that. In the table on 107, I notice that public transport appears but other forms of transport do not appear.

Mr Barr: Most of those forms of transport would be private and so would not be the subject of a budget appropriation from the government. That would be the—

MR BRADDOCK: Roads, footpaths, cyclepaths and so forth?

Mr Barr: That is contained within City Services. That is often a capital cost with a maintenance element. It is not a recurrent budget funding. But we do not pay people to ride their bike or—

MR BRADDOCK: So, on my understanding, 3.3.2 is just referring to operating, not capital.

Mr Miners: I think that is right. It is expenses; it does not include capital.

THE CHAIR: Treasurer, I have a series of questions with regard to the payroll tax harmonisation across Australia. You have mentioned on a few occasions that to raise the threshold would result in a windfall for big corporates.

Mr Barr: To lower the threshold, I think you mean.

THE CHAIR: Either to lower the percentage or to raise the tax-free threshold.

Mr Barr: No; if we raised the tax-free threshold, that would move more smaller businesses out of paying payroll tax. If you lowered the rate, that would be a benefit only to those who are paying payroll tax.

THE CHAIR: That is right. What I am getting at is that under the payroll tax arrangements, the percentage of the threshold that corporates receive is dependent upon the portion of their workforce in the ACT. Is that correct?

Mr Barr: Yes.

THE CHAIR: So, for instance, given that there is a $2 million threshold here, if a corporate has five per cent of their total payroll in the ACT, they would only get $100,000 of tax-free benefit. Is that correct?

Mr Barr: Let me take that one on notice.

THE CHAIR: Can you please describe how the scheme works with regard to the harmonisation agreement that is in place? In the event that a company has five per cent of their total national payroll in the ACT, does that mean that they would only get five per cent of the benefit of our payroll tax-free threshold?

Mr Salisbury: I agree to the privilege statement. The way you have described it is, I think, a simple way to explain how that provision operates. So, yes, I agree with that proposition.

THE CHAIR: Can the number of corporates that have a low percentage of their workforce in the ACT easily be quantified? Do you have that sort of data, or is it not possible to consolidate like that?

Mr Salisbury: We may be able to put that type of information together. I do not think we have attempted to do that previously but we potentially do have some information that we may be able to use to respond to that question.

THE CHAIR: In terms of the total payroll tax revenue that the ACT is receiving, are you able to advise what portion is coming from companies that are almost exclusively ACT based, as opposed to companies that are national companies that have a relatively small portion of their staff in the ACT?

Mr Salisbury: I think we would be able to put some information together that provides an answer to that question, but we have not done the work to present that.

THE CHAIR: For instance, is it possible that there are maybe 10 or 20 companies that are paying 50 per cent of our total payroll tax revenue?

Mr Salisbury: Again, we would be able to put some high-level data like that together.

THE CHAIR: I think it would be useful. I am particularly interested to better understand what sorts of benefits would be realised by ACT companies or predominantly ACT companies if the threshold were to increase by $500,000 or $1 million and whether that would have a huge impact on the total revenue that the ACT government is currently receiving.

Mr Barr: If you went from $2 million to $2.5 million?

THE CHAIR: I am open to whatever is easiest.

Mr Barr: Then I guess the obvious way to calculate that is that on $500,000 you would be charging 6.85 per cent.

THE CHAIR: That is right. There would be some companies that only just tip over, for instance, and would not have that full $500,000 threshold, and that is—

Mr Barr: There is the lived experience of when I raised it from $1.5 million to $2 million, so I am sure we took some questions and had some information at that point—

THE CHAIR: I might have put some questions in at the time on that.

Mr Barr: Yes. I am sure there was material prepared for speaking points that mentioned how many businesses were no longer paying payroll tax. I recall it being in the hundreds, not the thousands. It would be on a portion of the payroll that was no longer subject to the tax. It would be that amount at $6,850 for every $100,000 of payroll. That maths sounds about right, doesn't it? There we go.

MR PETTERSSON: The government is in the middle of a large tax reform program. What are the considerations the government takes into account preceding that in these uncertain times?

Mr Barr: Put it this way: we wanted to undertake some further reforms that would stimulate activity whilst remaining true to the objective of the tax reforms, which is to transition away from insurance taxes and stamp duties and transition those revenue lines to our broad-based land tax and rates. So the decisions that we took were to accelerate some stamp duty reductions for particular property types, namely purchases of new land and purchases of off-the-plan townhouses, units and the like, with benefits targeted mostly at the lower half of the market but with some concessions extending up into the midpoint of the unit market.

I guess the principles there were that we would continue to cut stamp duty and that we would ensure that the revenue replacement would occur through our most efficient revenue base. Those principles will continue. What we have done now has been clear in terms of certainty of the level of increase across the entire rates base for the next five-year phase. The difference between that and the wage price index gives us the wriggle room around which stamp duty we cut, because effectively the previous policy setting was that rates went up by the wage price index.

The reform setting is that rates are going up by 3.75 per cent over the next five years. The difference is the money available to cut stamp duty and those decisions around where we go on stamp duty, which areas we will focus on. The next wave of stamp duty reduction will be announced ahead of the August budget.

MR BRADDOCK: In response to COVID you did very commendably in terms of running out and fast-tracking projects, accompanied by the ubiquitous sign announcing the government's efforts in this regard. Is it possible to track our expenditure—how much was spent on signage announcing government projects, compared to previous years?

Mr Barr: I believe so. From memory, a lot of them were either corflute or cardboard signs. Some were a bit more significant. There is an element of signage that is required for projects and for planning approvals, and when you are lodging development applications there is a requirement for a certain level of signage. In comparison to the infrastructure program it is minuscule. It is not zero but it is not billions or hundreds of millions or even millions of dollars, I believe.

MR BRADDOCK: If the cynical person in me were allowed—it seemed to spike during an election year, which is the question I am—

Mr Barr: Because of the infrastructure programs, I think, that was the reality. But people want to know what is going on in terms of projects in their local region. So this is one of the things where if we do not do it then it is, 'Oh no, you're being secretive; you're not talking about what's happening,' and people do not know that a project is coming. If you do do it, then it is politics. I mean, I don't think we can win either way.

Frankly, in the grand scheme of government advertising, there have been some pretty notorious culprits over the history of Australian government. The ACT government has always been very limited in its spending on promoting or publicising infrastructure projects or activities, compared to everyone else. We probably hide our light under a bushel a little. I accept that there is a degree of cynicism associated with it, but you also do need to tell people what is going on in their local area. The more cost-effective we can be in doing that—I guess geo-targeted Facebook ads might be cheaper but then the money would not stay in our economy, would it? So maybe we stick with 20th century signage as the preferred way of advising.

Mr Miners: I should just confirm that that is a level of expenditure we do not take in Treasury at a whole-of-government level, so I have no way of responding to it.

THE CHAIR: Going back to payroll tax, obviously, there are two clear levers, being the threshold and the rate. Has any consideration been given to a more complex system that might involve having a different rate according to the size of the business?

For instance, if you are a large company—

Mr Barr: Measured other than by payroll?

THE CHAIR: the first $1 is at 6.85 per cent, but for a company that has a payroll of $3 million it is a lesser rate. It would mean that there is a big bracket issue—

Mr Barr: Sure. It is a step up. I know the point—

THE CHAIR: and any other considerations—

Mr Barr: I recall that in the first round of tax reforms, and this is going back about nine years, I asked a similar question as to whether we could have effectively a banding—

THE CHAIR: A multi-tier.

Mr Barr: A marginal. I recall that the matter was looked at. Whether there is anyone in Treasury now who was around back then—it might have been Khalid Ahmed who provided the policy advice on that one and I think he advised against it—

THE CHAIR: From what I gather, he still is providing advice.

Mr Barr: I believe he continues to provide policy advice. It would only be for the benefit of my long and elephant-like memory, Chair, but yes, it has been considered.

THE CHAIR: I am obviously not talking about up to $5 million and then $5 million to $10 million—I am not talking about an escalating rate. I am talking about the first dollar, depending on the actual size of the company. It would obviously be more cumbersome but it is all about trying to incentivise ACT businesses, in effect.

Mr Barr: I guess there has been some research done over the years about whether, once ticking over the threshold, you would pay $6,850 in payroll tax for every new employee—assuming an average employee is on $70,000 or $80,000.

THE CHAIR: Another way of doing this would be, depending upon what percentage of their payroll is in the ACT, if you had a company that was 100 per cent in the ACT, could they be treated differently to a company that had five per cent of their payroll in the ACT?

Mr Barr: All great ideas in tax reform have their moment in the sun. I am happy to have another look at it. I will consider it a bit of a parting gift that you are asking me to do some more policy research on this one. Will we call it the Coe increment?

THE CHAIR: I prefer the Coe decrease.

Mr Barr: I will take that on board. I am happy to look at it.

THE CHAIR: If it has been discussed internally or if there is any standing advice or any known impediments, if they could be sent through to PAC, that might be—

Mr Barr: I can state that I do recall looking at a tiered system back in 2011-12 or 2012-13. I remember asking a very similar question. It has not been considered since then, so there would no advice prepared since then. But I know Treasury has records all the way back to what Khalid would have advised on in the first phase of tax reform. They are all smiling, so maybe or maybe not.

THE CHAIR: I understand there could be issues with the agreement with the other states and territories as well—with that harmonisation agreement.

Mr Miners: We will have a look, Chair, and see what we can find. I have no doubt that that sort of thing would have been canvassed. But whether it is formally canvassed in a report or whether there were discussions around it—

THE CHAIR: Sure.

Mr Miners: All tax reforms are weighed up against fairly standard criteria. Obviously, complexity or simplicity is one; efficiency is another. And when we look at things like simplicity, it is not only for us to collect it and to verify that taxpayers are paying the right amount; it is for the taxpayers to fill out the forms and to understand that. So we weigh it all up.

THE CHAIR: Given that declarations have already been made about what percentage of their workforce is in the ACT, that could then guide the rate applicable for their company.

Mr Barr: Possibly. But you might need some more tax compliance officers. I will not ask Mr Miners to answer that question.

Mr Miners: We can certainly have a look and see what we found. Again, with all taxes the frameworks are reviewed from time to time to make sure that we are still operating in the most efficient and effective way.

MR PETTERSSON: I have a question about the population growth expectation for the ACT. I am looking at page 32. Population growth is remarkably stable over the next few years. We start to receive net overseas migration in 2023-24. That seems a bit odd to me. It seems to be a year late. Am I right in thinking that?

Mr Miners: The population forecasts that we are using in this budget are coming from the commonwealth's Centre for Population studies. We have remained consistent with those. The reason for that is that the big movement in population at the moment is around the net overseas migration, and that is a commonwealth-controlled parameter. So we are using their numbers on it because they are controlling that program. They are holding that fairly flat through the forward estimates, so that is what is reflected in our estimates. That is the parameter that then drives a lot of our other forecasting to the outyears as well.

Your question is whether it is too low. There are a lot of experts who are looking at this. I think there is definitely some upside, should the borders be opened soon. I am talking international borders. We will see. If the vaccines are working very well, there is potential for those flows to happen more quickly over time. Should that happen then those population numbers will be stronger than forecast. But at this stage, into those outyears in particular, we do try to do it on very technical types of assumptions, and using the commonwealth's numbers was the strongest base we had for it.

MR PETTERSSON: I suspect the Minister for Health is probably more capable of answering this. Are we expecting a baby boom?

Mr Barr: The early indications are that we are not. We are certainly more than nine months into the pandemic, so if the suggestion was that lockdown would mean that people would use all that spare time at home for the purposes of growing their families, the answer appears to be no, locally and Australia wide. Hypothesising why that is the case, the best evidence I have seen is that a time of economic uncertainty tends not to be a time when people expand their families. That is a general and aggregate assumption around household size and the decisions of those who are in the demographic who are going to be having children. It is linked to unemployment level as well. If unemployment goes up, it tends to have an impact on the fertility rate as well.

MR PETTERSSON: I think I saw a headline out of South Australia that they are having a baby boom from COVID.

Mr Barr: It could be something in the water in South Australia. Look, I was interested in this as well, purely from a professional perspective, and was wondering whether it would. But the reports I have seen and the data I have seen say that it has not eventuated. We tend to have more babies in boom times than we do during economic downturns.

MR PETTERSSON: That makes sense.

MR BRADDOCK: On page 98, on fast-tracking bulky waste collection services, I am trying to understand how, as we accelerate the rollout of the bulky waste collection service, we actually have the net cost of services going down. I am trying to understand what the driver is as to—

Mr Barr: In short, there was a Treasury estimation of what the level of take-up would be, as in what percentage of households would utilise the service. They made an estimate, a guess, and we now have some actual data and it has turned out a lot lower than we estimated.

MR BRADDOCK: So take-up has been lower than your estimates?

Mr Barr: Yes.

Mr Miners: Take-up and cost of delivery of the service as well, so basically we have been able to roll it out more quickly and at a lower price.

THE CHAIR: You made mention of land sales earlier, I think it was in relation to the technical adjustment. With regard to the land sales and your plan to perhaps bring forward some land as part of the Indicative Land Release Program, how significant, not just in terms of dollars but also in terms of the number of dwellings, is what we are talking about with regard to those that have been sold earlier than expected and also those that may well need to be brought forward?

Mr Barr: In calendar year 2019 the Suburban Land Agency sold a little over 200 dwelling sites. In calendar year 2020 they sold a little over 1,000, so five times the level of land sales in the last calendar year. They are the quantum figures. I had a briefing with them yesterday and asked the question as to whether that trend is continuing into 2021. In short the answer was yes, moderating slightly but still well above the 2019 figures.

To answer the second part of your question, we are in the process of formulating the forward Indicative Land Release Program, so I cannot speculate at this point on what that quantum will be. But we have traditionally been, with a four-year program, from memory, between about 13,000 and 18,000 dwelling sites—so somewhere in that range. We think it is about 15,000 now.

You have the greatest capacity to add more further out in the program. As you are very well aware, because we have discussed it for 12 years, there is a development pipeline in terms of land zoning, estate development planning et cetera, so you cannot just switch it on. It does take a couple of years to get land to market.

The other obvious contributing factor to the total number of dwelling sites will also be large high-density sites that can go to market, because they are a couple of hundred and it is materially easier, obviously, as, again, we have discussed over the past decade, to get 200 units on the market than 200 single residential blocks, because the quantum of land required is much different.

As a general statement, the government's position was to seek to oversupply against the assessed level of demand. All these models are prepared by various entities and then they spit out a number, and we have intervened to ensure that the number supplied was greater than that number. I intend to continue that approach in the medium term.

THE CHAIR: The dividends that are listed on page 156 have the dividend falling away, as discussed, to 2022-23 and then increasing to $64 million in 2023-24. Do you envisage that land that was due to be released in 2023-24 will be brought forward, or will additional sites be identified now for rolling out very quickly so that they are available?

Mr Barr: I think it is a bit of both, I need to get some more detailed advice from the agencies on the forward program.

THE CHAIR: So you are pretty much compressing the current program and then putting stuff at the end, or are you supplementing the current one?

Mr Barr: It is a bit of both. The fact that 82,000 sold in 2019 meant there was quite a lot on the shelf ready to go for when the market rebounded. A lot of that has now been taken up, so we will need to get the supply side back. The SLA chair and CEO briefed me yesterday. This is obviously in Minister Berry's area, so they will be able, in their estimates, to give a lot more detail. But I was advised that there are more land releases coming in the four months that remain in this fiscal year and that work is well underway between the Planning Authority, the Suburban Land Agency and Treasury to provide cabinet with advice on the forward program for the next four years.

I anticipate, in direct answer to your question, that there will be a need to bring some releases that were scheduled in the outyears forward as much as we possibly can. But bringing it forward is done in months: you generally cannot jump a whole year ahead but you might be able to bring something that was due to be released in July of 2023 into June or May of 2023, so it then comes forward a fiscal year. Then we will need to look at what additional land releases would be possible in the forward estimates in the third and fourth years of the four-year program. I will ask the City Renewal Authority to look at its forward land release program as well. That probably will not be exclusively residential but it would be mixed use, so there would be a residential component.

MR BRADDOCK: Just a supplementary on that. You have spoken a lot in terms of the supply side. In terms of the demand side, I am interested in whether it is the case that we have brought forward that demand, or is that built-up demand because there was not enough on the shelf? What has happened there?

Mr Barr: That is a great question. The evidence would suggest that the commonwealth's HomeBuilder program, together with our stamp duty concessions, has brought forward some investment decisions from households. That is where it deviates from the supply and demand model that is put together to sort of spit out what the market equilibrium number is. I think there is a bringing forward, but experience over more than a decade tells me that we have peaks and troughs and there can be some years when we sell only 200 and another year when we sell 1,000. But right now we have the lowest interest rates ever.

Again, economics is a dismal science. Low interest rates mean asset price inflation, so you will start to see the housing market lift in terms of the value of properties. That would presumably, if supply and demand interact as per our understanding of microeconomics, start to have a dampening effect on demand. The thing that the Reserve Bank have said that possibly counteracts this a little is that investors will come back into the housing market in a big way because the return on housing assets will be stronger than what people are receiving, certainly from bank interest, and may be considered a better investment bet than the share market.

It is hard to piece it all together and get into the mind of your swing investor who might go one way or the other, but I think those trends are there. Whether, of course, this takes a different path in different housing markets in Australia will be interesting to watch as well. Melbourne has been down for a while, COVID related, but I see media reports that it is about to have a big upswing. Sydney was depressed for a period but now appears to be rebounding; Perth has been going strongly. For years no-one wanted to live in Hobart and now all of a sudden everyone does. Hobart's house prices have grown the fastest of anywhere in Australia and they have massive housing affordability challenges.

The only other thing I have read, and it is commentary that I think makes sense, is that there has been a little bit of a trend away from big cities and CBDs into smaller cities, regional areas and suburban areas as a result of COVID. Whether that is a lasting trend remains to be seen. It is something we are looking at. Undoubtedly, there are going to be pages and pages of opinion pieces written in newspapers on this issue for a little while. In amongst all these market forces there are push and pull factors, as you have correctly identified.

MR BRADDOCK: One of those factors is that the Suburban Land Agency would be one of the major players in the market, when they are releasing land, in terms of what is appropriate market value and how they influence that market.

Mr Barr: That is true. They do not have a monopoly in this area. I guess the government policy around land release has largely been to have three tranches, three delivery models: the Suburban Land Agency, a joint venture between the SLA and private partners, and then just englobo sales that are released to the market by private developers. The SLA estates are pretty clearly outlined. The joint venture arrangements in Canberra at the moment are in the Ginninderry-west Belconnen precinct. Strathnairn and those suburbs are part of that joint venture arrangement. Then there are suburbs like Denman Prospect in the Molonglo Valley, an englobo sale where they are being released via a private developer.

MR BRADDOCK: Just coming back to the 1,000 houses you mentioned, residence blocks or whatever—

Mr Barr: Dwelling sites, yes.

MR BRADDOCK: that were sold last year: how many of those were affordable housing?

Mr Barr: It would have been 15 per cent or thereabouts. It might be slightly higher, depending on the site. It is really a question for the SLA, when they appear. I imagine it is around 15 per cent.

Mr Miners: I think it is around that. I am sorry, I do not have a number on that.

MR BRADDOCK: Thank you.

Mr Miners: The only thing I would add is that, certainly, one of the roles in Treasury is always to make sure that land releases are being put out in a way that is good for the budget in the long term as well as the short term and keeping pressure on the SLA to meet those objectives, both in terms of the revenue estimates and also the amount of land that goes out. It is something that we spend quite a lot of time working with the SLA and EPSDD around.

MR PETTERSSON: With JobKeeper coming to an end, has the government done any work on predicting what the effects will be?

Mr Barr: We looked at what the payroll would be, did we not?

Mr Miners: If you like, I will start at a very broad level and Sue might jump in as we go through. When JobKeeper ends needs to be kept in the context of where the economy is going. One of the reasons that JobKeeper can be wound back is because the number of people reliant on JobKeeper will diminish over time; so certainly it is the strength of the economy. Ideally, these things would be transitioned, with people moving off JobKeeper and going straight back into their jobs. The strength of what we are seeing in the economy is a good thing that will help that transition through.

We are also seeing that a lot of the sectors that were adversely affected through COVID have recovered quite a lot of their employment levels. There is a chart in the budget papers, and I do not have the page on me, which shows that those sectors—for example, the cafes and restaurants that had a large impact and necessarily moved onto JobKeeper early—can now move off JobKeeper because the jobs are coming back in those sectors. We have some information for those sectors as well. I am sure Sue has got that figure.

Mr Barr: I will go now because I have got a little bit of data. For JobKeeper 1.0, there were 44,500 employees on that program, which ran from April to September last year. For the October to December period, that 44,500 reduced to 16,835. That was on the lower rate of either $1,000 a fortnight or $650 a fortnight, depending on whether they were full or part time.

If you want to know what the maximum total impact of that would be, you would need to make an assumption about, if they were not on JobKeeper and they were instead unemployed and on the new JobSeeker rate, what would be the difference between the two payments and then multiply that by potentially 16,835 people. In the grand scheme of things, in terms of the totality of wages and salaries paid in the ACT, it would not be a massive figure. It would be significant for those individuals, but for the economy overall, not that big; probably tens of millions of dollars over the course of a year, but not billions.

Mr Miners: What I think what we will find—again, it is probably a blip—on the back of a strong growth in the labour market is that that will absorb that over time, and hopefully quickly. It will not be something that will persist into the long term.

MR PETTERSSON: Wonderful. Thank you.

MR BRADDOCK: I have just got a question about public partnerships. The Pegasus report provided some detailed accounting standard questions.

Mr Barr: Yes. They were very interested in accounting standards, weren't they?

MR BRADDOCK: I would love to get into the details of those, but—

Mr Barr: No.

MR BRADDOCK: I will ask that they get taken on notice.

Mr Barr: I think we were anticipating this question. I am sure Stephen is now ready to provide the technical explanation for why the Australian accounting standards—

Mr Miners: Yes.

Mr Barr: Why a particular standard was applied or not applied.

Mr Miners: At the time the PPPs came along—as I flick through my notes—there was no standard.

MR BRADDOCK: Yes.

Mr Miners: The approach that the ACT took was consistent with that being taken by other jurisdictions around at the time. It was a UK standard at that time, and that was the general approach. The new accounting standard that relates to PPPs has now passed through, and we will reflect that fully in our statements.

The difference between the two, at this point, is almost negligible, because the PPPs are already fully on our balance sheet and the new standard will have brought them on. The difference is really around the timing at which you bring them on. One, you can bring them on as they are complete and they come into operation. Two, you can bring them on as they are built. The new standard will have them coming on as the assets are constructed. But at the end of the day they are going to be the same. The impact of that change and bringing the new accounting standard on the ACT's balance sheet for the PPPs is almost negligible.

MR BRADDOCK: Is that going to be brought on in one budget, the next budget, or is it going to be staggered over the 20 years of a PPP?

Mr Miners: No. We bring them in at the time the standards actually come in. It started this year. You will see it in our financial accounts. The consolidated financial accounts for this year will be fully reflective of that accounting standard.

Mr Barr: And it will be reflected in the August budget.

Mr Miners: Yes. The PPPs are effectively reflected in the budget already.

Mr Barr: We are certainly aware that Pegasus raised a bunch of those questions. Treasury will provide a written answer.

Mr Miners: Yes.

Mr Barr: It will be part of the government response to the Pegasus report.

MR BRADDOCK: Thank you.

THE CHAIR: Just another question about revenue.

Mr Barr: Kim, you can come and park yourself up in a comfy chair!

Mr Salisbury: Yes.

THE CHAIR: I will go back to a pet subject of mine, which is land valuations.

Mr Barr: It would not be an estimates hearing without some land valuation questions, would it?

THE CHAIR: Would you please give an update on the impact of the Mr Fluffy sales on land values in those suburbs. In particular, the house next door might well have a valuation considerably less than what was the auction price of one of those Mr Fluffy blocks.

Mr Salisbury: The way we do residential land valuations is that we look at a suburb precinct by precinct. We will take a benchmark property in that suburb and we will look at all the sales that have taken place within that suburb. That will include the Mr Fluffy sales, the vacant property sales and the improved property sales. We will determine whether, in our view, there has been a change against the current value of that benchmark property. If we believe there has, we will apply what we believe is that percentage change across that precinct. A Mr Fluffy sale will be one of a number of sales that we will take into account in re-benchmarking that suburb. If the sample is not sufficient then there will be no change to the values of that precinct.

THE CHAIR: Okay. Are you saying, therefore, that the auction price of an unimproved block of land is not then going to be the basis for that land value?

Mr Salisbury: That will be one of a number of sales that are taken into account across the precinct. For that individual Mr Fluffy block itself, the auction price is the best indicator of the value of that property.

THE CHAIR: Therefore, is it possible that there could be two blocks next to each other that have a wildly different valuation based on one being a Mr Fluffy and having a recent sale price and the house next door perhaps not being a Mr Fluffy block? For instance, I am just browsing now some of the AUVs in Waramanga, where obviously there were a number of Mr Fluffies. A heap of these have valuations for $380,000 or $400,000, and we all know that at auction a lot of these blocks sold for more than that. Some of them, of course, do have different lease provisions and that is something to factor in. However, not all of them do. Given many of these blocks were not sold for $380,000, are there going to be many anomalies in such suburbs?

Mr Salisbury: Where there are anomalies in suburbs—and we identify that—we will do a complete regrade of that particular precinct. We will go property by property and we will work out whether or not the relativities between those properties are correct and then we will readjust that whole precinct. If the type of anomaly that you have described occurs, that is what we will do to fix that.

THE CHAIR: Which goes to the original question: is a Mr Fluffy sale going to therefore drive up the prices of the unimproved value of all those surrounding blocks? The last time an unimproved block of land sold in a lot of these suburbs might have been 30 or 40 years ago and therefore the valuation process has been somewhat academic.

Mr Miners: There are Mr Fluffy blocks in almost all of the older suburbs. If the review process of looking at that is consistent, you are going to get the same outcome, in that it would mean you would have the same situation for all suburbs.

THE CHAIR: I agree and that is the concern.

Mr Miners: At the end of the day, the commissioner has processes in place to value the land and remove those anomalies, wherever possible, with a broad view as to how suburbs are lining up as well. There are processes in place to make sure that anomalies do not exist over the long term.

THE CHAIR: If there is an anomaly, is the anomaly that sale or is the anomaly the dozens of houses around that are much lower? What I want to know, and not so much in a theoretical sense is: what is actually happening with regard to blocks of land that are being sold? Do we have occurrences where you have wildly different valuations? For instance, by default is the auction price becoming the unimproved value?

Mr Salisbury: The auction price is a good indicator of what that land is worth. It will not necessarily translate. It may, but it will not necessarily translate into the unimproved value.

THE CHAIR: Is it possible that somebody could buy a block of land for $600,000, yet they have been getting a valuation of $400,000 for their ratings purposes?

Mr Salisbury: I could not speculate on what the value would be. We would have to look at the individual case.

Mr Barr: It would be very surprising for it to be a quantum 50 per cent higher.

THE CHAIR: I just look at some of the ones in Weston Creek, where you have a lot of valuations in that $400,000 mark and a lot of the blocks sold for more than that.

Mr Barr: Yes, but $600,000? What were the block sizes? You would want to look at—

Mr Salisbury: And what was the lease condition, which you have acknowledged, but that is an important consideration as well.

Mr Barr: It is pretty clear within the system that there is a lot of opportunity if there is any anomalous outcome for that to be picked up in terms of the internal process within the Revenue Office. Occasionally people raise that with their elected representatives or directly with the Revenue Office if they believe there is an incorrect AUV being applied. I guess the other factor is that we have endeavoured to address any unusual spikes by having a five-year rolling average rather than a three-year rolling average. There is a great deal more stability in the system than was the case.

THE CHAIR: A new lease does not have a rolling average.

Mr Barr: But the rest of the market does, so it does give a degree of stability. It would make your anomaly cases stick out even more.

Mr Salisbury: We look to identify those anomalies when we look at the precinct, when we go to do the valuation for the precinct.

Mr Barr: If there are any specific examples that are problematic then we are very happy to have them looked at.

THE CHAIR: Okay. There may well be. If nothing else, it might be a case study rather than actually trying to address that specific one, but just looking at the policy.

Mr Barr: Sure. For the benefit of the integrity of the system overall, if there are any, please let the Revenue Office know and they will do the work to assess it.

THE CHAIR: Good.

MR PETTERSSON: Looking at the ACT final demand, seemingly commonwealth consumption has been increasing and that is the biggest driver of demand in the territory. What work is the ACT government doing to diversify the ACT economy?

Mr Barr: Obviously we cannot control what the commonwealth do or do not do. When we say "diversification" that does not mean that we are seeking to reduce the commonwealth's share. I cannot control that, and I think law and history say that that will continue to increase. What we can do is diversify the non-commonwealth share of the territory economy.

There has been a great deal of effort in that regard to support a broader range of industry sectors to encourage the growth of internationally tradeable services. There has obviously been a bit of an obstacle with the pandemic. It is the one flaw in that economic development strategy. It is very sound otherwise because there are much bigger markets external to the ACT in Australia. That is where you have got to be if you want a business to grow beyond a certain size. But if it is in the business of providing face-to-face services then it is not so good; it is not so crash hot in a pandemic.

That has been a principal focus. I am realistic about the ACT government's share of the economy. Therefore, with our share of economic development funding within our share of the economy, we are not going to be able to make radical shifts in any one year. But it is a clear direction of policy that year on year it is building up our internationally tradeable export sector. It is in services principally but also in some low-volume but high-value advanced manufacturers. We are also seeing, in areas related to research and development, a leveraging of public sector research and commercialising that is generating new income for the territory economy. They are probably the areas. Stephen might want to add to that.

Mr Miners: The way to diversify the economy is to support businesses coming into the territory. When you look at it from an economic literature perspective, what are the things that would drive new businesses into an area or encourage them? There are things around high levels of infrastructure and infrastructure that will actually support their business. There are things around having a workforce that they can draw on, an educated workforce they can use, a highly productive workforce. There are things around stability in government. By that I do not mean a party; I mean a stable government framework which you can go into.

There are things about regulatory frameworks that are simple to use. Taxation is usually on those lists, but it is actually much further down than you might otherwise think. Those are the sorts of things they are looking for. If any government is looking to diversify its economy, it is about providing those things which are set out, obviously, in government spending plans. Those are the sorts of things that governments can do to encourage businesses to come into the territory.

MR PETTERSSON: Is it foreseeable for private investment to increase at a rate greater than commonwealth investment and consumption? I am assuming that is why the—

Mr Barr: I guess it depends on what the rate of commonwealth investment and consumption increase is. Commonwealth expenditure and investment tend to be very countercyclical to the economy. When things are going well, the commonwealth tends to retreat somewhat from engagement with the economy and private sector investment increases because things are going well. When economies go on their downward turn, the private sector dries up much more quickly and the commonwealth and government are expected to step in. We are clearly in a period where commonwealth investment and its contribution to state final demand will be higher because it is spending more money.

Mr Miners: Rates of growth are volatile so you do need to be a little bit more careful. The larger the non-government sector becomes, the more stable its changes in growth will be. If it is only one per cent of the economy and it goes to two per cent, you have a 100 per cent increase. When it is at two and there is another one, it is only three per cent. When it is at 50, it is not going to move that quickly. It is quite conceivable, but you want to have a look at the factors driving it at the point in time. As the Treasurer says, why is that actually taking place?

THE CHAIR: Thank you.

Ms Vroombout: The story that the Chief Minister has told about the commonwealth government and the ACT government supporting the economy during the pandemic, and the private sector falling away a little and then the recovery of the private sector, is what we have reflected in the forecast. If you look at figure 2.2.5 on page 23 of the printed document, that tells the story about increased government consumption and investment during the pandemic and then the recovery of the private sector, both consumption and investment over the last two years of the forward estimates. It is certainly what we are expecting will happen; that private sector investment will return but after private consumption. Businesses need certainty before they will make long-term investment plans, so we are anticipating that that will take somewhat longer than private consumption to recover.

Mr Barr: Rest assured, with my Economic Development, Tourism and other portfolio hats on, I am hitting the road, pounding the pavement and knocking on the doors, initially domestically—Sydney and Melbourne. A lot of the big Australian firms make their investment decisions from those two cities. I was in Sydney last week; I am in Melbourne tomorrow and Friday and we will be meeting with potential investors to invest in the ACT.

MR PETTERSSON: Wonderful. Thank you.

MR BRADDOCK: Just a question about compulsory third-party insurance for motor vehicles.

Mr Barr: Yes.

MR BRADDOCK: Let's say a lot of promises were made at the time of the changes. I was just wondering whether those benefits have been realised.

Ms Vroombout: I do not have the numbers in front of me. That was covered in a hearing yesterday.

MR BRADDOCK: My apologies.

Ms Vroombout: We have seen significant reductions in motor accident injury premiums, both prior to the commencement of the new scheme on 1 February last year and in anticipation of the new scheme, and further reductions in premiums over the last year—so, firstly, when the scheme came into effect, but even most recently we are expecting to see some further decreases in the next month or so.

Mr Barr: We will provide that.

MR BRADDOCK: Thank you.

Ms Vroombout: We can provide the detailed breakdown of the reductions.

Mr Barr: There is also a reporting mechanism, I think, but we will provide you with the info and then the link so that you can watch it in future.

MR BRADDOCK: Fantastic. Thank you.

THE CHAIR: Mr Salisbury, it is convenient you are here.

Mr Barr: Will the rest of us just go mingle now so that you can—

THE CHAIR: Take one for the team.

Mr Barr: or do you two want to go?

THE CHAIR: That is right. With regard to the changes that have been made to splitting the non-unit titled and unit titled rates, making that disaggregation for the budget, I think they have made things much clearer. It is a welcome development, as of a couple of years ago, to put that forward. What changes have been made or are likely to be made with regard to the unit titles rating system to address some of the concerns that were raised at the time about everybody being pushed into the top bracket? We have now got various thresholds. Is that really the only—

Mr Barr: They implement the policy when it is set.

Ms Vroombout: I think you have identified, Mr Coe, that by introducing a separate set of rating factors for unit titled and non-unit titled properties it meant that we could apply a range of thresholds and rating factors for the unit titled properties, rather than having them all fall into the top rating factor. In a sense, the move to that separate set of rating factors for unit titled properties has achieved that objective of giving unit titled properties access to a broader range of rating factors, depending on the value of the unit.

THE CHAIR: Are you able to take on notice—I think there are five categories—a request for a breakdown for the number of dwellings, the number of complexes and the total revenue for each of those five thresholds for unit titled properties? That would be appreciated.

Mr Barr: The number of complexes or the number of dwellings? That might be easier to—

THE CHAIR: It is complexes, I think, because we are talking about the overall—

Ms Vroombout: It is the AUV.

Mr Barr: I understand.

THE CHAIR: It is the number of complexes. Again, that will give a clearer picture of the distribution of the revenue.

Mr Barr: That is a fair question. We will do that.

THE CHAIR: Thank you.

MR PETTERSSON: Chief Minister, can you quantify the effect that the lack of international students has had on the ACT economy over the past year?

Mr Barr: Sure. The rough benchmarking that has been undertaken, driven principally by the universities, because they have the great interest in this, is that, on average, an international student contributes around $50,000 to the economy of the jurisdiction they are in. That is a mixture of their tuition fee to the institution and their accommodation expenses within the city, whether that is to a place of residence on the university campus or within the city, and their expenditure in the economy that they are living in.

The former two are probably the two bigger components. The benchmark is roughly $50,000. How many jobs that equates to is a certain number within the university sector and then a marginal impact,, but collectively on employment in the various businesses with which those students would have consumed services had they been here. My understanding is that it is about 5,000 students who would have been here who are not. So is that $250 million—50,000 by 5,000?

Mr Miners: Yes.

Mr Barr: There you go. That is the ballpark. Will I charge a big consultancy to arrive at that figure? Probably not.

MR PETTERSSON: Finally—tangentially—anecdotally the rental market in Canberra at the start of the year is hot. It is always hard to get a rental at the start of the year, but seemingly this year was quite tough, and that was not without international students. How does that bode for the ACT, moving forward?

Mr Barr: That tells me, I think, that the predominance of the international student accommodation needs was being met on campus by the universities. That seems to be the package that is sold: bed, breakfast and a degree. That is the offering: we will feed you, we will house you and we will educate you. That seems to be the international offering. It would appear—and this is not absolute—that, as a generalisation, that would be an explanation.

I am not saying that there were not international students who were living within Canberra rental stock, but most—and I think even the anecdotal evidence would suggest this—were on campus. Part of their studying in Australia or studying in Canberra experience was to have an on-campus experience. It might be a bit less for postgraduates than undergraduates. I think there would be more postgraduate sort of suburban life in Canberra, but the youngsters tend to prefer campus life.

Mr Miners: Certainly, where we are seeing the impact of the international students is in two spots. One is in employment. It is not so much in the housing market; it is much more in employment. Page 25, again, shows a chart of the job losses in the education sector. That is the education sector, not just universities—a lot of the world's universities now are at the peak of COVID—and then what has come back. It has not fully recovered in terms of those jobs.

We also see it in the net exports. There is a bit of a commentary on page 20: a large part of our decline in exports is due to international tourism and government goods. Education is one of our main exports for the territory. Again, until that recovers, the export levels will be down from the territory. We are not seeing it so far in the housing sector.

MR PETTERSSON: How interesting. Thank you.

MR BRADDOCK: Just a supplementary on that in terms of the UNSW site in Reid.

Mr Barr: Yes, Reid and Parkes. One side of the road is Parkes; the other side is Reid.

MR BRADDOCK: Thank you for correcting me.

Mr Barr: That is no problem.

MR BRADDOCK: In terms of the level of risk associated with that—whether or not UNSW will be able to continue with that campus in light of the impacts to the education sector—has the ACT government assessed that?

Mr Barr: Yes. This question was asked yesterday or Monday; I am forgetting. In short, yes. In relation to the milestones that the university needs to meet, the ACT government contributions are only triggered when the milestones are met, so we have de-risked our commitment in terms of providing financial incentives to support the university, based on achieving those key milestones.

The university has commenced its engagement on its draft master plan for the campus. That concludes at the end of this month. It has been running for four weeks or so now. I think it closes on 1 March. The next steps are that it has to set up further engagement with the National Capital Authority, who are the planning approval agency, because it is designated land within the parliamentary triangle, Constitution Avenue being the border. That is the status of the project at the moment.

On the intention to continue their campus and investment, I have received personal assurances from the vice-chancellor in Sydney and the rector in Canberra, the head of UNSW Canberra, that they intend to continue. The government have said that we recognise that there may be some delays in the time frame or in achieving key milestones and that we would adopt a flexible stance in relation to that, recognising the situation in relation to international students and university revenues et cetera.

That said, the actual underpinning of the campus is not wholly reliant on international students. They have a very strong postgraduate and research domestic student element and an innovation precinct element. They diversified in terms of what form they were proposing the campus to undertake and could undertake it in stages. They have already started doing things in partnership with CIT on J block, which I believe is the J building, which is the corner opposite the Convention Centre. That is the summary on that one.

MR BRADDOCK: In December you responded to Ms Clay's question about divestment of the ACT's interest in fossil fuel companies, and there was $36 million left. My question is: what is the time frame for that divestment to occur?

Mr Barr: This is the question that Mr Davis asked me two days ago. Pat has already given an answer to that, so I just refer to the *Hansard* for the answer. I had exactly the same question, word for word, from Mr Davis two days ago.

MR BRADDOCK: I think there is a lesson here about things being simpler in how people appear in front of the committee so that we are not all duplicating each other.

Mr Barr: Yes.

MR PETTERSSON: Great minds think alike.

Mr Barr: In the old model, when there was just one committee asking everyone, there would be less risk of this.

THE CHAIR: I have just been advised of a further complexity. Because it was evidence given to another committee, it makes it very tricky for us from a technical point of view.

Mr Barr: Pat, do you want to come up and repeat what was said?

Ms Vroombout: I can give you the summary.

THE CHAIR: I think it would be pedantic for you have to do that again, but it is worth noting, as a committee and as an Assembly, that it is something that we will have to overcome.

Mr Barr: This is an issue, yes.

THE CHAIR: It may be that some of the evidence has to be transferred or put through as a submission or something for us to deal with it.

Ms Vroombout: I am happy to give the summary version. As identified, there is $30-odd million remaining. It is $41 million today.

Mr Barr: Out of $5.2 billion.

Ms Vroombout: It is a very small proportion of the total portfolio. We invest through bespoke indexes. We will need to go through a process of providing advice to the Treasurer on changes to our investment strategies. We will go broader than just looking at fossil fuels and provide advice to government on other potential changes they may wish to make to our investment strategy. Then we will need to have the bespoke indexes that are created for us adjusted to reflect those. It is not a quick process. Today we are in the process of preparing some advice to the Treasurer on those issues.

Mr Barr: My quick bit of maths is that $41 million out of $5.2 billion would be roughly 0.7 per cent, so you could say we are now 99.3 per cent divested.

MR BRADDOCK: I was just asking for a time frame for the remaining 0.7 per cent.

Mr Barr: I know. It is amusing only because the exact same question was asked before and we spent half an hour going through it in fine detail. But that is all right. It is an immediate flaw in the system, isn't it?

THE CHAIR: I want to go to the foreign investor surcharge of 0.75 per cent for land tax. That gets applied when it is not a principal place of residence?

Mr Barr: That is the current setting, yes.

THE CHAIR: In light of the number of international students that are not in Canberra, has there been a surge in lodgements of the declaration, the notification form, to pay a surcharge; do we have a lot of properties that are just sitting vacant at the moment; or is there perhaps a compliance issue here, given the intention of the policy? Or is it a combination of A, B and C?

Mr Salisbury: I have some data. The number of land tax properties that were subject to the foreign owner surcharge was 38 in 2018-19 and 78 in 2019-20. In 2020-21 to date it was 79.

Mr Barr: One different. I do not think we are seeing it yet.

THE CHAIR: It would strike me as being a potential issue—

Mr Barr: That there are properties that were—

THE CHAIR: Either vacant now and therefore not a principal place of residence at the moment or being rented out because people are caught overseas.

Mr Barr: That is an interesting one to look at.

THE CHAIR: Would the ACT government consider an interpretation of or amendment to those rules to take into account the current situation?

Mr Barr: That is an interesting question; let me think about that. There could be arguments for and against it. If they are renting it out anyway, it is an asset earning income. The scenario you are describing is one where parents have bought a property in Canberra for a son or daughter to live in while they are studying and they are now not in Canberra because they went home over the holidays.

THE CHAIR: If it were parents, I am not sure that would work under the current rules anyway; it might have to be in the name of the actual student. I am not sure.

Mr Miners: It is not clear from those numbers just what the use is, so it is very hard to answer the question because it could be that none of these are the scenario you talk about or it could be that they are all the scenario you talk about. It is very difficult to work out what the policy implications would be and whether it would make any difference.

The 79 properties are only a very small subset of the total rental market in the ACT. Any policy changes are not going to have a major difference on either the availability or the affordability of rental properties in the ACT.

THE CHAIR: Which begs the question of what the policy objective is here and whether it is more hassle than it is worth. Is it a hindrance to our economy? Especially when things open up, is there an opportunity for the ACT to be a jurisdiction that is more friendly for international investment?

Mr Barr: We are, because the rate is about a third of the other jurisdictions.

THE CHAIR: I am saying more friendly.

Mr Barr: Even more friendly? How friendly can you be? I have not had a look at it. I cannot say anyone has ever raised with me that this is an impediment to investing in the ACT. If I was persistently being told—

THE CHAIR: At the time it was announced that you had raised, I think, $4 million over four years—$1 million a year, roughly. I do not know whether it is bringing in that sort of revenue; I do not have those numbers. Are you able to say how much revenue comes in for those 78 or 79 properties each year?

Mr Salisbury: It is 79 times $4,500.

Mr Barr: So 320; it has not hit a million yet.

Mr Salisbury: That is a back-of-the-envelope calculation.

MR PETTERSSON: Is there an argument that it is too low? You did ask for suggestions for revenue.

Mr Barr: We have now got to the point in the committee hearings where we are designing tax policy by committee!

Mr Salisbury: Can I just make the point that we do not have a foreign investor surcharge on duty when the actual purchase—

Mr Barr: Yes.

Mr Salisbury: That goes to your point, Treasurer, about it being friendlier than in other states.

Mr Barr: As with all tax policy settings, there is a watching brief. I never claimed that this would be a massive revenue raiser, and it is not.

THE CHAIR: But that $4,500—

Mr Salisbury: That is an average land tax. It is less than that, because it is a percentage. It is 0.75 of what that would be. That would be the very upper bounds of how much we are collecting.

MR PETTERSSON: The ACT housing market seemingly has not skipped a beat throughout the entire year. Is there any risk of a housing downturn for the ACT?

Mr Barr: Absent another economic shock, probably not. Whether there is a substitution effect between Australian cities is an interesting question. If Melbourne and Sydney start picking up again, as is forecast, will that mean that other smaller markets lose a level of investor interest? It is conceivable, but I guess those who are making those investment decisions will do so for different reasons. Some people are just chasing yield; some people are chasing a long-term investment; some people are chasing capital gain.

An owner-occupier will be driven by household formation patterns. It would appear that we are still seeing a downward trend in the number of people per dwelling, so that adds a small amount to demand: you are seeing more one-person and two-person households, and fewer three, four, five and six-person households. That, each year, adds a little to the demand side.

We have discussed population growth. The impact there will be very much contingent on levels of international migration and whether there is any decision from the commonwealth to seek, over a period of time, to catch up the people who would otherwise have come. If it ends up being two years without international migration, that is half a million people or thereabouts, based on previous migration level settings.

We cannot make up half a million people in one year. That would mean that if we went back to 300,000 or 250,000 to 300,000 a year, that would be like 800,000 people in a year, effectively saying that Australia would grow by two Canberras in one year. That seems very hard to envisage. If they do decide to seek to make it up, I suspect it would be over, say, a decade-long period. If the decision is to have a bigger migration program that will fuel demand for both new housing construction and our existing market, it is more jobs. It brings people in. There would be more university places. An expansion of the university sector would bring people in.

I can see lots of reasons for the demand side to continue to be strong. The challenge will be whether our supply side matches that interaction of the supply and demand market outcome.

MR PETTERSSON: Indeed.

Mr Barr: Does anyone else want to enter into the housing market commentary business?

Mr Miners: Only to support what you have said. There is always risk in the housing market, but there is upside and downside risk, as the Treasurer has neatly pointed out. Population is one of those drivers, again as the Treasurer has pointed out. When we look at the scenarios, we are implicitly looking at how the housing market will play out in working on those scenarios in economic growth.

If the vaccine is not as effective as we all hope and flows across borders are lower than we anticipated, then, yes, there is a risk that the housing market will not play out as expected. But a lot of the risks we are seeing in the housing sector are more a flow-on effect to the housing sector than the housing sector per se at the moment.

MR BRADDOCK: I want to go to page 158, table 3.5.18. The perpetual care trust line item stops.

Mr Barr: Yes.

MR BRADDOCK: I just wanted to understand the reason for that.

Mr Barr: Is that because it is now the cemeteries authority? Is that what is happening there?

Mr Miners: I will have to check that. I am sorry, Treasurer; I do not have the answer to that one on site. We will have to take that one on notice.

Mr Barr: I feel I have read somewhere that it is because it is a shift in the cemeteries and crematoria. I think that will be the answer, but we will double-check that.

Mr Miners: I suspect that is right. It is interesting that perpetual care can cease, but I will endeavour to get an answer on that while we are here so that we can answer that in the session.

MR BRADDOCK: Thank you.

Mr Barr: Maybe during the afternoon tea break we can make a phone call and find out.

THE CHAIR: Sure. I have a quick question on capital works reports. Where are they at? I do not think there has been one published for 2020-21.

Mr Barr: It has been through cabinet; it will be coming to Assembly members very soon, I think either out of session or at the next Assembly sitting.

THE CHAIR: And the reason for the delay? I do not think there has been a quarterly one.

Mr Barr: I do not think they are quarterly; they are half-yearly, every six months.

THE CHAIR: But the 2018-19 capital works were for the September quarter, December quarter, March quarter and June quarter.

Mr Barr: It went from quarterly to six-monthly in 2019.

THE CHAIR: When will the 2020-21 one be published? It has gone through cabinet?

Mr Barr: It has gone through cabinet. It will be any day now.

THE CHAIR: We might break for tea.

Hearing suspended from 3.17 to 3.46 pm.

THE CHAIR: I turn to capital works in progress, which is on page 209 in the printed version and page 211 in the electronic version, as part of the GGS balance sheet in the non-financials.

Mr Barr: Right in the middle of the page—$767 million, $521 million and $596 million.

THE CHAIR: You have just highlighted the question: budget review $767 million; audited outcome $521 million. Obviously, there is a fair discrepancy there.

Mr Barr: Yes.

THE CHAIR: I am wondering what has happened. It seems to me that there is an accounting issue but I am curious to know what it is.

Mr Barr: It would be, I think, the cumulative impact of a lot of small differences on a couple of hundred projects. I think that is the short answer.

THE CHAIR: The budget review was after the financial year.

Mr Barr: No. The 2019-20 budget review was 12 months ago, in February. The 2019-20 audited outcome would have been completed in August or September of 2019.

Mr Miners: That is correct.

THE CHAIR: So there is a $250 million difference, or thereabouts?

Mr Barr: It is an underspend on the capital program.

THE CHAIR: That is right. It is pretty significant.

Mr Barr: It is, yes.

THE CHAIR: Is there anything in particular that was rolled over?

Mr Miners: I do not have that information at hand, unfortunately, Mr Coe. We would have to take that on notice and come back to you.

Mr Barr: From memory, in terms of capital works reporting, it is not one project that is $200 million behind. It will be 100 projects that are $2 million behind. It is a whole bunch of small variations, not one large one. The list is in the capital works program, so we can provide that.

Mr Miners: Projects that are completed will come out of this as well.

Mr Barr: As in physically completed, not financially.

Mr Miners: Yes.

Mr Barr: They could be in their defect period—

THE CHAIR: No, they could then shift into the assets.

Mr Miners: Yes. They could actually move across into—

THE CHAIR: Go from non-financial into—

Mr Miners: Yes, into actual assets.

THE CHAIR: Or go into property—or into produced assets, I should say.

Mr Miners: Yes, that is right, because they stopped being works in progress.

Mr Barr: Appendix C has the—

THE CHAIR: There is a $175 million increase in the property, plant and equipment. That probably accounts for a fair bit of it.

Mr Miners: Certainly, there would be some in that line. But there would also be some where works in progress have changed, with delays et cetera. It will be a combination of all those factors.

Mr Barr: To give a sense of the scope of them all, appendix C of the budget papers, at printed pages 239 to 249, in four-point font, gives you a list of all of the current works in progress. Some would be multi-year, and continuing from that as well.

MR BRADDOCK: My question relates to government staffing, and how much is located in town centres in dire need of employment, such as Gungahlin. Could you please give me an update on what steps the government is taking to help Gungahlin to maintain an employment base?

Mr Barr: I will be going a lot from memory here, because the budget papers do not outline the staffing distribution by geographic area. Contained within Winyu House, which is the major ACT government office building in the Gungahlin town centre—but not the only ACT government employment centre within the town centre—is the Shared Services ICT and Access Canberra team, who are accounted for, in terms of headcount, within the Chief Minister, Treasury and Economic Development Directorate.

Also within the Gungahlin town centre, the major ACT government employment would include staff from the Education Directorate at Gungahlin College and in the CIT facility. Within the walk-in centre and the community health facilities, there will be staff from Canberra Health Services. Obviously, there will be more Education staff at each of the schools in Gungahlin. There will also be Emergency Services Agency staff associated with the ESA stations and the like.

In terms of the distribution of where ACT government employment is concentrated, from memory, Woden, because of Canberra Hospital and the presence of the ACT Health Directorate in the Woden town centre, has the largest concentration of ACT government employment. Civic would be second. You would then have those at the Dickson office block and the Gungahlin office block. We are moving out of Belconnen, out of Nature Conservation House, into the new building, I think?

Mr Miners: Eventually. We still have quite a few people out there.

Mr Barr: We still have a presence there, yes. So it is distributed. Obviously, we took the decision to build an office block in Gungahlin. In terms of future employment in the Gungahlin town centre, I don't think that the answer will be with one large employer; it will have to be across a multitude of smaller employers.

As we have discussed previously, if you exclude the public sector—so absent a decision from the commonwealth—the next largest employer is us. We have already made a decision to put, I think, 600 or 700 staff in Winyu House. I will stand corrected on that one. The next biggest employment sector, which contains 25,000 jobs, is professional, scientific and technical services, followed by health care and social assistance, which is also around 25,000 jobs. Education and training comprise about 23½ thousand jobs. They are your next biggest employment sectors but there are not firms within those sectors, other than the ACT government, that have thousands of employees. There is simply no employer in the ACT that currently has a couple of thousand staff that could be dropped into the town centre. There is not one single solution here.

MR BRADDOCK: No, and I am not looking for a single solution. I am saying that Winyu House is about five years old; maybe it is time to look at decentralising some of those people from Civic to Gungahlin, so that the light rail can be full both ways.

Mr Barr: We are about to open that new building, where we have consolidated staff mostly from around the city. It has not necessarily been a draw away from the city into that building. We built Dickson to be on the light rail line, to do exactly that, and Winyu House. So we have done as you have outlined, in terms of making deliberate decisions to locate ACT government employment along that light rail stage 1 corridor. I do not know that we have any further demand for office space at this time, that I am aware of, unless we are about to make a decision to employ another 1,000 people.

MR BRADDOCK: I'm not going to stop you!

Mr Barr: I think we have, as we have been discussing for most of the day, obviously, some constraints around that. Where I would see opportunity for further ACT government employment growth in the Gungahlin town centre would be in the education and healthcare areas. Clearly, we will have more staff there. With the new community centre, there will indeed be some ACT government staff associated with that.

I then look to: what are the next biggest employment sectors? After health care and education, we have construction, retail trade, accommodation and food services, administrative and support services, transport, postal and warehousing, art and recreation services, and manufacturing. Once you hit manufacturing, it is at 4,000 employees territory-wide.

In thinking about the land zoning in the town centre, there is clearly potential for more retail trade, for more accommodation and food services, and for more professional, scientific and technical services. Across those three areas there are 70,000 to 80,000 jobs. It is certainly conceivable that Gungahlin will see growth in those areas. The question becomes: what level of population density is required within the town centre for it to be its own micro economy that generates enough daytime activity? Very clearly—and I think this is the lived experience of anyone who has ever campaigned in Gungahlin or lived in Gungahlin—it is crazily busy on the weekends and a little bit quiet during the day during the week. That is a fair assessment. All three of you represent that electorate. You are all nodding. Mr Coe is not so interested!

We need to look to a diverse range of industry sectors. The idea of co-working spaces, where you have, effectively, shared tenancies within a commercial office context, is working well in Sydney. There could well be demand for that, where we have a whole range of businesses, associations, professional bodies et cetera that have one to fifteen staff that cannot really command a building of their own but are all together in one or more facilities. That would generate a bit more employment activity. That is probably the best model. There is a bit of interest in that sort of set-up. I have seen something like it on Northbourne Avenue. There is a facility in Belconnen as well. So it is conceivable.

Mr Miners: We have done quite a lot of liaising over the last little bit and we have talked with a number of businesses. One of the key things they are picking up is working from home and the impact that is having on regions, and particularly the group centres. If you own a coffee shop at the moment, it is probably better to be in a group centre, rather than in Civic. Certainly, the future of work, what it actually looks like and that flexibility will have implications both for the growth in town centres and for the work that is available within the town centre—or from the home near the town centre.

I think that the ACTPS is much more flexible in the way it works. Because of the whole set-up with moving towards working where you need to be, it is not uncommon for me to have my colleagues from other directorates, who would normally be in Gungahlin, Dickson or wherever, actually ending up next to me at a desk, or to be in the building and to be able to drop in, simply because, "I need to do some stuff from here, so I'm going to work from here today, because that suits me."

Those arrangements will be more and more available for someone who lives in Gungahlin. They will be able to say, "Today I'm just going to work from the office in Gungahlin because that's going to suit me today." On other days, if you have lots of meetings with ministers, it does not make much sense to be travelling into and out of Civic to try and do that. I think that flexibility will really drive the way the ACTPS works, the way we operate, and the way we engage, in terms of both our physical location and the way we communicate with each other.

MR BRADDOCK: Is that flexibility increasing due to any policy lever or management direction? What is driving that at the moment?

Mr Barr: Yes, it is. I guess it is the activity-based working. It is the rationale for putting new buildings in Dickson and Civic. That is the basis of how Winyu House operates, too, for the most part.

Mr Miners: The intention is that people can be with the people they need to be with at any point in time. It is about having the physical tools to be able to do that, as well as a cultural change and saying, "If I need to be working with an area, I will go and sit with them; I can do that, and that's actually okay." It lends itself very well to one public service.

MR PETTERSSON: It was mentioned earlier that the government was pursuing the agenda of putting more people into the city so that people lived closer to where they worked. There seems to be a proactive policy decision when it comes to moving people into the city. But in Gungahlin, where there are already a lot of people, there does not seem to be a proactive element regarding getting employment near to where they live.

Mr Barr: There are a couple of issues there. We do not control where firms set up. Firms that operate and have one business location in Canberra will be drawn towards a more central location. Whilst I note that the membership of this committee is very Gungahlin focused, if the Brindabella members were here, they would probably object to all employment being located in the north of the city. That might not be a popular move in that regard.

I mentioned earlier that we do have the most polycentric and the most distributed employment basis of any Australian city. That is clearly driven, firstly, by the public sector, and, to a secondary extent, by the planning framework that has directed certain activity. The question that I would ask—I get to turn this around now—is whether you consider Mitchell to be part of Gungahlin.

MR PETTERSSON: Yes.

Mr Barr: Clearly, you have a different land use and a different potential industry base there than you do in the town centre or in the more suburban areas. An interesting project to consider is what future land use policy might be in Mitchell, and what Mitchell's role might be for the Gungahlin region, in the way that Fyshwick plays that role for the inner south. It is worth thinking about. I have contemplated this, as I have watched Mitchell change. The issue is: does Mitchell start to look more like Braddon, or should it look more like Fyshwick or the Phillip services district—or should it be its own entity? It is obviously something that we can return to and explore in another context.

MR PETTERSSON: Mitchell is a thriving hub.

Mr Barr: Yes.

MR PETTERSSON: It is almost a problem in and of itself, in that that activity is not collocated next to a town centre. If you go to somewhere like Belconnen, you have a bit of an industrial area of some description next to the town centre. In Woden, Phillip has that extension to it. That area being separate can leave the Gungahlin town centre being somewhat slow.

Mr Barr: Yes. There is a little bit of undeveloped land in the Gungahlin town centre. I understand there was a motion passed by the Assembly looking at what would be the appropriate and best mixed use zoning options for that.

MR BRADDOCK: You voted for that motion.

Mr Barr: I did, yes. This issue, obviously, is on the agenda and it will be considered. Really, it will be about what planning rules we put in place. I will be frank here: there was never a prospect that UNSW would want to be anywhere other than on the site that they identified. I have never knocked back anyone wanting to invest in Gungahlin, but from time to time we have knocked back unsolicited proposals for the CBD, because they do not fit with the land use planning; they are not appropriate et cetera.

There is a reasonable argument that the divergence of activities in the allowance for the airport precinct had an impact on town centres, and principally Gungahlin, because of the timing of the development of the two. There are swings and roundabouts in these things. We have the best airport in Australia because it is financially supported by the range of non-aviation activities in the precinct. The airport precinct is a very nice, well-developed precinct. But there is only so much economic activity in this city at this point in time.

In thinking about the challenges for Gungahlin, it is about what the planning rules are, what will be the workforce trends and which industry sectors are most likely. I have reached the conclusion, having talked you through this and thought about it, and I think you would agree, that someone will not rock up and say, "I've got 2,000 or 3,000 employees and I'm looking for a building for 3,000 people." That is not likely to happen, unless the commonwealth government made a decision regarding one of their departments. I think that is the only scenario in which you would get the 2,000 people and you would suddenly need a new building in Gungahlin.

THE CHAIR: The Treasury Investment Advisory Board: there is a document that gives a rundown of their charter, their governance and functions. Who is on that board and how are they engaged by the directorate or the government?

Ms Vroombout: There are two members on the advisory board, Carol Austin and Sandi Orleow. Pat, do you want to talk about how they are engaged?

Mr McAuliffe: Yes, those are the two members. They are engaged under the boards and committee framework that is in place. The difference is that they do not go through the committee process. The Treasurer has the authority to appoint them, in that they are an advisory board only. Once that process has been gone through to vet member options, we put a brief to the Treasurer. Once he has made the decision to appoint, it goes to cabinet for their endorsement.

THE CHAIR: How does that board operate? Is it ad hoc or are there periodic meetings?

Mr McAuliffe: We meet every quarter. There is an agenda and it is minuted—the whole process. Typically, the meetings are attended by the two board members. Carol Austin is the chair. I attend, along with a couple of my staff. Sue will attend, and the Under Treasurer—not the current Acting Under Treasurer but the former Under Treasurer would attend meetings if he could. Typically, our asset consultant would also attend those meetings, to help to discuss policy papers and advice that we are trying to put to the board.

THE CHAIR: What sorts of issues are you running through the board that are not coming from other advisers or through other investment processes?

Mr McAuliffe: The board, in a way, is another set of eyes or another set of consultants. The members have very long experience in the investment industry. Carol used to be a guardian on the Future Fund board. Sandi has had a number of other experiences—current super fund board membership as well. They bring that wealth of knowledge. If we are reviewing the current investment objectives, our superannuation provision account has an objective of CPI plus 4.75. A couple of our other funds are CPI plus 2½.

We will go to our asset consultant and say, "Based on the latest capital markets assumptions you have got, remodel how those investment objectives might play out." We take that information to the board and we use them to help to interrogate the asset consultant's testing assumptions and effectively get their support if we need to change those assumptions or if we want to maintain them.

That advice will translate into a recommendation, whether it be to the Under Treasurer or to the Treasurer, depending on what it is that we are trying to do. A lot of the operational matters will go through the Under Treasurer. If it is a broader policy type matter then it will go to the Treasurer. It might translate into an update of our investment plans. We might be putting responsible investment policy advice to the Treasurer. All of those sorts of things will go through the advisory board.

MR BRADDOCK: My question relates to phase 3 expansion of minor capital works projects. Where can I find the details in terms of the criteria used and what projects will be covered underneath that?

Mr Barr: Which page are you looking at?

MR BRADDOCK: Page 59.

Mr Barr: It will be across a couple of different agencies—mostly TCCS, I suspect.

MR BRADDOCK: It is not so much about the details of each individual project; where can I find the information as to what is covered underneath that funding line?

Mr Miners: So that is—

Mr Barr: It is in Chief Minister's, is it?

Mr Miners: Yes, it is the fast-track program. That information on programs supported by fast-tracking is on the website, in terms of the exact projects. They are all sitting on the website and they can be accessed.

Mr Barr: Fast-track program—ACT government. Yes, they are helpfully broken down for you by region. You can even look at what is in Gungahlin.

MR BRADDOCK: You are bringing joy to my heart, Andrew!

Mr Barr: Footpath and cyclepath network upgrades, community building venue upgrades, health service facility upgrades, improvement to public school facilities, open space and landscape improvements, public transport facility upgrades, road safety improvements, and sportsground upgrades.

MR BRADDOCK: I was disappointed not to see the community centre work starting underneath the budget.

Mr Barr: I understand, but there are only so many projects that we can simultaneously manage, and it does need its design work to be done before we can allocate money to build it.

Mr Miners: The fast-track program was focused on things that could go straight out the door. To try and meet the time limits, and support employment and growth in the territory, they really needed to be things that were ready to go. Anything that needed a longer time frame went through the more conventional programs.

THE CHAIR: Treasurer, have any generic requests for savings been requested across all agencies?

Mr Barr: Not generic in this budget round. There were some savings achieved in rental from the move to the new building that were apportioned across directorates.

THE CHAIR: But no government-wide directions regarding anything in particular?

Mr Barr: No, other than the rental efficiencies. Obviously, it was a direction. It was a policy change in terms of workplaces, to deliver those savings. Otherwise we are at the tail end of the procurement and some of our comms contracts and the like. They are whole of government, but it is in terms of delivering a better procurement outcome—savings, value for money—from a whole-of-government tender.

Mr Miners: The savings that we are really focusing on are where we can identify that a saving can be made; we would then get that and make sure it is returned to the budget, rather than going out and saying to people, "You need to find it." We will drive them through specific projects and identify genuine savings then pull that back. We are not setting out a remit for agencies to cut budgets and then tell us how they are going to do it.

THE CHAIR: Without getting into personal circumstances if it can be avoided, with your acting role, Mr Miners, how long do you anticipate that you will be acting for?

Mr Barr: Four months, isn't it?

Mr Miners: My contract runs through to the end of June—four months—with a clause in there that it will end whenever a permanent appointee to the position is found. Basically, it is until that process is completed.

THE CHAIR: When will that process commence?

Mr Barr: There is a recruitment process underway being led by the Head of Service.

THE CHAIR: Do you expect that it will be appointed this financial year?

Mr Barr: Subject to getting a field of candidates, whether it can squeak in before 30 June or not, let me check with—

THE CHAIR: You are looking at the next six months?

Mr Barr: Yes.

THE CHAIR: As opposed to—

Mr Barr: Yes. There might be an argument, depending on who we get and their availability. We do not want to presuppose outcomes, and given the timing, I am thinking of the timing of the budget.

THE CHAIR: Yes, sure.

Mr Barr: That would be another factor in the consideration.

THE CHAIR:. Just on administration, Ms Lee made reference to the incoming government brief that has been produced under FOI. I do not think that document has been published on the FOI register. The FOI register seems to be slowing down a bit.

Mr Barr: Okay, I will check that.

THE CHAIR: That is another issue. For the purpose of this committee, are we able to get a copy of what was released under FOI to this committee as an exhibit?

Mr Barr: The incoming brief? Yes, that is fine.

THE CHAIR: If that could be provided, it would be useful.

MR BRADDOCK: My question is about roads and community infrastructure, on page 100. Again I am asking for the breakdown of the projects in that particular line item.

Mr Barr: That is the one funded under the commonwealth's local roads and community infrastructure grant.

MR BRADDOCK: Yes.

Mr Barr: We can get that for you. It is in Minister Steel's directorate. Are you wanting anything more specific beyond road and cycling infrastructure, playground and recreation infrastructure, waste, public toilet and library facilities? Do you want to know exactly which ones?

MR BRADDOCK: I am interested in all of those things.

Mr Barr: Okay. It is all of those. Given the quantum of money, they will be a lot of small projects, I expect. We can take that on notice. Minister Steel may be able to provide that when he appears. It will not be before this committee, will it? It will be the other committee.

Mr Miners: When projects are at those small levels, again, we do not keep a record down to that level of detail. It is much more at the high level of the types of things that are going to be invested in.

Mr Barr: But the directorate will have the project list.

Mr Miners: That is right. I am talking about centrally, in Treasury. We do put out a database of all the investment projects, which allows you to cut, slice and dice it however you like. It has been a change from a few years ago that has been put in place. We used to produce lots of different tables and we would cut it a thousand different ways, and we still got it wrong, in terms of what people wanted. That database is now available, if you want to look at the investment projects, what they look like, and cut in different ways.

MR BRADDOCK: Thank you; I do make good use of that. It is a good resource.

Mr Barr: Is that on the Treasury website or the budget website?

Mr Miners: It is on the budget website.

THE CHAIR: I have a number of quite technical questions; it is probably better if I submit them on notice.

Mr Barr: Okay.

THE CHAIR: Thank you very much, Treasurer and Mr Miners in particular, and to all the officials, for your attendance today and the evidence that you have given. On behalf of the committee, I would like to thank you all. The secretary will provide a copy of the proof transcript of today's hearing. Please return questions on notice within five days.

Mr Barr: Within five days, yes.

THE CHAIR: That is, of course, through the committee office, please. The hearing is adjourned.

The committee adjourned at 4.22 pm.