LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into Annual and Financial Reports 2021-2022)

Members:

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

TRANSCRIPT OF EVIDENCE

CANBERRA

FRIDAY, 4 NOVEMBER 2022

Secretary to the committee:
Ms S Milne (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

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Amended 20 May 2013

The committee met at 10.30 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
McAuliffe, Mr Patrick, Executive Branch Manager, Investments and Borrowings, Treasury
Salisbury, Mr Kim, Executive Group Manager, Revenue Management, Treasury

Major Projects Canberra
Edghill, Mr Duncan, Chief Projects Officer

Icon Water Ltd
Hezkial, Mr Ray, Managing Director
Pratt, Ms Alison, General Counsel

Independent Competition and Regulatory Commission
Phillips, Mr Lachlan, Deputy Chief Executive Officer,

THE CHAIR: Good morning and welcome to the public hearing of the Standing Committee on Public Accounts inquiry into annual and financial reports 2021-22. This morning the committee will be hearing evidence from the Chief Minister, Treasury and Economic Development Directorate, Major Projects Canberra, Icon Water and the Independent Competition and Regulatory Commission.

The committee wishes to acknowledge the traditional custodians of the land we are meeting on, the Ngunnawal people. The committee wishes to acknowledge and respect their continuing culture and the contribution they make to the life of this city and this region. We would also like to acknowledge and welcome other Aboriginal and Torres Strait Islander people who may be attending today's event.

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 the questions taken on notice from the transcript.

In this session we will hear from the Treasurer, Mr Barr, and officials. Welcome to the hearing. 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.

Mr Barr: Yes; understood.

THE CHAIR: Thank you. Icon Water has a short opening statement, I believe.

Mr Hezkial: Thank you. I have read and acknowledge the privilege statement. As you are aware, the ACT government annual reports were tabled in the Assembly on and around 13 October 2022. On 18 October 2022 we identified an error in our annual report for the 2021-22 period. This administrative error resulted in the PDF of Icon Retail Investments Ltd being mixed with the pages of the Icon Distribution Investment Ltd papers. The financial reports for each of the Icon Water Ltd subsidiaries were otherwise correct and no changes have been made to the final results.

On identifying the error, we notified the Chief Minister, Treasury and Economic Development Directorate and worked with them to identify how it could be corrected. The replacement pages were provided to the ACT Legislative Assembly on 3 November, and I understand a letter from the Treasurer has been provided to the Speaker. As advised to the Assembly, these pages relate to the Icon Retail Investments Ltd financial report. A revised report is now available on our website and we are arranging for the correct annual reports to be reprinted. Copies will then be shared with the Legislative Assembly.

I sincerely apologise for the administrative error. I can assure you that we are reviewing our processes for our annual report preparation, with the objective of avoiding any such errors in the future. Thank you.

THE CHAIR: Thank you very much, Mr Hezkial. We appreciate that. Now we will proceed to questions, and I will kick it off. Treasurer, in the 2022-23 budget there is $7.5 billion of new borrowings and rollover of existing debt over the forward estimates, with an annual interest rate bill of over half a billion dollars by 2025-26. Given that interest rates have continued to rise since the budget was struck and inflation remains at record highs, both domestically and internationally, are you anticipating a higher annual interest bill over the forward estimates?

Mr Barr: Thank you. The government secures its debt on fixed term 10-year government bonds in large part, so those interest rates are fixed and are not impacted by inflation or rising interest rates retrospectively. Obviously, new borrowings in the future would be at the prevailing market rate, so the government has secured very attractive terms for its borrowings through to the early 2030s.

THE CHAIR: Thank you. Regarding borrowing assumptions, page 293 of the budget outlook, table 3.8.13, refers to new borrowings in 2023-24 of approximately $1.71 billion. At the time of the budget, what interest rate did you assume for these new borrowings and what rate do you assume now?

Mr Barr: Mr McAuliffe may be able to assist.

Mr McAuliffe: I acknowledge the privilege statement. The rate that was assumed for our 2022-23 borrowing requirement, which was around about $2 billion at the time, was 4.2 per cent. Given the change in rates as of yesterday, that rate equivalent would probably be around about between 4.7 and 4.8 per cent. The rates increase, over the forward years, by around about 10 basis points off that 4.2 base.

THE CHAIR: Okay. Great. Thank you.

MR CAIN: Mr McAuliffe, the Treasurer stated that we are on fixed rates. Could you clarify what period that applies to?

Mr McAuliffe: Traditionally, when we issue our new bonds we tend to issue 10-year maturity terms. In 2021-22, for example, we did two tranches of borrowings. We did a large what we call new benchmark borrowing, which was around about a 10-year maturity, which went out to 2032, and then we had some residual borrowings at the end of the year and we actually increased an existing bond that we had, which obviously has a shorter term to maturity, but it was just increasing that existing bond. Typically, we target a rolling 10-year maturity of new borrowings.

MR CAIN: What impact will rising rates have on interest expense in 2025-26 and how much higher will it be?

Mr McAuliffe: We are in the process of starting to prepare the 2022-23 budget review, so as part of that we will be looking at the current interest rate environment and our assumptions and any changes will be reflected through the budget review.

MR CAIN: What proportion of total borrowings are these residual borrowings?

Mr McAuliffe: Sorry?

MR CAIN: Out of all the borrowings, what component, roughly, are the residual borrowings?

Mr McAuliffe: I am sorry. I am not sure I understand.

MR CAIN: Okay.

MR PETTERSSON: Thank you. Chief Minister, what were the main outcomes from the Jobs and Skills Summit?

Mr Barr: Thank you. Clearly, the Jobs and Skills Summit was an important opportunity for all jurisdictions to work with the commonwealth on addressing some of the major skills challenges in the nation but also to look at opportunities for some particular outcomes locally. A number of actions were agreed, following the summit, including additional funding for fee-free TAFE in 2023 whilst a longer term agreement to drive further reform in the TAFE sector is negotiated. There was also an agreement to accelerate the delivery of some previously announced fee-free TAFE places and there is a cost sharing agreement, fifty-fifty, with the states and territories.

The federal government agreed to establish a new national body, Jobs and Skills Australia, to work with all jurisdictions to address workforce shortages and to build long-term capacity in priority areas. That will include, importantly for the ACT, a workforce capacity study on the clean energy workforce. There was also agreement to kickstart skill sector reform and to restart the discussions on what had been a two-year stalled process to reach a new five-year national skills agreement. I think one of the factors that had impacted there was a churn in commonwealth ministers in the last two years of the former government.

Another key outcome was to increase the permanent migration program to 195,000 in the current fiscal year, with that objective being to help ease the current workforce and skills shortages. What that means for the ACT is that we were provided with an interim nomination allocation, a territory-nominated allocation, of 2,730. That comprised 800 permanent subclass 190 skilled nominated visas and 1,920 subclass 491 regional work visas. The difference there is that there is a requirement to live in Canberra for two years under that program. Under the Business Innovation and Investment Program we were allocated ten 188 and 888 visa class. This is a program that supports state and territory sponsorship of businesspeople looking to invest in the jurisdiction. That investment pathway provides a migration pathway.

There was also additional funding provided to accelerate visa processing and resolve what is a very large visa backlog. I am advised that as of September we had nearly 1,700 nominations awaiting process for arrival into the ACT. We are hopeful that the additional resources will enable those people to come here under the visa classes that they have applied for.

Another important outcome was to increase the duration of post-study work rights. It allows an additional two years of stay in Australia for recent graduates with degrees in areas where there is a verified skills shortage. There was also an extension of the relaxation of work restrictions for students and training visa holders until 30 June next year to help ease some particular skill and labour shortages that are being experienced, particularly in retail and hospitality.

Then, noting that this increase in migration would then put further demand-side pressure on the housing market, within the national housing infrastructure facility a further $575 million was made available to invest in social and affordable housing. Subsequent to the Jobs and Skills Summit, the commonwealth budget last month also included a new housing accord, which is a partnership between the commonwealth, all states and territories and the private sector to build a million new houses in Australia from 2024 onwards. A key part of that is institutional investment in large-scale build-to-rent projects. We had already been progressing work in that area and have a government site available and on the market now. Later this month the federal Treasurer and I, amongst others, will be convening in Sydney with a number of the large superannuation funds, with a view to attracting that investment into the Canberra market. I will then have some follow-up direct engagements with super funds in both Sydney and Melbourne to present the opportunities that are there for that investment.

What we are endeavouring to do through that program is to increase the rental stock in the ACT from the current roughly 50,000 rental dwellings by at least another 5,000 as quickly as possible. Noting the projected population growth for the ACT, I think we will need to go beyond that and look to have an ambition to take that rental stock from 50,000 to 60,000 as quickly as possible. That will involve a number, as in probably more than 20 large-scale build-to-rent projects, that will be a partnership between the commonwealth, territory and institutional investors. I think this represents the most serious supply-side intervention jointly sponsored between levels of government that Australia has seen for at least 15 years.

There are a couple of other key outcomes I would just like to highlight before closing off the answer. There was also an allowance for age pensioners to undertake some work and to earn more before their pension is impacted. That is currently a short-term measure. I understand that, should it be successful, there is the possibility of a further extension.

So they are some. There were more than 30 outcomes, but I think they are the most significant ones for the ACT that go to address some of our supply-side challenges, particularly for workforce and skills, that are two of the major factors that are restraining our level of economic growth. We are very conscious that increasing the labour force and addressing skills shortages means more people, and when people move to your city they need to be housed, so any decisions in this area need to be complemented by large-scale supply-side activity in the housing market.

MR PETTERSSON: You have mentioned it a few times before, but what are the main areas of workforce and skills shortage in the ACT?

Mr Barr: They are particularly in the care economy. That is an area that has experienced quite significant growth at a national level in recent times. The ABS data from 2016 to 2021 showed that some of the areas of greatest employment growth are also areas where there is still even more demand and skills shortages. That is aged and disabled care. There is growth in the childcare sector, in the health sector, and in education and training. We have also seen very significant growth in some of the higher skilled professions: software engineers, construction project managers, general engineers, electricians. Obviously, as the economy electrifies, there is a lot of demand in those sorts of occupations. That trend is only going to continue, so there is a definite need for both the skilled migration program and the education and training system to respond in those areas.

Perhaps by way of contrast, jobs that have declined in the last five years have been in areas that would best be described as low-skilled white collar jobs. There has been a general shift in the economy. That is particularly the case in the ACT, where the skill level required for the jobs that the economy has generated has moved up the spectrum. That, again, reinforces why it will be so important to invest in skills and training, to grow our higher education system and our vocational education and training system.

The census data provides some reassurance in that regard, in that between 2016 and 2021 the number of residents in the ACT with a bachelor degree level of qualification or above rose by 40,000 people, from 120,000 to 160,000. We have also seen an increase in the number of people holding advanced diploma or diploma-level skills. That has increased from about 29,500 to nearly 34,500, so about a 5,000 increase there. We have also had an increase of around 5,000 in the number of people who hold certificate III and certificate IV level qualifications.

So, effectively, we have seen an increase of nearly 50,00 people who hold qualifications beyond year 12 level. Part of that is population driven, but it is also as a share of the total population. Previously, around 37 per cent of Canberrans held a bachelor degree level qualification or higher. That is now at 43 per cent and rising, and that reflects, obviously, the value that this community places on education and training, but it also reflects the nature of our labour market. That is important in the story of where our next wave of economic growth is coming from. In many regards, the ACT economy is years ahead of the trajectory that the Australian economy is going to head in. Partly, that is out of necessity; we do not have a mining or large-scale agricultural or large-scale manufacturing sector, so our economy excels in areas where human capital is the major focus.

What is pleasing to see is that the level of skills has increased. We know we need to do more, but it all wraps up in a story that the population growth in the ACT has principally been driven by people aged 25 to 39. The story here is that we are now a millennial city. Whereas in the rest of Australia baby boomers and millennials are roughly equal in population size, in the ACT the millennial is a far bigger cohort than baby boomers and far bigger than my own generation X. For Canberra's economic future, that is a very significant point of difference. We are a younger and better educated city and that is going to serve us very well as our economy continues to grow and transform.

MR PETTERSSON: Very thorough.

MR CAIN: Treasurer, related to skilled workers, are the cost-of-living pressures, high house prices and high rentals making it hard to attract skilled workers to Canberra?

Mr Barr: Well, the data suggests otherwise, given the growth that we have had in that cohort and the population growth we have had, which is the fastest in Australia for the last 10 years. That said, much of our housing affordability pressure is not at the highly-skilled worker end—because their incomes are well above the Australian average. Much of our challenge will be in housing provision for people whose incomes are not in the six-figure quantum, but are less than that. That is why the large-scale build-to-rent projects that we have talked about are so important in providing an affordable housing option in locations close to major employment centres. Housing affordability is not an issue for people in the sorts of jobs that are paying $200,000, $250,000 or $300,000, Mr Cain, but for jobs that are paying between $50,000 and $100,000, it is. That is why we need to focus our market intervention on that segment of the housing market.

MR CAIN: What plans do you have for that?

Mr Barr: I have just outlined them in quite some detail. We want to increase the rental stock from 50,000 to 55,000 and then to 60,000 through large-scale build-to-rent projects, of which we anticipate there being more than 20, and that would be a lift in the total rental stock of between 10 and 20 per cent, as quickly as possible. That is what is outlined in the National Housing Accord and the policy direction that we have been pursuing.

We have our first site on the market. The sites for these projects will be a mixture of ACT government land release and land that is currently held by the private sector. There was an example on the front page—certainly on the front of the website—of the *Canberra Times* earlier this week: a large-scale build-to-rent project in Denman Prospect. There are projects underway elsewhere in the city. I would anticipate Belconnen and Woden town centres also being locations for these projects on land that is privately held.

MR CAIN: Regarding the skills we are looking for, I notice on the ACT critical skills list we have "snow sport instructor" listed, but there is no listing for a town planner or specialist planners. That seems rather—

Mr Barr: That is perhaps a question that is best pursued in the Skills Canberra annual report hearings, but those lists are developed in consultation with industry and are updated each year.

MR CAIN: It certainly needs updating, by the sound of it.

MR BRADDOCK: The annual report makes mention of the Treasurer's advance being applied for several purposes over the year for various COVID-19 business support and related grants, payment of interstate quarantine costs for ACT residents and acceleration of administration costs for the Sustainable Households Scheme. Can you please go through and give me a breakdown of how much for each of those different schemes that was applied?

Mr Barr: Yes. I table updates to the use of the Treasurer's advance in the Assembly. I have to sign an instrument that is under the Financial Management Act, so they would be available. If you would like Treasury to compile them for you, or your office could find them, I am happy either way.

MR BRADDOCK: Yes; that would be fine. I am happy for that to be taken on notice. My next question is in terms of the purpose around the acceleration of the administration costs for the Sustainable Households Scheme. In terms of providing the Treasury advance, there does not appear to have been any supplementary appropriation that occurred for that.

Mr Barr: That is perhaps a question best handled in the climate action hearings, because that is a program not run by Treasury, but run by another area. When those officials are here, I will happily deal with that.

MR BRADDOCK: But it is for the Treasury in terms of how the advance was provided, and then any follow-on appropriations, which was managed by Treasury.

Mr Barr: Well, the appropriations for the scheme were in previous budgets and Treasurer's advance is used if there is an unforeseen change. The scheme is being run by another area of government. I am yet to have my appearance in relation to that area. I am sure people in my office are listening. We will take that on notice and be able to provide that information in that hearing.

MR BRADDOCK: Thank you.

MR CAIN: Treasurer, regarding the cost of living, according to the ABS, in 1920, 42 per cent of ACT households had a mortgage. As an example, a $1 million mortgage locked in at 2.5 per cent a year ago, if it is facing a six per cent mortgage rate, would have additional annual interest payments of $35,000. The consequences of this across multiple households in Canberra is pretty devastating for the economy in particular—less money to be spent at local businesses and increased demand for public schooling, not to mention how hard it is for households to cover increasingly high general rates.

In the budget you assumed a growth rate for gross state product for 2023-24 of three per cent. Are you planning to revise this growth rate?

Mr Barr: We look at our forward projections on all of the key economic metrics. We update them twice a year in the budget review and then in the annual budget. We make those forecasts closer to the time that those documents are prepared, based on the latest economic information. The issues that you outline are not unexpected, in that interest rates were going to normalise from historic lows. That has been factored into Treasury forecasting. Of course, the extent of the cash rate increases that the RBA will deliver is yet to be finalised. We may not yet be at the end of the cycle of "normalisation", as the Reserve Bank governor is describing it, although I think it is instructive that the two most recent rate increases have been 25 basis points not 50, which would give some sense that the most significant rate increases are now behind us. However, the RBA obviously has a legislated requirement to seek to bring inflation between the two and three per cent bands. The RBA will undoubtedly seek to achieve that objective. The outcome that you have highlighted in relation to increased mortgage payments—that that is the whole point—is to take money out of the economy. That is how inflation will reduce. That is why interest rates are increasing. If the Reserve Bank did not intervene, inflation would continue at those very high levels. So that is, if you like, the automatic stabiliser within the economy and an independent reserve bank acting exactly as you would expect it to.

In relation to the mortgage market in the ACT, we have a slightly above Australian average proportion of households with a mortgage. Data from the Australian banks indicates that during the COVID period, Canberra households—as a cohort—perhaps more than any other in Australia, got very far ahead on their mortgage payments. But that is not every single individual household; that is understood.

The other clear factor with higher interest rates is that it has significantly curtailed the borrowing power of households, and that is one of the reasons house prices have started to fall. The amount of money chasing the available housing has reduced, and that has, again, a deflationary impact in relation to house prices. So the out-front capital cost of housing has fallen as a result of higher interest rates, just as it increased as a result of lower interest rates. When money was essentially free or at very low cost, when interests rates were at all-time historic lows, that fuelled an asset price bubble—as in, house prices went up by nearly 30 per cent. As interest rates increase, those asset prices are deflating. That, again, is the Reserve Bank undertaking these sorts of interest rate normalisation that you would expect.

Banks, when lending, stress-test borrowers' ability to repay at higher interest rates. A key factor here—one that I am very conscious of—is that the biggest risk to a household is losing a job. The biggest impact on being able to meet increased mortgage payments would be if income levels started to fall. What we are seeing in the economy now, finally, after 10 years of deliberate federal government policy to suppress wages—to keep them as low as possible—is that wage growth is lifting, giving households more income to meet some of these increased cost-of-living pressures.

What we need, ultimately, is for inflation to settle back between two and three per cent, for interest rates to normalise and remain steady, and for wages to be growing at a rate somewhere between half and one per cent higher than inflation, so we have real wage growth. An ideal situation for the economy would be inflation between two and three per cent, wage growth at three to three-and-a-half per cent and steady interest rates. That would all contribute—going back to one of your earlier questions—to the territory's capacity to continue to grow its economy at around three to three-and-a-half per cent per annum.

MR CAIN: Are you expecting the growth rate to reduce after this analysis?

Mr Barr: That will depend a little, as I mentioned, on the extent of further rate increases, the level of wage increases within the ACT economy, and then also the drawdown on the considerable pool of household savings that was accumulated during the pandemic. There was a very significant wealth transfer from government balance sheets. Every government in Australia has taken on more debt and that money was transferred to households and businesses.

What we have been seeing in the ACT context, though, is that retail spending has been nation leading. The conclusion you can draw from that is that (a) we have the highest incomes in Australia; and (b) we have the highest level of savings in Australia, and those savings are now being spent, partly because people are less restricted by COVID public health measures, whether that is domestically or indeed internationally.

MR CAIN: Treasurer, are you able to share the analysis that you are doing on the impact on the growth rate with this committee?

Mr Barr: We will update that in the budget review, and that will be outlined in the budget review papers as it will be in the budget next year.

MR CAIN: On the theme of the cost of living, one of the most effective ways a family could save money to pay higher mortgage costs would be to move their children from a private school to a public school. Have you taken this into account as a factor, and as a consequence are you forecasting higher enrolment rates at ACT public schools as households seek to save money?

Mr Barr: Certainly, we have seen an increase in the public education sector's share of total enrolments within the ACT, and we do have a program of quite significant expansion, particularly in growth areas with new school infrastructure. The public education system still has significant capacity as a system to enrol additional students. The way federal funding arrangements flow, money in large part is allocated to students based on need, and flows into the school system or sector that the student enrols in. So, were there to be a significant increase in enrolments in public schools and a switch away from private schools, then there would be additional revenue and there are spaces available within the ACT public education system.

MR CAIN: Are you saying you anticipated an increased demand for public school when you are planning these major infrastructure—

Mr Barr: These are questions, in terms of detailed capacity planning, that are best pursued with the Education Directorate. But, certainly, as a former education minister, I am aware of the detailed planning that the Education Directorate undertakes based on latest population data and trends in relation to the enrolment split between public and private schools. What I am certain of is that the ACT public education system offers quality education and has capacity for additional students. The question of how much of an enrolment shift there would be remains an open one and is monitored through the school census twice yearly.

MR CAIN: What buffer do you think the public sector has?

Mr Barr: A reasonably considerable one, because with the total capacity of the public education system versus the current enrolment, there are places available within the system. Again, the detail of how many per school is outlined in the school census data, but your line of questioning I think is best pursued with Education in relation to the fine detail, school by school. But on the macro position, its impacts, because of the way the federal financial relations funding stream applies for education, are not so significant as to massively change the situation in the ACT.

MR CAIN: Noting that the Education Directorate might have more detail, but as Treasurer with an eye on the economy of course, do you have an expectation of how many the public sector could handle with these changing economic pressures?

Mr Barr: The public education system has capacity for thousands of extra students. I will get the census data up on my screen. We have 29,000 five- to nine-year-olds, we have 27,000 ten- to 14-year-olds, and we have 26,000 15- to 19-year-olds. That gives a sense of the school-age population. If every single student who is currently in a private school left and there were no students enrolled in private education at all, I do not think there would be sufficient space within the public education system, but I do not think that is a likely outcome.

MR PETTERSSON: Own-source revenue recovered strongly recovered strongly last financial year. How is it tracking this financial year?

Mr Barr: We only have data for the first quarter of this financial year, but own-source revenue is up around one per cent. That is principally driven by payroll tax receipts, which, in the budget that we delivered earlier this year, are projected to surpass rates revenue to become the largest single source of own-source revenue.

The GST remains the largest individual tax line and source of revenue of the territory. It is also growing, and our share of the national GST pool is growing as a result of our increased population. I have observed before that economics can be a dismal science. There is a cloud to every silver lining and a silver lining to every cloud. One factor that high inflation is driving is that the price of many goods and services that are subject to the GST are increasing at a rate faster than previously. That is leading to an increase in the level of GST collection which then flows through to the states and territories.

Now, obviously, high inflation has downsides, and it has some upsides. In terms of higher inflation and driving higher wages growth, that then feeds into payroll tax revenue, and higher inflation erodes the value of a dollar today. With higher inflation it is worth less into the future. That also has implications—positive implications, frankly—for government debt, because, over time, particularly over a 10-year period that we generally borrow in, the value is discounted by the inflation rate each year.

So, our budget will increase in a nominal sense but, particularly in those areas where we have fixed debt at a fixed interest rate, the time value of money adjusts with inflation and means that $1 million in 10 years' time is of lesser value than $1 million now.

MR CAIN: Treasurer, some of the cost-of-living pressure elements I have mentioned earlier—rates and water prices—are set to increase. The structural budget deficit seems to be there for quite a while, and we have a rising annual interest repayment bill. Is it true that you are considering pausing the 20-year tax reform program to keep stamp duty revenue flowing?

Mr Barr: No. In fact, in the last budget, we further accelerated the program with some further initiatives to reduce stamp duty on top of the existing five-year program. And those initiatives included raising the income threshold for the homebuyer concession scheme to allow more people to access a zero stamp duty purchase. It also included raising the tax threshold on the lowest stamp duty tax bracket from $200,000 to $260,000 and reducing the rate of taxation.

Now, the rationale behind moving on the lowest tax brackets first is that that delivers the greatest benefit in stamp duty reduction to the lower end of the housing market, whilst delivering a stamp duty cut for every property that is transacted, because the bracket up to $260,000 will pretty well capture every single housing transaction. So, every single housing transaction in the territory received an additional stamp duty reduction on top of the five-year program. So, that, if you like, Mr Cain, was to address bracket creep that applies in the marginal tax rates for stamp duty in a similar way as it does—

MR CAIN: I think you have answered my question, Treasurer. It was just: are you planning to lengthen the reform? So, the answer is: no.

Mr Barr: If anything, Mr Cain, I am more inclined to want to accelerate the program.

MR BRADDOCK: I have a supplementary question on that. If we are accelerating faster when would be the estimated timeframe for completion of that program?

Mr Barr: That would be 2032.

MR BRADDOCK: Still keeping to that time.

Mr Barr: Yes.

MR BRADDOCK: I have a substantive question about the Revenue Office, which is responsible for both rental bonds and land tax. I was wondering if there are any sort of cross-compliance checks that happen to ensure that we are fully capturing those who should be paying either or both of those?

Mr Barr: Mr Salisbury will assist there.

Mr Salisbury: I acknowledge the privilege statement. The answer to your question is yes. We have an active compliance program that uses resources like rental bonds to ensure that land tax compliance is up to date.

MR BRADDOCK: Do you do it also in reverse, in terms of checking whether those who are paying land tax have also got a rental bond watched?

Mr Salisbury: No. We do not do that type of compliance. That compliance is not the responsibility of the Revenue Office. I believe that is an Access Canberra issue.

MR BRADDOCK: Thank you.

MR CAIN: Treasurer or Commissioner, obviously land taxes across all residential land are lessee exempt. Regarding land tax on vacant residential properties, approximately what is the percentage of properties and what percentage of revenue is collected from vacant residential properties?

Mr Salisbury: I will have to take that question on notice, Mr Cain.

MR CAIN: Thank you. Treasurer, a successful local business operating nationally, called ABS Facade, recently moved from Hume to Queanbeyan. Are you aware of any payments made by the New South Wales government to incentivise their movement across the border?

Mr Barr: Not off the top of my head, but I will take that on notice.

MR CAIN: Are you aware of any other businesses being approached and incentivised to move across the border?

Mr Barr: I am certainly aware that there are a range of programs in other states and territories, just as the ACT has some, that seek to attract business investment. We talked about one earlier in relation to migration pathways and visa classes that support that, so it is not a surprise that it occurs. When there are decisions by particular jurisdictions about the use of public money to subsidise business relocation, I think from a best use of public funds argument we are not going to win a bidding war with a jurisdiction that has a budget 100 times larger than ours or 20 times larger than ours or 10 times larger than ours. There are costs associated with relocating a business. There will be changes in taxation arrangements. If they have purchased new premises then they may well have paid a stamp duty to the New South Wales government on the way through. We cannot and will not enter into bidding wars in that context.

MR CAIN: Then how do you plan to encourage companies to stay in the territory?

Mr Barr: We have a range of taxation policy settings that are attractive across the board, rather than company specific, for particular businesses, depending on their size. There is land availability, access to skilled workforces and the like. I am less concerned, Mr Cain, about location within the Canberra region. I am not in a war with Queanbeyan-Palerang Council or any of the surrounding local government areas because, in the end, this regional economy operates with less focus on the ACT/New South Wales border. I think staying in the Canberra region is important. I would be more concerned about businesses relocating out of our region.

MR CAIN: But what about the loss in payroll tax collected by the ACT?

Mr Barr: Depending of course on the nature of the business and its activities, given the way the payroll tax system works, that may not necessarily be a major factor. It may be in fact that they were not paying any payroll tax in the ACT in the first place, given our payroll tax thresholds and arrangements.

MR CAIN: What about the companies that are above the threshold? Do you have any plans to encourage them to stay in the territory?

Mr Barr: We are not seeing a significant movement of business outside of the territory. In fact, if anything, the data shows that businesses are locating to the ACT to take advantage of a number of attractive reasons to locate in the territory. The number of businesses operating in the ACT has been growing faster, in some instances, than all other jurisdictions, or in some fiscal years we have been the second fastest. The number of businesses has grown from 27,000 to 33,000 over the last five years, so there is no evidence to support that there is a decline in the number of businesses operating in the territory. In fact, the evidence shows it is increasing.

MR CAIN: If you did have a significant payroll taxpayer come to you and say, “What are you going to do to keep us in the ACT?” what would your answer be?

Mr Barr: I do not want to speculate on a hypothetical, but our general approach is not to be chasing that sort of mercenary behaviour or rewarding it. Potentially, there could be reasons that the government may consider particular arrangements, but my recollection of that occurring in the last 10 years has, interestingly, been that payroll tax concessions have been applied to football teams. I have got rid of that; I wound that back. I inherited that particular issue. I recall maybe one example, but that was not to retain in the ACT; that was to come to the ACT as part of a particular unsolicited, or somewhat solicited, investment proposal. But we generally do not undertake firm-specific payroll tax arrangements.

MR CAIN: I note you have alluded to payroll tax, and perhaps we are not losing much, but of course if a business relocates—ABS has 300 employees—that is a loss to the local economy of their expenditure.

Mr Barr: You say they have moved to Queanbeyan?

MR CAIN: The business has.

Mr Barr: Where are the employees living?

MR CAIN: Unknown—

Mr Barr: Yes. Presumably they are still in the ACT. So they are still spending money in the local economy. Whilst there may be some impact, that is why I made the point about the Canberra region—

MR CAIN: There will be some attraction, of course, if a business moves.

Mr Barr: Conceivably, but—

MR CAIN: Thank you, Treasurer. I turn to Treasury investments. Equity markets, as you will be aware, have fallen this year. Perhaps this will be taken on notice, but whatever you can provide will be helpful. Can you detail the impact on the following: the return on ACT government investments? Is there an answer or will you take that on notice?

Mr Barr: Sorry; we thought you were going to give a whole list. Do you want to pause after each one?

MR CAIN: I am happy to pause to make it easier.

Mr Barr: Okay. So that is the first one. ACT investment returns—

Mr McAuliffe: Are you after the returns for the 2021-22 financial year?

Mr Barr: Yes.

Mr McAuliffe: There is not one single return. What we have got is basically four—

MR CAIN: I only have three, so that is okay.

Mr Barr: Right; okay.

Mr McAuliffe: Basically, there are three different strategies that we have at the moment with underlying agencies that have long-term liabilities that they are trying to fund and invest in the strategy that suits them. So—

MR CAIN: But perhaps generally, Mr McAuliffe—

Mr McAuliffe: Generally, the main portfolio—the SBA portfolio—targets a return of CPI plus 4.75 per cent. The return last year was minus 4.13 per cent.

MR CAIN: So are you expecting them to fall, going forward?

Mr McAuliffe: Based on last week's unaudited valuation, at that point in time we were actually still sitting roughly around about our budget estimate. There is a lot of volatility going on at the moment. Then we have had this week—no more volatility and that has sort of turned down. So we are still sticking to that long-term objective. We do not try to pick and choose where the rates are going to go. That is why we have these long-term strategies in place. I think the SBA is a good example of that. For 26 years it has returned five per cent real, versus its target of CPI plus 4.75. So it shows that you can ride through those volatile periods.

MR CAIN: The second thing impacted is the size of the defined benefit superannuation liability.

Mr McAuliffe: Yes. At 30 June 2022 the liability outcome, actual, was $10.87 billion. That was compared with the budget estimate, which was $10.93 billion. So it was an improvement on the budget estimate. That is because the budget discount rate that we used was 3.75 per cent and the actual discount rate was 3.9 per cent.

Mr Barr: So a factor there again, talking about the yin and yang of economic statistics, is that the higher interest rates go the better our position in relation to that particular liability. It is a long-term liability measured against a long-term discount rate and, as interest rates rise, that means that liability is likely to fall further, if interest rates rise further.

MR CAIN: Thank you. What is the effect that this will have on the forecast budget deficit this year and for the next?

Mr McAuliffe: Basically, the way the budget works in terms of the operating result is that, particularly for the superannuation portfolio, a component of the return is that the headline net operating balance assumes that long-term return each year. So the impact on a year-to-year basis is that, depending on the outcome at a point in time and where your asset base finishes, there will be a flow-on effect from a lower asset base, not necessarily from the change in the return assumption.

MR CAIN: Thank you.

MR PETTERSSON: I just want to check that I am asking this in the right session, but can Major Projects Canberra give an update on the EPIC community facility?

Mr Barr: I think so, yes.

Mr Edghill: I have read and acknowledge the privilege statement. Unfortunately, I might be the wrong person to provide a detailed update, given that it is a Venues ACT project and reports through that ministerial arrangement.

MR PETTERSSON: What about Gungahlin community centre?

Mr Barr: Similar.

Mr Edghill: Likewise, if I may, Chief Minister?

Mr Barr: Yes.

Mr Edghill: The projects that we have direct ministerial capability for within Major Projects Canberra are the Canberra Hospital expansion, light rail stage 2, the Canberra Theatre redevelopment project, CIT Woden, and potentially combustible cladding remediation activities. For all the other projects that are undertaken by the ACT government, or at least most of the infrastructure projects undertaken by the ACT government, we provide support services to other directorates. But the actual projects and the accountabilities and the ministers for those do not reside within Major Projects Canberra; they reside elsewhere in the government.

MR PETTERSSON: All right. So can you reiterate for me: where should I direct the question?

Mr Barr: In relation to Exhibition Park, I think the opportunity was yesterday, in the hearing in relation to Venues. But, obviously, if you want to lodge something on notice I can answer it in that capacity. The second one was the Gungahlin community centre—

MR PETTERSSON: Yes.

Mr Barr: That is not a territory venue so much as it is a project that ultimately would be under the management of the Community Services Directorate. I will get back to you on the best pathway, the best hearing, in which to ask a question on that.

MR PETTERSSON: All right. Thank you.

MR BRADDOCK: Volume 2.1, page 6, talks about the impact of the prior year's freezing of indexation for vehicle registrations and parking fees having an ongoing basis. What was their impact on the territory finances in the last financial year, and what is the plan? Is there going to be an ongoing impact, for ever and a day, from that freeze?

Mr Barr: I will state from the outset that I do not think it is possible to maintain a perennial freeze on those sorts of rates and charges. There are generally two indexation methods utilised, either the WPI or the CPI, the wage price index or the consumer price index. Going back to an earlier conversation, the preferred norm is that the CPI is lower than the WPI, because that shows real wage growth, but at the moment the CPI is considerably higher than the WPI.

There are some decisions that we can take in particular budget rounds that will seek to reduce cost of living impacts or prioritise particular areas, but they do, as you have identified, come at a revenue cost. There can then be decisions to, if you like, look at extraordinary CPI spikes and look at underlying rates of inflation as the basis for the indexation of particular fees and charges. The concern I would have about simply returning to a CPI level is if that meant, then, that there was going to be a seven per cent increase in the coming year. That would be a policy decision that the government makes through the annual budgeting process, as to what will happen in the coming fiscal year. The view is that, at this time, particularly as a measure designed to see a return to public transport use post-pandemic, for example, keeping fares fixed for another year is a deliberate policy decision.

MR BRADDOCK: Is it possible to take the first question on notice about what the financial impact of that was on the 2021-22 year?

Mr Barr: Sure. It would be a percentage, I guess, depending on what our inflation assumption was. Yes; three or four per cent of the total revenue stream in that area. From memory, on public transport, the last time I looked, pre-COVID that was about $25 million of revenue. So three per cent of that would be $750,000 or thereabouts—I am doing the maths in my head quickly. Would you like an exact figure or is that ballpark enough?

MR BRADDOCK: That is fine. I am happy with the ballpark; thank you.

MR CAIN: Treasurer, my questions relate now to Major Projects Canberra. I refer to a statement by Mr Edghill earlier this year where he said he could not recall whether he had ever reported maladministration to the Head of Service and took the question on notice. I am aware of the question on notice response, where Mr Edghill advised that he had never reported maladministration to the Head of Service. My question then is: what clarified your opinion on that? Did you review emails? Did you talk to the Head of Service or the Chief Minister?

Mr Edghill: To correct something, respectfully, there, Mr Cain, I think *Hansard* reflects that I did not say I did not recall. What I did say in the hearing was that I would take that on notice. I took that on notice in the context of both the seriousness with which I took the question that was being asked of me, but also I think it was in the context of, when the question was posed to me, it made very specific reference to a part of legislation which I did not have open in front of me. So it was in that context that I took the question on notice. I did check to make sure that my response was correct and then I provided my response through the minister.

MR CAIN: What investigations did you take, then, to come up with the conclusion provided in the response to the question taken on notice? What did you do to conclude with this answer?

Mr Edghill: Firstly, I went back and checked the part of the act that was referred to in the question, to ensure that I was responding appropriately, and then I refreshed myself through my own records and provided the response.

MR CAIN: Obviously, the questioning in estimates was about changing the weightings of a tender once it had been closed for submissions, and whether that was common practice in the service. Are you aware of that being a common practice?

Mr Edghill: Sorry; I am not sure that that was a question that I was asked previously.

MR CAIN: Then are you aware of a change in the weightings of a tender in procurement after it has been closed for submissions?

Mr Edghill: I would have to respectfully take that on notice to provide a definitive response, but my initial reaction is that that is not something that would be a particularly common occurrence in procurement processes.

MR CAIN: So you will take that on notice?

Mr Edghill: I am happy to take that on notice.

MR CAIN: Thank you. I have another on Major Projects Canberra, Treasurer. Perhaps Mr Edghill will be the one to answer. Over the last five years the infrastructure budget was $4.5 billion, yet only $3.4 billion has been delivered—a shortfall of $1.1 billion. Could you explain the underspend?

Mr Barr: I will start, Mr Edghill. Yes. We have, on a number of individual projects, encountered a range of delivery challenges that can commence with delays in planning approvals. Not every procurement will deliver a successful outcome in terms of a competitive market and a preferred tenderer that meets the particular project's needs or budget. There have also been challenges through the COVID period with workforce and supply availability, and then obviously a mandated construction sector shutdown for a period that had flow-on implications for the delivery of infrastructure projects. So, really, for two years, there has been the massive disruption of a once in a century type event. I think we have canvassed those issues quite broadly in the last two and a half years.

Certainly, the government has, at a systemic level, sought to address some of what would appear to be the major drivers of infrastructure delivery challenge through creating a capital works reserve which enables projects that are running ahead of schedule to draw down on their future appropriation. In essence, under public sector rules, procurement rules and the like, it was a very difficult process for a project that was running ahead of its scheduled budget to run beyond that speed limit, effectively. The totality of underspend on a large capital program over a particular year is the accumulation of a number of small underspends, with a few project exceptions where, clearly, either planning approval was not provided or was not able to be sourced because of a range of reasons, from extended community consultation to needing to resubmit or because the planning approval did not lie with the territory; it was with a commonwealth agency.

MR CAIN: But, Treasurer, a 25 per cent underspend is of such significance.

Mr Barr: Well, it is, in fact, when compared with others—

MR CAIN: Most of the things you are mentioning are things that are anticipated.

Mr Barr: When compared with other states and territories, it is actually quite a strong performance, but there is no government in the history of Australia that has consistently delivered 100 per cent of its capital works program, year in, year out. With the capital works program, effectively, that number is the upper speed limit. We have created a mechanism to enable certain projects to accelerate their delivery through the capital works reserve.

Another factor, Mr Cain, is that there is a difference between the physical completion and the financial completion of a project. There are defect periods and there is a time when a final payment is made, once a defect period has concluded and any issues have resolved. That can often roll over between one or two fiscal years.

I accept the point that in an ideal world we would get closer to 100 per cent of our budgeted capital works project, but I need to be clear that no government anywhere in the world delivers 100 per cent every year, year in, year out, because there are always factors that contribute to some underspend. What we have undertaken is a range of processes to reduce the level of underspend, but there will always be external events, be they weather, pandemic events, supply restraints, foreign wars—any number of factors that can impact on supply lines.

As Treasurer I am very conscious and make the very significant point that—and I think the Treasury officials and any of my ministerial colleagues who are listening will have heard me go on about this ad nauseam—every new business case that comes forward has a very optimistic delivery time frame. I am always pushing back on the reality of delivery, as per our fiscal profile that is preferred by the agency. And—

MR CAIN: Treasurer, what are you planning to do?

Mr Barr: Let me finish the answer, Mr Cain.

MR CAIN: With respect, we do not need a lot of background to fairly direct questions.

Mr Barr: I have spent too long in this place to be arguing with you about how I answer questions.

MR CAIN: We have limited time for these hearings.

Mr Barr: You get to ask the question. I get to answer it. What I was going to do was to ask Mr Edghill now to outline the role Major Projects Canberra plays in assisting other delivery agencies in the business case development process, under the capital framework that has been put in place to seek to better align the budget or fiscal profile of projects with their delivery schedule.

MR CAIN: Mr Edghill might answer the question. Does MPC play a role in these forecasts or is it just left to the Treasurer's office?

Mr Barr: My office? Are you suggesting that my political office undertakes business case development? Or does that question mean the Treasury? I just need to be clear because you are casting a—

MR CAIN: Well, you can answer it either way.

Mr Barr: I have to say that that sort of casual, offhand suggestion that there is some political interference in the fiscal profiles of business case development, in a throwaway line like that, is really unparliamentary, Mr Cain. But if you meant does Treasury—

MR CAIN: You are here as a member of the executive.

Mr Barr: Mr Cain—

MR CAIN: You are here as a member of the executive.

THE CHAIR: Just please answer the question.

Mr Barr: You are not a member of this committee.

THE CHAIR: Mr Edghill, if you could please answer the question from Mr Cain.

Mr Barr: I will take that question to mean Treasury. Is Treasury involved, with

Major Projects Canberra, in a business case assessment of the fiscal profile of a project against its delivery pathway? The answer is: yes,. they are both involved. I will invite Mr Edghill to provide some further information.

Mr Edghill: Thank you, Chief Minster. Since the establishment of Major Projects Canberra, which took place on 1 July 2019—so we are a little over three years old now—there have been two components to what we do. There are the projects that I mentioned before, which we have direct responsibility for progressing. But we also assist other areas of government in both procurement and contract management matters. We also, as the Chief Minister has noted, participate through the budget planning process in a number of different ways. Ultimately, of course, it is cabinet and Treasury that run that process.

With respect to infrastructure capital works, a role that we now play is that, through the budget process, we provide Major Projects Canberra's view on the projects through to Treasury and through to the sponsoring directorates. The way that we look at the projects is not to opine upon the merits of the submission or otherwise; really, we are looking at it from a project management perspective in terms of the budget, how well developed the project may be and the particular program which is underpinning each individual business case.

When we do that, we do a couple of things, but one of the things that we do try to do is to look at the proposed capital framework from what we call a program perspective, rather than simply individual projects. Of course we look at individual projects. If, for each individual project, everything went reasonably smoothly and everything was very optimistic then each individual project might hit milestones. But from our vantage point, which individual directorates might not have, we get to see the overall program and we get to look at what is actually deliverable on an industry-wide or a program basis.

We have an internal process within Major Projects Canberra where we have staff look at each individual capital infrastructure works proposal through that lens. We then effectively meet as a committee, look at it as a whole and then provide our feedback through to Treasury for consideration by ERC. We also share that feedback with individual directorates. That is what we do through the budget process. Of course, that is something which, given the nature of infrastructure projects, takes some time to wash through the system. I should have noted that, when looking at individual projects, we pay particular attention to some of the assumptions which have been made, particularly at the front end of the capital project, because our assessment is that that is when they are at the greatest risk of not hitting some of the time frames that may be sought, for reasons that the Chief Minister outlined: assumptions around planning and approval time frames or design time frames, procurement time frames and so forth.

Aside from the budget process, we also work with directorates, almost on an as-needs basis, with respect to individual projects. Typically, the less frequent or the more unusual or large the proposed project that an individual directorate might be putting forward is, the more likely it is that they have engaged us at an early point to assist them in framing what the appropriate budget proposal and time frame may look like.

Finally, as the Chief Minister did note, there is a role through the capital framework for Major Projects Canberra to provide input as projects develop. Looking at the whole-of-government capital spend since the establishment of Major Projects Canberra, it has actually increased year on year, which gives me a degree of confidence that, both through our own activities and our assistance on a whole-of-government basis, the work that we are doing is actually yielding positive results.

Mr Barr: It reached 89 per cent delivery. That is a significant improvement in the last fiscal year; so I would echo Mr Edghill's comments.

MR CAIN: I have a final supplementary question. It goes back to the underspend. Given how critical infrastructure projects will be for Canberra over the next few years, and their related economic impact, to what point will you allow infrastructure underspend to go on before you do a refresh at MPC?

Mr Barr: Obviously that question was written before you heard the answer. The ability to adapt your question to the data that is before you, Mr Cain, is a skill I am sure you will develop over time in this place. The delivery threshold reached 89 per cent in the last fiscal year and has been improving. It is the largest ever infrastructure program delivered by a territory government in the history of this place. We will obviously continue to apply the policy framework that we have put in place. That includes the capital framework and the capital works reserve as we undertake future budget exercises.

MR PETTERSON: Chief Minister, how have the forecasts in the two commonwealth budgets this year changed, and what are the implications for the territory economy?

Mr Barr: Thank you. Well, yes, there has been quite a contrast in budget forecasting from March to October. There are a number of changes that have impacted on our future thinking in relation to GDP growth, consumption growth, dwelling investment and population growth, to mention a few. In short, the commonwealth forecasts are somewhat more pessimistic for the global economy and, in some instances, for parts of the Australian economy. There is a question around the extent of recovery of private investment and household consumption at a national level, but I think there is reasonably strong evidence to suggest that the ACT will outperform other parts of Australia in relation to household consumption and private investment. Our retail trade figures are pretty encouraging in relation to the household consumption sector.

The commonwealth has revised up the population projections for the ACT based on the most recent census data. That obviously has significant implications for the ACT's share of a range of national revenue pools and programs. The increase in the territory's population is obviously in nominal terms quite significant, but it is growing faster than the rest of Australia, so our share of the national population is increasing also. That means that we get a greater share—both a greater amount and a greater relative share—of a number of these commonwealth government funding streams.

We are going to have to look, as we come into the budget review next year—which will be tabled prior to 15 February, as is required under the FMA—at our forward assumptions in relation to state final demand, gross state product, wage prices, wage price index and consumer price index. There are some factors in the ACT that will shield us from some of the increases in inflation and particular drivers of higher inflation, particularly electricity prices, as a result of our long-term fixed-price energy supply contracts. We would be the only jurisdiction in the national electricity market to see a decline in regulated tariffs in this current fiscal year, and those preconditions are likely to continue, it would seem, across the next few years.

Having long-term contracts that have locked-in lower-cost renewable energy was a very good decision for the environment a decade ago, and is also now a very good decision for the cost of living for this city. They are all factors that we take into account, particularly given the focus in the October commonwealth budget on what was likely to happen in energy markets.

Electricity is a different story to what might happen with gas. I think there will be a continued importance placed on assisting households to make the switch from gas to electricity. The sustainable households scheme, which has already assisted around five per cent of Canberra households, in the range of projects that it supports—including gas-to-electric transition, rooftop solar generation and the like, which we will undoubtedly explore in greater detail in another committee hearing in the coming week—is playing an important role at the household level to assist in making this transition.

MR PETTERSSON: Wonderful, thank you.

MR BRADDOCK: When was the last time that consideration was given to a new revenue stream here in the ACT? When was the last time a new revenue stream came online?

Mr Barr: That would be 2017—the point of consumption gambling tax.

MR BRADDOCK: Thank you.

MR CAIN: A question again for Major Projects Canberra. I am advised that earlier this week Ms Lee asked a question regarding changes in the final price of a tender contract. The background was that during a procurement process there is one tender that comes out as the winner, obviously. Presumably that winning tender has been selected based in some part on price. So at that point in time there is a price that was put forward by that tenderer when bidding for the contract. Once they are notified that they are the winner of that procurement, there is a negotiation process, and a contract is actually signed. That is my understanding. I am wanting to know how often the price of a winning tender is materially different from the final price of a signed contract.

Mr Edghill: Thank you for the question, Mr Cain. There were some technical difficulties in that annual report hearing, where the internet or the electricity went out. The reason I say that—and I noted it in the hearing itself and I am happy to take the fault for it—is that I was not exactly sure I was interpreting the question correctly from Ms Lee. Subsequently, I have not been able to go back and listen to the hearing. At least the last time I checked, because of that electricity outage, it was not there.

That is the context in which I answer this question. In terms of the number of occasions when there may be movement between—if I have understood it correctly—a party being preferred and then the final price—

MR CAIN: Yes, on the signed contract.

Mr Edghill: Yes, so a difference between somebody being told that they are preferred and what the final price might be. I am not sure that is a particularly easy question for me to answer, because it would involve going back through quite a lot of procurement process records, but my reaction to that is that it would be certainly not uncommon for that to happen. Once a party has been identified as the preferred respondent, it is not unusual that there may be matters for negotiation between the ACT government and that particular party, which may mean that the ultimate price in the contract is different from the price as it stood when that party was announced as the preferred tenderer.

Sorry; that is a long way of saying that if that was the question that I received the other day—and I apologise if I misinterpreted it at the time—that is my answer. I do not think that would be particularly uncommon, because generally there are contract and other negotiations that have to happen once the party has been identified as preferred.

MR CAIN: If it is not uncommon, what is to prevent a company from bidding low, with the expectation that the price would be much higher on the signed contract—and winning a tender on that and then signing a contract with a higher price?

Mr Edghill: I cannot talk for people who might be bidding on work with the ACT government—

MR CAIN: But how does MPC protect the community, the ACT taxpayer, from that happening?

Mr Edghill: It is also difficult to talk in generalities, but if I may talk in generalities, one of the things that evaluation panels do when they assess tenders which come in is look at those tender responses holistically. Of course, it is not as simple as whoever bid the lowest price wins the job. If it was that simple, we would not have evaluation panels; you would open everything up, find the lowest price and then off you go.

The process that evaluation panels go through is more complicated than that and, again talking generally, for a low-ball bid which is appreciably below what the rest of the market might be saying, I think generally the initial reaction to that would not be: "This is fantastic; we are going to get the world's best deal with this particular person." The question would be: "Have they actually understood the scope correctly or is there some other omission or fault?" Maybe that is not the right word to describe it, but is there something which is a disconnect with that bid from other bids?

While on face value it may look exceptional to have a very, very low price, for the reasons that I have just mentioned, is it because the bidder has not actually understood what it is that the ACT government has asked for and that will produce other issues down the line? In that instance, again, it is very difficult to talk in generalities. The answer to that may be apparent through the tender documentation which has been received. Alternatively, I am sure there are occasions when, through the tender process, there are mechanisms for tender panels to go back to bidders and ask clarifying questions. That may be the mechanism, in that scenario, which is used.

MR CAIN: Could you take on notice to provide, over the last three years, all contracts over, say, half a million dollars where the winning tender price is different to the final signed contract price?

Mr Barr: I suspect that is a massive information request. The contract price threshold is very low in that instance and would possibly involve tens of thousands of contracts, so I am not prepared to authorise that level of work. I think we will take on notice to provide an answer that we can sensibly in relation to the theme of the question.

MR CAIN: I am not sure how many—

THE CHAIR: If $500 million is too much—sorry; $500,000—then a million may be the threshold.

Mr Barr: I do not think that would significantly shift it. If we looked at it in terms of the capital framework, projects over $10 million might be a smaller number, but I will take some advice from Mr Edghill on the level of work that is required. I understand the intent of the question, but I am just not prepared to authorise a team having to spend three months poring over tens of thousands of contracts.

MR CAIN: Just to assist the query, because it is a genuine query and I think the community deserves to know these answers, you could perhaps outline approximately how many contracts are at the different thresholds and then which number is a reasonable number to inquire further into. You will take that on notice?

Mr Barr: Yes. Yes, we will.

MR CAIN: You have talked about the valuations sometimes not getting it right in the tender price. What variations occur in these procurement contracts between the winning tender and the actual signed contract, other than price? Are there any other significant types of variations that occur?

Mr Edghill: I am not trying to be difficult, but it is a little bit difficult to talk in generalities because it would very much depend upon the specifics of an individual procurement process. In terms of variations there would of course not be any formal contract variations before the contractors have signed, but, through the procurement process, the client directorate might recognise, for example, in response to a proposal which has actually been put forward by a tenderer, that there is some different way of doing things or some better way of doing things that the tenderer has put forward, or the government has come to realise through the process that it is sensible for that route to be pursued, rather than what was necessarily in the RFT document at the outset in very strict terms.

That can go both ways. It could be that a tenderer has put forward options for value engineering which actually reduce the cost of a project or help us bring the scope of a project back within the budget envelope which is available. That is the other element, too. When we go to tender on projects—and when I say "we", I mean the ACT government more broadly—typically we are doing that not telling the tenderer what our available budget is, so it is certainly not uncommon to get through to the end of a procurement process and then discussions need to be had to ensure that we are actually bringing a project within the budget which is available.

Again, talking very generally, it is certainly not at all uncommon, when a preferred tenderer has been identified, that work needs to happen to take advantage of the propositions which have been put forward by the tenderer to bring the tender and the total project back within the available budget or to deal with some other issue which has come up, either through the procurement process or in parallel to that procurement process.

MR CAIN: Given the Auditor-General's concerns about the probative procurement in the territory and the Integrity Commissioner's investigation into two significant procurements, does the scenario you have painted of uncertainty about confirmation of price and how contracts are varied between approval and signing not raise further concerns about ACT procurements?

Mr Edghill: On the contrary, I think what it points to is the fact that procurement processes are complex. It is not as simple as opening an envelope and saying, "Well, that is obviously the winner," and moving on with things. It is why we spend a lot of time within Major Projects Canberra thinking about probity and ensuring that we have that through our processes.

There are two things I would note. The first one is that within Major Projects Canberra we have actually been through a process of updating all of our procurement policies, processes and templates, and that is with a view to ensuring that we have very clearly identified who the personnel are undertaking procurement processes, documenting their role in those processes, and clearly defining roles and responsibilities and how to manage probity through those processes.

We have provided detailed information about how probity issues or probity questions can be escalated. Just because there is a probity question does not mean that there is a probity issue. It is actually quite common that we will want to check in with probity advisers to ensure that whatever course of action we are taking is appropriate.

We also have within Major Projects Canberra our own regular toolbox training processes, learning modules. We work closely with Procurement ACT and of course adopt and undertake their training and so forth. So it is a topic that we take very, very seriously, but it is a complex process, moving through procurement processes.

MR CAIN: I do not doubt it is complex--

THE CHAIR: Thank you.

MR PETTERSSON: The matters being considered today include Jobs for Canberrans. Is that specifically relating to the Jobs for Canberrans fund, or is there a larger piece of work in play?

Mr Barr: I suspect that is a historical reference back to the pandemic program that was run for that period but has now closed.

MR PETTERSSON: Throughout the early season of the pandemic there was the fund. Were there other pieces of work in the broader ACT government to support Canberrans into work, specifically into the public service?

Mr Barr: Yes. There were some other projects undertaken in other directorates, particularly around scaling up responses associated with pandemic management. I am thinking of the Health Directorate, around particular areas of epidemiology and others. I am thinking of Transport Canberra and City Services, around cleaning, maintenance and public transport et cetera. Particularly in periods when there was a heightened risk of transmission, we enhanced and stepped up the cleaning workforce in schools as well. They were other projects and programs run beyond the remit of Jobs for Canberrans. It had an element of COVID response but also an economic stimulus response by bringing forward Namadgi National Park restoration projects. There were a range of other small capital works programs that were run under that scheme.

MR PETTERSSON: Would it be appropriate to describe the current setting of the ACT government as not pursuing those employment programs?

Mr Barr: We certainly, at the moment, have a lot of job vacancies across the ACT public sector. The skills shortage and labour shortage applies to us as well, so we are not needing to run extra programs. We are looking to recruit into standing positions that we have within the ACT public sector.

MR PETTERSSON: Wonderful. Thank you.

MR BRADDOCK: I have a question for Icon Water, I am interested in whether you have been able to achieve an employee representative on your board yet.

Mr Hezkial: Thank you for the question. I might refer that question to Alison Pratt, our general counsel. She has been engaged in that process.

Ms Pratt: Thank you. You are referring to the provision in the parliamentary agreement. That matter is still under consideration by the government. We have had some preliminary conversations with them, but at this stage there is not a direct employee representative on the board.

MR BRADDOCK: So it is still at the conversation stage with the government. There are no plans in place yet to achieve that end?

Mr Barr: The process of board appointments comes up against a range of skill sets that we need on the board. The way the Icon board works is not one of dedicated representatives of particular sectors, if you like. It is a skills-based board. There is not a proposal at this point to have the only dedicated position on the board to be that of an employee. What we would be looking for is a set of skills. Future board appointments are measured against that skill set. There certainly would be employees who would bring skills to the board, and we will look, through future board recruitment rounds, to provide that injection of skill into the board.

MR BRADDOCK: How will you, during future board appointment rounds, encourage employees to put their hands up for such a position?

Mr Barr: There is an open recruitment process for board appointments. There is a maximum limit on how long an individual can be on the board. The board appointment process tends to come up every couple of years.

MR BRADDOCK: Would there be any active encouragement given to employees to be made aware these appointments?

Mr Barr: Yes. I recall the discussion in relation to this particular parliamentary governing agreement item. This exact point was made: that on some ACT government boards positions are not allocated on a representative basis, that they are skills-based boards and that this would be the approach that we would seek to pursue in order to deliver on that commitment.

MR BRADDOCK: Thank you.

MR CAIN: Treasurer, on 22 October the Independent Competition and Regulatory Commission released its draft decision and proposed price direction for regulated water and sewerage services. The draft decision estimates that the combined water and sewerage services bill for an average household consuming 200 kilolitres a year will increase by 4.2 per cent, on average, across the regulatory period. While this is less than current inflation, it is higher than your forecast inflation across the forward estimates, to my understanding. While the ICRC is an independent agency, as Treasurer do you think it is fair on Canberrans to be adding to the cost of living pressures as inflation and mortgage rates rise?

Mr Barr: As you have highlighted, I do not have a role in the Independent Competition and Regulatory Commission's assessment of both the capital and recurrent expenditure needs of the utility. I would point out that, in more recent times, the last determination actually saw a fall in a number of those charges. The process for the regulator is to assess the proposal that comes forward from the utility for necessary infrastructure works. As I understand it, and perhaps Icon can comment a little further on this, one particular project that is being pursued that has been topical in the Assembly relates to the sewerage treatment works at lower Molonglo. There is a need for some further capital expenditure there.

Obviously, there is a balance, Mr Cain, between ensuring that the water and sewerage infrastructure is fit for purpose and meeting the needs of a growing city. We noted earlier that the cost of capital has increased somewhat. I note the correct observation you have made around the level of inflation at the current time and where this draft decision sits. It is below the current inflation level and so would indeed not be a contributor to increase inflation. It is not for me to determine the regulatory process. If the Assembly thought it appropriate for the Treasurer to determine all of these things, we would no longer need an Independent Competition and Regulatory Commission. If that is the public policy pathway you wish to pursue, you are of course free to introduce a private member's bill to abolish the ICRC and—

MR CAIN: No need to speculate, Treasurer.

Mr Barr: refer the powers to the Treasurer. I would not support that legislation. I will put on the record now that I think it is--

MR CAIN: Chair, this is totally off the point.

THE CHAIR: Yes.

Mr Barr: I think it is important to acknowledge that we have an independent process, Mr Cain.

MR CAIN: Noted. Is there an efficiency dividend imposed on Icon Water?

Mr Barr: Not by the government, but obviously part of the regulator's role is to assess the prudence of both the capital and recurrent expenditure proposals when they are submitted by the utility into the regulatory process.

MR CAIN: Is there an efficiency dividend or not?

Mr Barr: I can invite Mr Phillips perhaps to address that from the regulator's perspective, and then Mr Hezkial may wish to comment from Icon Water's perspective.

Mr Phillips: Thank you, Treasurer. I have read and acknowledge the privilege statement. As the Treasurer has mentioned, Icon Water put forward a proposal for their pricing. The ICRC reviews that for prudence and efficiency, looking at their proposed capital and operating costs to meet the needs of supplying water and sewerage services to the Canberra region. As part of that, the ICRC, as other similar regulators do--

MR CAIN: With respect, Mr Phillips, it was a simple question and we are time limited. Is there an efficiency dividend for Icon Water?

Mr Phillips: Yes.

MR CAIN: What is that?

Mr Phillips: Our proposed growth productivity rate is 1.4 per cent over the five-year regulatory period.

MR CAIN: Thank you. Treasurer, I make reference to an answer to a question taken on notice, number 31, to do with development leases.

Mr Barr: I am sorry; I do not have that in front of me. From which question?

THE CHAIR: Just ask away please, Mr Cain.

MR CAIN: I can ask away nonetheless.

Mr Barr: Yes. Sorry—from last estimates, or is it a question on notice through the Assembly?

MR CAIN: It was from earlier in the year.

Mr Barr: Unfortunately for you, Mr Cain, at this point I do not carry around the answer to every single question that I am asked.

MR CAIN: That is quite all right; questions can be still asked.

Mr Barr: Yes. Go for it.

THE CHAIR: Yes, please.

MR CAIN: Thank you, Chair. I think the chair is in control here.

THE CHAIR: Yes.

MR CAIN: Thank you. The question was about how many development leases were taxed in the last five years and what classification they were placed under—whether a commercial or residential rates classification. I am reading your answer, Mr Barr, from earlier this year. There were six development leases taxed at the commercial rate and 31 taxed at the residential rate. Then there is a category called "part commercial/part residential", with five of such leases. I ask the question for clarification. Regarding those five part commercial/part residential, my understanding of the legislation is that they were at one stage a full residential or full commercial rate and then an apportionment was approved. Is it true that those five part commercial/part residential started their lease life as commercial rates?

Mr Barr: We will take that on notice.

MR CAIN: Given that there are such a significant number that are classified as residential, and given that commercial rates are significantly higher than residential rates on the same parcel, what revenue difference would there be if those 31, and perhaps those five, were taxed at the commercial rate? What is the revenue difference, comparing to the two rates?

Mr Barr: There might be a lot of work associated with a hypothetical around what a commercial use—

MR CAIN: No. It is a formula, Treasurer, as you know. So for the same parcel you can get a number as if it was a commercial—

Mr Barr: Sure, but the land would have a different value, depending on the lease.

MR CAIN: At the point of its issue, the development lease's issue.

Mr Barr: That might narrow the scope of the question sufficiently that an answer can be provided. We will take that on notice.

MR CAIN: That is the intention of that question.

Mr Barr: Okay. Thank you.

MR CAIN: Treasurer, could you explain, for what are essentially the same arrangements for the development of land to prepare it for subdivision, why some of those are commercial and why some are residential?

Mr Barr: It would depend on the lease, the Territory plan, the zoning and a site-by-site assessment. Again, we will take that on notice as part of the answer to the series of questions, Mr Cain.

MR CAIN: Thank you.

MR BRADDOCK: As we move towards the land target of 70 per cent infill and 30 per cent new build, what are the plans to cover the revenue shortfalls that reduced land sales from such a target may create?

Mr Barr: I think that at this point, given the rate of population growth and the available land for greenfield release, even at 30 per cent that does not significantly impinge upon the existing revenue streams because the rate of population growth has been so high. There is a substitution effect, clearly, associated with the infrastructure costs of servicing new development.

I recall that there has been some discussion and some information in the public realm that indicates that the cost per block of servicing new estates and building new infrastructure is significantly higher. But it is on a spectrum, depending on the location of the new greenfield development and then, by point of comparison, on the location of the infill or brownfield development site and the capacity of the existing infrastructure. That is quite logical, and common sense dictates that the more remote an area is from existing infrastructure, the more expensive it will be to connect it into infrastructure, be that water, sewerage, electricity, transport, and then all of the other government services.

I think it is worth noting that land sales revenue as a proportion of the territory budget is not as significant as some might suggest in some public commentary. It is not insignificant, but it is in the order of six or seven per cent, from memory, and will vary from fiscal year to fiscal year. Clearly, the tax reforms that we are now into the second decade of are designed to be a partial solution to the problem that you have identified.

It was inevitable that, even with the capacity to strike specific arrangements through New South Wales to shift the border in certain instances, we were going to run out of greenfield land to be developed. My view, upon taking the Treasury portfolio more than a decade ago, was that we had a medium-term challenge in this regard. Whilst it would have been easy to have made it someone else’s problem, I took the view that, for the long-term benefit of the Territory and its capacity to generate sufficient revenue to meet the ongoing service needs of the community, we needed to start the transition on tax reform whilst we still had a significant land bank to release.

Inevitably, that land bank will be exhausted, so the planning framework, the mix between infill and greenfield and the tax reform process are all in harmony in terms of the ultimate objective: to ensure that we are able to meet future population growth, and that we can minimise the costs of excessive new infrastructure and develop in places that are both environmentally sustainable and economically sustainable.

I think the policy balance is right. Over time—I do not think in this decade but perhaps in the one that follows—70-30 will need to adjust further. I have no doubt about that. I think that, for the rest of this decade, it is about the right policy setting and there will be sufficient greenfield sites that can be released that will not see the issue that you have identified becoming particularly acute in this decade. But in equivalent hearings that will be held in 2032 and 2042 it will be increasingly an issue.

THE CHAIR: I have a question for Icon Water. It is in regard to the odour control unit in Latham, along Ginninderra Drive. I understand that there are going to be some mural paintings on it. I have had constituents raising concern about whether there is going to be some planting to make it a little bit nicer for the residents who are directly across and up the hill.

Mr Hezkial: Thank you for the question. It is completely understandable that there is concern there. The Latham project you are referring to is part of the Belconnen trunk sewer project, which is about 2.4 kilometres of trunk sewer main, mainly to service growth in the north of Canberra, so it is quite a large project. We have made undertakings through our community engagement to do what we can with mural art on infrastructure to make it a bit less obvious. I think we have also committed to tree replacement, with a ratio of 2:1, and also replacing any grassland that is temporarily disturbed there.

Our approach, to date, has been to try and remediate the installation of the pipeline progressively. As we finish sections, we will remediate and move on, to the extent that we can. I think that is well in hand. We are communicating regularly with the community, but if there are any specific concerns I am certainly able to take them back to the project team.

THE CHAIR: One other concern that was raised was the close proximity to the shops. They were quite concerned about the potential smell that might bring, with the wind pushing it towards their cafes and the takeaway shops.

Mr Hezkial: That would be a terrible thing, but the good news is that those facilities are actually designed to prevent odour escaping from the system. They use carbon-based material to scrub the odour. From an amenity perspective, they are actually designed to do the opposite. From a personnel perspective, they are also very important to us because it makes the entry into the network safer for staff. We do get a build-up of hydrogen sulphide gas in the sewer mains, so it helps us scrub those. It is also very important for the longevity of the infrastructure. For long-lived assets, it actually helps reduce the acid attack on the pipe itself. So it actually tries to tick a few boxes all at once. Hopefully, the odour control unit, we are pretty confident, will eliminate that risk for residents.

THE CHAIR: Having said that, Mr Hezkial, I did raise before the concern that Macgregor residents had about similar odour control units near their residence. At certain times of the year it did smell of rotten eggs and they would not allow their kids to go outside to play. That is how bad the smell got to be. Similar concerns are also raised with this odour control unit. You have mentioned that it does not release an odour, but we have evidence from people living near the odour control unit in west Macgregor that they actually do smell it.

Mr Hezkial: I completely acknowledge that. We have learnt a lot from that particular incident. One of the things around the activated carbon that is used in those facilities is that they have a saturation limit, so you do have to routinely clean and replace that material to make sure that they continue to work. We have reviewed our maintenance practices to make sure that we are a little bit more on top of that.

The other thing we have done for the rollout of these future odour control units is that we are looking at the instrumentation in the odour control units. Rather than waiting for a complaint to come before we do something about it, we can proactively pick up when that carbon material requires refreshment. So, hopefully, we have learnt from those lessons. I am sure we have. In fact, some of those lessons have already made their way into the design of the new odour control units, four of which will be in the Molonglo Valley development area. All the ones that we are currently building across the Belconnen trunk sewer project also have that new technology in place.

THE CHAIR: Wonderful. Thank you. That is a great answer. We will now draw this session to a close. On behalf of the committee, I thank the Treasurer and his officials for their attendance today. If witnesses have taken any questions on notice, would you please provide answers to the committee secretary within five working days. Thank you to all the witnesses for assisting the committee today. This hearing is now closed.

The committee adjourned at 12.31 pm.