

**LEGISLATIVE ASSEMBLY FOR THE  
AUSTRALIAN CAPITAL TERRITORY**

**SELECT COMMITTEE ON ESTIMATES**

**(Reference: Appropriation Bill 2003-2004)**

**Members:**

**MR B SMYTH (The Chair)  
MRS H CROSS (The Deputy Chair)  
MRS V DUNNE  
MR J HARGREAVES  
MS K MacDONALD**

**TRANSCRIPT OF EVIDENCE**

**CANBERRA**

**TUESDAY, 20 MAY 2003**

**Secretary to the committee:  
Mr Derek Abbott (Ph: 6205 0199)**

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

Submissions, answers to questions on notice and other documents relevant to this inquiry which have been authorised for publication by the committee may be obtained from the committee office of the Legislative Assembly (Ph: 6205 0127).

**The committee met at 9.05 am.**

Appearances:

Mr T Quinlan, Treasurer, Minister for Economic Development, Business and Tourism  
and Minister for Sport, Racing and Gaming  
Department of Treasury

Ms M Smithies, Executive Director, Financial and Budgetary Management

Mr M Harris, Under Treasurer

Mr R Broughton, Director, Finance and Investment Group

Mr K Phillips, Financial Controller, Corporate Finance

Mr N Bulless, Director, Government Business Enterprise Management

Mrs T Pham, Deputy Chief Executive

Mr J Robertson, Director, ACT Procurement Solutions

Mr M Vanderheide, General Manager, InTACT

Mr R Hart, Director, Service Delivery, InTACT

Chief Minister's Department

Ms M Whitten, Director, Corporate Services

Actew Corporation

Mr P Perkins, Chief Executive Officer

**THE CHAIR:** Treasurer, we would like to welcome you to the second day of the estimates hearings. Before we begin there is a formal part that I need to take care of. 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 that you are protected from certain legal action, such as being sued for defamation for what you say at this public hearing. It also means that 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 also point out for the benefit of the Hansard recorders, minister and departmental witnesses, that your evidence today is being recorded by Hansard to prepare the committee's transcript of proceedings. It is therefore necessary for you to speak clearly into a microphone when you answer questions. Officers who are seated at the back of the room should come to the main witness table if called on to respond to questions. Please do not speak from the back of the room.

It would assist the committee staff and departmental officers if witnesses would also clearly state when a question is being taken on notice. It would also greatly assist in the preparation of the transcript if witnesses would state their full name and the capacity in which they are appearing on the first occasion they give evidence. Thank you.

Minister, we opened yesterday by offering the Chief Minister an opportunity to make a brief introductory statement and we give you the same consideration.

**Mr Quinlan:** I don't think so. I think you have probably all heard me tell you at some time or other what a good budget it is. Have you missed that? So I won't bore the committee with eulogies as to the—

**MRS DUNNE:** Feel free, it will be the only opportunity.

**Mr Quinlan:** That's okay, that's fine. Thank you.

**THE CHAIR:** All right. Minister, as you would be aware from some of the reporting overnight and yesterday, there was a budget estimates cheat sheet circulated at least in one department.

**Mr Quinlan:** I haven't got a copy. Can I get one?

**THE CHAIR:** We can get you a copy. It may be useful during the course of the day.

**Mr Quinlan:** Actually, I thought that I heard some of it on the radio and I thought it was an historical document as opposed to a prospective document—

**MRS CROSS:** It will be historical now.

**Mr Quinlan:** Because I have heard all that stuff before.

**THE CHAIR:** Well, apparently it was only written since your government came to office, though, Minister.

**Mr Quinlan:** Born of experience, obviously.

**THE CHAIR:** I was just wondering whether or not such a document had been distributed throughout the parts of the departments that you are responsible for and what action you are taking to make sure that does not occur.

**Mr Quinlan:** Well I don't know whether it has been circulated in my department or not, and I didn't take any particular notice of it. When I heard about it on yesterday's radio I thought it was a breakfast radio leg pull. I didn't know until some part of the way through yesterday that somebody had actually put it out. I still don't know whether it didn't start as a leg pull but I didn't think it was worth spending much time on, let me say.

**THE CHAIR:** No, but did you undertake to make sure that it hasn't been distributed in any way throughout your portfolio areas?

**Mr Quinlan:** I don't. No, I—

**MRS CROSS:** You just asked for a copy.

**Mr Quinlan:** I don't think I will bother, actually. I think the thing has received sufficient exposure so that everybody knows its status.

**MRS CROSS:** For the purposes of *Hansard*, the minister has now declined a copy of the copy requested.

**Mr Quinlan:** No, I declined a second copy of it. Now I have no copy. I can remember most of it.

**THE CHAIR:** Minister, the other question I asked yesterday at the start of proceedings was prompted by page 90 of the budget documents. Are you aware of any, or have there been any, breaches of the Financial Management Act inside your portfolio areas in this financial year?

**Mr Quinlan:** Well, not that I am aware of. None have been pointed up and I will ask my officers to assure you now, because there was within last year's audit report; I think it was quite technical but these days auditors have a way of being able to be dramatic. But we haven't.

**Ms Smithies:** The only thing was a hangover from last budget where the auditors—I think the words that were used were “a potential breach of the Financial Management Act with regard to the operations of CFU and the territory banking account”. We have moved to change the financial arrangements for CFU within the 2003-04 budget, which will essentially fix the problem.

**MRS CROSS:** I will start with a general question, and I will be pursuing the same theme with every minister that comes before the committee. Minister, in your overview on page 65 of paper No 4, you set out the following as one of your highlights: “reviewing corporate governance and performance of government business enterprises”, otherwise known as GBEs. One of the themes that I intend to pursue throughout the estimates hearing, as you may have gleaned from yesterday, is the issue of empire building. In your review of corporate governance and performance of GBEs, have you looked at the level of empire building?

**Mr Quinlan:** As a specific element, no, but you will be aware that since we came to government, in fairly short order I commissioned a commission of audit to look at GBEs, particularly GBEs that were not performing well at the bottom line. Since that point in time, you will also be aware that the government has taken action to redress some difficulties with the operation of some of the GBEs for which I am responsible.

Let us take the biggest, Actew itself and then ActewAGL in which we have via Actew a 50 per cent stake. We haven't gone in and measured, say for Actew, the empires that might have been built or not, and the day may come in a cycle of performance auditing that that happens. But let me say that what we have done is look at those that are not performing well and we have taken action, which is more than happened for some time.

**MRS CROSS:** Minister, thanks for your answer. Could you let the committee know the outcome of your approach and investigation and re-auditing of that, and will you table those results to this committee?

**Mr Quinlan:** Well, all the commission of audit results have been tabled and published, so that the various reports of the commission of audit I think are all in the—

**MRS CROSS:** This is on the specific matter of empire building or this is a generic audit result?

**Mr Quinlan:** No, I have said that I haven't got a program headed "Empire building, assault on". What I have done is have a commission of audit, which had audited the hotel school, Totalcare, and a couple of others, and those commission of audit reports have been tabled through the Assembly. We have made it public—we made it public as to what we are doing in relation to the management of the GBEs.

Members will be aware that we have had work done and a working party set up within Totalcare and the material that arises out of that will be available in due course. But it is, let's say with an organisation like Totalcare, a somewhat delicate matter. You are dealing with unions. There is a number of dimensions to any change. It is just not a matter of making black and white decisions; it is a matter of managing and massaging the change that will be necessary. Therefore, as I said, the finer detail we will put out in due course.

We took an approach in relation to the hotel school. Unfortunately, the information that was given in confidence got out. That was a destructive act and doesn't help the process at all, and I suppose underscores the necessity to be mature and responsible in the way we handle changes in what we do because it affects individual people, in particular both the students and the staff of the hotel school. But, anyway, we will let you know as soon as is possible. There are no secrets here, there is nothing to be gained. It is just a case of doing the job in a way that doesn't set unnecessary rabbits running and cause unnecessary grief because fears are raised when they may well be unfounded fears.

**MRS CROSS:** Minister, thanks for that answer. Has the expansion of the public service within your areas of responsibility applied to both the senior executive service and to the service at large?

**Mr Quinlan:** I haven't got my numbers with me—I would have to let you know whether I have got an expansion or no. But I would say we have had some efficiency cuts.

**MRS CROSS:** I mean, you don't know in your own department whether there has been an expansion; and you don't know, if there has been, what it is and where it is?

**Mr Quinlan:** Off the top of my head I can say no. I can tell you that the budget of last year had within it efficiency dividends required, which meant a cut in costs and we budgeted—

**MRS CROSS:** So the cut in costs translated into a cut in staff or a cut in other areas for an increase in SES staff and other staff?

**Mr Quinlan:** I am informed that our staff numbers are static and that overall the costs were brought down by 1 per cent.

**MRS CROSS:** So no change, is that right?

**Mr Harris:** Virtually no change. We are predicting at the end of June '04 the same staff numbers as the beginning of the year. Now, we might have a fluctuation during the year up and down of two or three.

**MRS CROSS:** Okay. Well, can I then put the question to you that I put to the Chief Minister yesterday, and that I will be putting to other ministers who come before the committee. I would like to know how many SES officers you have at the moment, how many you budgeted for within the department. And the figures that I would like for these categories are for July 1 2001, May 1 2003, July 1 2004. You can take that on notice and come back with that information to the committee.

**Mr Quinlan:** We will. You will need to get a more expansive report than ours because you know that administrative orders have changed over time so that what areas of responsibility are embraced within my portfolio area will have changed since 2001, and I am sure that is the same for each of the departments. So I guess that that is something that, if you haven't asked the Chief Minister yesterday for a service-wide report on that—

**MRS CROSS:** I have asked for a service-wide report. I am also interested, however, in getting a departmental specific report so I can then match them up. I take your point, but I am asking for two separate issues, two separate numbers here. One is an overall number, which I have asked the Chief Minister and Mr Tonkin. And then I will be asking each minister for a departmental number as well.

**Mr Quinlan:** Yes. I appreciate that.

**MRS CROSS:** Great, thanks very much.

**Mr Quinlan:** I am just saying be aware that not only have units been shuffled around the chess board, but responsibilities carried by units have shifted as well. So it needs a little bit more sophistication than just black and white numbers.

**MRS DUNNE:** I have a general question. Last year in estimates there was considerable discussion about the nature and spread of the investment portfolio, and there was in the course of last year a considerable change in where things were invested and the proportion which was invested overseas. I was wanting to get an update on how you felt the mix in the investment portfolio was going. I think the sort of general message last year from the Under Treasurer was that no matter what you did with the mix you had to sort of hold your nerve because from time to time things went wrong. I just wanted to get a view about the mix at the moment.

**Mr Quinlan:** Well, you can say that through the course of the year—well, through the course of the last 18 months—we have gone from advice received that said, if you want to make your 5 per cent real rate of return, we are going to have to have a higher risk portfolio. We have moved to a more conservative portfolio. I will ask Mr Harris to give you an update on the way that the portfolio was shifted.

**Mr Harris:** We currently have about 40 per cent of the portfolio exposed in the equities market.

**MRS DUNNE:** Compared to what last year?

**Mr Harris:** Compared to—

**MRS DUNNE:** I saw Mr Broughton coming to attention.

**Mr Broughton:** I can't answer the question specifically because I don't have last year's figures in front of me. What I can tell you is that any additional money that has come into the superannuation fund has been put into cash or fixed interest investments. So by default that means that the proportion allocated to equities has reduced.

We are currently running a portfolio that has what we call a significant underweighting to equities right at the moment compared to where we originally started back some 10 years ago or more and compared to where we want to get to in the future.

**MRS DUNNE:** So without being too specific, can you give us a mental picture of where it was 10 years ago and where you hope it to be in 10 years time, and where we are on that continuum?

**Mr Broughton:** Well, in terms of Australian equities, for example, we were operating on a basis of about 26 per cent allocation. That was our historical allocation. It is currently 20 per cent and the recommended long-term strategy is for that to go to 30 per cent. In terms of overseas equities, the historical allocation was 28 per cent. That is currently at 15 per cent, and the recommended long-term strategy is 35 per cent.

**MRS DUNNE:** So 10 years ago, where was the bulk of the money? Because there you have got 44 per cent in equities. Where was the rest of it? Was it in cash?

**Mr Broughton:** It was actually 54 per cent.

**MRS DUNNE:** 26 and—

**Mr Broughton:** And 28. We had 31 per cent allocated to fixed interest products and 5 per cent to cash and 10 per cent in property.

**MRS DUNNE:** 10 per cent, sorry?

**Mr Broughton:** To property.

**MRS DUNNE:** Okay. And can you refresh my memory. The long-term aim is to have what?

**Mr Broughton:** The long-term aim is for a total equities exposure of 65 per cent: 10 per cent for property; 10 per cent for what we call private equity, which is essentially investments in new start type businesses and the like; 14 per cent in fixed interest products; and 1 per cent in cash.

**MRS DUNNE:** And where are we at the moment?

**Mr Broughton:** I have just got to do a bit of adding up. Where we are at the moment is we have got 35 per cent in equities. Is that all you wanted?

**MRS DUNNE:** No, and what is the—

**Mr Broughton:** Okay: 34 per cent in fixed interest, 27 per cent in cash and 3½ per cent or thereabouts in property.

**MRS DUNNE:** So why is it such a large preponderance at the moment in cash?

**Mr Broughton:** As I explained earlier, all of the new money that has come into the super fund has been put into cash, pending us deciding on what is the right time to begin to move towards the long-term strategic allocation.

**Mr Harris:** That decision is based on the poor performance of the equities market at the present time.

**MRS DUNNE:** So that anything that is coming due is being put on the cash market?

**Mr Broughton:** That's right.

**Mr Harris:** Yes.

**MRS DUNNE:** So 27 per cent of our investment in cash—what is that in money terms?

**Mr Broughton:** We have got about a billion dollars on investments so—

**Mr Harris:** A touch under \$300 million.

**Mr Broughton:** Yes.

**MRS DUNNE:** So we have got \$300 million in cash.

**Mr Broughton:** Yes.

**MS TUCKER:** Just to follow that up.

**THE CHAIR:** Ms Tucker had a follow-up question on this issue and then Ms Dundas.

**MS TUCKER:** I was interested in the 10 per cent in property—10 years ago it was still 10 per cent in property. Why is it that you are not prepared to go to a larger percentage in property? For example, we have a housing crisis at the moment in the ACT, so why is it not possible to invest some of that money into public housing?

**Mr Quinlan:** Well I would say off the top of my head—and it is off the top of my head—that that level of investment in property wouldn't give you the returns that we are effectively obliged to get. This is employee money, not necessarily the government's money. I don't think property would return us —

**MS TUCKER:** What do you mean "we're obliged"?

**Mr Broughton:** I think if I can answer that. At the moment the investments in property are in office buildings and commercial and retail-type property, not in domestic dwellings. The property portfolio is managed by a fund manager. It's what they call a closed vehicle, which means that we can't put any more money into it than is already



there; and over time, as they dispose of some of these properties, we get the money back and that has been going into cash. So the amount of exposure to property has been falling gradually over a period of time.

What we haven't done as yet is appoint another property manager with an open vehicle so that we can begin to put more money back into property, and that is essentially the reason why it is wound down.

**MS TUCKER:** Why is that?

**Mr Broughton:** We are going through a process over the next six months of appointing fund managers right across the board for all different investment types and we will pick up a new property manager as part of that process.

**MS MacDONALD:** Can I ask, though: you wouldn't be inclined to invest in private property, would you, because the returns aren't the same as for commercial property?

**Mr Broughton:** It would be most unusual. We don't have the expertise in the Treasury to follow all of these markets, so what we do is the money is allocated to people that we believe do have the expertise. Now, if they advise us to go and do normal housing-type property, we would probably go along with that, but it would be most unusual to receive that advice, for the reasons that you have said.

**MS TUCKER:** Can I follow this up?

**THE CHAIR:** Can I just ask: does that mean that we are only attempting to get into the property market now in a larger way and haven't we missed the bus in that regard? The Treasurer himself has said that he is expecting the property market to soften. Why would we be buying into a market that is now softening?

**Mr Harris:** I think you need to understand the various markets we are talking about—that is the first point. The second point: we are talking about investing superannuation money, so there are prudential rules that apply in terms of the rate of return that we must attempt to get.

By and large, superannuation funds and major investment funds invest more in commercial property than they do in residential property and the commercial property market is vastly different to the residential property market. It would be unusual for a superannuation fund to have large investments in direct residential property. They may well have investments in property vehicles that have residential property as part of their portfolio but not directly themselves. The tendency is much more towards commercial properties, office buildings, bank buildings, post offices, those sorts of things.

**THE CHAIR:** If I can stop you there. Even though we are not obliged to, will we follow the APRA guidelines—I know they don't apply to governments—which say you don't invest your superannuation in buildings in which you are a tenant? It was reported that the Treasurer was thinking of buying back some of the office blocks that we currently have departments in. Will we follow the spirit of the APRA guidelines?

**Mr Harris:** By and large, and we have an investment advisory board that provides us with advice as well as professional investment advice, and that investment advisory board provides comprehensive advice on where and when we should invest. In fact, the percentages that Roger referred to earlier by and large come from that investment board. They are acutely aware of APRA guidelines, they are acutely aware of their responsibilities, given we are dealing with superannuation investments, and prudence is the name of the game as far as this raft of investments is concerned.

**THE CHAIR:** All right. Ms Tucker, you might like to finish off this area because we will get to the super fund later. But if you could finalise your question, we will move to Ms Dundas.

**MS TUCKER:** Further to that, I understand you are saying the APRA guidelines require a certain return but prudent investment. I can get a briefing later on and have a look at the guidelines in terms of what the returns are, but I would have thought there was a place for thinking around ethical investment with superannuation money. If, as a society, as a community, we know there is a problem with public housing and we know that that is an investment of a social kind as well as an economic kind, why doesn't that thinking come into the decisions around what we do with superannuation money?

**Mr Quinlan:** I have to say, with respect, that would be very, very bad public policy.

**MS TUCKER:** Would it?

**Mr Quinlan:** Look, there is nothing wrong. I mean, what you are doing is you are mixing two objectives. As Mr Harris has pointed out, this is superannuation money, it is not the government's money, and therefore to use it in a sub-optimal way in terms of financial performance to optimise another objective I think is bad policy. Yes, we want to address the public housing problem but we can't do it with superannuation money.

**MS TUCKER:** But isn't that a good investment? I thought property was a good investment. You're saying it isn't?

**MS MacDONALD:** Not private property, though. Not private property. Private property is not a good investment.

**THE CHAIR:** No, no, please—

**MS TUCKER:** I am asking the Treasurer.

**Mr Quinlan:** Well, I will leave it to my experts. But if it is a good investment and it's going to outperform others in the longer term then we will be in it because that would be optimal investment. But we wouldn't be doing it for social ends, we would be doing it to achieve the objectives of the superannuation fund.

**Mr Harris:** The current professional advice is that it is not a good investment in terms of the targets that we have for the superannuation fund, which is basically a 5 per cent real rate of return and a 90 per cent coverage of the liability in 40 years time. That's the first point. And I think the second point you need to understand is that, in a purely hard-nosed investment sense, the rental return you are likely to get from public housing, for

example, is insufficient to deliver the 5 per cent real return that the investment fund requires.

**MS TUCKER:** Five per cent?

**Mr Harris:** Five per cent real.

**MRS DUNNE:** And it's 5 per cent real on every investment.

**Mr Harris:** Across the board.

**Mr Quinlan:** Well, we lowered it a bit in the short term.

**Mr Harris:** Yes, 5 per cent over time. The target currently is only 3 per cent real.

**MS DUNDAS:** Budget Paper 4, page 65, refers to the Expenditure Review Committee process undertaking two capacity reviews in the next financial year. We know that in the 2001-2002 year JACS was looked at by the ERC. What was being done over the current financial year, the one that is yet to finish?

**Mr Harris:** The plan for this current financial year was to undertake an ERC review of the Treasury and of the department of health. The Treasury one started just before Christmas, or just after—I don't actually recall now; it was either the week before Christmas or the first week in January. The health one was due to start around about 18 January, just before. Because of bushfire activity both of those reviews were effectively put on hold. The Treasury review will start in June—"restart in June" perhaps is a better way of describing it—and the health department review will start in July.

**MS DUNDAS:** So there was minimal work done this year by the ERC?

**Mr Harris:** Virtually none. The diversion of resources as a consequence of the bushfires made it impossible to do the health review because the same resources were required to do the health review. So we simply took the pragmatic decision and put it on hold and concentrated on the more important activity.

**Ms Smithies:** But there were three terms of reference from the ERC. One of them was the capacity reviews, the second one was the review of all budget initiatives, and the third one was an across-government review of services provided. Obviously, the second one happened with respect to the review of the initiatives and there was a long and groaning process that went through at officer level and at chief executive level and at ERC level as a committee of cabinet. That process was actually started in December last year—it kicked off in December last year—and that obviously went through to completion for this year's budget.

And the third terms of reference: there has been a body of work produced focusing on the human services, non-government provision of services, to try to identify what it is that across government the government is funding by way of purchases from the community sector. That work has got to a draft stage. It was also being considered by the ERC of cabinet.

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**MS DUNDAS:** Is that part of the process that the Chief Minister's Department is running in terms of a rethink of the purchaser/provider model for non-government organisations?

**Ms Smithies:** It is complementary work. It is done in parallel and it certainly has ties between the two pieces of work.

**MS DUNDAS:** So when will the part that the ERC is looking at in terms of consolidation of programs be completed?

**Ms Smithies:** The government has a report right now. Whether the outcome is consolidation of programs or not hasn't even been considered. So I suspect that the way that things pan out will be that there will be more discussion in terms of the implementation or the review of the service purchaser/provider relationship with the non-government sector and then, essentially, where the work needs to go from here with regard to examining the provision of human services; taking a look at what it is that has been provided within the government services and not necessarily outside in the community services to see how well the provision of government services stack up against similar services that have been provided by community groups. That body of work is probably going to take several months easily.

**MS DUNDAS:** When the ERC was originally announced it had a three-year rolling program of reviews. Notwithstanding the fact that the time line has been blown out this year because of the bushfires, are you still looking to complete the three-year rolling reviews?

**Mr Quinlan:** Yes. That has been rescheduled, as Mr Harris pointed out. We will be still hoping to do it.

**MS DUNDAS:** JACS has been done, Treasury will be done, Health will be done, Urban Services will be done.

**Mr Harris:** From memory, the sequence is Treasury, Health, DUS, Education, JACS, and Chief Minister's.

**MS DUNDAS:** And then Chief Minister's and Disability to be completed in time for the development of the 2004 budget?

**Mr Harris:** No, we would aim to do two, perhaps three, a year to keep the three-year rolling cycle going.

**MS DUNDAS:** So aren't you going to run out of time?

**Mr Quinlan:** No, we are going to get re-elected and continue to do it.

**MS DUNDAS:** We are still going to run out of three years, though, aren't we? Sorry, it looks like you are going to run out of time.

**THE CHAIR:** Mrs Dunne wants to ask a follow-up question.

**MRS DUNNE:** I just wanted to follow up on the review of the provision of services. Can you just clarify for me: there is currently a review of provision of human services by non-government organisations which has been done through the ERC or through CMD?

**Ms Smithies:** Chief Minister's is doing it, working to the ERC.

**MRS DUNNE:** Working to the ERC—that's the relationship.

**Ms Smithies:** Given the ERC is essentially cabinet.

**MRS DUNNE:** Are we looking at this stage at a review of provision of human services as a whole? We are only looking at what the non-government sector provides?

**Ms Smithies:** The first stage was the non-government sector to get a handle on—across how many grants the government gives to the non-government sector; where it is that the money is spent.

**MRS DUNNE:** Is it envisaged that at some stage we might get on to actually looking at what human services are provided to the community across sectors to see whether there is any overlap or any holes?

**Ms Smithies:** Yes.

**MRS DUNNE:** When is that going to happen?

**Ms Smithies:** That would be the second tranche of work which will happen. There needs to be a body of work to identify what it is that the government sector provides and what it is the Commonwealth provides within the ACT. That needs to be put together with the non-government sector and then you can actually overlay it to see the gaps.

**MRS DUNNE:** So what is the timetable?

**Ms Smithies:** It should be in the lead-up to this budget—to the next budget, the 2004-2005 budget. Having said that, it is a massive piece of work.

**MRS DUNNE:** Yes, I realise that.

**THE CHAIR:** Ms Dundas to finish and then Mrs Cross.

**MS DUNDAS:** You may have already said this but I just want to get it clear in my mind. The work of the ERC over the 2002-03 financial year was that you looked at budget initiatives but you didn't find any other departmental savings.

**Mr Harris:** Well, the tasks that we didn't get to do because of bushfires and other things were essentially the tasks that would have delivered efficiencies, savings—describe them however you wish.

**MS DUNDAS:** If ERC's work was designed to commence in December, why wasn't it commenced straight away, considering that when it was announced last budget it was seen as a high priority to find efficiencies through the department? And why didn't the work start before December?

**Mr Harris:** I can't answer that question because I wasn't here before December.

**Ms Smithies:** It was originally envisaged that there would be sufficient time to do it. Essentially it was timetabled to happen, to start, in December and run through January/February, as that was the time it started after audited financial statements.

**MS DUNDAS:** But before the development of the next budget.

**Ms Smithies:** But before the development of the next budget. It was essentially scheduled for a time where there was no other major pieces of work apparently going on, until there was a bushfire.

**Mr Harris:** I think there is a timing issue in these activities, too. This is a small jurisdiction and we are essentially using the same resources, both within Treasury and within departments, to do all of these major pieces of work. One of the reasons for changing the timetable into June, July, August, September is to try to get it out of the really hard part of the budget cycle, which really is January, February, March.

**THE CHAIR:** Which does raise the question, Mr Harris: why wasn't it done in the June, July, August, September part of this financial year?

**Ms Smithies:** We didn't bring down a budget until June last year, and then we had a series of AAOs that went after that and then we went straight into financial statements.

**MRS CROSS:** On page 66 of BP 4 and again in "Operating Result" on page 67, you identify an operating result deficit of \$1.031 million. The reason that you give is that the deficit is due to the non-cash expense of depreciation. Why is it that you find it so difficult to assess this area in future years? If you look at BP 4, page 66, under "Departmental", it says "Operating Result (\$1.031m deficit)". Then you can look on page 67, two-thirds of the way down under "Revenue", where it says "Operating Result"—have you found it?

**Mr Quinlan:** Yes.

**MRS CROSS:** Excellent.

**Ms Smithies:** By and large most agencies actually aren't funded for depreciation, so the fact that there is depreciation in agencies' financial statements, on the profit and loss statement, the operating result will broadly be equal to the amount of depreciation simply because it is not funded as part of the revenue.

**MRS DUNNE:** Why?

**Mr Quinlan:** It is not cash. When we operate, we set up under accrual accounting, which is probably the best system but not the perfect system for what we are doing. There is required in the reporting processes non-cash expenses, like depreciation. They don't go into the appropriations. Appropriations are still based on a cash basis. So the real interest, if you like, in how this operates is what cash it returns and the cost to run, but we are still required to allocate the depreciation of the bits and pieces of equipment and furniture and whatever the department is using into the statements. So I do recommend Professor Allan Barton's dissertation that—

**MRS DUNNE:** I think I'll pass on that.

**Mr Quinlan:** At a recent accounting conference.

**MRS CROSS:** Mr Treasurer, rule No 10 is you shouldn't patronise members. Be very careful, this is your own list.

**Mr Quinlan:** Mr Smyth would know about it, I think, because I think it was delivered at the Council of Public Accounts Committees—a challenge, too—that is based on the confusion that this particular process causes, and it does cause confusion.

**MRS CROSS:** I have a follow-up question. I notice that Treasury's total equity dropped from \$54 million in 2001-2002 to \$10 million in 2002-2003. Why is that?

**Mr Quinlan:** What you give away. Total equity from when?

**Ms Smithies:** That is the transfer of the home loan portfolio out of Treasury's financial statements into financial statements of their own.

**MRS CROSS:** Okay. And finally, Treasury appears to be extremely top heavy with males. The top seven levels are all dominated heavily by men, while from ASO5 level down there is a predominance of women. What are you doing to address this gender inequity, Minister?

**MS MacDONALD:** I think Mrs Cross is suggesting that Megan Smithies be given a new—

**MRS CROSS:** No, Mrs Cross wasn't. In fact, Mrs Cross would like to see Megan promoted.

**MS MacDONALD:** That's what I'm saying.

**MRS CROSS:** But nothing against you, Mr Harris.

**Mr Harris:** I support the proposition.

**MRS CROSS:** But the question is very clear and I think Ms Smithies understands it very well.

**Mr Quinlan:** I'm not sure. My officers might be able to and Megan might be able to tell you better than the three of us, but I do understand that some of the better women that have come through the ACT Treasury have been pirated relentlessly by the Commonwealth.

**MRS CROSS:** Is that right? I am glad the media is here to listen to that one. We must go and review their numbers. The gender inequity issue is a problem. Just judging by the numbers of women that are in the room today from the department, I think we are outnumbered two to one, three to one. Over to you, Mr Chair.

**MS TUCKER:** I am still with the highlights on the rating system—your proposal for rates. We had a previous discussion about this in the Public Accounts Committee, but I would like to follow up a bit on your comments at that time, that you thought there was the potential to exempt particular sorts of people from the new rating system if there were good social reasons or whatever. I am interested to know whether that work has been developed since we spoke to you in the Public Accounts Committee?

**Mr Quinlan:** Yes, it has, but I have got to say that in the longer term I don't know that we can achieve all the social objectives that you would want to achieve by just building into this system and still having it workable.

**MS TUCKER:** Can I say that I was asking you about your system. I haven't got a list. I was quite worried in fact by the process—

**Mr Quinlan:** Sorry. I was just drawing a line through what you were asking about at the previous committee meetings about changing residence for environmental reasons.

**MS TUCKER:** Or social—yes, that's right. Because they were concerns about the system and you responded by saying you could exempt certain classes of people.

**Mr Quinlan:** Yes.

**MS TUCKER:** I am not sure that's the way to go at all, but I'm interested to know how you have developed that thinking, that's all. I don't know if that's the way to do it.

**Mr Quinlan:** Well, we are. We have in the longer term. If I could say, we would allow an exemption if people were moving to a retirement or aged unit and the new property was part of a retirement complex or residential property and the person was over a certain age, say 55 or over; where there was ill health or disability; or where the commission for ACT revenue has compelling compassionate reasons—those reasons.

But if we make it broad, I don't think it's administratively practicable. Even though we have gone back to the drawing board after the last meeting and kicked it around, and we are still kicking it around, I am coming to the conclusion that we can't build a system that is overly complex in the exemptions, otherwise it just won't work at all, it won't be able to be applied with justice.

**MS TUCKER:** So if you are looking at those considerations and putting environmental issues in this way, is it the case that you could then end up deciding it wasn't a good proposal to go with at all? If you are acknowledging there are these issues and you are



looking at ways of dealing with it, and if they are going to be too administratively complex or expensive, then maybe you would need to scrap it.

**Mr Quinlan:** What we will come back to the committee and show is that the system that previously existed is a bad system for some people, and that will be highlighted I think by the potential change in, say, the Weston Creek area. We have seen 50 per cent increases in value in single suburbs in the Weston Creek area up to the end of last calendar year—that is predating the bushfire and predating the very high profile sales that have taken place since that time and are still being discussed in today's media.

You will quite clearly have a flow-through in areas. It doesn't matter if you try to dampen the gross take to a level, the differential impact within the whole across suburbs and across individual blocks of land will be quite stark and it is that that we are trying to protect against, it is that that we are trying to address in the main as part of that system. So we will bring it forward and I sincerely hope we have the capacity to convince the committee to give the system its rubber stamp.

**MS MacDONALD:** Treasurer, I understand insurance policy was a big issue at last year's budget estimates. Following on from that, can you tell me how the department has assisted community organisations in their quest for reinsurance? Or Mr Broughton?

**Mr Quinlan:** There is a suite of activity that has been undertaken.

**Mr Broughton:** Yes, we set up a specific insurance policy area within Treasury as a result of last year's budget and they have been working extremely well over the past 12 months. We have done a whole range of things. I guess the key thing we have done is we have been able to gain access to an insurance scheme set up specifically for community groups, not for profits. That was set up in New South Wales originally, but through some very hard work by Treasury officers we have been able to include the ACT in that scheme. That has enabled a number of groups—I don't have the figures off the top of my head—to be able to access insurance through that, and a large number of others are being processed as we speak.

We have worked with the community organisations, with Volunteering ACT, to assist them in improving their risk management processes with the view that if that improvement can happen they are likely to increase their accessibility to insurance or the affordability of insurance.

We have set up a website which provides a lot of risk management information for them. The website also enables them to assess their particular risk levels and provides documentation to assist them through the process of developing risk management plans. That website is linked through automatically to the community care underwriters insurance scheme that I spoke of before. So a not for profit can basically go to that website, assess its risk, undertake its risk management plans, pass that information through to the insurers and that will help process its requirement for insurance.

On another front, we have looked at tort reform. We have exempted volunteers themselves from action for liability and put the onus back on the organisation rather than the individuals, and I think that has put at ease the minds of individuals who might have been thinking about not volunteering because of the exposure they might have had.

Other areas of tort reform will, I think, codify neglect as the courts understand it and possibly put the onus back more on individuals to take care of themselves rather than organisations or community groups having to do that for them.

**MS MacDONALD:** I have another couple of questions. Can you tell me specifically how it has affected the Neighbourhood Watch program, because I understand that was an issue of concern.

**Mr Broughton:** Yes. I was advised only the other day that the first of our Neighbourhood Watch organisations has obtained insurance under the community care underwriters scheme, and that is because they have gone through a process of risk assessment and risk plans. So they will pave the way for other Neighbourhood Watch areas to do precisely the same.

**MS MacDONALD:** So those are fairly positive outcomes on the government's part in regard to these areas which were of great concern. I understand that, at the moment, Mr Smyth has some bills in the Assembly. Will that actually impact on what happens with that? Will it have an impact at all?

**Mr Quinlan:** Look, I can't remember the precise details of those bills but what will be introduced in the territory in the suite of changes that we have made to tort law is effectively that which has been agreed nationally, and it becomes relatively complex to do. The one difference we probably have at this stage—this is with the common legislation across the nation—is a desire to introduce both thresholds and caps. How that pans out in the long run is difficult to predict.

But from our perspective, we believe that what a threshold or a cap does is nothing more or less than disenfranchise a number of people—people who suffer an injury that doesn't come up to a level get no compensation, and people who suffer quite horrendous damage personally and to their lives do not receive appropriate damages—purely to make the whole system practicable.

It has been a disappointment to the ACT to see, particularly NSW, the largest state, embrace all of the prescriptions of the Ipp report, which is virtually reflective of a shopping list that the insurance industry would want us to undertake.

Australia is in a difficult position. We represent something like 2 per cent of the world's insurance market and many organisations that want insurance in Australia have just been told, "Go away, don't bother us because we've got bigger fish to fry and you can just hang off the end of it." And that is why, because of the worldwide crisis in the western world, we have seen so many organisation or businesses that have a perfect claims record, a zero claims record, still having their insurance increased many fold in terms of the price or not available at all. It has been a very arbitrary process.

Now if that arbitrariness flows through to the ACT, if the industry considers that the ACT is a jurisdiction where claims are considered more sympathetically than they are elsewhere, that may well be reflected in premiums coming forward. That is a warning note that was sounded at the last meeting of the ministerial council on insurance a couple of months ago. We are yet to actually know whether that is going to happen and it is

really going to flow through, and whether the ACT will be considered large enough to be a separate jurisdiction, because we are about 6 per cent of 2 per cent.

**Mr Broughton:** One per cent of 2 per cent.

**Mr Quinlan:** One per cent of the 2 per cent in insurance. That is right because we don't have the big corporates.

Previously no-one has really bothered with the ACT in terms of premiums. But there has been a warning that they may be quite refined at differential premium setting and, if that is the case, whether we like it or not we may have to consider some reluctant acceptance of thresholds and caps. The rest of what is coming through in our legislation is virtually the same provisions that are happening nationally, and that's common sense.

**MS DUNDAS:** Just to clarify the scheme that you set up for community organisations: to be eligible for coverage, do the organisations need to be receiving funding from the ACT government?

**Mr Broughton:** No. Just not for profit.

**MS DUNDAS:** Just not for profit. And the scheme is still continuing? Because we have heard reports from some community groups that they have been told that the government scheme, government indemnity, is no longer available.

**Mr Broughton:** I wasn't talking about that scheme. That is a different scheme.

**MS DUNDAS:** That is a different scheme?

**Mr Broughton:** Yes.

**MS DUNDAS:** And which scheme was that?

**Mr Broughton:** The scheme that I think you are referring to now was an arrangement when there was no access for a lot of the not for profits to any sort of a scheme at all and the government made a decision that it would allow those organisation to insure for \$5 million in their own right and for anything above that \$5 million the government would indemnify the organisation. So if there was a claim in excess of \$5 million the government would have to pick up the rest. That was only ever intended to be an interim measure until proper commercial insurance arrangements could be put in place.

**MS DUNDAS:** And do you believe that those commercial arrangements are now in place?

**Mr Quinlan:** We have been instrumental in making sure they are.

**MS DUNDAS:** And that was the scheme that you were talking about just before?

**Mr Quinlan:** Yes.

**Mr Broughton:** That's right. Yes.

**MS DUNDAS:** So the \$5 million scheme, for want of a better term, has now finished?

**Mr Broughton:** Anybody who has been placed on that scheme, it will continue for them until the expiry of their current insurance arrangements but it is not available to parties coming forward at this stage.

**MS DUNDAS:** And organisations that were accessing that scheme, they take out the first \$5 million themselves. Did they have to be receiving funding from the ACT government?

**Mr Broughton:** Yes. Their primary source of income has to be from the ACT government, with one or two exceptions.

**MS DUNDAS:** And so are you confident now, with the second scheme that you have set up, that all community organisations who want insurance, whether they are receiving funding from the ACT government or not, can access it?

**Mr Broughton:** I wouldn't necessarily say all but certainly the vast majority can now get access either to the scheme that I spoke about before or to other commercial insurers. There is a slight softening in the market so there is more insurance available than there was previously.

**MS DUNDAS:** The ongoing assistance being provided by the policy unit, that is to help people work through the schemes that you have established?

**Mr Broughton:** We are actually providing assistance to a range of community organisations, which might entail things broader than just access to the one or two schemes that we have developed.

**MS DUNDAS:** And how long do you see that policy unit being in place?

**Mr Broughton:** At this stage I would think—

**Mr Quinlan:** At the end of the day the government—

**MS DUNDAS:** Sorry, how long do you envisage it being in place?

**Mr Quinlan:** Well, as long as is necessary, but it has got to be a case that it isn't an indefinite process. We have worked to try to set the environment for the insurance industry and area to normalise, and it won't in the long term become a second level of subsidy. The organisations are going to have to organise their own insurance at the end of the day.

**MS DUNDAS:** But you don't know when that is yet?

**Mr Quinlan:** No. Well, we are not going to jettison organisations that make up part of the fabric of the community one way and another. But we are more and more helping individual organisations get set as opposed to making arrangements that they don't need to be set.

**MRS DUNNE:** I like it when the Treasurer talks about the fabric of the community. On the—

**Mr Quinlan:** What does that mean?

**MRS DUNNE:** That is just a nice warm fuzzy thing for the Treasury to be talking about.

**Mr Quinlan:** The Treasurer has a soul.

**MS MacDONALD:** The Treasurer is a community-minded man.

**THE CHAIR:** Let's get to the question.

**MRS DUNNE:** If I could ask Mr Broughton: there is a number of schemes that you have set up. At one stage you talked about the scheme and then you said "schemes".

**MS TUCKER:** There are two.

**Mr Broughton:** Two.

**MRS DUNNE:** Do you mean the first one, which was to indemnify people above \$5 million and then there is a more ongoing one? What's that—has it got a name? I would just like to have names for things.

**Mr Broughton:** Which one—the first or the second one?

**MRS DUNNE:** The second one.

**Mr Broughton:** The second one is the community care underwriters insurance.

**MRS DUNNE:** Okay.

**Mr Broughton:** It is a commercially based scheme, but it only operates at the moment in New South Wales and the ACT for not for profits. We have, through our website, facilitated people's access to that scheme, but we don't decide who gets covered by it or whatever. The insurers make that—

**MRS DUNNE:** Is it insurance of last resort?

**Mr Broughton:** No.

**MRS DUNNE:** No. So if I am a community organisation and I have got to renew my insurance, I can come to the community care underwriters insurance. I don't have to go somewhere else and be knocked back before I go to—

**Mr Broughton:** No, you can approach a number of insurers and take the best price.

**MRS DUNNE:** So is there any financial contribution by the ACT government apart from the resourcing or the facilitation?

**Mr Broughton:** None.

**MRS DUNNE:** So it is entirely commercial—there is no insurance subsidy as such?

**Mr Broughton:** No.

**MRS DUNNE:** Okay.

**Mr Quinlan:** It is this one that had to be driven through, and it cut across competition policy. It had to get through the ACCC because it is a scheme that is supported by a number of insurance companies working together. It did cut across competitiveness in the industry. It went through the ACCC and we were at the forefront pushing.

**MRS DUNNE:** It does rather beg the question though, doesn't it, Treasurer, that when the screws were really put on, the insurance companies could come to the party, even if it was in a cooperative almost social fabric sort of way. Whereas before that we actually had a crisis and suddenly insurance companies are now coming to the party. What has changed? A year ago we were talking about the crisis where community organisations couldn't get insurance, but suddenly, through the good offices of Treasury officials and officials across a couple of jurisdictions, you can suddenly get all these insurance companies around the table providing a service which was absolutely impossible to provide a year ago.

**Mr Quinlan:** Well, it wasn't sudden but I take your point. I guess that the existence of this scheme is reflective of an evolution in the crisis, of in fact what couldn't have been done 18 months ago with everything that was dealt with. Possibilities were just dismissed out of hand. Major insurance underwriters were just looking after their major business and jacking up their premiums dramatically, and that was it. In fact, there was virtually no discrimination in what they did—they were out of hand not interested in public liability insurance at all.

But at the end of the day these organisations still want to sell a product so that you could say this is an indication that the crisis is lessening. It is still with us; exceptionally high prices are still being charged.

**MRS DUNNE:** But isn't this crisis—I cannot actually use the word “collusion”—rather manufactured by some fairly influential people in the insurance industry who are principally out to make a quid?

**Mr Quinlan:** Well, the crisis in Australia was born of two elements. One was onshore, and that was FAI and HIH, and FAI and HIH latterly underpriced insurance in order to maintain cash flow before the inevitable collapse, and there were criminal charges recommended for that process. The industry followed them because it was either write business at the HIH rate or don't write business at all. So that caused a collapse and lowered tariffs abnormally, so premiums had to go up 30, 40, 50 per cent anyhow.

And then we had the situation precipitated by September 11. How much worth of insurance was written off that day?

**Mr Broughton:** Forty billion.

**Mr Quinlan:** But it was some percentage of—

**Mr Broughton:** I can't remember.

**Mr Quinlan:** Anyway, a large lump of assets covered in insurance written was written off in one day. The insurance industry did pull back and was facing the possibility of outbreaks of terrorism, of huge masses of claims. It said, "Right, we are going to pull right back." Yes, you are right, I think the insurance industry has dictated the terms and that's why I actually mentioned the proportions earlier.

Our proportion of the international market and then our proportion of the national market means that we don't like what is happening either. There is no world court that we can go to to change it, and we are on the far end of it. It is an unsatisfactory situation and it is an unfair situation, and we would like to minimise any impact, in particular in relation to thresholds and caps on damages payments because we are being dictated to by the insurance industry.

But even worse, some of our sister states fell into line and just said, "Yes, we'll do it." New South Wales wanted to be the national leader so they said, "We'll do it all", bang "How clever we are", and Queensland followed. That left the insurance industry in a position to sound that note that I mentioned that came from the last council—"Well, we might start differentiating in tariff. We won't give insurance. It's a free country, we don't have to." Unless governments actually want to get into the insurance business, we're stuck with it, and we are too small to get into the insurance business.

**MS DUNDAS:** Minister, you yourself just said that insurance is still highly expensive, so what is now available to community organisations is not affordable to them and some organisations still can't access public liability insurance. Has there been any thought given to the government increasing the amount of money it is giving to community organisations so that they are able to continue the work that they are contracted by the government to do?

**Mr Quinlan:** I don't know whether we haven't, in some cases. I think that is one that you can hit the minister for community services with. But certainly what we have tried to do is make sure that people can actually get insurance and get insurance at a cost that they can—

**MS DUNDAS:** But when they can't, when they can't afford it, what happens then?

**Mr Quinlan:** At this stage we haven't got many that we haven't been able to sort out one way or the other.

**Mr Broughton:** We have got insurance for the greater majority of them. Where the cost is going to be higher than it would have been a couple of years ago, and that is what the minister has already said, what we have been saying to community organisations is, if it becomes an issue financially, then you need to go back to your host department and discuss the issue with them.

**MS DUNDAS:** And then it's up to each individual department?

**Mr Quinlan:** But also you have got to take into account the point that I think Mrs Dunne was making that if you just cop it without any resistance, if we just said we will subsidise everybody that can't get insurance, insurance companies would rip us straight away. That pressure has got to be there, that tug of war has got to be there.

**THE CHAIR:** All right, we might move on now to Mr Cornwell.

**MR CORNWELL:** Thank you, Mr Chairman. Treasurer, I am here because my questions that were put forward earlier have not been answered. They were sent in on 14 May. Is this one of the *Yes, Minister* health excuses that we haven't heard about? Do you know where the answers to my questions are?

**Mr Quinlan:** What are you talking about, Mr Cornwell?

**MR CORNWELL:** A series of questions were put down on 14 May.

**Mr Quinlan:** On 14 May. What is the date today?

**MS MacDONALD:** Wednesday of last week.

**Mr Quinlan:** Wednesday of last week, right.

**MR CORNWELL:** Yes, and we were told there were three days for replies.

**Mr Quinlan:** Three days that we take here.

**THE CHAIR:** Normally in the estimates process questions put on notice are answered within three days.

**Mr Quinlan:** Were they estimates questions? Are you a member of this committee, Mr Cornwell?

**MR CORNWELL:** Yes, they are estimates questions.

**Mr Quinlan:** Were they notified as such?

**MR CORNWELL:** Sorry, it is obviously news to you, Treasurer, so I'll presume it wasn't—

**Mr Quinlan:** Are you a member of the Estimates Committee, Mr Cornwell?

**MR CORNWELL:** No.

**Mr Quinlan:** No. Did you write on it "This is an Estimates Committee question"?

**MR CORNWELL:** Yes.



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**Mr Quinlan:** Okay, well we will chase it up. I thought the three days was questions taken on notice here.

**MR CORNWELL:** They did.

**MRS DUNNE:** Not in my experience.

**THE CHAIR:** Normally any questions put on notice were answered, certainly by the previous government, within three days. That has always been the understanding on the estimates.

**Mr Quinlan:** I don't think that was always the case.

**MRS DUNNE:** And that was the understanding last year as well.

**THE CHAIR:** Yes, and was always the case last year. A question I have relates to the cash—

**MR CORNWELL:** Sorry, I haven't finished.

**THE CHAIR:** Sorry, you have got more questions.

**Mr Quinlan:** Are these the questions that are on notice?

**MR CORNWELL:** No. I will take up some right now. I would like to follow up Ms Tucker's comments on the new rates exemptions. I presume that they will apply to superannuants and self-funded retirees and people like that if they move through the same situations as you have described.

**Mr Quinlan:** Self-funded retirees not necessarily, Mr Cornwell.

**MR CORNWELL:** Right.

**Mr Quinlan:** That is what you are coming to?

**MR CORNWELL:** Yes, I am—you know it very well. You are saying that they will not necessarily. If they move to a nursing home or if they move to—

**Mr Quinlan:** As far as my own philosophy is concerned—it is my appreciation of the general attitude of this government—we are here to help people who need help. Some of the most well off, most comfortable people, in this town are self-funded retirees. Being a self-funded retiree in itself does not, by my standards, qualify one for social support for welfare.

**MR CORNWELL:** And low-income self-funded retirees?

**Mr Quinlan:** Yes, certainly. But it would be on the basis of income and not on the basis of status as a self-funded retiree.

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**MR CORNWELL:** Are you considering that then, Treasurer, in relation to the matters of the new rental system exemptions?

**Mr Quinlan:** The new rent system?

**MR CORNWELL:** Yes, that you are proposing.

**Mr Quinlan:** What are they?

**MR CORNWELL:** You told Ms Tucker earlier that if people move to a nursing home from a property they would be exempt.

**Mr Quinlan:** But, again, they will be on the basis of need criteria. They won't be on the basis of the status of a self-funded retiree. It is not, by my standard, a qualification for welfare.

**MR CORNWELL:** I see. But they will be on a needs basis?

**Mr Quinlan:** Yes.

**MR CORNWELL:** Thank you. Well, why haven't you exempted them from the bushfire tax on a needs basis?

**Mr Quinlan:** Exempted?

**MR CORNWELL:** Such people.

**Mr Quinlan:** Well, we have. We have said anybody that qualifies for a rates concession is—

**MR CORNWELL:** No. You said—

**Mr Quinlan:** Yes, I think I said.

**MR CORNWELL:** Pardon me, but my understanding was that it was ACT Housing Trust tenants, pensioners and those who have been affected by the bushfires themselves.

**Mr Quinlan:** Yes, something like that.

**MR CORNWELL:** So, therefore, there won't be exemptions for people who are in a situation where they may be low-income self-funded retirees, and if they live in certain suburbs they will be paying—for example, in Reid—\$140 for this bushfire tax.

**Mr Quinlan:** Mr Cornwell, if people qualify for rates concessions so that there is an objective assessment of their qualification, then they are exempted.

**MR CORNWELL:** I see. So if that—

**Mr Quinlan:** There is not another layer of people who are nearly poor or—

**MR CORNWELL:** All right. And if they don't have a rate exemption then they will not qualify for exemption under this bushfire tax. Can we just explore this a bit further?

**Mr Quinlan:** Yes.

**MR CORNWELL:** On this question of the people who were affected by the bushfires, will this apply to people who have sold up and moved out?

**Mr Quinlan:** They will be entitled to apply. Some of those people have sold up and moved out—they haven't really profited out of the deal—because they can't face the whole process of reconstruction or whatever. But that would be on the basis of those people who have rebuilt are exempt; those people who have sold up and moved will be allowed to apply for an exemption, which will be done on some criteria to be refined, but it will be on the basis of need.

For example, some of the people who have sold up and moved out have done very well thank you very much, and there is a high profile case of a block of land being sold for \$690,000 and the replacement home being well in excess of a million dollars. Now, that person will be qualified to apply for the exemption—they probably won't apply for the exemption. But we would expect that there are others who have just said, "I can't face doing all that again. I'm selling up and I'm moving somewhere else." And if they have sold out and they have moved elsewhere they are permitted to apply and we would want to take the most sympathetic view of people who have lost through the bushfire.

**MR CORNWELL:** What about those who have lost gardens but not houses?

**Mr Quinlan:** No.

**MR CORNWELL:** No?

**Mr Quinlan:** We have offered some assistance for that.

**MR CORNWELL:** But, no, they would not be exempt from the tax. Is that what you are saying?

**Mr Quinlan:** That's right, yes.

**MR CORNWELL:** And what about those who didn't lose their houses but lived in a bushfire suburb, if I may put it that way, and maybe were surrounded by those who did. Will they be exempt?

**Mr Quinlan:** No.

**MR CORNWELL:** No, they won't. They will have to pay the tax. And this tax is going to raise \$5 million.

**Mr Quinlan:** Per year for two years, yes.

**MR CORNWELL:** What is the purpose of such an amount—such a small amount, I could almost argue—given the massive amounts that have been paid out and are available? And, indeed—and I think Mrs Cross made a comment about this in the Assembly—given the generosity of the Canberra people as well as the Australian people already? Why are you raising another piddling \$5 million by this tax?

**Mr Quinlan:** Well, we raise lots of piddling amounts, Mr Cornwell, and some of all those piddling amounts—

**MR CORNWELL:** But why base it on the bushfire?

**Mr Quinlan:** Because the territory has and will spend something in the order of \$30 million on bushfire recovery, and we rather thought that we might actually ask. The people of Canberra want their town. Not only do we need to address the damage of the bushfire, but we have got programs in place to make sure that we in fact put the town back the way it was, so there are a lot of streetscapes and work to be done not covered by insurance to restore the place to what Canberrans want. And we need to fund that. We think we can fund most of it but we don't think it's too big an ask to ask for \$10 million over two years as an additional contribution to that work, given the circumstances of the bushfire.

**MR CORNWELL:** Is it possible to provide me—not now obviously but you could take this on notice—with some information about what the money could be used for. You said there are certain things that still have to be provided in terms of streetscapes, et cetera. Could you do that?

**Mr Quinlan:** Yes, we could provide the committee with a list of the bushfire expenditures, if we haven't already. There is a whole book—do you have one of those?

**MR CORNWELL:** No.

**Mr Quinlan:** Because it has got a fair amount of detail in it.

**MR CORNWELL:** So it's your suggestion that this \$5 million is to be used for extra expenditure relating to the bushfire. I am asking if it can be provided through the committee?

**Mr Quinlan:** We won't be providing you, Mr Cornwell, with a list saying, "That \$5 million is going to pay for those few things." It doesn't work that way.

**MR CORNWELL:** I didn't expect that, no. I appreciate that, Treasurer.

**Mr Quinlan:** It's a pool process. So if you could be more specific in questions of anything you need over and above what is in the bushfire recovery booklet provided with your budget, could you let us know. But it is a fairly comprehensive list.

**THE CHAIR:** I would like to ask some questions about the cash. Could you identify what page in Budget paper 3 details the cash position of the territory this year and the outyears?

**Mr Quinlan:** In the outyears—the actual cash flow statement.

**Ms Smithies:** 185.

**THE CHAIR:** 185. In BP 3?

**Ms Smithies:** Yes.

**THE CHAIR:** The quarterly statement that you have just released on page 4 says that the territory's cash position was sound; at 31 March 2003 that was \$389 million; at the end of the year you expect the territory's cash position to be, if I can find the right place, \$403 million. This is the territory's unencumbered cash. I notice that according to the estimate for next year, 2003-04, it drops to \$347 million, so that is a drop of \$56 million; and in the 2004-05 year it drops a further \$114 million to \$233 million. So if the territory's unencumbered cash at \$389 million is sound, what would you describe \$233 million as?

**Mr Quinlan:** I am just trying to get the figures you are using, Mr Smyth.

**THE CHAIR:** I think in the chart 7.2.1 you are calling it territory investments, whereas in your consolidated financial management and report you call it the territory's unencumbered cash. So if \$389 million is sound, what is \$233 million?

**Mr Quinlan:** Sound but less sound.

**MRS DUNNE:** When does it cease to be sound? What is the sliding scale?

**Mr Quinlan:** Well, it would cease to be sound if you got down to—what was the figure in the last budget the Liberals delivered, the outyears? It was very large—hundred less—

**THE CHAIR:** Why is the cash declining in this way?

**Mr Quinlan:** Why is the cash declining in this way? Because it is in use. If you read the Auditor-General's report on financial statements, he does talk about the requirement to have cash reserves in support of your liabilities. I would say if you look at the territory's debt and cash position, we are probably the soundest of all states in the Commonwealth. We could have more cash if we had more borrowing, we could have more borrowing comfortably and still have our triple A rating. We could be as solid. We are, I think by any comparison, in a very sound position.

**THE CHAIR:** All right. What causes the cash to dip in that way?

**Ms Smithies:** The drop is mostly the \$50 million for the remand centre and the \$40 million for the convention centre.

**THE CHAIR:** All right. If we accept, Mr Quinlan, on page 3 of BP 3, your analysis that we are in an economic cycle that is going to end in 2005-06, is your forecast that the cycle is going down? Where are we at in your economic cycle?

**Mr Quinlan:** I have used the term economic cycle loosely—something that Access Economics didn't seem to have much trouble with, but I notice you took quite a long time over it in the Assembly, which was enthralling. But what we are talking about is the process of the cycle of this government and the cycle that is represented by the forward estimates, and the only time I think I have really used it is to say that we would keep the territory in surplus over that period.

What I am trying to communicate—and if you want to be pedantic go ahead—is that there could be a year of deficit, but provided we had in a stream, a short space, four or five years in which we were able to stay in surplus, that was probably a more sensible objective to hold than the objective of being in surplus every year. This is because there can be good and valid reasons why you would be in deficit over a shorter term but still be going gangbusters really in terms of overall performance, as we are.

**THE CHAIR:** Why would we be going into deficit at the top of the cycle? If this is the best we can do when everything is going so well, growth is good, employment is good, cash flow is good, why are we in deficit this year? This tells me that the budget is not sustainable because it means that in the bad years, if there is a downturn and if there is a significant downturn, you don't have the reserves or the ability to pay for the recurrent services in your budget.

**Mr Quinlan:** Well, I think the budget speaks for itself in those terms. The strength is there. But the reason why we are going into deficit is that we are spending abnormal amounts of money and to set a budget to still have a surplus when you are spending abnormal amounts of money would be really to send the budget out of sync with reality.

The best way to absorb the extra amounts of money that we are spending is to allow a small deficit and then go back into surplus, as opposed to saying, "Well, we'll set the revenue or we'll chop services." I'm sure, if you want services chopped, you will mention what they are in your report; or apply additional revenue measures. I'm sure if you want us to do that you will mention those in your report or set a balance and say, "We are spending abnormal amounts of money. We'll cop that effectively on the chin because we know that in the longer term the lines are right, the projections are sound, and that a small deficit in a year or so and a minor surplus, which could turn into another small deficit with not much change in something, are nothing to be particularly perturbed about provided we are heading in the right direction." But to try to set next year's budget at a surplus would require a reduction of the services delineated in here.

**THE CHAIR:** Or a cut in spending.

**Mr Quinlan:** Well, that's what I meant. You can't cut spending without cutting services so it has to be a cut in services or an increase in revenue. And the government would be very happy to receive suggestions on both sides from the committee in your report.

**MRS DUNNE:** We have just had a statement there, Treasurer, that says you can't cut spending without cutting services. What we have actually seen not only in this budget but in the course of the financial year which is coming to an end is a large increase in expenditure, but there are very few positive measures, positive indicators, of improved services. If you go through the hospital system, a lot of money has been injected into the hospital system but the throughput is not there.

**Mr Quinlan:** You can talk to the Minister for Health about that.

**MRS DUNNE:** I am using that as an example and I don't want you to comment on that. But I'm asking you, as the person who has the overall responsibility for the budget, the question: are your hands on the levers sufficiently to restrain the expenditure and, in doing so, still keep the services up because what I am seeing is a lot of expenditure which is not translating into increased services? You can spend a lot of money without actually sort of upping the services. What are you as Treasurer doing to ensure that when you put 10 per cent more money in you are getting at least 10 per cent more services out the other end?

**Mr Quinlan:** Yes and no. I think that—

**MRS DUNNE:** Yes and no?

**Mr Quinlan:** Well, I think there are clearly increases in services and a broadening of services in mental health and a number of initiatives that have been taken, and I don't expect you to recognise those. But at the same time, what this budget—

**MRS DUNNE:** No, I recognise them. There is a difference. I may not agree with the aim or whatever. What I am saying is I am not actually seeing the services.

**Mr Quinlan:** None so blind as—

**MRS DUNNE:** No. I may not agree but I can see. What I am actually asking you is to demonstrate where the increased services are—when you put more money into the health system, where are the throughputs? Where you put more money into any service provision, are there outcomes to go with that? What are you doing, as the person who has the sort of overall control of the levers, to ensure that when more money goes in more comes out the other end and that it is not just being absorbed in what Mrs Cross has called empire building?

**Mr Quinlan:** Well, I am reasonably satisfied that that's not the case, and it's a cabinet process. As I said, if you want statistics on throughput, demand and costs, you will see that the price index of health is not the consumer price index by a fair chalk. But you also should know—and I think it's clear from the budget—that there are additional costs in delivering services and delivering administration that we are absorbing that will not necessarily increase the level of service because we are coming off a deflated level of public sector salaries and wages. I haven't heard any debate to say that that's not the case.

All of the EBAs that affect the public sector have matured in recent times, or are maturing, and the wages and salaries comparison between the public sector in the ACT and other jurisdictions show us in a very poor light. Now, depending on your attitude to life, maybe previous Liberal governments are to be congratulated for keeping wages costs down. But it is not, as far as we are concerned, a sustainable process. We do haemorrhage good staff, we do compete for staff in the bigger pool of the ACT, and we are seeing increases in public sector wages or salaries that ought to have been I think

projected into previous forward estimates and weren't. That is my one reference to the checklist of blame the previous government.

So there are costs in sustaining administration and sustaining service delivery in the territory where the additional services are not there. There are costs associated with the SACS award which are costs which are redressing underpayment of people in the community sector.

**MRS DUNNE:** So what you are actually saying, Minister, is that all the increase in costs can be associated with the overdue injection into staff numbers?

**Mr Quinlan:** No.

**MRS DUNNE:** Well, where are the other—

**Mr Quinlan:** Well, I am saying some of it. If you want me to start throwing the numbers around, I can't off the top of my head say what the proportion of increased salary costs in redressing and meeting those needs is versus the increase in services. You know, this is what these books are for—they list the initiatives and where the additional expenditure has gone.

I don't think it would be entirely productive to try to convince you that services are increasing. But we would say these initiatives demonstrate that services are increasing. You have got to know that there are wage costs and there are cost elements, particularly in health, where health costs escalate at a great rate. The health system is changing—we all know that—and what is available and what people are getting today they couldn't have got 20 years ago, I can tell you from personal experience.

**THE CHAIR:** All right. If you want to raise the question of health, and you raise the health index, the target—

**Mr Quinlan:** I didn't raise health.

**MRS DUNNE:** Yes, you did.

**Mr Quinlan:** You raised health.

**THE CHAIR:** No, you raised the health index—you mentioned the health index.

**Mr Quinlan:** Of which I know very little, let me say.

**THE CHAIR:** The target cost for acute services this year was \$981 and the target for the coming year is \$1,181, which is a 20 per cent increase, but your funding for the hospital hasn't gone up 20 per cent. On the one hand your documents, the budget documents, say that the cost of acute services goes up 20 per cent, but we don't see a 20 per cent increase in the hospital budget. So how is it sustainable?

**Mr Quinlan:** I can't answer all the questions—

**THE CHAIR:** And there are examples of—



**Mr Quinlan:** I can't answer all the questions on health, and I won't attempt to.

**THE CHAIR:** No, but there are examples like that throughout the entire budget.

**Mr Quinlan:** But not every element has gone up by 20 per cent, Mr Smyth.

**THE CHAIR:** So you can't answer how your budget is sustainable in the future if these costs continue to mount?

**Mr Quinlan:** No, I can't answer questions on single lines on health.

**THE CHAIR:** I am asking in the broad, Mr Quinlan. Your revenue is dipping \$130 million in the—

**Mr Quinlan:** You asked me, Mr Smyth. You said one single line went up by 20 per cent and—

**THE CHAIR:** No, I quoted that as an example.

**Mr Quinlan:** —why hasn't everything gone up by 20 per cent? That is not logical. I can't answer illogical questions, Mr Smyth.

**THE CHAIR:** No, well perhaps you should listen more closely, Mr Quinlan. I gave you an example of where costs are surging and asked you if your budget is sustainable given that, in education, they have gone up, as in other areas? How is your budget sustainable if costs are surging and your revenue is dipping in the outyears?

**Mr Quinlan:** Look, if in fact costs in health go up by 20 per cent each year, we the territory have got a significant problem. And that is the overall costs of health.

**THE CHAIR:** But it's not just health.

**Mr Quinlan:** But I don't think it is a realistic scenario to then say, "If that happened, is your budget not sustainable?" Don't be silly.

**THE CHAIR:** But it's not just health. Areas across the government are going up and you have not built in enough growth in the outyears. You say that the revenue will dip \$130 million this year. We are at the top of the cycle where I think everybody would agree that all the indicators in the ACT are very good at this time. But what happens in the outyears? How are you making your budget sustainable?

**Mr Quinlan:** You can see in this budget that there has been a relatively conservative view taken of the forward estimates of the indicators, and then the budget has been built on those. Now, that's where it is sustainable, inasmuch as it's got that. By virtue of conservative estimates of the growth indicators that we have, and the budget is then built with those in mind, then automatically it must be sustainable because they are all the numbers built around those more conservative flatter growth numbers.

**MRS CROSS:** Minister, the following is a question that I asked the Chief Minister yesterday and he flick-passed it onto you.

**Mr Quinlan:** Who is next after me?

**MRS CROSS:** On 14 April, the *Canberra Times* reported that Access Economics had revised the outlook for growth in the ACT upwards by around one-third from 2.6 per cent to 3.8 per cent, due to the flow-on effects of the rebuilding after the bushfires.

**Mr Quinlan:** Yes.

**MRS CROSS:** In BP 3, on page 41, why is it that the government recognises that the reparation activity required following the 18 January bushfires will have a stimulatory effect on the ACT economy in 2003-2004, so far agreeing with Access Economics, but then claims—on the same page—it will not be significant. Do you not agree with Access Economics' figures?

**Mr Quinlan:** No.

**MRS CROSS:** Why not?

**Mr Quinlan:** I have got my experts here. Mr Harris will have something to say. We are not the first government to disagree with Access Economics' figures.

**MRS CROSS:** Sure.

**MS MacDONALD:** And certainly not the last one.

**Mr Quinlan:** It seems to be an annual event.

**Mr Harris:** Our view is that Access Economics' modelling gives undue emphasis to economic activity which we don't think actually occurs here. I will give you an example. Many people, as a result of the bushfires, will be buying whitegoods, televisions, furniture and other things. Almost exclusively, those goods come from interstate. In our view, Access Economics is assuming a far greater economic impact as a consequence of that sort of economic activity accruing to the territory, rather than accruing to New South Wales. We have a much more conservative view about how much of that activity accrues to the territory as opposed to some other jurisdiction.

**Mr Quinlan:** Even though there is a surge in GST on all of this, it still goes into the pool. We don't get back the GST that is generated in the ACT; we get a share of the national pool. So that gets smoothed right into the pool. But, yes, there will be more activity in the territory but the likely flow through, particularly through the public sector and the public purse, is not going to change significantly.

You might get the little extra payroll tax if there are big firms, because, remember, you have got to employ 30 or 40 people before you even pay payroll tax in this territory. The likely change in employment activity through all those retailers and wholesalers that are handling goods is not likely to be significant. They will have a spurt, their profits may go up, but unfortunately we don't get company tax or income tax either. We may differ in

terms of the overall economic activity but really the impact upon the ACT budget is not expected to be very significant at all.

**Mr Harris:** There is a discussion on that matter on page 55 of Budget Paper No 3.

**MRS CROSS:** I wasn't going to ask you this, but I will now. Regarding BP 3, page 5—I have got the original budget figures and then I will look at your 2002-2003 new forecast figures for state, final demand, gross state product and employment growth. With the risk of increased inflation due to oil price increases and drought, and with inflation at 2.5 per cent, only small increases in prices will affect final result. Small changes in any of the figures above could seriously affect the government's predicted surplus, and from the government's own figures above, the budgeted figures could be out in either direction. Does the government have a contingency plan in place if things go bad, as there is little or no fat in the budget surplus?

**Mr Quinlan:** Well, effectively the contingency plan is you do budget once a year and not for five years, in fact. What these figures show is that the budget overall is based on conservative estimates. We warn, quite responsibly I think, that things can go either way. Now, when you are actually coming up with an estimate and you are saying things can go either way, unless you want to put out a range budget, it could be either side of the budget. We have got what we think are the most sensible estimates in the budget, with, I think, a responsible degree of conservatism. So that gives more potential for the budget position to improve rather than decline.

**MRS CROSS:** I understand the theory, but when we are dealing with high levels of money, which we are in this instance—

**Mr Quinlan:** Absolutely.

**MRS CROSS:** And they go either way and you have got no fat there to cover anything, what is your contingency plan? You could get it wrong. We are dealing with so much money.

**Mr Quinlan:** I would take a wild punt and say compared to other states and territories—we discussed this earlier—this territory has probably got fat of hundreds of millions of dollars capacity. We could borrow significantly and still have a triple A rating. We have to pay the interest on it. We have the capacity, I think, within the financial position, the financial strength of the territory, and considerable buffer, and this budget is no more, no less the best estimate of what will occur in the future, as all previous budgets are. That's all you can do.

**MRS CROSS:** But when you say you are being conservative, in the state final demand there is a difference of 2 per cent, in the gross state product there is a difference of 3 per cent, in the employment growth there is a difference—it's double. That is not a conservative estimate. You are saying that your estimates are conservative. I am saying to you don't you think that, when we are dealing with such high figures, even though you say we can handle a couple of hundred million here or there, that is a little bit irresponsible?

**Mr Quinlan:** No.

**MRS CROSS:** Why?

**Mr Quinlan:** I think it's important for you to understand that the—

**MRS CROSS:** Now, be careful, Minister. Point 10 says, "Don't patronise the member."

**Mr Quinlan:** I'm not. But if you are going to repeat something that I have already answered—it is important to recognise that this budget, the financial position of this territory, is very strong. That is overlaid with what I think are fairly conservative estimates, so that if things do fluctuate the probability is they will fluctuate towards improvement more than they will fluctuate towards decline.

**MRS CROSS:** The proof of the pudding is in the eating.

**Mr Quinlan:** Yes.

**MRS CROSS:** Good.

**Mr Quinlan:** And I can tell you from past experience—not my experience but the territory's experience—that previous budgets have been out a very long way. The best result this territory has produced in its bottom line so far in its history was a surplus of \$81 million. That year the government of the time estimated a deficit of \$64 million.

**MRS CROSS:** Minister, I am asking questions about this budget. What happened in previous budgets is irrelevant to my role in this Estimates Committee this year.

**Mr Quinlan:** No, what happened in previous budgets is relevant to understanding the context in which a budget is done. Not every one of these numbers is going to come to fruition; it's not going to happen.

**MRS CROSS:** I thank you for your answer, Minister.

**MRS DUNNE:** I just want to follow up on a similar subject, and that is this year's forecast CPI of 2.5 per cent. I know that these are always fairly conservative estimates but, given that last year's forecast was 2.75, what is it likely to come in at? What is the forecast for 2002-03 likely to come in at?

**Mr Harris:** The Commonwealth budget papers are showing a 3 per cent CPI.

**MRS DUNNE:** Yes.

**Mr Harris:** At the end of the day, these are numbers generated by economists and they are underpinned by a whole raft of assumptions. The track record of estimating them in recent times has been reasonably good. They are very low inflation numbers and a small change in these numbers has no material effect on the ACT's budget.

**MRS DUNNE:** I suppose what I was getting at is that last year it was forecast at 2.75 and it has been sort of downgraded. I am surprised at that because of the sort of ongoing impact of the drought.

**Mr Harris:** But the drought has little impact on the ACT economy because—

**MRS DUNNE:** Except in food prices and things like that.

**Mr Harris:** Yes, maybe, but in terms of impact on our economy, we are essentially protected from both export-oriented industries and drought because our economic activity is not in those areas. It's in other areas.

**MRS DUNNE:** Right, so that's why?

**Mr Harris:** Yes.

**MRS DUNNE:** Okay.

**Mr Quinlan:** But it still affects people, yes.

**MRS DUNNE:** Yes, it still affects individual people but not to the extent that the budget—

**Mr Harris:** That's right.

**MRS DUNNE:** If you estimated 2½ per cent but it actually came in at 3 per cent, is that going to have a material impact on the budget?

**Mr Harris:** Well, the budget forward estimates have price escalation imbedded in them, based on our estimate of CPI. If our estimate is materially wrong and prices go up or come down by a number different to that which we have forecast, then that potentially has an impact on an agency's capacity to deliver the same level of service in future years. However, having said that, there are as—

**MRS DUNNE:** It's materially wrong, I suppose, is the question.

**Mr Harris:** Well, that's my point. If it changes by half of 1 per cent over the amounts that are estimated, that is not a significant amount of money, and probably could be managed within agency budgets.

**MRS DUNNE:** But a change of 1 per cent may have a big impact and you would probably need to go back and look at the numbers as well?

**Mr Quinlan:** A couple of years ago, at my request, there were produced some sensitivities on budget lines. They haven't been done regularly—it was just a one-off. But our greater sensitivity is to interest rates on both our investments and our economic activity. The greatest sensitivity of the ACT budget swings on the actual rate of interest.

**Mr Harris:** I think the other point that ought to be made as far as these forecasts are concerned is that we are not making our forecasts in isolation. We have a significant amount of expertise in the Reserve Bank, which is delivering us raw data to work from. Our estimates on interest rates, for example, are taken from the Reserve Bank. The

Commonwealth Treasury constantly does work on a whole raft of economic indicators and our assessments are pretty closely tied to theirs.

**THE CHAIR:** All right. It being 10.56 am, we might break for morning tea. When we return we will go to output classes 1, 2, and 3.

### **Short adjournment**

**MS TUCKER:** I have a general question regarding revenue and sustainability, in the sense of the Office of Sustainability, as to how you are managing the finances of the territory. I noticed that in your highlights you made the statement that you want to maintain the territory's AAA credit rating through sound and sustainable economic and financial management.

We had a discussion before the break about how all the economic figures are rubbery anyway and are only assumptions. You've got how much you said they were going to be and how much they are going to be. I understand that you have to be prudent and responsible with the financial management of the territory, but I'm also interested in understanding how you envisage bringing the financial or economic thinking into the framework of sustainability, the triple bottom line reporting and so on.

I was told yesterday in estimates that revenue measures would not normally go to departments for comment or even to the Office of Sustainability because, Mr Tonkin said, there are issues with alerting people to potential changes. I can see that that could be the case and is the case in some revenue matters, but it certainly would not be the case with all. Even if it is an issue, I would still be concerned if we don't have that sustainability check occurring in some way.

My first question is: when you make revenue decisions, such as the one on rates, what analysis of the environmental and social impact occurs to inform your proposition?

**Mr Quinlan:** There's a fair amount of discussion. First of all, let me say that we have an Office of Sustainability and I think it's important that we do refer whatever we can to it, but sustainability isn't the sole province of the Office of Sustainability. It is, in fact, what we must have in mind when I was talking earlier about the setting of a budget and not setting a budget on an abnormal year. That is an element of sustainability introduced into the budget.

Certainly, when we look at whatever revenue measures or revenue changes we might make, then it's in large part automatic that we have to say, "That's what happens next year, but what's going to happen in the longer term? What are the impacts of that?" Certainly, with our rates we haven't said that we will get a sustainability consultant or something to look at what we think we could look at ourselves in terms of what funds are generated, what impacts it does have, how it will in any system need to be managed from year to year, because you still have to make your decisions each year. But in terms of what we've done, effectively the whole approach has been about the long term and sustainability.

**MS TUCKER:** I'm interested to know what particular processes you go through with a revenue proposal with ecological and social implications—for example, with the rates.

**Mr Quinlan:** For the revenue measures, we haven't produced a separate sustainability report. It's been certainly part of the thinking right from ground up, because we are talking about a system that will work year in year out. In fact, the system is about long-term effects; it's about trying to provide sustainability for individuals.

**MS TUCKER:** I guess that's where I think the Office of Sustainability does have a role, though, because sustainability is more comprehensive than that. If you're proposing a rate system which actually creates a disincentive for people to move, which is being suggested by lots of commentators, there are environmental implications. I'll use "environmental" in the sense that the Office of the Commissioner for the Environment does, which is social and ecological, but that does have implications potentially in that you might see it as a sustainable rates arrangement from one or two perspectives, but that may not necessarily be so if you really looked at the other implications, which is what the Office of Sustainability is also looking at. I am interested in whether you are picking that up in the process at the moment.

**Mr Quinlan:** Yes. The particular initiative is as much about social implications as anything. It does have economic implications and they flow through.

**MS TUCKER:** And ecological, potentially.

**Mr Quinlan:** That's certainly something that we hadn't thought of.

**MS TUCKER:** I guess that's why I think the Office of Sustainability has a really crucial role, even though I take your point when you say that you're hoping that all government agencies—I think this is what you meant—are looking through the framework of sustainability and decision making, but it's really quite a new requirement in some ways and I think your government did establish the Office of Sustainability so that we could improve the expertise and understanding of how to do that.

But just continuing on with the question, which is related to this, I think: if you look at an issue like housing, you don't have the funds, we are told by the government, to do what is needed; the Commonwealth government has really failed in its responsibilities and is pulling away more and more from funding housing. As I understand the economists, borrowing, if it's prudent, is not the end of the world as we know it; in fact, it's good policy if the borrowing is for something that's important.

Some states and territories have government bonds, which are an avenue for the government—and I'm particularly raising this issue in relation to housing—to give the people of the ACT an opportunity to invest in their own community. People in the ACT have the highest median income, as I understand it, in Australia and they are looking for somewhere to invest their money. They're feeling more and more scared of high-risk investments. If you did have government bonds available for people you would give them somewhere to invest that was ethical and not high risk and you would have the interest being paid back into the community as well, which would be good for the ACT, I would have thought.

I guess the really important thing for me here is that we talk about accrual accounting being a sophisticated accounting system which shows us liabilities and so on, but it obviously isn't sophisticated enough to show liabilities accruing that are not economic. We have social liabilities, social debt, et cetera, and we need to be bringing them into the thinking. I think that's where these sorts of different ideas need to be explored.

**THE CHAIR:** Ms Tucker, is this a question?

**MS TUCKER:** Yes, I am asking one of the Treasurer.

**THE CHAIR:** The sermon time is now closed.

**MS TUCKER:** Thanks. It wasn't a sermon, actually. I'm just trying to avoid a yes/no answer.

**THE CHAIR:** I want to hear the question so that we can get an answer.

**MS TUCKER:** The question is: are you open to the need to look at how we deal with a social debt which can accrue and is accruing in certain areas as part of your responsibility as Treasurer and therefore prepared to look at what perhaps isn't the normal ideology, but different ways of dealing with this social debt through treasury mechanisms such as issuing government bonds? You didn't like superannuation. I still don't see why you couldn't put a bit of it into housing, but you said you couldn't. How about government bonds?

**MRS DUNNE:** If I were the Treasurer, I'd just say yes.

**Mr Quinlan:** My one experience with bonds within the ACT was an issuing of debentures by Actew, or it might have even been the electricity authority before that. It was a mortal process, let me tell you, to try to raise a certain amount of money. It took us forever to actually fill that particular float.

**MS TUCKER:** Are you saying that the community wasn't interested?

**Mr Quinlan:** No, they weren't.

**MS TUCKER:** What year was that?

**Mr Quinlan:** Twenty years ago, 15 years ago. It's not just a simple matter of just chucking out a few debentures. You've got to have a whole register. The ownership is registered, so there's a whole legal framework you have to set up. I'm not saying that it's not worth doing on that basis, but the last experience I had was we did it once and we decided we were not doing that, we were not going there again, because it was really an expensive process for a small jurisdiction like that was and the ACT was at the time to try to operate versus where we might otherwise raise money. You made a point about the interest being returned to the community. That's going to happen wherever Canberrans invest. If they get interest, it comes back to them anyway.

**MS TUCKER:** Yes, but if you were borrowing.



**Mr Quinlan:** If we were floating bonds, and I have said that I'm not closed to the idea, but if we recognise that we're floating bonds, we're borrowing money. And then we're using it for a purpose and we're trying to get a return on it.

**MS TUCKER:** A social return as well.

**Mr Quinlan:** There's a choice whether you have bonds or borrow. It's a common sense decision to say, "Where's the source of funds?" Do we want to borrow it from Canberrans? Would there be a groundswell out there that says, "I can invest in my own community?" I have my doubts, quite frankly.

**MS TUCKER:** But you don't know that. That was 20 years ago.

**Mr Quinlan:** Well, I have at least some experience.

**MS TUCKER:** Yes, 20 years ago.

**Mr Harris:** My advice is there was another effort about three years ago to issue bonds by the Commonwealth Bank on behalf of the territory which was not well subscribed. I think the issue is probably the interest rate you'd need to attach to it would have to have some premium in it to get people to change their investment pattern. The issue then for us would be would we pay a premium interest rate to issue that bond or would we go to the market and borrow at a lower interest rate and therefore incur less cost to provide the same policy outcome. The answer would have to be that you'd do it at the lowest cost you can possibly do it.

**Mr Quinlan:** So there are two dimensions. There's where you raise the money; that's a decision. The other decision is whether you borrow money to build public housing.

**MS TUCKER:** Do you, I'm asking?

**Mr Quinlan:** That's a choice you make each year. We're not borrowing money this year. We are putting money into community housing this year. And we're putting money into, effectively, legitimising all of those settlements that were houses just in situ and weren't actually on leases. We've got to replace all of those on that land. We're putting money into that to replace that stock which was lost, but we have to actually buy the ground to put the replacement houses on because the previous ground was, effectively, permissive occupancy and not particular leases and we can't actually realise on those leases. We have to actually provide new ground to replace that housing stock.

With the homelessness report, we recognise that there's still a lot to be done. But I think it's worth saying just once to this committee that the ACT has probably as good as any public housing system across Australia. Maybe the only jurisdiction that has more public housing is the Northern Territory, with its own unique problems to address, but the next on the ladder is the ACT.

**MS TUCKER:** But you can't confuse homelessness with affordability and affordability is not just about public housing.

**Mr Quinlan:** Yes, I know there are affordability questions.

**MS TUCKER:** There is a problem, a serious problem. I have a question on the same subject which is really just for information. I note on page 105 of Budget paper 3 you've still got the home loan portfolio there because, obviously, money is being returned to you there, an increasing amount of money. Can you just explain how that actually works? What are the conditions of those loans?

**THE CHAIR:** Can we leave that until later as we have it listed as an item further down the agenda?

**MS TUCKER:** The government investments?

**THE CHAIR:** Yes, the home loan portfolio.

**MS TUCKER:** Sorry.

**THE CHAIR:** It will be coming up shortly. Mrs Dunne has another general question and then we will be going to output 1.1

**MRS DUNNE:** Actually, I have two. The first one goes to the government's achievements and the ongoing maintenance of the AAA credit rating, which is an important element of the budget, as Mr Harris has said. Because of our credit rating, we can actually go out when we need to borrow and borrow at a better rate than elsewhere. I can't remember exactly when it was, but about four or five months ago there was a fair amount of scuttlebutt around the town which, Treasurer, you didn't deny in any way that Standard and Poors had put out the very sound warning that if you went down the road of government land development our AAA credit rating might be in doubt. Where are we with that?

**Mr Quinlan:** I'll let Mr Harris answer this in detail. I think they did sound some warnings, but I don't think they talked about public land development.

**Mr Harris:** I'm not aware of any direct—

**MRS DUNNE:** It probably would have been before your time.

**Ms Smithies:** Because the budget at the time, for 2003-04, had us going into deficit of around \$20 million and the trend for going into deficit was largely driven by the land sales program, there was a connection made between the two. But Standard and Poors' comment was about the fact that, at the time, the territory's budget was indicating a deficit in 2003-04 of minus \$20 million.

**Mr Harris:** I think you've got to take all of what S and P said. I mean, they—and they always do—highlight areas where they have concern that if action is taken which is not counterbalanced then that could lead to an undesirable outcome. But the balance of what they said in that particular discussion was that we had the capacity to survive shocks because of the healthy state of our finances and that overall there was no cause for concern, and they have retained that position. In fact, in their most recent reports, they have reinforced that position.

**MRS DUNNE:** But at the time there was a concern about our credit rating.

**Mr Harris:** No, there was not a concern about our credit rating. S and P was flagging areas where, if uncontrolled action were to take place, they might be moved to re-evaluate the credit rating, but at the time there was no concern about our credit rating.

**MRS DUNNE:** Okay, that's a fair enough distinction, but the uncontrolled action was the entry of the ACT into land development where it hadn't previously entered.

**Mr Harris:** There was some amount of speculation on S and P's part, I suspect, not knowing what return we might get. If you look now at the returns that are coming from land development, those returns are very healthy and certainly in discussions I have with S and P they are not expressing that concern now.

**MRS DUNNE:** Okay, but at the time, Ms Smithies said, they were concerned about a projected budget in two or three years of \$20 million which was driven substantially by land development activity. Why would they be concerned about a deficit of \$20 million-odd in the outyears, in two or three years in the outyears, when we've seen deficits of \$170 million which, history has shown, haven't affected our AAA credit rating? Why would they suddenly be concerned about a \$20 million deficit?

**Mr Harris:** S and P get concerned when they see trends which lead to unsustainable positions. If you have a series of deficits in a row that would indicate to S and P that the imbalance between expenditure and revenue is increasing, they get concerned if they see large spikes and troughs. They get concerned if they see excessive borrowing going into areas which do not attract a revenue flow to support the interest cover and so forth.

What they are seeing in these numbers here, apart from one year, and that year's driven by extraordinary events, such as the bushfires, are surpluses and growing surpluses. As a consequence, what they may have seen before, they are not seeing now and a concern they may have expressed in the past because of a trend that they were observing in the past is not a concern now because that trend is not observable in these numbers.

**MRS DUNNE:** You're saying that the trend is not observable in these numbers, but the amount of money that is proposed to be injected into the government land servicing enterprise over the next three years is still there and it will be a significant drain on the budget. This time last year we were talking about the injection of funds needed to get government land servicing going as having a significant drain on the budget and putting it into deficit over two or three years, beginning now.

**Mr Harris:** Yes, but—

**MRS DUNNE:** Hang on a second, just a minute, so I don't lose my train of thought. There are other factors now in the budget that weren't foreseen a year ago that are, in fact, masking that effect, because there are other revenues and things that are driving up the projected budgets and taking them out of deficit and putting them into surplus. But there is still that \$56 million worth of money that's going to go into land services.

**Mr Quinlan:** It's not money going into land services that's the big cost; it's the deferral of land sale. So it's hanging onto your assets a bit longer while you, in fact, dress it up for sale as opposed to selling it in a raw state. That's the bigger cost, I think. Is that right?

**Mr Harris:** Yes.

**Mr Quinlan:** That's the bigger cost. But it still flows to the bottom line. Because our land sales go into our revenue and you get into public land development, then there's a lead time for that land to actually go onto the retail market. It's still going to go onto the retail market at the same time as it would under private land development, but it doesn't come into our books until we sell it at retail level as opposed to selling it at wholesale level.

**MRS DUNNE:** So are you saying it's not a cash injection, it's a deferral of—

**Mr Quinlan:** It's some cash because we have to pay to develop it.

**MRS DUNNE:** Yes.

**Mr Quinlan:** We have to pay for the development before we realise the higher return. But a major cost of that effect on the bottom line is just the deferral of the sale of the land while it's going on, while it's being developed.

**MRS DUNNE:** But the thing is that this is all premised on the basis that the market's going to continue to go gangbusters, but Mr Harris said—

**Mr Quinlan:** Very conservative.

**MRS DUNNE:** Hang on. Mr Harris has said that, at the moment, development profits are good, but we're also seeing in the budget a projected \$126 million decline in revenue in the next financial year and a lot of that will be related to land sales.

**Mr Harris:** No, no.

**MRS DUNNE:** It's not related, so it's everything else but land sales?

**Mr Harris:** We have a revenue spike this year because of insurance money coming in and that insurance money is not coming in next year. That's \$105 million or thereabouts, which is inflating our revenue take this year and we're not getting it next year. So that revenue decline is because of a one-off this year.

**MRS DUNNE:** The revenue decline is because of a spike this year, not a projected falling off in the underlying revenue trends.

**Mr Quinlan:** There will be a falling off in revenue, quite clearly, because there's a delay in the realisation of that asset, and there'll be a value added to that asset before it's realised.

**MRS DUNNE:** Yes, I understand that, but if we're talking about cycles, and you've talked about cycles and I think everyone here has talked about cycles, we've been every year at what we've thought as being the top of the property cycle for some time. Year in and year out, the amount of money that we've taken from property sales themselves keeps going up and we've seen extraordinary figures from land sales in the last couple of auctions.

The amount of money from conveyancing, stamp duty charges and all of those things that accrue to the budget, every year they keep going up. This is now the fifth budget that I've taken a really close interest in. Everyone is saying that it can't continue like this, that it won't continue like this, and every year it goes up. Is it going to continue to go up or are we going to hit a wall? If we are going to hit a wall, when is that going to be?

**Mr Harris:** If you go back to your relationship or your commentary about S and P, I think you've got to understand what S and P's thinking and methodology are. What they will do is look at that example, for example, and say, "If, in fact, land revenues don't achieve the targets that are outlined in these budgets, then what capacity does the territory have to overcome that shock?" So they'll go back to the fundamentals in our balance sheet, they'll go back to their ratios of revenue to interest cover and all of those sorts of things that they play with all the time.

The conclusion they have come to is that our balance sheet and our general financial position is strong enough to absorb such a shock and not materially impact our overall long-term sustainable position. They have come to the conclusion that we could sustain two, maybe even three, quite substantial shocks before we would have to resort to crisis management, for want of a better term.

**MRS DUNNE:** What's a substantial shock?

**Mr Harris:** In our terms, \$100 million.

**MRS DUNNE:** So we could afford to lose \$300 million before they—

**Mr Harris:** Yes.

**Mr Quinlan:** That's what I said before. Can I also say just for the record—obviously, you'll talk to the Planning Minister about this—that the returns on private land development have been estimated at very conservative rates, nothing like the rates that would be applying today.

**MRS DUNNE:** I've heard all the rhetoric about the conservative underlying nature, but I haven't had an answer to the question. Do you anticipate that we will continue to see high levels of revenue from land sales in whatever form and the associated revenues of stamp duty, conveyancing and things like that? How long do you see that going out before we hit the wall?

**Mr Harris:** We continue to be conservative in those estimates because we do not believe it will carry on indefinitely. If you're asking the question when will it stop, if I knew that, then many things would be possible.

**THE CHAIR:** You'd be in private enterprise making a fortune.

**Mr Harris:** And all jurisdictions are in the same boat. All jurisdictions are conservative on those revenue estimates. All jurisdictions say it has to come to an end and so far we've all been proven wrong every time we've said it.

**Mr Quinlan:** Page 103 of BP 3 has got that and it shows a very considerable decline in the lease sales revenue.

**Mr Harris:** If we're proven wrong again, then there will be a positive outcome.

**THE CHAIR:** The budget's in the black. We might move now to output 1.1, which relates to economic management. Ms Dundas, I believe you have a question.

**MS DUNDAS:** Not so far, no.

**MRS CROSS:** For the purposes of those at the table answering questions, you can refer to both BP 3 and 4, BP 3 at page 58 and BP 4 at page 80. Mr Quinlan, one of your quality measures is to "maintain the ACT's share of general revenue assistance above an equal per capita share of funds made available from the Commonwealth". This year you had a target of 1.000000. My interpretation of this measure is that you expected to get an average share of the Commonwealth funding. Is this a correct interpretation of the measure? If it is, would you explain then why, when you have done better than average this year, you would not seek to improve that outcome for next year?

**Mr Harris:** I'll get Mr Broughton to answer that question.

**Mr Broughton:** Yes, the target as such is the figure that we want to exceed as part of our process. We don't have control over the decisions of the Commonwealth Grants Commission. What we do try to do is to influence those decisions with the best possible claim we can put forward. Our view is that we will have done a reasonable job if we can continue to propose to the commission and get them to accept that we need a higher than average level of per capita funding.

**MRS DUNNE:** What does that one in the 2002-03 targets actually mean?

**Mr Broughton:** If we achieved a figure of one—that's our per capita relativity for the distribution of the GST pool—that would mean that we would get the Australian average per person in the ACT. Anything greater than one means we're getting a greater amount than the Australian average. In fact, what we have achieved as part of the 2003 update is something like 14 per cent better than that.

**MRS CROSS:** Thanks for that. Note 6 on page 80 of BP 4 on total costs suggests the following explanation for nearly \$5 million—specifically, it's \$4.74 million—of additional funding to this output for next year:

The cost and GPO increase in 2003-04 target from 2002-03 estimated outcome is mainly due to transfer of payments to the Gambling and Racing Commission from Output 1.3 and Central Financing Unit.

Treasurer, is there any extra increase, apart from the transfer of the money from output 1.3, with the exception of the measures for the procurement board? I do not see any extra outputs for the \$5 million. Do you expect to get any outcome for this money, or will it be sucked up into empire building?

**Mr Phillips:** The actual amount is just a straight transfer from output 1.3 to output 1.1 for the Gambling and Racing Commission.

**MRS DUNNE:** I'm sorry, how much is that?

**MRS CROSS:** The contra amount transferred from 1.3 is \$2.763 million, which is shown as note 7 to total costs on page 82. Treasurer, are you concerned at all about the discrepancy of nearly \$2 million, specifically the figures—

**Mr Quinlan:** Yes, I am.

**MRS CROSS:** Let me finish; you'll get your go. The difference between \$4.74 million and \$2.763 million is \$1.977 million. Why is there a discrepancy?

**Mr Phillips:** There are differences. The actual transfer amount for the Gambling and Racing Commission is about \$3.4 million but there are other movements in the budget, which are things like the EBA increase that goes through different outputs, so these can offset some of these transfers as well, and also in 1.1 we have the transfer of the Central Financing Unit's salaries administration from the Central Financing Unit to the Department of Treasury.

**MRS CROSS:** Were there problems with the Gambling and Racing Commission that required that transfer and who decided to make that transfer of payments?

**Ms Smithies:** It's essentially just recognising that the administration of the gaming and racing function fits more appropriately within the financial and economic management output rather than the revenue output that it was against before. So it was actually aligning it more to the responsibility rather than just an historic function or—

**THE CHAIR:** So you can reconcile all those figures and there's no growth in the budget; it just represents drawing elements from different outputs into 1.1?

**Ms Smithies:** Yes. The only other growth will be the funding for the EBA in the normal 2.5 per cent funding for CPI.

**THE CHAIR:** Do you want to see that reconciliation?

**MRS CROSS:** I actually would. Could you table that reconciliation to the committee?

**Mr Phillips:** Sure.

**MRS CROSS:** Great. One more thing. In quality, about halfway down on page 80, again BP 4, you as Treasurer and the chief executives have a satisfaction measure with quality as assessed by six monthly surveys. The result is 95 per cent, which is pretty good. However, there does appear to be a 5 per cent dissatisfaction rate. Mr Quinlan, which

5 per cent elements were you dissatisfied with when you filled out your survey? Under Treasurer, which 5 per cent elements were you dissatisfied with when you filled out your survey? Would you make the completed surveys available to this committee?

**Mr Quinlan:** Most of the dissatisfaction that's registered is just the timeliness of material. Will we make them available? I suppose, if you want them.

**MRS CROSS:** When you say the timeliness of material, just expand on that for the committee. Are you saying that people were just late in doing their work? What was the problem?

**Mr Quinlan:** There's a process that goes on that when there's a letter, a complaint, an issue, a proposal, it does go through a cycle and ends up in my office, and then I've got sometimes no time left in the process to evaluate it and approve or disapprove or qualify. So yes, there have been times when I haven't been happy with the time that I've got left in the full cycle. At another time in another place, I'd give you a dissertation on what I would like to change in the whole administrative process in this place.

**MRS CROSS:** What I find rather extraordinary is that both you and the Under Treasurer have a 95 per cent satisfaction and you both have a 5 per cent dissatisfaction. Did you discuss it and say, "Let's do the same thing, so we all come out the same?"

**Mr Harris:** It's the same bits of paper. It's the same problem.

**MRS CROSS:** No, the thing is the result is interesting in that you were both the same. Can you tell me, Under Treasurer, what you're dissatisfied with? Feel free to take it on notice, Under Treasurer; I don't want to put you on the spot.

**Mr Harris:** No, there are two things here. I frequently get squeezed for time for the same reasons as the Treasurer does, because sometimes he gets the piece of paper just after I've had it and the time lines get squeezed up. The other issue here is that this is other chief executives' satisfaction with me, so it's their surveys on my performance.

**Ms Smithies:** He actually isn't part of the rating process at all.

**THE CHAIR:** Is there a gender balance question in the survey?

**MRS CROSS:** There's no gender balancing. I've looked at the hierarchical chart of your department and it's rather interesting to see. I did ask this gender question before and it was quite disappointing to see. I was right, girls; I think you all deserve promotions. Tu Pham, you are doing quite well, but we've only got one in a secondary high level, and then we've got Ms Smithies. You definitely deserve a promotion.

And then we've only got a handful of women amongst a group of at least 40 men. I have nothing against the male sex, but I really would like you to take this question on notice, that is, I'd like you to tell this committee what plan you have in place, Minister—I'm not going to put the Under Treasurer on the spot, because he's only been there since December—to address the gender inequity in your department.



**MS MacDONALD:** Before you answer that, Treasurer and Under Treasurer, can I ask also what the gender balance of other treasuries across the country is like and the gender balance in the number of people who come out having done economics who are capable of getting in. How many women are actually coming out? Are there the women there to actually employ in the first place in the economic areas?

**Mr Quinlan:** We'll find what we can in terms of the pool that's available, but I'll state for the record here that, as I mentioned earlier, we do compete in a bigger pool for staff and I think Treasury has done excellently in terms of the staff it's been able to attract and maintain, but it's a continual battle.

**MRS CROSS:** Minister, I do recall you saying this morning when you answered the question that the Commonwealth was poaching some of the best people from your department. I have since learned that that's because the Commonwealth pays more than the state. However, I made a couple of calls during the break and discovered that the Commonwealth doesn't necessarily target female talent, they target talent, and the talent doesn't translate into two-thirds women, one-third men. So at the end of the day the Commonwealth—

**Mr Quinlan:** That we lost?

**MRS CROSS:** What I'm trying to say to you is that the Commonwealth may be targeting talent, but the talent that they're getting is mostly men. We still have an issue that needs to be addressed at the local level.

**Mr Harris:** Not from us.

**Ms Smithies:** I've lost four women in the last, I think, 12 months.

**MRS CROSS:** At what level? Above ASO 5?

**Ms Smithies:** A 6, two Cs and a manager, and that's over the last 12 months.

**MR CORNWELL:** Do you target talent, too, Treasurer?

**Mr Quinlan:** Yes, we do.

**THE CHAIR:** Treasurer, if we could go back to measure (c), which is about maintaining the ACT's share of general revenue. If this year you actually did achieve 1.14, 14 per cent above expectation, why are we setting ourselves the lower benchmark next year of just going back to the level of standard?

**Mr Quinlan:** That's a good question.

**Mr Broughton:** On that particular issue, our relativity will fluctuate for a number of reasons, but the most important one from year to year will be the performance of our economy. We have no particular control over that. So to set ourselves a target to beat what happened the year before is really a nonsense in a way because, if we fail to meet that target, it's not a reflection on the department's performance; it's possibly or most likely a reflection on the ACT economy's performance.

**THE CHAIR:** That means, therefore, that your target is to achieve the ordinary and not actually have it as a target. Surely that should not then be maintained as a target.

**Mr Broughton:** There's a question mark about whether it is a good target, but I guess we have to have something to work towards.

**THE CHAIR:** Treasurer, what are you going to aspire to?

**Mr Quinlan:** First of all, I agree with Mr Broughton that it's something of a nonsense in terms of trying to set a number when it's about the case that you present and really the target should be the quality of the case that we make and the presentation process that we go through with the Grants Commission. I'm just not happy to see a single one there, I'll concede that straightaway, but I will on the other hand immediately say that I think that the process that our people went through in terms of addressing the Grants Commission was exemplary. They really did present very well and the feedback from the Grants Commission while I appeared before them was exactly that, that they had been presented with an outstanding case.

**THE CHAIR:** Ms Dundas, do you have a question?

**MS DUNDAS:** Just a quick one on output quality (g) with regard to advice to the government regarding GBEs. There has been a significant increase in the amount of advice provided. Can you explain what was going on there?

**Mr Quinlan:** We've been doing a bit of work in that regard, haven't we?

**MS DUNDAS:** I think it means that you were doing a bit of work. Are you not going to do the same amount of work next year, because it looks that way?

**Mr Quinlan:** We're in the process of solving the problem.

**Mr Bulless:** The change in the number between the target and the estimated outcome reflects two key things. One was a slightly higher number of board appointments during 2002-03 and the other being high level advice to the government about a number of GBEs.

**MS DUNDAS:** About the number?

**Mr Bulless:** No, in relation to a number of GBEs, so advice to the government.

**MS DUNDAS:** Such as? Which particular GBEs were taking up the time?

**Mr Bulless:** I think purely it's Totalcare and the Hotel School.

**MS DUNDAS:** Do you expect that next year you will just go back to a standard level of advice?

**Mr Bulless:** We make targets based on what we think the level of work will be over a full year and on the basis of our estimates for next year we'd imagine that the number would be about 36.

**MS DUNDAS:** So you believe that the situations in relation to Totalcare and the Hotel School and the need for higher level advice in those two areas will be completed by the end of this financial year.

**Mr Bulless:** The estimate outcome for 2002-03 reflects a high level of work by the branch in relation to briefing of the government for its consideration of a number of issues. One would hope that those issues won't need the same level of briefing in the next year.

**MS DUNDAS:** So it is your aim to have that work completed by the end of this financial year.

**Mr Bulless:** Well, it's for the Treasurer to answer about what will happen with those entities. But in terms of the output of the branch—

**Mr Quinlan:** For the government.

**Mr Bulless:** For the government, sorry. In terms of the output of the branch, we would expect a slightly lower level compared to this year.

**MS DUNDAS:** Just quickly on output (d), with regard to economic analysis. There has been a huge increase with regard to that and that is expected to continue. Are we thinking harder?

**Mr Quinlan:** A demanding Treasurer.

**MS DUNDAS:** In what areas has it increased?

**Mr Harris:** If you look at note 3 at the bottom of the table—

**MS DUNDAS:** It just says that there has been a broader range of indicators.

**Mr Harris:** And more frequent publications. So we have been doing more work, extra work, on economic analysis than we had originally intended.

**MS DUNDAS:** But in what areas? Just generally in the area of economic analysis? It's limited to a number, 77. Is that 77 publications, 77 thinking sessions, 77 pieces of analysis, to increase to 112 and continue to increase to 112?

**Mr Harris:** It, as I understand it, translates into more pieces of paper.

**MS DUNDAS:** So I have 112 pieces of paper with economic analysis on them—

**Mr Harris:** More publications or pieces of advice.

**Mr Broughton:** That's correct. This particular area of economic policy was in the Chief Minister's Department and transferred to Treasury partway through last year. We have since had an opportunity to think about the type of analysis we'd like to do and the type of information that we would do that analysis on and we have substantially increased the number of bits of economic information that we now provide advice to the minister on.

**MS DUNDAS:** When the area was in the Chief Minister's Department there wasn't the same demand for economic analysis.

**Mr Broughton:** I don't know that I would put it that way. I just think that we now have some expertise in that area that wasn't there before that is able to undertake additional analysis that hasn't been done before.

**MRS DUNNE:** Just to follow up on that, Roger, there was an economic element in the policy unit of CMD, which has been transferred.

**Mr Broughton:** That is correct.

**MRS DUNNE:** And they were the people who used to do the unemployment analysis and that sort of thing.

**Mr Broughton:** That's right.

**MRS DUNNE:** And that's gone into your area.

**Mr Broughton:** Into Treasury; that's correct.

**MRS DUNNE:** So that, for instance, part of that increase from 77 to 112—I'm not going to do the arithmetic—would be for the monthly advice on—

**Mr Quinlan:** It is 35.

**MRS DUNNE:** Thank you. Go to top of the class. So that's what it is? It's not so much across the public service; it is more that the actual work centre has shifted.

**Mr Broughton:** That's right. The work centre has shifted and the data series that we're now commenting on on a regular basis, be it monthly or quarterly, has also broadened.

**MRS DUNNE:** What sorts of things have you broadened into?

**Mr Broughton:** We're now advising the minister on a couple of independent business confidence-type surveys that weren't briefed before.

**MRS DUNNE:** Such as?

**Mr Broughton:** I think they used to do the white paper survey.

**MRS DUNNE:** The Yellow Pages one.

**Mr Broughton:** Yes. It is business expectations. It's the TMP survey, which is a relatively new survey. That's the old Morgan and Banks—

**MRS DUNNE:** Haven't you done that for years?

**Mr Broughton:** No. In terms of us briefing on those on a regular basis, that's relatively new.

**Mr Harris:** Interpretations of Access Economics.

**MRS CROSS:** You don't follow those, though.

**Mr Harris:** No, but we interpret them.

**THE CHAIR:** I'm just pleased that, as a quantity measure for the economic branch of the government, they do economic analysis. Mrs Burke, I think you've got a question?

**MRS BURKE:** It is about something I can't find and you may be able to direct me to it. It's about the number of GBEs. Is there a collated list of the GBEs currently? It comes under Treasury, so I presume that Treasury would have a full list of GBEs at any one time.

**Mr Quinlan:** If you look at the index.

**MRS BURKE:** Thank you, Mr Treasurer. That's what I was asking about. I'm sorry, I was just trying to find out about something that Ms Dundas said by looking at a comprehensive status report on each of those.

**Mr Quinlan:** A status report? What's that, then?

**MRS BURKE:** You've alluded to the Hotel School and Totalcare in terms of where things are actually running on time and others fluctuate. Is there a comprehensive view at any time of where GBEs are and what's completed, what isn't? I mean, how do you produce information in regard to GBEs?

**Mr Quinlan:** Generally, through annual reports.

**MRS BURKE:** I'm just trying to make things simpler. Is there a simple way of looking at GBEs and how we do it and the analysis of that?

**Mr Quinlan:** Each of them has a statement of corporate intent and that's their forward program. It is a part of the budget papers that are available and then they report through annual reports at the end of the day. In some cases we are involved in examining what they do and their future.

**MRS BURKE:** You don't have a consolidated, at a glance, overview of all GBEs at any given time?

**Mr Quinlan:** No, they are very different animals from organisation to organisation.

**MRS CROSS:** With regard to board appointments, again on page 80 of BB 4, you have a 100 per cent outcome on board appointment processes which comply with statutory requirements. How many board appointments require this compliance?

**Mr Quinlan:** All of them, 100 per cent. It's another one of those not very deep measures, I have to say.

**MRS CROSS:** In timeliness, towards the bottom of page 80, you as Treasurer and the chief executives have a satisfaction measure with quality as assessed by six monthly surveys. The result is 95 per cent, again pretty good. However, there does appear to be a 5 per cent dissatisfaction rate. Mr Quinlan, which 5 per cent were you dissatisfied with when you filled out your survey on this matter? Under Treasurer, the same applies to you, sir.

**Mr Quinlan:** Is this the one we've already discussed?

**MRS CROSS:** No, this is on timeliness.

**THE CHAIR:** There are actually two measures, (i) and (l).

**Mr Quinlan:** My answer to the first one was timeliness, so the quality—

**MRS DUNNE:** Presumably, you sent some back and said, "I'm not happy with this. Do it again."

**Mr Quinlan:** Yes, and I do. From time to time I send them back.

**Ms Whitten:** We've received a written question from the Chair of the committee in relation to the surveys for all agencies and we're currently responding to that. As part of that question, we were asked to provide the survey form and also a summary of the results for this year.

**MRS CROSS:** Great. Thank you very much, Meredith.

**THE CHAIR:** We will move on to output class 1.2. Treasurer, in answer to my question in the Assembly on 8 May, you outlined the major reasons for the increase in expenditure of \$233 million. The numbers you provided add up to \$226 million and the total increase in expenditure was \$233 million. Is there a reason for the \$7 million gap?

**Ms Smithies:** We were giving you a broad reconciliation. We weren't giving you a to the number reconciliation. There must be 3,000, 4,000 or 5,000 lines that move every budget.

**THE CHAIR:** So they're all minor matters?

**Ms Smithies:** Exactly right.

**THE CHAIR:** Okay. One of the areas that you listed was extraordinary expenses. Is it possible to get a reconciliation of the \$45 million worth of extraordinary expenses?

**Mr Quinlan:** It's mainly bushfire expenditure, isn't it?

**Ms Smithies:** Yes.

**Mr Quinlan:** It is mainly bushfire expenditure, but we can give you the details.

**THE CHAIR:** Okay, that would be kind. The waivers come in at \$25 million. Is there a possible breakdown of what they were?

**Mr Quinlan:** Yes. We are supposed to report on those now, I think, so they should be kept because I think the auditors required or requested that they be.

**Mrs Pham:** The majority of that \$25 million waiver relates to a one-off waiver for the AGL company. AGL was set up under very old legislation, going back to 1837, in New South Wales. Recently, there was a decision by the New South Wales government to reorganise AGL under the new Commonwealth Corporations Act. That led to an unintended requirement to pay stamp duty, but there was no ownership change, no change in AGL at all except they are now working under a different piece of legislation. Under the circumstances, the ACT government agreed to waive stamp duty up to \$23 million or \$24 million. So the majority of that is actually for the AGL company.

**MRS DUNNE:** That \$20 million-odd worth of waivers was exceptionally high and that can substantially be accounted for by a one-off AGL restructure.

**Mr Quinlan:** They were originally under the first or second act of the New South Wales parliament, I think, and they had their own act.

**THE CHAIR:** How much of the \$25 million was for AGL?

**Mrs Pham:** I think the majority. I think it would be up to about \$23 million for AGL. The normal level of waiver within the Revenue Office is around \$3 million to \$4 million, mainly on payroll tax and some minor stamp duty re corporation issues. I think that AGL waiver was up to \$23 million.

**THE CHAIR:** Okay. Is it possible to get a reconciliation of the other \$2 million, if one exists somewhere?

**Mrs Pham:** Yes.

**MRS CROSS:** Thank you, Mr Chair. In this output you have a measure (d), external government reporting. It's on page 81 of BP 4, for those that need to refer to it. I note that there is one less report than last year, dropping from 16 to 15, and that in the outyears you intend to remain at 15. Minister, is there one measure that you find uncomfortable and would prefer not to report to the community on; if so, what is it?

**Mr Quinlan:** Really, in detail, I don't know.

**Ms Smithies:** The original target included two reports to the Commonwealth Grants Commission, one on our estimated outcome at the end of the financial year and one on our audited outcome. So it's work done in June and then work done again in November.

In the past we've been having to do those two sets of work, mainly because the Commonwealth Grants Commission and the ABS are coming to terms with the accrual presentations that most jurisdictions are now entering into. With most jurisdictions now going into accrual presentations and doing two sets of outcome reporting, the Commonwealth Grants Commission is now pretty much just accepting the final outcome rather than taking the two sets of reporting.

**MRS CROSS:** The same question that I applied to economic management I will apply to financial management, and you can take it on notice because it is something that Meredith mentioned her area was dealing with. In quality/effectiveness and in timeliness, towards the bottom of page 81, you as Treasurer and the chief executives have a satisfaction measure with quality as assessed by your six monthly surveys. Again, the result is 95 per cent, pretty good. However, there does appear to be a 5 per cent dissatisfaction rate. We won't go through the whole process again.

**Ms Smithies:** No, 20 per cent.

**MRS CROSS:** It says 95 per cent here.

**Ms Smithies:** No, it's 80 per cent.

**THE CHAIR:** No, there was a target of 95 and an outcome of 80.

**MRS CROSS:** Why was your target 80?

**Ms Smithies:** No, the estimated outcome was 80.

**MRS DUNNE:** No, the outcome was 80. Based on the survey results, we're going to get about 80 per cent satisfaction on this.

**MRS CROSS:** Why?

**Ms Smithies:** The survey that's done surveys the minister's office plus every chief executive. There were poor results in relation, I think, to the timeliness of the consolidated monthly report. We push a hard deadline to get it to the Assembly within the statutory reporting timeframe and the issues that are in that quarterly report are often complex, which, unfortunately, means that by the time we gather information across 45 separate different entities which have all sets of two different financial statements and consolidate those and put a layer of analysis on top of them and then give them to the Treasurer, through the Under Treasurer after I've gone through it, it's a little bit of a push, so by the time poor Ted gets it, he only has half a day to sign it off.

**MRS CROSS:** So the dissatisfaction rate is because of the government's pressure on you?

**Ms Smithies:** No, the dissatisfaction rate is because we still don't have suitable systems in place to gather that degree of information and consolidate it and put a degree of analysis on top of it that the government and the Assembly require.

**MRS CROSS:** What sorts of systems, Megan?



**Ms Smithies:** We have a general ledger system that's set on top of a number of disparate financial ledgers that go out across all agencies' financial areas. The system in the ACT is highly devolved, which means that each entity basically runs its own general ledger and therefore we rely on them to give us information within a particular timeframe.

**MRS CROSS:** Are you consolidating all that to address the dissatisfaction level, or are you going to continue as is?

**Ms Smithies:** No, what we're about to do is go through a process of actually taking a look at where the largest risks lie in the process of bringing the information together and where we get the best value added in terms of analysis. Hopefully, through that process, we'll identify a number of areas where we can, with minimal risk, actually give ourselves probably two or three more days in the timetable.

**MRS DUNNE:** I want to go back to the budget. I'm going to 'fess up. I should have asked this under general and I'm going to ask it here, because this is where the budget is reported on. In the estimates on the supplementary appropriation in December 2001, there was discussion in here on triple bottom line reporting. I don't want to play too fast and loose with what the Treasurer said at the time—that was early days—but we did get an undertaking that we would start to see triple bottom line reporting in the budget.

I didn't expect to see it in last year's budget, but I was hoping to see something of it in this year's budget, and we don't. When will we start to see actual triple bottom line reporting starting to have an impact in here? It goes to a lot of the stuff that Ms Tucker was talking about this morning. When will we start to see triple bottom line reporting raising its ugly head?

**Mr Quinlan:** I know it's going to sound fairly weak, but I actually don't want to make a firm commitment in that regard because—

**MRS DUNNE:** You made a firmish commitment in December 2001.

**MS DUNDAS:** When you set up the Office of Sustainability.

**Mr Quinlan:** Unless there are relatively simple processes for introducing it, we're talking about a huge amount of work that would be required.

**MRS DUNNE:** Weren't you advised of that, Treasurer, in December 2001, when you said that we would be working towards this? And what work has been done since December 2001 to progress this?

**Mr Quinlan:** The Chief Minister's Department is working on developing sustainability policies, procedures and guidelines, but we haven't got any.

**MRS DUNNE:** Yes, but it doesn't include triple bottom line reporting in the budget.

**Mr Quinlan:** I have to say that within Treasury we have not done a whole lot.

**MRS DUNNE:** The question was hospital passed yesterday to you today.

**Mr Quinlan:** And I'll take the tackle that follows the hospital pass, because there hasn't been a lot done. I know that some corporations are doing it.

**MRS DUNNE:** So you're not breaking new ground.

**Mr Quinlan:** I don't think so.

**MRS DUNNE:** You wouldn't be breaking new ground—

**Mr Quinlan:** We might be breaking new ground, given the size and complexity of particular accounting systems. You heard Ms Smithies talking about 45 agencies and the collation of data. It is a huge task.

**MRS DUNNE:** There's nothing on the list that says that we can't do it because it's too big a task.

**Mr Quinlan:** That's not an excuse.

**MRS DUNNE:** That's not a valid excuse, I'm sorry.

**Mr Quinlan:** Give me a bad mark for that one.

**MRS DUNNE:** A very bad mark, because we were seeing through the 2001 election campaign and the early part of this government a lot of trumpeting of the virtues of sustainability and the whole quantum cultural shift to triple bottom line accounting and triple bottom line reporting.

**Mr Quinlan:** I'm not sure that that was trumpeted that much. Sustainability, yes.

**THE CHAIR:** That's part of the measure.

**Mr Quinlan:** All right. Well, you extend it the way it suits you and then ask the question. I'll have to go back in the answer, that's all.

**MRS DUNNE:** There was a lot of discussion in December 2001, because there was money appropriated to start the Office of Sustainability in that appropriation for December 2001. There was considerable discussion about what this would mean. One of the things it would mean would be the introduction of triple bottom line reporting in the budget. We're two budgets down the path since then and there is not one iota of triple bottom line reporting. In the last budget speech, there was sustainability sprinkled like confetti throughout it. That was the tipping of the hat towards sustainability. There isn't even that in this budget.

We talk about budgets being sustainable, we talk about environments being sustainable and we talk about the fabric of social structure being sustainable, but there is no actual concerted effort on the part of the government. When I'm talking about the government, I mean the cabinet, not the officials, because the leadership comes from the government. I am not seeing any of that and I am not satisfied with "it's too big a task, it's too big an

ask” because you appropriated money in December 2001 to do, amongst other things, this very thing and nothing has come about.

**Mr Quinlan:** I think you’ve taken a very narrow view of it and the fact that there isn’t triple line reporting in the budget doesn’t mean that this government hasn’t worked on sustainability and I think you ought to look at the very, very many fronts, but to ask a question that says to you sustainability is either triple line reporting or nothing, and that’s the frame that you’ve tried to set the question—

**MRS DUNNE:** No, I did not say that, Treasurer. I said that one of the things that you said you would do—

**THE CHAIR:** Order! Let him finish.

**MRS DUNNE:** I don’t want to be misrepresented, Mr Chair.

**THE CHAIR:** You can correct him in a minute. Let him finish.

**Mr Quinlan:** What I would say is that if you want to take a selective look at the application of sustainability, then I can’t stop you, but I think you really should take an objective look at what this government has done in terms of sustainability, in terms of woodlands policy, in terms of setting up the budget for what we discussed earlier, to make sure that it works and it is sustainable through the future, despite some of the questions about a short-term deficit. So, in so many ways, this government has worked towards making sure that this community is built on the basis of sustainability.

Reporting is a huge task and I can’t honestly sit here and tell you that, without spending a huge amount of money and applying a whole lot of resources that I don’t have at the moment, I could turn this budget around in 12 months to completely incorporate triple line reporting. I can’t commit to that.

**MS DUNDAS:** Will you be involving the office of—

**THE CHAIR:** No, sorry, Ms Dundas. Do you want to correct the Treasurer, Mrs Dunne?

**MRS DUNNE:** I want to put on the record that my question to the Treasurer is about triple bottom line reporting. I asked the Chief Minister yesterday about triple bottom line reporting, because they have the Office of Sustainability.

**THE CHAIR:** Yes, that is correct.

**MRS DUNNE:** And, as I said, the question about triple bottom line reporting in the budget was hospital passed to you and I have a whole lot of other issues about sustainability which I’m not addressing here because they don’t relate to your responsibilities. But your responsibilities here, and they were things that you talked about in the appropriation in December 2001, were that one of the things that we would see for the amount of money that was being allocated to the Office of Sustainability was the introduction over time of triple bottom line reporting and that we would start to see that in the budgets of or in the life of the Fifth Assembly. We are into the second budget

of three in the life of the Fifth Assembly and there is not one jot, not one iota. When will I start to see something? When will the Assembly start to see something or the ACT community start to see some triple bottom line reporting?

**Mr Quinlan:** The best I can give is assurances to this committee of best endeavours, because the first budget that was prepared was prepared when we'd virtually been in for months. I've since then had a year of working with the department. I know what the loads are and I know how difficult it is, because of the systems that we have, to turn the aircraft carrier around.

It is not a simple task to add a bit of triple bottom line reporting to the budget. It isn't that simple. I've got a perception, just from my own background and from working with these people over the 18 months to now, that this is a massive task. We could do some cosmetic stuff, I'm sure, but to actually get involved in, as Kerrie Tucker was talking about, social deficits, and the measurement of social deficits, the measurement of social assets and those sorts of things would be no small feat.

I still live in that world that does really wonder just how good is the reporting that is done on triple bottom line, genuinely how good it is, and how much of it is, in fact, presentation as opposed to genuine content. But, as I said, the best I can give this committee is an assurance of best endeavours.

**MS DUNDAS:** To follow up on that, will you be involving the Office of Sustainability in the work of the Expenditure Review Committee?

**Mr Quinlan:** I think we should; there are elements that we should refer to the sustainability. The Office of Sustainability is there to advise. It isn't the filter through which everything must go all the time. What it does is set patterns and its influence has to be pervasive, but we would have a logjam in government if we actually tried to put everything through that committee.

**MS DUNDAS:** I'm not talking about everything. I'm talking about the Expenditure Review Committee, which has a role in looking at government programs, government initiatives in spending across all of the departments. Don't you think that this is something that should be analysed with the support of the Office of Sustainability?

**Mr Quinlan:** Let's get ex ante. The things that we do need to be set up and need to be formulated within the framework that the Office of Sustainability sets for us.

**MS DUNDAS:** Is the Expenditure Review Committee, then, being set up in the framework of sustainability?

**Mr Quinlan:** We haven't really consulted, I have to confess. A question that comes to mind with me is: would you ask the Office of Sustainability about the ERC committee? What would you ask them?

**Ms Smithies:** What you might do is you might refer an entity's strategic plan, corporate plan, business plan to the Office of Sustainability and ask them a broader question about whether in their opinion the organisation is setting enough goals for itself in relation to sustainability. I suspect that's the place to start.

**MS DUNDAS:** But you haven't started that yet; so at the moment, continuing through with the work of the ERC, it would be completely focused on the economic end of the triple bottom line and the social and environmental factors of the programs and their outputs are not being considered. Do you want me to repeat the question?

**Mr Quinlan:** Yes, I do, I want to understand the question.

**MS DUNDAS:** If we're having an all-pervasive program of sustainability across the departments, including social and environmental factors as well as economic, is that actually being included in the work of the ERC or is the ERC when it is doing its work purely working on an economic basis?

**Mr Quinlan:** The ERC won't be working just purely on an economic basis. I mean, one of the elements that it's looking at is what's the most effective and efficient way to deliver services. Are there overlaps, are there gaps and are there duplications? It does come down to dollars at the end of the day, but it also comes down to the most effective use of the resources and maximising the service that is applied with those resources. And that is about sustainability and that's a part of the framework set by the Office of Sustainability within which we want to work, as opposed to, I guess, having a sustainability approval office somewhere in the chain.

**MS DUNDAS:** But you understanding that the ERC is working within sustainability guidelines, do you?

**Mr Quinlan:** Yes. I mean, they're in the process of development as well, though, aren't they?

**MS DUNDAS:** Well, the report was released.

**Mr Quinlan:** I can't pull you out a book now and say, "Here's the book. Here's the full set of guidelines."

**THE CHAIR:** I thought the Chief Minister launched the sustainability framework a couple of weeks back.

**MS DUNDAS:** It was very glossy.

**Mr Quinlan:** Yes, and within that framework, but in terms of absolute detail of what you do—

**MRS BURKE:** The devil is in the detail.

**THE CHAIR:** If I can make a point. You said in response to Ms Dundas' first point you can't put in place—

**MS MacDONALD:** Excuse me, you're jumping the queue.

**THE CHAIR:** I am jumping the queue, but that's the Chairman's prerogative. You said that you can't put sustainability measures across everything. That's the whole point. You have to for it to be sustainable; it's not just about economic measures. The point of what was said, I believe, two years ago was that it would put non-economic measures into the budget papers so that we could judge whether sustainability was being achieved. Are you backing away from that commitment?

**Mr Quinlan:** Let me answer the first part. What I said earlier is that sustainability is a framework within which we all work. It's not *ex ante*, another layer of something after the event. Am I backing away from the commitment to put those measures in here? I am advising this committee that in my experience I see that step as a huge step that will be very difficult and will require considerable resources. We may be able to work through and to develop measures of sustainability and triple line reporting into this budget, but just be aware that it is a huge job.

**THE CHAIR:** But that was the commitment you gave. I think the point committee members are making is that you actually gave a commitment to do it and it hasn't happened.

**Mr Quinlan:** We gave a commitment to work towards it, didn't we?

**MRS DUNNE:** Yes.

**THE CHAIR:** Two budgets ago.

**Mr Quinlan:** And we haven't done a lot of work towards it in the last year.

**MRS DUNNE:** You haven't done anything towards it, yes.

**Mr Quinlan:** No, it's been a rather busy year and we haven't. Guilty, guilty!

**MRS DUNNE:** Every year is a busy year.

**MS MacDONALD:** It seems to me that the issue of sustainability and triple bottom line has become the thing in the last few years. I don't know much about it, I'm happy to admit that, and my question—

**THE CHAIR:** Read your policy documents. It's scattered through them.

**MRS CROSS:** Let Ms MacDonald finish her question.

**MS MacDONALD:** Thank you. So my questions may seem a bit naive. But it seems that this issue is not the thing just in the ACT, that it's also the thing across the country these days, that there are certain parties which are pushing the triple bottom line and sustainability as being the big thing to be pursuing these days. You've already talked a little about where it's actually being delivered, but you're not sure as to how accurate and in-depth is the information that's being given in triple bottom line reporting. How widely is it being implemented across the country, are you aware? Surely the issue that you're talking about in terms of implementing it correctly would be an issue for the

entire country in that anybody wishing to implement it would find the same difficulties if they wanted to do it correctly, which is what I'm assuming you're saying, Treasurer.

**Mr Quinlan:** Quite a number of companies, the big companies, are producing with their annual statements environmental social sustainability reports. As I understand it, they don't become directly connected to the elements of the annual report in itself, but they become adjunct reports. Just how useful they are, how much they are presentation as opposed to substance, like you, I'm not full bottle. As I said, I'm not going to make commitments here, I'm not going to make any deeper commitments.

**MS MacDONALD:** That's for private organisations, though. How about within government or within other governments?

**Mr Quinlan:** I can't answer you directly, but we'll let you know. We'll check and see what in actual fact people are doing. They may be making claims, but what they're really doing and how much it's embodied in the overall budget that they produce!

**MRS DUNNE:** What would you estimate to be the cost of beginning the process? I don't want to have the discussion about how meaningful and integrated it is, or it currently is in other organisations, but for us to begin the process. I understand that it is an iterative process, but what would it cost to start to do it, in the same sense as what it cost to move from cash to accrual accounting? It is a quantitative shift of that order. What would it cost to do?

**Mr Quinlan:** At the end of the day, I wouldn't think it would be in the order of the change from actual cash accounting to accrual accounting. There are different dimensions. You say, "Here's the measurement of money and this is the money and resources", everything is reduced to that one common denominator, money. And then there's the more descriptive and subjective, very subjective, assessment of social liability, social assets, whatever. So it is one of those questions that has as the answer, "How long is a piece of string?" How much do you want to throw at it? How deeply do you want to get into it? I think we'd have to make a fair effort, otherwise we'd be just giving in.

**MRS DUNNE:** Yes, but I want some sort of—

**Mr Quinlan:** Well, I can't tell you off the top of my head.

**MRS DUNNE:** Okay. I'd like before the end of the estimates process—I want it on notice—some sort of quantitative assessment of what it would cost to begin the process.

**MS DUNDAS:** In 1.2 you have as a quantity measure whole of government capital works program reporting, with four reports being done each year. Can you tell us what those reports are telling you, considering that from a quick look through the budget papers I found \$16 million worth of rollovers of capital works across departments?

**Mr Quinlan:** They're telling you exactly that.

**Ms Smithies:** About \$36 million worth.

**MS DUNDAS:** In 20 seconds I flipped through and found JACS and DUS. What are you doing with the reports if they keep telling you that you're having a rollover and an underspend?

**Mr Quinlan:** They are the measure of what's being done. I've said on my feet in the Assembly that I don't think there has been a government in place since self-government that has ever filled its capital works program in any given year. We're continuing that proud record, I have to admit. By the time you get over the budget, get the budget passed and whatever and people get moving on letting contracts for large works, if there's any sort of delay the best laid plans don't make it. So there has been a continual process of rollover in capital works ever since self-government. Is it important to anybody else but a pedant? I don't know.

**THE CHAIR:** Minister!

**Mr Quinlan:** No, I didn't mean that.

**THE CHAIR:** Ministers should never call members of the committee pedants.

**Mr Quinlan:** I withdraw it. No, I wasn't calling any member of this committee a pedant. But if your whole focus of life—

**THE CHAIR:** The whole focus of life of some people is the capital works program—MBA, HIA, Property Council.

**Mr Quinlan:** What's important in capital works from my perspective is what goes on there, what is put in train and, secondly, if any of those things cause difficulty because they're not done within the planned time. The reports are useful for that. The reports will communicate that the government was going to do this, that, and the other damn thing and hasn't done it yet. When it falls off the capital works report, then you've got a real concern. That's an area that I would like to improve in terms of what we do. But everybody's got the best intentions in the world in each cycle—when you're doing the budget and effectively putting it together in something like April. Yes, we're going to do all that. We can do all that within the next 15 months or so, but it hasn't happened yet.

**MS DUNDAS:** Do the reports provide advice on how to—

**Mr Quinlan:** You get them. They're tabled in the Assembly.

**MS DUNDAS:** They are tabled, but do you think they need to be extended to provide advice on how to pick up the capital works program?

**Mr Quinlan:** No, I think they should be reports on what's happened and then the ministers and treasurers should be held to account for the fact that what was committed wasn't done, and that's an interactive process, I would have thought.

**MS DUNDAS:** Do you expect to do better this year?

**Mr Quinlan:** No, I don't think this year's going that well at all, really.



**MRS BURKE:** Treasurer, given Ms Smithies' account of the difficulty, shall we say, and pressures with collating information in a timely manner within the financial management sector—it is always a difficult thing to do and I appreciate that—what leadership will you now demonstrate and what measures, as Treasurer, will you now be implementing to assist with a smoother coordination of outputs to ensure a higher level of quality and effectiveness, given that we are concerned, under quality effectiveness in BP 4, page 81, that our targets for 2002-03 were 95 per cent and dropped down to an 80 per cent output, and we're back up to 85 per cent? There are obviously some difficulties. What leadership are you going to show to help that process?

**Mr Quinlan:** I think you need to look at the history of the Assembly and how it has operated, particularly with minority governments, as to the pressures that are on reporting. Over the years there has been, if you like, a successive tightening. It never arises from the government, but we had from time to time legislation changed or resolutions passed that required instant information or information sooner, so the regime that applies here is quite tough.

**MRS BURKE:** I think I've acknowledged that. But what are you going to do to make it less tough? What do think you can do?

**Mr Quinlan:** What I've done in the past when I was on the other side of the house, Mrs Burke, was that I made sure that we didn't do monthly financial reports, that we actually introduced quarterly financial reports. It was probably the first time a member of the Assembly who was not a member of the government actually moved a motion to relax the process on the administration as opposed to enhancing it. But I'm in the Assembly's hands as far as the requirements for timeliness and content of reports that are specified. So, while we're all here together, what a good idea if there is some acceptance that we might relax some of the deadlines that are inherent in legislation.

**MRS BURKE:** I wasn't talking about relaxing them. I'm just asking about what leadership you are going to demonstrate—

**Mr Quinlan:** Can I just—

**MRS BURKE:** Sorry, can I finish, thank you. Ms Smithies did clearly say that there were difficulties in collating information. We're all aware and cognisant of that. What leadership are you going to show? This is your second budget. How are you going to make the process easier for your public servants?

**Mr Quinlan:** At this stage, I don't think there's a lot that I can do. I do really bridle a bit when you ask a question like: what leadership are you going to show? Just ask me what I'm going to do, if you wouldn't mind.

**MRS BURKE:** What would you want to do, then?

**Mr Quinlan:** What I can say is that I will suggest to the Public Accounts Committee or the Select Committee on Estimates that you do have a look at the process of how tight the reporting requirements are and also get used to the idea, just get used to the idea, that there will never be, with everything that is done, 100 per cent satisfaction. Get used to it. It doesn't always happen.

**MRS BURKE:** That's an extraordinary thing to say.

**Mr Quinlan:** A point that Ms Smithies just made to me on dissatisfaction was that there are more chief executives of agencies and whatever than there are ministers, so a lot of that measure is not the minister's measure.

**MRS BURKE:** I'm aware of that, but you're the minister in control and in charge and you can implement things.

**Mr Quinlan:** And not everybody's going to give 10 out of 10 every day. It's just not in the human nature to give 10 out of 10 to Treasury.

**MRS BURKE:** I'm not saying that they are, Treasurer. Did I say that?

**Mr Quinlan:** Go and ask the departments: "What are you going to give Treasury today?" "Oh, give them a 10." I don't think so.

**MRS BURKE:** I don't think I said that. I think you're stretching the friendship.

**THE CHAIR:** Thank you for the rider, Treasurer.

**MRS DUNNE:** Two things about reporting. I notice that the quality and effectiveness measure "budget documents meet agreed standards" is being deleted as a measure, but I want to know what the standards were last year if they met 100 per cent. How many different versions of budget papers did we have during the Estimates Committee last year? They must have been of a very low standard to have met 100 per cent. So, on that base, I'm glad that it's been withdrawn.

But I want to go back to Mrs Burke's question, which is not about the sort of performance reports that you put in about timeliness and things like that. The point that Ms Smithies raised was that there are 47 agencies, there's a whole lot of devolution, they have different reporting systems and you're putting layers one on top of the other. I go back to asking the question: is there a need to perhaps devolve less and impose more standards as a means of improving the reporting process?

Megan has actually said that there are a whole lot of difficulties in putting together quarterly reports. I know that and I appreciate that. I think Mrs Burke's question was: if that is the case, what can we do to fix it? My question, to tease that out a bit more, is: do we just throw up our hands and say that it is all too hard and everyone hates Treasury anyhow and they are not going to do what Treasury wants anyhow or is there something in the way that reports are done?

Take an agency that has a set of books which diverge quite markedly from the standard, which means that when they have to report to you or you have to glean information from them it is very hard to do that because you're not always comparing apples with apples. Is there some mechanism for standardising the reporting processes within agencies to make the consolidation easier? I don't know, I'm not an accountant, but is there an answer to the question?

**Mr Harris:** There are a couple of things. There are instances where there are variations, there is no question about that. By and large, though, everybody is reporting against accounting standards, so the general form is the same. The collation task is a factor of numbers, so the more agencies there are the more difficult that task becomes.

It's a factor of devolution, as Megan said. Where we do a consolidation and we have some variance that the system throws out, then you've got to go back to the agency and ask the question: why is this variance here? What generated it? What's the appropriate treatment? The more entities you have, the more of those instances you get and the more questions you have to ask and the more issues you have to resolve. There are other examples that would describe the complexity, which I don't need to give you because you know what the complexity is.

One of the ways of reducing the complexity would be to simply bring it all back centrally, and that may or may not be a good thing. Agencies certainly would think it not a good thing, and I'm not sure it's a good thing either. The second way of dealing with it would be a very large investment in new computer systems that made the process more automatic than it currently is. That wouldn't take away the variances that we get and the need to ask questions.

Another way of dealing with it is to increase the timeframe available to us to complete the reporting process, and in large degree some of the drop-off in performance measures is a consequence of us having to push agencies to get them to do things which aren't necessarily their first priority, and the more we push them the more dissatisfied they get with us for imposing time lines on them.

**MRS BURKE:** This wasn't a get at you question, by the way. It was to try to make it practically better, that's all.

**Mr Harris:** No, I understand that. I'm not sure you can make it practically better. With the volume of reporting that we have to do and the timeframes within which we have to do it, I think a better way of approaching this might well be to ask the question or do an examination on quality of information as opposed to quantity of information.

**MRS CROSS:** Less frequent, twice a year instead of quarterly?

**Mr Harris:** Perhaps less frequent, yes. I mean, less frequent makes it better, but I think the real issue is quality. What quality of information do the government and the parliament require? If we don't have that quality, if it's not delivering the outcome that you want, my suggestion is go back and look at the quality versus quantity rather than simply saying, "What can we do to improve the current system?" It may be that the current system's broke.

**MRS DUNNE:** As a relative newcomer, Mr Harris, do you have a view on what we report on that we do well? In terms of reporting, the sort of reporting process—

**MRS CROSS:** Key performance indicators and key performance outcomes.

**MRS DUNNE:** No, I don't want to know that. I want to know the level of reporting. Are there things that you think we don't do well or are superfluous? You're coming into this with fairly fresh eyes. I'm asking for your professional opinion.

**Mr Harris:** This jurisdiction has always had the most onerous reporting requirements and I understand the reasons why. I think in the short time I've been here my observation would be, and I've had this discussion with some of the independent commentators, that there is a preponderance of volume, rather than quality.

I think, given the length of time that you've lived with the reporting environment that you have, it's not a bad time to go back and review the content of the reporting arrangements and just ask the question: does this still meet the tests that we applied when we first put it in? I think that would be a very valid experience to go through. I think, as a consequence, you most likely will get a more informative reporting process than one that is more attuned to what agencies do now compared to perhaps what they did when you first put it in.

The second part of that is that agencies are now more comfortable with the reporting environment than perhaps they were when this environment was put in place. It was put in place to require agencies to report against performance in circumstances where, until then, they hadn't reported against performance in that way. Agencies have learnt. Users of the information have learnt. I think we can now go to the next step and say, "Okay, what works, what doesn't?"

**MS DUNDAS:** The Oracle financial system upgrade that was delayed this year, or most of it's been rolled over to the next year, do you see that improving the reporting and streamlining the collation of financial data?

**Ms Smithies:** It'll actually mostly be finished this year, but it's a pure upgrade. It's driven by the fact that the whole system is changing by way of the vendor.

**MS DUNDAS:** And do you mean this financial year or this calendar year?

**Mr Quinlan:** The previous version won't be maintained.

**MS DUNDAS:** Sorry, do you mean it'll be finished this financial year?

**Ms Smithies:** Most of it will be. There'll be a hangover of around \$0.5 million to maybe \$1 million paying off the final upgrade.

**MS DUNDAS:** So \$0.5 million dollars is being rolled. The budget says that anywhere between \$0.5 million to \$1.4 million is being rolled over as part of Oracle.

**Ms Smithies:** I'd have to check, but I think only \$0.5 million is being rolled over to make around \$1 million next year to finalise the project. But it is a pure upgrade. It won't significantly change the way in which things are being done. It will simply move us on to a platform that will be maintained into the future by Oracle.

**MS DUNDAS:** And that's what the \$2 million in each of the outyears is for, just regular maintenance. The original money that was appropriated in the last budget had \$2.2 million this financial year and \$2.1 million next financial year and \$1.6 million for the Oracle upgrade.

**Ms Smithies:** In 2004-05?

**MS DUNDAS:** Yes, and 2005-06. Budget paper 3, page 170, of the 2002-03 budget.

**Ms Smithies:** Are we still on 1.2?

**MS DUNDAS:** Yes, we are. We have money for the whole of the government Oracle upgrade through until 2005-06.

**Ms Smithies:** There's some ongoing funding there to actually put in place a system that, by the time there is the next upgrade, there'll be a convergence of systems to one system rather than the disparate 13 that we have. Yes, but that's a longer-term goal over the next three years.

**THE CHAIR:** That'll make reporting easier.

**Ms Smithies:** That'll be the big button approach.

**MS DUNDAS:** So the current upgrade has basically upgraded everything to the next level, and then over the next couple of years you'll be streamlining everything to the one version.

**Ms Smithies:** The long-term strategy with regard to the Oracle upgrade is that, yes, the current upgrade is purely an upgrade and then the strategy is over the longer term to move from 13 different instances into one so that we actually have a more integrated system that would make reporting more easy.

**MS DUNDAS:** Okay. You don't see any more delays with that project.

**Ms Smithies:** The upgrade will certainly be finished by one or two months into next financial year. The numbers that you quoted from the last budget were largely depreciation of the upgrade. So it wasn't necessarily funding; it was us depreciating the upgrade of the project. And then the next upgrade of the system will be in three or four years time.

**MS DUNDAS:** And then you'll ask for more money.

**Ms Smithies:** We'll bring it all back, yes.

**THE CHAIR:** Treasurer, it's almost 1 o'clock and we may break for lunch now. Given the huge amount of interest of members in the estimates process this year, I propose that today we drop off Economic Development and Business, Tourism, Sports, Racing and Gambling and bring them back next week and that between 2 and 3 o'clock we look at outputs 1.3 and 1.4 and then after afternoon tea we look at everything from the Central Financing Unit to Totalcare, rather than having people sit around.

**Mr Quinlan:** We're in your hands.

**THE CHAIR:** If that is acceptable to members of the committee, we will break now for lunch and go onto outputs 1.3 and 1.4 from 2 o'clock until approximately 3 o'clock. It would be the intention of the committee then to do everything from the Central Financing Unit, to the home loan portfolio, InTACT, the superannuation unit, Actew, ACT Insurance, ACTTAB, the Hotel School and Totalcare between 3 and 5 o'clock this afternoon.

### **Luncheon adjournment**

**THE CHAIR:** Treasurer, welcome back to the Estimates Committee. I hope you had a good lunch. We now move to output 1.3 revenue management. I was interested in quantity measure (a) which says, "Manage agreed priority projects related to revenue research ..." Surely that's just core business. What sort of revenue research are they undertaking?

**Mrs Pham:** There's a whole range of revenue research projects required—for example, a broad review of legislation, preparing advice to the Treasurer on tax measures—last year, for example, it was a review of the ACT rating system—introducing the proposed new rates system, and basically also, from time to time, analysing tax measures to see whether or not the collection of our taxes is still in line with our targets.

**THE CHAIR:** Treasurer, in regard to the loan security on commercial loans of a million dollars or more, in your speech you said that the duty will effectively bring the ACT into line with most jurisdictions, albeit at a lower rate and a higher threshold. Is it not true that the ACT is now the highest taxing jurisdiction in transfer fees of this kind, and does that not put us at a disadvantage?

**Mrs Pham:** The level of tax in the ACT for loan security properties depends on the types of transfers. The loan security rate in the ACT is 0.2 per cent compared to the rate in New South Wales of 0.5 per cent. In addition, we have a threshold of \$1 million. When you have a security property you already own and you borrow money on that security property, certainly the ACT will be much better in terms of tax compared to New South Wales. In cases where you've got the security properties transferred at the same time as you borrowed the money for, say, commercial properties, then certainly the ACT combined conveyancing and mortgage duty would be higher than that of New South Wales.

So you do have cases where we are much better. But in some cases we could be a bit above New South Wales, if you combine the two—conveyancing and mortgage duty—at the same time.

**THE CHAIR:** Which would be the normal case. Most people don't have the cash outright, and there are certain advantages they get in having the mortgage as well. You said it cuts in and at a certain level that we become worse. What is that point?

**Mrs Pham:** For a \$2 million transfer, the combined New South Wales conveyancing duty and mortgage duty would be smaller.

**THE CHAIR:** After \$2 million, which isn't a great deal in regard to a commercial property, Treasurer, we're now suddenly worse off. Has any work been done that works out, for instance, if the property market softens say just a per cent in terms of prices, what effect does this conveyancing duty have? Are you losing money or scaring people away by having the highest taxing regime?

**Mr Quinlan:** First of all, I'm advised that most business transactions in the ACT are less than a million dollars. I'll have to check with Tu Pham exactly. Do you want to respond to the second half of the question?

**Mrs Pham:** From our database and looking back at the transactions which have occurred in the ACT in recent years, we believe that the majority of the transactions are under the \$1 million mark. Hence we believe that the introduction of a \$1 million threshold would actually benefit the majority of property transfers, commercial included, in the ACT.

**Mr Quinlan:** Particularly small business and small/medium businesses, which is where we get the gripe in the ACT.

**THE CHAIR:** But does the data you collect identify which part of the payment is loan and which part is equity already owned by or in the possession of the buyer?

**Mrs Pham:** The duty applies only on that amount of loan borrowed from a financial institution.

**THE CHAIR:** Yes, but that is the question. You obviously collect statistics on the value of the properties as they are transferred, but does that information include the size of the loan?

**Mrs Pham:** I think the information we receive from the bank is: up to 80 per cent of the value of the transaction on loan. So people borrow up to 80 per cent of the value of the transaction.

**THE CHAIR:** But you don't actually know how much is borrowed; that's a figure you'd have to go and ask the banks for?

**Mr Harris:** And I doubt they'd tell us.

**THE CHAIR:** And I do, which leads me to the question: how can you make the estimates that you have done when you don't actually have the knowledge?

**Mrs Pham:** We do have the knowledge, based on our information; but also from discussions with the bank, we understand that most commercial loans are structured in such a way that they fall outside the conveyancing net. For example, it could be a debentures form that they actually borrow money on, without it being attached to the property transferred. So, in terms of commercial borrowings, we believe that the loan security duty imposed does not affect the majority of small business transfers.

**THE CHAIR:** In that case, if you had that knowledge, how many loans and what's the value of the loans per annum over \$2 million? Or over a million dollars, which is the mark you set yourselves?

**Mrs Pham:** I don't have it with me at the moment. But we can only rely on the information currently kept in our database in terms of transactions done in the ACT and registered with the Revenue Office. A number of loans may be made but not registered in the ACT Revenue Office because we, in the past, did not have this loan security tax. Hence there is no obligation for certain loans to be registered with the Revenue Office. It is therefore very difficult for us to forecast the part that we do not have detailed statistics for. It's only a forecast at this stage, and we will monitor the revenue collection throughout the year.

**THE CHAIR:** It's an estimate that it will be half a million dollars?

**Mrs Pham:** Yes. Indeed, it's a very conservative estimate.

**THE CHAIR:** Treasurer, I've spoken to some of the banks and some other groups that have huge concerns about the loan security duty on commercial loans, because their estimate is that, instead of raising something like \$500,000, it may be as much as \$5 million a year, given the size and the number of loans in the ACT. Are you concerned that this might have a negative impact on the property market in the ACT?

**Mr Quinlan:** No, I'm not. I think you were talking about the combined taxes of conveyancing and loan duty, were you not? Of course, conveyancing taxes, which have been previously set, must be paid in the territory, no matter what. So there is not going to be a migration out of the territory in terms of conveyancing. You can, I think, more logically look at the two elements of the transaction quite separately. The loan mortgage might be taken elsewhere, whereas the actual conveyancing would happen here. As Tu Pham has pointed out, our rate and threshold are below that of our surrounding New South Wales and other states.

If in fact the Treasury estimates are low and it will generate \$5 million worth of revenue instead of half a million dollars worth of revenue, I think we could still qualify, in terms of the actual loans, as a tax haven relative to other states. I'd be most pleased to hear that.

**THE CHAIR:** But you're not concerned that that may cause property investment to go elsewhere in the country rather than come to the ACT?

**Mr Quinlan:** The conveyancing duty, as I said, has not changed in this budget at all.

**THE CHAIR:** No, but it changed last year.

**Mr Quinlan:** So that's an element. Are we doing last year's budget or this year's budget?

**THE CHAIR:** It went from 5.5 to 6.75 per cent.



**Mr Quinlan:** I don't think there's any evidence that the conveyancing duty has particularly put a dampener on business in the ACT. So we're now talking about the actual surcharge on the mortgage loan, and it is still the lowest in the country.

**THE CHAIR:** Except the combined effect of the surcharge and the conveyancing fees makes it the highest in the country. We've just heard that any loan over and above \$2 million will be more expensive than New South Wales. You said in your speech that you want to bring the ACT in line with most jurisdictions.

How do you see that, on deals over \$2 million, you're now in line? In fact on a \$5 million loan, if you borrowed \$3 million, the conveyancing and the security duty in New South Wales would be \$272,000. The conveyancing duty and the loan security duty in the ACT would be \$325,000. So you're talking what—\$53,000 higher; a factor of what, 30 or 40 per cent?

**Mr Quinlan:** And in terms of the overall transaction, a factor of 1 per cent.

**THE CHAIR:** Well, 2 per cent possibly. Many of the industry players are concerned it may drive portfolio investors out of the ACT.

**Mr Quinlan:** I have no doubt that the property industry and the investors involved would voice complaint. Most people don't like paying taxes. Articulate lobbies would like to put pressure on government, whether it's through themselves or through members of this place.

But I'm reasonably satisfied that the taxation structure that exists in the ACT and the relative prices of real estate in the ACT are such that, at least in the residential market, this has brought investment to this town; this measure will not distort business in the ACT; and it will bring into the ACT a level of revenue—and I hope you're right and it's \$5 million—that does not have to be charged to individuals to meet the cost of services.

**THE CHAIR:** There's an assertion in your speech again that we're a haven for companies wishing to borrow large sums of money without paying duty. Where's the evidence to support that?

**Mr Quinlan:** Well, first of all, yes, I think that's a good point you raise. I'll get Tu Pham to answer that question in general. But it is worth while to recognise that implied in your question is the fact that a lot of these transactions are not about buying buildings; they are just about financial transactions.

**Mrs Pham:** We do not collect the statistics directly from the banks. The banks also do not disclose that type of information to the Revenue Office. However, we have regular dialogue with the Law Society, stamp duty lawyers and also the banks.

We were given a number of examples whereby interstate companies get the loan security arranged in the ACT to avoid tax. It did actually lead to another issue that, since the Northern Territory is still the only one without the mortgage duty, we could not anticipate the level of change in business behaviour of the overseas or the international or national companies who used to come to the ACT and who now may decide to go to the Northern Territory.

We do not know the details; hence the revenue forecast has been low to allow for revenue that we may or may not collect. Given it's a new tax in the ACT, we need to have one year of data and monitoring to be able to get a more accurate revenue forecast.

**THE CHAIR:** So there are no statistics on how many loans are arranged through the ACT; it's just a guess that we're a haven?

**Mrs Pham:** It is an educated guess based on discussions with the banks and the Law Society.

**THE CHAIR:** So it is a guess, Treasurer?

**Mr Quinlan:** It is an estimate, as is so much of the budget. Now, if everything in this budget could only be included if there was absolute certainty, it would be a fairly thin document.

**MR HARGREAVES:** So can I just ask a question on that, for clarification, please, Mr Chairman. If I'm a decent sized-business in Sydney and I want to buy a decent-sized property or business in Adelaide I could actually do that financial transaction through the ACT and minimise my tax?

**Mrs Pham:** Yes.

**MR HARGREAVES:** And that's what's happening.

**Mrs Pham:** Yes.

**MR HARGREAVES:** What we're now saying is: "Tough luck, you can pay for that privilege or you can go to the Northern Territory."

**Mrs Pham:** Yes.

**MR HARGREAVES:** We're just stopping the rip-off of the ACT in the first place, or cashing in on it.

**Mr Quinlan:** Well, there's no rip-off of the ACT, but it is an opportunity within the ACT that is availed of by virtually all other states that has not been availed of here.

**MR HARGREAVES:** If that practice continues—from what I hear the rate is still lower than elsewhere—what we'll be actually seeing is a lessening of the incentive, not the creation of a disincentive. The possibility is that there's going to be no change; and, in any effect, there's going to be no real effect in that instance on ACT business, will there?

**Mr Quinlan:** No, I don't think so.

**MRS CROSS:** Actually that's a good point, Mr Hargreaves. Can I follow up on that. Is the reason that the incentive was there that, unlike Sydney and Melbourne, we couldn't compete with those major cities, which is why we needed an incentive to entice people to come here?

**Mr Quinlan:** It just didn't exist.

**Mrs Pham:** These types of transactions do not bring any particular economic benefit to the ACT.

**Mr Quinlan:** Maybe the odd lawyer.

**Mrs Pham:** For example, it's paperwork in terms of a loan arrangement. It's good for lawyers.

**MRS CROSS:** It's not good for business, small business?

**MR HARGREAVES:** They're not ACT companies.

**THE CHAIR:** Yes, but we don't know how many companies of that nature exist, Mr Hargreaves, because there is no data.

**MR HARGREAVES:** Could I make the observation, then, and ask the Treasurer to correct me if I'm wrong: at the moment there aren't any ACT companies that we're talking about here. What we're talking about is collecting revenue from people making this transaction within the ACT who didn't pay anything before. So we're starting at nothing.

**Mr Quinlan:** No, there may be one or two ACT companies that take out commercial loans of \$1 million or more. But they would be fairly sizeable companies, I would suggest; and if they were doing the same thing elsewhere they'd be paying more.

**MR HARGREAVES:** And those people who were doing it from interstate were paying nothing, so we're actually the big winner here.

**Mr Quinlan:** Well, we hope so. Yes.

**MR HARGREAVES:** From your educated guessing, would there be more of those sorts of transactions than ACT businesses taking up those mortgages?

**Mrs Pham:** Definitely, that's a market that we aim to get the revenue from.

**MR HARGREAVES:** Well, congratulations.

**THE CHAIR:** Except we don't know how many such transactions there are, do we?

**Mr Quinlan:** No, because that's confidential information.

**THE CHAIR:** How do we know what the effect will be if we don't know how many such transactions there are?

**Mr Quinlan:** Well, we take a very conservative estimate, half a million dollars. Then you do your homework—and somehow they tell you that it will be \$5 million—and we say, "Jolly good."

**THE CHAIR:** Again I make the point: you're obviously not concerned about the impact that it might have on business and business investment in the ACT.

**Mr Quinlan:** Well, it's not a case of I'm not concerned. I don't share your concern because I think your concern is misplaced.

**THE CHAIR:** Individuals out in the community over the weekend told me that their understanding was that the conveyancing rate was increased last year from 5.5 to 6.75 per cent and in a way it was justified because the ACT did not impose loan security duty. Now that we've got the highest conveyancing rate in the country and the duty, will you drop the conveyancing rate?

**Mr Quinlan:** We'll examine the conveyancing rate each time around, but I make no commitment to drop it as a result of that.

**THE CHAIR:** Was it examined before you put the loan duty in place?

**Mr Quinlan:** Was it considered?

**THE CHAIR:** Yes.

**Mr Quinlan:** No, it wasn't considered. We didn't say, "We're going to charge a tax." You keep going back to a building and loan package, right?

**THE CHAIR:** It's not just on property; I realise that.

**Mr Quinlan:** We're talking about commercial loans in the much wider sense. There may be the odd transaction that is caught up and that fits into your category, Mr Smyth. But it is not, as far as we estimate, the typical; and why we're basing an argument on the non-typical, I don't know.

**MRS DUNNE:** Just to follow up on detail: Mrs Pham said that at this stage we don't know definitively how many transactions of this nature there are in the ACT. If that's the case, how do we collect the money on the transactions? The second part of the question is: what is the cost of collecting the money on the transactions, given that the revenue is supposed to be half a million dollars?

**Mrs Pham:** When the legislation is passed there will be an obligation on the part of the taxpayer to lodge the information with the Revenue Office regarding the mortgage arrangement or loan arrangement with the financial institution. So we will be able to collect the money and we will get the information from the taxpayers, as with any other taxes.

Once this legislation is in place, if they don't do it, we have the authority, as a tax office, to go to the bank and request information so that we can follow up with compliance. That's how we will collect the money, even if we don't have detailed statistics at the moment. We don't have statistics on the transactions that happened in the past. We will be able to collect money. They are obliged to report to us and pay the tax.

**MRS DUNNE:** At the same you're also saying—correct me if I'm wrong—that, in the compliance area, the bank has a responsibility to answer your questions because it's legislated. At the moment what you're working on is anecdotal evidence.

**Mrs Pham:** Yes. At the moment, it will just sift the information, just for information. There will be a bit of reluctance by the banks to disclose private and confidential information about their clients.

**MRS DUNNE:** Yes, but once there's a legislative requirement, they have to.

**Mrs Pham:** Yes, that's right.

**MRS DUNNE:** And what is the cost of implementing the tax?

**Mrs Pham:** The cost will be quite minimal because it's a transaction-based cost. In terms of a straightforward applying of a rate on the value of the loan, I think it will be very minimal, and the cost will be absorbed within the existing resources of the Revenue Office.

**MRS DUNNE:** And the compliance costs?

**Mrs Pham:** I think that, again, it will be absorbed within the current compliance activities of the Revenue Office.

**THE CHAIR:** Treasurer, does the legislation apply to refinancing and bill rollovers?

**Mrs Pham:** At the moment our legislation does not have a specific provision to exempt refinancing. We heard from the industry that that may be an unintended consequence of the law. There is no intention of the government to double-tax anyone. There are occasions where, if the mortgage has been paid and it is a refinance situation with the exact security, exact arrangement, then I think that that could be arranged so that the taxpayer doesn't have to pay twice.

**THE CHAIR:** But currently the bill doesn't permit that—every time it's rolled over you pay again?

**Mrs Pham:** It doesn't have that. Yes.

**THE CHAIR:** Treasurer, will the government be amending its own bill because of that flaw?

**Mr Quinlan:** Yes.

**THE CHAIR:** Are debenture trusts also included in the scope of the bill?

**Mrs Pham:** We intend to have further consultation with the industry to identify which parts of the legislation they feel could lead to some double-taxing, and then we will consider recommending to the government an amendment to the bill if required.

**THE CHAIR:** Is it intended to catch, say, mum and dad investors who have a building as their superannuation or who upsize the scale of the family business building?

**MR HARGREAVES:** I'd like to see that mum and dad, and I want them to adopt me.

**THE CHAIR:** Well, keep going. Will it apply to those people as well—to family trusts and those sorts of things?

**Mr Quinlan:** No.

**THE CHAIR:** On the idea of the ACT being a tax haven: what exactly is the revenue that the government seems to think it's missing out on by calling the ACT a tax haven? I'm at a loss as to why you would even have the perception that the ACT is a tax haven. What is it that you're trying to close here; how does your legislation address it; or are there flaws in it?

**Mr Quinlan:** I don't know exactly what you're asking, but the term "tax haven" says that, as we understand it, there are loans specifically taken out in the ACT because they attract less tax—ergo, tax haven; not a difficult concept!

This doesn't mean that we're the Cayman Islands and we've got tax dodgers everywhere or whatever, if we're going to play semantics. All I'm saying is that there are transactions, as far as we're advised, that are taken out in the ACT simply because this is the jurisdiction where you avoid tax. That, to me, is a tax haven.

**MRS CROSS:** Barbados, Switzerland.

**Mr Quinlan:** Yes, whatever. Isle of Man, Jersey, Guernsey, yes.

**MRS DUNNE:** We can have a philosophical discussion about whether being a tax haven is desirable or undesirable.

**MR HARGREAVES:** Or whether you're paying a tax.

**Mr Quinlan:** Or a half-paying tax haven.

**MRS DUNNE:** There would be an economic argument to be mounted that, if you tax transactions like this at a lower rate, you actually attract the transactions here and it's a revenue measure; and I don't see that there's any particular problem with that.

But we're not distinguishing between people who, like Mr Hargreaves' example of someone who lives in Sydney and is buying property in Adelaide but uses the ACT as a means of financing that—and I don't see a problem with raising money on that if you do it at a differential level so as to encourage people to do it and you raise money that way—and the investor who is in and committed to the ACT and who is suddenly facing another impost on his business. We're not a tax haven in that regard.

Do you distinguish between the person who is an opportunistic investor via the ACT and somebody who is actually investing in the prosperity of the ACT?

**Mr Quinlan:** By Mr Smyth's own example, I think we've got a differential of one per cent, which I don't think is huge in the great scheme of things when you're making a business decision like that.

**THE CHAIR:** Well, it can be. If it's \$2,000, I can assure you it's important to any small business.

**Mr Quinlan:** Well, they're not that small if they're buying \$5 million buildings, Mr Smyth.

**THE CHAIR:** Well if they're buying a \$1 million or a \$2 million business, which is conceivably what many small businesses are worth these days.

**Mr Quinlan:** Well, in that case it doesn't pan out at one per cent. I like the way you couch your question that, somehow, there's this person that really is committed to the ACT and investing in the ACT because of that commitment; but I think, really, we have to set taxes in a somewhat dispassionate fashion. It seems to me that the double effect that Mr Smyth has mentioned on a limited number of transactions doesn't argue for not putting a tax like this on all the other transactions that would take place.

Mr Smyth has already told this committee that this tax is likely to generate \$5 million worth of revenue. That's not \$5 million worth of business; that's not tax on building sales in the ACT, you can bet your boots. So I think that it's a fair and reasonable thing to apply.

**MRS DUNNE:** Perhaps this time next year we'll actually have some definitive information.

**Mr Quinlan:** We probably will on the loans. We may never know exactly what—

**MRS DUNNE:** The loans have been used for.

**Mr Quinlan:** Yes, what they've been used for. If they're not subject to conveyancing duty and we don't get that other information to collate, the banks are only going to give us the minimum amount of information, aren't they, which is their right.

**MRS CROSS:** Treasurer, how do you feel about the fact that you've reduced the number of first home owner grant applications from 3,100 to 2,200?

**Mr Quinlan:** It's probably got to do with the decline of the first home owner grant by the Commonwealth.

**MRS CROSS:** Let's have a look at the little note on the bottom of the page there.

**Mr Quinlan:** What's it say? What page is it?

**MRS CROSS:** Page 82. I quote from note No 5.

**MS TUCKER:** Isn't this patronising the committee?

**MRS CROSS:** You've already lost a lot of brownie points today, breaking those rules.

**THE CHAIR:** Just ask your question.

**MRS CROSS:** I quote from note No 5: "The 2002-03 estimated outcome is lower than expected due to a levelling off in new residential development applications and the impact of the removal of the additional \$3,000 FHO grant. The 2003-04 target has been amended to reflect these factors."

Why have you maintained the lower target? Do you really not care about home ownership for the young, the struggling, the battlers, at a time when you have a windfall in the order of \$200 million? And would you prefer to pass them on to Mr Wood, who has barely increased the number of public dwellings in spite of the significant increase in expenditure?

**Mr Quinlan:** Well, the number is falling away because, in the main, of the cessation of the first home owner grant. That's a Commonwealth scheme; it's not our scheme. That Commonwealth scheme probably—it's hard to measure—caused a pull forward in demand for first home owner purchases anyway, because it was granted and then extended. But for most of its life—well, for all of its life, its full life; and then it had a half life, didn't it, after that?—for all of that period, it was always known that it had a sunset clause. People that wanted to buy and take advantage of that would have made the extra effort and pushed forward and brought their purchases forward. Once that ceases, it's inevitable that the demand is going to fall away. It's just automatic, I think.

**MRS DUNNE:** Just to refresh my memory, when does the first home owner scheme finish?

**Mrs Pham:** It can continue forever at the moment under the Commonwealth and state agreement.

**MRS DUNNE:** Was that the extra one?

**Mrs Pham:** Certainly. There were two components. One is the \$7,000 provided by the Commonwealth and after that the Commonwealth added another \$3,000 just for newly constructed homes. The Commonwealth then decided that after a certain time they would withdraw that \$3,000 extra. So at the moment, the first home owner scheme is still going on, but with only \$7,000 per home rather than the \$10,000 that was previously provided. Hence the number of applications will fall accordingly, and that's totally under the control of the Commonwealth. We have only an administration part of it.

**Mr Quinlan:** And yes, I do care, Mrs Cross.

**MS DUNDAS:** I'd like to ask about the stamp duty home buyer concession scheme, which is on the same page. We've discussed this before—I don't know where—but you only reached 35 as your estimated outcome because the scheme was, I would say, quite unrealistic for the current market. You've then revised the scheme for this financial year to bring it more in line with current market values. How do you fully expect to reach the target of 400? How are you going to promote the scheme and how is it going to become



accessible again, after nobody could access it before? How are you going to promote the new changes, to reach the target of 400?

**Mr Quinlan:** We're going to promote it. We're going to go out on the street and grab them.

**Mrs Pham:** After the legislation is passed and the budget is passed, is approved by the Assembly, then we are in the position to provide information at shopfronts, at the Revenue Office, and also it will be made public through the ACT Housing Authority. Yes, we will certainly try to advertise and make the eligible applicants aware of the new scheme, the new arrangement, after the budget is passed.

**MS DUNDAS:** You had a target of only 100 this year, which was a small target. Why do you think the 400 target is then realistic?

**Mrs Pham:** Because the new scheme is much more relevant and much more easy to apply for because, according to our statistics of current value of houses for low income people, we believe that there will be more people applying for the scheme and eligible to get this concession instantly.

**MS DUNDAS:** So the target for 2002-2003 was deliberately set low because you knew the scheme was flawed—the 100 target?

**Mr Quinlan:** It's not a case of whether it's flawed or not, because there are no absolutes in this.

**MS DUNDAS:** Well, was it deliberately set low?

**Mr Quinlan:** There are no absolutes in that. It's a case of just how many people would qualify, and that's at the level. You make a subjective judgment as to what level it would kick in at. Now when the level gets to the point where there's virtually no housing stock that falls within that, then you have to make some change.

But it's not a case of being black/white; it's a case of how much are we prepared to move it and, therefore, how much are we prepared to subsidise people that are buying a home. People who might be quite well off, people like yourself who might have no need for welfare at all or who have a relative advantage over others, could qualify for it.

**MS DUNDAS:** I don't think I did qualify in the new scheme. Will the system be monitored into the future, considering that the prices of housing are expected to stay at the same level or increase?

**Mr Quinlan:** Yes, it would be common sense, I think, to look at it each year and say, "What level should this be at, given the market?" The market might turn around and come down. We wouldn't lower it necessarily, but it should be relevant to the market.

**MS DUNDAS:** If it needs to be reviewed upwards and expand more, at what point will you do that, when it reaches, again, only 35 applications?

**Mr Quinlan:** Well, that will be decided at the time. It would have to be done in the context of the rest of the budget and where we're at. But we should do that; you're right.

**MRS CROSS:** Mr Quinlan, towards the bottom of page 82, under "timeliness"—we're looking at (l)—it says that you wish to "improve the efficiency, flexibility and functionality of the state type tax and duty computer system". How can you make this sort of improvement if it takes you three months longer, moving from March to June?

**MR HARGREAVES:** It's a year; it's the whole year, 2003-2004.

**MRS CROSS:** I know, but there are an extra three months. It's not from March to March; it's from March to June.

**MR HARGREAVES:** It's 15 months.

**MRS CROSS:** Why?

**MR HARGREAVES:** It goes from March 2003 to June 2004.

**THE CHAIR:** I think it's for the Treasurer to answer, Mr Hargreaves. I'm sure he can.

**Mr Quinlan:** Sorry. As I read that, it's an improvement in the system that will be implemented by that date.

**MRS DUNNE:** Was it implemented by March 2003?

**Mr Harris:** No.

**MRS CROSS:** I just need to understand. Yes, Under Treasurer.

**Mr Harris:** We have a project called STAX, which is about updating our computer systems as described here. That project has fallen behind in its delivery timetable, for a number of reasons. Our best expectation at this point in time is that it will be complete by June 2004.

**MS DUNDAS:** And STAX is different to ACTAX?

**Mr Harris:** It is the upgrade of that.

**MS DUNDAS:** It's the upgrade of that.

**Mr Harris:** Or substitute system rather than an upgrade is a better way of describing it.

**THE CHAIR:** And the explanation for it being a year and three months behind?

**Mr Harris:** Combination of, I suspect, poor specification of the project, in the first place; complexity of the system, in the second place; significant difficulties with one of the contractors, in the third place. My overriding comment is: it's a computer system.

**MRS CROSS:** Can I ask a question on that. Let's go from the current system to the earlier one. It's a computer system. A lot of people can use that. But the provider was a problem, the person providing. Is that the provider that the government chose through a tender process to use and it didn't work out?

**Mr Harris:** It didn't work out. It's a combination of a construction side and project specification software delivery side as well. The pathways selected at the time, with the best will in the world people thought would deliver an outcome, proved not to deliver the outcome. The question then was: do we keep going down this pathway, getting an outcome which will not deliver what we want, or do we call it quits and start again? A decision was taken to call it quits and start again in part.

It's also I think fair to say that the parameters of the project changed during its development phase. Some things that were thought deliverable were not deliverable. It's also true to say that there had to be a halfway house. It was not possible to go from where we were to where we wanted to be in one hit. So there was a whole bunch of development work that had to be done to get us to a point where we could then move to a new system.

**MRS CROSS:** Sounds like a lot of problems, Mr Harris. There was not enough forethought put into the initial specifications and the winner of the tender and then changing specs halfway through because the initial specs didn't work—that sounds like a very haphazard way of addressing a solution.

**Mr Harris:** It is a project, which started a while ago, which is characterised by difficulty, on my observation.

**MRS CROSS:** Is this committee able to get information on that and why?

**Mr Harris:** I have asked for a complete audit and review of the project to be undertaken.

**MRS CROSS:** And are you able to provide the committee the outcomes of that?

**Mr Harris:** That is being done at the present time.

**THE CHAIR:** What's the timeframe for the completion of that?

**Mr Harris:** Around the middle of July.

**MRS CROSS:** This year?

**Mr Harris:** Yes.

**MS TUCKER:** Can I ask a follow-up question on that. Just on the procurement: was the responsibility taken by the procurement unit of your department?

**Mr Harris:** Yes. To the best of my knowledge, there were no faults in the procurement process. The procurement process was adequate and followed all the proper guidelines and rules and regulations. I think—and this is my observation in the time that I've been here—the difficulty lay with project specification, on the one hand; and perhaps some

elements of project delivery, on the other hand. However, I won't know the answers to those questions until the review has been complete.

**MRS CROSS:** Project specifications come from the government and the department, not the supplier. The supplier tenders according to the specification provided during the tender process.

**Mr Harris:** I can't answer that question until the review's complete.

**MRS CROSS:** No, but you said that the procurement process was good. It couldn't have been absolutely good if the specifications were right. So if there were problems in the specifications then that's part of the procurement problem.

**Mr Quinlan:** But the procurement process could have been good because that's carried out by the procurement body. But they're not to know the detailed specifications, which is really the end-users' responsibility.

**THE CHAIR:** Which asks the question: the specifications were put together by Treasury, by InTACT, by somebody else, an expert?

**Mr Harris:** I'm not sure, which is one of the reasons why I've asked for the review to be done.

**MRS CROSS:** Minister, do you know where the specs come from?

**Mr Quinlan:** No, I don't.

**Mrs Pham:** Can I answer that question? I think the specification is mainly prepared by the Revenue Office, with advice from InTACT and also the IT steering committee. The specifications reflect the need at the time and are also based on our anticipated need for a tax system five years ahead. Over the last two years there's been some major change in the need, in terms of IT systems, to collect our taxes. Yes, I confirm that the specification is done by the client department, namely, the Revenue Office.

**THE CHAIR:** The measure (e) on page 82, which is compliance review per inspector, seems to have had a huge windfall in the revenue you gained from payroll tax. Why have you reduced the measure back to the same target as you had for this year?

**Mrs Pham:** The objective of compliance activity is not only to raise additional revenue. One part of the compliance activity is actually to educate taxpayers and give them advice so that they understand their obligations and meet their tax obligations. By performing the dual role of a compliance and audit office you don't just aim at raising additional revenue but more at educating the taxpayer in the process so that you have a happy taxpayer and a happy Revenue Office.

**MRS DUNNE:** Isn't that a contradiction in terms?

**Mrs Pham:** \$220,000 per year is the benchmark we accept across most parts of the Revenue Office as something we should aim for to justify the efficiency of a compliance officer. Some years we are lucky we get additional money, but we would not like to set the revenue target as the only thing that the compliance officer should aim for.

**THE CHAIR:** I'm pleased that the Revenue Office has as an objective to make all taxpayers happy.

**MRS DUNNE:** I'm just wondering whether there was a performance bonus last year for the compliance officers. Actually, just on the issue of compliance: there was discussion probably three or four years ago about revenue forgone from transactions on second-hand motor vehicles, and there was an Auditor's report. Have those issues been addressed? It's a matter of self-reporting.

**Mr Quinlan:** That's an understatement of the transaction.

**MRS DUNNE:** Yes, and it's the understatement of the value. Have those issues been addressed?

**Mrs Pham:** I understand that, the Department of Urban Services, especially the people at the shopfronts who accept the registration and the value as declared by taxpayer, introduced extra forms whereby these are double-checked between vendor and buyer. I can't remember 100 per cent of the detail but yes, we did address it at the time to improve the system.

**MRS DUNNE:** There's, not so much for this financial year but for next financial year, the proposal for a parking space levy. I just wanted to explore with the Treasurer what is the rationale for the parking space levy.

**Mr Quinlan:** Revenue raising.

**MRS DUNNE:** Revenue.

**Mr Quinlan:** There is revenue raising, and it does fit within good public transport policy. That's what you wanted to hear, isn't it?

**MRS DUNNE:** No, I didn't actually. I just wanted the honest answer, which was that you wanted to raise money.

**Mr Quinlan:** Excuse me, Mr Chair, was I just accused of giving a dishonest answer?

**MRS DUNNE:** No. I just didn't want the hearts and flowers..

**THE CHAIR:** I'm not sure that you were, Treasurer. But if you want it withdrawn, I'll ask for it to be withdrawn.

**Mr Quinlan:** No, that's okay. I can live with it. But, Mrs Dunne, it is—

**MRS DUNNE:** Purely revenue raising.

**Mr Quinlan:** I thought you wanted to hear “revenue raising”, but it is also a sensible plan in a public transport policy, to put a cost on parking your motor vehicle in the city centre.

**THE CHAIR:** Will it apply to, for instance, charities that own properties that have parking spaces assigned to it? Under the Building Code, if you build a building you’ve got to have so many parking spaces assigned to it; you’re compelled to by law; and then you get taxed for it. Is there a concession in this for, say—I can’t think of an example — Red Cross House in Civic having parking spaces attached to it? Are we just attaching a tax to charities?

**Mr Quinlan:** In the briefing surrounding it, yes, those matters are taken into account to say yes, we don’t want to tax charities. On the other hand, we don’t want to not tax, say, the YMCA if it’s running its backyard as a pay car park. What we have said is that it won’t apply to shopping centre car parking. It will apply to business but it won’t apply to visitor car parking.

**Mrs Pham:** It’s a privately owned car park.

**MRS DUNNE:** What do you mean by “privately owned car park”?

**Mrs Pham:** That means these car parks, for example, are within a commercial building owned by the private sector.

**MRS DUNNE:** Can I pursue this, Minister. They could provide visitor car parking, and the Treasurer said that it won’t apply to visitor car parking.

**Mr Quinlan:** Is that right? Maybe I’d better withdraw that one and get back to you.

**MRS DUNNE:** Well, could you clarify, whether it’s on notice or later in the day: does it apply to visitor car parking; does it apply to charitable institutions providing car parking?

**Mr Quinlan:** Already we’ve discussed that and said it won’t.

**MRS DUNNE:** But I would like to explore where this idea came from, for a couple of reasons. It’s not a revenue initiative for this year, so it rather gives me the impression that you came up with the idea fairly late in the piece and you thought you’d flag it and then work out the details later.

**Mr Quinlan:** No, it didn’t come up late in the piece.

**MRS DUNNE:** Why is it not being implemented until the next financial year?

**Mr Quinlan:** Well, because you allow people who are going to be affected by it plenty of time. You allow the system time for the process of identification and collection to be put in place.

**MRS DUNNE:** If that were the case, if you were introducing a new revenue measure in any budget, you would be foreshadowing it at this budget, not introducing it next budget.

**Mr Quinlan:** It depends on what's required to introduce it, to implement it.

**MRS DUNNE:** That's one line of pursuit. Again, that goes to the question of what is it going to cost, what do you expect to earn from this revenue measure, and what proportion of that is going to go into the cost of collecting the revenue.

**Mrs Pham:** In the budget paper I think the government do indicate that the reason that we will introduce this in 2004-05 and not 2003-04 is that further work needs to be done. On that basis, DUS is still collecting detailed statistics about the number of parking spaces in what building, who owns them. We still have a few months to develop the parking levy in such a way that it reflects the right outcome and does not affect the people that we would not like to bear the cost.

**MRS DUNNE:** But you anticipate it would raise \$2.5 million annually after it's introduced.

**MRS CROSS:** What page are you on, Vicki?

**MRS DUNNE:** I'm on page 90 of BP3. That talks about the \$2.5 million. What will it cost you to collect that? How will you collect it?

**Mrs Pham:** We, at the early stage, believe that the tax or the parking levy will be collected by the Revenue Office, similar to what happens in other jurisdictions. It will be on a return basis. Once we have a database of the number of parking levies, the buildings and the property owners who are liable to pay these parking levies, it will be, I think, a simple admin arrangement for that levy to be collected through a return basis like an annual return form to the Revenue Office, with a fixed amount to be collected. For example, if it is \$100 per parking space and your building has 100 spaces, you multiply them by that figure. It's quite a simple system, but we need time to develop the right database to ensure that we exclude or exempt the parking spaces that we would like to save for charity or whatever.

**MRS DUNNE:** Would it apply to, say, motels that have parking spaces either underground or around their building? If I own a motel that has 50 rooms I need to have 50 parking spaces, and I pay rates on the amount of land that allows me to build a 50-room motel and provide that much space, because the land act requires me to have so much space. So I'm compelled to have that much space. It makes good economic sense.

I'm paying rates on that amount of land, which already has that value accrued to it because it is a motel which has a certain amount of parking. Now I'm paying a levy on top of that. Isn't that potentially triple taxation? You have to pay for the parking in the first place; you have to pay the rates every year; and now there is going to be an extra rate on my parking space. That's two questions. Does it apply to places like motels?

**Mr Quinlan:** Yes.

**MRS DUNNE:** And what about the rationale of potentially triple taxation?

**Mr Quinlan:** Well, I don't know that it's triple taxation.

**THE CHAIR:** Was that a yes, Treasurer; it does apply to motels?

**Mr Quinlan:** Yes.

**MRS DUNNE:** Under the land act, if I'm building a commercial building I'm going to have to provide the parking spaces on site.

**Mr Quinlan:** Yes.

**MRS DUNNE:** Or I can contribute to a communal fund for parking spaces somewhere else. But somewhere along the line if I'm building a building, I pay. This means if I sell the building to somebody else that is part of the cost of the building. So somewhere along the line you've already paid.

**Mr Quinlan:** In the first instance, the requirement to put the parking in would be a factor in the value of the land to you anyway. If that obligation comes with it then it probably devalues the land; so you probably haven't paid the full price. You say you're now paying rates on it and you have to pay the tax on it, yes.

**MRS DUNNE:** Irrespective of the first part, you're paying rates on the land and now you're paying an extra levy for parking spaces.

**Mr Quinlan:** Yes, as you do in Sydney and elsewhere.

**MRS DUNNE:** Well, this is not Sydney; this is Canberra.

**Mr Quinlan:** Yes.

**MRS DUNNE:** Can you sleep at night, Treasurer, knowing you have double taxed—

**Mr Quinlan:** Sometimes I can't, actually. But it's not over these issues.

**MRS DUNNE:** There is undoubtedly an element of double taxation. You pay the rates and now you're paying for the parking spaces.

**Mr Quinlan:** Well, if you want to call it that way. If you've got a general rate that is levied on the value of the building, effectively, but it's ostensibly for services, and then you have to pay this particular rate, you do. This is not abnormal.

**MRS DUNNE:** If you owned a drive-in theatre, would you have to pay for parking?

**MRS CROSS:** Not if it belongs to Mr Quinlan.

**MR CORNWELL:** What about the Starline drive-in that's now been converted into housing? Are they going to pay rates on that as well, having already paid for it? You say it's devalued land?

**Mr Quinlan:** I don't get the drift of what you're asking me, Mr Cornwell.



**MS DUNDAS:** Treasurer, you were just saying that the details of the scheme need to be worked out but it won't be applying to shopping centres. Does that mean the carparks owned by QIC here in the CBD and the carparks owned by Westfield and the like will not to be subject to the parking levy?

**THE CHAIR:** Why is that so? Why would you discriminate and let the privately owned carparks off the hook?

**Mr Quinlan:** We see the carparks in the shopping centres as being essential for the thing to operate. Anybody out there listening?

**MS DUNDAS:** I'm listening.

**THE CHAIR:** Yes, I'm listening.

**Mr Quinlan:** I think the point's been made in the public forum about the cost being passed on to the consumer. So for shopping and for shopping centres we took that on board and said "Right, we'll make a judgment there. The judgment is we won't charge it at shopping centres." That affects the viability of the retail trade.

**THE CHAIR:** But what about the viability of a hotel?

**Mr Quinlan:** Well, I don't think the proportions are the same in terms of the viability of the hotel and the—

**MRS CROSS:** Why? It's a business.

**Mr Quinlan:** I don't think that they have a carpark for every room, do they?

**THE CHAIR:** But have you done the work on what the effect will be on a hotel? Does it apply to clubs?

**Mr Quinlan:** This applies elsewhere.

**MRS DUNNE:** The thing is that it applies in Sydney as a traffic congestion alleviation measure; you're not applying it here as a traffic congestion alleviation measure.

**THE CHAIR:** We'll go back to Ms Dundas, who started the line of questioning.

**MS DUNDAS:** I don't think we got an answer to the Chair's question about the work that has been done in the research of this as it applies to the ACT.

**Mr Quinlan:** Can we be just a little bit clear that—for all the questions that are asked about have we done the research—we would never get the budget together if we did that research. There is within it a certain intuition; yes, that comes into it; there's a certain amount of factual data comes into it. But you are wrong if you think that we are going to examine all this to the Nth degree—because no matter how much work would be done, there would be questions still saying, "Have you done more work there or there or there?" This is an initiative, a revenue raiser, that is applied elsewhere. I think it's eminently reasonable for a government to incorporate it into its tax base.

**MRS CROSS:** Well, we should then be applying it to licences for hotels and taverns. They do that in Sydney and Melbourne.

**Mr Quinlan:** Excuse me?

**THE CHAIR:** Treasurer, if you would complete your answer; then Mrs Cross can speak.

**MRS CROSS:** I'm sorry, Treasurer, you're saying that it's done elsewhere. You can't use that principle in this instance and not use it in others. Be consistent at least.

**Mr Quinlan:** As in?

**MRS CROSS:** As in hotels and taverns and licences. I just thought that I'd throw that in there. That's done in Melbourne. And poker machine licences.

**MRS DUNNE:** Are clubs exempt too?

**MRS CROSS:** What's good for the goose.

**Mr Quinlan:** We've said in the budget, if you've read it, that we will work through the final detail and we will consult with people. Now, if someone comes up with a definitive argument that says it's inequitable to charge it to this particular enterprise, they will be excluded. But the objective will not be to start looking for all the people we've put in and say, "That's the philosophy." Now, if there's a good, solid reason for being excluded, that will happen.

**MRS CROSS:** Treasurer, I understand that you can't go to every minute detail.

**Mr Quinlan:** Thank God.

**MRS CROSS:** I'm glad you're religious. Can I say that, because of the leaks that were coming out about this parking levy in this budget before it was officially presented, it did concern a great number of business people in this city—some that own the carparks; some that utilise those carparks; people that run businesses, work for businesses, work in businesses and own them. Given that one of your portfolios is the business portfolio, and one of your responsibilities to Canberra is to look after the interests of business in Canberra, why on earth would you introduce a parking levy that has an adverse effect on business?

**Mr Quinlan:** My responsibilities are not to look after the interests of business.

**MRS CROSS:** So the economy—

**Mr Quinlan:** Wait a minute. My responsibilities are business and economic development. I'm not here to look after the interests of individual business as an objective in itself. If, in fact, it is in the interest of the territory that we do things for business, we do things for business. Most businesses are big enough and ugly enough to look after themselves. I've given this speech to business themselves.

**MRS CROSS:** Yes, I think I've heard a version of it.

**Mr Quinlan:** There's a fine difference between me being responsible to look after business as opposed to me looking after the business of Canberra and making sure that business thrives.

**MRS CROSS:** Well, then let's talk about job creation, jobs, preserving jobs, ensuring the economy continues to grow.

**Mr Quinlan:** I put a press release out today.

**THE CHAIR:** Only 6½ thousand in 19 months.

**Mr Quinlan:** Doing brilliantly.

**MRS CROSS:** Roughly 20,000 small businesses in the ACT.

**THE CHAIR:** No sermons. Question?

**MRS CROSS:** Yes, it's a question.

**THE CHAIR:** Come to your question.

**MRS CROSS:** 20,000 small businesses in the ACT; almost half of them are home based, the rest are not. Those businesses provide at least twice that many jobs, if not more, for young people and mature people. If your job isn't just to look after businesses, isn't part of your role, not only as a member cabinet, as a member of this government, but as a public servant to the people of the ACT, to look after employment, to ensure that you not only preserve the number of people employed but perhaps find opportunities to increase that number? Isn't that part of your responsibility to the community? When you generate a parking levy like the one you're planning to generate, doesn't that adversely affect the community?

**Mr Quinlan:** I don't think it does. The numbers out today indicate, I think, seasonally adjusted unemployment in the ACT is at 3.8 per cent. The participation rate is up. The number of jobs created is in the thousands. I think that all the indicators show that in the course of this government business is thriving and growing.

**MRS CROSS:** But you haven't implemented the levy yet.

**Mr Quinlan:** And that's going to make the difference!

**MRS CROSS:** How do you know it won't?

**Mr Quinlan:** Well really, it's just—

**THE CHAIR:** We need to wrap this up so that we can get to the other units.

**MS DUNDAS:** When will the details be finalised?

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**Mr Quinlan:** As soon as is possible. Soon. That's a Quinlan soon.

**MRS CROSS:** This week?

**Mr Quinlan:** That's a soon.

**THE CHAIR:** Soon—sooner than two weeks; one week, one day?

**Mr Quinlan:** I've said this before in this room, but I'll say it again: it disappoints me to see the focus on "which particular date are you going to meet", when, I think, we—

**MS DUNDAS:** We're all pedants, Mr Quinlan.

**Mr Quinlan:** Well, come on, let's give it a crack.

**MRS CROSS:** Speak for yourself.

**THE CHAIR:** Treasurer, the disappointment comes from the fact that previous committees have asked you questions and "soon" means within 12 hours. So I think it's actually a reasonable question, given your record.

**Mr Quinlan:** They asked me once, but you wouldn't expect that a major government announcement would be given to a committee like this if it was scheduled tomorrow, would you?

**THE CHAIR:** Well, you might consider it.

**Mr Quinlan:** Would you? No, you wouldn't.

**THE CHAIR:** I simply asked the question.

**Mr Quinlan:** Don't be silly.

**THE CHAIR:** We can certainly ask the question, Treasurer.

**MS DUNDAS:** Yes, if it is a major public announcement relating to expenditure that we need to examine.

**Mr Quinlan:** That's just plain silly.

**THE CHAIR:** How many parking spots do you think this will apply to? Have you got an idea of how many parking spots are affected? Do we have a number?

**Mrs Pham:** Yes, we do have the number; but I can't give it to you off the top of my head. From memory, I think it's about 24,000.

**MRS DUNNE:** You're actually looking at charging \$100 a space?

**Mrs Pham:** 16,000, it is.

**Mr Quinlan:** How many? Is there any advance on 16,000?

**Mrs Pham:** Yes, 16,800.

**MRS CROSS:** It's in *Hansard*; we've got you on that one.

**MS DUNDAS:** How do you get \$2.5 million all up?

**MRS DUNNE:** All the others are going to be charged more than a hundred dollars a space.

**THE CHAIR:** Well, for 16,000, it's \$150 a day or more.

**Mrs Pham:** I think there's a large number of carparking spaces, up to 20,000, but I think the government may decide to exclude a number of categories—for example, shopping centres and others—to reduce the number to, maybe, within 15,000. But the numbers are not accurate enough for us at the moment to determine the rate per carpark and also the total revenue. Hence the whole year is there for us to develop and collect the right statistics.

**MS DUNDAS:** Has this money, the \$2.5 million you expect to raise, been included in the table on page 100 of non-ACT government user charges and the parking fees?

**MRS DUNNE:** Well, it has to be in the outyears, surely.

**MS DUNDAS:** Yes, on page 100 of Budget paper 3, the parking fees are referred to in that table.

**MRS DUNNE:** Presumably they are, because it goes up from \$11.7 million to \$13.4 million.

**MS DUNDAS:** No, it's meant to be implemented in 2004.

**THE CHAIR:** It's in 2004-05, at \$2.5 million.

**MS DUNDAS:** There's a \$2 million increase. There's not a big enough increase here, unless you think that parking is going to go down elsewhere.

**Mr Quinlan:** Can we just take refuge in the instructions?

**THE CHAIR:** Take that one on notice?

**Mr Quinlan:** Yes, we will.

**MS DUNDAS:** Minister, you said in answer to Vicki's question that really part of your public transport initiative was the introduction of paid parking in Belconnen, Tuggeranong and Barton. Will any of the revenue raised from these paid parking issues go to support public transport?

**Mr Quinlan:** I think that we've put a fair amount into public transport already; so the answer is effectively yes, although, as you're probably aware, I'm not one for taxation hypothecation.

**MS DUNDAS:** So out of the bottom line there'll be more money for public transport, but it won't be necessarily tied in the way that the parking levy is in New South Wales and Victoria.

**Mr Quinlan:** Well, not if I can avoid it. I'm only one voice in cabinet on many of these things, but I don't really embrace the process of hypothecating taxes to uses because the relationship will diverge obviously from day one onwards—needs versus revenue—and we really should stay contemporary in the tax levels and in your application levels, particularly in your application of resources. If we had this money and all of a sudden we had other real requirements like the road maintenance for these cars to get to those car parks—that's not public transport but—

**MS DUNDAS:** But isn't the idea of putting a levy on the car parks that people will end up catching buses?

**Mr Quinlan:** Yes, but buses also wear out the roads too, don't they?

**MS DUNDAS:** But they're not as many as cars.

**Mr Quinlan:** But they're bigger.

**MS DUNDAS:** So the answer is not if you can help it.

**Mr Quinlan:** As I said, I'm not an advocate of taxation hypothecation.

**Ms Smithies:** Can we just answer the previous question; it's actually in "other taxes" on page 91?

**MS DUNDAS:** So it's not in the table on page 100?

**Ms Smithies:** No, it's in the table on page 91. It's in "other taxes" under the "other taxes".

**THE CHAIR:** Treasurer, I'm going to ask the last question on this; then we're going to move on to 1.4. You didn't rule out clubs. This will apply to clubs? You've said hotels; so I assume hotels and motels. Will it include clubs? Does it include clubs?

**Mr Quinlan:** We'll come back to you on that. I'll have a look and see what I have in my notes.

**MRS DUNNE:** See if the Labor Club has dedicated parking.

**Mr Quinlan:** Yes, that's right. What car parks have they got? They haven't got any.

**MRS DUNNE:** Is there a per-size figure in mind for the tax now, or are you actually going to work out “I’ve got 10,000 spaces and I need \$2.5 million, so I divide 10,000 into \$2.5 million”? Or how’s it going to work?

**Mrs Pham:** We have a number of options to raise the \$2.5 million.

**THE CHAIR:** The answer is the target will be met.

**Mr Quinlan:** Approximately.

**THE CHAIR:** In relation to output class 1.4: Treasurer, the government is still committed to the QA process and prequalification. I’ve had some concerns from builders that projects that are still going out from the ACT government are being awarded to firms that have not prequalified, have not gone through the QA process; and they ask why would they bother.

**Mr Robertson:** There have been concerns expressed by a number of builders who are prequalified for housing as a result of ACT Housing going out to tender for the replacement of dwellings that were lost in the bushfires. That was a decision taken by ACT Housing in consultation with other people in the ACT government. It reflected the sheer volume of work that was happening at that moment—both normal construction activity in the home building sector and the large amount of additional building resulting from the bushfires, with 500 dwellings lost.

There was market impact. They were concerned about replacement costs—that, if they had gone to the prequalified builders, it would have resulted in not getting value for money. So they’ve gone out to tender—and the prequalified builders are still eligible to tender.

I believe the three tenders were won by non-prequalified builders. There is subsequent work which ACT Housing has put out to prequalified builders as conditions have settled down. It’s different sorts of work.

**THE CHAIR:** Are you concerned that that sends the wrong message about prequalification, getting quality assurance—and therefore a quality assured product for the government—and that people will say, “Why should we bother? Let’s not bother with the QA process. Forget it—because the government keeps changing the rules”?

**Mr Quinlan:** We would be concerned. In more normal times, we could be a bit stricter on the process. When we’ve got an unprecedented demand and the market is escalating and people impacted by the bushfires are making up a large slice of that market, we’ve got to balance the process. We can’t say, “We’ll give all the work to those who are prequalified, which means that, in fact, we’ll pay a lot more for it.”

**THE CHAIR:** Do you know for a fact that prequalification has led to higher house prices?

**Mr Quinlan:** John just said that they put out tenders.

**THE CHAIR:** Is there data to back up the fact that prequalification has led to higher house prices?

**Mr Quinlan:** No. The market conditions have led to higher house prices. The market will be exacerbated by the elimination, or disqualification, of a lot of builders. That will change the market, won't it? The market is the level of competition, the number of people in it and the demand required. We have to be sure that prequalified builders are competitive.

**Mr Robertson:** Another factor was the timeliness of responses. We have had a number of tender processes over the past six months, in the broader construction industry, where there have been very few responses. We had stage 2 of the school out at Gungahlin, prior to Christmas, where we had only one respondent. It was fortunate that they tendered a very competitive price, so that the evaluation panel was able to see that it was value for money.

The prequalified builders, as you have alluded to, are very high quality builders and they have good reputations around town. Given the work that was happening, there was a concern that, if we went out to tender, we may not get enough responses. That contributed to the decision to open up more broadly.

**THE CHAIR:** But surely what you want is high quality for ACT Housing tenants?

**Mr Robertson:** I don't think that, in this process, quality has been ignored. The evaluation criteria and things covered the same sorts of elements that would normally be covered by prequalification. If we had had more time and could have sat back for six or 12 months, we could have given more firms the opportunity to prequalify. I realise there is that incentive effect you have alluded to. That's the reason the subsequent works that have come out will go to prequalified firms.

The prequalification system has been in place for a number of years, and there have been improvements. The government brought in some specific occupational health and safety and environmental management system requirements from 1 January this year. We have commenced a review of the prequalification arrangements, to make sure that the coverage of industry sectors, trades and things within the current scheme, is appropriate. For example, one of the trades subject to prequalification, at the moment, is carpet laying.

Carpet laying is one issue that's been raised with us by the Master Builders Association and others, as to whether there's appropriate coverage. You could accept that, with electro-mechanical services and such things, it's appropriate to have prequalification arrangements, but there are others where it's very clear what you're getting. In the case of carpet, for example—I don't want to pre-empt any decisions, but this is one issue that's been raised with us—you can tell if the carpet is touching the walls and there are holes in the middle of it—so you either pay the bill or you don't.

With other services, you need to guarantee that occupational health and safety and other matters are covered. There's been a bit of publicity recently about an unfortunate episode out at the airport. That was one case where none of the businesses involved were prequalified ACT firms. If that was an ACT government project, those firms probably



wouldn't have been doing it. So yes, we can see there are benefits from using prequalified people.

Housing was seeking houses of the general community standard. There were safeguards in the evaluation criteria to make sure quality and other items were adequately covered. Given the market conditions following the bushfires, they went out more broadly.

**MRS DUNNE:** Regarding the prequalification process people have to go through, what are the costs to the firm of becoming prequalified to tender?

**Mr Robertson:** There are virtually no direct costs, at the moment. They've got to fill in application forms. The initial financial assessment is paid for by the territory. There may be a need for follow-up assessments—because they don't meet the hurdles the first time around, or there might be issues about the level of work that they're able to do, given their working capital levels in the firm or asset bases. Subsequent financial assessments are paid for by the individual companies.

**MRS DUNNE:** That's a cost. What does it cost the government to prequalify somebody?

**Mr Robertson:** I forget the exact figure, but the direct cash outlay for the financial assessment is in the order of only a couple of hundred dollars. I can get the exact figure for you.

**MRS DUNNE:** Thank you.

**Mr Robertson:** As for other costs, they are part of the general appropriation. We maintain a database and internal staff resources assess applications. Part of our reforms are to bring the prequalification database on line so it's more broadly available to officers in other agencies in the ACT. Firms can then apply on line, hence reducing the need for them to fill out paperwork and post things to us. We're in the process of doing that.

The real cost of prequalification to firms is hard for us to quantify. They have to do work behind the scenes so that they have appropriate quality systems, and occupational health and safety arrangements or whatever. Some of that's seen as part of the government's broader construction industry policy responsibilities, or industry development.

The firms that have those systems in place tend to benefit. They're better operated, they have a better understanding of their costs, and they don't get themselves into financial difficulties. Since the current prequalification scheme has been in place, we've had no suppliers to the ACT government suffer financial failure with the issues that causes for the territory, the subcontractors and others working for those firms.

**MRS DUNNE:** Prequalification relates mainly to a firm's financial capacity and to other things as well?

**Mr Robertson:** Financial capacity is a key element, and there are levels within prequalification about the scale of work they can bid for. If I were a supplier and came in with only one tractor and one grader, you wouldn't give me the job, and I wouldn't be prequalified to build a large road, or do the Barton Highway work, for example.

**MRS DUNNE:** Gungahlin Drive, perhaps?

**THE CHAIR:** A good straight bat.

**Mr Robertson:** Yes. In respect of the other criteria, it's important that they have adequate staff resources. If someone wants to be prequalified as an architectural consultant, then they need to have architects on board and appropriate OH&S and environmental management systems in place, as I've mentioned. So the financial side is one aspect, but one of a range.

**MRS DUNNE:** But it depends what you're prequalifying for.

**Mr Robertson:** Depending on technical skills. If you want to be a civil engineer, you've got to have civil engineers on board.

**Mr Harris:** I think it's fair to say that most of these companies would have to do this for other reasons, not just prequalification within the ACT.

**MRS DUNNE:** How many building firms are prequalified, say, to tender for housing jobs?

**Mr Robertson:** I'd need to check that. It's only a small number—I think it's three, at the moment.

**MRS DUNNE:** Could you check and get back to us on that?

**Mr Robertson:** Yes. Overall, across a lot of specialities, in the order of 130 or 140 firms are prequalified for different categories of work, but the housing one is relatively narrow.

**MRS DUNNE:** Because it appears that the housing one is relatively narrow, does this mean you'll abandon the system or we should be encouraging more people to prequalify?

**Mr Robertson:** To become prequalified or not is a business decision for the individual firm. They'll look at the volume of work that's out there.

In the case of the prequalified work for ACT Housing, ACT Housing builds a relatively small number of new houses in any year. Firms will look at where most of their work comes from. If it's greenfields developments for the private sector, they may decide that ACT work is not something for them.

**MRS DUNNE:** How long does it take to become prequalified?

**Mr Robertson:** It depends on the existing state of the firm. We have an internal debate at times, as to whether firms could get themselves prequalified in a matter of a couple of weeks, if they saw a tender that was advertised and wanted to be prequalified. It's often the firms getting their own in-house information in place that takes the time. The financial assessment we could probably get done in less than a week. Some of the other processes don't take long, but it depends on the individual firm.

**MRS DUNNE:** In this process, when we went out to tender in April for the government houses, after the fires in January, did it occur to anyone, between those two dates, that: we're going to have to build a swag of houses. Perhaps we should get some more people prequalified?

Was there a signal to the market that they needed some prequalifications? The point goes back. We've come to the point where we've got three people who are prequalified. As it turned out, all of those people missed out on tenders to people who hadn't gone through the process. Wouldn't it have been better—seeing that three months had elapsed between January and when they went out to tender—to have done something about prequalifying people?

**Mr Robertson:** I could be flippant and say that everybody noticed that ACT Housing properties were lost and therefore the opportunity for people to become prequalified was there, but we're always out there advertising the merits of prequalification. We have fairly regular procurement forums, where we extol the virtues of this. We get a wide cross-section from local industry coming to those forums. We advertise a lot of jobs, the great majority of which are for prequalified people, across the whole range of disciplines for which we advertise tenders.

Hindsight is nice, but most of the effort after the fires was really put into specifying what had been lost, so that we knew what needed to go out for tender to be replaced. We were working with a whole lot of other agencies to replace the fire-damaged assets.

**MRS DUNNE:** But it will make it difficult in the future to extol the virtues of prequalification.

**Mr Robertson:** The next housing jobs that are going out are all for prequalified builders. So people will see that the bushfires were at a particular point in time, as the Treasurer's pointed out.

**THE CHAIR:** We might finish there and move onto the Central Finance Unit. Treasurer, I notice from the budget papers that the target for debt at 30 June 2003 was meant to be \$782 million. This year's Budget Paper 3, on page 182, says the estimated debt at 30 June will actually be \$821 million. What comprises that extra \$40 million of debt?

**Mr Quinlan:** What page are you on?

**THE CHAIR:** Page 182 of Budget Paper 3 in this year's budget pack. It says that the estimated debt at 30 June 2003 is now \$821 million.

In Budget paper 3, also on page 182, in Budget Paper 3 for the year 2002-2003—last year—the expected debt at 30 June was \$782 million. It seems to be \$40 million higher than expected. Is there a reason for that?

**Mr Quinlan:** So we expected \$821 at June 2003.

**Ms Smithies:** You're talking about the budget papers for the previous year?

**THE CHAIR:** In 2002-2003, in Budget Paper 3, oddly enough on page 182—the same page—it says the estimated debt at 30 June 2003 would be \$782 million. You're opening next year's with an estimated debt of \$821 million, which is \$39 million higher. I'm wondering why that would be.

**Mr Quinlan:** You haven't got the table there as well, have you?

**THE CHAIR:** Yes.

**Mr Quinlan:** Perhaps we can see which one it's in.

**THE CHAIR:** Your outcome for the year is basically \$40 million higher.

**Mr Quinlan:** It's the property group—whatever that is.

**Ms Smithies:** It's the two securitisations we have over the Magistrates Court and the Dame Patty Menzies building. Last year we wouldn't have included those in the line item. The accounting standard for borrowings didn't include those particular transactions, whereas I believe those major transactions are now included.

**THE CHAIR:** Could you check and confirm that?

**Ms Smithies:** Yes.

**THE CHAIR:** If the debt this year does open at \$821 million and you're going to bring it down to \$803 million, how will you achieve that—just by dedicating extra finances to it?

**Mr Quinlan:** Housing goes down; Actew pays off some of theirs; indexed annual bonds—and Actew again reduces.

**Ms Smithies:** It's just the normal repayments.

**Mr Quinlan:** That is their repayment cycles.

**MRS CROSS:** I refer to BP 4, page 90—the first paragraph under notes to the budget statements, Treasurer, to help you out. I found this rather intriguing. It says that it was determined that previously the CFU was possibly not fully compliant with the FMA in relation to the Territory Banking Account.

There is no such thing as possibly not compliant. I find that bureaucratic jargon for: "Someone has broken the law." Can you tell me why that's there?

**Mr Quinlan:** I think it's pretty well a lift-out of the Auditor-General's report. Get up the Auditor-General, if you want to get up someone over the language.

**MRS CROSS:** What's it about? Who broke the law? Who was possibly not compliant? You're either compliant or you're not—right?

**MS MacDONALD:** Not if you go to a lot of lawyers!

**Mr Quinlan:** No. That's why we have courts, civil actions, lots of judges and all that sort of thing. They wrestle with these issues.

**MRS CROSS:** I'm new at this—you've been here a lot longer than me but, when I looked at that, I thought, "It's either legal or illegal. You're either compliant or you're not."

**MS MacDONALD:** Not if you go to a lot of lawyers, Mrs Cross.

**MRS CROSS:** That is true, Ms MacDonald.

**THE CHAIR:** Excuse me. Please speak through the chair. Let the officials answer, please.

**Mr Harris:** That is the point. Nobody could determine, from the way the legislation was written, whether we were compliant or not. The legislation has been changed to clarify that matter. It was a matter of judgment as to whether we were compliant or not. When you tested it against the legislation, you couldn't interpret whether we were or whether we weren't. To take any doubt out of the issue, the legislation has been amended.

**Mr Quinlan:** But it was only ever a matter of process, wasn't it? It was never a matter that money was spent that shouldn't have been?

**THE CHAIR:** Mr Quinlan, can I remind you of Bruce Stadium, which was also only ever a matter of process?

**Mr Quinlan:** No.

**THE CHAIR:** If it was only ever a matter of a process, and it was by your own judgment that the Chief Minister, who was in charge of the process, had to go, will you resign over this apparent failure, and breach of the FMA?

**Mr Quinlan:** The Auditor-General gave you the benefit of his opinion at a previous hearing, Mr Chair. I think he almost said, "Don't be ridiculous"—when you tried to draw the comparison that you have tried to draw again.

**THE CHAIR:** I am sure he did not say that, Mr Quinlan.

**MRS CROSS:** Can I come back to my question?

**MS MacDONALD:** For the benefit of Mrs Cross who wasn't there, I think the Auditor-General, at that point, was asked a question about a comparison between the Treasurer's Advance and the Bruce Stadium affair, and he said there was no comparison.

**THE CHAIR:** Yes, he did. He was talking about the process of the CFU and the FMA, which is a totally different process.

**MRS CROSS:** Perhaps I can clarify that. Treasurer, I wasn't making a comparison or inferring that your situation is the same as anyone else's. I was asking about the use of

the language in this budget paper. I am concerned that that is in there, because it is in your budget estimates.

I suppose that, when someone as new as me to estimates looks at something that says “was possibly not fully compliant” not knowing the history of this place as much as everyone else at this table, it concerns me. As the Under Treasurer has said, this has been clarified because the process was not clear. Is that right, Under Treasurer?

**Mr Harris:** About halfway down that paragraph, it says:

The FMA is ambiguous regarding the use of a departmental banking account by CFU.

**MRS CROSS:** Has that ambiguity existed for some time?

**Mr Harris:** Yes.

**Mr Quinlan:** It has been identified only recently, though.

**MRS CROSS:** If that ambiguity has existed for some time, is it possible that, in the past, other similar situations could also have been compliant in a non-compliant type of way?

**Mr Quinlan:** That’s certainly the case. If you like to look at the Auditor-General’s report of the previous year, which reflects upon the past Liberal government, he uses similar language in respect of possible non-compliance.

**MRS CROSS:** There’s a possibility, then, that both situations could have been not fully compliant, and yet compliant, in the way they were conducted. Because the ambiguity existed in the legislation, it was unclear.

**Mr Quinlan:** If there’s a presumption of innocence in all of this, then everybody’s innocent.

**THE CHAIR:** Treasurer, is the Central Finance Unit, which utilises a finance and investment advisory board, the same board that advises the superannuation provision account?

**Mr Harris:** Yes.

**THE CHAIR:** Do they have the skills to deal with two totally different areas of finance?

**Mr Harris:** They’re not different areas of finance. They’re different funds, but the allocation of investment strategy is essentially the same. As the Treasurer rightly points out, there are some shorter-term elements attached to investing this cash.

**Mr Quinlan:** And the performance has turned out to be a lot better.

**THE CHAIR:** This is the area we referred to earlier, where all the changes of appropriation have now gone into class 1.1—they’ve come out of the Central Finance Unit. That is why some of the expenditure is lower?

**Mr Harris:** Yes.

**THE CHAIR:** In the Central Finance Unit's home loan portfolio, the number of loans being managed drops dramatically. The figure went from 871 to 905 this year as the estimated outcome, but drops to 735 loans in the coming year. Is that just finalisation of loans?

**Mr Harris:** And some refinancing by people—other forms of finance.

**THE CHAIR:** Out of the government's home loan portfolio?

**Mr Quinlan:** Yes, they buy out of it.

**MS DUNDAS:** I notice that it increased to 905 this year, from a target of 871. It is my understanding that the scheme stopped giving out new loans in 1996. So how did the number increase?

**Mr Harris:** You're right, the scheme has stopped. I don't know the answer to that question.

**MS DUNDAS:** Does anybody know the answer to that question?

**Mr Quinlan:** Not off the tops of our heads. I don't.

**Mrs Pham:** Sorry, could you ask the question again?

**MS DUNDAS:** How is it possible that the number of home loans increased from 871, as a target to an estimated outcome of 905, considering that the scheme stopped giving out new loans in 1996? That is on page 105.

**Mrs Pham:** I think it is an estimated target, based on our anticipated rate of payout. We looked at the past and said that, provided they continue this rate of payout, the number remaining in the portfolio would be such and such. However, there are many reasons why certain patterns of payout may change during the year, and hence the outcome will be different.

**MS DUNDAS:** You estimated that there would be a certain number of people finishing their loans?

**Mrs Pham:** That's right.

**MS DUNDAS:** That didn't happen.

**Mrs Pham:** Yes.

**MS DUNDAS:** Why are you predicting that even more people will complete their loans, when less than predicted finished their loans last year?

**Mr Harris:** It happened, but not at the rate we predicted it would happen.

**MS DUNDAS:** But you're now expecting the rate to pick up—to go from 905 down to 735.

**Mr Quinlan:** What was the number before that?

**MRS CROSS:** It was 871.

**Mr Quinlan:** No, that's only a target. We need the number before that—for the year before.

**Mrs Pham:** I think the reason is the movement in interest rates. For the year 2003-2004 we anticipate lower numbers—a lower target—because interest rates continue to be low. It makes it more favourable for people to make repayments and get out of this portfolio. We make that assumption based on interest rate movements, patterns of payment, the type of home loans still retained in the portfolio and the risk with these loans. It varies from year to year. It's not going one way up or one way down, depending on the assumptions we have made.

**MS DUNDAS:** I refer to the question Ms Tucker was trying to ask earlier in this area. She's not here, so I'll see if I can get it right. There are a whole lot of accumulated funds as part of the home loan portfolio. That continues to increase into the outyears, as does the equity of the unit. What is that money doing? What are the benefits?

**Mrs Pham:** What I meant was that, people pay out or refinance their mortgages, they pay that cash to the portfolio. We build up the equity in the portfolio because the cash received out of the loans has either expired or they have refinanced.

The question is whether or not, when they repay their loans earlier than the schedule, we should use that money and repay our Commonwealth debt earlier than intended. In this case, we keep the equity in the portfolio because the loan arrangements with the Commonwealth have quite a low interest rates. It's not beneficial for us to make early repayment of the Commonwealth loan. Hence the equity builds up.

**Mr Harris:** We invest it at a higher rate than the rate of interest the Commonwealth charges us.

**Mr Quinlan:** You do a bit of banking.

**MS DUNDAS:** You're holding onto the cash—keeping the equity—but eventually all the home loans will be paid back to the ACT. All that money will then pass onto the federal government to pay off the debt?

**Mr Quinlan:** Not all of it, no. We are in the process of examination, to identify if there are some of these funds which can be freed-up and applied to public housing. It's a jointly financed activity and the Commonwealth is entitled to their repayment. There's a term on the Commonwealth funds.

**Mrs Pham:** It is 40 yrs.



**Mr Quinlan:** It is to 2040.

**MS DUNDAS:** By 2040, we expect all the money to have gone back to the feds?

**Mr Harris:** Yes.

**Mr Quinlan:** Yes, if not before. At this stage, the rate is so good on the contract that we're mad if we don't keep it and earn a better rate ourselves.

**MS DUNDAS:** You're thinking of moving that equity into public housing?

**Mr Quinlan:** Some of it can be, yes. We've got to be careful. We lose money on this as well, because people default. We are examining, in conjunction with Bill Wood's portfolio, what we might free-up, in a responsible manner, to use for better social purposes.

**MS DUNDAS:** Do you have any idea of the figures for that?

**Mr Harris:** It depends very much on the level of default we are likely to get in the future. The reason I say that is that people who are refinancing out of this program can afford to do so. So our percentage of potential defaulting loans, as a percentage of the total loans, is increasing. We will need provision for that, to make sure that we keep enough equity in the portfolio to repay the Commonwealth loans as they come due.

We're working our way through that process at the present time, to determine two things. The first is how much of this equity is the territory's as opposed to the Commonwealth's and, of that percentage, how much we can effectively take out of this fund and use for other purposes without compromising this fund.

**MS DUNDAS:** I know you don't like these questions, Treasurer, but is there a timeframe on those discussions?

**THE CHAIR:** Don't say, "Soon".

**Mr Quinlan:** Soon.

**MRS CROSS:** Twelve hours?

**MS DUNDAS:** Will we see it in the next budget, or will we see it before then?

**Mr Quinlan:** We could see it before then, yes.

**MS DUNDAS:** But you don't know when?

**Mr Quinlan:** No, I don't know.

**Mr Harris:** There are a range of accounting issues we have to deal with as well, bearing in mind that this currently sits within the Treasury portfolio. If we move the money across to Housing, we have impacts on the bottom line. We need to be certain that we have the right authorities and the right legislative backing to be able to take money out of

the fund and use it for other purposes. With those issues, we need to work our way through, as well as simply determining how much money might be available.

**MRS CROSS:** Under “Cost”, the information on 105 (f) “Administrative costs per home loan managed as budgeted” is \$6,186, with an expected outcome this year of \$5,969. Why then would you expect, the following year, to see increased costs of \$6,916, unless it’s empire building?

**Mr Harris:** As I mentioned before, as people refinance out of this, the good performing loans are going away and we are left with a higher percentage of poorly performing loans. There is a higher cost in administering poorly performing loans than good performing loans.

**THE CHAIR:** Is that cost taken into the negotiations with the Commonwealth, so that we at least cover our costs of managing these loans? Are we running the portfolio at a profit, or are we making a loss?

**Mr Quinlan:** Yes.

**MRS CROSS:** Are you making allowances for the assumption that there will be poorly performing loans, Mr Harris?

**Mr Harris:** Sorry?

**Mr Quinlan:** There’s more interaction needed between the administration and the client, if they’re not paying their loan.

**Mr Harris:** Plus—the fixed costs within the portfolio are spread over a smaller number of loans. It becomes more expensive to operate as the number of loans declines.

**MRS DUNNE:** It seems to me—just by comparison with one’s own home loan—that that’s a very high per loan administration cost.

**Mr Harris:** Well, it is. Subsidised loans are more expensive to administer. This is a jointly funded program between the Commonwealth and the territory under the Commonwealth-State Housing Agreement.

**MRS DUNNE:** Why is it more expensive to administer a subsidised loan?

**Mr Harris:** There are higher compliance costs, higher auditing costs and higher reporting costs to both the territory and the Commonwealth. We have something like 45-year loan cycles.

**Ms Smithies:** The majority of it’s the borrowing cost, isn’t it? I am sorry. I’m just looking at the financial statements.

**THE CHAIR:** Ms Smithies, is the majority of it just the borrowing cost?

**Ms Smithies:** Yes—that's what it looks like to me. Looking at the breakdown of expenses, there is a figure of \$132,000 there. That is one or two employees, which is fairly flat—with super. The cost of supplies and services, I understand, is the bit we have contracted out, or we're finalising at the end of 2002-2003.

**MRS CROSS:** On page 99 of BP 4, it says:

Section 31 of the *Financial Management Act 1996* (FMA) advises that Chief Executives are responsible for achievement of financial results. For the purpose of Section 31 of the FMA, key budgeted results are specified in the Budget Papers to improve accountability.

Minister, can we be sure that the FMA has not been broken in this regard, as well as the matter we covered earlier, with regard to the Central Financing Unit?

**Mr Quinlan:** You can be assured that officers have made every effort to comply with the Financial Management Act. As far as I am aware, to date there has been no identified possible—or even remotely possible—breach.

**THE CHAIR:** We will move onto InTACT, please. Thank you, Michael, for joining us. Measures (e) and (f) on page 116 identify that the number of occasions of IT and communications services provided by InTACT was set at 91,000 this year and that they made a target of 93,000—well done. That measure's now been deleted and a new measure put in place, called the number of calls recorded by the InTACT Help Desk, for which we have a measure of only 67,000. Is this a case of less service?

**Mr Vanderheide:** Not at all. It's more of a case of reporting on what we can measure in an objective fashion. The measure we deleted was a combination of help desk contacts, as well as other contacts within InTACT. When I reviewed all the measures for this output, I asked that we focus on the ones we could verify in a completely objective way. As we can completely objectively verify the number of calls the help desk receives, that's what we've changed the measure to.

**THE CHAIR:** So we couldn't previously verify the non-call element?

**Mr Vanderheide:** Yes, we can, but not with the same degree of certainty.

**THE CHAIR:** Why has the average cost of help desk services provided gone from target, at an outcome of \$14, to \$22?

**Mr Vanderheide:** There are two reasons for that. The first is that the help desk is a fairly labour intensive part of the organisation. The EBA increase has contributed to the increased cost of help desk calls. In addition to that, we're in a position where we need to upgrade our help desk software. Finance for that upgrade has been allocated to the help desk costs as well.

**MRS CROSS:** We'll start with InTACT and TransACT. Is InTACT working to ensure that TransACT is able to be competitive for any bids that may arise with the ACT government? If not, why not? Wouldn't it make sense for InTACT to ensure that the

ACT government's investment in TransACT was secured, by ensuring it could compete on a level footing with major companies such as Telstra?

**Mr Quinlan:** I'll allow Michael to answer some of this in respect of process, but we are clearly required to conduct competitive tendering for services. I feel we've done pretty well all we can to facilitate the opportunity for TransACT to compete.

**MRS CROSS:** Like what?

**Mr Vanderheide:** We have a major tender out, at the moment, for our telecommunications services, to the value of about \$70 million over the next five years. The request for proposal put out for that tender was circulated widely within industry on two occasions prior to the tender going out, to give all players the opportunity to provide input to us. That was to ensure that the tender we were writing was going to be something they could respond to.

TransACT took the opportunity to provide feedback on that request for proposal. We are currently assessing the responses to that. TransACT is a player in a number of the responses we're currently assessing.

**Mr Harris:** It is not possible, though, for us to give TransACT beneficial treatment. They are a commercial entity.

**MRS CROSS:** I understand that, but the government has money invested in TransACT. It interests me to see what the government does, in order to help its sponsored company.

**Mr Quinlan:** As Mr Harris pointed out, we can't give it favourable treatment, even if we have an investment in it. We'd certainly like to think that the taxpayers' investment in TransACT is not lost and in fact can be parleyed into something of a windfall in the longer term, but we can't give it favourable treatment.

Remember that, as a function of a number of transactions, by the time we came to government, we had a 24 per cent interest in TransACT. Coincidentally, that is 1 per cent off having any real say in what happens to that company. That should never have been allowed to happen, but it did.

**MRS CROSS:** Treasurer, on page 108, there's a recorded deficit of \$4.2 million. Is InTACT adequately funded to supply the types of services required by the government and the people of the ACT? Considering that there is the \$4.2 million deficit, do you, Minister, have confidence in the ability of the department to manage its finances?

**Mr Quinlan:** Yes, I do. However, you have to look upon this. In large part, InTACT is an internal service to the agencies within the territory government. As such, there's a fair degree of bookkeeping involved, when it comes to cost recovery, trying to allocate it across agencies and negotiate with agencies for levels of service. Michael might give you further detail.

**Mr Vanderheide:** The deficit is equivalent to our depreciation for the year which we aren't funded for and which we don't bill agencies for.

**Mr Harris:** It is the same as line agencies. It's the same as the question you asked on Treasury's deficit. It's the non-cash depreciation.

**MRS DUNNE:** I have a technical question on that. As Mr Harris said this morning, I know you're not funded for depreciation, but why don't you bill the line agencies for depreciation?

**Mr Vanderheide:** That one I don't have an answer to—I'm sorry.

**Mr Quinlan:** First of all, can you qualify the fact that the deficit is about \$4 million and the depreciation bill is \$22 million. So it's only part of the materials they use that are not on-charged.

**MRS DUNNE:** Why aren't line agencies billed for depreciation?

**Ms Smithies:** By and large, a lot of the capital that depreciation relates to is funded through the government budget process. So you don't want to double-fund.

**MS MacDONALD:** On page 107, under the highlights, you've talked about improving the service level agreement charging and billing arrangements. Can you tell me how you're going to be doing that?

**Mr Vanderheide:** We're presently working on getting together a working party with InTACT, with customer representation, to basically take a greenfield approach, to some extent, to how InTACT's charges are set. We've had a pricing group operating for about six months, to come up with what we expect will be a relatively transparent pricing model for our agencies, for the services we offer.

I'm new to the role of general manager. I've been in the job for only two months so I'm taking the opportunity to ask, "What do we gain by charging agencies for our services? Is there a way we can have the benefits of charging agencies through a more simplified charging system than we have at the moment?" And, "How can we do that in a way that's transparent enough that the agencies have the power to make choices over the IT services they consume?"

**MS DUNDAS:** From looking at page 115, there are about \$2 million worth of projects deferred or rolled over. From the looks of last year's budget paper, it is a majority of the new initiatives that were set in 2002-2003 for InTACT. What happened?

**Mr Vanderheide:** What happened in terms of those being rolled over?

**MS DUNDAS:** All these projects being deferred—that is over half the work that was set as new initiatives in last year's budget. What was going on in InTACT, such that these projects weren't completed?

**Mr Vanderheide:** There were a number of things going on within InTACT. I hesitate to say bushfires, since people have mentioned those before. But they certainly interrupted the general flow of work for a period of time. There were delays in some of the tasks associated with the projects for which these initiatives were provided funding.

**MS DUNDAS:** The hospital project?

**Mr Vanderheide:** No, the hospital project is underway at the moment—the LAN replacement project for TCH. The rollover of the voice technology upgrade, for example—the process I talked about earlier in respect of a request for proposal for telecommunications services—has taken longer than we thought it would. That was, in fact, delayed by the bushfires. The initiative associated with that has also been delayed.

**MS DUNDAS:** And the rest? The lease server replacement program, the LAN equipment replacement, the asset management system and the security initiative. The lease server replacement program appears to have been deferred indefinitely.

**Mr Vanderheide:** With the lease server replacement program, the negative \$367,000 is funding we're returning to government because we're undertaking that project within existing funds. We didn't need the money.

**MRS CROSS:** Mr Vanderheide, you will need to speak up, I'm having difficulty hearing you.

**Mr Vanderheide:** I'm sorry, Mrs Cross.

**MS DUNDAS:** So the \$367,000 that was allocated not just for 2002-2003 but for the next four outyears, in the last budget, has all been given back to government?

**Mr Vanderheide:** Yes.

**MS DUNDAS:** We're not going to see the server replaced?

**Mr Vanderheide:** The server replacement program is taking place within existing InTACT funding.

**MS DUNDAS:** That money, over the outyears, has simply gone back into the bottom line?

**Mr Vanderheide:** I presume so.

**MS DUNDAS:** Why?

**THE CHAIR:** What services have you cut, therefore, if you're using money to replace your servers? What other projects have gone by the by?

**Mr Vanderheide:** We haven't cut services. We receive funding every year, as part of the service level agreement funding we get for the charges on PCs to undertake what would be ongoing work to maintain the infrastructure we have. That's the funding we've used for that project.

**MS DUNDAS:** Why was that decision made—considering that, last year, Cabinet decided that this was a priority that deserved funding into the outyears?

**Mr Harris:** It has funding in the outyears, within existing resources.

**MS DUNDAS:** But it is now being met within the resources?

**Mr Harris:** We didn't need this additional money in order to do the project.

**MS DUNDAS:** It took you 12 months to figure that out, from when it was a new and exciting public service capacity initiative, to now, when it's just being met within InTACT's resources?

**Mr Harris:** It took me two months.

**MS DUNDAS:** As we've seen, that has a higher deficit this year than it did last year, or in the projected outyears.

**Mr Harris:** The deficit comes from unfunded depreciation, not from operational activities.

**MS DUNDAS:** I was looking at the operating result. The deficit this year is \$4 million. It was \$1.6 million last year and it's meant to be \$1.3 million next year. Why was the decision made that a priority that needed extra funding could continue without the extra funding? That is my point.

**Mr Harris:** Because the entity has sufficient resources to do that project without calling on that piece of funding.

**MS DUNDAS:** Were they asked to do it within internal resources, or was it something they discovered while looking at the books?

**Mr Harris:** When I reviewed the books of InTACT, after I took up my appointment, I came to the conclusion that there was sufficient money within InTACT to do that project without recourse to this extra money. When I asked the question, "Can we do it without this money?"—the answer I was given was, "Yes."

**MRS DUNNE:** Does that mean there are hollow logs in InTACT that you managed to find?

**Mr Harris:** No—I don't believe so.

**Mr Vanderheide:** No.

**MRS DUNNE:** Last year there was money put in the budget for a specific purpose. You're now saying, "We can take it out of this year and the outyears, although we put it in last year, because there are enough resources within the operation of InTACT to do this without the extra funding."

**Mr Harris:** I understand the question.

**MRS DUNNE:** So where were the hollow logs before?

**Mr Harris:** They are not hollow logs. Many projects, capital and other, have estimates put against them. In most cases, the estimates are insufficient to deliver the project. In this case, the estimate provided was overly generous in delivering the outcome.

**MRS DUNNE:** But it was 100 per cent overly generous. You're still delivering the service, aren't you, Mr Vanderheide?

**Mr Vanderheide:** Absolutely.

**Mr Harris:** Yes.

**MRS DUNNE:** Where are you getting the money from?

**Mr Harris:** From existing resources within InTACT.

**MRS DUNNE:** How much money is it?

**Mr Harris:** It is \$367,000.

**MRS DUNNE:** You said the allocation was overly generous. You're saying it's still going to cost \$360,000 but you're not using the allocation that was given to it?

**Mr Harris:** That's right.

**MRS DUNNE:** You're taking that away and you're saying to InTACT, "You have enough resources to do this special project within your current resources"?

**Mr Harris:** That's correct.

**MRS DUNNE:** That means that InTACT was overfunded, somewhere along the line.

**Mr Vanderheide:** No. The InTACT infrastructure is, as you would understand, very complex. We are funded to maintain that infrastructure. In the course of a year, there are opportunities to defer some maintenance, there are opportunities to reduce the cost of some maintenance, and some maintenance costs more than we would expect it to cost. We found that we could fund the maintenance of these servers within existing resources without drawing on any new funding.

**MS DUNDAS:** This is a replacement program, not an upgrade program, so it's completely new equipment.

**Mr Vanderheide:** It is leased so, in a sense, it's an upgrade program.

**Mr Harris:** Had I not identified the saving and returned it to government, then you could accuse me of having a hollow log.

**THE CHAIR:** Did you have two hollow logs? Not only did you get the money for the project, but you already had the money for the project.

**Mr Harris:** Not that I have discovered yet, Mr Chair.



**THE CHAIR:** It is not a criticism.

**MRS DUNNE:** I'm not criticising you, Mr Harris, for finding the money, but I'm trying to get to the nub of it. What is the financing structure of InTACT that would allow an organisation of that size to have that much slack in its budget?

**Mr Harris:** I don't think it's a case of slackness.

**MRS DUNNE:** You're funding a whole project.

**MS DUNDAS:** There were two.

**MRS DUNNE:** I am sorry. There were two whole projects for which there were specific allocations in last year's budget.

**Mr Harris:** They were overestimated allocations, in my view.

**MRS DUNNE:** But Mr Vanderheide said they weren't overestimated.

**MS DUNDAS:** He said it is going to cost the same.

**MRS DUNNE:** It's going to cost \$360,000 to deliver it.

**Mr Harris:** No, I'm saying the total allocation provided to InTACT last year was overestimated.

**MRS DUNNE:** By the exact amount of these two projects, essentially.

**Mr Harris:** Maybe more.

**MS DUNDAS:** So the lease server replacement program, which would be an upgrade, replacement and rationalisation of major services on the whole-of-government infrastructure, can be met within the existing InTACT budget. The upgrade, replacement and rationalisation of other application servers and stand-alone servers, which was budgeted for at \$340,000 for four outyears, can also be met. Hence, we're looking at \$700,000 that was just sitting around in InTACT?

**Mr Vanderheide:** No. The \$340,000 is part of our desktop charge. It's part of the pricing work we're doing towards making our costing model, or our pricing model, relatively transparent.

**MS DUNDAS:** So you're giving back the \$340,000 for the other applications, but recouping it through the charges you are making to departments?

**Mr Vanderheide:** Yes—through desktops.

**MRS DUNNE:** Mr Chairman, on this subject, perhaps I could ask InTACT to provide on notice some analysis of what has happened with the funding. We seem to be batting the figures around, here. We really need to know what the funding was like in last year's

budget, and perhaps the year before, to find out where this slack was coming from. Would it help to answer your questions if we took some stuff on notice?

**Ms Dundas:** I have one last question. The lease and asset management system initiative has also been deferred. I guess this initiative would help manage the other two initiatives that have been deferred. What happened to that project?

**Mr Vanderheide:** It's not been deferred—it's underway. Well, it has been deferred, in a sense. Some of the cost has been deferred, but it's underway at the moment. We just haven't spent all that we need to spend.

There's a system being developed called ATLAS, which stands for Asset Tracking and Lease Administration System. That system is being developed now. It's not finished yet. We've rolled the remainder of the money we haven't spent for that project into next year, and that work will continue.

**MS DUNDAS:** Do you expect to complete all of the projects you've been set this year and expend the money as the government has asked you to?

**Mr Vanderheide:** That's my expectation—yes.

**Mr Quinlan:** Mr Chairman, I hate to do my man in but perhaps I can inform you that, as an aside, he leant over and said, "Why aren't I getting points for good management?"

**THE CHAIR:** Thank you, Treasurer.

**MRS DUNNE:** Congratulations, Mr Harris, on finding the hollow log!

**Mr Quinlan:** I feel that is worth recording. We were talking about something like 0.5 of a per cent of the turnover of InTACT in one of those projects. It's simply a matter of perspective.

**MS MacDONALD:** One project would be okay, but six or seven?

**THE CHAIR:** Members, the Treasurer has to leave at 5 o'clock, so we need to either hurry up or not get to ask questions of some of the remaining units. Mrs Cross has a few questions for InTACT.

**MRS CROSS:** My questions are related specifically to the tender process. I'm going to have a succession of questions which relate to the same issue. Specifications of the portable computer in the InTACT tender required the provision of a port replicator. The notebook, as currently supplied, does not support full port replicator functionality. Technically, whilst the equipment complies with the tender specifications, in that a port replicator has been provided, the intent of the specification calling for a port replicator has not been adequately met.

**Mr Vanderheide:** What's the question?

**MRS CROSS:** The question is that I've had a number of service providers that tendered for this who had the solution of not only providing a port replicator with full functionality but also providing a superior product. This hasn't come from only one service provider, it's come from a number of them. Their concern is that you have paid for a product that is inferior—one that is not providing you with the full outcome. This goes back to the initial theme of these estimates, of input and output.

**Mr Vanderheide:** Richard, could you answer that?

**Mr Hart:** I assume everyone knows what a port replicator is.

**Mr Quinlan:** I have no idea.

**MRS CROSS:** I can tell you.

**Mr Quinlan:** On what page of the budgets are they?

**MRS CROSS:** I'll give them the lay term. The purpose of a port replicator is to serve as an ergonomic productivity convenience device and minimise wear and tear on a mobile computer.

**THE CHAIR:** Richard, do you want to explain that?

**Mr Quinlan:** Why haven't we got one of those?

**Mr Hart:** In technical terms, a port replicator allows you to keep things like a large screen, a keyboard and a mouse plugged into your desk when you pick your laptop up and take it away, rather than unplugging the screen, the mouse, and anything else, from the laptop and carting them off.

**MRS DUNNE:** It's a docking station.

**Mr Hart:** Yes. Therein, Mrs Dunne, lies part of the problem—in that each of these terms has as many meanings as there are players in the industry. One player will tell you that their is better than everyone else's port replicator because it does this, this and that.

**Mr Quinlan:** It's the only real port replicator.

**Mr Hart:** The one true port replicator, Minister. The port replicator that came with the selected device met the requirements of the tender specification; it fulfils all of the technical requirements and is, in fact, working successfully on the desks of a number of people right now, including mine.

**MRS CROSS:** Following on from that, relating to the same tender, why has InTACT entered into an exclusive three-year contract-based arrangement on a supply of prescriptive pieces of IT equipment, when they should be looking at providing equipment, regardless of the supplier/vendor, that will meet the business needs of the ACT government and move into the future—from whichever vendor?

**Mr Hart:** The contracts are the result of an extensive process, which went over a period of about nine months. That process involved several rounds of consultation with industry, to ensure that the proposed approach was appropriate. The view of industry—and certainly supported by the number of tender responses we received—was that the proposed tender was appropriate.

In respect of upgrade and replacement of equipment, there are explicit clauses included in the contract to cover periodic reviews—at three, six or 12 months. There are certain cycles at which various elements are reviewed. The tender documents foreshadowed that. The contracts that are in place provide for a periodic review of a range of things such as pricing and specifications.

**MRS CROSS:** Are you able to withdraw from that contract if this vendor fails in meeting your objectives? Is that in the contract? Are you able to withdraw?

**Mr Hart:** As in all proper contracts, there's a dispute resolution process which provides the parameters for exit from the contract.

**MRS CROSS:** If the supplier fails to perform, would you be prepared to go into that? Would you be prepared to let them go and face the conflict resolution, or whatever it is, or would you see it through, because you'd find that dealing with the conflict would be too difficult—as we have seen in instances like this in the past?

**Mr Quinlan:** Mr Chairman, are we referring to a specific problem?

**MRS CROSS:** I've indicated that I've had a number of complaints from the industry.

**Mr Quinlan:** Yes, but maybe this is not the forum in which to be trying to ask questions in a hypothetical way. We might get down to specifics, if you've got some real problems.

**MRS CROSS:** The next specific question, Minister.

**THE CHAIR:** How many more questions have you got?

**MRS CROSS:** Two. This is all relating to the same tender process. It goes to accountability, it goes to input and output.

**Mr Quinlan:** It goes to somebody's complaint.

**MRS CROSS:** It goes to a number of complaints.

**THE CHAIR:** Given the lack of time we have, can I suggest that, between now and next Tuesday when the Treasurer returns, you might get a briefing from InTACT? I had similar concerns. I had a briefing from InTACT and my fears were allayed, but you might like the benefit of a briefing. If you're not satisfied, bring the questions back next week.

**MRS CROSS:** As long as we use the same principle on everyone else who is asking multiple questions—sure.

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**Mr Quinlan:** I'm saying: is this a complaint about a specific area?

**MRS CROSS:** This is a very important part of government.

**Mr Quinlan:** Yes, but it's not part of the budget. I think we can resolve it by you giving these people much more detail, and they can answer more specifically.

**MRS CROSS:** Okay, fine.

**THE CHAIR:** There's always the opportunity to come back on the recall day.

**MRS CROSS:** No problem.

**Mr Quinlan:** We'll fix it, but give us the details.

**MRS CROSS:** I'm happy to hear that.

**THE CHAIR:** I notice, in your ownership agreement, that your staff outcome for the end of this year is 145, and next year it looks like 217.

**Mr Vanderheide:** Yes. That's quite misleading, in fact. It's not consistent from one to the next. I know—I'm sorry about that. I went and checked our ownership agreement in line with the questioning on empire building, to see what it showed.

**THE CHAIR:** Can you explain why it has 217?

**Mr Vanderheide:** Yes, thankfully, I can.

**MRS CROSS:** Mr Vanderheide, no wondering you were whispering!

**Mr Vanderheide:** The figures from last year don't include our contract staff, but the figures for this year do. It does need to be corrected. There are 57 contract staff, at present.

**THE CHAIR:** They are now being replaced to become full-time staff?

**Mr Vanderheide:** Fifteen of them will be replaced. That's our target for next year—for 15 contract staff to move to permanent staff.

**THE CHAIR:** That would take it to 160. You finish this year with 145?

**Mr Vanderheide:** There are 212, at the moment, and we're moving to 220 next year.

**THE CHAIR:** You've included the contract staff but not the others. So the outcome for this year is wrong?

**Mr Vanderheide:** Yes. If you're counting salaried staff, it is wrong.

**THE CHAIR:** You say at dot point four that the variation from the estimated outcome from the original budget is due to the higher contractor costs, due to an inability to fill specialist positions with permanent employees. Has that now occurred? Have you been able to fill your positions?

**Mr Vanderheide:** It's an ongoing process. Over the past few years, InTACT has moved from about 60 per cent contractors to where we are now, which is about 25 per cent contractors. We're going to continue to push down the path of replacing contractors with permanent staff. It's a target we set, but it's a hard one to be specific about. It comes down to getting the right people to apply for the job, when it becomes vacant—or when we advertise it.

**MRS CROSS:** Does that mean that, now we have a reduced number of contractors and more permanent staff, the service output is far greater—that the quality of the service output is better?

**Mr Vanderheide:** No. The cost is slightly less. I can tell you what the service output should be.

**MRS CROSS:** Yes, but what about the quality of the service?

**Mr Vanderheide:** No. Our contract staff are excellent.

**MRS CROSS:** The same as permanent staff?

**Mr Vanderheide:** Yes, absolutely. There's no difference in service output.

**MRS CROSS:** It is status quo?

**Mr Vanderheide:** We're not replacing them because they're not as good as permanent staff, we're replacing them because it's less costly.

**MS DUNDAS:** On the staffing profile, eight out of the 20 senior positions in InTACT are either vacant or being filled by people acting. That's a significant proportion. Is something being done to address that?

**Mr Vanderheide:** Yes. My appointment is relatively recent. There was a person acting as general manager for some time prior to that. The fact that there was not a great deal of stability at the very top of the organisation meant that filling the positions underneath, on a permanent basis, slowed down. That is something I'm addressing.

**THE CHAIR:** If there are no further questions on InTACT, we will move along to superannuation.

**MRS CROSS:** Can I start off?

**THE CHAIR:** Excuse me, I determine who starts off.

**MRS CROSS:** Isn't there an order?

**THE CHAIR:** No. I assign the order.

**MRS CROSS:** That's news to me, Mr Chair. I think we will have to check the protocol on that one.

**THE CHAIR:** There is no protocol on that, Madam Deputy Chair—I do it out of my good graces.

**MRS CROSS:** There is. That's not what I've been advised.

Treasurer, on page 117, the budget papers contain the following statement:

completing a review of all external fund managers and make new appointments (where required) to complement the review of the investment strategy that commenced in 2002-03;

How many extra people will be employed under this policy—and is this not another example of empire building? You said, “Probably”?

**Mr Harris:** No additional people will be employed.

**MRS CROSS:** I thought he said, “Probably”.

**Mr Broughton:** No. There are no additional employees associated with this. This is a process by which we select the experts who invest the money on our behalf. It's all contractually based.

**MRS DUNNE:** I want to go back to something we started to talk about this morning, which was touched on by Ms Tucker. The superannuation unit has a whole lot of constraints upon what it can and can't do, in that it must have a return. Over and above that, do you participate in any sort of ethical investment program?

**Mr Broughton:** At this stage, there's no specific ethical investment arrangement.

**MRS DUNNE:** This is probably more a question for the minister. Do you and the government see this as a priority?

**Mr Quinlan:** No. The existence of the definition of ethical investment doesn't imply that all other investment is unethical.

**MRS DUNNE:** No. I don't want to say that you need to go to people who tout themselves as ethical investors.

**Mr Quinlan:** I am aware that there are some self-styled ethical investment funds which are doing very well. They are good performers—or they were a year or so ago. However, we have not, at this stage, said that, because of our values, we will include-in or include-out particular investments. We don't have that prescription. That day may come but, in my view, one would first have to override an implied requirement, if not a specific requirement, to get the best return on the investment.

**MRS DUNNE:** Perhaps I can ask you to go down another level there. When you're investing in property, which is usually commercial property, I presume it's mainly office blocks and things like that?

**Mr Broughton:** It's office blocks, shopping centres and some industrial buildings.

**MRS DUNNE:** When you invest there, do you take into account the environmental sustainability of the building? Do you take into account whether it's an energy-efficient or water-efficient building? Do you take those things into account? There's a growing element in the property market that says there's a market out there for this sort of property development. Are you, as the ACT superannuation fund, part of that market?

**Mr Broughton:** I understand what you're saying.

**Mr Harris:** I feel you need to appreciate that we don't do the investing ourselves, directly.

**MRS DUNNE:** I know that.

**Mr Harris:** We set strategy on the basis of advice, appoint fund managers and expect the fund managers to deliver against our strategy.

**Mr Quinlan:** They invest in funds which own the assets.

**THE CHAIR:** As part of your strategy, do you direct that, as an ecologically sustainable government—a government interested in sustainability—they invest in buildings which are noted for those attributes?

**Mr Harris:** No.

**THE CHAIR:** Would you consider such a thing?

**Mr Harris:** No.

**Mr Quinlan:** It is a matter of policy. It is an issue that will certainly arise. It's not an issue that has arisen and to which I've addressed myself.

**THE CHAIR:** I refer you to a document called *The Design Dividend*, which is put out by the Property Council. It says that better-designed buildings, and buildings which are friendly to the environment, are performing better as to quality of tenant, life of tenant, and return on investment.

**Mr Harris:** We would expect our fund managers to do their research—and invest in the best return.

**Mr Quinlan:** That would be the criteria. We want better returns. That's in there.

**THE CHAIR:** But you can also be sustainable if it is done the right way.



**Mr Quinlan:** Yes, but what is the criterion you use? It is return and sustainability. You ask: is that going to go broke? Is our investment safe and secure?

**THE CHAIR:** Can I ask you to consider that? Perhaps, the next time you give directions for the investment of the portfolio, you would look at that document to see whether or not it's consistent with what the government wishes to achieve.

**Mr Quinlan:** Yes. We'll see what the Property Council is trying to achieve by the document as well.

**MRS CROSS:** Treasurer, it has been reported in the media that the government is considering buying buildings it leases, in an attempt to reduce losses from superannuation. Isn't there a very real problem in that, as an investor, it should be trying to maximise its return on investment but, as a lessee, it should be trying to get the best possible leasing arrangements to minimise costs for government and taxpayers? Doesn't this show a very real conflict of interest?

**Mr Quinlan:** Apparently so.

**MRS CROSS:** Would you like to explain that to the committee?

**MRS DUNNE:** I didn't hear your original comment.

**Mr Quinlan:** I said, "Apparently so." This was an off-the-cuff comment I made that got a life of its own. The chairman made a comment earlier today about APRA guidelines which would recommend against the situation where, if the government were unscrupulous, it might be milking its own superannuation fund by lower rents—and therefore that boundary should be put up. So, maybe the existence of that boundary means we wouldn't be involved in that sort of investment. We wouldn't do that, would we?

**THE CHAIR:** Most of my questions are about that. The APRA regulation says investment transactions must be at arm's length—and that is the explanation you give.

**Mr Quinlan:** I'd still like to find a way, if it were possible—with third party governance or something—to review that situation. It seems crazy that we've got a risk profile on one hand and a captive client on the other. Perhaps there could be, within the guidelines, the introduction of objectivity and objective monitoring. Of course, it would still have to be an investment with a decent return and a qualifying return. Taking all those into account, I wouldn't dismiss it out of hand. Obviously, it's a lot more difficult than, just on face value, buying the house you live in.

**THE CHAIR:** If there are no more questions for the super fund, we'll move on to Actew. The committee welcomes Mr Perkins, the CEO of Actew. Mr Perkins, I refer to your highlights on page 345. Can you explain to the committee what a satisfactory outcome for pricing means?

**Mr Perkins:** In short, it means an outcome from the independent pricing regulator, which will enable the return on investment estimated in the first place.

**MRS DUNNE:** So you got what you were asking for? You got within the ballpark of what you asked for?

**Mr Perkins:** Exactly. Bear in mind that we're in a five-year price path. This is the last year of the five-year price path, so it should be within that ballpark. It's subject only to tweaking the edges, so it's not a large risk.

**MRS CROSS:** In the Actew Corporation's statement of intent, it states that ActewAGL dividends will be flat in the outyears—we can look under note 1 for that—due to the projected impacts of contestability. Yet the budget papers show Actew dividends to government increasing steadily from \$49 million this year to \$67 million in 2006-2007. If ActewAGL dividends will be flat, where are your increased funds coming from for the increase in dividends to the government?

**Mr Perkins:** In short, water. In addition to water, in the outyears factored-in is the potential for significant income from the investment in TransACT. But, in large part, it comes from water.

**MRS CROSS:** How much do you expect contestability in the electricity market to affect your dividend payments in future years?

**Mr Perkins:** I think the term "flat" means that return on investment is not increasing in the first couple of years. That's simply because we don't know what contestability means to us—nobody's ever been there before. In the outyears, we're assuming a return to the trend line.

**MRS CROSS:** Is that why you're developing strategies to compensate for that projected flat return in energy segments? Can you outline any of those strategies to this committee?

**Mr Perkins:** The answer to the first is yes, and, to the second, no. We're doing them in conjunction with our partners AGL and in turn, insofar as they have any potential significant impact, we would want to consult with the Treasury and then with our shareholders.

**MRS CROSS:** Can we get that, eventually?

**Mr Perkins:** My definition goes through the statement of corporate intent process and is reviewed by the government. It is agreed in the end, as to a strategy, and then tabled in the assembly.

**MRS CROSS:** How serious a threat to ActewAGL is contestability? Do you see a time when it will not be able to compete with its much larger interstate competitors?

**Mr Perkins:** We're confident that creating the joint venture and shifting the wholesale energy purchasing to AGL mitigates that risk. But be under no misapprehension—the territory is a small player in a very big energy market. There are a lot of international players there who can squeeze the territory in an open market. So there's a risk, but we think we've mitigated the risk by the wholesale energy purchasing agreement with AGL.

**MRS CROSS:** Is ActewAGL at a disadvantage to its competitors, due to the ACT's regulatory process?

**Mr Perkins:** No.

**MRS CROSS:** I believe that the ACT has been, or is being, reviewed this financial year. What will you recommend, or what have you recommended, as far as changes are concerned?

**Mr Perkins:** The answer to the first part is that most of the regulatory impacts are not from the ACT, but from the national electricity marketing arrangements.

**MRS DUNNE:** On the subject of contestability, are you ready or will you be ready by the agreed date?

**Mr Perkins:** I'm sure my colleagues in ActewAGL will be ready. We're an investor in ActewAGL and, next week, we'll be reviewing their readiness. We would have been ready to go earlier. The deferral by the government on account of the bushfires et cetera probably helped that process. What "ready" means, I'm not sure because we already have massive problems with the so-called contestability markets, whereby other major players are not able to transfer customers when we win them. We won't be in that position in the territory, but other players could be said to not be ready even now.

**MRS DUNNE:** Sorry, can you say that again? I'm not sure that I understood.

**Mr Perkins:** In a contestable market, you have to transfer customers when somebody else wins them. We have a major problem in the market—not only us, but others—because of the tardiness of players in the market to transfer their customers to the new winners of them. That's a problem we face out there.

**MRS DUNNE:** So this is a sort of anti-competitive stalling?

**Mr Perkins:** That's correct.

**MRS DUNNE:** What's been done at a corporation or energy market level to address that?

**Mr Perkins:** We've made representations in a preliminary fashion but, at the end of the day, we'll be asking this government to make representations to the national energy market.

**MRS DUNNE:** Is it a matter just for the national energy market, or is it also a matter for the ACCC?

**Mr Perkins:** I think both.

**Mr Quinlan:** I wouldn't be sure exactly if it is the ACCC. It's the other end of competition. It's non-involvement—the general thing.

**MRS DUNNE:** But it's still an anti-competitive measure by failing to release customers.

**Mr Quinlan:** As Mr Harris said earlier, it is a computing system. We were talking about delays and development, and that there may be some of them who just haven't got the work done because it's not a simple job. What we're talking about now is that you've got these physical monopolies, a virtual market and a virtual database which has been set up above each of them, so they can swap customers at the customer's choice. It's going to take a fair bit of shaking out, I can assure you.

**MS MacDONALD:** Mr Perkins, regarding the water abstraction charge—this follows on from what the chairman was saying before—can you talk about the water abstraction charge in the context of the territory's resources, the need to conserve water and develop a proper water strategy?

**Mr Perkins:** We supported the government's proposals and, indeed, bringing in the water abstraction charges as a very good signal to the market, in light of the scarcity of water. We factored that into the budget.

**MS MacDONALD:** Is there a water policy being developed?

**Mr Perkins:** There is, of course, a water policy being developed by the government, which has been discussed. For our part, as the water supplier, we have been doing, firstly, an international benchmarking study of the whole water cycle; and, secondly, as much research as we can fund, and feeding that into the government agencies involved in the process. I have to say that, in all my time in Canberra, I have not seen a better example of multi-agencies working together, in that there is a task force—and I believe six different agencies are working on it now. The information base is probably the best I've seen. So water's difficult, but I'm hopeful of some pretty encouraging outcomes.

**MS MacDONALD:** It's no small feat getting six agencies to work well together!

**Mr Perkins:** Indeed.

**MS DUNDAS:** Does the information that you're feeding through to the government's water policy program include looking at a closed loop system for the ACT?

**Mr Perkins:** Yes.

**MS DUNDAS:** A 100 per cent closed loop system or just—

**THE CHAIR:** By definition?

**Mr Perkins:** I shouldn't pre-empt my board, and I shouldn't pre-empt my government, but it's fair to say that closed loop systems are achievable in my house—at that level. There's one example in the world where there is something which, if we stretch marketing terms, we can call a closed loop system. They're technically feasible, but I don't believe they're feasible on a literal basis yet.

**MRS DUNNE:** Would you like to explain to the committee what you mean by a closed loop system?

**Mr Perkins:** A closed loop system means that a house or city can exist without taking resources from outside its region, and without putting waste outside of its region.

**MS DUNDAS:** On page 346, the statement of financial performance has employee expenses. There's been a significant increase, which is explained as being part of the need to bring in a special task force in relation to the drought for this financial year and the 2003-2004 financial year.

Can you explain what's going on in 2004-2005 and the rest of the outyears, being a \$5,000 increase from where it would have been, which is more than general EBA/CPI increases, if the special task force had not been brought on?

**Mr Perkins:** Could you repeat that?

**MS DUNDAS:** I refer to page 346. There's a major increase in employee expenses for the two financial years—2002-2003 and 2003-2004—because of the drought. However, in the outyears 2004-2005 out to 2007, the increases are still more than they would have been if we were doing CPI and EBA increases just from this financial year. Are you bringing on more staff anyway?

**Mr Perkins:** Less staff, but they're more highly skilled. We think the drought will continue. That means we'll probably never go back to free use of water. We're bringing in some extra skills in water. Some members of the drought task force will be replaced by people who are highly skilled with regard to water.

**MR CORNWELL:** Perhaps I should begin with the Treasurer—I have two questions. Treasurer, back on 20 November last year, the Assembly unanimously passed a motion that called on the government to prepare a proposal to address the impact of full retail competition on ACT low income earners, pensioners and self-funded retirees. I note that, in the budget, \$1,014,000 has been allocated over four years for retail contestability. Will this apply to all three of the categories endorsed by the Assembly?

**Mr Quinlan:** Will it apply to self-funded retirees, no matter what their circumstances?  
No.

**MR CORNWELL:** Low income earners, pensioners and self-funded retirees?

**Mr Quinlan:** No.

**MR CORNWELL:** A blanket "no" on self-funded retirees, Minister?

**Mr Quinlan:** A blanket "no" on self-funded retirees, Mr Cornwell.

**MR CORNWELL:** Thank you, Treasurer.

**Mr Quinlan:** If they are self-funded retirees and qualify on other grounds, yes, but it will be according to qualification, and that will generally be based on need, not on position.

**MR CORNWELL:** Not the fact that they too get cold? Very well.

**Mr Quinlan:** Everybody gets cold, but not everybody is entitled to welfare.

**MR CORNWELL:** Thank you, you've answered the question.

**Mr Quinlan:** Okay, I was answering the snipe.

**MR CORNWELL:** As I understand this full retail contestability under the national competition policy, I think the ACT received something like \$11.6 million last year.

**Mr Quinlan:** Yes, it was a bit over \$12 million, I think.

**MR CORNWELL:** And it was about to receive roughly the same amount this year?

**Mr Quinlan:** Yes, 12 point something.

**MR CORNWELL:** Was it? The amount is not the purpose of my question—that's why I'm addressing it to Mr Perkins. Does ActewAGL claim this rebate from the ACT government, perhaps federally, or is the rebate deducted from ActewAGL's profit? How exactly does it work?

**Mr Perkins:** No. It's a matter between the Commonwealth, the state and the territory.

**MR CORNWELL:** Right. So it comes through the ACT government?

**Mr Quinlan:** The competition payments?

**MR CORNWELL:** Yes.

**Mr Quinlan:** They are specific payments.

**MR CORNWELL:** The concession would be given to whomever—low-income earners of all descriptions, I would like to think.

**Mr Quinlan:** The needy, Mr Cornwell—those in need.

**MR CORNWELL:** Thank you—that's well said. I appreciate that. That would come through the ACT government and would be paid to ActewAGL. Is that right?

**Mr Quinlan:** No.

**MR CORNWELL:** How does it work?

**Mr Quinlan:** It's paid to us. It is payment directly to government.

**THE CHAIR:** I think that question was in reference to the concessions, not the competition payments.

**Mr Quinlan:** Competition payments?

**MR CORNWELL:** That's right.

**THE CHAIR:** No. He's moved onto the concessions that are given to the needy.

**MR CORNWELL:** I presume ActewAGL are going to give these concessions, not the ACT government—or does the ACT government give them?

**Mr Quinlan:** Yes, the ACT government pays the concessions.

**MR CORNWELL:** Does it then reimburse ActewAGL?

**Mr Quinlan:** Yes.

**MR CORNWELL:** That is the way it works. They come to the ACT government and the ACT government passes them on?

**Mr Quinlan:** No. The concessions and the competition payments are separate issues. You get them for the introduction of all the elements of competition policy. If the government introduces all of the reforms required, then those competition payments flow to the government—full stop. There are concessions decided by government which are funded by government out of the Department of Disability, Housing and Community Services.

**MR CORNWELL:** How would they then be funded?

**Mr Quinlan:** To the level of requirement in the community.

**MR CORNWELL:** Regarding Actew's electricity concessions, rebates, or whatever you want to call them, to certain people in the community, the government would then pay that amount to Actew?

**Mr Quinlan:** Yes.

**MR CORNWELL:** That's all I wanted to establish—I'm sorry it took so long.

**Mr Quinlan:** That's all right.

**MRS BURKE:** My question is to Paul, regarding page 345 of BP 4, highlighting some of the targets. It says, "Consulting and educating our customers about water and energy management, usage and quality..." I want to know: what sorts of targets have you set for this; where might we find those; and how much will it cost to implement this education program?

**Mr Perkins:** I will take that on notice. We're halfway through the process. Whilst there are broad estimates here and a commitment to it, they are not specific. If that's acceptable, I'll take it on notice.

**MRS CROSS:** I understand Actew is reviewing its borrowing capacity in respect of its new structure and its investment capacity. Are you looking to borrow more heavily than at present? Are you looking to invest in other utilities? Is that not the case?

**Mr Perkins:** No—and no.

**MRS CROSS:** No?

**Mr Quinlan:** Unless we build a dam, of course.

**MRS CROSS:** Yes, I've heard you're intending to do that.

**MRS DUNNE:** My question is probably not so much on the budget papers but on the bushfires and the bushfire reconstruction in relation to the catchment. Is that essentially an Actew responsibility, rather than an ActewAGL responsibility?

**Mr Perkins:** No. It is all Actew's, or one of the agencies of government.

**MRS DUNNE:** I have a couple of specific questions. Do we yet know the impact of the fires on the sphagnum bogs?

**Mr Perkins:** Not totally, but suffice it to say they are pretty damaged. For Actew's part, we've offered to fund restoration when the experts determine how to restore them—because this hasn't happened before—on the basis that the sphagnum bogs are not just an ecological habitat for endangered species, they are also the only source of water from the highland region in the recent drought period.

We have probably been recalcitrant, in the past, through ignorance—not understanding that they are a very important water source, as well as an ecological site. Nobody yet understands how to fix them, so we are funding special research right now. When that's finished, we'll be working with Environment ACT to restore them, or do what can be done to overcome the problem.

**MRS DUNNE:** How far are we down the track of catchment restoration?

**Mr Perkins:** Not very far.

**MRS DUNNE:** Are you where you planned to be?

**Mr Perkins:** For planning purposes, you would be surprised at the immensity and diversity of work that is going on at the moment. We are on fresh ground here, in many cases, with very little knowledge. There are something like 17 groups working within the government and we have seven funded processes going on right now, with all sorts of experts. We are hoping that before the end of winter, we'll be in a better position to pull it all together. There's a lack of knowledge—not through any fault of the experts in Canberra—because this was a one-off type of occurrence.

**MRS DUNNE:** I have a specific question about the catchment rehabilitation. How much of that is covered by insurance?

**Mr Perkins:** None.



**THE CHAIR:** Mr Perkins, in last year's estimates hearings, there were questions asked about the cost of electricity for ACT customers and if there was a difference in the cost of electricity for Queanbeyan customers. Can you tell the committee if that is so, and what the differential is?

**Mr Perkins:** I can't answer off the top of my head. I would add that, with contestability in just a little while, there's probably not a lot of value in addressing what it is today. There are proposals before the ICRC now for the standby tariffs from the date of contestability.

**THE CHAIR:** You'll take that on notice?

**Mr Perkins:** I'll take it on notice.

**Mr Quinlan:** We all know that, once contestability kicks in, competition is going to take place by virtue of variety as well—by tailoring the packages, et cetera.

**THE CHAIR:** That is the question: will full market retail contestability increase or decrease that differential? Do you have a prediction?

**Mr Quinlan:** Probably yes and no.

**Mr Perkins:** It will add to the diversity, I think, Mr Chairman.

**MRS CROSS:** Actew's liquidity has been allowed to drop from well over \$50 million in 1999 to around \$4 million in 2002. While it is projected to improve to around \$20 million by 2005, why has it been allowed to drop so quickly to such low levels? Does it put the corporation at any risk, should any adverse conditions occur, such as competition or bushfires?

**Mr Quinlan:** Should I answer that?

**MRS CROSS:** Feel free, Treasurer.

**Mr Quinlan:** Actew's financial structure changed significantly in the course of the previous government, which took a lot of money out of it.

**MRS CROSS:** The answer is too short!

**Mr Quinlan:** Actew has a long history of strong financial management and was a viable organisation back in the 1990s.

**MRS CROSS:** Are you saying, Treasurer, that we shouldn't be worried about the liquidity?

**Mr Quinlan:** I'm sorry—I now remember being there.

**MRS CROSS:** Competition and bushfires won't affect Actew at all. Is that what you're saying?

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**Mr Quinlan:** Competition will affect Actew—competition will affect everybody. I'm eminently confident that ActewAGL will respond well to competition. What competition will do, in the long term, is affect the consumer. I think it will affect the consumer for the better.

**THE CHAIR:** Treasurer, thanks for your attendance today and thank you to all the officers. We'll determine what to do with the others and get back to you.

**The committee adjourned at 5.01 pm.**