LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into Appropriation Bill 2023-2024 (No 2) and Appropriation (Office of the Legislative Assembly) Bill 2023-2024 (No 2))

Members:

MR E COCKS(Chair)
MR M PETTERSSON (Deputy Chair)
MR A BRADDOCK

PROOF TRANSCRIPT OF EVIDENCE

CANBERRA

THURSDAY, 29 FEBRUARY 2024

This is a **PROOF TRANSCRIPT** that is subject to suggested corrections by members and witnesses. The **FINAL TRANSCRIPT** will replace this transcript within 20 working days from the hearing date, subject to the receipt of corrections from members and witnesses.

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.

WITNESSES

Privilege statement

The Assembly has authorised the recording, broadcasting and re-broadcasting of these proceedings.

All witnesses making submissions or giving evidence to committees of the Legislative Assembly for the ACT are protected by parliamentary privilege.

"Parliamentary privilege" means the special rights and immunities which belong to the Assembly, its committees and its members. These rights and immunities enable committees to operate effectively, and enable those involved in committee processes to do so without obstruction, or fear of prosecution.

Witnesses must tell the truth: giving false or misleading evidence will be treated as a serious matter, and may be considered a contempt of the Assembly.

While the Committee prefers to hear all evidence in public, it may take evidence in-camera if requested. Confidential evidence will be recorded and kept securely. It is within the power of the committee at a later date to publish or present all or part of that evidence to the Assembly; but any decision to publish or present in-camera evidence will not be taken without consulting with the person who gave the evidence.

Amended 20 May 2013

The committee met at 10.01 am.

BARR, MR ANDREW, Chief Minister, Treasurer, Minister for Climate Action, Minister for Tourism, and Minister for Trade, Investment and Economic Development
HOSKING PSM, MR STUART, Under Treasurer; Treasury; Chief Minister, Treasury and Economic Development Directorate
CAMPBELL, MR RUSSELL, Deputy Under Treasurer; Budget, Procurement, Investment and Finance; Treasury; Chief Minister, Treasury and Economic Development Directorate
McAULIFFE, MR PATRICK, Executive Branch Manager; Investments and Borrowings; Budget, Procurement, Investment and Finance; Treasury; Chief Minister, Treasury and Economic Development Directorate

THE CHAIR: Good morning and welcome to the public hearing of the Public Accounts Committee for its inquiry into Appropriation Bill 2023-2024 (No 2) and Appropriation (Office of the Legislative Assembly) Bill 2023-2024 (No 2). The committee will today examine the Treasurer, Mr Andrew Barr MLA, and officials.

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 the 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.

The proceedings today are being recorded and transcribed by Hansard and will be published. The proceedings are also being broadcast and web-streamed live. When taking a question on notice it would be useful if witnesses used these words, "I will take that question on notice." This will help the committee and witnesses to confirm questions taken on notice from the transcript.

We welcome the Treasurer, Mr Andrew Barr MLA, and officials. I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw attention to the privilege statement. Witnesses must tell the truth. Giving false or misleading evidence will be treated as a serious matter and may be considered contempt of the Assembly. Please confirm that you understand the implications of the statement and that you agree to comply with it.

Mr Hocking: Yes.

Mr Campbell: Yes.

THE CHAIR: Thank you very much. You have an opportunity for a brief opening statement.

Mr Hocking: No.

THE CHAIR: In that case, we will get started. I would like to kick off. Under Treasurer, I am looking at the issue of UPF debt and deficit. On page 115, out of the 143-page budget you published, is the UPF net operating balance for the territory. Can you please explain precisely what this figure is?

Mr Hocking: This is the standard agreed ABS format for presenting government accounts. The table you are looking at is the operating statement version of that. Essentially, that is the ABS deposition of the operating balance, which represents the difference between revenue and expenses, which you can see in the table. Higher up in that table are all the expense lines and revenue lines. That is different to the headline net operating balance that we publish, which has an adjustment for the superannuation returns.

THE CHAIR: Do other states and territories or the commonwealth use that headline net operating balance? If so, which ones?

Mr Hocking: They all publish, in their appendices, the same format. Some of them do use different headline numbers. In particular, I think the commonwealth uses a cash basis for its estimates, but everyone publishes this, in their appendices, on a consistent basis.

THE CHAIR: Okay. I understand you have decided not to publish the net operating balance alongside the headline net operating balance, which would increase transparency. Could you explain why that decision was made?

Mr Hocking: We transparently publish the ABS uniform tables in the appendix there. We use the headline net operating balance as our measure of fiscal sustainability, and that does adjust the superannuation returns, which reflects that we have quite unique superannuation arrangements in that it is an old commonwealth scheme and not our scheme. The uniform treatment disadvantages us compared to other states and territories in the way those superannuation returns are presented, and that is why we focus on the headline net operating balance.

THE CHAIR: Okay. I understand the ACT is the only jurisdiction in Australia that does not publish the net operating balance as its main measure of deficit or surplus. The UPF says:

> … the net operating balance … is a good measure of the sustainability of the government's fiscal position over time and provides an indication of the sustainability of the existing level of government services.

This figure is buried towards the end of the budget and shows the ACT has more than a billion dollars in deficit and no surplus forecast in the forward estimates. I note that, in the Tasmanian budget papers, they publish the underlying net operating balance because they receive extra money from the commonwealth for infrastructure, but they still publish alongside this figure their net operating balance. Next to the underlying net operating balance is a footnote which says:

> Underlying Net Operating Balance is not a standard fiscal measure applied by other state governments, and its utility is subject to interpretation.

Why do you not include a similar disclaimer like this underneath your headline net operating balance figure in the budget, given no other jurisdiction uses that headline net operating balance?

Mr Hocking: I think the adjustments that Tasmania are making are for different reasons than the adjustments that we are making. We do transparently publish the ABS definition in that table that you have referred to, but we believe that the headline net operating balance is a better measure of our fiscal sustainability for—

THE CHAIR: Are you suggesting that its utility is not subject to interpretation?

Mr Hocking: There has been a fair bit of debate about this issue through the annual advice that Pegasus has provided to the Assembly—

THE CHAIR: Indeed.

Mr Hocking: and we have set out the reasons why we use the headline net operating balance in our responses to those reports.

THE CHAIR: Yes. But my question is about it being subject to interpretation. Is it your position that its utility is not subject to interpretation?

Mr Hocking: It could be in some quarters, but we firmly believe it is the best measure. We have set out the reasons for that. We have set out our reason for that in our responses to the Pegasus report and it relates to the fact that we have unique superannuation arrangements in the territory that do not apply in other states and territories.

THE CHAIR: It sounds like you do not believe a similar footnote would be relevant to the ACT budget?

Mr Hocking: I think we have been transparent about it in our response to the Pegasus report in particular. It has been a very longstanding measure in the territory as well. It is not a recent—

THE CHAIR: If you were to use the UPF net operating balance for this budget review, could you please confirm that the deficit is actually more than $1 billion?

Mr Hocking: Based on the UPS definition, the UPF net operating balance for 2023-24, in the revised budget, is $1.02 billion.

THE CHAIR: So the revised deficit is $1.02 billion?

Mr Hocking: Based on the ABS definition, which, as I say, is not the measure that we focus on.

THE CHAIR: It is not the measure you choose; I understand that. If you had used the UPF net operating balance for all previous budgets the Chief Minister and Treasurer has handed down, how many surpluses would have been delivered in that time?

Mr Hocking: On the HNOB measure or the UPF measure?

THE CHAIR: The UPF measure.

Mr Hocking: I would have to take that one on notice. I do not have the data in front of me.

Mr Barr: There would likely be none in the history of self-government—the entire 35 years.

THE CHAIR: I will note your position there—

Mr Barr: I would observe that—

THE CHAIR: and I am very happy if you would like to take on notice the precise details.

Mr Barr: I have not concluded my answer to the question. I would observe that this issue in fact came up in 2007 in the move to what was described then as pure GFS—when the territory moved from the Australian Accounting Standard, AAS, measure, which was utilised until that point, to the pure GFS measure. The then opposition leader, Mr Stefaniak, and the then shadow treasurer, Mr Mulcahy, undertook a similar line of questioning with the then Chief Minister and Treasurer, Mr Stanhope, at which point the question of the headline net operating balance, or, as Mr Mulcahy put it, "using super gains" was indeed discussed. The then Chief Minister and Treasurer said:

> Perhaps this is an occasion for both the Leader of the Opposition and the shadow Treasurer to confirm once and for all, to put beyond dispute, that if they ever do take government again they will only account on the basis of pure GFS.

He went on to say:

> I would be happy to suspend any sort of process here to allow the Leader of the Opposition to commit to pure GFS in government.

I do the same. I am happy to suspend any process here to allow the Leader of the Opposition, who is sitting in these hearings, to commit to pure GFS.

THE CHAIR: Mr Barr, I would appreciate it if we could stay on the question, which was about whether you, as Treasurer, had managed to hand down any surplus in line with the standard UPF net operating balance approach.

Mr Barr: No-one has, Mr Cocks; no-one in the history of self-government.

THE CHAIR: Mr Barr, the question was about your tenure as Treasurer. I would appreciate that you, respectfully—

Mr Barr: I, like every other Treasurer, have not delivered a UPF surplus. No Treasurer has.

THE CHAIR: Thank you, Mr Barr. Are you referring to in the ACT or in the country?

Mr Barr: In the ACT.

THE CHAIR: Thank you, Mr Barr.

Under Treasurer, using the UPF net operating balance, can you confirm that, over the forward estimates, the Treasurer will not deliver a surplus?

Mr Hocking: The estimates are there in table 4.1, on page 115.

THE CHAIR: Yes. And can you confirm that there is not a surplus across that period?

Mr Hocking: On the basis of the ABS UPF net operating balance, there are deficits estimated across the forward estimates, but they are getting smaller.

Mr Barr: Of course, there are future budgets and future decisions to be taken.

THE CHAIR: Indeed, Mr Barr. Are there any supplementaries on this line?

MR BRADDOCK: I think Mr Barr had one that I would like to hear answered!

MS LEE: Chair, I have some questions on the superannuation adjustment that was raised, but I am happy to wait and use it as a substantive, if you like. It is up to you.

THE CHAIR: I am comfortable to move on to a supplementary.

MR BRADDOCK: I feel that we are somewhat short of time. We have taken 15 minutes on the first question.

THE CHAIR: I understand that, and I am happy for others to have a reasonable length of time as well. Are there lengthy questions?

MS LEE: I am happy to start, and then, if you want to cut me off, I am happy to continue on my substantive, if you like.

THE CHAIR: I am happy. Can we keep it relatively connected to the discussion we have been having?

MS LEE: Yes. No worries. Under Treasurer, you talked about how the headline operating balance includes the superannuation return—that it is what makes the difference with the UPF net operating balance. For this hearing, can you please provide a brief description of what the superannuation return adjustment is?

Mr Hocking: I might see if Mr McAuliffe would like to answer that question.

Mr McAuliffe: I acknowledge the privilege statement.

THE CHAIR: Thank you.

Mr McAuliffe: On the super return adjustment, the difference we have with other jurisdictions is that we do not have a super fund. This relates to the defined benefit liability we have with employers with the CSS and PSS scheme. So we are not captured by the specific superannuation accounting standard like the others, which informs how they account. Basically, what happens is that, because we are reflecting the full superannuation expense through the operating statement, the ABS definitions require that all that can go through the headline operating balance is, effectively, investment income distributions and dividends, and any capital gain component goes below the line.

The purpose of this adjustment is to effectively set those two things as equally as we possibly can. Because we are reflecting the full expense through the HNOB, we are reflecting the full return through the operating result, and that is the return adjustment. For the purpose of the calculation that goes in the budget, our long-term target return for the SPA is 4.75 per cent plus CPI. That is basically 7.54 per cent in the current budget review. We calculate the income and distribution components above the line, and effectively the balance that goes through as the super return adjustment is the balancing amount you get. That is 7.54 per cent.

MS LEE: I think Mr Barr mentioned earlier a time frame of 2007. Can I just confirm: is that when the ACT budget started to use HNOB as a measuring tool?

Mr Hocking: From memory, yes, that is correct. We will correct that if it is wrong, but I am pretty sure that is correct.

Mr Barr: The 2006-07 budget.

MS LEE: I understand. Thank you. This might sound like an obvious question, but bear with me: what is the superannuation return adjustment used for?

Mr McAuliffe: We are trying to reflect the full revenue and expenses that go through the operating position. The return adjustment is effectively the capital component of the total return.

MS LEE: What I am trying to get at is: in terms of the money that has been accounted for, can that be used for, for example, infrastructure spending or any debts that the ACT has that need to be paid?

Mr McAuliffe: The Territory Superannuation Provision Protection Act provides that all the financial assets of the Superannuation Provision Account are ring-fenced within that account and they can only be used for the purpose of meeting the defined benefits super liabilities.

MS LEE: Given that is the case, and that it has a very restricted and ring-fenced use, as you have just stated, isn’t it a little bit disingenuous and not very transparent to include that in terms of discussing the net operating balance?

Mr McAuliffe: I cannot comment on all the other items in the budget, but there are a whole lot of other transactions that go through the operating result as well. We are required to fully account for all the revenues and expenses of the government, so that has to be accounted for.

MS LEE: Let me frame it in a different way, then. Are there any other items that are ring-fenced in the same way that superannuation is?

Mr McAuliffe: I do not know.

MS LEE: Sorry—I did not quite hear you.

Mr McAuliffe: I am not sure.

Mr Campbell: If you are talking about cash that is available purely for spend on any possible new policy, there are a whole range of existing bases in the budget where there will be contractual obligations, which is a different form of ring-fencing. It is compelling the spending of that money under a contract, but that is also part of the budget and sits in our expenses. There are a raft of measures like that and you could not conceivably unwind them.

Mr Barr: Every single matched commonwealth funding program.

MS LEE: Is there anything else that is legislated like the superannuation adjustment?

Mr McAuliffe: As I was saying, a lot of the other stuff will be contractually based. It has its own legislative framework, but--

MS LEE: So not a legislative framework but contracts?

Mr Barr: Some could be legislated by the commonwealth parliament, and then there is a written agreement. For the National Education Agreement and those sorts of things, there is enabling legislation to that effect. Perhaps the easiest thing to do is to draw the committee's attention to page 115 of the GGS harmonised financial statements to see the impact that the superannuation expenses have—the actual dollar cost each year that impacts on the UPF. You will see that there. You will see that the sum over the forwards approaches half a billion dollars of superannuation expense, and that goes to meet those defined benefits schemes and requirements. That expenditure is accounted for in the UPF.

Mr McAuliffe: I would like to follow up on that. The expense that runs through each year is not a cash expense. There are always timing differences as well, when we book an actual expense and when there is actual cash flow. That occurs with a whole raft of transactions that go through the operating result—depreciation and the like.

MS LEE: I understand that. I have just one final question. I was just going to ask if any other jurisdictions take into consideration the superannuation adjustment. That was all.

THE CHAIR: Quickly.

Mr Barr: I do not think anyone has a commonwealth liability like we do, because of our transition from being run by the commonwealth to being self-governing. Our situation is unique.

MS LEE: I get that. So that is a no. There are no other jurisdictions.

Mr Barr: Well, there would not be. No. We are unique.

MS LEE: Thanks.

MR PETTERSSON: We know that the impact of inflation over the past 18 months in particular has not been felt in the same way across our community. Could you, Chief Minister or Treasury officials, talk through the impacts of inflation on different demographics here in Canberra?

Mr Barr: Perhaps Mr Hocking can assist.

Mr Hocking: Thank you for the question. There is a little bit of discussion about this issue on page 23 of the budget review. The ABS effectively publishes a cost-of-living index split by various types of households. There are five household types for which they measure the cost-of-living index. They are: employee households, which are working households, in effect; pensioners; age pensioners; self-funded retirees; and other transfer recipients.

Over the year to September, that data indicates that, for most of those groups, the cost of living rose by about six per cent, or a little bit less, but for employee households it was more like nine per cent. Basically, the reason for that is that that group is more heavily leveraged towards mortgage interest costs. The effect of rising interest rates has had a variable effect on different types of households. There would be other factors involved: different households spend more on food, have less savings to draw on et cetera. And the savings rate has diminished since COVID times quite considerably, so households, on aggregate, are drawing on their savings quite a lot to meet the cost of living, and that creates more pressure for low-income households. But, if you look at those five types of households, the biggest impact we see is the effect of rising mortgage interest costs on working households, who seem to have more exposure to mortgages.

MR PETTERSSON: Just recently, the Albanese federal Labor government announced a redesign of stage 3 tax cuts. What effect will that have on inflation in the ACT and the cost of living in the ACT in general?

Mr Hocking: The commonwealth has been very careful in its redesign to make sure that, in aggregate, the same amount of money is being pushed back into the economy as in the original stage 3 design. The reason why they have done that is to ensure that it minimises the effect on inflation. So, in essence, the redesigned tax cuts are the same quantum; they are just spread differently and targeted more towards households that are more acutely facing cost-of-living pressures. So, in aggregate, we do not expect that it will have an impact on inflation, compared to the original design.

MR PETTERSSON: So it will not have an effect on inflation, but it will help with cost-of-living pressures?

Mr Hocking: Yes, by being more targeted towards the households that are facing those pressures most acutely.

MR PETTERSSON: Wonderful. What measures are in the 2023-24 budget and the budget review to address cost-of-living pressures in the ACT?

Mr Hocking: There were a range of measures in the budget. We have extended the utilities concession to commonwealth healthcare card holders who were previously ineligible, and that provides that benefit to an extra 12,000 low-income households. We also maintained the size of the concession at $800, as it had been as a one-off in the previous year. That one-off lift has been extended to 2023-24.

One of the biggest measures that was in the budget was the partnership that all states and territories formed with the federal government to provide energy bill relief. Through a combination of the return of our energy bill relief scheme and the support from the commonwealth, there are a range of households, including those on income support, pensions and family tax benefit, who have seen a significant reduction in their electricity bills.

Some other measures that were in the budget included the $60 million Affordable Housing Project Fund. This is the fund through which we are helping build direct projects, particularly by community housing providers, to provide more affordable housing in Canberra. We also lifted the price cap for the owner-occupier duty concession, for stamp duty for off-the-plan purchases, from $600,000 to $700,000. We also froze public transport fees in 2023-24. And, in the most recent budget review there was also an extension of the Rent Relief Fund, which is a fund for people who are on a low income and are experiencing extreme rental hardship. That provides a subsidy for up to four weeks of rent, at a cap of $2,500. That has been extended, at this stage, until the end of this financial year.

MR PETTERSSON: Thank you. Why does the government pursue cost-of-living relief through mechanisms like utility bill relief instead of programs like vouchers?

Mr Hocking: With the partnership we had with the commonwealth, there was the advantage of it being able to be administered through commonwealth mechanisms to target the people who had commonwealth assistance. We really do not have an effective database for the whole group that enables us to target that effectively. Any of these concessions need to be targeted effectively to those who most need it. And, while we do have a utilities concession, the energy bill relief was for a broader group, and the commonwealth had access to that. It is also beneficial in that it is actually on the electricity bill and reduces the cost of that bill instead of people having the higher payment and then getting a subsidy. It allows them to actually manage their finances a bit better.

MR PETTERSSON: Thank you.

THE CHAIR: I have a couple of supplementaries on that. Firstly, on that last matter, how many voucher programs did you formally consider or model?

Mr Hocking: As part of the budget last year?

THE CHAIR: Perhaps we can put it in terms of ones that you chose not to proceed with?

Mr Barr: Those are largely matters that are cabinet-in-confidence. I cannot discuss things cabinet considers and then does not proceed with. Things that cabinet considers and proceeds with are in the budget.

THE CHAIR: Perhaps I can ask: did you have any formal modelling that showed a difference between voucher programs and the measures that you have just discussed?

Mr Hocking: In terms of energy bill relief, we did not do any modelling of that, because it was dictated by the commonwealth-state partnership. Those were the administrative arrangements that were agreed, so there was no need to.

THE CHAIR: The other issue that I noticed you raised was the importance of ensuring that money supply did not contribute to inflation. Is that restricted to the impact of tax arrangements, or, regarding the contribution of excessive spending to inflation, does that come into other areas of the budget as well?

Mr Hocking: My comment was really in relation to the redesign of the statutory tax cuts.

THE CHAIR: Yes. I am trying to get the application further, to general spending.

Mr Hocking: This is probably more a commonwealth issue than a territory issue. I think the commonwealth, from my reading of the statements, is generally very keen to ensure that any decisions made are not feeding into inflation.

THE CHAIR: Irrespective, what I am trying to get at is that there seems to have been a principle in economics that says that excessive spending by governments, excessive money without productivity, contributes to inflation. Does running a long period of deficits make any contribution to inflation?

Mr Hocking: I do not necessarily think so. It depends on how the money is spent. If you look at it at a territory level, if we are spending more money on health care because there are more people turning up to hospital or there is greater population growth in the territory, I do not expect that would have as much inflationary effect as a scheme that put money into the pockets of households directly.

THE CHAIR: Mr Braddock.

MR BRADDOCK: I have a substantive regarding net interstate migration and your helpful box on page 26 where you say, “This is a long-running issue and we have continued to liaise with the Australian Bureau of Statistics on this.” Realistically, what progress has been made and when will this issue be resolved?

Mr Hocking: Thank you for the question. We have been in active discussions with the ABS about this issue ever since the census result came out for the last census which highlighted that there had been an undercount by the ABS of the ACT’s population by about 20,000 people, which is a significant undercount of about five per cent of our population.

MR BRADDOCK: And it predates to previous censuses as well.

Mr Hocking: Yes; that is right, although the number in the latest census was even bigger, so it is becoming a bigger problem and has material effects because it affects our GST grants. And, to the extent that they get it wrong, regarding any GST revenue that we miss out on, we can never claw it back, historically. It affects our GST share going forward, but we lose money over that period from the undercount. The ABS understand the issue. We have been actively talking to them. The issue really results around their estimates of net interstate migration, which has always been a tricky issue for them. Overseas migration and births and deaths are fairly straightforward for them to measure, but net interstate migration is particularly tricky.

Historically, they have relied on Medicare data. When people shift between jurisdictions, they then register that they have a different address. Many people do not do that until they actually have a medical appointment, so there can be quite a delay in Medicare data picking up when someone has moved between states and territories. We have been looking at alternative indicators. The one that has seemed particularly fruitful to us is driver’s licence data, which does pick up when people move between states. They will typically change their address for their driver’s licence more rapidly than they will for their Medicare record. That has demonstrated to us that there is another data source. At this stage, we are still in active discussions with the ABS. We equally recognise that there is a problem with their methodology. We have not quite got to the point yet of coming up with better indicators.

MR BRADDOCK: So there is no plan as to how this is going to be addressed and when it is going to be addressed?

Mr Hocking: There is a plan. We talk to them very frequently. We put information et cetera to them. It is really a matter of us getting to the point where we can agree that there is a methodology that they are willing to adopt.

MR BRADDOCK: That does not sound like a plan to me: we are putting information to them but we are not getting anything yet, despite that it has been an issue—

Mr Barr: It might be best to summarise that they will not change the current methodology until they believe they have a statistically valid new methodology. We are working with them to achieve that statistically valid new methodology. But they do recognise there is a problem and that the current formula does not deliver an accurate residential population. They obviously, for clear reasons, need to have a very robust statistical basis upon which to change a formula, and we are working towards that.

Mr Hocking: I might add as well that, aside from the data that we have been putting to them, the ABS have told us that they think there are other data sources that they hold that might be useful to improve the estimates, but they are still working through them, as to whether they think they are robust enough.

MR BRADDOCK: Thank you.

MS LEE: If I can go back to superannuation, I have a couple of questions in relation to the liabilities as well as the return adjustment. Mr Barr, back in 2013-14, just before the budget, there was advice from the Treasury in relation to the territory's unsustainable borrowing practice. It stated: "It is almost certain that the objective of fully funding the liability by 2030 will not be met." You signed off on it as Treasurer that the funding of this liability would not be met by 2030. Was this the first time that the Treasury had raised that concern with you as Treasurer?

Mr Barr: In 2013?

MS LEE: Yes; in the lead-up to the 2013-14 budget.

Mr Barr: I imagine so. I commenced as Treasurer only a year or two before that, so I imagine that would have been the first time.

MS LEE: Have you received advice from the Treasury since then reiterating that concern? If so, how many times?

Mr Barr: Not specifically. Each year, we update, and there have been periods, particularly when interest rates were very low, when there seemed to be quite a gap. Obviously we apply a long-run discount rate to achieve that particular fully-funded arrangement. Mr McAuliffe may be in a position to give an update on where we are now.

Mr McAuliffe: Effectively, the information we have in the original 2023-24 budget has not been updated. We are in the process of doing our triennial actuary review at the moment. That will be an assessment in updating all the demographic assumptions and considering all the latest financial assumptions. Once that is complete, that will inform the 2024-25 budget.

MS LEE: Going to the 2023-24 budget, the Pegasus report on that budget says:

> … on present trends is unlikely to achieve its goal of fully funding the liability by 2030.

Do you agree with that analysis from Pegasus?

Mr McAuliffe: If you want to hold everything equal at a point in time, that is probably where the numbers are. I cannot remember what investment returns they would have used in their report at that time. I cannot remember what we had, but we had a very high investment return for the 2022-23 financial year. This year is also looking very positive, and, subject to the outcome of the liability evaluation and the impact of that, that will give us a much better idea on that funding target. What is important is that the target date is not the be-all and end-all; it is a target that we have to try to maintain discipline and keep putting money aside for that liability.

MS LEE: Have you done any modelling or any analysis in relation to how, if that liability is not met, you go about meeting it? Has there been any long-term work done on that?

Mr McAuliffe: The liability is going to stretch out for about the next 60 to 70 years. It is going to run down. It is around where we think it might peak, which is probably somewhere in the 2030 to 2034 years. At the end of the day, until we can reach the point where the liability is fully covered by assets, we would continue to provide the current capital injection that goes to the SPA to cover the annual actual emerging cash cost payments. That would just be extended as required. We are not using the fund at the moment to actually meet the cash requirements; we are using appropriations to do that.

MS LEE: Would borrowing more be an option if you were not meeting it through the assets?

Mr McAuliffe: I do not know that we need to necessarily make a borrowing decision just to hit a 2030 target date. It is a long-term liability, so, effectively, we would just continue the appropriation as required.

MS LEE: In relation to the adjustment itself, the Pegasus report also states:

> If the superannuation return adjustment is to be included in the headline net operating balance, we would argue that it should not lead to a bias in outcomes.

It goes on to say:

> … using the projected long-term investment return rather than the long-term valuation discount rate of 5% per annum reduces the headline net operating balance by around $127 million.

Do you have a response to the claim that has been made by Pegasus in that report?

Mr McAuliffe: I guess what they have said is factual. If you use a lower return rate, we are going to have a lower result. But our argument is that we have got the money set aside in an investment strategy targeting a particular return, so therefore that is the appropriate return to use for the valuation.

Mr Hocking: And historically we have exceeded—

Mr Barr: We have exceeded that return.

Mr McAuliffe: We have exceeded that. Since the inception of having the SPA in place, we have actually achieved the return of CPI plus about five per cent.

MS LEE: Over the last five budgets where you have reported this, can you provide the committee what you have used in terms of the rate compared to what Pegasus have said would be a better use in terms of figure? Perhaps you might need to take this on notice.

Mr McAuliffe: We have used 4.75 plus CPI.

MS LEE: Has that been consistent throughout the last five budgets/

Mr McAuliffe: Yes—depending on what the CPI number was.

MS LEE: Yes. I understand that.

Mr McAuliffe: But the actual objective itself has been CPI plus 4.75 per cent.

MS LEE: Has there been a comparison in terms of using the long-term valuation discount rate? Has there been any comparison done?

Mr McAuliffe: There is no need to, because that is not what we are doing. The discount rate we use on the liabilities is a different calculation for a different purpose to the investment calculation.

MS LEE: So you do not have that as a comparison. No worries.

THE CHAIR: You said CPI plus five per cent. Is that five per cent of CPI or five percentage points?

Mr McAuliffe: Five per cent real, plus CPI is what we have achieved over the life of the fund.

THE CHAIR: So it is five percentage points?

Mr McAuliffe: Yes. There is a chart in in our budget statements B, the last budget that shows a historical table.

THE CHAIR: I understand. They are just very different numbers, so I wanted to understand.

I now want to move to borrowing capacity. Mr Barr, I refer to advice that you received before the 2013-14 budget from Treasury officials relating to your government's borrowing capacity. In that advice to you as Treasurer, the Under Treasurer stated:

> Previously, cash balances held from the delivery of past surpluses have been diminished to fund infrastructure projects, and borrowings are now being undertaken to fund investments moving forward.

The Under Treasurer went on to say:

> This is not a sustainable strategy in the long term and measures will have to be put in place as part of the budget structural adjustment task to generate capacity to both service existing debt, provide options to repay debt and provide capacity for future investment.

On 26 November 2012, you signed off on this advice. Was this a position that you supported? Were you concerned by those warnings that you received at that time?

Mr Barr: The territory has a large and growing population and has a large and growing need for infrastructure. In each budget we make an assessment of that need. We look at available revenues, we look at our capacity to deliver infrastructure in particular asset classes and we look at sources of revenue to deliver that infrastructure. Those sources of revenue are principally our operating cash surplus; any commonwealth contribution towards a project; an offsetting asset sale, which is principally land but has in some circumstances included asset sales of a non-land variety; and borrowings. They are the sources of revenue for infrastructure.

THE CHAIR: Thank you, Mr Barr, but perhaps you misunderstood the question. I am putting to you that this is a very stark warning, or it reads like a very stark warning, that you were given all the way back in 2012. Did you have any concerns at that time about our capacity to provide for future investment when you signed off on that advice?

Mr Barr: The territory has a very strong fiscal position and always has. So, no I am not concerned—then or now.

THE CHAIR: You had no concerns then about the capacity to continue funding into the future infrastructure with increasing debt?

Mr Barr: The territory's fiscal position is very strong and we have a very sound institutional framework. We have a large asset base. We have strong ongoing revenue, and we have capacity to borrow for infrastructure.

THE CHAIR: I think I understand your perspective then. Since you ignored this advice from Treasury and we have gone on this path of funding spending through borrowings, your debt to operating revenue has skyrocketed. S&P said in their report that, in 2019, the ratio of debt to operating revenue was 93 per cent, and it had now increased to 163 per cent. Have you received any advice from S&P or Treasury on how much additional debt the ACT government can rack up before it receives another credit rating downgrade?

Mr Barr: There are established metrics in relation to the different credit rating points. There is certainly a band of debt to revenue and the like. The advice from Standard and Poor's, which was published, is that the territory sits comfortably at the AA+ credit rating.

THE CHAIR: The question I asked was: have you received any advice from S&P or Treasury on how much additional debt the ACT government can accumulate before it receives another credit rating downgrade?

Mr Barr: That is obviously a reflection of our debt to revenue ratio and so it would be dependent upon revenue. Revenue can obviously be increased through the sources that I indicated earlier—asset sales, commonwealth grants and own-source revenue through our operating cash surplus.

THE CHAIR: What I am trying to do here is ascertain how the ACT compares to other jurisdictions in Australia for these key metrics judged by S&P. Let me move to a slightly different angle. Given that the budget review predicts you will receive less revenue from payroll tax than you had hoped, due to your federal colleagues and the lower GST as a result of the high cost of living in Canberra, and at the same time you are increasing borrowings, do you expect that this ratio will continue to increase beyond 163 per cent?

Mr Barr: Okay; let's unpack each of those. Payroll tax is down in this current fiscal year. The horizontal fiscal equalisation system associated with the Grants Commission annual assessment of GST relativities will account for that, because there has been a material change in the territory's ability to raise payroll tax revenue by the commonwealth government's decision to stop outsourcing a range of activities. So the Grants Commission process adjusts to reflect the fact that there has been a structural change in the payroll that the territory government can tax. More of it has been brought into the commonwealth sector, which we cannot tax. So there is a process that adjusts to reflect that issue.

GST revenue reflects a national position. I am sure you understand that GST is a national pool. It is not about money spent in Canberra; it is a--

THE CHAIR: No. Absolutely there is a formula.

Mr Barr: Indeed, yes. It is GST nationwide. So your reference in the question is redundant. It reflects a national pool. Clearly, the tax cuts that come into effect on 1 July are anticipated to have an impact on consumption in the economy, particularly the adjusted tax cuts that passed the Senate this week. More of that is expected to be spent, and that then obviously has an impact on the GST pool. The third element of your question, in relation to debt to revenue, is a question then of where total revenue sits in the coming budget versus expense. It is no secret that we are seeking to increase our total revenue with a view to attracting more commonwealth support for infrastructure, and we will be releasing more land, which will generate more revenue.

THE CHAIR: Chief Minister, given we have not got to an actual answer on this one, I might quickly ask the Under Treasurer. Mr Hocking, do you have a projection for this ratio? Will it increase beyond 163 per cent?

Mr Hocking: We do not have any projections beyond the forward estimates.

MS LEE: Mr Barr, you spoke about the adjustment that the Grants Commission may make given the less than predicted or expected payroll tax. Can you expand on that a bit further? What type of adjustment, what factors are take into consideration and what negotiations or discussions have you had with the Grants Commission about this?

Mr Barr: The Grants Commission make an assessment of a jurisdiction's capacity to raise revenue across a range of different revenue sources. They make an adjustment to reflect the fact that the ACT has no access to mining royalties, for example, and they also look at what is the total taxable payroll in the territory. The total taxable payroll in the territory has reduced because the commonwealth has insourced and moved what was taxable payroll into their own system, which is not taxable. So the formula adjusts to reflect that.

MS LEE: In terms of the Grants Commission itself, obviously, as part of this assessment, have they told you what their assessment of that is in terms of the ratio itself?

Mr Barr: They make an annual assessment.

MS LEE: Do you have that? Is that something you can share with the committee?

Mr Barr: Not yet, but it will be publicly released in the not-too-distant future.

Mr Hocking: The other issue is, because this is happening in 2023-24 and there is a lag in the HFE system, it will take a year or two before it flows through to the assessment. I do not imagine it will be part of this year's assessment, because they are using data that is a couple of years old. It will take a couple of years before it—

MS LEE: When you said that they will release that publicly in the not too distant future, what are we talking about? Are we talking in the next—

Mr Barr: They normally do it by April.

MS LEE: Under Treasurer, perhaps this is more a question for you: obviously not you yourself but your predecessors have put fairly robust warnings in terms of—as Mr Cocks indicated—the unsustainable strategy in relation to long-term measures. Is that something that you take into consideration? What is the recent advice that you have provided to cabinet on that?

Mr Hocking: We constantly talk to the Treasurer about the fiscal strategy. As the Treasurer has indicated, we have very strong population growth in the territory and that creates pressures, particularly for infrastructure. For us, I think the issue is: how do we manage that most effectively? All states and territories have had to fund extra infrastructure and they have all incurred extra debt. Probably the key thing for us is to ensure that our operating cash position continues to improve, and the estimates in the budget review show that improving over the forward estimates. One of the key things that we have been talking to the Treasurer and to cabinet about is to ensure that we continue to generate improved operating cash positions to help defray the cost of extra infrastructure.

MS LEE: I understand that you are looking at the forward estimates and you see some improvements happening. But, to be fair, in how many budgets now over the last 10 years, we have seen that happening and it has never materialised. Does that not worry you as Under Treasurer?

Mr Hocking: We have been through a period now for three or four years where there has been a lot of additional pressure through COVID.

MS LEE: I don't mean to cut you off, but I'm not talking about the last three or four years; I am talking about over a decade now. Does that trend over the last decade not worry you as Under Treasurer?

Mr Hocking: Yes. The point I was making in relation to your point was about the achievement of surpluses versus what is predicted. There have been pressures that have been unanticipated over time that have meant that it has been more difficult than we expected to improve the operating cash position. But, over time, that will just be a continued focus as to how we do that.

MS LEE: Mr Barr, you may remember in annual reports hearings last year, I asked you a question about a directive and advice to seek alternate funding from borrowings to pay for future infrastructure projects. I note that, in the forward estimates, borrowings will increase by a billion dollars from $17.44 billion to $18.45 billion. I think at the time I asked you whether Treasury had given you that advice and you said no; that you actually make that directive. Given that you said that you made that directive, are you disappointed that Treasury clearly has not followed it?

Mr Barr: Sorry; I am not sure what you are—

MS LEE: Last year in the annual reports hearings I asked you a question about whether you had received advice or a direction from Treasury about continuing to borrow for infrastructure projects, and you stated, "No. Treasury does not tell me that; I give that directive." Do you remember that questioning?

Mr Barr: No. I am sorry, but I have no idea what you are—

MS LEE: All right, leaving that to one side, you can check the transcript—

Mr Barr: I will take it on notice. I do not understand what your question is.

MS LEE: You can check the transcript later. I will reframe it. In the forward estimates, this budget review clearly shows that there will be a billion dollars of more borrowings—going from $17.44 billion to $18.45 billion. As Treasurer, does that concern you?

Mr Barr: The purpose of the borrowings is to deliver needed infrastructure for our growing community.

MS LEE: Is that whole billion dollars for infrastructure, is it?

Mr Barr: We have a very large infrastructure program.

MS LEE: Can you provide a breakdown? Of the $18.45 billion of total borrowings in the forward estimates, can you provide a breakdown on how much of that is for infrastructure that is already in the pipeline that has been budgeted for and how much is for other aspects?

Mr Barr: We could give some broad indications. There were certainly borrowings historically associated with Mr Fluffy and borrowings associated with COVID payments to business and COVID health costs et cetera. I think we have canvased those. They would all be provided to this committee on notice or the estimates committee on notice. I do not think there is anything particularly new in any of that. But, certainly, the territory has, over an extended period, delivered tens of billions of dollars' worth of infrastructure. We can certainly provide a consolidated list of every infrastructure project over the last 20 years.

MS LEE: What I am getting at is the extra billion dollars. Can you provide a breakdown of that in terms of infrastructure versus everything else? Is that something that you can provide?

Mr Barr: I will see what I can do. I will take something on notice.

MR PETTERSSON: Chief Minister, this is the fifth budget with the Wellbeing Framework being imbedded in the process. Could you or the Treasury officials talk through how that process is going and areas of focus going into the 2024-25 budget?

Mr Barr: Mr Campbell will assist.

Mr Campbell: As you pointed out, this is the fifth year of implementation of the Wellbeing Framework. We work across all of the directorates as part of the budget process developing wellbeing impact assessments. They are quite extensive exercises, drawing in a number of officials, making assessments about the particular policy proposal that is being put forward to ERC and assessing against all of the wellbeing domains what the likely impacts are, who is likely to be impacted and the time frames over which that might occur. That helps frame some of the advice that Treasury also puts on top of each individual proposal that goes into ERC. They are sort of brought together as part of the decision-making advice that goes to ERC and cabinet.

Obviously, government, in formulating its budget strategy, identifies some of the key priority areas it wants to focus on. In the 2023-24 budget some of those priority areas were around housing, mental health, early years and also women. In the budget there was clearly a focus on cost-of-living measures as well. Whilst this year's budget is being developed as we speak, I would expect, given the multiyear element of a lot of those priority areas, that they would continue to feature fairly prominently as will, clearly, cost-of-living impacts be a factor for some of the proposals that are coming forward. Obviously related to some of the cost-of-living impacts, they are having particular impacts on certain cohorts within our community, and vulnerable Canberrans also need to be a focus of some of the priority proposals coming forward in the ERC decision-making processes.

We have also had an update to the Wellbeing Dashboard fairly recently, and my colleagues have placed that on the website to give a sense of where some of the measures and metrics are for wellbeing, noting that, in a lot of those areas, there is some historical data that is a bit of a constraint on the system. But, certainly in terms of proposals going into the budget, there is a very extensive exercise now where it is embedded within the frameworks that we develop as part of the standard budget processes. I know my colleagues in Policy and Cabinet are also working quite extensively with academia as well to understand better ways of measuring and contemporising some of those data sources but also exploring whether there are other more innovative ways of capturing impacts on the community from some of those wellbeing measures. That is probably the main focus that we have been involved with to date.

MR PETTERSSON: Wonderful; thank you.

MR BRADDOCK: I have a question regarding the Digital Health Strategy. On page 71, there seems to be a couple of top-ups that have been required for that. I wanted an update on that project and why those additional investments were required.

Mr Barr: Sure. I will take that on notice and get the information from Health for you.

MR BRADDOCK: Thank you. I would also be interested if there is any scope or schedule group that has happened as a result of those.

Mr Barr: Sure. I will take that on notice for you.

MS LEE: Mr Barr, in question time last year when asked a question in relation to the ACT's loss of the AAA credit rating, you said the effect would be "likely to be either zero or one or two basis points difference, which will mean very little in the context overall". They were your words. During annual reports hearings in November it was revealed that when you borrowed $1.25 billion last year the interest rate received was 5.3 per cent, 85 basis points more than what you had forecast in the 2023-24 budget. Do you still maintain that the loss of the AAA credit rating will only have a zero or one or two basis points difference, as you have claimed?

Mr Barr: The question uses a figure that is the average over the four years. The budget papers suggested the figure we had put in for borrowings over that period, which of course assumes that there will be movement up and down in interest rates over that time. We are looking at the cost of borrowing and the rates achieved by particular jurisdictions at the time we hit the market. We were significantly oversubscribed in terms of people willing to lend money to the territory—so no question of access to capital—and that rate reflects the prevailing rate at the time we borrowed.

MS LEE: But you would agree that 85 basis points more than what is forecast is certainly more than—

Mr Barr: The forecast was not for that borrowing; the forecast was for the entire forward estimates period.

MS LEE: I understand that part. But, when you have stated quite generally that it is likely to be only zero or one or two basis points, that is not the reality, is it?

Mr Barr: If what you are implying is that, if we held a AAA credit rating, our borrowing at that point in time would have been 85 basis points lower, no; we would have paid—

MS LEE: I am literally just asking a question; I am not implying anything. This budget review revises your average cost of borrowing from 4.45 per cent to 4.9 per cent, which is an increase of 45 basis points. How much of that 45-point increase is due to the territory losing its AAA credit rating?

Mr Barr: I believe none. It was all market based.

Mr Hocking: We don't think there is. The 45 basis points is really what has happened to the market generally and we have not noticed any observable increase as a result of that.

MS LEE: When you say that it reflects what has happened to the market generally, can you please go into more detail, Under Treasurer, about that? What are the factors—

Mr Hocking: Do you want to answer that?

Mr McAuliffe: I'm happy to. From the period of July through to December there is a lot of volatility through the markets. Through September-October, market rates globally increased materially, and that is what contributed to the bulk of that 85 basis points that you are referring to. We measured where we thought our bonds were trading pre the credit rating announcement and post all that, and we saw a very immaterial movement in the market pricing for our current bonds. That is how we have assessed that there was very little impact on that cost. When we actually undertook the transaction, there was the same effect—oversubscribed and a lot of demand. The pricing that we got was very tight to the guidance that we went to market with. As we expected, there was no impact from the credit rating change—nothing material.

Since October, after we did that borrowing, market rates continued to increase for some time. There was a lot of uncertainty in the markets at the time with the ongoing conflicts overseas and uncertainty about what central banks were going to keep doing and what inflation was doing. Since that time, there has been some stabilisation in the markets, and the rates fell considerably from the point right when we did that borrowing through to where they sort of currently are now. But, when we look at what is happening in the market and look at what our peers are issuing at—it is important to keep an eye on that in New South Wales, Victoria, Queensland—through January and February, there has been something like $16 billion worth of debt issued in the markets. When you look at the spreads on those bonds and we look at how our existing bonds are trading to those bonds, there is very little change in those. I think that continues to give us strong support for the statement that we do not see a large impact from that.

MS LEE: So you are saying that the loss of the AAA credit rating had no impact whatsoever?

Mr McAuliffe: No; it is very much an immeasurable impact.

MS LEE: Sorry, what was that—an immeasurable impact?

Mr McAuliffe: Well, you cannot measure it. There is just no way you can measure the impact of it. It really comes down to what we observe is going on in the market, what sort of demand is going on by investors and feedback we are getting from our investors. We talk to our dealer banks all the time about potentially going to market with new bonds. What is the feedback we are getting? There remains very strong demand for our bonds. Even with that last transaction, none of the feedback we got was, "There was some concern about the credit rating." We have some more funding to do and we do not see the credit rating as it stands, at AA+, impacting on our ability to achieve that at this time.

MS LEE: Since the annual reports hearings, how much has been borrowed and at what rate?

Mr McAuliffe: Nothing.

MS LEE: So there has been nothing since then. Obviously, we have spoken about infrastructure projects, and some run into billions of dollars. Let us take financing, for example, for the northside hospital, which is being tagged at $1 billion. How much per year would it cost to service in interest repayments when you compare the now-revised rate, which has gone from 4.45 to 4.9 per cent?

Mr McAuliffe: The change in interest rate assumption that we have got in the papers is only for new debt going forward. Our existing debt does not change. That is all at a fixed rate.

MS LEE: I get that. But I am assuming there is no debt attached to the example that I gave.

Mr McAuliffe: We do not allocate debt to a specific project. As I think I tried to explain at the last hearings, the budget sets an appropriation allocation and, as that money is drawn, the cash gets spent. We obviously maintain a watch over the territory bank account to see how the cash is travelling and, when we reach the point where we need to basically ensure we have that cash at the liquidity levels that we require, that is when we will start to think about a borrowing. But no borrowings are attached to a specific project, because they are mixed. You cannot just isolate some projects because we are, effectively, not funding the full infrastructure program out of debt anyway; it is getting funded by other revenue sources.

MS LEE: In the forward estimates, we see total borrowings at about $18.5 billion. Can you please confirm for the committee how much interest is forecast to be paid per year?

Mr McAuliffe: I do not have the table in front of me, but there is a table in Budget Paper No 3 that has the total interest estimate.

MS LEE: Have you got a reference for that table?

Mr Barr: Are you talking total territory or general government sector?

MS LEE: Total territory.

Mr Barr: Okay. Well, that includes the utilities.

Mr McAuliffe: It is table 3.5.5.

MS LEE: What page is that on, Mr McAuliffe?

Mr McAuliffe: Page 112.

Mr Barr: So you would like our utilities to be debt free, would you?

MS LEE: Have you got the figure there, Mr McAuliffe?

Mr McAuliffe: The interest on market borrowing in the 2026-27 year is estimated to be $617.6 million.

MS LEE: Thank you. I appreciate that.

THE CHAIR: I want to go back to a conversation we were having a little bit earlier about the history of deficits and debt in the ACT. Mr Barr, I understand that, prior to you becoming Treasurer, there was a very strong statement in the budget about the need for and importance of surplus budgets, which was something that was removed after your became Treasurer. Firstly, in the context of the generally accepted measures discussion we had before, do you still think it is important that the ACT run a surplus budget, as was the objective prior to that statement being removed?

Mr Barr: Are you asking should there be a surplus every year, regardless of any economic circumstance?

THE CHAIR: No, Mr Barr. I am asking: do you believe that it is important to run surplus budgets?

Mr Barr: Not every year, for obvious reasons. It was not possible to run a surplus during COVID.

THE CHAIR: Mr Barr, do you see any value in surplus budgets?

Mr Barr: There will be, over the economic cycle, periods where the budget should be in surplus, yes.

THE CHAIR: What do you think are the criteria for when a budget should be in surplus?

Mr Barr: When the economy is performing strongly and when the community's health, education and infrastructure needs are being met and revenues are strong, the likelihood is that the territory budget would be in surplus.

THE CHAIR: Has the territory's economy not been in that positive state for any of the years that you have been Treasurer?

Mr Barr: We have certainly had a number of very significant fiscal shocks—some caused by global events and some caused by the federal government—that have impacted on the territory, and one obviously caused by a major public health issue that was specific to Canberra.

THE CHAIR: Specific to Canberra?

Mr Barr: Yes; Mr Fluffy.

THE CHAIR: Noting that that debt, I understand, was paid back—

Mr Barr: Well, no; not all of it was. We paid back the commonwealth and the process of land sales recouped about 75 per cent of the cost of that scheme. So there is a permanent debt for that scheme.

THE CHAIR: A permanent debt?

Mr Barr: Yes; several hundred million dollars.

THE CHAIR: Please correct me if I am wrong, but my understanding is that at least the vast majority, and possibly all, of the debt accrued in recent years has been on an interest-only basis. What is the plan to repay permanently those debts?

Mr Barr: The territory is a little over halfway through a long-term tax reform program that provides a more robust and predictable revenue base each year. The transition away from transaction-based taxes to broad-based land taxes provides much greater certainty in our own source revenue. We also have, obviously, a considerable program of asset sales, principally land, that we will release for housing that will not only generate revenue from the land sale but also, once housing is constructed, generate an ongoing revenue base from the utilisation of that land.

We have discussed the issue of the full funding of our long-term superannuation liability that will occur in the 2030s—page 115 of chapter 4 of the GGS harmonised financial statements. Once we no longer need to make a payment that, by fiscal year 2026-27, is in the order of half a billion dollars to meet that liability—once we have fully funded that—that then becomes revenue. As the expense will no longer be there, a future Treasurer will be able to utilise that either for debt repayment or future infrastructure funding.

THE CHAIR: So, to very crudely summarise, it sounds like your plan to pay back debt is essentially to rely on the tax reform program, which is rates and rental taxes, to sell more property and then there are some other minor things alongside that.

Mr Barr: Well, that is not minor; that is half a billion dollars a year, the superannuation position, that will—

THE CHAIR: But this is the superannuation fund you are talking about. This is the discussion we had earlier. I do not imagine you are going to be raiding superannuation funds to try to pay back the territory's debts.

Mr Barr: No. I think you have misunderstood. We have an accumulating fund that is returning CPI plus five per cent that goes to meet the full liability. That is untouched, legislated and just continues to grow until it reaches the point that the liability is fully funded. We will then no longer have to make a large annual expense to meet that. The whole point of growing the fund is that the fund then takes care of the superannuation liabilities going forward.

THE CHAIR: But, from the discussion we were having earlier, that is not predictive until at least 2030 and possibly significantly later.

Mr Barr: Not significantly later, no. If you mean by "significantly" decades, no. If it is not 2030, it might be 2031 or 2032. It is not something that is going to disappear into the never-never. Once that liability is fully funded, that gives the territory a great deal of capacity with the expense that is currently provided for, which is a considerable expense. It is half a billion dollars that will be paid in the final year of the forward estimates period. That is a lot of cash.

The other point to observe, of course, is that the territory will run operating cash surpluses over the period, which also provides capacity to pay down debt over time. Then, of course, inflation will erode the value of that debt over time, assuming the Reserve Bank is able to meet its target, by to three per cent a year and, in recent times, it has been eroded by seven per cent

THE CHAIR: Essentially, we are looking at rates, rental taxes, superannuation funds and inflation to try and pay it back?

Mr Barr: No, you have left out operating cash surpluses and asset sales—

THE CHAIR: I do not think we are getting anywhere—

Mr Barr: And asset sales—

THE CHAIR: And land sales.

Mr Barr: Yes. That is how the territory has funded its infrastructure over its entire history—asset sales.

THE CHAIR: Yes, I understand that. We have already had a discussion around—

Mr Barr: You should be aware of that. How long have you lived here for?

THE CHAIR: We have already had a discussion around the ability to—

Mr Barr: You have lived here for long enough to know that, haven't you?

THE CHAIR: Mr Barr—

Mr Barr: Haven't you?

THE CHAIR: Mr Barr, the—

Mr Barr: You would know that, wouldn't you?

THE CHAIR: The approach to these hearings is that we ask you questions and that you respond to them. The approach is not that you try and lecture or ask questions of this side. I will ask that you please remain respectful to the committee process.

Mr Barr: I am very respectful. You are interrupting my answers and seeking further information—

THE CHAIR: I think that this—

Mr Barr: Mischaracterising my answers—

THE CHAIR: Probably—

Mr Barr: Putting words—

THE CHAIR: I am attempting to summarise and understand—

Mr Barr: No, you are not allowed to summarise my answers. I am allowed to give my answers. You cannot distort them, Mr Cocks.

THE CHAIR: Mr Barr—

Mr Barr: Mr Cocks?

THE CHAIR: Please.

Mr Barr: Please.

THE CHAIR: The level of disrespect—

Mr Barr: Stop distorting my answers. Stop interrupting me. You have asked a question and I am trying to answer it.

THE CHAIR: That is quite rich, having regard to the approach you have been taking. There is nothing further from me on this matter.

MS LEE: Mr Barr, you have spoken about some of the factors that go to when we can expect a government to deliver a surplus. You have spoken at length, and numerous times, about when the economy is strong; you have spoken about the ACT's economy being strong. Today, you said so yourself, yet you have, in your time as Treasurer, for more than a decade, not delivered a surplus. Can you explain what needs to happen before you can actually deliver a surplus?

Mr Barr: The territory's revenues are impacted by a number of external factors beyond the strength of the ACT economy. Obviously, our largest single revenue source is the goods and services tax. That reflects the level of consumer expenditure on taxable items across the entire nation.

Another factor that contributes to our revenue, the second largest source beyond GST, is commonwealth grants. Obviously, they are critical in the delivery of health, education and infrastructure. The greater the amount of commonwealth grant revenue, the greater the territory's revenue. There are our own-source taxes; then there are asset sales. That is the revenue side. On the other side of the equation are our expenditure needs.

My experience, through the budget process and through engagement with Assembly committees over an extended period of time, is that very few Assembly committees, very few processes, make recommendations to significantly cut expenditure. Most of the time we get recommendations to spend more.

MS LEE: Can I go back to my original question? You spoke, in answer to a question from Mr Cocks, about the circumstances in which a government would be expected to deliver a surplus. You specifically mentioned, “I suppose when the economy is strong.” Are you standing by what you said, even today, which is that the ACT economy is strong?

Mr Barr: The ACT economy is performing strongly—

MS LEE: Yes.

Mr Barr: but the national economy has not been, in recent times, and that impacts on our single largest revenue source.

MS LEE: Are you saying that the national economy has not been strong for the entire time that you have been Treasurer and have failed to deliver a surplus?

Mr Barr: Certainly, the national economy has suffered; it has been in recession over a number of years in that time—certainly, through the COVID period. There have been three pretty significant shocks to the territory economy and—

MS LEE: Yes, you do not need to repeat that. You have gone through it. My point is: the entire time that you have been Treasurer and have failed to deliver a surplus, are you saying—

Mr Barr: Well, in—

MS LEE: Let me finish the question: are you saying that the entire—

MR PETTERSSON: Well, if you let him finish the answer—

MS LEE: The entire—

MR PETTERSSON: I think that is—

MS LEE: I have not finished the question.

MR PETTERSSON: Yes, but you cut him off.

MS LEE: Are you saying that, even in—

MR PETTERSSON: You cut him off in the middle of his answer. You cannot then—

THE CHAIR: In the amount of time left, can we please finish the answer and questions?

MS LEE: that time, you are saying there was not a single year in which you would have been expected to deliver a surplus? Is that what you are saying?

Mr Barr: We did deliver a headline—

MS LEE: Not according to the UPF.

MR PETTERSSON: You are cutting him off again.

Mr Barr: No-one would—

MR PETTERSSON: This is ridiculous.

MS LEE: On that, Mr Barr—

MR PETTERSSON: This is ridiculous.

MS LEE: Can I ask you this—

THE CHAIR: Ms Lee, can we get to the answer?

MS LEE: Yes. On that, you have mentioned, and you have now repeated it again, that not a single Treasurer in self-government history has delivered a surplus. Can I take you back to—

Mr Barr: No, that is not what I said. I said that if it is utilising the UPF framework—

MS LEE: Yes.

Mr Barr: if that is the benchmark, no, I do not believe that any Treasurer would have. Pre 2006, we were using the Australian Accounting Standard, which is a long way from the UPF—in fact, way more generous to the treasurers of that time. It may have allowed some surplus figures under the AAS standards, but that is a very different system to the UPF. But under UPF, no; and this exact discussion was had by Richard Mulcahy, Bill Stefaniak and Jon Stanhope 17 years ago.

MS LEE: Okay, so—

THE CHAIR: I think we are running over the same—

MS LEE: Yes, I understand, but I need to ask this question. Perhaps this is a question for the Under Treasurer: how is the UPF calculated? It is based on revenue minus expenses; is that right?

Mr McAuliffe: As defined by the ABS.

MS LEE: Okay; and you said, quite clearly and emphatically, earlier in this hearing, Mr Barr, that there is not a single Treasurer in self-government history that has delivered a surplus under the UPF.

Mr Barr: I do not believe so, no.

MS LEE: Yes, I understand. So you have confirmed.

THE CHAIR: I am going to have to—

MS LEE: Can I take you to the 2000—

THE CHAIR: I am sorry, members. I will have to wind up this line of questioning. Mr Pettersson, do you have a quick question in the time remaining?

MR PETTERSSON: I do; thank you.

Chief Minister, could the committee get an update on the continued implementation of tax reform to remove the significant barrier to housing in the form of stamp duty?

Mr Barr: Yes. Every budget since 2012 has included a cut to stamp duty. The forthcoming budget will continue that process. We have been particularly targeted in ensuring that every single property at every single value has received a stamp duty cut over the years. But we have also been focused on ensuring that particular cohorts—first homebuyers, pensioners and those looking to downsize—have been supported by greater levels of stamp duty cuts.

We have also been very progressive in the implementation of that tax reform by ensuring that we have been cutting stamp duty at the most affordable end of the housing market first, so stamp duty on lower value properties is considerably less, and stamp duty as a share of own-source revenue is the lowest of all of the states and territories.

MR PETTERSSON: Whereabouts in the reform journey are we? How much further do we have to go?

Mr Barr: We are a little over halfway through that reform journey. Contrary to some commentators, it is a 20-year journey, not a 10-year one. That process commenced in 2012-13.

THE CHAIR: We might wrap things up. Treasurer, before we finish, is there anything that you would like to add?

Mr Barr: No. I think that the constant interruption of my answers set a new low for public accounts hearings. I would invite the committee to reflect upon that. We can have a robust exchange; that is understandable. But I was interrupted constantly when I have been trying to respond to questions. If that is the way that this committee will operate, fine; I will come prepared for that.

THE CHAIR: Thank you, Mr Barr. On behalf of the committee, I thank our witnesses for their attendance today. If you have taken any questions on notice—and I believe there were some—please note that the inquiry report is due on 8 March, a little over a week from today. While answers are not due until five business days after receipt of the uncorrected proof *Hansard*, it would be greatly appreciated if you could provide your answers to the committee secretary as soon as possible so that they may be included in the report.

On behalf of the committee, I would again like to thank our witnesses. I also thank broadcasting and Hansard for their support. If a member wishes to ask questions on notice, please upload them to the parliamentary portal as soon as practicable, and no later than five business days after the hearing, once again noting the very short time frame that we have. The meeting is now adjourned.

The committee adjourned at 11.30 am.