LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES

(Reference: Appropriation Bill 2002-2003)

Members:

MR G HUMPHRIES (The Chair)
MR J HARGREAVES
MS R DUNDAS
MRS V DUNNE
MS K GALLAGHER

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 17 JULY 2002

Secretary to the committee:
Mr P McCormack (Ph: 620 50142)

By authority of the Legislative Assembly for the Australian Capital Territory

The committee met at 9.03 am.

Appearances:
Mr T Quinlan, Treasurer, Minister for Economic Development, Business and Tourism, Minister for Sport, Racing and Gaming and Minister for Police, Emergency Services and Corrections
Department of Treasury—
- Mr H Ronaldson, Chief Executive
- Mrs T Pham, Deputy Chief Executive
- Ms M Smithies, Executive Director, Finance and Budgetary Management
- Mr K Phillips, Manager, Corporate Services
- Mr M Mullins, Director, Revenue
- Mr A Marina, Manager, Rates and Land Tax
- Mr R Broughton, Director, Finance and Investment Group
- Mr N Bulless, Director, Government Business Enterprises
- Mr J Roberson, Director, Procurement Solutions
- Mr R Irvin, Manager, Procurement Policy
- Mr J Maher, Financial Controller, ACT Procurement Solutions
- Mr D Butt, Director, Economic Management
- Ms R Hardy, Microeconomic Reform Unit
- Mr G Bain, Water, Gas and Electricity
- Mr A Traves, Business Regulation Review

Actew—
- Mr P Perkins, Chief Executive
- Mr M Luddy, Chief Finance Executive

InTACT—
- Mr G Dowell, General Manager
- Mr M Zissler, Deputy General Manager
- Mr R Hart, Director, Service Delivery

Australian International Hotel School—
- Professor M Conlin
- Mr G Gaskill

Exhibition Park in Canberra—
- Mr T Saddler, General Manager

Independent Competition and Regulatory Commission—
- Mr P Baxter, Senior Commissioner
- Mr I Primrose, Chief Executive Officer

ACTTAB—
- Ms S Baker-Finch, Chief Executive
- Mr S Wheeler

Totalcare—
- Mr S Palywoda
- Ms N McLay, Chief Financial Officer

THE CHAIR: Welcome, Department of Treasury, and welcome, Treasurer. This is to just deal with some housekeeping to begin with. I remind you, first of all, that there are some procedures in place here that we would like to employ to keep the proceedings moving on smoothly.

We hope to provide advice to ministers each day concerning technical or detailed information that will be asked for on future days, so that, rather than spring detailed questions on the day, as much as possible we will indicate in advance what kind of detail or technical information might be required by the committee.

We have a convention that says that questions taken on notice are answered within three full working days. To facilitate this, we will email a transcript to the minister's office, and to the department contact officer for distribution to witnesses as soon as it is available, and we would ask that the department and the minister's office check the transcript for commitments made to provide additional information or responses to questions on notice, so that we can meet that three-day turnaround.

We've also determined that what we will do each day is indicate the major issues or areas due for discussion that day which we expect to ask questions about, and indicate that officers for those areas for which no questions are anticipated need not stay.

We would indicate that they should not hit the golf course; they should be still in their offices in case calling them back here is necessary for some unforeseen reason, but in normal circumstances we would expect there would be no need for them to be actually present here and wasting their time sitting around, expecting a question that might not come.

So I will begin by inviting members of the Assembly present to indicate, as we go through the list of matters today, which matters they expect to ask questions about.

The Department of Treasury, I think we will be asking questions about. Central Financing Unit? Yes. Actew—I intend to ask a question there. Home Loan Portfolio? No. InTACT? Yes. Superannuation Unit? Yes. ACT Insurance Authority? No. Australian International Hotel School? No. Exhibition Park in Canberra? I have a very brief question about that, which is to simply ask what that money is for in the capital injection. Perhaps the Treasurer could answer that for me without calling the EPIC people here. I put that on notice for later on.

I assume that we won't need EPIC to come and answer that question—it's very straightforward—so let's assume that they are not required. Independent Competition and Regulatory Commission? Yes. ACTTAB? Yes. Totalcare? Yes.

Well what that indicates, Minister, is that we won't require officers dealing specifically with the Home Loan Portfolio, the ACT Insurance Authority, the Australian International Hotel School or EPIC to be present for the proceedings today, unless for some reason a question arises which is unforeseen. So you can send those people away.

Thank you for that. I will just remind you that the proceedings are being broadcast to specified government offices and the media may record proceedings and take visual footage today. I will read the advice to witness appearing before the committee.

You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means you are protected from certain legal actions, such as being sued for defamation for what you say at this public hearing. It also means you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

I would ask each witness, as they come forward to present their evidence, to state their name and the capacity in which they're appearing. I now invite the Treasurer, if he wishes, to make an opening statement.

Mr Quinlan: Thank you very much, Mr Chairman. I don't really wish to make a particular statement. I am reasonably satisfied that the budget speaks for itself. I would like to take the opportunity, though, to put on record my gratitude, first of all, to the officers of the Department of Treasury for work that they've done during the course of the creation of this particular budget, and in particular the additional work that was required because we, the government, reconfigured departments at the most exquisite moment for the work that had been done. And that in fact quite neatly filled the gap between the work they did on the budget and the work they'll have to do on reporting. I also record my apology to the staff and officers of Treasury.

I would also like to thank departmental members who contributed in the budget process. I think it was, in the main, a very open and robust process, but I think that everybody contributed with goodwill. Of course, a few of those little games were played. Nevertheless, in the overall context it was a very satisfactory process.

I would also like to place on record my gratitude, and the government's gratitude, to all the contributors to the consultation process that led up to the budget. As you know, it's always the case that there's a lot of consultation, and it's very difficult for any government to accommodate much of what comes through that consultation process, but it certainly was heard.

Certainly some of that consultation has had an impact and will have impact over time. Other than that, we're happy to stand by the budget as it is presented.

THE CHAIR: Thank you very much. I might start with a question about the government's philosophy of producing, over this budget cycle, at least one budget which is actually in a loss situation. I would imagine that many commentators would argue that generally it is better to produce budgets in surplus when economic conditions are strong and to leave deficit budgets for when times are tough.

Given that we've got the prediction in the budget papers of growth in the order of 3 per cent for the next few years, which is reasonably healthy, why does the government see it as necessary to produce a loss within the first couple of years of its budget cycle?

Mr Quinlan: Well, let me say that economists making those observations about this particular set of bottom lines would be the ill-informed economists, or the economists that had not looked beyond that single line. Quite clearly, the government has heralded its intention to move towards—in a structured, sensible, measured way—public development of land.

What that does is create a timing difference, as you would be aware. Instead of an up-front sale and up-front revenues which are followed year after year after year—the flow of revenue from land sale—we will find that there will be an interruption to that flow because it is postponed while development occurs, and coincidentally there will be the expense of the development while that's happening.

So in large part that bottom line is created by the government's intention to change the land release process. No doubt you will question Mr Corbell much further on this, and I don't really want to go into chapter and verse, but there are some deficiencies in the land release process as we know it today.

I think I've mentioned in other places my mate Freddo down the local pub who can't get a block of land for about 15 months—he is a spec builder—because the process we have has placed virtually the control of lease of land in the hands of large developers. Now, what we want is a balanced process, and we would like to move towards a process where an individual who wants to acquire a block of land and arrange their own building of their own home can do so. We'd like to return to that. Now that does change the funds flow in relation to land development. That particular change is not reflective of the economic performance of the territory, or the government's budget.

MR HARGREAVES: If you are returning to a surplus in the next year, is that surplus dependent upon the deficit of the previous year? Is there a cause and effect?

Mr Quinlan: Yes, there is. It is a pity that the budget doesn't go out a couple more years, because what we would see is that provided—and there's always a proviso—that measured and structured change is done successfully, it does have the promise of providing a greater return to the territory than does just sale of raw land.

Now, there are a lot of other provisos. We've seen ebbs and flows or boom and bust in land development in the ACT. We intend to make sure that we try and control that as well, but certainly out there beyond the years of this budget the bottom line is positively impacted by that process.

MRS DUNNE: On this, Treasurer, the minister responsible has said in the Assembly on at least one occasion that he will be able to double revenue, but he hasn't been able to tell us whether that will be net or gross revenue from the land sales. And there isn't really any indication in this budget about the structure and what the anticipated costs are. Are you in a position here to talk about that—you guarantee double the revenue but that's not reflected in the figures here, and at the same time the costs of actually providing the servicing aren't there either.

Mr Quinlan: I am not in a position to sling individual figures around. Maybe the officers might want to give some of the numbers that reflect the estimates there. But, without recalling the precise numbers, I do recall that during the course of that process we made sure that we built into the estimates a degree of conservatism. So there might be the hope of considerable increases in revenues, but we made sure that the model was structured—and Treasury officers, in the bilateral discussions with PALM, made sure that the economic modelling that went with that process contained a large margin of conservatism—so that it wasn't an overstatement and it wasn't a pie in the sky figure.

MRS DUNNE: Well, is it possible to see some of that economic modelling? I mean, we were assured in the chamber that this would be an opportunity to scrutinise the land development. There is very little in the budget, and what's there is very inscrutable.

There's a little bit in the GDA; there's a little bit in land. There is no indication of the expense; there's only an indication of revenue. So can we see some of that modelling?

Mr Ronaldson: I am Howard Ronaldson from Treasury. Well, that's a matter for the Treasurer as to whether he's happy to release that information. But I can confirm that we did spend a lot of time with officers from DUS modelling their new land release program alongside the possible effects of the new land development authority. The potential doubling of revenue you're talking about is a bottom line, and one of the issues for the budget paper is that those sorts of scenarios don't seem to develop until outside the budget—outyears.

So it takes a while for this new land development authority to get going. It does cost money to begin with. It does absorb working capital; it does need money for infrastructure development and the like. And the larger rates of return started to be, as I said, generated outside the outyears of the budget.

MRS DUNNE: Mr Ronaldson, could you or Ms Smithies actually tell me where in the budget I will find the figures about the amount of working capital that they'll need, or the actual development cost that they predict in the next two or three years, because I'm sorry, I might be the new kid on the block, but I can't find it.

Mr Ronaldson: Yes. We haven't included working capital costs as a separate item in that budget document.

MRS DUNNE: Well, can we have some sort of analysis of that?

Mr Quinlan: Yes, I think we can. Look, I'll consult with my colleague, but I can't see any problem in providing, in the generality that is consistent with the budget, the degree of conservatism and the estimates that we provided for that revenue—those costs and revenue flows.

MRS DUNNE: Okay.

MR HARGREAVES: Can I ask Mr Ronaldson whether, if the modelling and the figures that have been developed there are actually referring to out-years which are not contained in this budget, there is a danger that the information we're likely to get will give us absolutely no help at all, and might in fact be a bit misleading.

Mr Ronaldson: Well, there's always a high degree of different probabilities in this because, irrespective of what mode you release land through, the whole thing is a function of how much land you release in the first place and where you release it, and the sorts of market pricing that's going on at the time. You'd be a bold person to accurately predict with a huge degree of certainty the sorts of prices that land will be bringing in the territory in five years time. So the sorts that have been built have a large degree of sensitivity analysis around them, you know, within a band of possible prices. It makes several assumptions about the size of the land release program going forward and there are other—where I'm heading to is that there are a number of variables in the model that, in terms of impacting on the bottom line, are even more important than—or equally as important as—the mode under which the land will be released.

MR HARGREAVES: In fact the decisions regarding the application of those variables are likely to take place after this document has been put into the dustbin of history, will it?

Mr Quinlan: When we do the budget we're going to estimate either the quantities that Howard referred to in terms of public development, or the same quantities in terms of private development. The level of variability is the same. If we take those figures, the public development, pore over those numbers and say we don't like this bit and we don't like that bit, it's probable that whatever you don't like about those estimates you won't like about the alternative estimates for purely private development, because the prime driver is going to be the demand for land—the quantity of land.

MRS DUNNE: The problem is that the new land and planning bill that's been tabled actually has a statutory requirement for the new land development authority to adhere strictly to the business plan, which is sort of unusual, but we have no idea what that business plan is going to be and what the basic presupposition is about the formulation of that business plan. I think, as an Assembly, we need as much information as early as possible about that.

Mr Quinlan: Well, I would have to suggest that there would be a whole plethora of legislation that has prospective requirements—you know, you will do this and you will do that—but the particular condition is not necessarily met at the time but will be met at some future time. But that's really saying there is a future condition you must meet. And, certainly, we're not going to build a business plan for now and forever, are we? We are going to build a business plan that will be like any other plan—it would have to be reviewed regularly in the light of circumstance.

MRS DUNNE: But we're being asked in spring to pass legislation where we have no idea what the business plan's going to look like.

MR HARGREAVES: Sounds like the GMC 400 to me.

Mr Quinlan: No, no. I mean, legislation everywhere says you will have a plan, you will have a contract, you'll have a statement of intent or whatever. They don't necessarily have to be in place to make the legislation legitimate; they just say that when this is done there is a precondition, and that's a legislative precondition. It doesn't mean the precondition has to be met for the legislation to be passed; it means that the precondition is part of the legislation and will remain a precondition of further action.

THE CHAIR: Can I just be clear about what information you're going to provide to us about this? You said you'd consult about information you might provide. What is that information that you are looking at providing?

Mr Quinlan: I would like to be able to inform the committee of, generally, the land release numbers we expect and the parameters that we've included in the model, so that you've got an idea of how conservative the model is.

THE CHAIR: Thank you for that. Could I ask a question about the government's approach to taxation in this and future budgets. Two years ago the opposition, as it then was, said that it was in favour of a low-taxation regime in the ACT, and I think created a reasonable impression in people's minds that it would be a low-taxing government.

This budget, of course, has increased taxation levels in a number of areas. Is that, in your view, a short-term response to the particular situation the government sees itself in today, or is there a belief that this is going to be a pattern of increasing taxation levels to reach some higher point? In other words, if we are to be a low-tax jurisdiction, relative to what are we going to be a low-tax jurisdiction?

Mr Quinlan: Well, first of all you'll have to remind me of the context in which that particular statement was made, because we've more often than not said that we have the continued philosophy of trying to be no worse off than, or as well off as—depending on which way you look at the cup, half full or half empty—New South Wales.

As you are aware, the ACT community does have high expectations in relation to services, and in relation to education. It will always be that every Treasurer will wrestle with trying to meet those expectations within the ACT tax base. The ACT has a very limited tax base. We can delude ourselves as to how much control we do or don't have and have debates about it in public, more for the entertainment of the populace than anything, but at the end of the day we don't have a great deal of room to move in our taxation base, but we do have a community that has reasonably high expectations. So it is a real arm wrestle each time. So if you like, "as low as is possible" is the philosophy, and I think that's probably a philosophy that's fairly universal amongst governments. But at the same time the Labor Party is also interested in progressive taxation wherever it is possible to apply—

MRS DUNNE: Is that progressively going up?

Mr Quinlan: Progressiveness in taxation to ensure that those who can afford to pay do pay, and those that can't afford to pay don't. Now, you can't always do that, and the car registration is an example. That's a flat tax. But nevertheless we do believe in progressive taxation.

I'd like to keep taxes as low as possible but I predict for the future, like it or no, no matter who is in power in the ACT it will be difficult to keep the ACT on the low side of the national average in a lot of the taxation areas because the community has a higher expectation. And we don't have the industry—we don't have the mining industry, we don't have the huge industrial sector that we might reap taxes from that a lot of the other states do.

THE CHAIR: The context of that statement was Mr Stanhope in response to the May 2000 budget, where he said, "We need a government that will focus on delivering quality services and low tax rates". If you're saying—

Mr Quinlan: That was it?

THE CHAIR: Yes. And you—

Mr Quinlan: Etched in concrete in the middle of Civic Square obviously.

THE CHAIR: Well, I think it was repeated at other stages during the election campaign. But if you believe in low tax rates, I come back to the question: relative to what? Are you saying that New South Wales should be our benchmark because, as I recall, New South Wales has the highest tax rates in Australia?

Mr Quinlan: Well, if they do, what we're trying to do is to ensure that we're no worse off than the people across our border. I don't think you could expect to see the ACT in the bottom half of the national table because we have a community that has high expectations in relation to service delivery, education and health—all of those basic services that are required in a community.

Let me just inform the committee that I was at a business function last evening where this particular topic came up. And the general consensus at the end of the day was people saying, "I'm happy to pay a bit of extra tax because we want extra service. I like Canberra the way it is. I like the educational standard. I like the standards that we're striving for in disability services, in support services, in health".

THE CHAIR: Yes, but there are other people who would argue that they were told low taxes were in the offing under a Labor government, that they wouldn't get tax increases in the very first budget.

Mr Quinlan: Two years ago, one line, Gary. Come on. We're not going to build straw men all day are we?

THE CHAIR: Well, they're time limited are they, these promises?

MR HARGREAVES: He's going to be a very skinny straw man, I have to tell you.

MRS DUNNE: But, Treasurer, there seems to be a contradiction between parity with New South Wales and a low-taxing regime. And you would think that New South Wales has all the advantages that we don't have—you know, large-scale manufacturing industry, mining, all of these things—but they are still at the top of the league table when it comes to taxation rates. You are saying that we can only aim to be no worse than New South Wales, and that seems to me to be at variance with your commitment, just stated, that you want tax as low as possible.

Mr Quinlan: As low as is possible within the parameters of the services that our community expects. The standard of service expected by the community in the ACT is high, is it not? Are we denying that or are we just going to go in circles here? Do the committee members accept that the ACT community has high expectations in relation to its education system, health system and support services framework?

THE CHAIR: They also expect that if people say they will deliver lower taxes they'll deliver lower taxes.

Mr Quinlan: Gary, you're building straw men. You've found a line that is two or three years old, in some context.

THE CHAIR: Well, it's not true? You're not in favour of having low tax rates?

Mr Quinlan: We herald this. Is it that somewhere we put out, "Vote Labor for low taxes"? Did we say that?

THE CHAIR: Well, you said lots of things to coax people to vote Labor. But let us move on to another issue. Let me ask you about the revenue philosophy of the government. We've discussed in the Assembly already a number of increases in levels of return to government from a number of revenue sources—things like conveyancing duty and so on have been higher than expected.

One of the areas that's proven to be a stronger performer than was anticipated in last year's budget was the stamp duty on insurance policies. You answered a question on notice recently where you said that "Our expectation was to collect about $21.3 million in stamp duty on insurance policies". The projection, extrapolating from your figures, is now that there will be a return of about $24.13 million on stamp duty. Now, that's an improvement of about $2.83 million on the budgeted amount expected to be returned from that source. But, of course, the increase in stamp duty is pretty wholly the product of the increase in premiums that we've experienced in recent months.

Why does the government feel it necessary to retain that money and not return it to people in the community who are hard hit by those increases in stamp duty? Wouldn't it be commensurate with what you've said about the need to provide relief in this area for most or all of that money to be put back into the community through either lower rates or through other assistance to people who are suffering because of high premiums?

Mr Quinlan: Because I believe that would be short-sighted and indiscriminate. First of all, we accept that there are some areas that have been very hard hit by quite arbitrary changes to the insurance regime—even arbitrary to the point of people finding it difficult to get insurance. They are, in the main, generally in the community area in the public liability sector—remembering that stamp duty on insurance is on all insurance.

Those many, many businesses and enterprises that are getting a 40 or 50 per cent increase—which is far more the norm than the very dramatic increases that occasionally reach the surface but are not necessarily totally representative of the position—are receiving premiums that are quite consistent with the pricing of insurance and the continuum of insurance premium rates, if you factor out the HIH/FAI phenomenon.

From about 1994, strapped for cash, FAI started to sell cheap insurance. FAI and then HIH actually dragged the market down. Any curve that you see on insurance premiums will show that they are rising pretty well with CPI, or a little above because standards in terms of payouts were rising. Then you see a dip and insurance premiums went down, until the HIH collapse—until we see, in many, many cases, premiums returning to the line on a "straight" curve that you would expect had HIH and FAI not happened.

So what we really need is probably a bit more discrimination in the thinking as to how we approach the insurance problem, because the insurance premium and the insurance market were changing for the worse in terms of the customer before September 11 of last year. September 11 certainly exacerbated that and wiped out something like 40 per cent of the capital backing of the world-wide insurance industry, some huge number.

Nevertheless, we've seen the insurance industry in its tight cycle, and so a number of events, particularly in Australia, came together. To make structural changes that are indiscriminate would seem to me to be cosmetically attractive but not necessarily the most logical thing to do.

THE CHAIR: What about the other suggestion, then, about having a fund of some sort to underwrite or support community organisations which at the present time are going to the wall because they can't get insurance?

Mr Quinlan: Well, I've got to say, from the government's perspective, I don't want to get into the insurance industry if I can possibly avoid it.

THE CHAIR: Well, I'm not sure you can avoid it. It's a very topical issue, Mr Quinlan.

Mr Quinlan: Well, you can make it a topical issue, because you can take one or two spectacular examples. But what we've done, and what the department has done, is provide support. I might stand corrected, but I don't think we've had anybody that has come to us, unable to get insurance, that we haven't been able to help to get insurance. So we've actually assisted organisations who need help and have got to the desperate point of saying, "We've got to close down; we can't get insurance". We've actually put them in touch with the right people and got them insurance. We're actually setting up a process whereby we can advise on risk management and risk containment.

THE CHAIR: I've got a few more customers for you I'll send your way—people who are pretty desperate.

Mr Quinlan: Fine. I've got one in my pocket, actually, that I picked up last night. But we'll fix it.

MS DUNDAS: Can I follow up on this series of questioning. In the last series of sittings, the Assembly amended the duties legislation to exempt sporting groups and other organisations from duty. Is there a cost associated with that amendment? Do you know what that cost was?

Mr Quinlan: Because a number of community organisations are already exempt from stamp duty, and we've widened the exemption, our estimate is only $200,000 to $250,000 further costs.

MS DUNDAS: So we will only not gain $250,000 from that amendment that we passed. So is there any scope for broadening that definition, if we're only losing such a small amount of money, to include other community organisations that are still suffering, yet don't come into the narrow definition that was part of that legislation?

Mr Quinlan: I don't know of any community organisations that have got that problem. If there are some, let us know. Do you know any?

MS DUNDAS: I think we all know a number of community organisations.

Mr Quinlan: We're talking stamp duty on insurance.

MS DUNDAS: Who, with their insurance premiums, are having problems meeting that cost, and the stamp duty is an added burden.

Mr Quinlan: Well, they don't have to pay stamp duty.

THE CHAIR: So who doesn't pay stamp duty?

Mr Quinlan: Community organisations.

THE CHAIR: On insurance premiums?

Mr Quinlan: Yes.

THE CHAIR: Since when?

Mr Quinlan: Since we put through the Duties Amendment Bill.

MS DUNDAS: But that was a very narrow definition that we put through. It was targeted at sporting groups, not other organisations.

Mr Quinlan: Charitable or community organisations were already exempt.

MS DUNDAS: By a definition that comes down, I think, from a national level, on what is a community not-for-profit organisation. There are organisations out there that run events that don't necessarily qualify because they're not incorporated, but they're still trying to do community activities, yet they are still facing the same insurance problems as everybody else that are stuck in this gap that the current legislation doesn't cover.

Mr Quinlan: Like who?

MS DUNDAS: I don't want to go into specific names of organisations but if we are only—

MR HARGREAVES: Well, I'd like to hear it. Mr Chairman, because I've been lost now in the definitions of community organisations. Instead of naming one, can you name three and then we can highlight one?

MS DUNDAS: Well, I'm just wondering—

Mr Quinlan: Look, if our definition is inadequate for the people that we're trying to reach in principle—because this was supposed to be something to assist; that's the motivation behind it—then we're happy to hear about it. But I do actually need some concrete support for the claim; that's all. And if it's inadequate we'll fix it.

MS DUNDAS: Okay. Possibly following a different track, the amendment that we passed covers only public liability insurance. I think I raised with you in the chamber the possibility of expanding that, because community organisations and sporting organisations need to get other types of insurance—workers' compensation, those kinds of things. Was there any thought to the cost of exempting stamp duty and other things from other forms of insurance, besides public liability?

Mr Quinlan: Well, other than the qualification that I put on this debate earlier about the fact that a lot of what you see is the market righting itself, I'm not aware that there's a serious problem outside public liability. Certainly workers' compensation has increased, but that is a function of market forces and not an insurance crisis, if you like—as far as I know. I mean, there might be some cases where there's a bit of idiocy or whatever, but I'm not aware of any screaming case at the moment.

MS DUNDAS: But considering that the widening of the public liability insurance is costing the territory only $250,000, and whilst that might not be necessarily a lot of money to the territory as a whole it is a lot of money to those organisations who have to pay it, broadening it to other forms of insurance which would be not necessarily a lot for the territory but a huge amount for those organisations involved seems like a reasonable idea when these organisations—

Mr Quinlan: Well, it seems to me like bookkeeping. It seems to me like it's saying, "Why don't you increase grant money to those organisations?". What's the difference?

MS DUNDAS: Well, have you considered that? What would the cost be?

Mr Quinlan: When we look at grants, we always look at the capacity of government to support all of those mechanisms within the community. We look at those on a regular basis, quite clearly. I mean, we talk about budget consultation. I reckon about 50 to 60 per cent of my time with Treasury is budget consultation every day.

It ranges from business through to sporting groups, the whole spectrum. What I think you're saying is: if we gave some concession to these organisations, they would get more money. Yes, that's pretty simple mathematics; that would happen. Now, would we do it with insurance; would we do it by just increasing the grants? I would love to increase the grants to community organisations. I've spent a lot of my time working in community organisations and I know the difficulty they have in meeting the demand for their services. But I think that's a much wider question than stamp duty. To bring stamp duty into that question on insurance when it's not part of the insurance crisis I think is actually to confuse the issue a bit.

THE CHAIR: Treasurer, can I follow up what you said before about your having provided exemptions under the stamp duty exemption legislation. My understanding is that those exemptions aren't operative until a regulation is made to provide for guidelines for operation.

Mr Quinlan: Yes.

THE CHAIR: Has that regulation been made as yet?

Mr Quinlan: It doesn't matter anyway, because we've also provided for waivers.

THE CHAIR: Well, you don't need legislation for waivers, do you?

MS DUNDAS: Why do we change the legislation if it doesn't matter?

Mr Quinlan: Because it's a lot simpler to do it through legislation than it is to do it through individual waivers.

MS DUNDAS: So have those regulations been written?

THE CHAIR: Have they been made yet?

Mr Quinlan: We'll get back to you on this one.

MRS DUNNE: Mr Chairman, it's just that it seems that when this legislation was passed in June the impression was that the sky would fall in if the legislation wasn't passed when it was, that the regulation either hasn't been made or has only recently been made, and we've been working on waivers in the meantime.

Mr Quinlan: Look, I'll check on that and get back to you. Yes, the sky would fall in if at a later date we found that the Assembly wouldn't accept it. But, if we know the Assembly is in agreement, then okay, we have an agreement in principle. Then we need to tidy up the bookwork and get the system going. So let us just separate those two issues, shall we?

MRS DUNNE: Right, okay. But I've had community groups approach me and say, "Well, we can't find what the regulation is; we don't know whether we qualify". Are you actually telling people that they can apply for a waiver while they're waiting for the regulation?

Mr Quinlan: Yes.

Mrs Pham: I am Tu Pham from the Department of Treasury. Since the government made an announcement providing the stamp duty exemption for community groups for public liability, even before legislation was passed, an administrative arrangement has been in place to provide those exemptions. So the community group out there is very well aware of the government intention and the government policy at the time, and has approached the revenue office for stamp duty exemption. And exemption has been given since then.

So the administration arrangement has already been in place to provide that exemption. The regulation is now being prepared and, I think, at the final stage, to be tabled at the next Assembly sitting. To have any concern that, because of the delay in the regulation, community groups will be missing out on the stamp duty exemption is not correct, because we already provided exemptions since the government announced its intention, from day one.

THE CHAIR: Wouldn't you accept, though, that if it is appropriate to provide relief for that relatively small component of an increased cost, which is the stamp duty paid on an increased premium, it is even more fundamental to be looking at what assistance might be possible with the windfall the government is making out of stamp duty increases for the actual premium rise itself?

When you've got a community organisation or a small business providing services that has had an increase of 100, 200 or 300 per cent in their premiums, isn't that an appropriate time to be looking at some kind of relief scheme, as other governments around Australia are presently examining?

Mr Quinlan: Mr Humphries, I'm looking at statistics here which show that in the future—yes, 2002—we'll get a 3 per cent increase in stamp duty and, in 2004, 4 per cent. Because this is impacting upon some people within one category of insurance, it's not this huge windfall that you're imagining.

THE CHAIR: Well, it's in the order of $2.83 million last financial year on your own figures. That's nearly $3 million in extra revenue that is being obtained at the expense of a large portion of the community which is facing enormous hardship because of rising premiums. You yourself have acknowledged that through your scheme to return a paltry $200,000 of that $2.83 million to the community. Surely there is a case for some kind of underwriting scheme or support scheme for organisations that are just not able to survive. I spoke to a horse riding business, for example, the other day that just had a rise in premiums from $5,000 to $140,000, and it's closed its doors.

That means that kids who otherwise wouldn't have the opportunity to ride might not get that chance. Now, isn't that the sort of thing the government thinks it might be able to fix, or help to fix, with that extra money that's coming into its pockets?

Mr Quinlan: As I said, I believe that, in the longer term, if it's possible to get that riding school back under insurance cover, we will. I think that that riding school will be more assisted by the institution of risk waivers that will come in under the federal Trade Practices Act, and that process is in train. Now, to immediately start throwing short-term money at this problem, as I said, might be cosmetically attractive, but that is not the long-term solution. The long-term solution is a raft of measures, many of which do depend upon uniformity of legislation between the federal government and state and territorial governments, and some legislation at state level.

Then we will get a normality, and I think that what we should be doing is working towards that normality and not having a knee-jerk reaction-type process. The large part of our insurance income is a function of the whole raft of insurances. And, in terms of the territory's revenues, the territory's revenues would have previously suffered the reverse situation because of the HIH/FAI situation that I explained earlier where in fact we saw premiums artificially low, and therefore the revenue from that particular duty artificially low.

MR HARGREAVES: Can I just ask a question because I don't know the answer to this. I saw the article in the *Canberra Times* about a riding school. I would like to know if anybody could tell me please whether this particular enterprise was a for-profit enterprise—engaged in really good community works, but nonetheless a for-profit exercise—or whether it's a not-for-profit community group. As I understand it, there are different treatments. We've got waivers for not-for-profit community groups, but we are struggling to assist those people that are for-profit benevolent people. Can someone clear that up for me?

THE CHAIR: Yes. When a premium rises from $5,000 to $140,000, it is not a profit organisation any longer.

MR HARGREAVES: Well, then can I suggest to you that if it's a not-for-profit community organisation that's one issue, and if it's a small business that's quite another. Whilst I have a lot of sympathy for it, let us not build a straw person out of this.

THE CHAIR: I think this is not the place for statements. Can we—

MR HARGREAVES: Well, I think it is, Mr Chairman. I'd still like an answer to my question.

MR SMYTH: I have a question for the Treasurer. Ms Dundas makes—

MR HARGREAVES: Mr Chairman, I will not allow this to go on until I have an answer to the question.

THE CHAIR: I don't think the Treasurer can answer that question, because it's not directed at him.

MR HARGREAVES: Well, how about we ask the Treasurer and see if he can answer it. I don't want you to tell me what the Treasurer can say.

THE CHAIR: Okay. Do you want to answer the question, Mr Quinlan?

Mr Quinlan: Look, I've received, I have to say, some communication from people in relation to that enterprise, but I haven't gone into it in detail. But I've been informed that at least one of the organisations is an enterprise—a profit-making enterprise—or was a profit-making enterprise, as you point out, Mr Humphries.

That doesn't mean that we have no sympathy for the fact that you see a dramatic change. But I don't really want to build the statements that I make on a single example. That's very, very dangerous, I think. But we will be looking at that particular example, particularly as I have already received some communication from interested parties, let me say, in relation to that given enterprise.

The general question arises about just how far the ACT government wants to involve itself in insurance. Let me say, based on previous experience in other jurisdictions across this nation and taking into account the size of the ACT, I am not particularly interested in getting into the insurance business if it can be avoided. I am interested in setting up the support mechanisms that will enable the problem to be worked through. Beyond that, there are individual cases that we ought to examine and that we relate to, and I will look at those. We have mechanisms now that we probably should have publicised better and we're already working through that problem as well. But we have support mechanisms and we have a rational, sensible approach to this problem.

THE CHAIR: Any further questions on this issue or can we move on?

Mr Quinlan: I'm sorry, but can I just say that I am just advised that guidelines for exempting duty on contracts for general insurance taken out by small amateur sporting bodies and community bodies run not for profit were notified on the legislation register on 28 June 2002, and the guidelines commence on and from 1 July 2002. The guidelines are here and I understand that through correspondence they have been sent to both your office and that of Mrs Dunne. Is that right?

THE CHAIR: I haven't received them as yet. I look forward to seeing them when they come.

Mr Quinlan: Well, if they aren't received, we'll send them to you.

THE CHAIR: Great. Thank you.

MR SMYTH: Ms Dundas makes the point about the waiver of stamp duty for not-for-profit groups. But the reality is that if you can't get insurance there is no stamp duty to pay, because you haven't got a policy. And the real dilemma, not just for the not-for-profit community and the sporting community but for the business and general community at large, is that many of them are finding it increasingly difficult to actually get insurance at all. The first question would be: what is the government doing to actually make it easier for businesses to get insurance policies?

Mr Quinlan: Mr Smyth, while you were out we already addressed this question and I advised this committee that we have set up mechanisms to assist people, and we've yet to interact with an organisation that we have not been able to assist to get insurance.

MR SMYTH: Well, for instance, the other day I was at a rally which represented the majority of the equestrian industry in the ACT, and they said that they'd received no assistance at all, and all of them were finding it increasingly difficult to get policies. One business had had to close because it couldn't get a policy. He's now reopened without public liability insurance. The question is: how many public liability claims were there last year; how many have been placed this year?

Mr Quinlan: I couldn't tell you.

MR SMYTH: That's the point. You can't tell us because the government doesn't know, because the government doesn't have that data. So wouldn't it be a reasonable start—

Mr Quinlan: The federal government doesn't have that data. The industry doesn't have that data. APRA doesn't have that data. How do you expect me to have that data?

MR HARGREAVES: Did the previous government have that data, Mr Treasurer?

MR SMYTH: That is correct, Mr Treasurer. In the supposed dog's-breakfast approach, as you called it, to this crisis put forward by the opposition, one of the bills that I suggested raises the question: as with the workers compensation data which we're collecting very successfully—which is giving WorkCover lots of guidance in how to reduce the incidence of injury, and to reform the industry—what's wrong with the concept of collecting insurance data across the board so that we actually do have a full picture of what is going on in the territory?

Mr Quinlan: I will tell you what's wrong with the approach, Mr Smyth. We've had now three ministerial councils that have addressed the insurance problem. The problem of the lack of information has been addressed. We have agreed with the federal government that the ACCC will review the insurance industry, and will review the data collection within the insurance industry. Now, with the greatest respect, I've got more confidence in what the ACCC will do than in what your legislation will do.

MR SMYTH: Well, you're making comments of course on legislation you haven't seen.

Mr Quinlan: A wild assumption on my part!

MR SMYTH: But your party in opposition last year voted for the workers' compensation reform bills, which of course included the collection of data. It was seen as essential then to have this data so we would have an informed opinion. What's wrong with the ACT going it alone on at least working on the database that we've already had and extending it across the board to all insurance?

Mr Quinlan: Because it's highly likely to be redundant, and because it's highly likely to be statistically unreliable given the size of this jurisdiction compared to the rest of the nation. I'd rather have our statistics collected with the statistics for the rest of the industry. Let me tell you that in council meetings where we've discussed this the collective jurisdictions engaged the services of Trowbridge Consulting—whatever they're called—and they in fact collected what information was available. The information that they had available was from the Insurance Statistics Association, I think it's called, which represents possibly about 20 per cent of the insurance industry, and is not necessarily representative of the insurance industry.

APRA, the Australian Prudential Regulatory Authority, had no statistics to speak of. The figures that were put up showed, for example, that the ACT had by far the highest average claim paid. It also showed that the ACT was in the ruck in terms of profitability in the industry of public liability insurance—which seems somewhat contradictory unless there was a reconciliation by virtue of much higher tariffs already existing in the ACT, a subject that I doubt somewhat needs to be challenged. And what that indicated to me is that the statistics gathered on the ACT at that point were unreliable and not to be used.

So I would rather at this point rely on the Commonwealth-fostered ACCC review of data collection within the insurance industry than try to set up my own system.

MR SMYTH: But we've already set up our own system with the workers compensation, which is working extremely well. As far as I know, it's the only system of its kind across the country. We've written the software, the database was put together by a local firm, Wizard, and many other jurisdictions are actually looking at it because they can't get it or they haven't got it. So what's wrong with extending it? What's wrong with collecting all the data in the ACT? If it's unreliable coming from federal organisations now, and we can guarantee reliability here, what's wrong with that?

Mr Quinlan: Mr Smyth, if you want to keep asking the same question, I'll give you the same answer. The answer is: I consider it would be redundant and statistically unreliable.

MR SMYTH: So the work we did last year for workers' compensation is also redundant and statistically unreliable?

Mr Quinlan: Well, it is if there's a national scheme to do the same thing, yes. Is there a national scheme to do the same thing?

THE CHAIR: Let's move on to another issue unless there's—

MRS DUNNE: Well, actually there are a couple of issues related to insurance here.

THE CHAIR: Okay.

MRS DUNNE: First of all, Treasurer, I'd just like a simple yes/no answer if that's possible.

Mr Quinlan: Well, it had better be a yes/no question then.

MRS DUNNE: Do you think it's desirable to have accurate statistics about insurance claims?

Mr Quinlan: Yes.

THE CHAIR: I think that's a yes.

MRS DUNNE: The other thing goes back to something that you said earlier. Can somebody give us a bit of a brief rundown on what sorts of services are being provided to organisations that suddenly find they can't get insurance? Mr Broughton might be the person—

MR HARGREAVES: That's just a yes or no question, Treasurer. The answer is yes, thank you very much. Move on.

Mr Broughton: One of my roles is to look after insurance policies on behalf of the government, and that includes my being chair of the ACT Insurance Authority Board. In response to the sort of problems that we were seeing out in the community, as well as contributing to the national review of the insurance problems, which means we were participating on a heads of treasuries working party which was looking at a number of the issues associated with public liability, that has now been extended to medical indemnity. We were supporting the Treasurer at the three summits that he's attended so far, and the further summit that's to be held, probably in September. We have been negotiating with New South Wales and Victoria to try and establish a bulk-buying or pooling arrangement with them to assist qualifying organisations to tap into hopefully cheaper premiums through that route.

We cannot do that ourselves because we don't have the critical mass of organisations to make that happen. We are hopeful but we can't be confident just yet that a scheme will be developed in conjunction with New South Wales. The broker that they've engaged to set up this scheme is currently in London, and we understand is very close to getting an insurer to back this scheme, and that will hopefully provide both more affordable premiums for qualifying organisations and, in some cases, access to insurance where that might not be available.

We have set up what we call a hotline. We haven't given it perhaps the publicity that we should have. One of the reasons is that we have a limited amount of resources to handle the inquiries. But so far, as the inquiries have come through we have been able to give advice on how organisations should structure their insurance, and we have assisted them in putting them in touch with brokers—in some cases the ACT government's own broker, Marsh, which has been able to find an insurer to look after whatever their requirement was.

My understanding is that in most cases we have either been successful in getting them insurance, or getting them insurance at a lower cost than what they were facing, or at least enabling them to rearrange their affairs to go to the market with a better package. We have also met with ACTCOSS and we are working closely with them, trying to link in with their own insurance arrangements, and they look after their member organisations; they have their own actuary that services them.

We've had a couple of meetings with them. There's another meeting programmed I think later this week, possibly tomorrow. We met yesterday with the ACT volunteers organisation, the chief executive there, and we are working with them to examine and then put up, firstly before the government and hopefully then before the Assembly, a set of legislation that will exempt volunteers and good Samaritans from being personally liable for public liability, or for claims against their actions.

MRS DUNNE: Thank you for that. Is your hotline service open to businesses as well as not-for-profit organisations?

Mr Broughton: Yes, we haven't discriminated. What we can do for businesses, I think, is a little more limited. We can certainly advise them about how they might package their insurance, given certain circumstances, and if they're not already using a broker we would encourage them to do so.

MRS CROSS: Can I follow up? Given that you said that you provide this service to businesses as well, how have you advised the business community of that fact?

Mr Broughton: Both the Minister and one of my staff attended a meeting of the Chamber of Commerce, I think it was, where we did outline to them what the government was doing in relation to assisting with the insurance crisis.

MRS CROSS: Yes, but the business community isn't only members of the Chamber of Commerce. There are approximately, what, 17,000 to 19,000 business in the ACT, of which just under half are home-based. They are members of the Chamber of Commerce, Australian Business Ltd and other business associations. If you've only targeted one business association, that means that you've deprived others. I'm concerned that the issues that have been raised here by my colleagues are pertinent issues because those businesses don't know that they can avail themselves of your services, because you haven't advised them.

Mr Quinlan: Sorry, the meeting we are talking about was sponsored by the chamber, but virtually every stakeholder that could be found was invited to it. It was in the form of a seminar and a presentation which I gave, and it was a theatre-full.

MRS CROSS: So businesses that didn't attend that meeting wouldn't know that they could avail themselves of your service?

Mr Quinlan: Well, we actually can't go out and drag them out of their homes.

MRS CROSS: You could advertise though.

Mr Quinlan: Yes, well, as I've said earlier, that is one area that I've already taken up and that we are doing something about, and that is promulgating the availability of the service. You know, there's a point in time where you say, "Now we're ready to really say we've got all the answers, or we've got as many answers as can be gotten". And that's only been of recent times. In the interim, we've been saying that it's through Business Gateway and through the insurance authority that we've been able to help those people that have said, "Give us a hand". But to be in a position where a government goes out and says, "We've got a hotline. Come and see us. We've got the answers", we really need to dot all the i's and cross the t's.

MRS CROSS: Well, why not, Mr Quinlan? I mean, you've done that promoting your own success the first 100 days by spending a lot of money on an advertising campaign. I would have thought that looking after insurance indemnity is much more important than promoting yourselves through an advertising campaign.

Mr Quinlan: That's a comment, is it?

MRS DUNNE: Mr Broughton, I have just one final question. Off the top of your head, can you give me a breakdown on what sorts of insurance problems people are facing? Are they sort of principally public liability, or what are the other problems they're facing?

Mr Broughton: The problems are pretty much limited to public liability and professional indemnity. They relate not just to an increase in premiums per se, but the fact that the amount of insurance that you should carry needs to be increased.

MS DUNDAS: So with professional indemnity then, are waivers being granted to community organisations that need professional indemnity insurance for the duty on that?

Mr Broughton: No, I don't think so.

MS DUNDAS: Or directors' insurance—those kinds of things that community organisations with boards generally need insurance to protect those board members, many of them volunteers? Roger has indicated that professional indemnity is another area of concern for organisations with insurance. You're going about giving duty exemptions on public liability. Are you providing waivers or assistance in terms of professional indemnity?

Mr Quinlan: No.

MS DUNDAS: Have you considered it?

Mr Quinlan: We gave some assistance to the medical profession working in the hospital, details of which I haven't got off the top of my head.

MS DUNDAS: But not for the medical profession working in sexual health clinics or community organisations.

Mr Quinlan: No.

MS DUNDAS: Are you considering it?

Mr Quinlan: No.

MS DUNDAS: Can I ask why not?

Mr Quinlan: It hasn't emerged as an urgent problem—has it?

Mr Broughton: It's not as urgent as public liability. And professional indemnity is usually insurance in relation to services provided for a fee. So it's usually related to business, and the argument is that if you have a successful business you can at least pass on some of those costs to consumers.

MS DUNDAS: Well, I'm interested in the issue relating to nurses and doctors who work at organisations such as Family Planning or The Junction Youth Health Centre, who would also need professional indemnity insurance because they are providing health-based services for a reduced fee—a minimal fee—

Mr Quinlan: Is there a problem?

MS DUNDAS: It hasn't been brought to your attention?

Mr Quinlan: Well, has it been brought to yours?

MS DUNDAS: I have been hearing a number of concerns from workers in the community clinics about professional indemnity insurance, and Roger has—

Mr Quinlan: What sorts of workers?

MR SMYTH: Directors on boards of community organisations have approached me and said that they are worried about their position, where they give advice to the community organisation that proves to be incorrect or has an unfortunate consequence, as to whether they're liable. So yes, it is a problem.

MS DUNDAS: Your own officials from Treasury have indicated that it is a growing area of concern. Is it something that you will be looking at, or do you think that looking after community care workers isn't an issue?

Mr Quinlan: Well, I need some sort of concrete advice that there's a real issue. Are you inventing an issue now or is it a real issue? And if it's a real issue we'll address it.

THE CHAIR: I think the Treasurer has answered that question. Can I just make a note to say that we're going to cut in at 10.30 and hear from the people at Actew because they have a timing problem and we've agreed to do that. So we'll just rearrange things to make sure that they're dealt with at that stage.

Could I move on to another non-insurance related issue, but to do with taxation. You have made a decision in the budget to remove the exemption status for residential properties subject to land tax that are owned by trusts or companies, even if the properties are not rented. What impact will that have on people with a disability, or elderly people, who are living in homes owned by a trust or a company because that's an arrangement that's been made, perhaps many years in the past, that's suitable to care for that particular person. For example, parents endow a child with a home; they put it in the form of a trust. Will that impact on them as well?

Mr Quinlan: No. Provisions have been made to exempt that sort of arrangement. Where there's a beneficial arrangement for the individual, that will not be brought under that net.

THE CHAIR: Great, okay.

Mr Quinlan: I think that was the first parameter that came into that discussion.

THE CHAIR: Thank you. I note that in assessing the rates for the financial year you've included the unimproved capital value for 1999, 2000 and 2001, but not 2002. Now, the previous arrangement was to have a three-year rolling average, including the year in question. Why has that arrangement changed?

Mrs Pham: I think to implement the government policy to limit the rates of this year to 2.9 per cent CPI, pending the review of the whole rating system. So the best way of doing it is to keep the individual rates of everyone of last year multiplied by 1.29 per cent. So you don't need to redo it for 2002-2003 to take care of the new valuation—because you have no need to do it. The simplest way to apply the government policy is just to do the individual rates and 2.9 per cent.

THE CHAIR: Doesn't that mean, though, that in future years, if you go back to a three-year rolling average system—and that system was previously supported across the Assembly—you'll have potentially a two or maybe more year gap between valuations? The change in valuations could be quite steep because you've not done a regular yearly valuation. Properties in areas where there's been sharp rises in values can end up with quite sharp rises in their rates.

Mrs Pham: Without pre-empting the review of the rating system, we do not know what the findings of the review will be, or whether or not the current features of the existing rating systems will still remain, meaning that there is the same valuation method or fixed charge.

THE CHAIR: I have just been told that the quality of the sound is not very good to the microphone, so I would ask people to please speak closer to the microphones, or louder, so that we can be properly recorded. Can I ask why then a different approach was taken with respect to land tax, where a 2002 valuation is being used to assess land tax in the ACT?

Mrs Pham: Simply because the government does not make any change to the land tax regime. The government only—

THE CHAIR: Except with respect to exemptions for companies and trusts.

Mrs Pham: Yes, yes. The basic features of the land tax system are still the same, whereas the government intends to review the whole rating system.

THE CHAIR: All right. Yes, Ms Tucker.

MS TUCKER: Thank you. I understand we're in the general strategic area, so I just have a question about business development. I noticed in your statement you said business programs have been reviewed and restructured in this budget to redirect resources towards areas of growing priority and so on. I am interested to have more detail about how you are restructuring assistance to business, and what criteria you are going to be using to determine what businesses should receive assistance.

Mr Quinlan: All right. In the general sense—this question is probably best answered when business development is up here rather than Treasury, right. But we've certainly pursued the knowledge-based economy philosophy that we espoused in opposition, and we have set funds aside to develop in knowledge-based industries. But at the same time, as you're aware, we are in the process of compiling a white paper on business and economic development in the ACT to ensure that we do have a structured and informed approach to business and economic development.

MS TUCKER: So basically you are still developing the overarching framework in which you will be able to make decisions about business assistance, but you are saying here that you have made decisions now about this budget in terms of pruning back assistance.

Mr Quinlan: Yes. This budget's got initiatives in it, in terms of business-ready programs for small business. It's got funds set aside for, effectively, the knowledge bank. We've actually restructured the interface with business committees, particularly with a knowledge-based economy committee specifically looking at that development. As you're aware, we've supported and will be supporting the development of an ICT centre of excellence.

So what we're doing is still moving on the obvious, which is knowledge based. And, when you look at the resources that the ACT has, you very quickly come to the conclusion that our main future is in knowledge-based industries rather than material-based industries. But, at the same time, we still want to do the white paper. We don't stop and say we will do nothing; wait until the white paper comes out. We are actually moving in the areas that we talked about and espoused in opposition.

MS TUCKER: I understand that this could be dealt with later, but this is a strategic question as well. For example, you are committed to an Office of Sustainability, and over a number of years I have asked of the previous government how the basic principles of ecologically sustainable development are actually used to inform decisions about assistance to government. I guess I am interested to know from you—I understand that you're still developing the white paper and so on—how are you going to link this in?

Mr Quinlan: Well, the Office of Sustainability is in the Chief Minister's Department because it should be an overarching body. It needs to review all the things that government does, through the sustainability framework. Now, your view and my view might be a little different as to the specific measures that might be applied within business development, but at the end of the day what we are looking for is the element of sustainability to be a consistent part of government policy development on all fronts.

MS TUCKER: So when you decided to redirect resources or change the situation from the previous government's assistance to business, did you—

Mr Quinlan: Not a lot at this stage.

MS TUCKER: Not a lot. Okay, well, I guess I was interested in the detail of that, really, and perhaps that's something you could give to the committee, so that we see the detail of changes. Thanks. Thanks, Mr Chair.

THE CHAIR: Okay. Could I ask about GST revenues for the territory? In Budget Paper No 3 on page 53, there's a table which shows the path of GST revenue grants. Has that path changed since the original agreement was reached and the original forecasts were made for the extent of GST revenues for the territory?

Mr Ronaldson: The dynamics of that table are continually changing, as various parameters to do with GST payments from the Commonwealth to the states change. The ACT has benefited from increasingly good relativities. Our population is bigger than the ABS has been suggesting to us, for a number of years, by up to 2.6 per cent, and that increases our GST remuneration from the Commonwealth. The financial assistance grants pools estimates, which in part at least link to CPI estimates, change from time to time too, so it is something of a moving feast that leads to different parameters from time to time. If you were to draw that graph in two or three years time, I'm sure it might look a bit different to the way it does now.

THE CHAIR: But the question is: has it changed since the first time it was produced?

Mr Ronaldson: For the ACT it has, yes.

THE CHAIR: Upwards or downwards? Looking at the last column, for example, the cumulative gain from tax reform by 2009-10 is $167.9 million. Has that gone up or gone down since the original estimates?

Mr Broughton: I'm not entirely sure of what the original estimates were, but the relative situation between GST revenues and the financial assistance grants that we would have achieved has remained fundamentally the same. We are expecting an increase in GST revenues, but we would also have expected a similar increase in our financial assistance grants.

THE CHAIR: Are we expecting the start date to be GST-positive, to come forward from 2004-2005?

Mr Broughton: Not at this stage.

THE CHAIR: But there's a chance that it could happen, couldn't it?

Mr Broughton: There is a chance, but it would depend on how our per capita relativities turn out.

THE CHAIR: We haven't got long before we go to Actew. Can I just ask about the SACS award. I assume it's in Treasury that there is an amount provided for under SACS recipients. Does the government consider that it has dealt with the problem in community organisations for the SACS award or are there some areas where community organisations claim they need support or supplementation and are still on your doorstep seeking additional assistance?

Mr Quinlan: You might ask Bill Wood that one at a later stage but, as far as I'm aware, there's not a clamour. But I wouldn't be so bold as to think that the problem was totally fixed.

THE CHAIR: There's a reference in here somewhere to the SACS award, so I assumed that you had some overarching responsibility for it.

Mr Quinlan: Yes, there is. And you'll recall that one of the supplementary appropriation bills for last year moved towards—

THE CHAIR: But only in some sectors. There were some sectors that hadn't been dealt with.

Mr Quinlan: Yes, so that's why I wouldn't for a moment sit here and say everybody's been fixed.

THE CHAIR: All right. Any quick questions?

MRS DUNNE: I've got one question. I think this one is to Mr Ronaldson. In note 1 on page 94 of Budget Paper No 4, it says, "part of the measure relating to Economic Analysis was transferred from the Chief Minister's Department". As the Under Treasurer, how much economic analysis power do you have now, how much increase has there been over the last little while, and are you comfortable with the arrangement?

Mr Ronaldson: Well, it's a relative answer I've got to give. I keep saying we are a small treasury, and one of the classic areas we are pretty small in is the area of economic analysis. Other treasuries have far bigger and deeper resources—say, on model building. We have very scant resources to go out and build the sort of macroeconomic models that other treasuries largely do.

I think it was a good move. The central agencies had a move to consolidate the few economic resources we've got; it gets down, I think, to three people—two people, full-time. Largely, the division of labour, although it wasn't precise, was that Treasury looked after the modelling and the forecasting that went to budgeting and the like and Chief Minister's more often than not commented on the economic occurrences from day to day. It was seen as a good thing to put the day-to-day commenting together with the modelling and the forecasting.

MS DUNDAS: You've put them all in Chief Minister's?

Mr Ronaldson: No, put them all in Treasury.

MS DUNDAS: So why is the economic white paper being done by Chief Minister's, if all of the economic forecasters and modellers, both day-to-day and budget-wise, are sitting in Treasury?

Mr Quinlan: Because we're not actually going to build a white paper based on what the people in Treasury say. We're building a white paper on the basis of what all of the stakeholders say. So in my mind, in logic, the management of that process fits under the heading of economic and business development, as opposed to Treasury.

Now, Treasury will certainly have an input, but the white paper is about economic development—not measurement, not budget preparation, but economic development.

MS DUNDAS: Who will be the other stakeholders? Should we ask the Chief Minister about the economic white paper or should we continue to question you about it?

Mr Quinlan: If you hold off until we're into Chief Minister's Department, that area in the Chief Minister's Department that reports to me, actually—which it doesn't—Business ACT, then we can go through it.

MS DUNDAS: So we'll come back to it in the business area.

THE CHAIR: All right, we might now call Actew witnesses to the table. Welcome, gentlemen. I might just dive in. Can I just ask you to give an indication to the committee of how you feel the joint venture with AGL is progressing? What's your assessment of its success or otherwise to date?

Mr Perkins: I am Paul Perkins, Chief Executive of Actew Corporation, accompanied by Mike Luddy, Chief Finance Executive of Actew Corporation.

Chairman, there's no question that at the early stage, as evidenced by the estimates papers, the joint venture has been successful—first, in shifting risk in the volatile energy market and, secondly, in bottom-line returns to our owners, the government. And this is the first time I think in Australia's public/private history that a divestment of one type or another has ended up with higher dividends flowing, or a continuation of the trend of dividends flowing after the change.

Now, I have to say to you that I think it's a bit early to tell. The energy market is still very volatile, and there are things going on in institutional change in the country, but at this stage it looks very good.

Mr Quinlan: Do you want my opinion as well?

THE CHAIR: All right, okay, tell us your opinion, Mr Quinlan.

Mr Quinlan: Well, I only put one qualifier on it, and that is that in large part what has been achieved in the joint venture could well have been achieved by a joint venture effectively on the retail—and the preservation of the actual Actew assets within public hands is highly likely to have achieved about the same result.

THE CHAIR: Well, let's talk about the retail side for a moment. The prospect of full retail contestability is obviously an issue now before the government. I understand Actew has made a submission to the ICRC inquiry suggesting that it would welcome that phenomenon in the domestic market. What do you believe is likely to be the impact on ACT domestic electricity prices in the short and medium to long term for retail contestability?

Mr Quinlan: Well, I'll make a couple of comments if you like and then ask Paul to comment—you've quite obviously asked Paul. There will be a cost in terms of setting up the systems for retail contestability down to consumption zero, and the regulator has indicated that he would allow that to be passed on. There is also a presumption that competition would have its benefits, and those benefits would in all likelihood offset, in the medium to longer term, the cost of that set-up.

It's got to be remembered, though, that the genie of electricity deregulation was out of the bottle a decade ago. We set up a national grid and we created a situation where there is private ownership of generation and there is a market. Now, the impacts of creating that market have not fully flowed through. The market prior to the introduction of a national grid had some in-built cross-subsidies—in particular, a cross-subsidy between industry/commerce across to the domestic market. Sooner or later, whilever you've got market forces dominating the interests in the industry, there will be huge pressure to undo those cross-subsidies.

In recent reporting and commentating on full retail contestability there seems to have been a confusion of those two issues. The domestic prices are likely to rise and full retail contestability is coming. Ergo, one is the direct cause of the other. Now, that is an over-simplification of the situation. So we need to mentally accept that there is now this deregulated position that creates pressure on the costs, the price to the domestic market, and particularly the cost to the low end of the domestic market—because there's never been a case in the domestic market where there's been full cost recovery at the low level of consumption. The full fixed costs have never been recovered.

But all of the advocates of the national grid actually just sort of ploughed over those problems a decade or more ago. But sooner or later that price will have to be paid, unless we can somehow unscramble the egg that is the national grid. So that's the great problem, and I would like the committee to be aware that the greater pressure and the greater danger to the low-level electricity or energy consumer is the elimination of cross-subsidy between classes of consumers and the elimination of cross-subsidy between large and small consumers within a class. Those two pressures are far greater. I'm disappointed, actually, when I read commentary that seems to imply that all of the problems that will befall the low-level electricity consumer have somehow something to do with full retail contestability. It isn't that simple.

MS DUNDAS: Treasurer, taking in mind that you did say that deregulation will put increased pressure on low-income—those at the low end—

Mr Quinlan: That's what I've just said, yes.

MS DUNDAS: Yes, but you've also said there are other pressures.

Mr Quinlan: Yes.

MS DUNDAS: But considering that, has the government reached a position yet on the ICRC report regarding full retail contestability?

Mr Quinlan: Not a formal position, no.

MS DUNDAS: When do you expect to have a position?

Mr Quinlan: Not for a week or two—minimum.

MS DUNDAS: Okay, we'll give you a week or two, but in terms of the budget—

Mr Quinlan: Thank you, I'll take it.

MS DUNDAS: In terms of the budget, if you are exploring full retail contestability, are you also exploring how you will work to keep the cost of electricity low, or at least liveable, for those people on low incomes?

Mr Quinlan: They are the questions that we need to answer before we answer the first question of retail contestability.

MS DUNDAS: Well, how are you going about finding out the answers to those questions?

Mr Quinlan: How are we going about finding the answers for them? We're thinking.

MS DUNDAS: You're thinking. So you, Treasury, Actew, you're all sitting in a room thinking.

Mr Quinlan: Look, let me put it another way. What we have now in the ACT is a regulator. And at this stage there is not a recommendation that we don't have a regulator, that we let market forces be unfettered. In fact, the existence of a regulator may well help. However, because that genie I mentioned is out of the bottle we have world-wide what is known as the Californian experience where the market was deregulated and prices were capped. In fact there was no capital investment in the

Californian electricity supply capacity, and it effectively browned out. The state actually got to crisis point in terms of electricity supply.

Now, we are by no choice—and I can say quite openly here that in my time in the electricity supply industry I was not an advocate of the national grid unfettered because I could foresee some of the particular problems we now face. But I can't reinvent history.

We're in a position now where we've got to find the best way to avoid our minor contribution to the propensity for the Californian experience, at the same time protect the low-level consumer from being the undesirable consumer in the market and therefore getting really a very bad deal as competition entices suppliers to sharpen their pencil towards attracting the more attractive consumers.

MS DUNDAS: It is an independent regulator that we have that monitors prices, but in your thinking about full retail contestability are you looking at the differences between a regulation on the fixed service charge fee and a regulation on the actual per-unit charge on electricity?

Mr Quinlan: We're not at this point at that precise level. But, as I mentioned earlier in my discussion, the A+BX form of the bill that you get—the fixed charge plus the consumption level charge—has always been falsely imbalanced, as far back as I can remember, but market forces alone, uncontrolled, will push prices the other way. High service fees—

MS DUNDAS: Can you explain this imbalance?

Mr Quinlan: Well, it's been traditional. Originally, the electricity market, and electricity tariffs by virtue of state-level decisions, were biased in favour of the domestic consumer purely for political purposes. That has happened over such a length of time that that level of cost of energy is now inculcated into the minimum wage and all the prior CPI calculations. To say, "The market's crook; it needs to be righted", forgets the fact that, if the market had been a perfect market or an open market 20-30 years ago, then minimum wages would be different and CPI levels would be different—the CPI figures that are used to set minimum wages and minimum pensions, that sort of thing.

So all of a sudden we have a little avalanche of genuine social problems wrapped up in this particular exercise—which isn't happening now; it happened a decade ago with the institution of a national grid.

THE CHAIR: Okay. Can I ask a question here about the timeframe you're working with here. That submission to ICRC that you made suggested that you would need nine months and—what was it—$5 million, $10 million in order to achieve full retail contestability.

Mr Perkins: I think it was $5 million.

THE CHAIR: Was it $5 million? Can you still do that, if you get the green light within the next, say, three or four weeks, by 1 January 2003?

Mr Perkins: I think the short answer is yes. And I think, Chairman, policy decisions are for the government. We as a government-owned entity, subject only to our statutory responsibilities for environment, sustainable development and so on, have a responsibility to maximise the commercial position. But, in putting that submission to ICRC, we made the point that in that context of commerciality we recognise we have to embrace whatever government policies are about competition and get on with it. But they need to understand there is a cost.

There are significant costs to domestic consumers because of Mr Quinlan's comments about the in-built subsidisation. There are probably significant early gains for small business by going to contestability. In the end, our view is that they will out in one form or another. However, Ted's point is very valid. There is no such thing as full retail contestability in the states right now. Despite the words "full retail contestability", Victoria saw the need to address the issue in their way—that, is to address the consumer protection issue by putting caps on the new so-called fully retail contestable market—and so there are caps, running the risk of a California meltdown.

Now, if that happened in the ACT, it's a government-owned entity which would melt down, which wouldn't be real smart. In New South Wales they took a different approach. They actually put a fixed price limit to protect their state-owned distributors from the volatility of the wholesale prices. So their prices don't go above $44 at the moment whereas we, subject only to our deal with AGL, are subject to volatility of up to $5,000 per megawatt hour. So there are different ways of addressing consumer protection, which have to be addressed as well as the pure competition issue. That's still to be worked through.

MS DUNDAS: With the decision still two weeks away, do you see any impact of any outcome on the budget? You've spoken about—sorry, was it $50 million that you would need to get it up and running?

Mr Perkins: We've factored in full retail contestability so far as we can see it, and we think there'll be a marginal impact.

MS DUNDAS: So you've already got money set aside to implement full retail contestability?

Mr Perkins: Less money available might be the better answer.

MS DUNDAS: Where would that—

Mr Perkins: Less profitability.

MS DUNDAS: So you'd just take it out of your profit margin?

Mr Quinlan: Well, out of the dividend, yes. The dividend that Actew pays to the government has taken account of the fact—I mean, as Minister, I've been talking to Actew about this subject since February. I've been speaking to the regulator on a consistent basis since February.

MS DUNDAS: You're still two weeks away from a decision?

Mr Quinlan: Yes.

THE CHAIR: So the fall in the Actew dividend forecast for next year is premised on—

Mr Quinlan: Well, the impact of the—

Mr Perkins: There's not a fall—

Mr Quinlan: There's some good stuff in the dividend too.

THE CHAIR: Well, reduced on previous forward estimates.

Mr Perkins: It's soft. Yes, it's soft because of the competition in the energy market.

THE CHAIR: Right. Are you selling electricity to New South Wales at the moment?

Mr Perkins: Yes.

THE CHAIR: What sort of volumes of electricity?

Mr Perkins: Large volumes. I'm not sure of the precise figures and I'm not sure they should be available either because they are bought and sold in the market at commercial terms, but we can provide a general briefing for you after the session.

THE CHAIR: Right.

Mr Quinlan: That's in the contestable market already and it's been contestable for some time. We're only talking about the full rig.

MS TUCKER: So you are selling now to individual householders in New South Wales; is that correct?

Mr Perkins: Yes, absolutely—in Queanbeyan.

MS TUCKER: Queanbeyan? Right.

Mr Perkins: Many of them are our own employees, as you would expect.

MR HARGREAVES: That's insider trading.

Mr Quinlan: They didn't get a choice.

MS TUCKER: So you're competing there mainly with Southern Energy; is that correct? So you now have people selling, or trying to sell, Actew as a supplier in Queanbeyan, competing with—what's the provider there now, Southern Energy, is it?

Mr Perkins: In effect, yes.

MS TUCKER: So what is, say, the difference in price that you're offering? How are you attracting people? I guess I'm interested to know what you are doing to attract people, basically, to buy.

Mr Perkins: Price.

MS TUCKER: So what do you say? Is it the case that that price is obviously influenced by the Pricing Commissioner here? So it's just the current price—so you have a current price but you can't guarantee how long that price—

Mr Perkins: The answer to this is very simple, but pretty brutal. If you stop and think of contestability as it operates now with the large customers, there are something like 13 licensed retailers operating in the ACT. They are hell-bent to take away our customers. For every customer they take away, that customer's unit sales are not available to cover the overheads. Therefore those overheads have got to be spread across all the rest of the customers in our home territory.

The same thing applies in domestics, except that 95 per cent of the consumers are domestic, and only 5 per cent big business. Now, in terms of Queanbeyan it's dead simple. Canberra's costs of power have been cheaper than Queanbeyan's forever, and everybody in Queanbeyan knows that. So, by definition, the community in the market sense would love to have access to Canberra's power. They're not interested in regulators or interstate things and so on; it's just a fact of life.

However, in our pricing to Queanbeyan we're looking at the new market. We are ensuring that we're being responsible in terms of a profit margin, over and above what we pay for the power, remembering that there's two components of this—there's what we get for wheeling it through our wires, if it's in Canberra, plus what we get in retail profit. In Queanbeyan it's only what you get in retail profit; there's no wheeling through wires. That money still goes to Country Energy, and it will always do so. That's a monopoly-type thing. So it's a very complex thing and it's brutal.

The reality is that there is a market out there for some customers and there is not for others. If we seek to position ourselves in Queanbeyan it's simply strategic positioning—understanding what we've got to do when it is fully contestable. We had better learn now because it'll be too late after it's done.

MS TUCKER: Sorry, I still don't know if you answered my question properly. I'm trying to understand what you are telling people when you sell them electricity. Do you say, "This is the price at the moment?". Are you saying it's a different price for people in Queanbeyan than people in Canberra?

Mr Perkins: I can't answer that, but certainly it would be a different price to the ICRC regulated tariff because under the Utilities Act that is a residual tariff for those who are contestable.

MS TUCKER: Okay.

Mr Perkins: If you are contestable, it's what the market will offer you. So it's cost plus.

MS TUCKER: All right, I understand that. Then, once again, how long are you telling customers that the price that you're selling on will be the price? Do you just say the current price or—

Mr Perkins: They're all done on contracts. They would all have a fixed term, or a minimum fixed term. Some might be as short as a year, probably are as short as a year; some would be as long as three years.

MS TUCKER: So each individual—

Mr Perkins: Normally three year ones, if I can interrupt, three year ones would have a profit share in them; that is, a risk share. So that, if we are committed to only locking things in for a year, then we'd be foolish to give something away for three years. So you normally would have a clause in there which shares the risk of change in years two and three.

MS TUCKER: So there's a minimum fixed term contract to individual householders which is one year, or three years—or is it different?

Mr Perkins: Well, I don't know the answer to that precisely.

MS TUCKER: You don't know. Does it vary between customers or you're just not sure? But it's the same for all customers.

Mr Perkins: I think you'll find that in a domestic market, because you wouldn't be getting back-to-back contracts for each one, there will be a fixed process and we'll have parameters set that the person selling will work within. So it would be fairly standard across that class of customers.

MS TUCKER: Well, maybe you could get that to the committee, and—

Mr Perkins: In broad terms, yes, but not in precise terms, if you don't mind, for reasons of retail contestability, as provided now in the utilities legislation.

MS TUCKER: But it must be public. If I'm a householder in Queanbeyan then you are going to tell me—it must be public, what the contract—

Mr Perkins: Everything that's public obviously is available to you, Kerrie.

MS TUCKER: Okay.

Mr Perkins: My point was that the precise details of the marketing arrangements are, under the utilities legislation here and in New South Wales, commercial.

MS TUCKER: I have just one more question, if you don't mind. With the pressures that you were talking about on the lower end, Mr Quinlan, is it the case now for residential people who purchase, in Queanbeyan or here, but in Queanbeyan or in New South Wales, that how much you would save would depend on what your energy bill is? Is that the case?

Mr Quinlan: I don't understand the question, sorry.

MS TUCKER: Okay. The question is: is it the case that the more electricity you use the more you will save if you go to Actew—if you're buying from Actew with the arrangements that you're offering?

Mr Quinlan: Well, I think you've just got to imagine down the line that you've got full retail contestability between a number of retailers that, by virtue of the way grid operates, can access Canberra. I imagine that it's already happening—that there are various packages being put together, much like the telephone packages that you've seen over the last few years. Someone like ActewAGL would probably offer you an energy package as well as an electricity package. So some will be cheaper and some will be dearer.

MS TUCKER: So the question is really getting to the basic relationship between contestability and the environment. I'm interested to know if you can tell this committee that it is not the case that you will be more likely to save more money if you actually use more energy. First of all, can you say that that's not the case—because that seems to be the case generally with contestability; that the more you use the more you save? So there's a problem if you are actually committed to reducing greenhouse gas emissions and you have a market system which actually rewards people who use more energy.

Mr Quinlan: Well, it depends on your logic, but you're absolutely right that the larger consumers in a market are likely to get a cheaper rate. Now, whether the marginal cost is encouraging them to use more—I mean, for me it's not, as an energy user. Even though I might get a good package on my place, I still think I'd like to minimise my use because it's still costing me more money. The more I use, the more it costs. That will happen. But will I be paying a marginal rate lower than other users? Yes.

THE CHAIR: Sorry, Ms Tucker, we'll have to leave it there because we've only got a couple of more minutes and we've got other members anxious to ask questions. Mrs Dunne.

MRS DUNNE: Thanks. Actually, my questions sort of sachet fairly nicely with the ones that Kerrie has asked. Paul, can I go back to the question of the sort of head cost or the supply cost, which is a fixed cost, and then the cost of electricity that you use and, if we have full contestability, the impact that that might have on the more disadvantaged areas of the market. How much is Actew doing to actually help people reduce consumption? I mean, it doesn't necessarily fit comfortably with a utility to be in the market of selling electricity and at the same time having a sort of environmental charter which might help people to reduce their energy consumption.

Mr Perkins: Vicki, I think it does fit. I mean, we have a statutory responsibility for sustainable development and consumer protection and so on. And any government has that responsibility as well in its social charter. It is our responsibility to be making a contribution to all of those things in long-run self-interest if nothing else. Whether or not there's enough being done in the demand side is a big question, and we're looking at that right now because we think there needs to be more done.

In the first few years of the national market, there is no question jurisdictions across the east coast of Australia discouraged the utilities from doing it, and set up agencies within government to do it, which I think runs counter to our statutory charter. This government has said to us they want us to look at that. I think that's quite reasonable, but it takes some time. The market people have been saying, "Just let the market work". The reality is that you actually have to do a whole range of things in a mixed economy, and demand-side management, we think, is very important. It's not just supply side, like renewable energy and so on; it's also demand side.

My house, for example, has co-generation, to use less energy out of the grid. Now, some of the investors don't like that because that means they can't build a windmill or a coal-fired power station or whatever. But the demand side—that is, what you do in the household and the business—needs work as much as the supply side.

Mr Quinlan: And load management.

Mr Perkins: And load management itself is probably an efficiency issue which has probably even bigger dividends in terms of not just environment but also efficiency grounds.

MRS DUNNE: But, Paul, when you talk about co-generation, that's an expensive option which most people can't afford. I'm actually thinking about what does Actew do now, or what does it perhaps think it should do in the future, in terms of helping people manage the energy efficiency of their house—especially if you're at the lower end of the market and you can't necessarily go out and shell out large amounts of money for wall insulation or that sort of thing?

Mr Perkins: Without going into the detail, ActewAGL is presently looking at two product packages, which I'll be talking to government and stakeholders about in the next couple of months, which actually help in a whole range of client-end rather than supplier-end ways. Of course, they have to work it out so that in the long run it's sustainable—commercially as well, but it looks very promising. We've done very well with businesses in the past, big industry. The real effort now has got to be on the big volume and unit cost of domestics.

MRS DUNNE: Keep us informed.

Mr Perkins: No inconsistency at all with the commercial charter, in my view.

MS DUNDAS: Treasurer, to go back to full retail contestability, can you guarantee that, if full retail contestability comes in in the ACT, no low-income earners will be worse off in terms of their electricity payments?

Mr Quinlan: No.

MS DUNDAS: Not at all?

Mr Quinlan: Nobody can guarantee that. That's an impossible guarantee to give.

MS DUNDAS: You said that you were considering—

Mr Quinlan: Just get a bit of background here. ActewAGL is supplying low-price electricity because it has been very, very good over quite a number of years in its purchasing. But, no matter how good those contracts are, they're going to come to an end. When those contracts come to an end, Actew will have to go back to the market. And that market, because of its contracts and spot pricing and varying prices through the time of the day, is in fact quite a formula. If you try and predict it, it's a formula in what you buy. Anybody that deluded themselves that they can give a guarantee on future pricing in the ACT, which is probably still the lowest in Australia, would have to be Loony Tunes.

THE CHAIR: One more question, please Ms Dundas; we've got to let Mr Perkins go for a plane.

MS DUNDAS: Yes, sorry. You said that you were thinking about the whole full retail contestability, and, taking on board that you can't guarantee that low-income earners will be—

Mr Quinlan: No, a guarantee is not possible.

MS DUNDAS: I'm accepting that; I'm just asking a following-up question on that. What are you thinking about doing—because you said you were thinking about it—to ensure that those on lower incomes are not increasingly worse off if full retail contestability is implemented?

Mr Quinlan: If we have full retail contestability—which I have to say is a high probability because we are now an island in the middle of it anyway, there are virtually only two measures that I can conceive of as I sit here, but I'm not making decisions today. One is still regulation—via caps and via consistency within a class, if you know what I mean—and the other is effectively the interposing of levy and rollback. We've already got a committee that takes care of people that have great difficulty in paying their bill, so that we don't withdraw an essential service from a family that actually can't survive without it, and that's a management mechanism, as a bail-out mechanism. It may be that that has to be further developed. And that's part of the ICRC report addressing that.

THE CHAIR: We will have a very quick last question from Mrs Cross.

MRS CROSS: I have a very quick multi-pronged question for you, Mr Perkins. Nice to see you. I wanted to find out if an Actew domestic customer in Queanbeyan is going to be able to pay less for electricity than a domestic customer in Canberra, or is that already happening now?

Mr Perkins: The answer is no.

Mr Quinlan: But it might be.

Mr Perkins: It could be in the future, but not now.

Mr Quinlan: Customers is customers. In the deregulated market, customers are just customers.

MRS CROSS: So customers in Queanbeyan who are changing to Actew, I assume that they need a new meter. Are you giving them—

Mr Perkins: No.

Mr Quinlan: No.

MRS CROSS: They don't need a new meter?

Mr Perkins: No.

MRS CROSS: So there's no additional cost to the customer when they change over to Actew?

Mr Perkins: No.

MRS CROSS: Good, thank you.

THE CHAIR: Thank you very much. You have to get a plane, so thank you, Mr Perkins. Mr Luddy as well, thank you.

Short adjournment

THE CHAIR: Thank you, ladies and gentlemen, Treasurer, officials. I might just do a bit of further housekeeping at this juncture. Particularly this is addressed to members of the committee and others who are listening in the building. The committee has considered the question of whether to have the Privacy Commission appear before it on 31 July. The Privacy Commissioner and his staff are based in Sydney and will have to fly down at ACT government expense if they are to be examined. The committee itself doesn't have any burning issues which it thinks it will need to ask the commissioner. So I am inviting other members of the Assembly who might wish to ask questions of the Privacy Commissioner to either put those questions on notice—and they have until Wednesday of next week to do so, we would ask—or, if they have questions which they believe can only be answered by the commissioner or his staff in person, to indicate that by this time next week so that we can alert the commission that we will need to have staff present here on 31 July. But, if there are no such indications, then there will not be a requirement to have the commissioner or his staff come to Canberra.

MR HARGREAVES: There being no provision in estimates for the travel.

THE CHAIR: Well, that's right, indeed. We will proceed with Treasury evidence. Could I begin by asking about one of the functions which is referred to in Budget Paper No 4. On page 83, you indicate that there is an extra $600,000 available for increased financial management capacity, and elsewhere there's a reference to obtaining extra funds for applying a strengthened financial analysis function, particularly with respect to major project proposals. Now, this would seem to me to be a core function of Treasury anyway, but I take it that that particular function has been strengthened by additional resources. Can I ask what resources are envisaged to be obtained to fulfil that extra function or capacity?

Mr Ronaldson: You're right, it is a traditional function of treasuries. This Treasury has been, in my opinion, a bit light on in the past in all areas of financial analysis. The Assembly has imposed a fairly vigorous reporting regime on successive governments, and it has tended to be reflected in the sorts of skills sets that the Treasury has headed towards in the past. That is, the Treasury has recruited people who largely can churn out financial results and produce financial documents in short order. What the Treasury hasn't done enough of in the past, I believe, is financial analysis in two broad areas. And one area is the normal sorts of financial analysis you see other treasuries doing with respect to portfolio issues. This has been reflected—largely it comes up through the budget process where a great deal of time has been spent in the budget process looking at issues financially—I don't mean in a policy sense but financially—around the margins as to how the marginal bits of revenue and expenses will be allocated, without a great deal of time being spent on looking at the base costing of programs on a portfolio basis. Like every jurisdiction, there are a number of structural financial issues that the ACT has got and, I think, whilst the Treasury is aware of them, it hasn't had the resources to pursue them with any vigour.

The second area which the Auditor-General commented on is in relation to financial and economic analysis of major initiatives, be they major projects or other initiatives, like, for instance, the development of a land development board. All governments do these from time to time, and, whilst the Treasury in the past has had some resources to head towards this, it was a recommendation of the Auditor-General, which I agree with, that there is a lack of resources in Treasury to look at big and specific initiatives as they arise throughout the government from time to time. So that's the second area that we hope to bolster over the next six to 12 months.

THE CHAIR: So do you anticipate using that money to take additional employed staff in Treasury, or do you think that may well be used for consultancies, or a combination of the two?

Mr Ronaldson: A mixture of both. One major variable which I don't think has been determined yet is that there is to be an ERC established. The major unknown with the ERC, for me anyway as I'm sitting here now, is what exactly it's going to look at. I presume it will look at some portfolio, probably one of the spending portfolios, and it may look at a range of other issues. For instance, it might look at the issue of service coordination throughout the service, which is a topic that's being talked about at the moment. So, really, ERCs do a lot of their work and are most active between budget cycles. We start the next budget cycle in about four months—

THE CHAIR: That long?

Mr Ronaldson: In about November.

Mr Quinlan: There are a few annual reports in between-times.

Mr Ronaldson: A bit of financial reporting in the meantime, but if, for instance, the ERC is to be particularly active this calendar year, you can envisage a range of recruiting exercises by the Treasury and some consultancies from time to time to bolster the ERC effort. There is also the Commission of Audit, which is ongoing, and the Treasury is supporting the Commission of Audit through its second and third phases, and we would expect to be taking some extra resources on to support the Commission of Audit also.

THE CHAIR: Treasurer, do you think that this extra analysis function might be applied to projects like the Gungahlin Drive extension?

Mr Quinlan: I don't know that that's a pressing problem in relation to the finance at this point. I mean, certainly it is an issue; we're all aware of that. But, I mean, as Treasurer I would expect to reserve the right to challenge the financial assumptions or calculations in any area, but I don't see it particularly drifting into the Gungahlin road.

Mr Ronaldson mentioned service coordination, and I'm particularly interested in making sure that government reviews the plethora of programs that build up. You see a budget, you see each of these things, you see a raft of new initiatives go in. Now, if you're not careful you are building topsy, and we do actually need to go back to base and say, "Are all the programs that we have on foot necessary, and necessary as individual programs? Can there be a better degree of coordination?". Already I can say that we've examined the raft of programs we provide in terms of indigenous Canberrans. And we've looked at rationalising that process. Now, by comparison to all the things we do that's a fairly small section of government activity. I want to see that the territory has a greater zero-based budget capacity than it has. That's not always possible just at budget time. I want to be able to review the way we structure the funding of programs to make sure that we're doing it effectively. And that's a capacity. But we also need to know, for example, the contextual stuff as well.

So, if we're looking at what we might do in a particular service, say housing, then we want to know a lot about what's happening in housing in Australia, how other people do it and how other jurisdictions to it, if they do it more effectively. We need to know a lot of those things. We need that information to make sure that we've got good, sound management in the territory.

THE CHAIR: Looking at the table on page 90 of Budget Paper No. 4, you detail that $600,000 in that first part of the table, but then three items lower there are productivity savings of about the same order. Would it be too cynical to suggest that the extra function sort of just about offsets the size of the productivity saving, and that in fact Treasury's capacity is actually no different?

Mr Quinlan: Mathematically, that's pretty close to brilliant, Mr Chairman, but—

THE CHAIR: Thank you for the compliment.

Mr Quinlan: Yes, in point of fact, in any endeavour when you are involved in a number of activities, it is quite possible to do some of those activities more effectively and efficiently while providing more capacity to other of those activities. We should not be confused; the very thing that I was talking about in the previous answer was that we actually want to do all of the things that we do most effectively and efficiently. Now, some of this capacity is the Treasury's overview capacity. But if we can make savings in operational areas—Treasury, or any department—and still provide the level of service out there, we will do it.

THE CHAIR: Okay. But given what the under-treasurer has just said about the capacity of Treasury being very tight, having been very tight for some time, and having lacked the punch to do some things as it would have wanted to do them in the past, where will that productivity saving of $600,000 to $700,000 actually fall within the department? Where will you make those savings within the department?

Mr Ronaldson: We'll make them for a range of areas. We sought productivity savings, for instance, from our GBE branch. We've done a lot of work in GBE branch about understanding better the sort of data sets that we want from GBEs around the place in setting up systems to more automatically collect that sort of data to make the analysis of it a lot more streamlined. The quid pro quo there was that we thought we could do that with one less position, for instance, ongoing, as an example. We are going to see productivity savings from procurement areas. We are going to look at some of our systems in Treasury and work them harder. My office is taking a productivity cut, for instance—

Mr Quinlan: He's leaving it.

THE CHAIR: Yes, that's very convenient, isn't it?

Mr Ronaldson: The next Under Treasurer will be more productive, I'm sure, and the like. So across the department we have targeted most areas for marginal cuts to achieve these savings.

THE CHAIR: Can you give us a break-up of how that will fall on the department?

Mr Ronaldson: Yes, we can.

THE CHAIR: Okay. Could I ask a general question about the productivity saving target. You've achieved across the board a saving of about 1 per cent of the operations, about $9.8 million?

Mr Quinlan: Something of that ilk, yes. I think it's about half a per cent that's involved.

THE CHAIR: Half a per cent, is it? Okay.

Mr Quinlan: Yes.

THE CHAIR: Do we need to ask each minister where the savings fall in each agency? You can't provide us with an overview of how the savings have been made?

Mr Quinlan: We could give you a general overview and it's up to you if you want to go beyond that. But I, as Treasurer, don't intend to micromanage every department and, you know, we—

THE CHAIR: No, I'm just asking where we get the information. So you say you can provide us with an overview?

Mr Quinlan: We can give an overview. We'll provide that top table.

Ms Smithies: We'll provide that, just with it cut up, yes.

THE CHAIR: The doctored version, okay. Can I go back to the ERC. I'm curious as why you've not used an ERC for this budget. Surely your first budget is the budget where you want to do the most rigorous analysis of where structural change might be possible and where savings might be obtained, rather than leaving that to budgets that are closer to the next election. So why didn't you do it this year?

Mr Quinlan: If we only had time, I guess, is the answer to that.

THE CHAIR: You had longer than any other Treasurer has had before producing their first budget after coming into government.

Mr Quinlan: Yes, and did they have ERCs?

THE CHAIR: No.

Mr Quinlan: Okay, well, we go back to that then—if we only had time.

THE CHAIR: But you did have time.

Mr Quinlan: No, we didn't.

MRS DUNNE: You had seven months, which is much more—

Mr Quinlan: Seven whole months!

MRS DUNNE: Which is much longer than most other treasurers have had.

Mr Quinlan: Yes, but the others didn't have an ERC anyway. So what's the relevance then?

THE CHAIR: But they didn't say that they needed it. You have said that that you needed it.

Mr Quinlan: Yes, we do, and we do over the longer course. And, in fact, the initial ERC will be, effectively, the cabinet, meeting as the ERC with that level of support.

MS DUNDAS: Can I just pick up on that?

THE CHAIR: Yes.

MS DUNDAS: So who will be on the ERC?

Mr Quinlan: The initial ERC will be the cabinet, meeting as the ERC with specific support from Treasury.

MS DUNDAS: You talk about the initial ERC. How long will this initial ERC convene?

Mr Quinlan: As long as is necessary. I mean, I haven't got a program here to say, "Righto, this is a program that says the ERC will be this form, that form and that form". What we want is to get to a point where we focus on challenging government expenditure—and the primary focus will be on the challenge. It won't be the normal budget cabinet where you've got individual ministers who, of necessity, must represent the programs with which they're associated. So we actually want to go to virtually a phase where we actually challenge the necessity for expenditures on all fronts, so we deliver better services.

MS DUNDAS: You said that you didn't have a dot-point program but in the budget papers you refer to a three-year rolling program of reviews in terms of the ERC. Do you have a time line or a list or an agenda for those rolling reviews?

MRS DUNNE: Who's the first cab off the rank?

Mr Quinlan: No, I haven't got a program for it yet.

MS DUNDAS: When will that be developed? I mean, you've already talked about the initiative of three-year rolling reviews.

Mr Quinlan: Yes.

MS DUNDAS: As Vicki asked, what's first and what's next?

Mr Quinlan: I haven't decided what's first.

MS DUNDAS: When will that decision be made?

Mr Quinlan: When I'm—

MRS DUNNE: Thinking about it.

Mr Quinlan: Yes, yes, thinking about it.

MRS DUNNE: But seeing that Mr Ronaldson said—

Mr Quinlan: Are we going to play this silly game, this dopey game, "Oh, we can catch you; you haven't got—

MRS DUNNE: Seeing that Mr Ronaldson said that the optimal time to run your ERC is during the budget downtime, which is now, essentially, after you've finished here next week. I mean, it's a reasonable question to ask. If this is the downtime, this is the obvious time to do it, when are you going to come up with a strategy; when are you going to come up with the timetable?

MS DUNDAS: Considering that—

Mr Quinlan: Sorry, love you, but make of it what you will; I'm not going to come up here and say, "Right, here is a strategy". The deepest, most meaningful question asked in this estimates was "What's the date for this" or "What's the date for that?". Now, we're putting in a process that is our management process—right? We will introduce that management process as we think fit.

MS DUNDAS: The reason why I think it's an important question, Mr Treasurer, is that we are looking at the estimates and the budget for the next financial year—well, which is now this financial year—and you are, as part of this budget, implementing an expenditure review committee that will be looking at, as you have said and its charter says, the funding-based financial status of government programs and how they could possibly consolidate programs, which I think is an important part of how the government operates and how the budget works—which is something that we're looking at in this estimates process.

Yet we know that there'll be an ERC; we know that there'll be three years of rolling reviews. These are both things that you have stated. Yet we don't know where that will be covered, which programs will be consolidated, when that will take place, and I think it's an incredibly important basis for this budget.

Mr Quinlan: Post-budget, the cabinet has not met as an ERC. When cabinet meets as an ERC, then the ERC will decide which areas it wants to examine. That would be logical, wouldn't it? Does that work for you? So we will be—

MS DUNDAS: When?

Mr Quinlan: Soon. It depends on the program. There's a lot in front of cabinet right now, let me tell you. We just spent a lot of time talking about full retail contestability; there are insurance issues. There's a lot in front of cabinet right now. We've committed to do it; we'll do it.

MRS DUNNE: So has cabinet met as an ERC?

Mr Quinlan: No.

MRS DUNNE: Okay. From what you said before it was unclear.

MS DUNDAS: So the secretariat support for the ERC is coming from Treasury. Is there any extra funding required for that?

Mr Quinlan: No.

MS DUNDAS: So it's all been covered in normal running costs of the department?

Mr Quinlan: What's in that budget is what we get.

MRS DUNNE: So that comes out of the $600,000?

Mr Ronaldson: In part.

MRS DUNNE: In part. Where else does it come from?

Mr Ronaldson: Well, we will be enlisting the resources of our fellow departments, and depending on what's being reviewed, but—.

Mr Quinlan: You've also got to remember, if you take this approach, there is a function that Treasury performs—and Treasury knows a lot about what happens in departments, so that in fact in large part this is a way of doing this stuff, and a more focused way of doing a lot of what is done now as well, in terms of understanding where departments are coming from. These people know. If I'm asking them about this organisation or that organisation, they'll tell me.

MRS DUNNE: Mr Ronaldson, would you see part of the ERC processes as being a substitute—not necessarily a substitute but a meaning that you would need to have less emphasis on budget bilaterals?

Mr Ronaldson: I think that's, in principle, a fair call. I think that the budget bilaterals this year were a quick attempt to do some of the things you'd want to do in an ERC over a longer and more considered period. The point of an ERC is to take strategic financial issues away, at least in part, from the budget process in the first instance, and go back to the basic budgeting of departments and have a look at exactly what they're spending on their mainstream programs—the sort of outputs they're generating from the mainstream programs; the sorts of views that you mightn't look at during a budget because you're more concerned with marginal issues. And you're more concerned in the budget process at the front end with systems-wide issues—what is the size of the deficit or the surplus that we're heading towards, are we going to borrow more or less, what's the shape of our superannuation liability, how quickly is the economy, which underlies the revenue estimates, going to grow, and so on and so forth.

So a lot of the bulk spending decisions that are just made year after year in the system don't receive a lot of attention during a fairly standard budget process. Hence most jurisdictions, I think I'm right in saying, around Australia have an ERC or equivalent that they use as a mechanism to take a closer look at the expenditure side of the budget and the sorts of outputs that are involved.

MRS DUNNE: On the subject of bilaterals, and going back to what was raised by the chairman previously, in the bilaterals that you've just completed for the budget, did you have discussions with Roads ACT about the costing of capital works in roads, and particularly the Gungahlin Drive extension?

Mr Ronaldson: I don't think we had extensive discussions about road costings. We did have discussions about the timings of the capital program—about the timing of expenditure with respect to the roads program and all their other capital programs. We had lots of discussions with them about their land release program.

MRS DUNNE: I'm glad.

Mr Ronaldson: But I don't recall that we had detailed discussions with them about their costings behind individual road programs.

MRS DUNNE: On this subject, asking you to hark back—and this might be a bit much of an ask—some of the costings for the capital works program for some of the roadworks have been there since the previous budget, the road upgrade program that was announced last year on a staged basis. When those figures went in the budget, were you confident that they were robust?

Mr Ronaldson: Well, we rely in the first instance on departments to appropriately cost their programs. And we normally, once again in the budget context, spend most time having a look at the costs of new initiatives that come forward. So I don't know the exact answer. I can ask but—

MRS DUNNE: You see, a lot of the capital works stuff was new initiatives in the previous budget, and in the out-years. I mean, how confident were you then that they were figures that would stand the test of time?

Mr Ronaldson: Well, when they would have gone in, as I said, we would have had a look at the basic costings of them when they first went in the budget. If they're projects that are being rolled over from one year to the other because they haven't proceeded, we would expect—we would insist—that departments give us up-to-date costings if they shift. Departments have the fundamental responsibility to get the costings of their programs in good order before they come to the budget.

MRS DUNNE: Thanks for that.

Mr Quinlan: Some of those projects were actually modified within the capital budget. There was some modification of the costings coming forward.

MRS DUNNE: There was one set of modifications; that's my understanding.

Ms Smithies: Yes, one set, across a couple of projects.

Mr Quinlan: Yes.

MRS DUNNE: So what were the projects where there were modifications?

Ms Smithies: We'd have to get you the exact detail, but a couple of those—certainly a number of the roads projects have actually changed in terms of total project costs.

MRS DUNNE: Apart from GDE, are there others?

Ms Smithies: From memory, I think there are, yes.

MRS DUNNE: Could you get back to us with that, thanks?

Ms Smithies: Yes.

MS DUNDAS: Can I just ask one last question today about the ERC. Do you envisage that, as part of the three years of rolling reviews, ERC will bring in external contractors to conduct any of those reviews, or do you see it all being done in-house and by the cabinet ERC?

Mr Quinlan: I can't be that precise, but I envisage that the vast majority of it's in-house because it's as much about understanding what we do and refreshing our knowledge and making sure we're on top of what we do, as it is just—you know, I think you might have referred to it as a razor gang at one stage. But it is about making sure that we deliver efficiently and effectively, so it's about the involvement of cabinet in a process of review of expenditure.

MS DUNDAS: I know you haven't met, so I'm not asking you to predict the future, but if you do go and find that you need to bring in an external consultant, do you envisage that that cost will be covered by the financial management capacity study funding?

Mr Quinlan: Well, certainly it'd have to be managed within the departmental resources because the budget—

MS DUNDAS: Through the Treasury departmental resources?

Mr Quinlan: Yes. It would have to be—or at least through the overall budget resources.

MS DUNDAS: So the money, if necessary, could come from Chief Minister's or—

Mr Quinlan: Well, we're getting very hypothetical, but let's go with that. Assume that there was a particular program and a particular suite of programs that we want to review and they belonged in a department over there, it might be that the department might want to be involved in the review of that as well. I know if I was running a department I would.

MS DUNDAS: So the department would have to fund its own cost-cutting measures in a sense.

Mr Quinlan: Yes. I don't envisage this as being big bucks overall.

THE CHAIR: Okay. We'll have just a couple of general questions and then we might start going through the specific pages of the program. But I want to ask you—I think this is the right place to ask it—about the casino offer of a $10 million payment for putting poker machines in there. Can you explain to the committee why the government decided to reject the offer?

Mr Quinlan: Well, I suppose essentially it is that government decisions are not for sale.

THE CHAIR: So you're saying that you saw no benefit in obtaining a $10 million premium of the kind that the former Labor government obtained 10 years ago to set up the casino in the first place?

Mr Quinlan: Would I like $10 million? Yes. Am I prepared to sell government decisions for dollars? Not necessarily.

THE CHAIR: Well, in a sense, your predecessor sold a government decision by allowing a casino to come to Canberra. So, I mean, selling government decisions is a question of public interest, isn't it—I mean, if there's a public interest in that being there; isn't that right? Well, I'll put it another way. Is there a private interest on the part of the Labor government in having poker machines in the casino when there are poker machines in Labor-owned or controlled clubs?

MR HARGREAVES: You're just upset because there are no poker machines in the curry club.

THE CHAIR: Thank you, Mr Hargreaves.

MR HARGREAVES: Yes, that's what it is.

Mr Quinlan: Okay, this is the hoary chestnut. Let me just give this—without the numbers because I don't have them at my fingertips. I used to be president of the Labor Club once, but I'm not now. The Labor Club is amongst the top two or three contributors in terms of community funding, far beyond what it contributes to the ALP. I don't think that the introduction of poker machines to the casino would have any impact upon the Labor Club. It might have a bit of an impact on the Canberra Club or some clubs around the city—maybe; I don't know—and maybe Ainslie Football Club. But I can't see it having an impact. So there's not a connection between what the casino's got and the Labor Club. And the only club that we've got in the vicinity is the Workers Club and you're probably aware that there are changes to be made and it will probably be disposed of. It's not a success.

THE CHAIR: Do you believe that the ACT casino is at some risk of not continuing or not being viable without poker machines?

Mr Quinlan: No. I do believe there will be probably be, as there was, some grandstanding on the issue, and I do believe there's a high probability that the casino will reformat itself, and it might restructure itself to become more a boutique casino than, if you like, a mass-production casino. I think there's a probability of that.

MRS DUNNE: It's pretty boutique now, isn't it?

Mr Quinlan: Is it? I don't go there often. I'm not allowed to go there. Do you know that under the legislation I'm not allowed to even go?

THE CHAIR: You can't play the tables; you can go there.

Mr Quinlan: It's no fun if you can't play the tables.

MRS CROSS: We're quite happy to give the title to someone else.

THE CHAIR: You can ask for them to reshuffle; someone else can be Treasurer. All right, I think you've answered that question. I notice that you estimate that land revenues from lease sales will decrease from $117.5 million in last financial year to $109 million approximately in this financial year as a result of changes to the land release program. Is that—

Mr Quinlan: Probably demand actually.

THE CHAIR: You think there's a decrease in demand?

Mr Quinlan: Look, I didn't do those estimates myself and I haven't been through them in detail—you might ask the appropriate minister that—but there has been, as you're aware, considerable heat in the housing market which I don't think anybody would say can be sustained indefinitely. So it would be, I think, rational to take account of the fact that there might be some decline. But I haven't got the variables of price versus quantity at my fingertips.

THE CHAIR: So you're convinced this is not the product of a decision to reclaim government control of land development; there's no connection between those—

Mr Quinlan: Well, that's not happening in the current financial year. That's a process that we will embark upon next financial year.

THE CHAIR: There's no question of land banking in order to make that more successful?

Mr Quinlan: How do we make it more successful by land banking?

THE CHAIR: Well, you constrain the amount of land being released in the market, so the land that you release with a process of government control is more valuable because there's been less of it in the marketplace.

Mr Quinlan: I would haven't thought so. I don't know of anybody that's claiming that we're into land banking. I thought most of the criticism was of the major developers in terms of land banking.

THE CHAIR: I'll introduce you to a few people in the building industry.

Mr Quinlan: Would they be developers or builders?

THE CHAIR: Probably both.

MRS DUNNE: But on this subject, Treasurer, we have seen constantly over the past five or six years that the general land release programs is recognised—and the HIA figures that I and the Minister for Planning were shown the other day indicate that the the demand for land in the next financial year will be about 2,100 blocks. That's pretty standard, give or take 100 blocks, for the past few years. How are we actually going to see a falling in revenue except by means of either not releasing that quantum of land or by some mechanism that would see a massive deflation in the price of land? What is it going to be? Are you not going to release it, or are you anticipating a fall in the cost of land?

Mr Quinlan: As I said, I haven't got the details of the calculation. That's not one that I've done, and I'm prepared to accept PALM and the Minister for Planning's figures for the land release program. I know there's been a lot of argy-bargy about the number of blocks and the number of approvals for dwelling units issued in the last year, and clearly there's been a quite high level. I think the planned land release program was exceeded in terms of units in the immediate-past financial year.

But yes, we accept that it is a process that has to be done carefully. I mean, on one hand we don't want to build up unmet demand exceedingly, but on the other hand if we flood the market there might be some criticism as well. I think there has been before. And there might be a lot of people squealing that we've just devalued their properties considerably. So there's a balance to be found.

MRS DUNNE: But we don't find that in the land release program because the—

Mr Quinlan: Well, you'd never find it, Vicki, would you? Come on.

MRS DUNNE: Well, you do if you see consistently over a number of years 2,100 blocks being released, but the land release program this year has a sort of notional 3,000-odd, which we know is a fiction. But what I'm asking you as the Treasurer—

Mr Quinlan: I'm not answering questions that are based on "we know is a fiction" or whatever.

MRS DUNNE: No, I'm asking you a Treasurer question, Treasurer.

Mr Quinlan: Okay.

MRS DUNNE: Do you anticipate a decline in the cost of land? Now, this is not something that you can sort of flip off and say, "Well, that's really for the Minister for Planning". This is something that has to do with economic analysis and how the the budget and the economy of the ACT are structured. Do you see a decline in the cost of land?

Mr Quinlan: Well, without knowing those figures I'd just say one thing, that I do expect there would be a marginal decrease in the price of land when we're in the development.

MRS DUNNE: Say that again?

Mr Quinlan: When there is public development of land, I would expect that there will be an attempt included in that to provide affordable land to provide affordable housing.

MRS DUNNE: And double revenue at the same time.

Mr Quinlan: No. What we've got now is land banked by developers, as I understand it, and we've got an impossibility for an individual to buy a block of land. Now that's a crazy situation.

MRS DUNNE: I don't know that I know of any builder in town who has land stashed away. There is not—

Mr Quinlan: Well, go and ask the builders then. You're talking of different builders than I am.

MRS DUNNE: So far as I know, at one stage about two months ago, there were 15 spare blocks in Gungahlin. I suppose I can ask Mr Ronaldson the same question: in your economic analysis, do you anticipate a fall in the cost of land this financial year?

Mr Ronaldson: Well, for the purposes of putting our numbers in the forward estimates we modelled on a conservative basis. And the sorts of prices we were looking at were below the current prices being borne in the market.

MRS DUNNE: Do you have any view about what are the drivers of the current prices in the market?

Mr Ronaldson: I would be the first to admit that the Treasury doesn't fully understand all the forces of demand and supply in the market. The sorts of prices we've seen over the last two years and the turnover rate through the whole market of buy and sell are higher than what the general rate of population growth would suggest. So you're left with a basic assumption that there's a lot of investment activity going on out there. And there's also been the suggestion that a great proportion of that investment activity is not coming from ACT residents. We don't know whether that's right or not, but that's the suggestion.

Mr Quinlan: And a possible depopulation of the individual unit as well, which has to plateau at some point.

MRS DUNNE: ABS projections indicate an increase in single-person households, or smaller numbers of people in households, which is one of the things that would be a driver for a particular segment in the housing market.

Mr Quinlan: Yes.

Mr Ronaldson: That's true.

THE CHAIR: I think we're getting into questions we might reserve for the Planning Minister.

Mr Quinlan: But that's a section of the market—smaller units—that you don't want to take into account within the debate.

MRS DUNNE: Who said that?

Mr Quinlan: Well, whenever the debate comes up it's always, "Yes, but what about the individual blocks?". But in terms of residential units provided for—

MRS DUNNE: It's never been that. That's a fabrication.

THE CHAIR: Let's leave that. Ms Tucker, you had a question?

MS TUCKER: Yes, it was on the same subject. You said that you are looking at providing affordable housing as well. That's obviously something the government has committed to. When you decide how much land will be released, and you have a commitment to affordable housing as well, do you try to balance that out by having, for example, some areas that will have elite housing, which would bring a very high price—but in a way it's a kind of cross-subsidisation idea—and then you have other areas in which you will try to control the price and make it lower?

How do you actually work with those two principles—that you obviously want to get reasonable prices but you want affordable land? Another part of that question is: in particular, if you have somewhere like east O'Malley, which would be elite housing, and if due to the work of the Commissioner for the Environment, for example, that's seen to be inappropriate—in which case I'm sure your government would restore that land—would that number of blocks be critical in your current predictions of what you'll be doing?

Mr Quinlan: Can I just back off? Those questions are inappropriate to me and they should be answered by the Minister for Planning. And I'm not going to limit the scope of the answers there, because I don't know the precision of his intention and how much of that has been firmed up. So I'm not going to state—

MS TUCKER: What are you talking about now—the affordable housing or east O'Malley?

Mr Quinlan: Well, you're talking about the spread of affordable housing, the mix of public and private housing in areas, whether we have elite areas and ghetto areas—I'm presuming that you're talking about that.

MS TUCKER: No, not really. I mean, I thought Mr Ronaldson said that there was quite a bit of discussion about land release, and so—well, what was that discussion then?

Mr Quinlan: The volume. It was volume.

MS TUCKER: Well, what's the nature of that discussion if it isn't about how, in your responsibility, you take into account these broader objectives of government? I would have thought that was relevant. No, not?

Mr Quinlan: No, it didn't—

MS TUCKER: Didn't come into it?

Mr Quinlan: No. Come on, Kerrie, that's silly. Look, we said earlier, I think before morning tea, that when we looked at the public development of land we've taken a conservative view in terms of the costing of it and the potential rewards, because that would be, as far as I'm concerned, a very sensible thing to do. Is there a degree of precision in that calculation that works out how many affordable houses are punctuated in amongst other areas? No, we haven't got that far.

MS TUCKER: It doesn't have to be that detailed. No, no, I wasn't assuming that it would be to that level of detail. But I would have thought, just broadly speaking, you would have to take that into account, because otherwise what are you actually discussing? What are the discussions about land release about if they don't bring in broader social objectives?

Mr Quinlan: He does the economic side of it, and that is: how much do we expect to return on the sale of land?

MS TUCKER: Yes.

Mr Quinlan: Now, there is a degree of conservatism in there that allows us, I think, sufficient margin to go forward. Now, if the provision of some affordable land has an impact, I'm sure that the conservatism that's built in is more than adequate to absorb that. But has it been precisely factored in? No—as far as I know. But ask Mr Corbell rather than me.

MS TUCKER: All right, so you're saying the flexibility or conservatism of the figures will adequately take into account the government's broader commitments to affordable housing and so on.

Mr Quinlan: Well, I'm saying that these estimates are sufficiently general. I think if you got into all the papers and got right down to it you—we're not going to sit here and say there will be 5,000 blocks or 4,800 blocks of affordable land. We haven't got that close.

MS TUCKER: All right, thanks, I understand what your answer is there. But just on the second part, would it be critical if, for example, a land release such as east O'Malley was removed for environmental reasons? Would your conservatism also cover that? It wouldn't be a problem?

Mr Quinlan: No, I doubt it very much. If we're going to get to the point where land designated for residential development is suddenly changed because it just hasn't been developed for some time, then that's going to have a material effect. I mean, if you look at the map, and we're thinking about Canberra over the long term, we've got limited scope before we either spill over the border or we have to significantly change the Territory Plan. Now, working within the Territory Plan, I think those lands that are designated as residential lands should remain so unless there's compelling reason otherwise—and I mean compelling.

MS TUCKER: Like endangered grassy woodlands. Pretty compelling.

Mr Quinlan: Well, it depends. Well, if we applied that criterion to all of Canberra, Kerrie wouldn't be here.

MS TUCKER: Can I respond?

Mr Quinlan: No.

THE CHAIR: No, you can't!

MS TUCKER: I'd only need about half an hour!

THE CHAIR: You can wrestle with him outside in the corridor. Can we deal with any further general questions about Treasury? We're not going to move on to specific questions before lunch, but are there any general questions about Treasury people would like to ask at this stage?

MS DUNDAS: I had some questions about Treasurer's advance. Sorry, I haven't necessarily put these on notice. I understand you don't have the figures in front of you. I'm interested in knowing the amount of the Treasurer's advance that was still in the budget when you took office.

Mr Quinlan: Yes, we know that.

Mr Ronaldson: Look, the answer is that we'll have to find you a figure.

MS DUNDAS: Yes, sure.

Mr Ronaldson: But, off the top of my head, there is about $18 million in Treasurer's advance that's possible to spend in a year, give or take a million either side.

MS DUNDAS: Yes.

Mr Ronaldson: When the government changed I don't think much of it had been spent at all. At year end—and, once again, I've got to confirm these figures—I think we ended up spending $15-16 million worth, something like that.

MS DUNDAS: Okay. And when you find out those figures—and this would probably be more of a question for the Treasurer—can you explain what it was spent on and why those expenses were deemed to be unforeseen? I understand the Treasurer's advance can be spent only on unforeseen things.

Mr Ronaldson: Yes, and without pre-empting the Treasurer, we will not spend money out of Treasurer's advance unless it's not foreseen.

Mr Quinlan: The Auditor doesn't like that.

MS DUNDAS: Yes, but I'd like to know why you thought that expenditure was unforeseen—the reasons you had behind—

Mr Ronaldson: No, this is a matter for me. I will not spend money under Treasurer's advance unless I think it's genuinely been not foreseen.

MS DUNDAS: But I'm asking what were the unforeseen circumstances and the rationale that you chose to spend that?

THE CHAIR: I think there was a procedure whereby, with the subsequent appropriation bills, we were going to table the Treasurer's advance, but I suppose, given that we've reached the end of this year—

MS DUNDAS: We didn't have any other appropriation bills.

THE CHAIR: That's right. So can we have a statement of what the Treasurer's advance was used for? Thanks for that. The latest estimate of the GGS result for last financial year was a loss of $2.4 million. Is there any advance on that figure at this stage?

Mr Ronaldson: I don't really know is the honest answer but, if I was betting, I'd say that it would be a larger deficit.

THE CHAIR: So we're not going to have any figures before the published result, but the ones the Auditor-General has seen. All right. You mentioned before about how waivers were going to be used to produce the desired outcome with respect to the insurance premium increases. On page 89 of Budget Paper No 4, you mention that you're expecting a decrease of $21.093 million in waivers this financial year over last financial year. What's the reason for that very large expected decrease?

Mrs Pham: I think last year's number is very large because we had a one-off type of waiver provided for large company restructures, including some of the AGL Corporation conversion. We do not expect this to be repeated next year. So the waiver, in general terms, will come back to the normal level without some of these big ones that we experienced in the last financial year.

THE CHAIR: So we don't expect any basic change to the pattern of waiver use, then, for this year. Are there any other last questions before we break?

MRS DUNNE: I've got a couple, and it may be that they're more appropriately asked for the line areas. I notice that on page 83 of Budget Paper No 4 there is an "offset by reductions in gambling and research funds" of $350,000. What's that? Why is that there rather than in the commission?

Mrs Pham: As you'd know, the ACT government agreed to a contribution to ANU Centre of Gambling Research of $1.1 million. We expect that with that arrangement the Gaming and Racing Commission will be able to get access to ANU research activities and ANU should, under the agreement with the Gaming and Racing Commission, carry out a large number of research activities. Hence there is no need for the commission to maintain the full gambling and related research funding as in previous years.

MRS DUNNE: Correct my memory if it's wrong, but in previous years there's been half a million dollars set aside for that. So this time only $150,000 has been set aside because the rest of it will be brought about by our association with the ANU?

Mrs Pham: Yes.

MRS DUNNE: Okay. And I suppose it's really a question for another day about the confidence about that.

THE CHAIR: So the cut-down of that amount by $350,000, which goes through to 2005-06, will end in 2005-2006; that is, will go back in 2006-07 to presumably the full $500,000?

Mrs Pham: I think that's a decision for the government at the time.

Luncheon adjournment

THE CHAIR: We will reconvene for hearing of evidence from Treasury officials, and thank you for returning this afternoon. We might continue with any general questions that we need to ask before we go through the specific programs. We spent the morning on general questions. Are there any further general questions people would like to ask?

MRS CROSS: Mr Quinlan, how much money has been factored into the budget for public service pay increases?

Mr Quinlan: Can't say.

MRS CROSS: Why not?

Mr Quinlan: Because what we've done is we've made some estimates—we realised that previous budgets were inadequate in terms of recognition of salary pressures and so we've thought it responsible and sensible to factor into the budget a considerable allowance for that. But we haven't flagged it individually because we still have a responsibility to the taxpayer to maintain our bargaining position. So if we had clearly, specifically detailed a number—and I think Mr Humphries would confirm this because it is not the first time that a budget has been in fact framed this way—that would be not very sensible in terms of the bargaining position for the future. So we have actually, within the Treasury budget, taken into account a number of future potential situation contingencies, bundled those together and said, "What is a reasonable estimate for the coverage of those, given their relative probability?", and factored in what we think is a reasonable sum.

MRS CROSS: So can you tell me the total of that allowance, then, that you've factored into the budget?

Mr Quinlan: No.

MRS CROSS: Why not?

Mr Quinlan: For the reasons I just enunciated.

MRS CROSS: No, you just told me that you had an overall amount to cover a number of different contingencies. What's the total of that overall amount?

Mr Ronaldson: If you were to go through the budget line by line and add up every dollar ascribed to wages and salaries and get a sum, and then put them over the previous year, you'd probably end up with a number in the order of 5 to 6 per cent, nominal graded. And if you want a dollar figure put on that—

MRS CROSS: Do you have documents you can provide the committee to show how you came to that overall amount, and then the breakdown?

Mr Quinlan: Yes, here it is.

MRS CROSS: No, the Treasurer's just said that he hasn't done anything specific and that he has an overall allowance to allow for contingencies, which implies that there is no specific thing in the budget. I asked a specific question regarding the public service pay increases and I've been told that he can't give me that figure, which I assume means that if he can't give me the figure it's not in there.

MR HARGREAVES: He said he won't—not he can't; he won't.

MRS CROSS: So you won't give it to the committee but you do know it; is that right?

MRS DUNNE: I think what's happened is that Mr Ronaldson has shown the Treasurer where the previous Treasurer had his amount and maintained it.

Mr Quinlan: If that's what you want to believe, believe it.

MS DUNDAS: On this point of public service pay increases, and the allowance being set aside, will this be factored in as part of the ERC and what it looks at? Will the Expenditure Review Committee be looking at contingency funds set aside for pay rises? Will any future pay rises in the next 12 months then come under the review of the ERC?

Mr Quinlan: I think the actual structure or dynamic that will give rise to pay increases will be a fairly rigorous process. We anticipate discharging our responsibilities as firstly a good employer but secondly as a representative of the taxpayer, and therefore the employer as well. That process I anticipate will be very rigorous anyway. So I don't think that we need somehow the Expenditure Review Committee, because it actually doesn't fit together quite logically. I mean, we've already had a work value claim for ambulance drivers. We've got two EBAs that have expired already—CityScape and Yarralumla Nursery, I think. We've got other EBAs that are scheduled to expire in within the foreseeable future. We have what we consider to be too many different EBAs on foot and we intend to rationalise those.

We're in negotiation with unions to try to ensure that those that mature early are put on hold while we come up with the common factors that will be built into EBAs—to make sure that they remain happy to stay on hold. That's a negotiation that's happening right now. It will be—and always will be, I guess—a very rigorous process in itself. So I can't see that it would go through an expenditure review committee.

MS DUNDAS: Will there be job losses to fund any pay rises?

Mr Quinlan: First of all, the bottom line is that there will be an increase in public sector employment as a function of this budget.

MS DUNDAS: Is that full-time employment or just more bodies on the ground?

Mr Quinlan: It'd be full-time equivalent. Yes, there's more work—

MS DUNDAS: Are they permanent ongoing positions?

Mr Quinlan: Can I name them individually? No.

MS DUNDAS: That's not what I asked.

Mr Quinlan: But I just want to make a point: this budget doesn't micro-manage every department. But, on the other hand, this budget does have some efficiency savings. We've discussed those this morning. This budget does have a significant raft of new programs. Draw a line through those and you will find, logically, that there will be an increase in public sector employment as a function of this budget.

MS DUNDAS: But you can't say whether or not that will be more full-time positions, more permanent full-time positions, more casual positions,or more short-term contracts because the programs will run out in two years?

Mr Quinlan: No, we haven't actually said in this budget down to the last person what the complement will be for the programs et cetera. I mean, we've had estimates of programs. We've had to estimate the manpower component of that to get our overall wages bill for the summary reports. But no, the budget doesn't go to that level of detail. That's really a departmental management process.

MS DUNDAS: So the contingency fund that you've set aside to help fund pay rises that are due with the new round of enterprise bargaining covers the new number of public servants you're expecting to have, or does it cover—

Mr Quinlan: No, the new programs are funded in the budget, all right? The contingency fund is about the fact that they would be funded at current rates.

MS DUNDAS: So the contingency funding for pay rises will be spread over the new total number of people in the public service?

Mr Quinlan: Yes.

MS DUNDAS: And hence that kind of reduces the quantum that each staff member would get?

Mr Quinlan: Did it?

Mr Ronaldson: Well, just speaking personally—and, like the Treasurer, I haven't done the numbers—I'd be very confident that there would be greater numbers of full-time people employed as a direct result of this budget, particularly when you include the capital program, the building of two new schools and the like, that generate significantly new employment. If you have a look at where the major lumps of new initiative moneys are, they tend to be—I reflect what the Treasurer was saying; I haven't done the analysis—in areas where you have permanent full-time employment.

THE CHAIR: You can't put a figure, though, on the amount of additional full-time employment the budget generates?

Mr Ronaldson: I haven't done the total sum, no.

THE CHAIR: You can't give us an approximation? You can't say it's between 100 and 500 jobs, or less than 1,000 jobs, or anything like that?

Mr Ronaldson: Well, subject to the Treasurer's approval, we're happy to come back with an estimate.

THE CHAIR: Well, I can't understand how that assumption is made because you've had a fairly significant cut into the capital works program. When you talk about building new schools—

Mr Quinlan: Not true.

THE CHAIR: Well, you told us that the value of the capital works program had been reduced from two hundred and something million dollars to about $90 million, didn't you?

Mr Quinlan: Just briefly on the capital figures, the budget for last financial year anticipated for the financial year capital expenditure of about $164 or $165 million. What will be achieved, on estimates I saw about a month ago—so they're not precise—is about $120-odd million.

THE CHAIR: Yes, but that's a bad comparison because every year under every budget the expected outlay on capital works is not what you actually achieve.

Mr Quinlan: Well, exactly—real world, Gary. I'm actually talking about the real world. If you want to take it into something else later, okay, but just let me finish on the real world. The projections in this budget—if we achieved all of that with the new initiatives, the new capital program, the carry-forward in normal anticipated work-in-progress and the underachievement of the previous capital budget—put $141 million into the current financial year's capital program. So whereas you had last year an expense of $120-odd million, this year you've got anticipated $141 million. Now, I don't guarantee, given the experience of governments, that we'll get the whole $141 million.

THE CHAIR: That's right.

Mr Quinlan: But certainly it doesn't offer the immediate prospect of some quantum shift downwards in employment created by capital works.

THE CHAIR: So you're saying the capital works program in fact will have no less impact in the employment creation area than the previous capital works program?

Mr Quinlan: Yes, precisely.

THE CHAIR: Your figures don't seem to support that, but—

Mr Quinlan: Well, I just gave you the figures. You wouldn't listen to them.

THE CHAIR: Well, no—

Mr Quinlan: $161 million you said you would spend.

THE CHAIR: Yes.

Mr Quinlan: Achieved $120 million.

THE CHAIR: Yes.

Mr Quinlan: This year, with new works and carry-forwards, either underachievement from last year or planned work in progress, forward-year work, $141 million—for this year.

THE CHAIR: And that assumes you fulfil the whole year's program though, doesn't it?

Mr Quinlan: That's right, as yours did.

THE CHAIR: If ours fell short $40 million last year and yours falls short $40 million this year—

Mr Quinlan: A rank assumption that ours will fall as far short as yours, Gary.

THE CHAIR: Well, it will fall short though, won't it, because everyone always does. I mean, you plan lots of things; you never achieve all the things you plan to achieve.

Mr Quinlan: I'd expect that it will probably come in around about the one hundred and twenty-something million again.

THE CHAIR: So you think you've got a better rate of attrition than the previous government?

Mr Quinlan: Attrition?

THE CHAIR: A lower rate of attrition—things that are lost in the capital works program.

Mr Quinlan: Well, we didn't have the spray gun approach that you had, so what we've actually put in the capital budget we see as essential. And it wasn't a case of trying to spend every buck in the larder; it's a case of doing the necessary capital works. So there's a bit of difference there, yes.

THE CHAIR: So you believe that you'll achieve a better rate of actual spending of the capital works program than previous governments have?

Mr Quinlan: Well, what I said previously was no worse, didn't I? I said I expect it to be in the same realm as last year's capital works, didn't I?

THE CHAIR: So are you saying it will be better then? If not worse, it must be better, or exactly the same.

MR HARGREAVES: Lost me. Completely lost me.

THE CHAIR: I'm trying to get you to—

Mr Quinlan: I can't see the point of what you're trying to say.

THE CHAIR: Well, I'm asking you: will you achieve—

Mr Quinlan: You're saying—

THE CHAIR: You've acknowledged that there's always a rate of attrition; there's always a rate of lost works in the capital works program—things that you planned to do which you can't achieve. And you said that was about $40 million for the former government—notwithstanding the fact that two-thirds of this financial year have been under your government. You've got to ask whether that's your responsibility if you haven't achieved our capital works program. But, putting that to one side, you say $40 million was lost from a $160-million program. You're saying you'll do better than that. You'll have a higher proportion of achievement in your capital works program. Is that what you're saying?

Mr Quinlan: Well, I'm saying that $40 million was underachieved in a $160-million program, which is probably the highest program we had on record.

THE CHAIR: Yes, but can you answer my question?

Mr Quinlan: And therefore the probability of underachievement at that level is much higher than lowering it, even lowering it by $20 million.

THE CHAIR: So, to come back to the question, will you achieve at a higher level under the capital works program than the previous government did?

Mr Quinlan: The answer to that's maybe.

THE CHAIR: Maybe. Thank you.

Mr Quinlan: I'm hoping to.

THE CHAIR: You're hoping to.

Mr Quinlan: I anticipate. What else do you want? I mean, it's our intention to do that amount of work.

THE CHAIR: Okay. Can we come back to the question of EBAs and wage rises. I take the point that you've made about putting money aside and not clearly earmarking that money for the purposes of producing a good base for wage negotiations. Fair enough. However, you've also in the course of the last few weeks made the point, in media releases and media statements, that the amount that you found in the kitty for wage rises left to you by the previous government was inadequate.

Mr Quinlan: Yes.

THE CHAIR: Now, having put that in issue, it really raises the question, doesn't it, of how much you put aside versus how much we had put aside, doesn't it?

Mr Quinlan: Yes. We put more aside than you did.

THE CHAIR: Well, in that case I think we're entitled to know whether that's true or it's not. If you've made the accusation, I think you should put on the table what the figures are relative to each other—because my recollection is that the previous government put aside about $35 million for this purpose.

Mr Quinlan: Well, that's telling everybody in the whole world that the minimum figure now is $35 million.

THE CHAIR: Well, the Treasurer has put it in issue, I'm afraid. He's raised the point as a political point.

Mr Quinlan: No, you've raised the issue.

THE CHAIR: No, I'm sorry. If you go back a few weeks ago you will see that you were putting it in issue. You were making the claim that the previous government hadn't left you enough for wage rises.

Mr Quinlan: Look, I'll tell you the point that I made—and let's take the case in point. When we were very, very close to the resolution of the nurses dispute and they refused an offer, you wiped the whole quantum of the increase out of your budget. Now, that to me is a whole different class of action to providing an unspecified amount. Further, let me say that the budgets that you had on foot implied that there would be a different superannuation scheme that would mean, if it operated, that every agency would have to find something like 6 per cent off the top of their current expenditures to fund superannuation out in the future. And I would suggest to you that that was an impossibility. So, between the inadequate provision for salary increases and the totally inadequate provision for public sector superannuation payments, I think there is a clear difference between what you budgeted for and what we're budgeting for.

THE CHAIR: How does the rejection of a wage offer on the part of the nurses affect the amount available in discretionary funds, as Mr Ronaldson puts it, available to meet wage rises? The money doesn't disappear or get spent on something else because a particular offer is rejected.

Mr Quinlan: But you took it out of your budget.

THE CHAIR: No, we didn't. The budget was presented in May and the money was still there—and the money should still be there. We didn't present a second appropriation bill. We couldn't have taken it out of the budget.

Mr Ronaldson: Once again, subject to correction, I think the last set of official numbers that Treasury produced was on 2 October and—

THE CHAIR: But that wasn't a budget.

Mr Ronaldson: No, that's true, but it purported to give the latest position of the current government of the day.

THE CHAIR: Yes, but the new government had the power to just reverse that entry.

Mr Ronaldson: True.

THE CHAIR: Which it did, in fact, didn't it? So the money was still there.

Mr Ronaldson: Well, 2 October statements—

Mr Quinlan: Predated the election.

Mr Ronaldson: Well, they predated the election but they superseded or they were an update on the budget position.

Mr Quinlan: Yes, sorry.

THE CHAIR: But where was the money spent then, if it wasn't spent on nurses' wages?

Mr Ronaldson: Well, from memory, we took any allowance for future wage increases for nurses at the Canberra Hospital out of those numbers on the basis that the government had withdrawn the offer. And presumably that left funds—funds were either left there that would have gone to a bigger surplus or they would have been reallocated elsewhere.

THE CHAIR: Well, in that case—

Ms Smithies: No, I think it was slightly different. The offer that was on the table was more than the allowance that had been put aside and with the withdrawal of the offer we took out the incremental difference.

Mr Ronaldson: That's right.

THE CHAIR: Okay, in other words, the source of money hadn't changed, had it? It was still there.

Ms Smithies: Not the full source of the funding—

THE CHAIR: I mean, if you'd put it into building the superannuation fund, where it was locked up, yes, you wouldn't have it for any other purposes. But you didn't do that, did you? So why wasn't the money still there to meet that objective, the increases in wage rises across the public service at the end of the offer? Let me say to you, it obviously was still there. And I come back to you, Mr Quinlan—

Mr Quinlan: So the instructions you gave for the 2 October figures were just to mislead the electorate, were they?

THE CHAIR: No. You posed the issue that there were insufficient funds left to you by the previous government to meet wage rises. Now, can you substantiate that comment before the Estimates Committee?

Mr Quinlan: With detailed numbers? I could but I won't.

THE CHAIR: With numbers sufficient to satisfy us that it's true.

Mr Ronaldson: Well, on the nurses, if you want my last word on the nurses, I think the issue—well, you're partially right.

THE CHAIR: With respect, that's a diversion; that's not the question I'm asking. The question is this. The Treasurer has said in the public arena that he was left insufficient money to meet wage rises. Now, I would contend to you that the amount that he has is the same amount that we have. So can you justify or substantiate the comment that you've made? Can you produce the figures that would prove that?

Mr Quinlan: I can give you assurances that's the case, but will I give you—

MRS DUNNE: No, it's a yes or no answer again, Treasurer.

Mr Quinlan: Yes. Will I give you the numbers? No.

THE CHAIR: You can't?

Mr Quinlan: Precisely—can, won't.

THE CHAIR: Well, will you do so?

Mr Quinlan: No.

THE CHAIR: You won't, okay.

MR HARGREAVES: Can I ask a question going to this nurses thing? My understanding is that, whether it's all of the money or even part of the money, there was money there in the May budget of last financial year and in the figures presented in October—

Mr Quinlan: To the electorate?

MR HARGREAVES: To the electorate, to the general public, there wasn't all of the same figure there.

THE CHAIR: But it hadn't gone anywhere. It's still in the Treasury.

MR HARGREAVES: Excuse me, Mr Chairman, I'm not asking you a question; I'm asking this of the Treasurer.

THE CHAIR: You're making a statement to the Treasurer, aren't you.

MR HARGREAVES: No, I'm not. I'm clarifying what was said before, because in fact we were talking about all of the money or part of the money. I wanted that clarified; I have that clarified now. Not all of it was there in the October statement to the people of Canberra. Now, in terms of that total liability, because of that nurses' pay rise, is all of that money contained in this budget—in the supplementary appropriation and this budget combined?

Mr Quinlan: Yes.

MR HARGREAVES: Then there is a difference between the figures that the previous government had provided and this government has provided, at least to that figure.

Mr Quinlan: Certainly, Mr Hargreaves, there's a difference in the figures that Mr Humphries presented to the electorate immediately prior to the election and today, clearly. And you can see some of it in supplementary appropriation bills necessary in the last financial year.

MR HARGREAVES: So you have actually provided us with some numbers to sustain that particular argument.

Mr Quinlan: The Assembly has provided that money—

THE CHAIR: But you won't tell us where the wage rises money is secreted?

Mr Quinlan: I won't tell you precisely where it is, no—and that's consistent with past practice, I have to say.

MRS CROSS: Earlier, Mr Quinlan, the under-treasurer said that 5 per cent had been included for wage rises. I wanted to find out if that 5 per cent was per annum or over a three or four-year period?

Mr Quinlan: You don't talk in year-to-year figures.

Mr Ronaldson: Yes, it's just for the budget year.

MRS CROSS: Just for the budget year?

Mr Ronaldson: Yes.

MS DUNDAS: And that would be normal wage increases, wouldn't it, in a year, where people go up a band or people get promotions—that 5 per cent is just your normal day-to-day?

Mr Quinlan: It would be higher than it's been previously.

MS DUNDAS: So you're expecting more people to get promoted.

Mr Quinlan: Not necessarily. We might have more people; those people might get more money for being in the same job.

MS DUNDAS: But that 5 per cent isn't—

Mr Quinlan: There will be, quite clearly, two levels, if you like—if you want to think it through—of change in salaries in the ACT. There will be normal escalation.

MS DUNDAS: Which is what the 5 per cent is.

Mr Quinlan: Yes.

MS DUNDAS: And that's what I'm trying to get clarified. Is that 5 per cent just your normal factored-in escalation?

Mr Ronaldson: Well, a large part of it is. As I said, if you were to trawl through all this and add up all the wages and salaries expenses, which includes normal growth factors and a whole lot of other factors, and put them over the previous year—and I'll get the exercise done again—it's my belief you'll get an increase in the order of 5 to 6 per cent for the budget year.

Mr Quinlan: And that's wage increase and more people.

MS DUNDAS: But that's not like a negotiated pay rise; that's just your general day-to-day expenses.

MRS CROSS: But don't ask for a figure because we don't know what it is. That could be an inadequate provision, which leads me to my next question. It sounds to me from your incomplete answers that the committee and others can perhaps assume that you may not have factored enough into the budget. So if we assume that additional funds are required for these public service pay increases, because perhaps the unions get the better of you, is it your intention to borrow or to cut back other programs?

Mr Quinlan: No.

THE CHAIR: Can you rule that out?

Mr Quinlan: Rule out borrowing?

THE CHAIR: Or a cutting of programs.

Mr Quinlan: Yes. Well, the question was: is it my intention? The answer was no.

THE CHAIR: But my question is: can you rule it out?

Mr Quinlan: Can I rule out cutting programs? Yes.

THE CHAIR: In order to pay for EBAs?

Mr Quinlan: Yes.

THE CHAIR: Okay. Can you indicate whether productivity offsets will be sought in these negotiations?

Mr Quinlan: Would they or aren't they? As a good Treasurer, I'll always be looking for productivity increases.

THE CHAIR: That's a yes, is it?

Mr Quinlan: And we've got an ERC.

THE CHAIR: All right. I think it's a yes. Are there any further questions on wage rises? No. Can I ask a question about the $10 million restructuring fund which has been set aside. That's to cover voluntary redundancies in the ACT public sector; is that right?

Mr Quinlan: Quite clearly, if we change the format of the public service in any way, we may increase public sector employment, but we have to be aware of the fact that there will be churn within the public sector. And again, to be responsible we would allow funding to make sure that we could cover that. I haven't got the figures in front of me, but I think the last couple of budgets didn't provide for such happenings, but the government still spent the money—I think $6 million last financial year not provided for in the budget.

THE CHAIR: Required the agencies to meet that cost within their own allocations. So redundancy is going to be provided centrally from this fund; it won't come as a hit to the bottom line of line areas?

Mr Quinlan: Well, let me put it this way. There is a fund sensibly incorporated and identified in the budget to cover those contingencies. But still, what we do in the future will be done on a case-by-case basis. I'm not going to guarantee any agency that we won't be saying, "You provide that", but we are quite openly, sensibly I think, allowing for that sort of change to occur, and funding it.

THE CHAIR: So what sort of criteria will an agency have to establish in order to access the fund?

Mr Quinlan: Well, generally it would have to be a substantial change. To put it most simply, it would be a change that we don't think that they could internally absorb—or ought to be required to internally absorb. Remember, we've already been trying to pull back 2 per cent. We got not much more than half a per cent. Nevertheless, we have actually put some squeeze on. We intend through ERC to watch our bottom line. But, at the same time, we're not going to hammer the agencies and departments mercilessly. We want to run the process responsibly. So it would seem quite reasonable to have a fund there. And it isn't like the first $10 million gets spent straight out of the fund and then we'll worry about the rest—if it happens to get that far. It's a case of saying, "There's the fund; there's a responsible, earmarked, clearly delineated contingency fund within the budget, and we'll work on a case-by-case management". We don't manage the territory one day of the year.

THE CHAIR: You're still confident, though, that with a $10 million fund for redundancies, on top of what agencies themselves are able to spend on redundancies within their own resources, you still will have a net product of job creation out of this budget?

Mr Quinlan: Yes. This budget says—

THE CHAIR: Well, earlier the under-treasurer offered, subject to your say-so, to actually produce some documentary evidence of how those jobs are created. Can we have that evidence provided to the committee?

Mr Quinlan: We'll give you a summary and if it's inadequate we'll come back and debate the detail if you like.

Mr Ronaldson: I think the underlying point is that there's real growth in expenditure in this budget. This expenditure spends more in real terms. The vast majority—

THE CHAIR: But every budget does, doesn't it?

Mr Ronaldson: Not necessarily

THE CHAIR: Which budget in recent years hasn't spent more money?

Mr Ronaldson: In real terms, there have been budgets in the ACT that have dropped in expenditure. But this budget increases expenditure in real terms. That being the case, and the majority of increases in expenditure going into new initiatives—and, I suspect, the majority of those dollars in new initiatives going towards wages and salaries, either directly or indirectly—then, I repeat, I would be confident that there will be a net increase in employment. Other than that, you've got to go with the theory that although you're increasing expenditure in real terms somehow the bulk of the new expenditure is not going on wages and salaries. And I don't think that's credible, unless the pattern of new expenditure differs remarkably from what's there at the moment.

THE CHAIR: Okay, but you'll give us some figures which will sort of reconcile the $10 million worth of redundancies against the increases in other areas and show us how there's some sort of approximation of a net figure in growth in employment?

Mr Ronaldson: I might also add to what the Treasurer said that, in terms of redundancy expenditure, I think it was about $6 million last year, I think it was about $9 million the year before, and substantially more the year before that. If you average it out over time, it's a bit more probably than in recent years, but on average figures probably not a great deal more. So the point being made: on year-on-year-on-year, through this fund you're not going to take substantially more full-time positions out than have been taken out in previous years. And that's back to back with, I repeat, real growth in expenditure so—

Mr Quinlan: The difference is that this budget actually funds it.

Mr Ronaldson: We'll do what we can and put—

THE CHAIR: Well, each budget funds it—obviously has to fund it—but this one has it discretely set aside is the point.

Mr Quinlan: Right.

THE CHAIR: It still happened, didn't it?

Mr Quinlan: You had discretionary funds too, did you?

MRS CROSS: Mr Quinlan, is the government seeking to either increase or reduce the number of EBAs?

Mr Quinlan: Reduce.

MRS CROSS: Reduce? Have you had any negotiations with the unions to reduce the number of EBAs, and what were your outcomes with the unions?

Mr Quinlan: Yes, we have—outcomes pending. It's not my particular area but, because I've got agencies within my portfolio that are directly affected, I've taken a fairly close interest in some of it, and yes, we've had quite robust negotiations with the unions, let me tell you.

THE CHAIR: You've had fights with the unions.

Mr Quinlan: Robust discussions.

THE CHAIR: Right okay. Can I focus on a couple of areas where you have promised to reduce outlays. One was in the areas of ministerial support—by $2.3 million to be specific—and the other was more generally in the area of use of consultancies. You promised to reduced outlays in both those areas. I understand that ministerial support has now been absorbed under a general heading of overheads. So can we have a breakdown to demonstrate how that reduction of $2.3 million has been achieved? Well, let me ask the first question: has it been achieved?

Mr Quinlan: Well, first of all, I have to say that you're wrong; we didn't promise $2.3 million worth of reduction in ministerial support. And if you read the document that we put out before the election you'll see that what we did say was, "Here's our bottom line", and we described the $2.3 million I think as an administrative buffer—I think that was the term we used. But we didn't actually take it off our projected expenditures—previous to the budget.

THE CHAIR: I don't think it's the same amount we're talking about, but I think it was a separate promise—separate to the administrative buffer—to reduce ministerial support by $2.3 million. I haven't got the documents in front of me but I'll check them and I'll bring them back tomorrow.

Mr Quinlan: Okay.

THE CHAIR: So what about use of consultancies? You quite expressly said that you want to reduce the use of consultancies. You criticised the former government—

Mr Quinlan: Yes, and I can freely admit that that's not a project and objective that I've had the time yet to pursue, and that is quite clearly one of those matters that we would put before an ERC.

THE CHAIR: I'd put it to you that, in respect of this year's budget, with the reviews going on, almost certainly there is a huge increase in the number and amount of consultancies being used by the government.

Mr Quinlan: I don't know; it depends on how you count them. You were pretty good.

THE CHAIR: Well, I think you've beaten me hands down in those stakes.

Mr Quinlan: Okay, we'll see.

THE CHAIR: Well, you made the assertion—well, you've said that that's what you want to do. Can you quantify for us the extent of use of consultancies by the government in this budget?

Mr Quinlan: Now? Today? Last year? Next year?

THE CHAIR: No, no. It's a question you can take on notice.

Mr Quinlan: I'll take it on notice and I'll give you an answer in a year then.

MRS DUNNE: No, you've got three days under the general convention of estimates committees.

Mr Quinlan: Well, you will get a very, very general answer, Mrs Dunne.

MRS DUNNE: Okay.

THE CHAIR: Well, you say you're an open and accountable government.

Mr Quinlan: Yes.

THE CHAIR: How can we put to the test the proposition, which you've put to the public of the ACT, that you will reduce the use of consultancies under a Labor government?

Mr Quinlan: I've just said, Mr Humphries, the project for the intention of reducing the number of consultancies I haven't yet pursued. We've been in for seven months, we've done a fair bit, but I haven't yet pursued that one as an end in itself.

MS DUNDAS: Can you give us expenditure for the last seven months on consultancies?

Mr Quinlan: Wait for the annual report!

Mr Ronaldson: Well, once again, I plead for some time out of the three days to provide the detailed information that's being asked for.

Mr Quinlan: Yes, not in three days.

Mr Ronaldson: But we could put together the data as long as we had longer than three days. I think it takes longer than three days.

THE CHAIR: I think we'd accept that; I think that's understandable. But can I say that you've had seven months in government before this point—or eight months, or whatever it is—plus another year of this budget. That's more than half of your term before you can begin to affect the use of the consultancies, isn't it? I mean, how are you going to deliver on the promise if you don't get around to doing anything about it until the 2003-04 financial year?

Mr Quinlan: Well, I think you deliver on the promise in part—because it's part of department or agency management—by actually building in-house strength where you've got the permanent work and building that up. That's not going to happen instantaneously. If you've got a public sector that in some areas is just used to allocating that work to consultants, you don't instantaneously go, "We'll stop doing that now; all of a sudden we'll just promote somebody and do that work". You actually have to have the talent.

And quite clearly, further than that, in the first months of a new government there is likely to be the need, perceived by that government, to do some quite extensive reviews. And we committed to—say, particularly in education—to ensure that the stakeholders within the education system were heard before we finalised the expenditure of that $27 million within the school gate. Now, we're honouring that commitment, but that's got to be a review. It makes good copy in the newspaper, but—

THE CHAIR: All right. Well, how will your promise be delivered then? I mean, what's the test or the measure of it? Could we say, for example, that by the third and final year of this term of the government you'll be spending less in total dollar amount on consultancies than the last term of the last government?

Mr Quinlan: Well, the answer to that I would have to say is: hopefully. I don't recall the reduction in the number of consultants as being an election issue, as such. I do remember challenging the use of consultants, and the volume of consultants, particularly back about three or four years ago, because was at a very, very substantial level then. And then I think you came out and said no, no, we use more, and we could turn that into a debate of when is a consultancy a consultancy or when is it a contract to do planning or some damned thing. So you can draw the line where you like. But I don't recall it being an issue upon which the election was fought.

THE CHAIR: So it's an non-core promise then?

Mr Quinlan: No, it's not a promise at all in terms of the election.

THE CHAIR: Well, actually—

Mr Quinlan: You've got a great ability, Mr Humphries, I might say, of turning remarks into absolute commitments and then charging like Sir Galahad—no, it's probably Don Quixote really—at them. Well, mate, really, can we keep this down to what real commitments we did make to the electorate?

THE CHAIR: In the policy statement you made immediately before the election you said, "We will reduce the use of external consultancies".

Mr Quinlan: Did I make that?

THE CHAIR: It was made by the Chief Minister.

Mr Quinlan: Well, he'll be along later.

MRS DUNNE: It probably means that, on average, over the time, they will have spent a dollar less than the previous government.

Mr Quinlan: And in real terms that would be a reduction then, wouldn't it?

THE CHAIR: Yes. So, unless there are any other questions on those things, we move to the—

MRS DUNNE: Actually, I've got some questions on capital works.

THE CHAIR: Capital works I interpreted to be what we deal with tomorrow morning. Is that your understanding? The document says, "Chief Minister's Department, overview statements and capital works".

MRS DUNNE: Right. Sorry, yes.

THE CHAIR: But is that just in the Chief Minister's Department, because you're appearing at that stage Mr Quinlan?

Mr Quinlan: No, I would expect that the committee would want to ask individual members about their particular capital programs—wouldn't that be the case?—and if you want to ask about the funding of capital works and all that sort of stuff—

MRS DUNNE: Yes, I want to ask a couple of broad overview questions. This relates to the Land Development Authority. Mr Ronaldson, can you define for me: will the land servicing functions carried out by the land servicing authority be capital works within the meaning of the act?

Mr Ronaldson: Do you mean the Land Development Authority?

MRS DUNNE: Yes, the Land Development Authority.

Mr Ronaldson: Within the meaning of what act, sorry?

MRS DUNNE: Well, I mean, would they be usually defined as capital works or as something else?

Mr Ronaldson: Part of their operation will be defined as capital works, yes.

MRS DUNNE: But there's no provision in the capital works budget in the out-years for capital works in relation to the land servicing authority. When will we know what that is?

Mr Ronaldson: I think a lot of that is also a function of just how they go about their work, and what powers they're given in the end. They're going to do a lot of joint ventures—potentially some joint ventures. They're going to do some stand-alone developments. But what rate they capitalise some of those works up front on I'm just not sure of how to work out at this stage.

MRS DUNNE: So what would the Land Development Authority have to do for the project to be capital works rather than recurrent?

Mr Ronaldson: Well, they'd have to produce enduring physical capital works as part of an infrastructure project, or pay for it to be done.

Mr Quinlan: But in the main, I think it's true to say that, in the budget projections that we've got, if we're investing money in land development and are then going to sell it, that's been factored into the estimates as operational. That's the question. Because it's transient, that's why you'll see that deficit in next financial year—because there's money going in against operations to build that product, and then that product is going to be sold. And because that's really projected to all happen in the space of, say, two years maximum or so—I don't have the exact lead time so don't hold me to that—that's not something you'll be capitalising, depreciating and then flogging off; it would be taken out of asset sales. So it will be a case of it being an operational expenditure and then the revenue will be operational revenue, I think.

Mr Ronaldson: Yes.

Mr Quinlan: Correct me if I'm wrong.

Mr Ronaldson: No, but to make an obvious point, you know, we're only specific about capital works in the budget year. Other than that, we just generally provide an amount for capital works in total, going forward in each of the out-years. And it's not yet broken up into its various components until the year before. So we just provide a global amount now. How the pie will ultimately cut up and balance with other capital priorities vis-à-vis the land development authority and how they'll eventually get into doing their projects at the time will be a matter for subsequent budgets. I don't think it starts till 2003-04. It starts on the very first day of 2003-04. It might not be generating significant capital works for some time after that.

MRS DUNNE: Have you got anything to add, Ms Smithies? You were looking like you had something to add before.

Ms Smithies: No, no. Howard's got it.

THE CHAIR: Are there any other general questions about Treasury, because I want to move through Budget Paper No 4 now and ask some specific questions about Budget Paper No 4? Just taking a few pages at a time, on page 84, in the statement of revenue and expenses on behalf of the territory, there's a substantial amount paid in interest in the financial year 2001-02 which isn't replicated in subsequent years. It's just a $15,000 payment in subsequent years. What would that large amount have been for—$467,000?

Ms Smithies: As revenue, sorry? Interest revenue?

THE CHAIR: Yes.

Ms Smithies: It's actually due to income from the old Canberra Business Development fund. So no, it doesn't keep coming across forward estimates.

THE CHAIR: I'll move on to page 90. If there are any bids before 90, let me know, members. In the second table there, "Changes to Appropriation—Territorial", there's a reduction of the forward estimates of $6.2 million for the revised first home owners grant administrative expenditure. Why is there such a large reduction in the FHOG administrative costs in one year?

Mrs Pham: I believe it's a technical correction in some of these amounts, but I think we will take it on notice and provide the information.

MS DUNDAS: Can I also ask a quick question about page 90?

THE CHAIR: Yes, while they're looking for that one.

Mr Ronaldson: The amount there represents a reduced amount of payment coming from the Commonwealth, as estimated by the Commonwealth, into the scheme. So it was put under "admin". It could have been better badged. But basically the scheme started up and there were forward estimates going forward by the Commonwealth on how much they actually think they'd spend or give to the states for this scheme. And it reflects their revised forward estimates on the income stream, if you like, flowing back to back from the Commonwealth to the state to first home owners.

THE CHAIR: So what's the total administrative cost of running this scheme?

Mr Ronaldson: What are the administrative costs?

THE CHAIR: Yes.

Mr Ronaldson: I will take that on notice, but I presume that they would reflect the forward year and the backward year.

THE CHAIR: It's a huge difference though, isn't it? I mean, why would they have thought that there was such a—

Mr Quinlan: I think the message that we just got was that "admin" might be misleading and that in fact that is actual funding; is that right?

Mr Ronaldson: Yes. It's the actual—

Mr Quinlan: It's an adjustment in the actual funding.

THE CHAIR: Right. Fine. Gotcha.

MRS DUNNE: So are you actually saying, Mr Ronaldson, that it costs $1 million to administer a handover of funds between the ACT and homebuyers and the Commonwealth?

Mr Quinlan: No, no, we're not talking administration here, are we? We're talking about the grants.

Mrs Pham: The Commonwealth funding, yes.

Mr Quinlan: The grants itself.

Mrs Pham: The cost of administering the scheme is absorbed within the ACT Revenue Office, and it would involve part of the time of one or maybe two staff members. So it shouldn't be that high. So the administrative expenses in this case I think include the payment from the Commonwealth.

Ms Smithies: This is purely the on-passing of the Commonwealth grant to recipients and in 2001-02 we were budgeted to get from the Commonwealth $25.9 million and in 2002-03 we budgeted to get $15.7 million, so there is a large drop between the two years and hence the budget forward estimates had to be reduced.

THE CHAIR: Right, okay, fair enough. Ms Dundas, do you have a question?

MS DUNDAS: I think we covered this morning, but I was wondering if you could explain to me again the costs for the transfer of economic policy from CMD. It's in the government payment for outputs—fourth down.

Mr Ronaldson: Sorry, can you give us a page?

THE CHAIR: Page 90.

MS DUNDAS: Page 90, we're still on page 90.

MRS DUNNE: It's $108,000.

Mr Quinlan: $123,000, is it?

MRS DUNNE: No, $108,000.

MS DUNDAS: It's $108,000 and then it becomes $175,000. And it's the transfer of economic policy from CMD?

Mr Ronaldson: Okay, yes. Mr Broughton informs me that it's the cost of transfer of two positions from CMD to Treasury.

MS DUNDAS: Economic policy people.

Mr Ronaldson: Economic, yes.

MS DUNDAS: And we discussed this this morning; it's about consolidating all of your economic thinkers into one office?

Mr Quinlan: Because this is a Treasury thing, it's shifting money in and out of Treasury and in and out of CMD. Is that right?

Mr Ronaldson: Yes.

MRS DUNNE: So why are those in the out-years? I mean, why is that only a one-off payment?

Ms Smithies: It's being transferred out in every single year. The base capacity rested in Chief Minister's, so the basic capacity is moving from Chief Minister's to Treasury, and in 2000-01 it was a part-year effect and then you see the full-year effect in 2002-03, which is the full $175,000.

MRS DUNNE: Do you mean to say that you're going to continue to transfer that every year out of CMD into Treasury?

Ms Smithies: No, no, it's just a one-off, but the way that the table works is from the base appropriation published last year to what's published now—

Mr Quinlan: It's a full year last year, but last year might have been redundant.

THE CHAIR: Yes. I see that there's an offsetting transfer, though, two lines above, of an executive—I assume it's an executive position—from CMD. It's actually complementary. Does it actually go with the economic policy or is it just someone who's loose, or what's that accounted for by?

Mr Ronaldson: No that's unrelated to economic policy.

THE CHAIR: So what is it related to?

Mr Ronaldson: We created an executive position in FABM and the funding for that effective—

MS DUNDAS: Sorry, Mr Ronaldson, FABM?

Mr Ronaldson: Financial and Budgetary Management Branch, and effectively the position for that was transferred between CMD and Treasury.

THE CHAIR: Okay.

Mr Quinlan: Now, it's not entirely clear, but you'll find on page 35, the Chief Minister's Department table—if you want to sit down and do the work with all these internal transfers, you'll get them offsetting each other as you go through. Do you follow me?

MRS DUNNE: Just very quickly, on page 90 again, in the territorial appropriations, what's a cellar door subsidy?

Mr Quinlan: Yes, this is the bloody wine industry, isn't it?

Mrs Pham: Yes, as part of an intergovernmental arrangement, the ACT follows a national scheme to offer subsidies to wine producers for the product that they sell at the cellar door—for tourists, for example, who drop in and buy these products from their wine operation. And there was an arrangement to encourage activity involved with tourism for these producers within the ACT and in other jurisdictions, and that's a national scheme that the ACT is part of.

MRS DUNNE: So, correct me if I'm wrong; we only have one cellar door outlet in the ACT?

Mr Quinlan: Two.

MRS DUNNE: Two, Majura, sorry. Two, okay.

THE CHAIR: Okay, can we fast forward to page 94, "Measures" under "Economic Management". We've taken out performance indicators relating to the bottom of that table on that page relating to cost of economic management per 1,000 head of population, cost per ACT public service employee—I would have thought those figures were the wrong way around incidentally, but perhaps it's my imagination. But why have they been discontinued? Aren't they valuable measures of how well we do?

Mr Ronaldson: Look, I think there's a range of cost measures that are useful if broken up the right way. There is a general push to just decrease the number of measures that don't mean much across a lot of these tables.

THE CHAIR: Surely that one means a bit, though. It means how much it costs to manage our financial affairs per head of population. Isn't that of some value?

Mr Quinlan: What do you think the measure should be? What's a number?

Mr Ronaldson: Well, it's the basis for some debate.

THE CHAIR: Hopefully, we should get a bit lower each year as you get more efficient and things happen which improve our financial performance.

Mr Ronaldson: I think the argument being pushed generally is that there's too much disaggregation and, rather than asking very particular questions like that, it's better to ask what is the total cost and then compare it longitudinally by year, rather than getting very small functions, like $247—and getting very low numbers per public service employee doesn't mean a great deal particularly.

Mr Quinlan: Yes, and you have to ask yourself: is there a correlation between the processes of economic management and the quantum of population?

MRS DUNNE: No, that's not the question at all. The question is—

Mr Quinlan: It is to me. That's what he said—isn't that a good measure? And I'm saying—

MRS DUNNE: The question is: is it an appropriate measure?

Mr Quinlan: And I'm saying: if we double our population should we double our economic management costs?

THE CHAIR: No, you'd reduce them.

MRS DUNNE: No, you should be reducing them.

THE CHAIR: But you'd have a measure to test that by.

Mr Quinlan: Against?

THE CHAIR: The previous year's—as each year goes past.

Mr Quinlan: Why don't you say: what's it cost for 300,000 people?

MRS DUNNE: I mean, you can be flippant if you like, Treasurer, but the question is: is there a downgrading of performance measures, or are these performance measures going to be substituted with something that is considered more appropriate? If so, what are they?

Mr Ronaldson: Well, perhaps I can just add to that, and I understand briefly. There's a general consensus, at least through the public service—and there's certainly a strong opinion by the Auditor-General—that there are too many performance measures in the budget papers.

THE CHAIR: Absolutely, but these are not the ones to take out, surely. These are the ones that actually tell the average Joe Bloggs out in the community how much it's costing him or her to to run government functions.

Mr Ronaldson: Well it does, but the question is: at what level do you aggregate and disaggregate it? There might be some people around that say the cost of economic and financial advice is the total cost of Treasury divided by some base—your revenue base, numbers of population or per head of employees et cetera. And you might argue that, say, the cost of advice from the GBE section divided by such denominators is just getting to a level of detail that no-one really cares about. Certainly, I'd argue that case with respect to that particular measure.

Mr Quinlan: And I'll return to my assertion: I don't see a relationship between the cost of running the economic management section and the number of people in the ACT. Okay, you get a document like this and, unless you're rigorous, you'll get a building up of so-called measures that are nothing—they might be data but they're not information, and there's a difference. And that measure cannot purport to be information.

MR HARGREAVES: Treasurer, can I ask you, in all of the time that you've been congratulated and bagged out for this budget, how many times have you been belted or congratulated on the cost per public service employee for any element within the Treasury portfolio?

Mr Quinlan: Can I take that on notice?

MR HARGREAVES: Please.

Mr Quinlan: No, I'll answer it now: none.

MRS DUNNE: If you think that that's not an appropriate performance measure, what do you think is an appropriate performance measure?

Mr Quinlan: Well certainly, the gross costs per year. If the job remains uniform so you can have an inter-temporal comparison and you say, "What's it costing each year?", you would expect to be able to hold it relatively constant because, in large part, what difference does it make to manage bigger or smaller numbers? It's the same effort, the same principles, the same decisions that you've got to make—the same mental effort. So certainly it's not related to population. Now, it might have a relationship with the total quantum of the budget. It might have a relationship with the spectrum of government services, if we could devise a measure and if we wanted to compare ourselves with the states. Well, I'm sure Mr Humphries would have had the experience where you're on a number of ministerial councils and you suffer because of the size of the ACT and the size of our parliament and the amount of work you've got to do.

One of the comparisons we immediately make is that we say, "Well, hang on, how much difference does it make if you've got a minister in a state somewhere making decisions in relation to an education system? Are there direct economies of scale given the size of the state and the policy decisions and the deliberations you're involved in? And no, there are not. We might have some minor economies of scale relating to state to state, but we still have to do all the same things, albeit with smaller numbers.

It is important, I think that discussing this particular item is highly relevant, because it's something that we need—and I need, if I can find the time and resource—to address to actually work on making the budget document more relevant each time. I've just recently signed the police agreement, and that has got pages and pages of so-called measures—and they're not measures; they're statistics. They don't have anything to do with necessarily good or bad performance, or effective performance; they're just numbers of events.

I'm not being flippant now. I'm agreeing in part with the committee that we do actually need to work on these measures, but I have to say that, as far as I'm concerned, my limited knowledge of statistics tells me that there's not a high degree of correlation between what it would take to run a section like this and the numbers of people that it's run for. And I think it's a sensible thing to start eliminating those measures. Now if, in so eliminating irrelevant measures, we don't replace them with relevant measures, then I think we should in fact get a kick in the tail and do something about it.

MS DUNDAS: It appears that the way they're going to assess satisfaction with ministers and chief executives is to do a survey, as opposed to doing a cost analysis. Can you tell us who runs that survey—who administers that? Is it a tick a box?

Mr Quinlan: Probably a consultant.

Mr Ronaldson: No, not a consultant.

Mr Quinlan: Not any more.

Mr Ronaldson: Feel free to correct me, but the department has designed a questionnaire and it's sent it out to all relevant CEOs throughout the service—of other departments and other agencies it deals with. It's sent out to relevant ministers. It's sent out also, I think, to chief financial officers. And it's asked a series of questions about aspects of advice or otherwise it receives from Treasury. This is an attempt—and a first-up attempt—to get a better handle on what other parties think about the quality of advice they're receiving from their Treasury.

MS DUNDAS: And the survey indicates that it will happen every six months. Is there a strategy for how you'll implement outcomes? Will it be just considered as part of general efficiencies to take on board any comments from the surveys or is there a targeted fund set aside for implementing outcomes from the surveys, as a rolling review?

Mr Ronaldson: I can say that we haven't got any funds targeted to try to respond to survey responses—no specific funds targeted. We will look at the survey results in the normal way. We will see where people think we're doing a good job; we'll see where people think we're doing a not-so-good job. We'll probably try to go further and understand those areas where people think we need improvement.

There is always, I might add, further work that needs to be done post-survey, because we at least think the Treasury is often in a role where the object of Treasury actions is not always aligned perfectly with those of other agencies, and it is difficult sometimes asking questions and responding to questions about the quality of Treasury advice when Treasury is not often in the business of providing advice in the way that other agencies necessarily would want to receive it from time to time. Having said that, it is still possible, we believe, to ask broad questions across the service and get some objective feedback on Treasury performance.

MS DUNDAS: So the target that you set yourself is to have a 95 per cent satisfaction rating. On what basis are you setting that target?

Mr Ronaldson: There's not too much science about that, and I can tell you we won't reach it. The initial survey results coming through are less than 95 per cent. As Mrs Dunne is indicating, there's not a great deal of science.

MS DUNDAS: This goes back to my efficiencies question. Are you going to endeavour over the next year to get 95 per cent? And to what extent will you put resources into making sure that you do meet 95 per cent, or do we just get the estimates papers next year that say that you sat at 60 per cent satisfaction rating for a year?

Mr Ronaldson: Well, if I heard you right, efficiency is another matter. Efficiency is easy to measure. With efficiency, there's a known cost and there's whatever denominator you like, and you can do the arithmetic. Effectiveness of policy advice is one of the most perennially hard issues to answer that all governments of all types have found for many, many years. How do you actually measure the effectiveness of policy advice?

MS DUNDAS: But you're doing a survey that is designed to, I guess, gauge somewhat how you are going in this area. It's mentioned all throughout financial and economic management as a measure so that you can measure quality and effectiveness, and you've said that you're probably not going to hit the target that you've set, which is 95 per cent—and I take on board that it is a hard thing to measure. But you've taken the step of implementing a survey. What I'm asking, then, is what you are going to do to make the department reach the 95 per cent target?

Mr Ronaldson: Well, it depends what the respondents say.

MS DUNDAS: But what are you prepared to commit? Are you going to put money in or are you going to put—

Mr Ronaldson: Well, it depends what we're committing to as a result of what they say. It's predictive power at this stage. What we would do is look at the results that we get. We would try and compare them with other like treasuries, if we can. We'd probably use that as some sort of benchmark. We'd look at the areas in which we're not doing so well, and we'd probably set ourselves a number of targets to improve the areas where we're not doing so well.

MS DUNDAS: But at this stage you don't know what cost, if any, that would take, be that time or money.

Ms Smithies: The chances are it's not going to be a costly exercise. Just probably as an example, one of the criticisms that will come back is communication of timetables and timeframes et cetera, through budget processes et cetera, and it will be an issue for us to take a look at the quality and usefulness of our requests for information from agencies and try and have a good look at how we can make those processes more streamlined and provide them with earlier warning for requests for information and clearer guidance on exactly what it is we're asking for and when we're asking for it. Examples like that are probably things that we'll work on to get satisfaction ranges.

MS DUNDAS: So it's more management mechanisms than anything else.

Mr Quinlan: Yes, it's line management, but informed line management.

Ms Smithies: That's just an example.

MS GALLAGHER: Well, there is the opportunity, of course, to exceed the 95 per cent, in which case—

MRS DUNNE: They're probably not doing their job.

Mr Quinlan: Can I just hark back to the previous question on those measures. I am informed that in a rare moment of insight, Mr Humphries, you actually signed approval not to include those figures in the September figures of last year, so can I congratulate you on that albeit temporary insight of that moment. It might actually apply to some of the other measures as we flow through.

THE CHAIR: I'll be asking more questions about them then, will I?

Mr Quinlan: Just be careful—won't be so kind next time!

THE CHAIR: Moving right along there, do you have a question, Mr Hargreaves?

MR HARGREAVES: As a matter of fact I do. Shall I go straight into my other one?

THE CHAIR: Please go straight into it.

MR HARGREAVES: On page 95, the table there, financial management, I know the government payment for output is linked to the total cost, and you've got a note there at number 5 that talks about the rollover of the Oracle project. Nonetheless, the figure for the target for 2002-03 of $18,687,000 is still $13,500 greater than the 2001-02 estimated outcome. Can you give me some more information, expand on that a bit?

Ms Smithies: Yes, it essentially has the $10 million restructuring fund in it. And not only is there a rollover of Oracle government financials but a slight increase on the project cost as well.

MR HARGREAVES: So that accounts for the other $3 million?

Ms Smithies: Pretty much, yes.

MR HARGREAVES: Okay, fine, thanks very much. That picks up the other question as well.

THE CHAIR: All right, If there is nothing else of a general nature we will move to central financing. The only thing I want to ask about that actually goes back to a general question about performance indicators. I assume that those changes to performance indicators would be approved by cabinet or by individual ministers?

Ms Smithies: Individual ministers.

THE CHAIR: Okay. Is it possible to get a consolidated picture of what that all looks like now? I mean, have we got more or fewer indicators across the board?

Ms Smithies: If what you're talking about is purely numbers, we can go through and do that work, yes. There's less. Unfortunately, it probably looks as though there are more because we still have to keep in all of the old indicators as well.

MS DUNDAS: Sorry, Gary, could I have just one more question about page 95. You've put in the Commission of Audit as a new measure. But for the last Commission of Audit the end date that you worked on was 30 October 2001. The question is: what date is that commission of audit going to be available and what end date will it be working from?

Mr Ronaldson: This is approximate, but there are three tasks before the Commission of Audit—or two tasks before it now. The first task has been done and the report's been issued some weeks ago. I can't remember the exact date.

MRS DUNNE: And what was the task?

Mr Ronaldson: The first task was basically to establish the state of government finances as of 31 October last year and to recast the forward estimates, on all data only known as of that date. The second task, which the Commission of Audit is undertaking now, and which is some weeks off—and I'll paraphrase it again in short—is to look at the size of the business risks associated with three areas of government activity. One is ACT Forests, the second is the hotel school, and the third is ACTION.

The third task, which hasn't been formally begun yet, is to inquire into the management and performance of the superannuation business undertaken by the government, and also to inquire into the accounting practices adopted by the government in accounting for superannuation.

MS DUNDAS: So this Commission of Audit, with only one target for 2002-03, is that the business risks report or will you be doing another complete commission of audit on the 30th—

Mr Quinlan: Two more reports.

Mr Ronaldson: Two more reports, and hopefully they'll be completed by this financial year. And then the Commission of Audit, I assume, dies, ceases, will be finished.

Mr Quinlan: Until a promise before the next election.

MS DUNDAS: Why is it marked in both columns of both the 2001-02 estimated outcome and the 2002-03 target, because that would assume that there would be two commissions of audit, or both of those should be 0.5.

Mr Ronaldson: I think it's just indicating that part of its task was completed last financial year.

MS DUNDAS: So actually you could break it down and say 0.5 last financial year.

Mr Ronaldson: You could, yes.

Mr Quinlan: 0.33/0.33/0.33.

MS DUNDAS: So we're not going to get another whole state of the territory finances report?

Mr Quinlan: You want one?

MS DUNDAS: No. You had so much fun with the last one.

THE CHAIR: All right, if we are finished with the general for now, can we move onto the central financing unit. Let's see if we can go more quickly now through these things. I had a question about page 188 of Budget Paper No 3 about ACT government investments. I assume this is the right place to ask this. On the top of page 188 there's reference to a revised strategic asset allocation and how they're now consistent with an investment objective. Now, 85 per cent of investments are to be held in growth assets, such as equities and property, compared with 64 per cent previously, but only 15 per cent in defensive assets such as cash and fixed interest investments, compared with 36 per cent previously. You say that that should result in higher long-term earning rates. What does that do to the risk profile on the strategic asset allocation?

Mr Ronaldson: The best advice we have received is that the target of achieving a 90 per cent coverage of total superannuation liabilities by 3940 can be achieved with the new allocation throughout the portfolio with acceptable risk.

THE CHAIR: Okay, but is the risk higher or lower because of the restructure of the SAA?

Mr Ronaldson: It depends how you define risk, but if you've got more of your funds in stocks there is potential for greater variation from year to year. I defer to people who know better than I do, but I think overall, if you took it over 38 years of that projected timeframe, I'm not sure that the allocation of all money to stocks over the 38 years represents in total a higher risk profile than previously.

THE CHAIR: Well, we're talking about this financial year, I suppose. I mean, you can adjust them each year if you want to. But I'm just surprised. I would have thought, after the obvious hits that our investment portfolio has taken in the last year, that we're shifting more of the assets into sort of the high-growth but high-risk end of the spectrum, away from defensive assets.

Mr Ronaldson: Well, the theory says you shouldn't be concerned, but I agree with you on the timing—that whilst you've obviously got stock markets going down and look like they have potential for going further, you might, if you like, take a bit of a deep breath before you embark on a new strategy. All the advice we can receive says that you shouldn't be particularly concerned with year-by-year performance; you should be concerned with performance over decades. And over decades, at least in the past, the rate of return on stock markets exceeds the rates of return on other investments. And when you invest you should invest for the longer term. But I repeat, having said that, when you've got spectacular falls occurring right now, you might question the efficacy of investing right now in a new strategy, and no doubt the government will be posing that to its advisers on timing.

MS DUNDAS: So who provides this advice?

Mr Ronaldson: Do you want to go through our range of advisers?

Mr Broughton: Okay, certainly.

MS DUNDAS: Just in general terms.

Mr Broughton: Okay, yes, I won't take too long. We've got a structure. We have a financial investment advisory board, which consists of three external experts in this area—people familiar with the financial markets and familiar with running superannuation trusts. We also engage an investment consultant, Frontier Consulting, who again are experts in advising on the strategy of how you should invest this money, and it's their advice that is helping us to set the strategic asset allocation. It's also considered internally. The investment advisory board provides advice to the Under Treasurer and the Treasurer, and a final decision is made within Treasury as to how to invest this money.

I'd just like to add if I could to what Howard was saying earlier, that for every person out there who says now is not the right time to get into the market there's a person who says now is the best time to get into the market, because nobody can successfully pick the turning point, but if you want to get the good returns you've got to be in there when it happens.

THE CHAIR: If there are no further questions about CFU, we shall bore on to InTACT. Ms Dundas, do you wish to start?

MS DUNDAS: Thank you. I'll start off with a general question. There are a lot of things throughout the budget related to IT infrastructure—the ORACLE program, the laptops for the teachers, all of those initiatives. Are they all going to be coordinated by InTACT?

Mr Dowell: I am Graeme Dowell, General Manager, InTACT. InTACT provides the basic desktop environment for the ACT Government. In addition to that, we also provide an environment for business applications. Now, the agencies who own the application are people who actually work with us to get the application running, and they look after it in many cases. In some cases we have service agreements with the agencies in relation to how that application works. In the case of the education department and the schools, that is run through Education. What they call EduNet operates in that environment. It is separate to InTACT.

MS DUNDAS: But they will be working off the base service provided by InTACT, such as connecting to the ACT government's service.

Mr Dowell: The schools network is totally separate.

MS DUNDAS: Totally separate, and it's not run by InTACT at all?

Mr Dowell: It's not part of the ACT government network.

MS DUNDAS: Okay. That's the laptops. But the other programs, such as the new computer programs, the public service management programs, the Oracle update and that kind of stuff, are they being coordinated by InTACT?

Mr Dowell: The actual applications themselves are owned by the agencies that own them. You'll notice in InTACT's list of initiatives there's an enterprise server, which will be a common platform which some of these whole-of-government applications will run off.

MS DUNDAS: One of the expenses that you have in Budget Paper No 4, page 125, is that you have a once-only write off of $2 million for invoices issued prior to 1 July 2001. Can I ask: to whom were those invoices issued, who aren't paying their debts to InTACT?

Mr Dowell: InTACT's clients are other ACT government agencies and departments. Now, in the case of the debts that have been written off, they're invoices that were raised against agencies and departments which for a number of reasons are not collectable.

MS DUNDAS: What kinds of reasons?

Mr Dowell: In some cases the invoices were incorrectly raised, and in other cases the amount that was raised was in dispute. They're the two main reasons that they were written off. Basically, they're debts that we can't collect.

MS DUNDAS: So they're sort of reporting errors in a sense?

Mr Dowell: Some are, yes—or invoicing errors would be more accurate.

MS DUNDAS: There's an increase in user charges to the ACT government reflecting agreements for specific support services that will be introduced from 1 July 2002. Can you explain what those new specific support services are?

Mr Dowell: Support agreements are where we enter into agreements to support an application with an agency. An example would be something like OGF. We would have a support agreement to operate the server and support that application. InTACT has been going through with agencies establishing support agreements, and in some cases we haven't had them in the past, and they're the arrangements which are now falling into the user charges.

MRS DUNNE: The measures on page 127. It says "Whole of Government IT systems managed by InTACT"—2. What are they?

Mr Dowell: One is the HR system, PERSPECT. The other one is OGF, or the whole-of-government financials.

MRS DUNNE: And on the new measure of initiatives undertaken, what are the six new initiatives that you propose for this financial year?

Mr Dowell: They're the ones that are listed as initiatives.

MRS DUNNE: Of course, sorry. Excuse me.

MS DUNDAS: Sorry, can we just go back a step. You said that one of the two whole-of-government IT systems managed by InTACT was PERSPECT. I don't have the page number in front of me, but isn't one of the service initiatives to move away from PERSPECT, to have a new management infrastructure review project going on?

Mr Dowell: Yes, it is. We would assume that any replacement of PERSPECT would still be sitting within InTACT for the support agreement.

MS DUNDAS: And it would still be a whole-of-government function?

Mr Dowell: Yes.

THE CHAIR: Okay. Are there further questions for InTACT? There not being any, we will finish with InTACT. Thank you, Mr Dowell, and we'll break now for afternoon tea.

Short adjournment.

THE CHAIR: We're reconvened. Thank you very much everyone for returning. Just to go through the order, I've made an executive decision that we will now deal with the ICRC. When we've finished that, we'll go back to superannuation. Then we'll see if there's a question that might be answered or taken on notice about the hotel school, which Ms Dundas wants to slip in, and then we'll go through to the last two items on the agenda: that's ACTTAB and Totalcare. So that's the order.

We'll start with the ICRC. Welcome, gentlemen. Can I start with a question on that. A number of reports have recently been tabled and are presently before the government for consideration. What other projects are in the pipeline that we can expect in the course of the rest of this calendar year from ICRC?

Mr Baxter: My name is Paul Baxter, Senior Commissioner of the Independent Competition and Regulatory Commission. The commission this year will need to look again at bus prices, and that's a review we'll have to get under way a little bit later during this current calendar year. That's because the present bus price arrangement was a two-year price path. We'd allowed some time there for ACTION to reorganise itself and look at a number of matters, and it comes up for review again prior to 1 July 2003. We'll then be also commencing during this current period work on the five-year review of ActewAGL's gas prices and electricity prices and also water prices for Actew. So they're the major inquiries that we have under way over this next period.

THE CHAIR: Right, okay. There are now three commissioners, aren't there?

Mr Baxter: That's correct.

THE CHAIR: And that's reflected, I assume, in larger costs for the operation of the commission than in previous years.

Mr Baxter: Not greatly. What we've seen is that the commission actually has grown in staff size somewhat. We started off with just a couple of people 12 months or so ago. We now have effectively seven people on the staff as at this time, although unfortunately some of those are temporary appointments until we can find some suitable people who can stay permanently. But that's really reflected the fact that over the last 12 months we've taken on the responsibilities under the Utilities Act and the additional responsibilities there in relation to licensing and codes of practice and the like. So there's been quite a number of things there, plus the ongoing work of the commission. It's been a rather busy 12 months that we've just completed.

THE CHAIR: Can I just ask about the Utilities Act. There are a number of industry codes being set up under the act. Are all the codes now made and in place and operational or are they yet to be formulated?

Mr Primrose: All are made. Some are subject to imminent review. Network operating standards, for example, was agreed to this year just past, but during the course of this current financial year will need to be reviewed to make it reflect the fully contestable market arrangements. So we're now in a period of reviewing codes and refining the provisions rather than introducing new codes.

THE CHAIR: Is that the biggest exercise that the ICRC is dealing with this year?

Mr Baxter: No, there'll be a number of ongoing exercises: some will be the codes, some issues to do with review of the Utilities Act as well; there's a requirement to look at that. The biggest single task, interestingly enough, is the starting off of this review of gas, electricity and water prices. And they're the distribution prices here—that's the monopoly activity operated by Actew in the case of water and ActewAGL in the case of gas and electricity.

Those tasks—particularly electricity and gas—are undertaken under the National Electricity Code and the National Gas Code, and are very, very detailed studies tied up with a lot of legal requirements under those codes. They take a good deal of time to actually progress through, and of course the idea of the process also is to allow plenty of time for wide discussion on various aspects of those reviews. So in the next few months we'll start to see some issues papers and other discussion papers coming out from the commission, trying to engage the wider community, as well as obviously ActewAGL, in discussion on some of the principles and issues leading to those major reviews. And that's quite a major task.

MS DUNDAS: On page 417 of Budget Paper No 4 it explains the increase in the user charges from the ACT government and it says the increase is due to revenue resulting from inquiries into ACTION, taxis, wheelchair accessible taxis, et cetera. My understanding, then, is that you did these inquiries and you made revenue out of them; is that correct?

Mr Baxter: What happens when we undertake inquiries is that there's a cost-recovery process. So that cost-recovery process is what's being referred to here. So we've recovered the cost—from either the regulated business or sometimes it's been funded directly by the government or through one of the agencies—for undertaking those inquiries, and that's what this is referring to.

MS DUNDAS: But the funding comes after you've done the inquiry, not as a kind of initial outlay to do the inquiry?

Mr Baxter: No, that's correct. We usually bill after.

MS DUNDAS: So it's like a charge for the services you've provided.

Mr Baxter: Yes, that's exactly right. We recover the cost of conducting the inquiry, yes.

THE CHAIR: Okay, thank you. There being no further questions of ICRC, thank you, gentlemen, for your attendance today. We'll move now to superannuation unit. We heard a bit of a description from Mr Broughton before about the structure of advice about investments and a bit about how the SAA is being restructured, which I assume is—well, perhaps I'm not right in assuming this—is a structure which affects the superannuation account as well, or is that separately administered from the SAA?

Mr Broughton: I'm not sure if I quite understand your question, but the discussion we had previously, although we had it under the heading of CFU, was really about our superannuation investments.

THE CHAIR: Okay. Well, that discussion would also encompass other investments of the government which are not part of the superannuation account, wouldn't it?

Mr Broughton: The same governance arrangements apply to that as well. The investment advisory board assists us with how we should invest those funds, yes.

THE CHAIR: All right. Obviously there've been some quite serious losses from the superannuation account in the course of this just finished financial year. What advice has the finance and investment advisory board given about the appropriate reaction that we should have to that phenomenon—or have they suggested that the settings are right and we should change very much?

Mr Broughton: The investment advisory board would agree that the long-term strategy is to adopt the strategic asset allocation, which is 85 per cent in growth funds and 15 per cent in defensive investments. But we recently went through a process of reviewing our current managers' performance and as a result we removed one of those fund managers. And it left us in a situation where we're actually carrying a lot more cash than the strategic allocation would suggest. And at the time the advisory board felt that it was appropriate to remain that way until we had fully completed our review of the asset allocation and we had embarked upon the process of replacing the existing group of fund managers.

THE CHAIR: Okay. They are more questions of detail rather than fundamental direction of the superannuation account though, aren't they?

Mr Broughton: I think what they were saying was that the fundamental direction should be in the long-term adopting an investment strategy that can deliver 5 per cent real return over a long period of time, but that, given the current circumstances with the reviews that we're undertaking, they didn't mind being overweight, as they say, in defensive assets because they could see that the equities markets in particular were in for a bit of a rough trot. In fact, as a result of that decision, and the Treasury agreeing with that decision, although we have lost money on our investments, we haven't lost as much as we would have had we been maintaining the strategic investment allocation.

THE CHAIR: There has been criticism of the Commonwealth's investment profile, and it has lost very large amounts of money as well. How does our strategy compare, in your opinion, with that of the Commonwealth? Have we got a good approach? Do we have lessons to learn from what's happened to the Commonwealth, for example?

Mr Broughton: Are you talking about the Commonwealth superannuation investments or the Commonwealth Treasury's currency derivatives—

THE CHAIR: I'm talking about the investments which have been criticised in the media in the last few months—I think $4 billion in losses. I'm not sure if they're the superannuation or other investments but—

Mr Broughton: No, it's not ComSuper. That's the Commonwealth Treasury's office of financial management and it was to do with their currency derivatives and taking a position with those derivatives that was contrary to their own policy.

THE CHAIR: Right, okay. So there's nothing for us to learn from that experience, you think.

Mr Broughton: The lesson to be learnt is that once you've set your policy you should stick to it.

MRS DUNNE: On that subject, Mr Broughton, we have set a policy and, by virtue of happenstance, things changed. That seemed to be happy happenstance in this case, and we are more cashed up than would necessarily be the case normally. But what would your advice be if you didn't have to find a new fund manager and things like that? Would you be saying to the Treasurer, "Hold the line; it's going to be rough but you'll come out the other end", or what?

Mr Broughton: Yes. I've got to say that this was only really finalised probably late last year, as to the direction we thought we should go, and then there's a process of implementation, which is a fairly lengthy process because it involves the procurement of fund manager expertise to look after the funds. Had we been on the strategic asset allocation, I don't think I could have given any advice other than that we should sit there, ride out the rough times and look forward to the good times. And, if you go back beyond this period, we have actually achieved double-digit returns for a number of years through the 1990s by trying to stick to our strategic asset allocation.

MRS DUNNE: And this strategic asset allocation, which has changed somewhat over the past year, were you able to back-cast it to sort of predict what it would have done? Is that part of the decision making that you look at: this is what our advisers say we should do; how would it have performed in past years, and can you compare it with—

Mr Broughton: That exercise hasn't been done explicitly. I'd be reasonably confident that it would have delivered better results, because the big growth was in equities and overseas equities during the 1990s and the strategy now suggests an even bigger weight towards those things. But the significance with the investment strategy is the assumptions you adopt about the medium-term global and Australian economy and what the different types of investments are likely to deliver in terms of returns, on average, over that period. Now, you will have a different view about the next five years now to what you would have had about the last five years, five years ago. So the two things aren't necessarily comparable.

MRS DUNNE: But, looking at the investment portfolio where you're proposing to move fairly heavily into overseas equities, isn't that part of the reason that the federal Treasury got into trouble?

Mr Broughton: No, they were mucking around with foreign exchange.

MRS DUNNE: Okay, right, yes, okay.

Mr Broughton: We're talking here specifically about shares and investing in shares belonging to overseas companies, and that would be about 50 per cent US and 50 per cent the rest of the world.

MRS DUNNE: Not Enron though.

Mr Broughton: Not Enron, no.

THE CHAIR: Okay, just going back to derivatives, what's the situation we've got in the ACT now with derivatives? I remember there being a debate about whether we have them or we don't, or didn't. What's the story?

Mr Broughton: The situation at the moment is that the Assembly, the year before last, passed legislation to enable the use of derivatives subject to appropriate guidelines being put in place. We have been working extensively with a lot of people in the game to establish what we consider to be about as good a set of guidelines as you could put in place. We have now reached the situation where they're just about ready to be tabled, as you would with the normal investment guidelines.

THE CHAIR: Tabled in the Assembly?

Mr Broughton: Tabled in the Assembly.

Mr Ronaldson: I might add that we've been able to use derivatives on the other side of the books for a number of years, and that my crude understanding of where federal Treasury came undone is that they didn't apply enough derivative cover to their overseas borrowings and left themselves exposed to overseas foreign currency.

THE CHAIR: What's the other side of the book? Do you mean in the recurrent budget?

Mr Ronaldson: No, I meant in terms of liabilities, borrowings.

Mr Broughton: Managing debt.

Mr Ronaldson: Managing debt.

THE CHAIR: Right, okay. I see there's reference on page 136 to a superannuation liability review, and it looks as if we're talking about $15 million over a couple of financial years. Have I read that correctly? Is that the cost of conducting a superannuation liability review, or is that something else?

Mr Broughton: That's the results of the review.

THE CHAIR: Right.

Mr Broughton: That's the outcome of the review, which indicates that we have to adjust both the emerging cost that we estimate we have to pay to the Commonwealth—and by "emerging cost" I mean that's the actual payment the Commonwealth or ComSuper make to retirees or beneficiaries.

THE CHAIR: Right. But is that a gain to our superannuation account or a loss? Is it a payment or a receipt?

Mr Broughton: This is the change in the estimates.

THE CHAIR: Right.

Mr Broughton: So a positive number means that it's an increase in expenses—

Mr Quinlan: Or a liability.

Mr Broughton: Or a liability, yes.

THE CHAIR: And what's that accounted for by? Is it because of a stronger estimate of the costs or is there some other reason that it's gone up?

Mr Broughton: It's a combination of changes in the nature of the workforce.

THE CHAIR: Right.

Mr Broughton: And the assumptions they use have stayed the same; it's more about our actual experience in relation to the type of people we've got employed, the people who've left, whether they've deferred their benefits or whether they've opted out of the scheme altogether. All of those sorts of things come together.

Mr Quinlan: This is one problem that I think we've discussed in this sort of forum before—that this adds a high degree of volatility to the bottom line, in that, because you're out there—you know, 40-year estimates—well, with compounding interest rates et cetera used, you can have not huge changes to where you're at and have very significant changes in what you've got to provide in the longer term.

We talked earlier about the commission of audit and phase 3, which is looking at superannuation and the method of accounting superannuation. One of the things we must do is come to terms with the fact that the superannuation process—well, the superannuation investment process, if you want to call it by that term—should be viewed differently from the operation of government. We've already had volatile results. We've had results a year or so ago of a very, very substantial surplus declared—happy days are here again—but it wasn't; it was illusory, and of course it disappeared over the last financial year.

THE CHAIR: On that point, haven't we reached the position where the Auditor-General has indicated that he won't accept a separation of the superannuation accounts and the general accounts?

Mr Quinlan: Yes.

THE CHAIR: So where does that leave the plan you published, what earlier this year, to separate them?

Mr Quinlan: Well, it left us with difficulty; I'll make that clear, but I can already tell you that I think the thinking of the Auditor-General has changed to some extent in relation to the superannuation. There was a change of government.

Mr Ronaldson: Look, it's a huge topic. The best I could give you is I think it's going to be a continuing feast for the next few years, underlying this. Just a personal view: the accounting profession has not come to grips with the issue of accounting for superannuation in the public sector. It's not for want of trying to interest the profession in this issue, as it's arguably one of the biggest accounting issues facing governments.

But there remains no Australian accounting standard. The Treasury has asked for and received extensive advice from the best professional accountants we can from the private sector. We've had extensive discussions with the Auditor-General, who, as the Treasurer indicated, is, as we speak, probably in the process of changing his mind as to how some aspects of this might be accounted for.

Indeed there are international standards for the accounting of superannuation and what we do is largely consistent with international standards. But you could say, at the very least, probably in the next few years the Australian accounting profession might well align themselves with international movements and, de facto, almost adopt accounting standards that would be appropriate for domestic use. But I just don't think it's an issue where a lot of the thinking has been done and completed.

THE CHAIR: Okay. Are there any further questions on superannuation?

MS DUNDAS: I've got a quick one. The current and non-current employee entitlements have variations that are explained by adjustments arising from actuarial advice and based on—the most recent actual data available being data provided at 30 June 2001, which was before this budget was handed down. Now that we've passed 30 June 2002, is there revised information available for the current and non-current?

Mr Quinlan: The process of actuarial advice is cyclical and you've got to give complete information, so it's never going to be instantaneous. It's quite a substantial, three-yearly review and in terms of practicalities that's about as frequently as you could do it. But this Territory has had up to a two hundred and fifty-something million dollar revision of our superannuation liability in one hit, and it's been clawed back since in other reviews. I ain't an actuary, but it is a concern that we get these particular fluctuations and it's a concern that that can be exacerbated by fluctuations in the investment market. But that's the deal we're in. If we're going to have a lot of money on the investment market to back our liability, these are the problems we have to face. One of the arguments why we shouldn't have sold half of Actew was that it wouldn't be volatile cash; it would be a solid asset.

THE CHAIR: Okay, that being answered, I think we've had enough on superannuation. Thank you, guys. Ms Dundas, do you want to ask your question on the hotel school and see if it can be answered? We haven't got the hotel school people here.

MS DUNDAS: I'm quite happy table them at the end and we can work through the things that we all want to talk about.

Mr Quinlan: No, ask the question and see how we go.

MS DUNDAS: It says in the budget papers that the expenses for the school dropped by $165,000 over the last year and this is on top of the savings on interest. I just wanted to know where those efficiencies were, and how were they made?

Mr Quinlan: No, I can't answer that one.

MS DUNDAS: See? That one's on notice.

Mr Quinlan: I can tell you that at the hotel school they've been under a lot of pressure to try and turn themselves into—to make their best endeavours.

MS DUNDAS: I'm quite happy to take a written answer to that. I also have a couple of other quick questions as we work through the list. On the insurance authority, the budget paper suggests that the operating result for the Insurance Authority ought to be turned around from a negative $1 million to a positive $130,000 for this financial year. How is that going to happen?

Mr Broughton: I'd appreciate it if you'd ask some questions of the other people! Essentially, with the Insurance Authority, the main unpredictable element in that is the actuarial review of the likely claims that we will face.

MS DUNDAS: So it's the same figures that played around with the superannuation that are playing around with the insurance?

Mr Broughton: It's the same principle. What we don't know until we receive a claim is just how many claims are going to come out of, say, a particular year's operation, and you normally estimate that using actuarial advice and as more data becomes available, because the Insurance Authority has actually only been up and running for a short while, the actuaries get a clearer picture of the likely claims outcomes going forward and so that's booked in as a liability and the increase in that liability becomes an expense and that goes to the bottom line.

MRS DUNNE: So you're actually say, Mr Broughton, that data is a useful thing to have about insurance?

Mr Broughton: It's extremely helpful if you're running a business, but I know where you're leading and I've got to say that I'm absolutely astonished at the lack of data that is available in the insurance industry and it's no wonder that they fall over like they have, because they just do not know properly what their costs are.

MRS DUNNE: Would you like to expound to the committee your views on what sort of data should be collected?

Mr Broughton: There should be extensive data collection, but you can't do it on a jurisdiction-by-jurisdiction basis. It won't work that way.

MRS DUNNE: Why not?

Mr Broughton: Firstly, you've got to get the cooperation of the insurance industry, and to do that you've got to be probably pretty heavy-handed with them, which means you need clout and you're going to get that best from a federal body rather than a state body. And if we came down heavy-handed on the insurance industry they would probably walk out of the territory, and we'd exacerbate the problem.

MRS DUNNE: They wouldn't want to write—

Mr Broughton: They wouldn't write insurance here, that's right, and they have already threatened that in a number of fronts.

MRS DUNNE: But they threatened that over the emergency services levy as well, but they didn't walk away.

Mr Broughton: No, I know that, and we're never quite sure whether they're bluffing or not, and I guess one day they won't.

MRS DUNNE: So you need a heart and mind strategy, do you?

Mr Broughton: Yes.

Mr Quinlan: I think you overcooked that one a bit. You just overcooked that question in one line.

THE CHAIR: Ms Dundas, have you any further questions on other issues before we get to ACTTAB?

MS DUNDAS: I had a question about EPIC but I was going to ask it under tourism, which I thought was happening tomorrow.

Mr Quinlan: That's right.

THE CHAIR: Why don't you ask it and see if it should be asked tomorrow?

MS DUNDAS: I'm pretty sure. We received income last financial year due to parking and camping revenues that we're not getting in this financial year. I'm wondering what event brought in that revenue that we're not doing this year, and why that happened. See? A question for tomorrow.

Mr Quinlan: I can't tell you. It's probably Summernats, but I don't know why it's not in there.

MS DUNDAS: But you can answer that tomorrow?

Mr Quinlan: Hopefully someone can. Tourism won't be able to answer that, so that's a question on notice.

THE CHAIR: Okay, let's move to ACTTAB. Welcome. Can I start with a question about the dividend. The budget last year, I assume, expected a negative dividend of $585,000. I assume that's what the -585 means.

Ms Baker-Finch: That means the dividend paid out.

Mr Quinlan: It's a deduction from equity. Having paid a dividend, you're just reducing the equity, so it's actually the dividend paid.

THE CHAIR: Right, okay. And the outcome was $350,000. It's now $373,000, so are we going backwards or forwards with that?

Ms Baker-Finch: Forwards.

THE CHAIR: Forwards, good. Okay.

Mr Quinlan: Marginally, but not nearly as good as the previous budget in the year.

THE CHAIR: No. We do anticipate, though, that the ACTTAB licence fee will decline from $1.38 million last year to $1.292 million. That's on page 91 of Budget Paper No 3. What's the reason for that?

Mr Wheeler: The licence fee won't decline. It's the distribution to government based on our turnover. The turnover has decreased; therefore our distribution has decreased. The distribution we pay—the 4½ per cent on turnover we pay—declined, based on the decrease in turnover we encountered.

THE CHAIR: Okay, so when it says on page 91, "The licence fee for 2001-02 is $1.38m, and 2002-03 is $1.292m", that's the same thing as the distribution fee; is that right?

Mr Wheeler: No, sorry. Our licence fee is set, but we pay—whatever our GST liability is comes off our licence fee. Now, we've had an increase in our GST liability; therefore our licence fee paid to the government will decrease.

THE CHAIR: Why is the GST liability increasing?

Mr Wheeler: We're expecting it to increase, going forward, to increased profits.

THE CHAIR: But, sorry why?

Mr Quinlan: Increased profits.

THE CHAIR: Increased profits, okay right.

Mr Quinlan: Which are in the dividend.

MRS DUNNE: But you were saying that you had decreased turnover.

Mr Wheeler: That's for the previous year, not this year.

MRS DUNNE: So you're not expecting decreased turnover this year?

Mr Wheeler: No, not going forward, no.

MRS DUNNE: Okay, that leads into the question I was going to ask. What do you see as the business prospects of ACTTAB in this financial year? Actually, Sue, I don't think you've identified yourself for Hansard.

Ms Baker-Finch: I am Sue Baker-Finch. I'm the CEO of ACTTAB. We're actually anticipating a marginal increase in turnover, which is reflected in a 2 per cent anticipated increase in retail turnover. It's probably worth highlighting that the retail part of our business—and by that we mean the sales to the average-type punter, in agencies and through account betting on telephone and the internet—tends to be the most expensive part of our business to deliver, because it is a high volume of small-value transactions.

We have another part of the business which is far more profitable in terms of higher-value transactions, which comes from our professional punters. And what we have particularly recognised, over the last period and we're anticipating into the future, is that, while the retail part of our business is growing, the professional punter part of our business declined in the last period and we've anticipated that we'll be able to maintain current levels for the next period.

MRS DUNNE: Sorry, when you say 2 per cent increase, is that in real terms?

Ms Baker-Finch: A 2 per cent increase in turnover, and from that we derive the revenue. But then, of course, the expenditure related to actually servicing that turnover and revenue is higher because of the higher cost of delivering to those customers.

MRS DUNNE: So how do you anticipate increased profitability if you're saying that your expenses are increasing?

Ms Baker-Finch: The only thing we can do is achieve cost efficiencies. The big focus this year will be to encourage as many of our account betting customers to use automated method of service delivery. So, instead of account betting with an operator-assisted service via the telephone, we need to encourage people to use internet service—what we call an interactive voice service, which is touch tone on the telephone—and we've also introduced natural language speech recognition, which is effectively speaking on the phone to a computer. All of those automated methods are more cost-efficient than the operator-assisted service.

MRS DUNNE: And if you encourage people to go towards non-operator-assisted services, do you envisage staff cuts?

Ms Baker-Finch: We have a pool of casual staff and we have flagged under the EBA that has recently been negotiated for a three-year period that we will be driving cost efficiencies through automated service delivery. And it will inevitably impact on, I guess, the number of casual staff—although I need to qualify that by saying that what we’ve noticed over the last period is that, while we’re encouraging people to move to automated services, the turnover through operated-assisted services is not actually decreasing; it’s staying the same, because the retail part of the business is growing. Now, if we have high growth in the retail part of the business, we may well be able to take a greater percentage of our business through automated services and yet not compromise the employment that we provide in the territory. It’s a hard one to predict, though.

MR HARGREAVES: Can I ask you a question on that one. I think that one seems to be fairly well covered. On page 395 of Budget Paper No 4, the highlights, you talk about “exploring new race coverage and betting options in association with other SuperTAB partners”. I guess that’s where 2SSS is affected; is that right? So can you tell me where we’re at?

Ms Baker-Finch: Well, Triple S has advised us—and has, indeed, stopped racing coverage as of 30 June and Triple S has made decisions about the type of program it now wants to pursue. We have therefore looked at alternative ways to deliver a racing service in Canberra. We have come up with an alternative option, which is to provide a relay of the Sport 927 service that comes out of Victoria and does provide information for the SuperTAB pool, which we are part of. So it will have ACTTAB dividends, approximates and finals, and we are able to deliver that service, with local Canberra information and local race coverage, at a lesser cost to us than the Triple S service.

MR HARGREAVES: With the Triple S service, was the amount about $200,000? How much was that?

Ms Baker-Finch: No, we were paying in excess of $335,000 in the last year. And the board had always said that the value to ACTTAB for a racing coverage service should justify a cost of somewhere between $150,000 and $200,000 but no more.

MR HARGREAVES: You’ve now got other arrangements; Triple S have packed their bags and bolted. You’ve now got other arrangements in place, so all the punters are happy as little piglets.

Ms Baker-Finch: Well, they will be by mid-August.

MR HARGREAVES: What, they’re not happy already?

Ms Baker-Finch: The service will begin by mid-August.

MR HARGREAVES: You've said that it should cost only about $150,000, instead of the $330,000 that you were paying before. Have you reflected the savings of that $150,000 in these budget papers?

Ms Baker-Finch: The figure reflected in the budget is $200,000, and that budget was developed in March. We anticipate that we will come in under that figure.

MR HARGREAVES: Well, that's still $130,000 less than 2SSS—

Mr Quinlan: Well, it's $130,000 less than Triple S wanted.

MR HARGREAVES: How much was in the budget before that then?

Ms Baker-Finch: In the previous year, there was $330,000 in the budget to cover the fee that had been paid.

MR HARGREAVES: And now you are putting $200,000? Can you show me whereabouts in the figures I could spot that, because I couldn't find it?

Mr Wheeler: It's part of admin expenses.

MR HARGREAVES: All right.

Mr Quinlan: Can I just round out on Triple S for your information. Certainly there was a dispute—before Sue's time—between ACTTAB and Triple S over the level of service and the cost of that service. Triple S has effectively determined to close up shop—a couple of times, actually. I've been concerned, outside of ACTTAB, that the Triple S sports billboard and contact service remains, because it's where umpires, match fixtures and a lot of local grassroots sport get their communications and they use it as a communication medium.

I've met a number of times with Triple S, and we have provided some interim funding because they believe that they can actually migrate from, effectively, largely a racing station, with local sport thrown in, to a local sporting station with some other entertainment and facilities provided. If the ACTTAB alternative doesn't work out, then certainly there is the prospect that Triple S, although it doesn't broadcast races from Bullamakanka and elsewhere, will provide, on a regular basis, results and dividends at a specific time on the hour, so that all of the punters will be satisfied with the results and dividends, and possibly the approximates leading into the races, as opposed to the broadcast of a lot of races that are not even available on ACTTAB because of the style of service that was previously picked up. Then I think we've got it covered. But it's still being worked through.

MR HARGREAVES: Thank you.

MRS DUNNE: So how is this new service being delivered? Is it still a radio-based service?

Ms Baker-Finch: Yes, it’s a radio service. But it relies on a feed from Sport 927 in Melbourne. Indeed, Triple S relied on that same feed anyway, because that is the national racing coverage. Basically, it customises the program for a Canberra audience by giving information about Canberra TAB venues, the clubs and local race meets and so on. And it incorporates local race coverage.

MRS DUNNE: When you say “local race coverage”, will that be calls of local races?

Ms Baker-Finch: It’ll be calls of the local races that will be relayed via phone line to Melbourne and then come back already locked into the program schedule.

MRS DUNNE: So it’s essentially the same service that was offered by Triple S through a slightly different a different arrangement?

Ms Baker-Finch: A different mechanism. It will be a very similar service, but it will be unapologetically a racing service. It won’t endeavour to be anything else.

MRS DUNNE: How many hours a day will that broadcast?

Ms Baker-Finch: It’s 24 hours a day, seven days a week. Because it comes out of Victoria, when there aren’t races there tends to be a little bit of AFL talk.

Mr Quinlan: That can only be good!

Ms Baker-Finch: That can only be good. We’ve already had some feedback about that.

MRS DUNNE: So what happens in the off season? You still have AFL talk?

Ms Baker-Finch: I think they speak AFL in Victoria all year round.

THE CHAIR: What’s the latest state of play with the planned head office move by ACTTAB?

Ms Baker-Finch: The latest state of play is that the Eardley Street site in Fern Hill Park, I think everybody will know, is now off the drawing board. The board has met on two occasions and considered a range of options, including building a similar building on another site, refurbishing the current building—which has really been dismissed because the building really is coming close to its use-by date—redeveloping the current site, and looking for an existing building and refurbishing that. The work now to follow will be to do quite a bit of new feasibility work on developing the current site.

THE CHAIR: The government promised that it would consider a move to Gungahlin as a high priority, if not actually said that was where it would go.

MR HARGREAVES: This member for Brindabella didn’t say that.

THE CHAIR: That’s good to know. So what is the prospect of it going to Gungahlin? We were told that the costs of going to Gungahlin were prohibitive.

Mr Quinlan: As far as I'm concerned, it's still an option, but it has to stack up. If there are additional costs, then there has to be additional benefit. So that is still definitely an option.

MS DUNDAS: There's a high amount of cash in the current assets for ACTTAB and that's explained as the capital being set aside. Well, the increase is due to the delay of the head office project. Yet if you look at the projections we're still looking at a high amount of cash assets. Is that because you're thinking it's going to take five years to find a new building or are you starting up a program of staying rich in cash?

Mr Quinlan: Well, if I could interrupt, it just looks like accounting to me. There's no building in the assets. So if you look at the non-current assets you don't see—

Mr Wheeler: In last year's budget we had the purchase of the new building in there to be in this current year, with the sale in the following year. In this year's budget we've got both of them happening in the same year. So there's a bit of a set-off between the two.

MS DUNDAS: But are you expecting the cash assets to stay high over the next three to four years and is this a deliberate program by the government to keep large cash reserves? Treasurer, I was asking Mr Wheeler, who's just explained that they do hope to have large cash reserves for the next six years as projected, and I was wondering if this was a deliberate program by the government to have large cash reserves.

Mr Quinlan: It's the first time I've noticed it so I'll get back to you on it. I'll take that question on notice. I'll examine that myself, because I hadn't specifically looked at it.

MS DUNDAS: And just to clarify from before, the funding for the new head office—wherever that may be, whatever form it may take—will come out of those cash assets?

Mr Quinlan: That's right.

Ms Baker-Finch: The board had always taken the view that it could fund its head office from its cash assets, and it has also taken the view that it needs to keep over the next few years an eye on retaining sufficient cash to invest over the next few years in what we would anticipate to be a quite costly technology renewal. The way TABs operate in the country is on fairly old systems and technology at the moment. They're efficient technologies for the moment, and they work well, but they're not the technology of the future. And I think you'll see that all of the TABs across Australia will need to invest in new approaches, moving away from simple terminal type of selling to browser based systems. I anticipate that will actually require reasonable capital investment over years to move ACTTAB to that type of technology for the future.

MS DUNDAS: I have just one other quick question then. On the building and the cash assets, when do you expect to have made a decision with regard to the new head office?

Mr Quinlan: Well, let's not nail that down because we changed—

MS DUNDAS: Can we expect it to happen in this financial year?

Mr Quinlan: I would presume so. But it depends on the search for land and whatever. But let me advise that the board of ACTTAB is almost completely changing as we speak. And so I want to give, effectively, the new board—I think there's only one previous member.

Ms Baker-Finch: One director continuing, yes.

Mr Quinlan: I want to give time for them to wrestle the questions to the ground rather than me having to do it.

MS DUNDAS: So you can expect that the new building decision will take place in this financial year, but it may take place next financial year.

Mr Quinlan: It may do, yes.

MRS DUNNE: On the subject of the new headquarters—and it has been a stated position of the now government that Gungahlin is the preferred option.

Mr Quinlan: Yes.

MRS DUNNE: I presume that the calculus of whether Gungahlin becomes the preferred option will incorporate more to it than just the needs and aspirations of ACTTAB. Will there be greater outside-of-ACTTAB considerations, such as the need to create an employment base—even though it's only 160-odd; is that right, Sue?

Ms Baker-Finch: Yes, that would be right—under that.

MRS DUNNE: Yes. How would you weight the need to create an employment base in Gungahlin, as opposed to the needs of ACTTAB?

Mr Quinlan: I think I implied that in answering a previous question.

MRS DUNNE: Yes. Yes, I'm trying to draw out what is the weighting.

Mr Quinlan: But do I have a specific ratio at this stage? No, I don't.

MRS DUNNE: But do you consider that that would be an important part of the calculus?

Mr Quinlan: Yes.

MS GALLAGHER: I think we've already said that as well, as a government.

THE CHAIR: ACTTAB makes a payment to the racing industry each year. Is that to the racecourse development fund or is there some other plan?

Ms Baker-Finch: The Racing Development Fund.

THE CHAIR: And that's what, $5 million?

Mr Wheeler: It's 4½ per cent of turnover.

THE CHAIR: Right, which last year was about what? Is it there in the figures?

Mr Wheeler: In excess of $5 million, yes.

THE CHAIR: Okay. What does ACTTAB get for that money?

Mr Quinlan: A product to sell.

THE CHAIR: But the product it's selling is as much interstate product these days, isn't it, as local product. In fact, it's probably much more interstate product than local product, isn't it?

Mr Quinlan: Yes, but under the gentleman's agreement all states are equal, and what each state or territory does at this stage—although we've had some high jinx in the area—is provide its product and take the others. Not all the betting that's ever done on ACT racing is done in the ACT, by a long chalk—and vice versa. We would have to be, quite clearly, a net importer of product. But almost everybody is, because Victoria's so large in its exports. I mean, New South Wales is a net importer of racing product, even though it's trying to screw us. So it's just a case of us making our proportional contribution to the pool of product, and drawing on the whole pool, as others do.

MRS DUNNE: Sorry, Treasurer, not everyone can be a net importer.

Mr Quinlan: I said nearly everybody. Because Victoria is so large, it is virtually the exporter.

MRS DUNNE: All right, sorry.

Mr Quinlan: There are a couple of net exporters as well, I hasten to add, but Victoria is the big one.

MRS DUNNE: Sue, can you tell us how much of ACTTAB revenue comes from ACT races as opposed to interstate or overseas races?

Ms Baker-Finch: Simon might be able to tell us that one. The percentage of race wagering that is from ACT races; do you remember? It's fairly small.

Mr Wheeler: Yes, it's minimal. I could take it on notice.

Ms Baker-Finch: We can get that to you.

THE CHAIR: Is our subvention to the industry proportionate to what other states put in?

Mr Quinlan: Subvention?

THE CHAIR: Well, our contribution to the operation of the industry. Is it the same as what other states put in—proportionate to other states?

Ms Baker-Finch: The 4.5 per cent?

THE CHAIR: Yes.

Ms Baker-Finch: Some of the states do a 5 per cent contribution, I think it ranges a bit. Some are lower than 4.5 per cent.

MRS DUNNE: And is the money in the Racing Development Fund all spent each year or is it rolled over?

Ms Baker-Finch: The Racing Development Fund—4 per cent of the turnover is automatically disbursed to the three codes in—

MRS DUNNE: The 4 per cent?

Ms Baker-Finch: Yes, 4 per cent is, and then 0.5 per cent is provided for facility development, and that's provided on the basis of applications.

Mr Quinlan: Yes, there have been some claims that have gone in very recently.

MS DUNDAS: Sorry, which three codes?

Mr Wheeler: Racing, trots, greyhounds.

THE CHAIR: Okay, are there any further questions to ACTTAB? No? Thank you, lady and gentleman. And finally we'll move to Totalcare. Welcome. Can I start by asking a question about the highlights for 2002-03? You talk in the last dot point about seeking opportunities for business growth in existing markets and regional markets. What sorts of opportunities do you see being there for Totalcare to take up?

Mr Palywoda: I am Steve Palywoda, CEO of Totalcare Industries. Mr Humphries, we are exploring a number of opportunities at the moment, across a number of the businesses but mainly in the health sector where we are in discussion with New South Wales Health, and particularly the Southern Area Health Service, about provision of linen and related services. Currently the Southern Area Health Service, which is based at Goulburn, receives linen from Wollongong, which is transported up from Wollongong and stored there and then distributed from Wollongong to the area which covers Yass, Queanbeyan, Batemans Bay, Moruya, Eden, all those areas. Now, we believe we have a competitive advantage in both the cost of production and distribution in that area, and that's one of the particular areas.

We've also just commissioned some major market research to look at some opportunities in the health sector. We have a report from Cogent Business Solutions, which is currently being considered by management and the board. It highlights a number of potential areas tied in with changes within the health sector in relation to clinical support services, particularly in the area of provision of custom procedure packs and on-site sterilising services. So they're two of the primary areas we're exploring and starting to develop business cases around those opportunities.

MRS DUNNE: Sorry, custom procedure packs?

Mr Palywoda: Custom procedure packs is where a supplier puts together all the gowns, sutures, instruments, band-aids required for a surgical procedure.

MRS DUNNE: One appendectomy kit.

Mr Palywoda: Or a hip replacement—yes. We currently provide a lot of the gowns and those sorts of things. We do the sterilising of the instruments. What we don't do is put that together with all the gauzes et cetera, and we're exploring that as an opportunity.

MS GALLAGHER: In the notes to budget statements you make quite a few references to the Williamsdale quarry joint venture. It's obviously had significant impact on Totalcare in the last financial year. Can you just tell the committee a bit about the decision to withdraw from the quarry rather than staying in it, and the impact that it has had on Totalcare?

Mr Palywoda: The board took the decision to withdraw from the investment in the Williamsdale quarry on the basis that the returns—we'd suffered significant losses since commencement of the joint venture, or both joint venture parties had suffered significant losses. We were not having the market penetration that was anticipated in the original business case, we could not see that changing in the medium to long term, and part of that was a factor that Totalcare, in its own right, its requirements for aggregate products was substantially reducing and that without a significant and major user of aggregate products underpinning the base production of the quarry, then the future looked bleak from our investment, and therefore the board took the decision that we should divest our interest in that quarry.

It has had a significant impact on the accounts for 2001-02 in terms of the ongoing operating losses of the joint venture and the loss on the sale when we finalise all the accounting treatment of that once we wrap up the sale details that were announced last week.

MRS DUNNE: Could Totalcare's own decline in the need for road based material have been anticipated when the joint venture was gone into?

Mr Palywoda: We had a demand for a product. We were not a major user of the product, but what we've seen over the last two years is that in the face of some very strong competition our roads business has declined significantly. And there are two aspects of that. One is the amount of revenue that was going to the repair and maintenance and resealing of the ACT roads, and that has declined significantly over the last couple of years and therefore the demand for aggregate and asphalt to service that has declined. But, more importantly, we were being less than successful in competing for projects in and around the region in relation to road maintenance and resealing, and we anticipated a demand of between 20,000 and 30,000 tonne of aggregate in our own right and we fell a long way short of that.

The original business plan, which was put together and reviewed by Price Waterhouse Coopers—and we got independent advice from Access Economics—made some predictions about the size of the market and our penetration into the market. You know, with hindsight, we were naive in terms of our expectation that existing major suppliers, such as Boral, CSR and others, would not defend vigorously their market share, which they have. They have certainly much deeper pockets than the joint venture had and we found that the expected major customers didn't come over to the Williamsdale quarry, for two reasons: one because of pricing and the price that was being provided by others, but secondly their concern that if they move their business to the Williamsdale quarry and they cut their long-term relationship with existing major players, who provided integrated services which included more than just aggregate—it included concrete supplies, concrete, building products et cetera—that might damage their overall relationships. As a result, we didn't get the market penetration the original business case was founded on.

Mr Quinlan: A lot of that industry is just vertically integrated anyway.

Mr Palywoda: Vertically integrated, yes.

Mr Quinlan: So they use their own suppliers. Now, the purchaser of this quarry now is likely to do very nicely out of it.

MRS DUNNE: Because they're more vertically integrated?

Mr Quinlan: Yes, and because the quality of this aggregate is rated very highly. But you still couldn't sell it because, even if the others had FAQ, as long as it was passable they would use their own. But once they buy it, obviously the quarry will be exploited. So it's just a case of that one factor being missed in the business case.

MRS DUNNE: So that the advice didn't take into account the degree of interdependence of—

Mr Quinlan: Of integration, yes.

Mr Palywoda: The degree of integration and the unwillingness of long-term suppliers to leave an established relationship where they were so integrated.

MRS DUNNE: So it's not that the quarry qua quarry is a bad option, but that the business structure of Totalcare wasn't such that it could take advantage of it?

Mr Quinlan: Well, can I just say, from the information I've received, two things. One is that it was a bad option in as much as the market was not open, and possibly that should have been recognised. But it's also the case, I think, that along the way the management of the quarry itself wasn't that flash either; is that right?

Mr Palywoda: I think there were some issues there, particularly in terms of the development of the quarry and some of the early management of it, yes.

MRS DUNNE: So who's responsible for the early management of the quarry?

Mr Palywoda: It was the joint venture. We relied very heavily on some external and consultant advice which probably wasn't as good as it could have been, with hindsight.

THE CHAIR: Is the joint venture partner sufficiently solvent to share some of the losses you're going to make out of this?

Mr Palywoda: They will be sharing a significant amount of the losses. Both parties have taken a fairly substantial haircut on the investment.

THE CHAIR: So it's a good thing that you've got a joint venture partner, is it?

Mr Palywoda: Very much so.

MS GALLAGHER: Do you have any idea of the full cost of getting out of the contracts earlier?

Mr Palywoda: We're still finalising that and we're probably a week or 10 days away from that. We're just doing final stocktakes and those sorts of things, which will be reflected in the sale outcome as the purchaser is going to buy all the aggregate—clean aggregate. They're going to buy all of the ware parts, they're going to buy all the fuel and consumables and we're just going through that whole process and settling all outstanding liabilities. So once we've got that out we'll have a total picture.

MS DUNDAS: On a slightly different point, the budget papers show that over the last financial year the government provided a $5-million capital injection and new contracts that weren't anticipated, and this money I guess was needed by Totalcare because of the slump that Totalcare experienced in the private sector. Has there been consideration of limiting Totalcare's area of operation for ACT government businesses, since it looks like Totalcare is using taxpayer subsidies—all these new government contracts and capital injections—to help it maintain providing services to the private sector?

Mr Quinlan: Not a lot at the moment.

Mr Palywoda: No. The $5-million cash injection was required to cover a cash flow issue for the company at the time. When we lost the housing contract we had a substantial amount of redundancy and other payments to make as a result of downsizing the workforce. Now Totalcare competes in the open marketplace, and that's across all sectors of its activities. And we meet all costs and charges in our cost structure. Like any owner, from time to time you might need an equity injection if you've got a cash flow issue. If you're a private sector company you would do that by either going to the market and raising equity, or you would go and arrange debt financing, and we got a cash injection from our owner to meet a cash flow. We've subsequently paid back at the end of this financial year an outstanding—

MS DUNDAS: Which financial year?

Mr Palywoda: The 30 June financial year. We paid—

MS DUNDAS: 2002?

Mr Palywoda: Yes. We paid a substantial part of a financing facility back to government based on restructuring our balance sheet and improving our cash flow over the course of the last 12 months.

MS DUNDAS: So has the private sector business—going out to the private market—been profitable?

Mr Palywoda: Totalcare operates in five businesses in five separate markets. So you can't look at Totalcare as one business. We operate a linen hire and a laundry service. That service is a unique market sector and we have been very successful in that market. I mean, 50 per cent of our business is in the private sector. We service the major five and four-star hotels in terms of their linen and other requirements—major establishments like that. In sterilising, it is a very specialised business where we have long-term contracts with the major hospitals, TCH and Calvary, to provide their sterilising services. There is no competitor to Totalcare in that market. Normally those services are provided by the institutions themselves, the hospitals, and we provide a first-rate service, and we provide that service on a benchmark pricing basis to the hospitals.

In our other three businesses—particularly our roads and our facilities management business—we are competing very heavily in a low-margin tight environment against very substantial and big players. We are not having the sort of success that we would like in winning some of those major contracts, and as a result we have had some difficulties in terms of generating the returns that we require in terms of a commercial organisation. But the government—or the taxpayer to that extent—is not subsidising Totalcare. I mean, Totalcare has to meet its full costs, and that covers all its overheads and borrowing and financing costs.

Mr Quinlan: Can I just add to that, just a point of clarification. The big business, and a business which is chewing money actually, is the linen service. Now, it is a service that, at this point at least, is a necessary service within the territory. And we might be able to find some alternative if we disaggregated the whole thing but, in the short to mid-term, it is necessary. So, if that service turns around and supplies the private sector or anybody else, then that extra business has to be viewed in terms of the marginal cost rather than the overall cost. So you could actually provide the service to the private sector at competitive price—at a price below the average cost of service—but it's still not costing the taxpayer—because it is profitable at the margin, if not on average. Do you follow me?

MS DUNDAS: Yes.

MRS DUNNE: Can I just clarify. So what you're saying, Treasurer, is that the linen service to the hospitals is a sort of a given—it's a service that has to be provided—and anything else is icing on the cake?

Mr Quinlan: That's right and, really, Totalcare would not be doing its job if it wasn't out there trying to maximise the throughput. And even if the last contract was below average cost, it's probably still contributory to the business line.

MS DUNDAS: Do you think that there are problems in terms of open market competition when one of those players in the market is receiving substantial capital injections from government and finding government contracts that otherwise wouldn't necessarily be there.

Mr Palywoda: I'd find that very difficult to answer in terms of how our competitors price. I mean, we don't price to lose, but what we have within Totalcare, which is very different in some of our businesses, is that we actually work on the basis of direct employment of our own labour whereas a lot of our competitors work on the basis of subcontract arrangements. They have a very small contracting project management team and then the rest of the work they would subcontract out, whereas Totalcare has its own direct labour.

MS DUNDAS: Treasurer, do you want to answer the question?

Mr Quinlan: As in?

MS DUNDAS: In terms of competition?

Mr Quinlan: Well, at this point I'll just repeat what I said before. If Totalcare didn't provide the service—the linen and sterilisation service at this stage—then it would have to be provided somewhere else. Otherwise you don't have it.

MS DUNDAS: But there are four other services that it provides besides that in an open market where the other competitors are not receiving government support. I'm just wondering—

Mr Quinlan: Well, is it unfair to the competition?

MS DUNDAS: I'm just asking: are there any problems with competition?

Mr Quinlan: Well, of those other services—I'll just have to check. Fleet management runs at a profit, so it's contributory and it is therefore not part of the effective subsidy that's been received. Facility management is probably running at a loss, not a huge loss.

Mr Palywoda: Break-even, yes.

Mr Quinlan: And that is in large part providing services within the government sector—schools, housing et cetera. Roads, again, is providing services to us, effectively. What else have we got—engineering?

Mr Palywoda: That's roads, yes, engineering, yes.

Mr Quinlan: That's all?

Mr Palywoda: Yes, the other two are little in size.

MS DUNDAS: And you said earlier that you were able to pay off a substantial amount of money to the government?

Mr Palywoda: We had a loan facility and we've been able to repay that through the sale of our Fyshwick premises.

MS DUNDAS: So in the future, do you see yourself being able to make a profit for government?

Mr Palywoda: Our projections going forward are predicting a very small profit, as you'll see in the budget papers. And there are some assumptions underpinning that, and they relate to key areas of revenue in a couple of the businesses, but the objective of the organisation is to be profitable and provide a return to its shareholder.

MS DUNDAS: So by providing a return, you mean being able to, I guess, in a sense, give back the $5 million cash injection to the government?

Mr Palywoda: Pay dividends. Well, the $5-million equity injection sits in there as part of the equity and, in terms of looking over time, you are looking at your profitability ratios and your return on equity as part of how you would pay back to government your dividend and what percentage of dividend you'd retain.

Mr Quinlan: We'd want $400,000 dividend to service that equity, or five or six.

MS DUNDAS: I am just trying to get to the bottom of what it is the government and the taxpayer get for their extra subsidy of Totalcare.

Mr Quinlan: Well, I think you've got to look at Totalcare's history. Officers might correct me. But it was an attempt to give a commercial orientation to some base services that were required anyway. So we've got a linen service. If it wasn't run by Totalcare—and it is losing money—it would be run by the hospital, probably at the same cost—maybe more, maybe less, I don't know. But, in large part, that is what is chewing at the moment the profits of Totalcare—having resolved the quarry. We have a facilities management, and a number of the services that are out there are former parts of government that were put out there, again, to put them under a commercial-style umbrella.

MS DUNDAS: A commercial-style umbrella that is yet to return a profit.

Mr Quinlan: Yes.

Mr Palywoda: Well, I think you've got to put that in context in the sense that, if you look at the Totalcare story, in the last five years Totalcare has laid out $14.5 million in restructuring and fine-tuning the organisation which, if it had not been operating on a commercial basis, would have been costs that would have been incurred by the government.

MRS DUNNE: Steve, can you tell me where we are with the incinerator?

Mr Palywoda: The new incinerator's up and running, and has been since the end of March. The ETD facility is probably about a fortnight or three weeks away from being commissioned. The arrangement with Stericorp is working very well. We're getting our royalty payments through and we've factored into our budget royalty payments of about $163,000 in the current financial year, based on the relationship we have with Stericorp.

MRS DUNNE: Can you explain that just a little bit?

Mr Palywoda: Stericorp took over the assets and the contracts of the previous clinical waste activities of Totalcare and in return for that we structured an arrangement whereby for every kilo that goes through the facility at Mitchell we get paid a royalty for the 20-year life of the agreement. In return, Stericorp has invested almost $14 million a new incinerator and its ETD process, which it'll have on line in the first week or second week of August.

MRS DUNNE: And what that essentially means is that Stericorp is subleasing the incinerator site for a royalty?

Mr Palywoda: Effectively, yes.

MRS DUNNE: Yes, okay. And we'll see the end of dioxin scares and—

Mr Palywoda: I mean, it is a state-of-the art facility, managed to all the protocols prescribed by Environment ACT. It had substantial benefits to Totalcare and the ACT community, in the sense that if Totalcare was going to stay in the incineration business it would have had to spend $1½-$2 million upgrading the existing facility, but it didn't have the throughput to maintain it on a profitable basis. So we've been able to bring to the territory significant investment, significant additional employment, and the risk in terms of the operation of the business has been transferred to Stericorp.

MRS DUNNE: So Stericorp runs the incinerator, what, 24/7 or something like that?

Mr Palywoda: No, no, they operate the incinerator overnight because the major input costs for the incinerator is electricity, and therefore that runs off peak and that's complementary for ActewAGL because they've a lot of available electricity off peak.

MRS DUNNE: It's all about load management?

Mr Palywoda: Load management, yes.

THE CHAIR: Okay, are there any further questions for Totalcare? No? Thank you very much.

The committee adjourned at 5.15 pm.