**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY**

# STANDING COMMITTEE ON PUBLIC ACCOUNTS

**(Reference: Inquiry into annual and financial reports 2020-2021)**

**Members:**

**MRS E KIKKERT (Chair)**
**MR M PETTERSSON (Deputy Chair)**
**MR A BRADDOCK**

**TRANSCRIPT OF EVIDENCE**

**CANBERRA**

**TUESDAY, 1 MARCH 2022**

**Secretary to the committee:**
**Mr S Thompson (Ph: 620 50435)**

**By authority of the Legislative Assembly for the Australian Capital Territory**

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

## APPEARANCES

## Privilege statement

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*Amended 20 May 2013*

**The committee met at 9.32 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
McAuliffe, Mr Patrick, Executive Branch Manager, Investments and Borrowings
Stephens, Mr Hamish, Acting Executive Branch Manager, Infrastructure, Finance and Reform
Hocking, Mr Stuart, Under Treasurer
Salisbury, Mr Kim, Executive Group Manager, Revenue Management

**THE CHAIR**: Welcome to the public hearings of the Standing Committee on Public Accounts inquiry into annual and financial reports 2020-21. Today the committee will be hearing evidence from the Chief Minister and Treasurer, Mr Andrew Barr, and officials from the Chief Minister, Treasury, and Economic Development Directorate, the City Renewal Authority and the Suburban Land Agency.

Before we begin, on behalf of the committee I would like to acknowledge we meet today on the land of the Ngunnawal people. We respect their continuing culture and the contribution they make to the life of this city and this region.

There are a few housekeeping matters that I wish to draw to your attention. Please be aware that the proceedings today are being recorded and transcribed by Hansard and will be published. The proceedings are also being broadcast and webstreamed live.

When taking a question on notice it would be useful if witnesses used these words, "I will take that as a question taken on notice." This will help the committee and witnesses to confirm questions taken on notice from the transcript. Can I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw your attention to the privilege statement. Could you confirm for the record that you understand the privilege implications of the statement? Could each witness confirm that, please?

**Mr Barr**: Confirmed.

**THE CHAIR**: Chief Minister, during previous estimates hearings the territory's investment portfolio and your ethical investment policy were discussed at length, including an indication that divestments would be considered. Where are you up to with this?

**Mr Barr**: That process continues. I might ask Mr McAuliffe to provide some further information.

**Mr McAuliffe**: Yes, as the Chief Minister has just confirmed, we undertake a regular review of the responsible investment policy. This has been a process that has been in place since July 2012, when we first put the policy in place. It has obviously evolved over a number of years. Our exclusions have increased. Importantly, we have had a very large focus on our actual implementation—being able to put the policy in place. When the policy gets updated and there is a commitment to do what the policy says, we actually get that fully implemented and, I think, in a very efficient way.

The most recent changes that we undertook were when the policy was updated back in August last year. The Chief Minister signed off on a range of additional amendments to the policy. Those included going fully fossil-fuel reserve-free for companies. Prior to that we had had some thresholds in place but that is now absolutely zero fossil-fuel reserves. We also reduced our carbon emission and carbon intensity thresholds, again to try to help increase the portfolio's climate change resilience.

We broadened our weapons exclusion criteria from just manufacturers of landmines and cluster munitions, to adopt what is called a controversial weapons criteria. That takes into account manufacturers of cluster munitions, landmines, biological chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons.

The fourth element of the change was the introduction of a new screen on gambling operations. Companies that are deriving more than 10 per cent of their revenues from gambling operations also came under the new policy change.

We then had to get a range of our external managers and our index constructor in place. That happened relatively quickly. Basically on 1 December, when a new index got updated and rolled out, all those exclusions were implemented. That meant we reduced exposure by around 50 companies; I think it might have been 55 or thereabouts. That represented about 2½ per cent of the shares portfolio weight for those particular companies. It was about $80 million. And that was out of the then shares exposure of $3.2 billion. That is now in place.

**THE CHAIR**: Apart from estimates and annual reports processes, has Mr Rattenbury or any other MLA communicated with you about the territory's ethical investment policy or urged you to consider divesting from shares? You mentioned gambling and fossil fuels before. But what about defence or anything else?

**Mr Barr**: There are obviously discussions that take place and public positions are put by any number of individuals. But there has not been a specific, detailed discussion or cabinet-level discussion in relation to the issues that you have just raised.

**THE CHAIR**: And does the territory have any financial interest in Russian organisations that would be subject to sanctions related to the conflict in Ukraine?

**Mr Barr**: We do not believe so but I will get Mr McAuliffe to confirm that.

**Mr McAuliffe**: No we do not. All our share investments and our bond investments are in developed markets. We do not have any emerging market exposures by default. We have done a doublecheck of that and there are no Russian companies share companies or bond holdings that we have.

**MR BRADDOCK**: I have a question about the controversial weapons. They include chemical and biological weapons but not nuclear weapons. Can you please explain that position?

**Mr McAuliffe**: When we started the review last year, the starting point was just looking at those controversial weapons. Where we got to was the current list that we have now. Nuclear weapons actually fall under a separate exclusion criteria on their own. I think we flagged in the last budget estimates hearings that that would be one of the categories up for review this year when we completed the next review of the framework.

**MR BRADDOCK**: I would be interested in that, because there are a number of companies that we have invested in that do construct nuclear weapons: Airbus, BAE Systems, BWX Technologies, General Dynamics, Honeywell International, Huntington Ingalls Industries, Jacobs Engineering Group, Leidos, Northrop Grumman, Raytheon Technologies, Safran Group, Textron and Thales. I would be interested to see what the ACT government's position is on supporting nuclear weapons or not.

**Mr Barr**: Of course those companies also have diversified business in a range of other areas. Amongst others, you listed Airbus. They make passenger jets. These are always questions of degree of activity. That is why we have generally adopted a threshold of a percentage of the particular company's business. And if it crosses that threshold, it would be considered a predominant reason for divesting that company. In many of the instances you have listed, there are some defence manufacturers, yes, they also have divisions that work in space, in communications, in passenger aircraft.

I understand Qantas is using Airbus for all its new domestic fleet replacement programs. All the planes that fly in and out of Canberra in the future are likely to be Airbus manufactured. It is quite a leap to completely divest in that regard.

We may find ourselves with almost no companies left to invest in if we took an absolutist position on divesting from any element of any activity of any company that we did not happen to like at the time. I think we have got to apply a filter of reasonableness here. I think the ACT has done that and done that successfully over many decades.

**MR BRADDOCK**: And the ACT government supported the Treaty on the Prohibition of Nuclear Weapons as well?

**Mr Barr**: Yes, I am aware of that. That is a proportionate response. Divesting from any company that has anything to do with nuclear might be considered disproportionate.

**MS LEE**: Last estimates hearings there was a discussion about some investment in companies that had a bit of a questionable track record or pending potential exposure to breaches of child labour laws. Can we get an update on where the ACT government's investment portfolio is, in regard to that?

**Mr McAuliffe**: I do not recall any specific companies being called out. Our framework that we have in place, particularly our global norms exclusion criteria, looks at a range of criteria, including human rights, labour rights and the like. A company that has a very controversial assessment on any of the grounds is red flagged and excluded from our portfolio. I think it is a similar response to what the Chief

Minister gave. There may be some companies around that will always have some controversy attached to them, albeit minor. It might be major in the eyes of some. Again, it is a relative assessment about how that has been assessed and reviewed and at what point it gets red flagged and excluded.

**MR PETTERSSON**: What are the implications of the AAA credit rating of the ACT on our borrowing capacity?

**Mr Barr**: Obviously, very positive in the current context, as the ACT is the only Australian state or territory to have a AAA credit rating, and one of less than a dozen in the Asia-Pacific, at a subnational government level, to retain the highest possible credit rating. It has been beneficial to us in our recent approaches to market in that our bond issuances have been oversubscribed. It helps to reduce the cost of borrowing somewhat. In the current environment that reduced cost is marginal; nevertheless every basis point counts across a government borrowing program.

I will invite Mr McAuliffe to talk a little more about recent bond issuances and the market response to the ACT's debt program. We have a maturing engagement with the bond market, and it is pleasing to see that our most recent issuance was again oversubscribed.

**Mr McAuliffe**: I point out that the purpose of the credit rating is really to provide investors who buy the bonds that we issue with a measure of our capacity to service the debt. It is an independent assessment of the territory's creditworthiness, and it is benchmarked on a global basis. It provides a really visible signal to investors when we go out to market with our bonds.

In terms of our rating, the AAA rating means that effectively we have an extremely strong capacity to service our upcoming debt obligations. Over the last couple of years, as everyone is aware, we have endured a lot of volatility in the markets, and we continue to do so. We have seen interest rates fall to extreme lows. Back in March 2020, credit markets actually deteriorated to a point where bond issuance was becoming very difficult. We are now seeing signs of the economy recovering and, with that high inflation, interest rates are rising.

Against that backdrop, whatever we have to help us issue our bonds in the most effective way is helpful, and the AAA rating certainly goes a long way to doing that. The last two bond issuances that we have done, in the last nine months, have shown the merits of that rating. Back in May 2021, we did a $1 billion issue. It was a maturity term to 2030. Again, 41 investors participated in that issue. Diversification was very pleasing. We had investors from domestic, Asia and Europe, and we get the spread of asset and bank balance sheet—the types of investors as well. That is important, because if we just issued our bonds and we had the same investor buying them all the time, that does not help the bonds to get traded in the secondary market. If those investors do not need to buy bonds next time we issue, we will have trouble issuing our bonds. So diversification is critical.

The most recent bond we did was last month. We did a $1.25 billion issue, with maturity out to 2032. Again, we had oversubscribed bids at around $1.7 billion. Again, the diversification metrics were very pleasing. In the current environment, being the only AAA issuer, particularly in the semi-market, means there are still a number of investors, particularly some of the overseas ones, who do not have limits in place to purchase below AAA. That means that is another pool of investors that we will continue to attract, as long as we are AAA.

We have seen increased liquidity in our bonds over recent years. That has been on the back of some of the marketing we do to the investor base and, again, that ongoing strength of our creditworthiness. More recently, the pricing of our bonds has come in tighter than some of our semi-peers. Even though, for example, New South Wales is rated lower than the ACT, because they have so much debt on issue, and their bonds are so liquid, they do tend to issue at a better rate than us, even though we are AAA. With our most recent issue we saw that spread come in a lot tighter. It goes to show the way the market views our bonds.

**MR PETTERSSON**: Why has the ACT been able to retain its AAA credit rating when other jurisdictions across our region have not been able to?

**Mr Barr**: We have a very strong institutional framework associated with governance in the territory. We have had a more robust revenue base than the Australian states that rely very heavily on transaction-based taxes. The key factor has been tax reform. If we had not undertaken tax reform a decade ago, it is very clear that the volatility in our revenue lines would be such that we would not have retained our credit rating.

The tax reforms have been referenced by Standard & Poor's in every report they have given on the ACT's creditworthiness. There is also, of course, the fact that we are coming up for more than 30 years of consecutive economic growth, and we will be the only Australian state or territory to achieve that. It is quite a remarkable feat for one of the smallest jurisdictions in the country. Of course, that is underpinned by the stability of the Australian government's presence in the national capital, but that factor alone does not account for the extent of the territory's economic strength.

Of course, we have an asset base that we can progressively divest from in order to meet some of our infrastructure needs over time. The territory has been doing that throughout its history—under the commonwealth, initially, and then over the last 30-odd years of self-government. That remains a viable option for future territory governments as well. But the most important thing is the transition over time to a more stable and robust revenue base, and tax reform is achieving that result for the territory.

**MS LEE**: Mr McAuliffe, what level of debt servicing of costs would put the AAA rating at risk?

**Mr McAuliffe**: With the credit rating metrics that S&P undertake, a key one that they look at is a debt-to-revenue ratio. They take our total level of debt against the total cashflow revenue that we are receiving. All jurisdictions have, obviously, increased their debt over the last couple of years, and Standard & Poor's are looking through that somewhat, because it is a temporary measure for support for the COVID crisis and the like. At the moment the fact that we are still AAA means that they see that our levels are still sitting within their metrics.

There is probably a little bit of conservatism that they see around people's estimates. They probably see the economy recovering potentially better than what others might see. As long as all of that comes through, I suspect that the call on debt may not be as high going forward, and the next budget will make some decisions around that.

At the moment, on the basis that things continue as they are, we should be okay. Obviously, we are on a negative outlook, and that reflects a downside risk that the fiscal recovery that particularly Standard & Poor's see does not eventuate as quickly or strongly.

**Mr Barr**: The Australian government is on a negative rating outlook as well. To be clear, it is not possible for an Australian state or territory to hold a higher credit rating than the national government. A risk to the ACT losing its AAA credit rating is Australia losing its AAA credit rating. We could not have a rating higher than the Australian government.

Just to conclude on the point around the debt-to-revenue component, the fact that the other Australian states and territories are significantly more reliant on transaction taxes—stamp duty on residential and commercial property—than the ACT means that their ability to service their debt is very much tied to the ebbs and flows of the housing market.

Because our revenue base is different, it is not as volatile and does not fluctuate as much because of the transition away from stamp duty, we have a more stable and predictable revenue base. That gives the credit rating agencies the confidence to make the calls that they are in relation to the ACT's ability to meet its debt repayments in the long term. It is a very important point and it does need to be stressed, given opportunities like today.

**MR BRADDOCK**: I would like to ask when the cost of carbon might be included in government decision-making. When will it appear in our budgets or in our business cases?

**Mr Barr**: The government is looking at a particular piece of work in relation to social cost of carbon as it relates to internal to government decision-making. I think that is the first step in this regard. I do not yet have a time frame under which there would be a formal cost of carbon. We do not have, obviously, an active carbon trading market in Australia, for reasons that would be reasonably clear in relation to federal tax policy; for example, it is not a major feature. Whilst there are ways to ascertain a price on carbon, and there is some market trading, it is not to the extent that it was under the previous legislative framework.

We would endeavour, Mr Braddock, to focus on our internal activities and then, obviously, our legislated carbon reduction and emission reduction goals over the medium term.

I would note that the wellbeing assessment that is undertaken in relation to new policy proposals and budgeting does include metrics that touch upon environmental sustainability, of which emissions is part.

**MS LEE**: Mr McAuliffe, you referred to the Standard & Poor's assessment. When was the latest one, and can you provide the committee with a copy?

**Mr Barr**: The latest one was just after the budget, so late last year.

**Mr McAuliffe**: I am pretty sure that was provided to the last committee.

**Mr Barr**: Standard & Poor's generally make a public statement and it is reported in the media as well.

**MS LEE**: I have a couple of questions about infrastructure finance and, in particular, unsolicited proposals. Treasurer, how do staff working on unsolicited proposal assessments ensure that no commercial sensitivities are breached? What is in place to ensure that that is all done with processes and policies?

**Mr Barr**: There is an unsolicited proposals framework that is publicly available that steps through the process. We do not get many; we need to be clear that it is not like we are getting dozens. In some quarters, we do not get any at all. I will invite officials in the room to talk you through the process from the government side.

**Mr Stephens**: I understand and acknowledge the privilege statement. I missed the start of your question. Was it in relation to the general process or the number of proposals received in the current period?

**MS LEE**: It is about making sure that there are processes in place so that staff working on assessing unsolicited proposals know that there will not be any commercial-in-confidence breaches as well as taking into consideration commercial sensitivities—that type of thing.

**Mr Stephens**: We have a robust process in place within the infrastructure finance and reform team. Upon first receipt of a proposal, there is a range of due diligence that is undertaken on the submission itself. There is also a wide range of consultation with key stakeholders across government to assess the level of government interest in the proposal, and also to undertake general background checks in particular on the technical nature of the proposal.

Furthermore, should there be interest across government to proceed with further consideration of the proposal, a comprehensive brief is prepared for the unsolicited proposals steering committee, where is a final consideration of all the facts and due diligence that are uncovered through the ongoing engagement with the proponent, general desktop research, as well as engagement across government to ensure that there are no conflicts; that is a key component that we look for, too.

In relation to queries previously raised by this committee, we did reconfirm that there is a process in place whereby, at UPSC, going forward, there is explicit confirmation that there are no conflicts in place.

**MS LEE**: I understand that there is an unsolicited proposal steering committee; who are the members of that committee?

**Mr Stephens**: I will have to take that question on notice, Ms Lee. I cannot answer that right now. It is representatives of directors-general across government, so it is across directorate and directors-general. I do not have at hand the specific names of those members. I can take that question on notice.

**MS LEE**: No worries. If there are members of that committee that are external to government, can you also take on notice the criteria for selection to that committee and what is the term? Can I confirm that you will take that on notice as well?

**Mr Stephens**: Yes.

**MS LEE**: I understand, and the Treasurer mentioned already, that it is not like the government gets heaps of them. In terms of the accountability indicators, it says that one was not met. I note that there is a brief explanation. Could you expand on that further? How long did it take for that assessment to be completed, if it has been completed?

**Mr Stephens**: As the Chief Minister introduced, we do not receive a large number of proposals that proceed to the concept submission phase. During the reporting period 2020-21, there were a total of five formal submissions received. That does not include any general engagement with proponents that choose not to participate. As at the commencement of the period, we had three outstanding unsolicited proposals—as at the 1 July reporting date. Of that, one was completed by 31 July 2020, so that was within the required three-month reporting time frame.

With the three during the period that were not received, the key dates were 19 August for one; that was finalised on 17 September. As to the nature of that proposal, with the UPSC—and I refer to previous evidence provided by Mr Asteraki at the last estimates—the priority of the team is to ensure that adequate due diligence is undertaken on each proposal, as received, and an adequate level of further analysis, rather than necessarily trying to rush to meet a deadline.

We hold ourselves accountable to those time frames; it is respect for the proponent's time, and it is with respect that we do provide that response. But in that particular case, where we responded in September for the 19 August one, there was further due diligence requested by the unsolicited proposal steering committee; in particular, in relation to further engagement with the Government Solicitor's Office. As per previous testimony, that one did not proceed to stage 2, but there were alternative means whereby a trial was engaged with other parts of government.

In relation to the remaining two, there was one that was received in November. It was due by 18 September and it was received on 16 November—again, a broad range of consultation was required in relation to that matter. The other one was a proponent seeking to expand on an additional offering with the territory. Again, the committee decided not to proceed with that, because it was not identified to be unique enough. Also, in relation to that one, as I understand it, we encourage proponents to actively engage with the team in the pre-concept submission, to ensure that once a formal concept submission is made, there is adequate documentation in place to substantiate that claim. I understand that, for this one, it was a bit rushed, in terms of what was provided. In terms of having that three-month window to assess a proposal, sometimes we have to condense our timing.

In relation to the final one received, it was 25 November 2020, the due date, but this was related to a health matter as well, so there was further engagement with ACT Health, who prioritised a COVID response at the time in terms of availability of senior stakeholders to respond. A formal response was then provided on 21 December 2020 to not proceed.

With the fifth one, which remains an active unsolicited proposal, the response provided was on 30 June 2021. They were invited to participate in stage 2 of the process to develop a detailed submission.

**MR CAIN**: In processing these unsolicited proposals, do you use any consultants or other external expertise when assessing them?

**Mr Stephens**: For the ones that I particularly mentioned in that period, no, we did not. We rely on the internal consultation and specialisation within government. We have not, to this point, found a need to engage any external due diligence requirements and checks.

**MR CAIN**: Not for any stage, not at any time, have you used external expertise or consultants?

**Mr Stephens**: Not to my knowledge. For the current reporting period, I can confirm the answer is no. For previous years, not to my knowledge.

**MR CAIN**: Again, you may want to take this on notice: how many CMTEDD staff do you have working on these proposals, and are you confident they have the right skills and expertise to assess them adequately?

**Mr Stephens**: I can answer that one, Mr Cain. I, as the acting executive branch manager, have overall responsibility. I am actively involved in supporting the director of unsolicited proposals. That is a substantive SOGB position—a senior member of the public service responsible for the assessment. We also have within the team access to a junior resource to support the coordination.

In relation to the more technical assessment—that is more to manage the process—we are the enablers of the process. Across government, going to the complexity of the unsolicited proposal, we have, at our disposal, the ability to access officers from the relevant directorates to assist with the technical due diligence of the proposals. In the case of the current active proposal under consideration, we are engaging closely with members of CHS, who are greatly supporting the assessment of the technical ability for that to be implemented.

**THE CHAIR**: You mentioned internal specialisation. What sort of specialisation do you or your colleagues have when you are assessing these unsolicited proposals?

**Mr Stephens**: With respect to my background, prior to joining government, I have 12 years experience in commercial advisory, working for the private sector. With that, my responsibilities included a range of assessment of business cases through to project due diligence on transactions—in particular, in the PPP space.

My time in government as well leads me to have worked on a wide range of assessment of business cases and procurement matters—providing support across directorates. In terms of assessing an unsolicited proposal, it is the same principles with which you apply scrutiny towards a business case, while overlaying an additional layer of scrutiny as to why the government could not necessarily deliver it themselves and why the proposal may be justified.

The director of unsolicited proposals has a background in transactions, having worked, in particular, on the ACT law courts PPP. It is very much from that financial, commercial, due diligence space as well.

**THE CHAIR**: Considering some of the proposals are in regard to infrastructure, is there any expertise in infrastructure in the committee that looks over all of these unsolicited procedures?

**Mr Stephens**: It goes to the nature of the proposals. We can, as I said in my previous answer, draw upon specialisation across the territory, if there were particular matters relating to an infrastructure proposal. There is not one in the current reporting period that would be purely defined as infrastructure. We do have access, for example, to specialists within MPC and specialists within the relevant directorate. The representatives on the unsolicited proposal steering committee are from across directorates. One that comes to mind is the Director-General of Transport Canberra and City Services. She would have access to the technical briefings from her team as well, to inform her decision-making.

**MR CAIN**: I have a series of questions about the review of the capital framework, the review of the guidelines for public-private partnerships and, as we discussed, the unsolicited proposal guidelines. When do you expect the reviews of these three aspects of governance to be completed?

**Mr Stephens**: We are currently working through the final stages of the review of the capital framework; so we anticipate that to be completed in the current annual reporting period. That was well progressed last year, but, just through the focus on COVID in particular, the COVID budget, the decision was made that we would continue to work on prioritising COVID response and business cases for that last budget. My team has multiple things to do but we are in the final stages of finalising the capital framework review. We then will need to consult with the strategic board and cabinet in relation to adopting the recommended changes. The guidelines for the partnership framework will then follow on from the review of the capital framework.

The guidelines for unsolicited proposals were recently reviewed. I do not have the specific date at hand. If you would like I could take that on notice as well for you. Again, we constantly, as part of our business-as-usual maintenance of these policies, actively look at tweaking and reviewing within our remit as well.

Again, just to touch on the accountability indicator in relation to the three months, we did actively discuss whether or not that remained fit for purpose or appropriate. But again as a team, we consider that, to hold ourselves to account, we will leave that as is.

**MR CAIN**: And have you used consultants or other external expertise to undertake these reviews?

**Mr Stephens**: Yes, we have. We have engaged Ernst & Young to provide the support to develop the updated guidelines for the capital framework. Previously we had engaged a different consultant to undertake an interjurisdictional benchmarking and a review of the framework to provide recommendations, but EY were awarded the contract to implement the changes and provide updated guidance.

**MR CAIN**: And how much have you spent in the financial year 2020-21?

**Mr Stephens**: For the financial year 2020-21, I will have to take that on notice.

**MR CAIN**: Was the adoption of Ernst & Young as a support for these reviews an exempt procurement?

**Mr Stephens**: No, that was through an open procurement through a panel arrangement. We, as officials, through access to the infrastructure commercial advisors, have the ability to undertake a panel procurement. We invited a number of participants to respond to that.

Firstly the panel arrangement that was needed was through an open panel process, and you had to be awarded access to that panel. Then we undertake a procurement through that panel and assess value for money where there is greater value for money for the territory.

**MR CAIN**: And just a final one from me on this, can you discuss some preliminary findings regarding each of these reviews?

**Mr Stephens**: Specifically in relation to the capital framework, if I may talk through some of the key updates and implementations that we are seeking to make, at this point in time the single assessment framework document is a very long Word document that at times is difficult to follow.

One of the key changes is moving to an online platform. We are working closely with our colleagues in the website design team to enable an accessible website where you then can go and browse through sections. First and foremost, that is one of the key updates we are rather proud of.

The other one, as well, is just in relation to the templates and tools available. There are various templates that directorates and agencies use in preparing their business cases, so we are updating it to be more fit for purpose, based on the extensive range of consultation and feedback that we got from both the senior executive and practitioners, as well as, just for appropriateness, reviewing the tier classifications.

There are three tiers in which the final level of due diligence is required, tier 1through to tier 3. Previously it was linked to monetary values whereas, now we are introducing the concept of a risk-based assessment as well. For example, a smaller business case previously would have been classified as a tier 3—there are certain templates, tools and requirements to enable that—whereas now the updated capital framework would allow for a risk-based assessment that may increase the level of due diligence required to a tier 2 standard.

**THE CHAIR**: My question is on the law courts post-implementation review. The post-implementation review of the law courts PPP was underway in 2020-21. Is it now complete and are you able to share the lessons learned?

**Mr Stephens**: That is now complete, and it was presented to cabinet in February this year. The current policy is to not make available the public documents. As part of the nature of post implementation reviews, we invite frank and fearless advice that is to be kept confidential. But I can share with you some three key headline recommendations or findings.

One other point of context as well is that the PIR very much focused on the delivery of the project at the time, with the directorate capacity in place. Subsequent to the delivery of the ACT law courts PPP, Major Projects Canberra was established in 2019. Previously this had been delivered by infrastructure, finance and capital works as well as with the JACS Directorate.

Many of the recommendations related to processes and resourcing—many of which actually have been addressed through the establishment of MPC. As a headline, the PIR found that the project successfully achieved the objectives, stating that the business case and contract delivered a high quality, functionally effective ACT law courts facility. This is based on, again, a broad range of stakeholder feedback provided through the process.

I note also that, while the project was delayed by 17 months, the government did not incur any additional costs as a result of the financial protection offered by the PPP contract arrangement and that, as stakeholder interviews confirmed, other than causing some inconvenience for reputational issues, the project delays did not impede court proceedings or prevent the project delivering on its key objectives and expected outcomes.

**THE CHAIR**: Can I just clarify, did you say that the review is confidential and, therefore, it will not be released to the public?

**Mr Stephens**: At this point in time there is no plan to release that. The plan is to prepare a sanitised version for discussion within government officials as well.

**THE CHAIR**: A sanitised or standardised version?

**Mr Stephens**: Sanitised, more of a summary of the headlines. The document itself—I do not have the exact page count—is around 150 pages. The point of the PIR is to develop lessons learned. What we are keen to do is prepare a focus on the key recommendations, more of a rollout document for directorates to learn from what the key findings were.

**THE CHAIR**: I am just a little curious. Why is not the entire document being published? Is it the cabinet's decision to make it confidential, Chief Minister, or partially confidential?

**Mr Barr**: We will take the appropriate action in relation to ensuring that these reviews are robust. As you have just heard, that advice that is provided is commercial-in-confidence or frank and fearless and does not find its way unnecessarily into the public arena. But I think we have just been given a very good summary of what was reported.

We have two choices. We can either have a publicly facing one that does not cover the substantive issues or we can allow a process like this that does see a more robust engagement. Given we have only ever had two PPPs in the history of the ACT, I think this approach is appropriate, and cabinet will consider what, if anything, is released further in due course.

**THE CHAIR**: Chief Minister, if there is a review being done on public property, I think it is likely that a lot of Canberrans would like to see the full scope of the review rather than partial review processes. I am really interested why part of that is actually not being published, the decision made by the cabinet. It is either you have something to hide or there is something private that cannot be discussed in public.

**Mr Barr**: Indeed, it would be the latter.

**THE CHAIR**: Chief Minister, could you please answer this question on notice: why is it so private that you cannot publish the entire review as it is, rather than partially publish?

**Mr Barr**: I think that question has been answered but I will give the answer as well.

**THE CHAIR**: Not entirely. The decision you were given by external expertise, that would be great. Thank you. Is that a yes for a question taken on notice, Chief Minister?

**Mr Barr**: As I indicated, I will give you in writing what has been said publicly here, yes.

**THE CHAIR**: I would like to be clear, that advice that you have been given to redact some of the review by expert advice and the cabinet has made a decision not to publicly publish the entire review is the piece of information that has not been discussed here publicly. We would like to have it privately as a committee.

**Mr Barr**: Noted.

**MR CAIN**: In terms of what is being disclosed, when will the cabinet documents on this PPP be released?

**Mr Barr**: In 10 years time.

**MR PETTERSSON**: Chief Minister, how have the amendments to the Financial Management Act in response to COVID-19 supported the government’s ability to flexibly respond to the crisis?

**Mr Barr**: The Assembly granted some extraordinary arrangements in relation to pandemic management, typically as it related to the Treasurer's Advance. This has enabled the government to respond promptly to a wide range of scenarios that have emerged in relation to COVID response.

**MR PETTERSSON**: What are some of the oversight arrangements that have been put in place to ensure transparency?

**Mr Barr**: There is regular reporting to the Assembly within the financial statements of the territory; quarterly updates are provided, of course, on expenditure of public money; media releases around the time that it is announced as well; and programs and actions are put in place and publicly discussed. In fact, this period of government activity has had more public discussion than any other period I have experienced in more than two decades in this place.

**MR BRADDOCK**: I am interested in the 50 per cent discounts on lease variation charges that were implemented as a COVID measure. How much revenue did we forgo of that and what were the outcomes of that measure?

**Mr Barr**: I will take the revenue question on notice. I would note it may be difficult to precisely determine the actions we took on the question of whether the incentive did bring forward activity. We obviously collected LVC during this period. If we had not provided the incentive, the activity may not have been brought forward. It might be difficult to give a precise figure but what we can do is report on the number of projects that were submitted during that period and the revenue that was collected from that.

**MR BRADDOCK**: Have you evaluated the effect that that measure had on the construction industry and how many jobs it created or saved?

**Mr Barr**: Not at this point. Obviously, there will be some assessment undertaken, but it is difficult to directly pinpoint because there are a number of initiatives in this space, including construction industry jobs, government-funded stimulus programs and projects as well. It may be difficult to draw out the distinction between jobs that were supported by government public works or fast tracking, as opposed to the private infrastructure projects and their timing. But we will give it our best shot and I will take that on notice for you.

**MR BRADDOCK**: I would appreciate that. You said it brought forward construction activity. I would hope that it also would have generated additional activity rather than just simply borrowing from our future construction that was already going to happen at some point.

**Mr Barr**: Part of the exercise was to bring forward activity—that was what the government-funded public works was—as well to bring forward activity in that period.

**MR CAIN**: Treasurer, how many approvals have claimed the remission under this package?

**Mr Barr**: I do not have that figure in front of me but I can get that on notice for you.

**MR CAIN**: I notice as part of the scheme, construction was required to be commenced by 31 January 2022. How many approvals have claimed a remission through the package but construction has not commenced by 31 January 2022?

**Mr Barr**: Again, I do not have that information in front of me. I will take that on notice for you.

**MR CAIN**: And if construction is not commenced, will the LVC revert to its original amount?

**Mr Barr**: I would anticipate that would be the case, yes, if you did not meet the criteria for the remission. An obvious question would be why. Unless there was a reason that the territory had contributed, it would be reasonable to seek the additional LVC.

**MR CAIN**: And if there is no justifiable reason, as you just described, will the reassessment for it include penalties and interest?

**Mr Barr**: I think we would need to look at that on a case-by-case basis.

**MR CAIN**: What compliance activity do you actually have planned for this, given we have passed that start of construction date, and which projects have not so far physically been checked as to their compliance?

**Mr Barr**: I will take those questions on notice.

**MS LEE**: I know we sort of covered this but I have a couple of specific questions. Does treasury model government-debt-servicing costs under a range of future interest rate scenarios? If so, is this advice routinely provided to you, Treasurer, or your office?

**Mr Barr**: There is a statement of risks contained within the budget papers in each year—that is public—and modelling on the interest. You are talking about the interest costs of general government sector debt?

**MS LEE**: Yes. We are obviously hearing that it is very likely that interest rates will rise. What I am asking is: in the event that the interest rate goes to X and interest rates rise to Y, how would it impact our repayment?

**Mr Barr**: It is fixed-rate bonds; so we lock in the price.

**MS LEE**: For all of them?

**Mr Barr**: Yes.

**MS LEE**: Every single one?

**Mr Barr**: Within the government sector—Mr McAuliffe can correct me if I am wrong there—that is my understanding.

**MS LEE**: And how long is that fixed period?

**Mr Barr**: They are normally 10 years—10-year bonds mostly. But outside the general government sector, within the PTE, I think, from memory, Icon has some inflation measures with regard to bonds. Again, I will ask Mr McAuliffe just to confirm that.

**Mr McAuliffe**: To date, the new buys we undertake are all on a fixed-rate basis. Generally, we look to extend our yield curve each time we issue. If we do a new bond we will look to do a 10-year maturity term from this point in time.

In 2020 when there were some difficulties accessing the market, we actually issued some shorter term bonds, because we had to issue what the market could take. But again, they are all fixed rates so that we have got that certainty. Where the variability comes in for the future budget will be our estimated new bond requirements in a particular year.

As the Chief Minister outlined, there is a table in the budget papers which provides some sensitivity analysis around change in the interest rate from the rate that may be used in the actual budget for that year. The only variable rate debt that we have is some inflation-linked bonds. The variability for those is what happens with CPI, not so much the actual figure of fixed real yield. It is the inflation rate that will change the repayment profile of those. But again, the large ones, which are our indexed annuity bonds, are structured under a principle and interest repayment profile; so they are reducing over time.

**MS LEE**: You are fixing the fixed interest rate for 10 years, as you mentioned. Are you fixing it in because it is for 10 years? Is it higher than what is currently on the market?

**Mr Barr**: As in from when we are refinancing? Examples are bonds that were at 4½ per cent interest or higher have been refinanced at either below two per cent or around 2½ per cent. Our recent bond issuances have led to savings in interest payments. From memory, the most recent one was swapping out at 4½ per cent for about 2½ per cent. On $1 billion, that is $20 million a year. There were a couple of issuances earlier that refinanced even lower. The savings in interest as a result of our recent bond program have been in the tens of millions and will probably exceed $50 million over a number of issuances each year. Again, Mr McAuliffe may correct me if the maths that I have done in my head there is way out of kilter.

**Mr McAuliffe**: It is one of those things. Over the last number of years we have actually had, with falling interest rates, an averaging downward of our cost of funds. Again, as rates go up—and we have already seen that—the bond that we issued in May last year, the 2030 maturity bond, was issued at—

**Mr Barr**: About 1.8 per cent.

**Mr McAuliffe**: 1.79 per cent. The 2032 maturity bond we issued a couple of weeks ago was at 2.58 per cent. So you can see rates have already moved. But over time we have had the advantage of our rates averaging down and we are in an upward rate rise at the moment. Each time we do a new issue, we just do not automatically issue for a 10-year maturity anyway. We will actually have a look and see what we think is the optimal term of maturity we can get.

We have to take into account investor demands at that time. We need to take into account other issues that might be influencing the markets at the same time so that we do not get squeezed out, if you like, by another large issue. There are a number of factors that we weigh up before we settle on the actual terms of maturity.

The other thing we have to be careful of is our refinancing risk. We do not want to just load up a future maturity with a very, very large volume of bonds that we actually have to then refinance at that point in time. You want to try and stretch the maturities out over the real time so that when you have a maturity you can actually go and access the market and refinance that.

**MS LEE**: This is more for clarification than anything else. When it comes to refinancing, the Treasurer gave the example about reducing the interest rate from 4.65 per cent to 2-point something, whatever it was. With the fixed term of 10 years, do the terms allow you to actually renegotiate at any point within that period?

**Mr McAuliffe**: No. The fixed rate borrowings are a bit like any borrowing. Once you have locked in a rate on the other side, the investor knows what they will get. We have told them, "Under, effectively, the terms, we are going to pay you X per cent for 10 years time." If we were to repurchase those bonds off them, we would have to buy them back at current prevailing rates. If rates are lower than what we borrowed at, then we are going to have to essentially pay a net present value of that difference between the original rate and the rate we refinance at because they want to be compensated for giving up that guaranteed interest rate stream.

**MS LEE**: I understand. What I am getting to is: given that at times the interest rates have either gone up or down—and I think you did previously answer that—you look at it in that scenario?

**Mr McAuliffe**: I think you have got to be careful. You have got other tools at hand. You put derivatives in place to take out interest rate swaps and swaps from a fixed rate to a variable rate and those sorts of things. If we could pick what the interest rate is doing, that would be great.

**MS LEE**: We would all be very rich, I am sure.

**Mr McAuliffe**: That is right. What the Chief Minister said before about some of our expensive higher rates coming off is correct. We have got a maturity in April this year which is $550 million, which we issued back in 2013 at 4½ per cent. On current levels, we will be able to refinance that at somewhere between 2½ and three per cent. That is how the change yield structure translates.

**MS LEE**: Would you be able to take on notice, Mr McAuliffe, what average level of interest rates would have to be for the annual interest costs on current government borrowings to reach $1 billion?

**Mr Barr**: To reach a billion?

**MS LEE**: Do you do that type of modelling? Is that available?

**Mr Barr**: I think our current interest costs are between $200 million and $250 million. To get a billion dollars of interest payments on current borrowings, you would need interest rates to be around, what, about 20 per cent.

**MS LEE**: Between $200 million and $250 million, you said, was it not?

**Mr Barr**: It is in the budget papers. There is a section in the budget papers that outlines our annual interest payments.

**Mr McAuliffe**: I was just going to say that in budget paper 3 there is a chapter which is our balance sheet metrics and there is a debt table which has our senior principal amounts based on last year's budget, the interest profile and our debt. At the moment we are looking at about $200 million; for the 2021-22 year it is $260 million; and about $340 million by 2024-25. Again, that is taking into account new borrowings as well. That is not just an interest rate change. There are two things that are moving together, the change in volume as well as interest rates.

**MR CAIN**: Treasurer, if the current approach to the release of land for detached housing continues, has Treasury done any modelling on how high house prices for such land will become?

**Mr Barr**: How high house prices for land will become?

**MR CAIN**: For detached housing, yes.

**Mr Barr**: In suburban new estates or across the entire territory?

**MR CAIN**: Has there been any breakdown at all, whether territory-wide or new greenfield developments wide?

**Mr Barr**: You are obviously aware that a house price will be a combination of the land value, or the price paid for the land, plus whatever the price of the dwelling or the size of the dwelling that is built on the land.

**MR CAIN**: The government controls the release of the land, which obviously has a massive impact on the price of houses.

**Mr Barr**: Yes, some of the land in the ACT, but the new land release constitutes less than two per cent of the total housing market. To the extent that the price of land in those new suburban areas would impact on the price of housing in those new suburban areas is a fair question. The price of land in Ginninderry is not going to have a substantive impact on the price of land in Forrest, Yarralumla, Red Hill, Reid or Turner, because that land is finite.

We can certainly provide you with some forward guidance in relation to the price of land in new estates, but I am not sure that there is a correlation between the price of land 50 kilometres from the CBD and the price of land in a suburb like Parkes, Reid or Campbell or, indeed, in the middle ring of suburbs—for example, in your own electorate in Belconnen. I do not think the price of land in Aranda is particularly impacted by the price of land in Ginninderry; they are two very different products.

**MR CAIN**: Well, that is to be seen; but certainly I am interested in the modelling with respect to the new release areas like Ginninderry.

**Mr Barr**: Are you interested in the price per square metre?

**MR CAIN**: I am happy with any breakdown for this conversation to be able to continue.

**Mr Barr**: We will provide you with a price per square metre because I think that is the most consistent measure across the new land release that the SLA is responsible for. By way of comparison, there are obviously private sector land releases, so the price of land per square metre in Denman Prospect that has been undertaken by the private sector might be a comparator. I guess we could add Whitlam into that too as it is proximate to Denman Prospect.

**MR CAIN**: Thank you. On the broader question of affordability within Canberra itself, are you saying you do not model impacts on the median house price of the current land release regime?

**Mr Barr**: What I am suggesting is that there is not a correlation between the price of housing in areas where land supply is exhausted and the land is finite. A more significant impact on affordability there would, in fact, be zoning and planning changes. We have a greater impact on land release in suburban areas that are often 30 or 40 kilometres from the other detached housing that you would seek to compare it against.

I think the correlation you are drawing is just not there. There are 185,000 dwellings in the ACT and land release is in the thousands each year. As I said, it is two per cent of the total market. So you cannot expect two per cent to shift to 98 per cent. There are other factors, including low interest rates and planning and zoning, and of course income levels. In the end, the price of housing is the interaction of supply and demand. The worth of a house is how much someone is prepared to pay for it, and that is not within the ACT government's control.

**MR CAIN**: I beg to differ. My question now is: given that the median house price in Canberra has been skyrocketing, are you saying that your current land release program has no influence on that?

**Mr Barr**: No. What I am saying is that our land release program has influence on the price of housing in the areas in which the land is being released.

**MR CAIN**: Which goes to the calculation of median house price.

**Mr Barr**: Yes, but it is only a two per cent contributor, and it also depends on the size of the housing that is being built. Do you acknowledge that Canberra has the biggest houses in Australia and amongst the biggest houses in the world, on average, and that the size of a dwelling is also a contributing factor?

**MR CAIN**: I am here to ask the questions, Treasurer, not you.

**Mr Barr**: I am posing the counter—

**MR CAIN**: What other factors do you think are the most significant contributors to our skyrocketing median house prices?

**Mr Barr**: We are seeing skyrocketing house prices across Australia in every major city and, indeed, in regional areas. When benchmarked against other cities and share of income that is necessary to purchase a house or to meet rental payments or a mortgage, the ACT in fact is more affordable than other jurisdictions because our incomes are higher; people have higher incomes. On the demand side of the equation—because it is a market, Mr Cain—the median price is the sum total of the interaction of supply and demand, and both influence price. Demand is high because interest rates are low, so the cost of borrowing is as low as it has ever been. That is a factor that is pushing up house prices, together with favourable taxation treatment in relation to housing as an asset class.

Your argument may make some sense if the ACT was the only jurisdiction in Australia experiencing significant increases in house prices, but you and I both know that is not true and that what we are seeing is house prices increasing across the nation. Another factor for the ACT, as I have pointed out, is that our houses are bigger. The size of the house is also a contributing factor to its median price, not just the land value but the size and quality of the dwelling.

**MR CAIN**: Treasurer, I think you need to talk to professionals who work in this area, real estate agents. Perhaps talk to the—

**Mr Barr**: No, Mr Cain. I have—

**MR CAIN**: nearly 9,000 ballot bidders in Macnamara—

**Mr Barr**: Thank you for your advice, but you are not advancing anything here.

**THE CHAIR**: Chief Minister!

**MR CAIN**: I certainly am. I am advancing your inability to explain the effect of land supply on the median house price in Canberra and why—

**Mr Barr**: It is very limited, for the reasons I have outlined, because it is such a small proportion of the total housing market and there is not new land release in areas that are driving the largest increase in land, because there is no new land to release in those areas.

**MR CAIN**: That is the government's decision, Chief Minister. I have no more questions.

**Mr Barr**: So you are advocating, Mr Cain, for major change—

**MR CAIN**: I have finished my questions.

**THE CHAIR**: Chief Minister and Mr Cain!

**Mr Barr**: Well, that is good to know. Thank you very much for putting that on the public record.

**THE CHAIR**: I would like to circle back to my question previously to you, Chief Minister. You said you had noted my question. Does that mean it is a refusal to answer it as a question taken on notice?

**Mr Barr**: No, it does not. I have already answered your question and I have noted your desire for it to be taken on notice and, yes, we will take it on notice.

**THE CHAIR**: But will you answer it? That is my question.

**Mr Barr**: That is implicit in taking the question on notice, is it not?

**THE CHAIR**: Well, when you say "noted", it could mean various things. It could mean it is just noted or your desire to answer it or not.

**Mr Barr**: I have taken the question on notice, as I have indicated. I have noted your concern that you wanted it taken on notice and I have taken it on notice.

**THE CHAIR**: Thank you. I expect an answer, Chief Minister.

**MR PETTERSSON**: Unfortunately, my question is not as exciting as that.

**THE CHAIR**: You could make it!

**MR PETTERSSON**: It is a cracker! Chief Minister, the annual report talks about the August 2020 economic and financial update being the first comprehensive economic and financial update by an Australian government following the outbreak of COVID-19. Would you be able to explain to the committee the process of delivering that update and why you think we were the first government to be able to do so, particularly given our size?

**Mr Barr**: In that time period most governments delayed their budgets—in fact, all did—so we were the first to endeavour to provide a state of territory finances, or the state of our jurisdictional finances. Other jurisdictions waited many, many months. The ACT has more fiscal transparency than most jurisdictions in terms of our quarterly reporting, our mid-year budget update and, indeed, the information that we provide through hearings like this, as robust as they can be at times. That was obviously a significant piece of work. It was followed not long after by the pre-election budget update that was undertaken by the then Under Treasurer and provided as part of the election process. There was robust debate and it continues to be around economic metrics.

Over the course of the pandemic there are some interesting world views that are being put in relation to either not believing data or suggesting that alternate commentary can be put on data that clearly has no alternate commentary. We live in a world at this point where even basic facts are often contested—witness my previous conversation with Mr Cain. But we will continue to provide updated information in relation to the territory's fiscal position. The most recent one was provided for the December quarter. The mid-year budget update will be provided within the next month or so and then the forthcoming budget for fiscal year 2022-23 will be delivered in August.

**MR BRADDOCK**: I would like to understand the government decision-making and criteria for when it decides to lease office accommodation versus when it decides to actually own the office accommodation.

**Mr Barr**: It is a financial assessment in large part, unless there is a legacy or heritage issue associated with existing government asset ownership. An example is the Assembly building. There are some that would remain in public hands for obvious reasons, although I do note that the first Assembly operated out of a leased building. The decision was taken in the early 1990s to move the Assembly into this building.

We have a mixture of government-owned office accommodation. Often it is very much built to serve a specific public purpose. Your more generic office accommodation is in large part leased from the private sector, and that is based on a financial assessment. I will invite the officials in the room to add anything further in relation to the policy framework for making those decisions.

**Mr Hocking**: I have read and understood the privileges statement. There is not a lot to add to what the Chief Minister has just said. It is essentially a financial assessment, but also having regard to the specific requirements of pieces of accommodation. For generic accommodation, often leasing can be the right answer, but it is really a value for money assessment that is done at the outset in relation to that. For other specialised pieces of accommodation, ownership will be more likely to be the right answer.

**MS LEE**: Treasurer, I will just take you back to the discussion that we had in my previous question. A lot of numbers were thrown about and I have just looked at the budget papers. I asked what interest rates would need to be for payment repayments to be at a billion and you talked about 20 per cent. Can you just provide where you got that from? When I look at page 309 of the budget outlook, we have liabilities in the forward estimates at 2024-25 at about $14½ billion, and if you were looking at 20 per cent of that, that is almost $3 billion.

**Mr Barr**: That would be assuming that all debt at that point was subject to a single interest rate.

**MS LEE**: Sure. That was the question.

**Mr Barr**: It was just off the top of my head. I did a very quick calculation around what the multiple of the current interest rate would need to be across a series of maturing debt lines; so in the ballpark of. If you assume that the current discount rate, the long-term average interest rate over a 30-year period, is in the order of four to five per cent, and we have got around $250 million of debt at the moment, the average level of interest—because different interest rates apply to different components—is around that 200 to 250 million. On a quick calculation, if you multiply that by four or five, it will give you somewhere approaching 20 per cent. But it is not the exact figure and it is not modelled.

Your question was about current debt levels, not future debt levels. If you incurred more debt at a higher interest rate then it is, of course, feasible that your annual repayments could reach a billion dollars a year. But by the time that would occur, the ACT economy and the ACT revenue base would be substantially larger than it is at the moment. Perhaps the more reasonable measure, given also that you would have inflation over that period, would be the debt to revenue metric. As revenue increases each year, debt can increase each year within the same debt to revenue metric.

**MS LEE**: In the original question that I asked—and I knew, obviously, that this does involve figures—I specifically started by saying, "Can you take on notice the average level of interest?"

**Mr Barr**: I am willing to provide a quick, shorthand comparator, Ms Lee. If I have slightly overestimated the interest rate as I was doing that quick calculation in my head, I apologise, but suffice to say it would be a very significant increase in interest rates necessary to drive our current debt levels to see repayments, the interest costs on our current debt levels, reach $1 billion a year. That is effectively three to four times what the current interest payments are. The point has been made quite well that all of our debt does not sit at one single interest rate and all of our debt would not fall due in any one fiscal year. It is a yield curve, Ms Lee.

**MS LEE**: I understand that. That is why my question specifically was: (1), "can you take on notice", and (2), "the average interest rate". I do understand, so you do not need to be condescending. You have done it off the top of your head. What I am asking—and that is what I asked the Treasury official—is this: can you please provide on notice the average interest rate, taking into consideration the forward estimates, in terms of our liabilities?

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

**MS LEE**: Yes.

**Mr Barr**: That is a different question to what you asked earlier.

**MS LEE**: Mr McAuliffe started to give that answer. He was talking about $360 million a year, then moving to $340 million in terms of 2024-25. So I am pretty sure he has got that information. Can I have that on notice, please?

**Mr Barr**: That is in the budget papers. That is where he was reading it from. That is the model across the forward estimates. It is already there for you. We published it last year. We will update it again—

**MS LEE**: On the original question then—that is, to reach $1 billion per year in interest payments—have you got that modelling? Can you please provide that?

**Mr Barr**: No, I do not have that modelling, but it would be a fairly straightforward exercise. Again, assuming that all—

**MS LEE**: Well, it clearly is not, because you said 20 per cent and you have now had to say, "Well it is not." So it is clearly not as straightforward as you are saying it is.

**Mr Barr**: It would depend on the expiry or maturity of the current borrowings. To go from 300 million to a billion dollars on current repayments when the next bond expires—is that the question? It is such a meaningless, pointless question as to—

**MS LEE**: I get to choose the questions, Treasurer. I am asking the question: can you provide the average interest rate for—

**Mr Barr**: Yes.

**MS LEE**: Can you provide that and can you take it on notice?

**Mr Barr**: Yes, I can.

**MS LEE**: Thank you.

**MR CAIN**: I have questions about infrastructure planning. Treasurer, in the hearings on Tuesday last week with Major Projects Canberra, Mr Edghill discussed the cost increases and delays to infrastructure caused by the constrained availability of materials as a result of COVID supply chain disruptions. Have budgets for MPC projects all been updated to reflect these increases?

**Mr Barr**: Budgets would be updated where material impacts have occurred. That would occur case by case across projects. The time to do that is associated with the annual budget process, so the next update in relation to projects will be in the budget in August.

**MR CAIN**: Do you have a sense at all or an estimate of the total increase because of these supply issues across MPC expenditure?

**Mr Barr**: No, I do not, because many of them are yet to materialise.

**MR CAIN**: And the ones that you can actually do that estimation for—are you able to provide an expected increase in cost?

**Mr Barr**: No, not at this point, because that will be updated in the budget, as I indicated.

**THE CHAIR**: I note you achieved an unmodified audit opinion in 2019-20. Who is your current auditor and how long is it since they were first appointed?

**Mr Barr**: The ACT Auditor-General is the territory's auditor. They have been appointed since the start of self-government.

**MS LEE**: Treasurer, are you saying that there are no external or independent auditors outside of the Auditor-General that look over any of the government's finances?

**Mr Barr**: Who the Auditor-General may wish to engage to assist in undertaking audits is a matter for the Auditor-General. That is what we have the Audit Office for, to audit government finances.

**MS LEE**: So you or any of the executive do not have any say in any external auditors that may be engaged through the Auditor-General's Office?

**Mr Barr**: No, because the Auditor-General is independent of the executive and is an officer of the parliament.

**MR PETTERSSON**: Chief Minister, I was hoping you could explain to the committee your role with the Suburban Land Agency with regard to authorisations and also tell the committee what are the authorisation thresholds for land acquisition.

**Mr Barr**: Section 63 of the City Renewal Authority and Suburban Land Agency Act requires the Treasurer to make directions relating to the acquisition of land by either the CRA or the SLA. Such directions are disallowable instruments. The directions require the Suburban Land Agency and the City Renewal Agency to present a business case for each proposed acquisition for endorsement of the responsible minister following consideration by cabinet. These directions do not contain any thresholds, which means that all land acquisitions are subject to consideration by cabinet before the responsible minister can grant approval.

The business case that must come forward must include the details of the land to be acquired and the financial implications relating to the acquisition; land valuations provided to and obtained by the City Renewal Authority or the Suburban Land Agency; the current and future status of the land under the Territory Plan, including any conditions on the head lease; the purpose for which the land is being acquired, including how the proposed acquisition meets the requirements of the City Renewal Authority and Suburban Land Agency Act 2017, the Territory Plan, the statement of strategic directions, the statement of planning intent—and the statement of expectations for the City Renewal Authority needs to be consistent with that, as well as the statement of operational intent for the City Renewal Authority, if it is a City Renewal Authority-initiated business case—the statement of intent for the land development agency; achieving value for money; providing community benefits; meeting environmental and sustainability objectives; the appropriateness of consultation processes undertaken; a risk assessment and other relevant information. These directions were placed on the legislation register on 1 November 2017.

**MR PETTERSSON**: How many proposals were there in the reporting period?

**Mr Barr**: I will take that one on notice.

**MR PETTERSSON**: Were any rejected in the reporting period?

**Mr Barr**: I do not believe so but, again, I will get that confirmed on notice.

**MR PETTERSSON**: Thank you.

**MR BRADDOCK**: I have a question about the ACT budget women's statement. Where are you, as Treasurer, held to account for what is in that women's budget statement and the achievement of its goals?

**Mr Barr**: In the Assembly, in committees and by the general public. The statement is whole of government. I will take the question in a more positive spirit, rather than suggesting that I am personally responsible for every single outcome as Treasurer. We may as well not have anyone else in government, if that were the approach. There would just be a finance minister.

Obviously there are accountability indicators. There are forums like this. It is a collaborative effort. But in most instances, as you would be aware now as you have been a member of this place for a little while now, although central agencies and the treasury have input into every area of government, we do not control the outcomes or service delivery in every area of government.

**MR BRADDOCK**: I note the Minister for Women has already appeared in front of the EGEE committee but that is only for women's policy and services; hence I was interested in where treasury is held to account for the ACT budget paper which is the women's statement? I have noticed it is also not in any of the annual reports from CMTEDD. I am asking: can I please have an update against that women's statement?

**Mr Barr**: I would argue that statement is a statement of policy as well as financial. Clearly the Minister for Women has the most direct accountability for that statement but we are able to assist if there are any questions in relation to the financial elements of that statement.

**MR BRADDOCK**: How do you as Treasurer apply a gender lens to your budgeting decisions?

**Mr Barr**: I do not make budgeting decisions myself. We have an expenditure review committee and a cabinet that make the budgeting decisions. The formal process does not fall solely upon the Treasurer in terms of those decisions. The wellbeing assessment process is the way in which every single business case comes before the expenditure review committee. The cabinet assesses it through the gender, socioeconomic, environmental and economic lens.

**MR BRADDOCK**: I will rephrase the question this way: can I please have an update against the ACT budget women's statement in terms of the achievement of the policy objectives set out in that statement?

**Mr Barr**: What, a verbal update now. or are you asking me to take it on notice?

**MR BRADDOCK**: You can take it on notice. I would like to see a report.

**Mr Barr**: That would be a document in itself. I think the appropriate reporting against that would sit with the Minister for Women but I will take on notice what, if any, further information we can provide.

**MS LEE**: Treasurer, can I take you to the revised ACT infrastructure plan. Page 26 of the CMTEDD report mentioned that that is what you were going to deliver to reflect the disruptions to infrastructure delivery whilst the COVID-19 pandemic has been on. Where are you up to with this? Has it been completed? Can you give us a status update on that?

**Mr Barr**: No, it is not completed, and it will be released, we anticipate, in calendar year 2022. I do not think it will be done by 30 June.

**MS LEE**: We are talking the second half of this year?

**Mr Barr**: That would be my expectation, yes. I may endeavour to align it with the budget. That may make most reporting sense.

**MS LEE**: Just broadly then, can you talk us through, for the benefit of the committee, the projects that have been delayed because of COVID and the percentage of these in comparison to total projects?

**Mr Barr**: No, I am not in a position to do that right now. Obviously that information will be provided in the budget and in the most recent capital works update. I think I will be tabling that shortly. That will give an update across all directorates. I am not in a position to do that right now but it is imminent.

**MS LEE**: That should be in the first half of this year?

**Mr Barr**: Yes. I understand it is due this month.

**MS LEE**: Again just in broad terms, can you talk about some of the reasons for the delays and what your government is doing to combat some of those concerns?

**Mr Barr**: I think they are exactly as outlined during the Major Projects Canberra hearing last week. I do not think there is anything different from what was advised last week.

**MS LEE**: You are saying, "Refer to the answers provided by Mr Edghill and his team"?

**Mr Barr**: Yes. I think they covered the range of labour and supply shortages, the COVID impact on the construction sector during the lockdown period in the winter of 2021. I think the wet weather has impacted on some projects as well.

**MR CAIN**: I have a question, again for the Treasurer. On page 84 of the annual report volume 1, one of your tasks is to collect taxation revenue in accordance with legislation. Have there been any instances, Treasurer, where you or any of your officers have administered taxation or other policies or regulations without legal authority?

**Mr Barr**: I will refer that to the revenue commissioner to provide an answer. I would be surprised if that were the case, but the commissioner would be in a better position than I am to advise on that question.

**Mr Salisbury**: I acknowledge the privilege statement. It is certainly not our intention to impose taxation without authority. If Mr Cain has some examples that he can bring to my attention, I will certainly look at those, if that is the intention of that question.

**MR CAIN**: I would like to briefly discuss the lease variation charge deferral scheme. As the Treasurer and the commissioner would be aware, last year there was an amendment to the scheme under act No 10 of 2021, a revenue legislation amendment bill. I just note that one of the changes was to establish when there was an obligation to pay the LVC liability. There is also a comment in the explanatory statement that the amendment will ensure that the LVC deferral arrangement can operate effectively. Can you explain how it was not operating effectively prior to last year's change?

**Mr Salisbury**: No, I cannot speak to the details of that tax legislation. We are looking at a very technical piece of the law. I am not in a position to discuss that at this moment.

**MR CAIN**: Would you take that on notice, please, and provide an explanation?

**Mr Barr**: Yes, we can take that on notice for you.

**MR CAIN**: I would also draw your attention to the fact that, as you would be aware, when the LVC deferral scheme was instituted in 2018, it was set up then and still operates as an arrangement under the Taxation Administration Act section 52. Under section 52 of the Taxation Administration Act, a tax that is due and payable may be subject to an arrangement to extend the time for payment of that tax. That is the basis for the operation of the LVC deferral scheme, it would appear. If you go to the explanatory material for that 2018 bill, that is fairly clear.

The change last year seems to institute a time when the liability was due. I ask you, commissioner: absent a time when the liability was due, how could the LVC deferral scheme operate to extend the date for payment when there was no actual date for payment from the very start of this scheme?

**Mr Salisbury**: Again, I will take that question on notice.

**MR CAIN**: And did you have advice, either oral or written, prior to the institution of the LVC deferral scheme that it lacked legal basis as a scheme under section 52 of the TAA?

**Mr Salisbury**: Again, I will take that question on notice.

**THE CHAIR**: In the 2019-20 annual report financial hardship rates deferrals are mentioned as one of your highlights for the year. That is on page 71. Is this still happening in 2020-21?

**Mr Barr**: The short answer is yes. The revenue commissioner may be able to provide some detail.

**THE CHAIR**: How many applicants were there and how did this compare with the previous financial year?

**Mr Salisbury**: Sorry, was that question about the residential rates hardship provisions specifically relating to COVID?

**THE CHAIR**: That is correct.

**Mr Salisbury**: There have been 474 residential rates hardship deferrals that have been administered by the Revenue Office. There are effectively two parts to that. One was the deferral for 2020-21 rates, and there were 381 approvals for that. In the period for rates in the first quarter of the following financial year, there were 93 approvals.

**THE CHAIR**: What happens with the applicants who have been rejected? Can they get an appeal?

**Mr Salisbury**: There is not an internal appeal mechanism.

**THE CHAIR**: There is not?

**Mr Salisbury**: There is an internal appeal mechanism to the commissioner. I do not recall that I have seen that we have had any appeals come to the commissioner by those people who were not approved. But in most cases those applications are approved.

**THE CHAIR**: Commissioner, if there are no mechanisms to appeal, then how can they—

**Mr Barr**: No, there is. He said there is a mechanism.

**THE CHAIR**: I am sorry, he said there is not or there is a mechanism?

**Mr Barr**: There is.

**THE CHAIR**: I am also reading the subtitle here and it says "is not".

**Mr Salisbury**: I can confirm that there is an appeal mechanism directly to the commissioner if somebody is not approved for a deferral of rates.

**MR PETTERSSON**: Chief Minister, I am hoping to get an update on the ACT's economic recovery from COVID-19. What economic and financial data are you seeing and what does this mean for the ACT?

**Mr Barr**: We are seeing a very strong, V-shaped recovery. It is pleasing to see that it is broad based, and it is coming through in data on the labour market and data on retail trade. We will see some further quarterly state final demand detail in the national accounts that are due tomorrow.

We have the early data release in relation to retail trade for the month of January. The seasonally adjusted amount of $599 million is, I believe, the fourth highest month ever in the history of retail trade. It is larger than the seasonally adjusted number for the month of December, which was $597 million; and, for the month of November, I believe it was around $614 million. Those three months are three of the highest ever. Even though January is traditionally the lowest trading retail month of the year, we have started this year with a retail trade number just $1 million below $600 million—a threshold we have only crossed once or twice in territory history.

To put some perspective on this, pre pandemic, in January 2019, the figure was $500 million in retail trade, seasonally adjusted. That has risen to $600 million in the first month of this calendar year. After some statistical anomalies in the final quarter of 2021, we again see a reversion to the long-run trend of the ACT having the lowest unemployment rate in the nation. We have more job vacancies, approaching 10,000, than we have unemployed people—around 7½ thousand to 8,000. We have some economic challenges in the period ahead, associated with attracting skilled labour into our economy, and that will be an area of focus.

Clearly, the opening of the Australian border and the resumption of international trade in services, particularly higher education and tourism, will assist the further ACT economic recovery, and it will also assist in increasing the supply side of the labour market to reflect the fact that we have more job vacancies than unemployed people at the moment. Nevertheless, there will still need to be ongoing investment in skills, in vocational education and training and in the higher education sector in order to meet growing needs in the labour market.

The ACT economy has recovered strongly, and the expectations for calendar year 2022 are those of cautious optimism, noting that further waves of COVID or outbreaks can impact on economic activity. But the data that we were looking for to confirm that V-shaped recovery has now come through. The forward-leaning data coming from the banks and some of the new, experimental datasets that the ABS are utilising on predicting forward consumer behaviour are showing that spending on credit cards and spending across the real economy in the retail sector is higher than pre-pandemic levels for the territory at this point in time.

We are seeing, across Australia, increased GST revenue. I read in the *Financial Review* yesterday that investment in the ACT on the commercial side is tracking for an all-time record. This fiscal year and the next are looking very promising in relation to inbound investment into our economy.

Across retail, commercial, business balance sheet, household balance sheet and housing market, there is reason for cautious optimism. The labour market continues to be very strong. We are seeing the initial signs on the lift in the wage price index. It is starting to flow through into real wages, but there is still a way to go there.

There is obviously a lively debate amongst the financial markets and the Reserve Bank governor about where interest rates are going over the next 12 to 24 months. We would want to see continued pursuit of full employment and policies that would maximise aggregate demand across the economy.

APRA, the Prudential Regulation Authority, have reported hundreds of billions of dollars being transferred from government balance sheets to private balance sheets, households and businesses, in terms of a collective pool of savings over the duration of the pandemic. The big-picture story is that the public sector has taken on more debt and that debt has transferred to the balance sheets of households and businesses.

The expectation—and this is clearly what the federal Treasury secretary, the Reserve Bank governor and Treasurer Frydenberg are anticipating—is that that debt transfer of public debt onto private balance sheets will indeed see that private balance sheet expended, as private savings start to be spent in the economy. We are seeing the early signs of that on retail trade and in terms of commercial investment. Given the nature of the Australian tax system, the consumption—as in what is spent in the retail economy—will indeed attract the goods and services tax in most instances. That will then start to flow through into revenues for state and territory governments. As we reported for the December quarter, the GST pool is up overall, which means more spending in the economy.

I noted from the Commonwealth Bank's report this morning that the services share of spending is creeping back up. For obvious reasons, during peak outbreak periods, people shifted their consumption away from services to goods. A lot of services simply could not trade, because they were restricted. The level of spending on services in the economy had shrunk to about 40 per cent of total spending. It is now back up towards 50 per cent, which indicates that more money is being spent in hospitality, in personal services, travel services and the like.

It would appear from those consumer metrics that the economy is normalising back to more traditional spending patterns, as in the balance between spending on goods and spending on services.

There are some signs, touching on our earlier conversation around the housing market, that the rate of growth has slowed quite significantly, as was anticipated, given that the rate of growth in the previous year was clearly unsustainable. A general observation is a move towards a more normal set of economic parameters, but still in transition and with some risks in the short and medium term.

In summary, there is cautious optimism that the datasets that have been coming through have been positive, and I am pleased to see them.

**MR PETTERSSON**: How are ACT residents placed if interest rates do rise?

**Mr Barr**: There has been a significant flight to fixed mortgages. People have shifted over the last couple of years and have sought to lock in fixed rates on their mortgages. The advice from the banks is that particularly regions like ours are many years ahead on their mortgage repayments. In aggregate, over the last few years households have used their increased spending power and the restriction on things they can spend on to pay down their private debts, and that has included mortgages. On that side of things, the most recent report from the banks is encouraging for ability to withstand interest rate increases.

Given what the Reserve Bank governor has been saying, you would expect any increases to be small and staged over a period of time. The Reserve Bank governor has been very public in wishing to see wages and inflation sustainably closer to the mid-range of the Reserve Bank targets—inflation comfortably between two and three per cent and wages above that, so that there is real wage growth in the economy.

**MR PETTERSSON**: How does the ACT's economic recovery compare to that of other jurisdictions?

**Mr Barr**: By and large, stronger; obviously, in any given reporting period it will depend on what you are either rebounding from or the underlying structural strength of that state or territory economy. Western Australia, for example, has been in a different economic circumstance. Commodity prices have been very high; global uncertainty, in certain areas of the economy in which WA exports heavily, has led to that jurisdiction being able to run very strong both trade and budget surpluses. Other parts of the Australian economy that are more reliant on trade in services have had more restricted international activity.

It is a mixed bag, but the institutional strength of the ACT economy and our above national average incomes, again confirmed in the latest data on average weekly and overtime earnings, demonstrate the robustness of the ACT's economic performance. But we tend not to have quite the same peaks and troughs as some of the other state economies, which are a little bit more in boom-and-bust type cycles that are linked to the resources sector, for example.

I think there is every reason to anticipate that long-run economic growth averages will continue to be met, and that many of our economic challenges will relate to having to respond to issues of full employment, skill shortages and supply side constraints, rather than major issues on the aggregate demand side of our economy. But we continue to monitor that because we do want to maximise aggregate demand. That is total spending, total investment and total economic activity. We will be pursuing more inbound investment into the territory economy, and we will be pursuing policies that support an ongoing strengthening of our economic recovery.

Clearly, our fortunes will also be tied to nearby economies. New South Wales and Victoria are contemporary examples. They have experienced particularly sharply defined economic activity. They will obviously rebound, one would hope, from a quarter of reduced economic activity with a strong quarter of economic growth when the national accounts are released tomorrow.

**THE CHAIR**: Thank you, Chief Minister and officials. I will be stepping out for a doctor's appointment, and Mr Pettersson will take over.

**MS LEE**: Treasurer, earlier you quoted some pretty strong figures in relation to consumer spend post pandemic compared to before the pandemic. Do you have a breakdown of where that spend is, either by different retail sectors, for example, or the comparison between small businesses and major chains and the like? Do you have a breakdown of those figures?

**Mr Barr**: Yes. The ABS provides that data by subcategory. That includes department stores, cafes, restaurants, supermarkets and other retail services, so there is quite a list of subcategories. That next layer of detail is released early next week—obviously, the data going back over the last 30 years is available on the ABS website—so that will give a pretty clear indication of how particular subsectors have performed across the entire retail economy.

What is clear is that during the lockdowns the services side of the retail economy was impacted and there was a shift of consumption to household goods. When people could not eat out, they were buying more from supermarkets, which is quite logical. As restrictions have eased, there has been a lot of pent-up demand for what would be described as food and beverage services—that which is offered in hospitality venues—and that section of the market has been very strong in terms of spending on those areas over recent months. All of that data is available on the ABS website, and the next data release that delves into the detail is coming in the next week.

**MS LEE**: Great; thank you. You mentioned that you read in the *Financial Review* about record commercial investment in the ACT. Do you have any further insight or information about where that investment is going in the ACT?

**Mr Barr**: That was just the commercial property sector. Around $1.5 billion of inbound investment was being quoted in that article from those agents who are marketing those properties or who have secured those transactions—and presumably got the commissions that go with them.

**MS LEE**: All right. Thank you for that.

**MR BRADDOCK**: I am interested in the foreign ownership surcharge. How much revenue has come to the ACT government from that, and has it achieved its policy objective of rebalancing the property market in favour of locals?

**Mr Barr**: That was a policy initiated several years ago across most states and territories. It was one designed to give, as you have indicated, a leg-up to those in the domestic market seeking to owner occupy, as oppose to foreign investment. I will take on notice the number of transactions that have occurred.

**MR BRADDOCK**: Do we have any evaluations as to whether it has actually given that leg-up?

**Mr Barr**: Again, it is a small contributing factor, but what it does is place an additional burden on a foreign investor if they are competing for the same property with a domestic owner-occupier. It is one of a number of measures within the tax system that favour domestic owner-occupiers, particularly first home buyers. I can provide data on the number of first home buyers who have accessed the market, who have accessed various concessions, and the number of foreign investors who have purchased and paid that additional surcharge. The counterfactual of how many foreign investors there would have been if the surcharge were not there may be more difficult to measure.

**MR BRADDOCK**: Thank you.

**MS LEE**: Just on a slightly different tack, Treasurer, as part of the budget process obviously there is consultation done. Can you confirm, for this year, which organisations and entities were contacted for input, and how does your government ensure that you hear from a wide range of stakeholders?

**Mr Barr**: I understand that there is a list of all of those who are contacted and/or provide submissions, that is an appendix to the budget papers. The annual budget consultation process is open ended in terms of participants, so it is not limited. Anyone can offer a view. We allow people to even offer a confidential view, if they do not want their submission or their name published. Other groups and individuals obviously do want their name published and their views put forward because they are often industry associations or others advocating on behalf of their members; such is the nature of that sort of political advocacy.

So it is indeed an open process every year. I think I have recounted in previous hearings that if the government was simply to agree with every submission that was put forward then annual expenditure would be something like four to six times greater than it currently is and annual revenue would be considerably less than it currently is. It is obviously not physically possibly to agree to every spending recommendation that comes through the consultation process, or every revenue reduction measure that is suggested.

Inevitably, the themes that emerge during consultation are: spend more and tax less. Sometimes people put forward "tax more and spend more", and occasionally you get "tax less and spend less", but I would have to say that that is the most infrequent category of submission that comes forward. Rarely do you get submissions that say, "Spend differently," but you do on occasion. For all of that, obviously there is a consultation report and summary. As I say, it would be simply impossible to meet every single spending request. The expenditure review process is amongst the most challenging for any government, in any situation, in any year. There are inevitably more requests than there are available resources.

**MS LEE**: Acknowledging, obviously, that it is an open-ended process, as you have mentioned, and anyone is able to initiate proposals or provide feedback, is there a list of organisations or entities that the government initiates contact with in order to consult on the budget process?

**Mr Barr**: With every single organisation in the ACT, we initiate, by way of a formal public announcement, that consultation is open. From memory, I have also, in the past, written to organisations that have submitted in previous budgets, just to advise them that the consultation process is open again. Most organisations are reasonably astute and are aware that the budget is every year and so do participate every year. It is not a surprise that there is a budget every year;  so in that process of engagement there are usual suspects, it would be fair to observe.

**MS LEE**: Sure. Are you able to take on notice, in the last year, for the budget process, the list of organisations or entities that the government wrote directly to?

**Mr Barr**: I may be able to read it out for you now, because it is in the budget papers.

**MS LEE**: Yes, but I am asking about the organisations that were directly written to by the government, as opposed to having initiated their own feedback.

**Mr Barr**: Hang on. Yes. In fact, I think it is outlined. I refer you to pages 323, 324, 325 and 326 of the 2021-22 ACT budget outlook. That outlines the list.

**MS LEE**: Can I confirm, Treasurer, that that is the list of entities that the government initiated contact with, as opposed to a combination of the government initiating and the organisation initiating?

**Mr Barr**: Okay. There are individuals within that list. We did not contact individuals; we contacted organisations, so you can take from that list that the organisations on that list have been engaged with by government.

**MS LEE**: So that is the full list in terms of the government-initiated contact to get submissions?

**Mr Barr**: Yes; that would be correct.

**MS LEE**: Okay. Thank you.

**MR CAIN**: Treasurer, I have some questions about development leases and how they are classified under the Rates Act. Under the Rates Act, a development lease, sometimes called a holding lease, is the lease for the development of land for clearing, filling, grading, draining, levelling and excavating, to make the land suitable for subdivision.

Obviously, this sort of lease is in play for most greenfield developments but also for parcels that have had a fresh or reviewed Crown lease issued for mixed-use development—and that can happen all around Canberra, of course. Given that legislative definition of a development lease, how are such leases classified under the Rates Act, whether they are residential leases, commercial leases or rural leases?

**Mr Barr**: I imagine that would vary, Mr Cain, depending on the lease type, but I will invite officials in the room to—

**MR CAIN**: I am very interested in why, in what is essentially the same lease arrangement, the classification would vary.

**Mr Salisbury**: Mr Cain, these holding leases are very specific to certain parcels of land. I am not sure what your actual question is there. Are you suggesting that there is an inconsistency there in the treatment?

**MR CAIN**: Again, I am asking the questions. Under the Rates Act, land can be classified for rates calculation as residential land, rural land or commercial land. I am asking how these leases are rated under the Rates Act?

**Mr Barr**: Thank you for the clarification, Mr Cain. And you do not need to be rude to officials.

**MR CAIN**: I am not being rude at all. I am simply asking a question, and a line of questioning.

**Mr Barr**: Yes, and the witness was seeking further clarification.

**MR CAIN**: I have just done so, Treasurer. I do not see my answer as rude at all. My question is: how are such leases classified for ratings purposes? Are they classified as residential land, rural land or commercial land?

**Mr Salisbury**: It really depends on what is happening on the block of land. A holding lease on a subdivision would really depend on how the subdivision is being allocated, and its uses.

**MR CAIN**: But surely, as per the definition—and I guess all of us can imagine subdivisions occurring—the land is being prepared for subdivision. It is being excavated, it is being filled and it is being prepared for utility installation. While that activity is underway, which obviously can take some time, what is the land classified as under the Rates Act? Is it either residential or commercial? I doubt whether it would be rural, but please inform me.

**Mr Salisbury**: It can be either of those, Mr Cain, depending on the circumstances of the block of land.

**MR CAIN**: Are these leases not usually a standard document, a pro forma type document?

**Mr Salisbury**: They can be.

**MR CAIN**: Those that are, would they be rated consistently in one of those three ways? Please tell me which that would be.

**Mr Salisbury**: If the holding lease is for a 100 per cent residential development then they would be classified as residential.

**MR CAIN**: But a holding lease, as defined, is for the excavation and preparation of the land, so surely it is not a case of what the land might turn into in a few years time; it is what is happening on the land now, which is excavation and preparation for subdivision? So, again, what classification under the Rates Act would apply to such land?

**Mr Salisbury**: As you have described it, it would be commercial.

**MR CAIN**: So none of these greenfield development leases, or holding leases, would ever be classified as residential; is that correct?

**Mr Salisbury**: I would have to go back and check how they have been allocated.

**MR CAIN**: It is a statement of fact that land classified as residential will pay a much lower rate of rates than land classified as commercial. Obviously the difference can be quite significant. So what I am interested in, Treasurer, is: during the last five financial years, how many of these development leases were classified as residential, how many were classified as commercial and how many were classified as rural?

**Mr Barr**: I will take that on notice for you, Mr Cain.

**MR CAIN**: Thank you. I have a supplementary regarding the duty treatment of the issue, or the acquisition of such a development lease. Treasurer, there is a disallowable instrument—the current one is 2021, No 171—that sets the rate of stamp duty on the transfer acquisition of land. The commercial rate would apply on a lease that is other than residential purpose or primary production purpose or home business. Can you confirm what rate of duty—whether it is the commercial rate—would apply to the issue or the acquisition of a development lease?

**Mr Salisbury**: I would have to take that on notice, Mr Cain.

**MR CAIN**: Thank you. I would be interested in the breakdown of the stamp duty treatment of such leases over the last five years—whether they have been charged duty at the commercial rate or at the much lower general rate.

**Mr Salisbury**: Yes.

**MR CAIN**: Can you take that on notice as well?

**Mr Salisbury**: Yes, sir.

**MR CAIN**: Thank you.

**MR BRADDOCK**: This is a slight deviation, not related to development leases. Where development happens on commercially zoned land that is majority residential and mixed-use development, does that have an impact on the rates collected on that block of land, in terms of a reduction of the rates?

**Mr Salisbury**: I am not sure I—could you repeat the question, please?

**MR BRADDOCK**: The example I would use is Belconnen town centre, where there are blocks of land that are commercially zoned but we have now seen quite large mixed-use developments that are predominantly residential in nature. I am asking whether the rates collected on that block drop when such development happens, due to the majority residential use of the block of land.

**Mr Salisbury**: Typically, when the development is completed, the block will be unit titled into residential components and commercial components. The residential component will be charged residential rates and the commercial component will be charged commercial rates.

**MR BRADDOCK**: Previously, there might have been an office block being charged commercial rates for the entirety of it, whereas now there is mostly residential—hence, paying lower rates. So I am asking: what is the net effect to the ACT government when such a development occurs?

**Mr Salisbury**: The total revenue take for that particular building will really just be a factor of the proportion of the residential or the commercial of that building.

**MR BRADDOCK**: So would that increase or decrease, given such a change of use?

**Mr Salisbury**: If it went from mostly commercial to mostly residential then there would be a drop in the value of the rates take for that particular parcel.

**MR BRADDOCK**: Thank you.

**THE ACTING CHAIR**: Chief Minister, how many businesses have accessed the hardship support available through the Revenue Office since the beginning of the pandemic?

**Mr Barr**: I will ask the revenue commissioner to assist on that one.

**Mr Salisbury**: The Revenue Office has administered a number of programs that are related to COVID. One program was a payroll tax waiver that was provided to venues that were prohibited from trading. Those waivers were taken up by 125 companies and the waiver was worth $7.5 million.

There were also payroll tax deferrals offered. All up, there were 408 firms that took advantage of the payroll tax deferrals. They covered a general deferral in rates that was under a commissioner discretion. There was also a specific deferral for the construction sector. For another group of firms, where their employee payroll was under $10 million, they were able to defer their 2021 payroll tax until July 2022. There was also commercial rates relief provided to companies that either provided rental relief for their tenants or operated a business in their own premises. There were 732 businesses that were provided with a commercial rates credit, and that was worth $4.96 million.

They are the major COVID measures that were administered by the Revenue Office to business.

**THE ACTING CHAIR**: Wonderful.

**MR BRADDOCK**: I am interested in the short-term rental market. Does the ACT government track the size of that market and the impact it is having in being able to provide homes or long-term secure housing for people.

**Mr Barr**: As in that which is rented out through certain high-profile applications?

**MR BRADDOCK**: Yes.

**Mr Barr**: Yes. I am not sure that there is absolute, finite data on that, other than is published by some of the entities themselves. Short-term rentals are more predominant in seasonal tourist locations; that might be the neatest way to summarise it. There clearly is a degree of that in Canberra, but compared to more seasonal tourist destinations, less so.

We have data on properties that are not the principle place of residence of an owner-occupier because they are subject to tax arrangements. The revenue commissioner may be able to give some insight into the total number of properties that are not claimed as a principle place of residence within the ACT, which would give some sense of the proportionality of rental properties versus owner-occupier.

As to whether we have any further data on short-term versus long-term rental, we collect land tax on a quarterly basis, so it may not distinguish. I will throw to officials in the room to see if there is any light that can be shed on this. If there is not, we will take on notice what we might possibly be able to find.

**MR BRADDOCK**: Thank you.

**Mr Salisbury**: I can just add to that that, according to the latest year-to-date figure, there are 48,382 properties that pay land tax in the territory, so, by definition, they are not principal places of residence.

**Mr Barr**: There are about 185,000 residential dwellings in total; is that right?

**Mr Salisbury**: I have got 177,560 residential dwellings. So, yes, around that; around 180,000.

**Mr Barr**: Yes, okay: 45,000 out of 180,000.

**Mr Salisbury**: Yes.

**Mr Barr**: Yes.

**MR BRADDOCK**: Okay; thank you.

**MR CAIN**: I have some questions about the ACTRO's performance accountability indicators. On page 85 of volume 1 of the annual report, it appears that four out of five accountability indicators were not met. The explanation given for accountability indicators 6.1a and 6.1b is that compliance debt recovery activity has been suspended since March 2020 due to COVID. But I note that these targets were not met for the previous two financial years. My question is: what were the reasons for the failure to meet those targets pre COVID, how is it different from now and how are you planning to get back on track with those?

**Mr Salisbury**: In relation to the KPI for rates, which currently sits at five per cent, that was slightly over, going into pre COVID. To address that issue, we had commenced a debt recovery program for rates which was very much targeted at messaging and informing people about their rates liabilities. That was starting to yield some success; it looked like that KPI would be met in the pre-COVID year.

During COVID, the resources of the Revenue Office have been redirected towards administering the COVID programs that the government has undertaken. The Revenue Office has been responsible for administering 17 of those programs. This meant a massive switch in our resources from active compliance and debt recovery to administering those programs.

Essentially, we have done very little compliance and debt recovery in the land tax space and, similarly, in the payroll tax space. Our lack of compliance in the payroll tax space reflects that we have not met the KPI on revenue per compliance inspector. The increase in the debt KPI reflects that we have not been actively pursuing land tax and payroll tax debt. We have been pursing debts in the duty space. These programs will begin to ramp up this year and we should start to see those KPIs moving closer and being achieved in future years.

**MR CAIN**: What were the actual targets and results for each of the indicators?

**Mr Salisbury**: It may take me a moment to get that information.

**MR CAIN**: I am content if you wish to take that on notice.

**Mr Salisbury**: I think I can get that fairly quickly. The KPI for rates is 5.5 per cent. The outcome for 2020-21 was 10.1 and for the previous year it was 8.2. For other taxes, the KPI is two per cent. For 2020-21, it is 4.6 per cent and for the previous year it was 3.6 per cent.

**MR CAIN**: Could you read those last two figures again?

**Mr Salisbury**: That was the KPI for non-rates debt; the KPI is two per cent. For 2020-21 it was 4.6 and for 2019-20 it was 3.6.

**MR BRADDOCK**: How much did we pull in over the last financial year for lease variation charges?

**Mr Barr**: It will be in the budget papers. Just bear with me; I will go to the revenue chapter.

**MR BRADDOCK**: I am happy for you to take it on notice, if you wish, Treasurer.

**Mr Barr**: Lease variation charge, 2020-21 interim outcome, $28,000.005.

**MR CAIN**: I have a question regarding LVC as well. With respect to the Manor House demonstration project in Griffith, it is my understanding that it is still at the DA stage. Has any estimation been done of the LVC or any actual calculation on the variation of that lease?

**Mr Barr**: Firstly, I imagine this would impinge on privacy of the taxpayer, but I suspect that it would not have reached that point, anyway. I will see whether the revenue commissioner can advise, in terms of the broader policy of when an LVC would be determined.

**Mr Salisbury**: I think Mr Ponton answered this question last Thursday. He said, in relation to that particular proposal—and I hope I am not verballing Mr Ponton—and my understanding is, that there is currently a Territory Plan variation being considered, and it is not at the stage of determining whether a lease variation is necessary or required. In terms of that particular project, there is nothing further for us to add.

**Mr Barr**: Mr Cain, we will cross-reference to ensure that what Mr Ponton and Mr

Salisbury have said is consistent, which we believe it is. If it is not then we will advise the committee.

**MR CAIN**: On the general policy with respect to these ACT government specific projects, the so-called demonstration projects, is there a policy decision to defer any LVC that would ultimately be payable, or to waive it?

**Mr Barr**: Waive would be a big call; defer would be available, if it has met the criteria for deferral arrangements.

**MR CAIN**: There is no established policy position for the LVC treatment of these demonstration projects?

**Mr Barr**: There is no policy to deviate from the same policy that applies across the territory.

**MR BRADDOCK**: I am trying to get an idea of where we are in terms of tax reform, from stamp duty through to rates. Where are we and where will we be on that over the next couple of years?

**Mr Barr**: We are approximately halfway through the transition. It started in 2012 and it is a 20-year process. We are into the third phase; we have done it in five-year brackets and we are into the third of those five-year brackets. Further information is updated annually as part of the budget process.

**MR BRADDOCK**: What allowances are made for the record increase in prices of housing over the past 12 to 24 months, as part of that reform?

**Mr Barr**: The thresholds and rates associated with stamp duty are adjusted each year. There has been an annual cut in the stamp duty through each year of the tax reform process. Obviously, there have been periodic reviews of the revenue neutrality in relation to the tax reform. When decisions are made around what the prevailing stamp duty rates will be for the coming fiscal year, that will be made in the budget context and announced later this year.

**MR CAIN**: I have a question regarding the SLA's acquisition thresholds. Treasurer, are you able to comment on those?

**Mr Barr**: Yes. I was asked that question by Mr Pettersson about an hour ago and I read out, over about five minutes, the full detail of that.

**MR CAIN**: Perhaps refresh me on whether this was completely covered: how are such thresholds determined, in particular for the Ginninderry purchases?

**Mr Barr**: Under section 63 of the City Renewal Authority and Suburban Land Agency Act, there is a requirement to issue directions relating to the acquisition of land by either the SLA or the CRA. That is a disallowable instrument. The directions require the SLA, in this instance, to present a business case for each proposed acquisition. That business case is for the endorsement of the responsible minister, following consideration by cabinet. Unlike the directions for the former land development agency, there are no thresholds, Mr Cain. All land acquisitions are subject to consideration by cabinet, before the responsible minister can grant approval.

The directions require that each business case must include details of the land to be acquired and the financial implications relating to the acquisition. Land valuation is provided to, and obtained by, in this instance, the Suburban Land Agency. With respect to the current and future status of the land under the Territory Plan, including any conditions on the headlease, and the purpose for which the land is being acquired, they include how the proposed acquisition meets the requirements of the act, the Territory Plan, the statement of strategic directions, the statement of planning intent, the statement of intent for the SLA itself, how it achieves value for money, how it provides community benefits, how it meets environmental sustainability objectives, the consultation processes undertaken, a risk assessment, and any other relevant information. These directions were placed on the legislation register on 1 November 2017.

**ACTING CHAIR**: On behalf of the committee, thank you, Chief Minister, and all of your officials. If witnesses have taken any questions on notice, could you please provide answers to the committee secretariat within five working days. The committee's next hearing will be on 2 March. Today's hearing is now adjourned.

**The committee adjourned at 12.10 pm.**