LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES

(Reference: Appropriation Bill 2004-2005)

Members:

MR B STEFANIAK (The Chair)
MS K MacDONALD (The Deputy Chair)
MS R DUNDAS
MRS V DUNNE
MR J HARGREAVES

TRANSCRIPT OF EVIDENCE

CANBERRA

TUESDAY, 18 MAY 2004

Secretary to the committee:
Ms S Leyne (Ph: 6205 0490)

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 9.19 am.

Appearances:
Mr Ted Quinlan MLA, Treasurer, Minister for Economic Development, Business and Tourism, and Minister for Sport, Racing and Gaming

Treasury Portfolio

Mr Andrew Weeks, A/g Under Treasurer, Department of Treasury
Ms Megan Smithies, A/g Deputy Under Treasurer, Department of Treasury
Mr Glen Gaskill, Director, Resource Management Branch, Department of Treasury
Mr Neil Bulless, Director, Government Business Enterprise Management, Department of Treasury
Mr Tom McDonald, Director, Insurance Policy, Department of Treasury
Mr Roger Broughton, Finance and Investment Group, Department of Treasury
Mr Dan Stewart, Manager, Economic Analysis Unit, Finance and Investment Group, Department of Treasury
Mr Garry Cartwright, Manager, Superannuation Unit, Finance and Investment Group, Department of Treasury
Mr Patrick McAuliffe, Manager, Central Finance Unit, Finance and Investment Group, Department of Treasury
Mr Peter Mathews, General Manager, ACT Insurance Authority
Mr Khalid Ahmed, Director, Financial and budgetary Management, Department of Treasury
Ms Kirsten Thompson, Director, Budget Coordination and Reporting, Department of Treasury
Mr Phil Hextell, Director, Accounting Branch, Department of Treasury
Mr Graeme Dowell Commissioner for ACT Revenue, Revenue Management Branch, Department of Treasury
Mr David Butt, Director, Economic Management Branch, Department of Treasury
Mr John Robertson, Director, Procurement Solutions, Department of Treasury
Mr Michael Vanderheide, General Manager, InTACT, Department of Treasury
Mr Richard Hart, Director, InTACT, Department of Treasury
Mr Michael Chisnall, Director, InTACT, Department of Treasury
Ms Betty Edwards, Financial Controller, InTACT, Department of Treasury
Mr Ross Burton, Manager, InTACT, Department of Treasury
Mr Michael Costello, Managing Director, ACTEW Corporation
Mr Michael Luddy, Chief Financial Executive, ACTEW Corporation
Mr Gary Bickford, Strategic Planner, ACTEW Corporation
Mr Aspi Baria, Water Specialist, ACTEW Corporation
Ms Jill Brooks, Assistant Company Secretary, ACTEW Corporation
Ms Sue Baker-Finch, Chief Executive, ACTTAB Ltd
Mr Simon Wheeler, Chief Finance Officer, ACTTAB Ltd
Mr Tony Sadler, General Manager, Exhibition Park in Canberra
Mr John Walsh, Director and Dean, Australian International Hotel School
Mr Chris DeMamiel, Finance Manager, Australian International Hotel School
Mr Mike Zissler, Chief Executive Officer, Totalcare Industries
Ms Paula Edwards, Chief Finance Officer, Totalcare Industries
Mr Tony Lawler, Risk Manager, Totalcare Industries

Mr Ian Primrose, Chief Executive Officer, Independent Competition and Regulatory Commission

THE ACTING CHAIR (Ms MacDonald): Welcome. The chair, Bill Stefaniak, has been called to Sydney so I am sitting in in his place. 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. When each witness comes to the table could they state their name and the capacity in which they appear. Please speak clearly into the microphones.

Please clearly identify when you are taking a question on notice. It is then your responsibility to check the transcript and respond to the question. Responses to questions taken on notice are required within three full working days. The transcript will be emailed to the minister and departmental contact officer for distribution to witnesses as soon as it is available.

Due to the late sitting of the Assembly last week there may be a delay in the provision of the transcript. Can members please confirm when they are taking questions on notice. I suggest that officers make note of the question in case there is a delay in the transcript. Can members please clearly identify if they want a question to be taken on notice, plus give any page references. Proceedings are being broadcast to specified government offices, and the media may be recording proceedings and taking visual footage.

THE ACTING CHAIR: Welcome, Treasurer. Thank you and your departmental officers for appearing. Would you like to start with an opening statement?

Mr Quinlan: Just the briefest of statements. I think the budget has been fairly well received. It sets out to balance competing priorities across the community. Quite clearly if viewed through different prisms, or from a different perspective, we might have done more here, there or wherever. There will always be groups that would be irresponsible in relation to their own constituencies if they didn't react by saying that the government could have done more in that particular area, and I respect those positions. But, overall, I think the budget has received a pretty solid, positive reception.

THE ACTING CHAIR: Thank you.

MR HARGREAVES: I was looking at budget paper 3. I'll start basically right at the beginning of it at page 6, the objectives. I think you've been fairly clear on how you intended to tackle some of the short-term objectives in the context of the budget. In the long-term financial objectives its says, "Minimise risk to Territory finances and assets. " I'm not sure how you can do that in respect of investments but I'd be interested in what risk you see applying to the territory's finances and assets, and just what sort of amelioration you think we can apply to that.

Mr Quinlan: That objective is about making sure that, when a budget is put together, it doesn't pursue only short-term objectives but also pursues the maintenance, if not improvement, of the strength of the territory's financial position, and ensures that the budget provides for, effectively, maintenance of the suite of assets that the territory owns. It's about—and that's why it's in the longer-term objectives of course—making sure that the budget is not just this year's budget but that it's a budget that is still heading in the positive direction of the previous two budgets and, hopefully, future budgets.

MR HARGREAVES: What sorts of actions has the government taken to minimise that risk? I see what you're saying about spreading the thing over the term of the forward estimates, but my understanding of the long-term objectives is a bit beyond that, particularly in respect of such things as investments.

Mr Quinlan: We've said elsewhere that we would be a relatively conservative investor. At the same time we need to ensure that we get a decent, achievable yield on the investments we make and that we protect those investments against catastrophic loss—so we're not out there on the wild end of investment, and that the riskier end of investment that we have has, within the portfolio, virtually a balancing process if we get into the more speculative end. We try to make sure that we don't suffer catastrophic loss. Certainly there will ups and downs in what we do in our investments over the years because that's the way the market is; that's the way you view the stock market.

There are little pictures in the *Financial Review* with bars running up and down, for people looking at investment in the longer cycle. We want to protect the asset base. We certainly don't want to carry the territory into very substantial borrowing without good purpose—without increasing, on the other side of the balance sheet, the asset base of the territory. I think it's incumbent on most governments to be relatively conservative in public financial management.

MR HARGREAVES: In that same section on page 6 you talk about making adequate provision for long-term liabilities. I guess that's, in a sense, part of the minimisation of risk. With the exception of the sorts of things you've just described, like investments—I'm looking at this from the perspective of whole-of-life costs on major infrastructure like, for example, the proposed prison—am I right in assuming that there is provision in the forward projections of what the government is doing to take care of those sorts of rises in liabilities, or am I slightly off track there?

Mr Quinlan: No. There's money earmarked in the capital budget for the prison. Each year the government must make decisions as to how they will go about particular exercises they're involved in. The fact that the money's there for the prison doesn't say, "Righto, we're going to pay cash for it absolutely." What that says, within this budget quite clearly—within our forward projections now—is that the territory has the capacity to fund its own prison.

That doesn't necessarily throw away any other methods of financing. For us the business case for a prison would have to be viewed as either reducing our cash holdings or borrowings, being offset by an asset that will provide not necessarily an income stream but a reduced expenditure stream. That case, as you are probably aware, is already being done and revalued. Of course, it does contain a certain number of assumptions of the costs and expenditures reduced over the longer term, but it's a fairly well worked case, I think.

MR HARGREAVES: When you talk about the expenditure reduced over time—the financing of its construction in the first place is another matter and I see the provision for that—what I'm a bit worried about with the long-term projection is the fear a lot of people are throwing at the possibility of a publicly owned facility, in that over time—I think basically from year 10 onwards—it starts to cost us a motser in terms of the maintenance and the whole-of-life cost of the infrastructure. I think that's going to be a significant cost as we go down the track. I just wanted some sort of assurance that that upsurge in maintenance and the whole-of-life cost is factored into the forward thinking of Treasury officials.

Mr Quinlan: I'm not the minister for corrections so I won't specifically be running the prison. But I would have thought there was some probability that, if it is a publicly operated prison, the maintenance programs will start from day one. Therefore, the longer term increase in costs that you've projected will be avoided or at least minimised. If we had a publicly owned but privately operated prison over a specific term then there would be a whole raft and layer of management required to ensure that the place wasn't run down and considered by the operators as a 10-year project as opposed to an indefinite project.

MR SMYTH: On that question, can you give us a statement of the government's policy on borrowings and appropriate levels of debt?

Mr Quinlan: At this stage the policy is to minimise debt and to not use borrowings in any way to prop up ongoing expenditure. As far as we're concerned borrowings should only be undertaken for investment purposes. I would estimate—and it's only a personal estimate—that this territory could borrow several hundred millions of dollars without impacting upon its credit rating. So if there were the prospect that, by borrowing, we could be effectively investing in the future one way or another, whether it be income generation or cost amelioration, then you would look at that business case, just like any other business.

It is conventional wisdom now that virtually all states and territories should be aiming at an AAA plus credit rating. That is quite often used as a measure and assessment of the jurisdiction and may have some impact upon investment decisions others might make about operating in the particular jurisdiction. We believe it's important to present a picture of a strong economy, not just for selling the government but also for selling the territory as a place to do business and a place that is growing.

MR SMYTH: The last paragraph on page 266 of budget paper 3 reads:

> Credit rating agencies have a very strong view that recurrent expenditure is funded by current taxpayers and not deferred to future generations via the cost of debt financing and future principal repayments…

I think we would all agree with that. It continues:

> …and the funding of non-recurrent or capital expenditure by way of debt financing is appropriate where the benefits are to be distributed over time. This approach is consistent with the principles of intergenerational equity.

With that, is there a figure the government is willing to put on as to what their upper limit of borrowings may be, or is it done on a case by case basis?

Mr Quinlan: It would have to be. Off the top of my head I can't think of an example where we would spend huge amounts of money. Let's go to the dam, for instance.

MRS DUNNE: That was the one on the top of my head!

MR SMYTH: Or a dam, a prison and a convention centre.

Mr Quinlan: Yes. Let's say we're looking at substantial capital expenditures for a dam, a prison and—one that's dear to my heart—the Majura Road, which I would like to turn into a four-lane drive. One then needs to look at the benefits that would flow from that. The dam itself is really to meet burgeoning demand. That's going to be one that the territory or the government, as the decision gets closer, has to work through as to how much it would be a general investment in the growth of the territory as opposed to an investment that would return money through water rates.

The question I particularly want to push in relation to the dam is first to resolve with the government of New South Wales whether they are prepared to take, with us, a regional view. Various proposals have been put forward that would take care of the territory, but even the demand, expectation or requests lining up from the territory go beyond our own boundaries. If you read the philosophy within the economic white paper, you will see that that consistently talks about what we do on a regional basis. As far as I'm concerned that's the first question that needs to be answered. Then if New South Wales is not interested, for one reason or another, in a solution that we require over the short to medium term then we must necessarily go our own way. But we would be going our own way on the basis that we had provided the opportunity and then looked after ourselves.

I think that would be suboptimal for the region, but it rather depends on the discussions that are already building up between ourselves and New South Wales as to where we might go. At one time there was talk of damming the Shoalhaven. I can remember from my ACTEW days discussion of a huge investment of $20 million in a pipeline from there to Canberra as part of a wider water problem solution. I'm not up to date with the possibilities that prevail in the wider region. I'll leave that to others because it's not my portfolio.

MR SMYTH: Bob Carr said, "No Welcome Reef Dam."

Mr Quinlan: In the process of doing things the right way, as well as doing all the hydrological and hydrographical work required to make sure the sites that have historically been pinpointed are the most appropriate for an ACT solution, I think we first need to at least try for the regional solution. If we don't get satisfaction there, we will have to go our own way.

MR SMYTH: When we discussed the water legislation in 1998 Mr Corbell made it quite clear that there will be no water trading over the border. I recall him saying words to the effect of "over my dead body". Are you signalling a shift in government thinking on whether or not water trading would be appropriate?

Mr Quinlan: No. I don't think it's appropriate for continued across-the-border development. That just presumes that the headworks that exist within the territory are immediately available on request. So Mr Corbell was exactly right in that process. I'm not signalling a change to that; I'm just saying that these days—this is my own opinion—we ought to be investigating the regional solution first; and we are doing that. Then, depending on the results of that—that's not to say that work stops on the checking out of the various local options; these things can happen in parallel without there being too great a waste—it may be that New South Wales, through Bob Carr, say, "Forget it. We haven't got time. We're okay. We don't care about the region. Regional development around the ACT is more to your benefit that ours", or whatever.

I'm not going to put words in their mouths. So we really have to go through the formalities and then say, "Okay. We now know the lie of the land in terms of regional cooperation." As I said, if you look at the philosophies in the economic white paper, you find that they swing on regional cooperation. We didn't do that in isolation. I have had long discussions with the Treasurer of New South Wales, Michael Egan, who assumed the role over Harry Woods, who was the Minister for Regional Development. I spoke to both of those gentlemen in the lead-up to the preparation. All the right words came back but we now need to test it.

MR SMYTH: The Allan Consulting Group put out a paper in August last year called "Funding Urban Public Infrastructure". I'm not sure if you've seen the paper, but it concludes that the use of government debt to fund infrastructure actually gave the best returns to the community in terms of gains in gross state product and gains in employment generation. Are you aware of the paper and, if so, are you in agreement with it?

Mr Quinlan: I'm only aware that a paper exists; I haven't read the thing from cover to cover. I'm not sure that I absolutely agree that spending government money is an economic solution. Our contribution as a proportion of the total economy is still relatively small and it would take an awful lot of money to make a difference. That would have to be an awful lot of money lots of times over to really change the face of a place.

At this stage we haven't adopted a fiscal policy that says we will deliberately spend money as an economic stimulant. We're not totally Keynesian in that approach, but we are aware that it is commonsense for governments to make sure that their capital budgets don't fall below a given line at any time, so that there's at least a base flow of works available. Inevitably, if you start building dams and prisons and that sort of thing, you will get spikes in capital expenditure. But one needs to look at the other side and make sure that the capital budget doesn't sink below a decent, reasonable level to ensure that flow of works.

MRS DUNNE: If you're saying, "We won't deliberately spend money as an economic stimulus", what is the basis for increasing expenditure in the budget if it's not for economic stimulus?

Mr Quinlan: We will spend money as an economic stimulus when it comes to investing in commercialisation funds, knowledge bank and those sorts of things where it's direct assistance for someone else who is going to be building something and spending money from then on. I think the basis for additional expenditure requires a little more analysis than has been applied in some of the criticisms of the budget. Over three or four years we've had an expenditure increase of 20-something per cent, but you have to remember that CPI has increased by over nine per cent over four years. If you add to that a two or three percentage increase in population, you can explain half of the increase just in the physical growth and the price changes in the territory. The figures might look dramatic but they're not quite so.

Then I think you need to look at the cost indices, particularly in health. In the health cost index I think I've seen the figure of an eight per cent increase in a single year. There have been very substantial increases in health, which is a substantial slice of our budget. Of course there have been improvements in delivery of service. If you combine those two together the stark numbers being thrown around probably overstate the difference and require a little bit more thought before they're used as some sort of raw indicator.

THE ACTING CHAIR: Just before I call on Ms Dundas to ask her question perhaps I can remind all members to direct their questions through the chair. We'll try and give everybody an equal and fair turn at asking questions and grilling the Treasurer, which I'm sure he's looking forward to.

MS DUNDAS: The underpinning economic assumptions for the budget in terms of employment growth and population growth are quite steady and there's some concern that they are actually quite low. As to population growth, it says at page 66 of budget paper 3 that we expect positive net interstate migration over the next few years. It talks about net migration returning to positive levels due to a strong labour market, which will encourage more people to move to Canberra. Yet on page 11, where the economic forecast is tabled, it talks about employment growth remaining steady at one per cent. Can you fill us in with a little more detail on how you came to these figures for the economic forecast?

Mr Quinlan: The figures are relatively conservative. I'll ask the officers to explain this shortly, but my general impression is that the figures used are not inconsistent with those of some of the economic forecasters, Access Economics and Econtech, who are making the same estimates. We don't want to build the budget on hope; we want to build it on practical estimates. We certainly hope to stimulate greater growth, but at the same time I don't think we should be spending that penny before we get it. The population growth within the ACT has not been that strong.

This is one of those questions on which one ought to step half a pace back and look at in terms of region. Queanbeyan claims to be the fastest growing city in New South Wales. A lot of that growth will be on the back of overall regional growth. It's possible that employment levels might outstrip population levels because one is confined within the boundary in a residential sense and the other is the wider region where people have decided to physically settle. So they don't have to an exact one to one match. Those estimates are relatively conservative. We hope to do better, but they're not inconsistent with those of other forecasters.

MS DUNDAS: I don't have the figures with me but reputable economic analysis is showing that employment growth across the states and territories is going to be stronger than just one per cent across New South Wales. The federal budget I think had a higher employment growth factor in it, so why is it so conservative in that sense?

Mr Quinlan: Look, it's a matter of judgment. We look at that level and say, "We want to do better than that." Some of the expenditures we have put in place are designed to improve employment growth. We didn't have the benefit of the federal budget and their employment predictions when we put it together. As I said, the estimates are not inconsistent with those that have been made by Access Economics and other forecasters.

MS DUNDAS: Whilst you're not trying to build the budget on hope, the increase of population is based on an increase of employment, which is based on an increase of population. Maybe we can ask the officials to explain a little bit further how they reached these figures. To me it seems to be an almost circular argument that we need the employment growth to get population growth, but we need population growth to get the employment growth.

Mr Broughton: I am Roger Broughton from the ACT Treasury. Perhaps I can explain a couple of things in relation to the questions. Our view of the national economy is that the labour market will be quite strong nationally. We expect employment growth to be reasonable, although I think the Commonwealth government's estimates are a little on the high side. The reason I believe that is because at the moment national unemployment is running at about 5.6 per cent. It can't get much lower than that, simply because there are structural issues in the economy that will prevent unemployment from getting much lower. As a result, what we're going to find is that the labour markets in most of the capital cities will become extremely tight and people aren't going to be able to find labour for everything they want to do.

MS DUNDAS: That comes back to the population growth issue. We need more people to fill those jobs but we need more jobs to get the people in.

Mr Broughton: Nationally, obviously the only way we could really fill the jobs is to increase immigration in the short term.

MS DUNDAS: We need a refugee policy!

MR HARGREAVES: We could open the detention centres—that would fix some of it!

Mr Broughton: It's also a matter of having the appropriate skills for the vacancies. As far as Canberra is concerned we're already in a very tight labour market situation. Employers cannot find the people they want to fill all the jobs they've got. Under normal circumstances we'd expect people to move from interstate to take up the vacancies but because job prospects are so good in the other capital cities that's not happening to the extent we would like to see.

Hence we believe that population growth will remain below the Australian population growth, and also that we will have some difficulty in getting all the labour we want in the ACT. We think the economy would cater for a higher employment growth rate than that which we have forecast when it comes to the availability of jobs, but as far as finding the labour force is concerned, we think that estimate is around about the mark.

Mr Quinlan: The budget includes $9 million over four years invested in vocational education training. We've got something like 3.8 per cent unemployment at the moment.

Mr Broughton: That's correct.

Mr Quinlan: That's fairly low and, as Roger said, there will be structural problems trying to decrease that. Youth unemployment is somewhat higher. We think we can best serve the dual problems of youth unemployment and labour shortage by investing in VET, trying to get those people into jobs and at the same time—

MS DUNDAS: Which doesn't necessarily result in population growth, or it could result in the population remaining steady as less people leave.

Mr Quinlan: Yes.

MS DUNDAS: What are you trying to do to break through the nexus of the population employment circle, besides the vocational funding? That keeps people here but it doesn't necessarily attract people to the town.

Mr Quinlan: I have to say we haven't got policies in place that would provide concessions to people to move in. We haven't gone that far. I don't think that's been postulated in any forum. But we are certainly still working to stimulate the economy in playing to our strengths—our knowledge industries, our innovative industry and also investing further in tourism, which is a more labour intensive industry—so there are additional funds going into tourism and there has been a changing approach to tourism over the last few years. That in itself provides for greater employment because of the targets we're aiming at. We will also be expending additional funds into tourism. Those things seem to be working because the occupation rates, the visitation rates and the airport throughput have never been better than in recent times. That excludes the World Cup.

THE ACTING CHAIR: I seem to recall that you have recently talked about not getting into bidding wars with other states and not competing with other states because, in the end, we all lose out. That's a correct recollection on my part, isn't it? Did you want to talk about the differences in true incentives?

Mr Quinlan: All the states and territories, with the exception of Queensland, have signed an agreement, which is virtually an anti-poaching agreement for business operations. The states that have signed on do not intend to buy businesses from each other. Wherever possible they intend to stay out of bidding wars, provided they know they're either in a bidding war or talking about a possible embryonic business. How good that is, I'm not sure. In recent times South Australia has virtually poached a photovoltaic cell manufacturing development from the ANU and taken it to South Australia. They spent a huge number of dollars—I forget the figure but it was beyond us—and bought that bit. That, I think, predates the poaching process but there's a fine line between whether that is a new industry or an established industry. There will always be some difficulty and there will always be a margin, whatever agreements we make.

THE ACTING CHAIR: Do you see the agreement as stabilising things significantly?

Mr Quinlan: I think it should reduce, on all parts, the number of dollars thrown in—the fistful of dollars approach—to get industry to move from one place to another, particularly modern industry where so much of it's transportable and large companies can play things off. I won't mention the name of the company but a huge international company is beating up on us and playing hardball over a quarter of a million dollars. I can't explain why they would do that, other than that it's some boardroom game they play. Do you win something? Let me say that I settled on that one for a bottle of my Grange instead of the quarter of a million dollars.

THE ACTING CHAIR: We'll go Mr Hargreaves, Ms Dundas, Mrs Dunne and then Mr Smyth, who I'm sure has plenty of questions he wants to ask.

MR HARGREAVES: Thank you, Madam Acting Chair. Treasurer, on this cycle that Ms Dundas is talking about—the jobs chasing people, chasing jobs stuff: in the budget the knowledge fund is one of the ways in which you are attacking that issue and some of the business incentive programs. But they seem to be addressing the sort of soft industries. The tourism initiatives also are about that. But in terms of vocational training, it struck me that one of the difficulties the territory experiences is its apprentice issue. We have a problem about getting apprentices, having schemes, having companies accept them, and that in itself is creating a similar sort of cycle that Ms Dundas is talking about.

I would be interested to know what sort of approach the government is thinking about or taking in terms of addressing that issue for the sort of non-soft, the non-tourist—the sort of harder issues, I suppose; the manufacturing, transport, construction, those sorts of things—other than chucking a barrel load of money and barrel load of land and hoping like heck the private sector picks it up and builds something on it. Have you got some sort of thoughts on that particularly as it applies to apprentices?

Mr Quinlan: I do on the long finger, Mr Hargreaves. It is the case that Canberra was built on the limestone plain where there are very few natural resources. It is also true that, if you like, the transport crossroads—the north, south, east, west axis—is around Dubbo and not around Canberra. To get into the harder industries you either need to be providing the product locally for local consumption, like the building industry, something like that, and/or there needs to be some cost-effective access to materials for manufacture or for the fabrication industry.

We have in the budget on the long finger the upgrade of the Majura Road. That is, as I said, a bit of a pet project of mine. I believe that even our traffic from the south comes in at the northern end of Canberra; the traffic from the north obviously comes in from the northern end. You can go via Majura Road to all points southeast, and Majura Road goes past the airport and you can access Fyshwick and Hume without going through suburbs.

There are a whole lot of arguments for building that and trying to siphon off some of that transport that doesn't necessarily go through here. If product passes through here, particularly backload products, something like that, then there are the chances of building those industries. It is a question of whether Canberra is, might I say, too prissy to embrace those industries.

We certainly have done the studies that demonstrate that it is worthwhile us investing in the development of the region as well, so we have a regional base. We need those stimulants. There has got to be something real that happens, not just hit and hope stuff. But at this stage it is important for Canberra to play to its strengths, to its educated population, to its innovative population; to work, as we are, much closer with the ANU than any government has ever worked. We have invested in NICTA and we now find in the federal budget something like $250 million or $270 million is to go into NICTA in the outyears. Well over 40 per cent of that money will flow into Canberra and will be expended through that centre of excellence here. If we had not spent the investment that we put up in the first place then it would be going somewhere else.

The ANU has been recognised as the best university in the southern hemisphere in the latest—somebody did the tabulation; I'm not sure how good, how respected it is, but certainly it has not been argued with in any—

MRS DUNNE: Some crew in Boston.

Mr Quinlan: Boston—I'm not sure it was Boston.

MRS DUNNE: No, actually I am wrong, sorry. It wasn't Boston—just forget that.

Mr Quinlan: But anyway, it is in the top 50 in the world and the only member of that top 50 in the southern hemisphere. It has, as I think most people know, a very high proportion of research versus undergraduates. It is one of those universities that, if we only could get rid of the students, would be a great university. It has a lot less than—

MR SMYTH: I can see the headline now, "Ted plans to get rid of students."

Mr Quinlan: It is a world-class research institution.

MR SMYTH: Mr Menzies did well, didn't he, when he set up the research schools.

Mr Quinlan: Yes, I think he did.

MR HARGREAVES: One is a good achievement.

Mr Quinlan: What has happened in the ANU over years has been very, very positive. It is a very strong institution and commonsense dictates that we actually work with them and we have had a conscious program of working with them.

MR HARGREAVES: You talked about the Majura Road. I seem to recall for a number of years both sides of the fence talking about the airport as being a transport hub. That is actually consistent with what you have just said about moving all those back roads. It has got to come from somewhere and that seems to be the ideal spot—at the end of Majura Road where in fact all the major highways intersect; proximity to Queanbeyan and therefore the coast, et cetera, et cetera. But we seem to have been talking about it for a long time.

Mr Quinlan: I have been talking about it. I am still working on getting it up and—

MR HARGREAVES: What barriers are there besides the road?

Mr Quinlan: All the other things that we need to spend money on.

MR HARGREAVES: For example?

MS DUNDAS: The hospital.

Mr Quinlan: Prisons and—

MR HARGREAVES: But is it only the responsibility of the ACT to create that transport hub?

Mr Quinlan: It will be. We might get Commonwealth funding for roads if we get lucky one time on Majura Road.

MR SMYTH: Hang on, you have got the Federal Highway and you have got the Barton Highway. I mean, we have been very blessed in a couple of big instances.

Mr Quinlan: Yes, but we have still got, what do they say, BFTs—big flaming trucks—coming down Northbourne Avenue, Macarthur Avenue, Limestone Avenue. The city needs that bypass as well. I'm going to do it before I get out of politics, John; I'm going to do it.

MR SMYTH: It's okay, Treasurer. I have already spoken to my federal colleagues asking for the money, so maybe if we work together we can do it that way.

MR HARGREAVES: So I think if we put out a press release saying, "Leader of the Opposition supports Treasurer's move on—

MR SMYTH: No, it should say, "Treasurer catching up with Leader of the Opposition's approach."

Mr Quinlan: No, I think he would say in the press release, "I thought of it first."

MR SMYTH: Well, Treasurer, if you go back to the records in about 1999 when we put out our five-year program, the Majura Road upgrade was discussed then.

MR HARGREAVES: Did you? If you go back to 1998, I said so as the shadow minister for transport. So let's have a bidding war about this.

Mr Quinlan: I said it in the 1998 election campaign. There you go—history re-written several times.

MR SMYTH: I notice on page 208, though, that the current government currently lists all the completed projects that were started under the former government, so let's get the history right.

THE ACTING CHAIR: All right, everybody, all right.

MR HARGREAVES: Can I finish the question please, Madam Acting Chair?

THE ACTING CHAIR: Yes, sure.

MR HARGREAVES: We still talk about the relationship with the ANU and there is still the soft stuff there. I acknowledge the essentiality of the road being at that hub, but I am finding it a bit difficult to cop that the ACT government has to be the major player in creating that transport hub. Is there forward thinking and are there conversations happening with the New South Wales government in terms of rail, in terms of the involvement of the city of Queanbeyan, in terms of making land available for large-scale wholesale storage, for example—those sorts of things which would be at the end of that road?

MRS DUNNE: Well, you know that's not happening.

MR HARGREAVES: Is there any sort of work being done about that?

Mr Quinlan: Yes, there have been some discussions. I have met with the minister for regional development, David Campbell, a matter of weeks ago and set an agenda. We have set up a process for dialogue—we are now talking economic development rather than Treasury, by the way.

MR HARGREAVES: Overview.

MR SMYTH: We will do that this afternoon. Come back to Treasury.

Mr Quinlan: Yes, so we are heading in that direction, although what is high priority for us will be only moderate priority for New South Wales because they have got all their other pressures and issues. But, yes, be assured that we are actually trying to set up what is genuinely a meaningful ongoing negotiation process and not just a bit of a talkfest every now and then.

MR HARGREAVES: Okay, thanks for that.

THE ACTING CHAIR: Ms Dundas.

MS DUNDAS: I actually wanted to ask about the economic review committee function of cabinet. The budget papers show a number of general savings made by departments and also a whole lot of internally funded initiatives. Has every department been asked to meet a target?

Mr Quinlan: Effectively, yes—1 per cent as a general target. Some departments have been through the whole ERC process, like Treasury, and have offered up greater savings; also Urban Services and health; health, because of the health index that I talked about earlier, being a greater growth rate than a general price index, is virtually agreed.

Amongst all the things that have come out of the ERC process benchmarking requirements, it has been agreed that they can fold whatever savings they make—and they can still pursue those savings—back into improved service; whereas, say, with Urban Services, we are looking for an efficiency dividend.

MS DUNDAS: So that is why health—

Mr Quinlan: And, as with Treasury, it is an efficiency dividend, yes.

MS DUNDAS: And so that's why health has a whole lot more of those department-funded initiatives than any other department.

Ms Smithies: Ms Smithies, Treasury. The internally funded initiatives that are coming forward from the health portfolio actually relate to the growth funds. Health as a portfolio is indexed by CPI plus, I think—a sort of composite rate of probably an average of an additional 12 per cent per annum for growth in services. That equates to around $7 million or $8 million per annum and each year those growth funds are allocated through the budget process to areas of, basically, demand in relation to health services.

MRS DUNNE: And when were the growth funds put in?

Ms Smithies: Four years ago, 1999-2000. The other area I should add that was excluded from general savings was the education portfolio.

MS DUNDAS: Is that the whole Department of Education, Youth and Family Services?

Ms Smithies: No, just the education part of the department. And obviously to maintain government funding in real terms per capita, there was no expenditure reduction in target placed on the education side of the budget.

MS DUNDAS: What savings was then asked of the youth and family services side of the department?

Ms Smithies: If you turn to page 204 in budget paper No 3, there is a savings target of $300,000 on the residual of the department.

MS DUNDAS: I am sorry, that is the general savings table. So why is the general savings different to the return of unused funds? Is it part of the calculation?

Ms Smithies: What do you mean by the "return of unused funds"?

MS DUNDAS: Well, some departments actually list in their budget papers. Some are saying general savings that they have been able to meet; others are saying return of unused funds.

Ms Smithies: The general savings targets are essentially a reduction in budgets moving forward. The return of unused funds generically relates to where there has been a government-funded initiative in the past where the costs have perhaps come in lower than expected or the initiative has not necessarily been completed. And rather than letting agencies retain those funds, often those funds are returned to the general budget.

MS DUNDAS: Okay. So just to clarify, Treasurer: Treasury, the Department of Urban Services and health have been through the full economic review process. The economic review committee has been operating for three years, and I remember from the 2002-03 financial year there was a much more aggressive timetable in terms of getting departments through the ERC. Are you, all things going well in October, looking to step up the ERC work and actually get more departments?

Mr Quinlan: Well, I think we intend to continue it. It's been a very rigorous process.

We are still going in some areas of urban services. We have, for example, determined that the structure of urban services needs to be reviewed, and that came out of the final meetings that we had in relation to ERC. This year we are doing JACS, CMD, and finishing DUS and education.

MS DUNDAS: So even though education this year has been quarantined, the department of education and family services will over the next 12 months be put through the ERC process?

Mr Quinlan: And we will continue. That will be a cycle that will go on indefinitely. What we did with the budget in terms of saving—and I will use some of the terminology of my friend here, Mr Weeks, who talks about low hanging fruit—was, when all of the submissions came in for proposals for budget funding, certainly cull those back to what we could manage and prioritise. It takes a great amount of the energy of cabinet in the process. When we got to a point where ministers started to dig in and say, "This is needed, it is needed, we still can have the budget in balance," we started then to say, "These are all the things you want. Let's have a look at all the things you do and look at the lowest priorities you've got in what you do now." So the budget process becomes a bit more rigorous and has a bit of a deeper look than it can when you have just got a process of add-ons, where it's "last year plus I want to do this and this and this". The severe temptation for departments, I've got to say, is to invent new names for old work. The process is always at risk of encouraging and promoting agencies to invent new means to get money. It is a bargaining process between government and the agencies.

MS DUNDAS: Just one last question. So, to clarify the work of the ERC over the last 2½ years, three years: you have done three departments and you expect to do three departments in the next year.

Mr Quinlan: Yes.

MRS DUNNE: And finish the ones they haven't finished.

MS DUNDAS: So why has the process been so slow in the past and why do you think you can do it more quickly in the future?

Mr Quinlan: Well, we didn't start it immediately. We didn't walk into government, form the ERC and start straight away.

MS DUNDAS: Well, it is something you are very proud of in the budget that you—

Mr Quinlan: Yes. So that is the first budget handed down. Most of the work has been done in the last 12 to 18 months, so it's now going. And that is only 2½ years into, so the first year did not see a lot of ERC activity.

MR SMYTH: Mr Weeks said in the briefing we got on budget day that the $11 million worth of agency-funded initiatives were fact rather than hollow logs. Is it possible to get a breakdown of the programs that had not delivered and where this money has come from, and what will not be continued or what has been stopped?

Mr Quinlan: Yes, I think Megan makes a point that it is probably a question for each minister as to what they have done or not done.

MR SMYTH: Well, you run the ERC, Treasurer. Don’t you know?

Mr Quinlan: But this wasn’t done necessarily as part of the ERC process; this was done as part of the low hanging fruit exercise.

MR SMYTH: But as part of the low hanging fruit exercise, didn’t Treasury ask where the money was coming from, whether greater savings were available in those programs that were being wound back or hadn’t delivered or hadn’t started?

Mr Weeks: Andrew Weeks, Acting Under Treasurer. The low lying fruit exercise was geared to bring to the attention of budget cabinet those deliverables that were comparatively low performers or low contributors to government’s maturing policy framework. On a minister by minister basis, they chose either to continue with existing programs and deliverables or to cut those back in whole or in part to produce the additional funding to meet new initiatives.

MR SMYTH: Do you have a list of those programs from where they chose to hold back or deliver in part?

Mr Weeks: No, we don’t have a list per se that would be available through the individual departments. Those discussions were purely confined to the budget cabinet.

MR SMYTH: So in terms then of an ERC, how do you know that the departments were telling the truth or would they just—

Mr Weeks: It wasn’t part of the ERC process.

MR SMYTH: It wasn’t part of the ERC?

Mr Weeks: No.

MR SMYTH: So what did the ERC do?

Mr Quinlan: Well, it examined each of the departments virtually from top to bottom.

MRS DUNNE: And did it find any savings?

Mr Quinlan: Yes.

MRS DUNNE: Well, for instance, in DUS, which is not finalised, what savings have you found in DUS? What programs are smaller—

Mr Quinlan: I haven’t got the—

MRS DUNNE: Sorry, who can tell me that?

Mr Quinlan: We can make, I think, the information available to you on the ERC.

Mr Weeks: I think the issue there, as I best understand it from the ERC process, is that it is a combination of work that is no longer required in terms of deliverables that have passed their use-by date and/or cost efficiencies that have been generated by doing things smarter.

MR SMYTH: So you can deliver us the savings that ERC found but we have to ask each of the departments on what they offered up as savings?

Mr Weeks: No, the savings weren't offered up by the departments. The 10 per cent low lying fruit exercise was an opportunity for the public service to advise ministers of what deliverables in their opinion least contributed to government's wider policy framework. Then, within a budget cabinet process, government have the choice of maintaining the existing level of outputs or choosing to forgo some of the existing outputs to fund new initiatives.

MS DUNDAS: Sorry, was it 10 per cent or 1 per cent?

Mr Quinlan: Ten per cent was the exercise. The 10 per cent wasn't taken, but to make the exercise useful the departments and agencies were required to look at 10 per cent, then to evaluate within that.

MS DUNDAS: But it bore down to be a 1 per cent saving?

Mr Quinlan: Yes.

MR SMYTH: So you will provide what ERC has and we need to ask each of the ministers as they come through?

Mr Quinlan: We can give you copy of the ERC report, can't we?

MR SMYTH: All right. Treasurer, in your other hats, what savings did your other parts of the portfolio, other than Treasury, offer up, and can we have a list of where you found savings?

Mr Quinlan: In Treasury?

MR SMYTH: Well, wearing your other hats: sport and rec, business, tourism.

Mr Quinlan: Yes.

THE ACTING CHAIR: You are coming back with your other hats tomorrow, aren't you?

Mr Quinlan: No, but I'll be then taking that on notice anyway, so I may as well take them all collectively on notice. I think that is sensible.

MR SMYTH: You will get an early start.

MRS DUNNE: On the ERC matter—and I am glad Ms Dundas raised this: it is here as a highlight and it has been a highlight in various forms since the 2002/03 budget. And by your own admission, Treasurer, it has had a pretty slow start. Although we only had basically, I think it was, two organisations set down for review last year, you only did one and a bit. How much of urban services have you done?

Mr Quinlan: We did three—we did Treasury, we did health, we did DUS.

MRS DUNNE: You did Treasury as well.

Mr Quinlan: DUS is pretty well completed but—

MRS DUNNE: Treasury wasn't listed as a highlight last year. Treasury isn't listed in the highlights last year. So is that a carryover from the previous year?

Mr Quinlan: So what?

MS DUNDAS: The Treasury was the first one.

MRS DUNNE: Treasury is the first off the rank. Okay.

Mr Quinlan: Lead by example.

MR SMYTH: And did you find 10 per cent, Treasurer—

Mr Quinlan: Yes.

MR SMYTH: or did you only find one per cent?

Mr Quinlan: One per cent, but we found—

Ms Smithies: Two per cent in Treasury.

MR SMYTH: So Treasury's example is to ask for 10 and give two, okay?

Mr Quinlan: No, wait a minute. Don't get it wrong. What we said—

MR SMYTH: Well that's what they just said. They said 2 per cent.

Mr Quinlan: No, what we said was examine your 10 per cent and then of it, give us one; or in Treasury's case, through their ERC, give us two.

Mr Weeks: There are two completely distinct exercises here. The ERC process was a detailed review of specified agencies out of which there was an expectation there would be a degree of savings, in the case of the Treasury, the 2 per cent.

The 10 per cent low lying fruit exercise is an exercise that I would expect to be followed on an annual basis to advise the government of the day from the bureaucracy's perspective that component of whatever percentage you choose to request that least contributes to government's ongoing policy framework. That isn't to identify savings; that is simply to provide the government of the day with the opportunity to consider whether to continue to fund those deliverables or whether they wish to select new, perhaps more relevant, deliverables for the forthcoming estimates period.

So one is a savings exercise, the other is a transparency exercise to provide the government of the day with choices. And I think if you go back to the mid-1990s when you adopted accrual accounting and output budgeting, one of the philosophies behind that was that you would have choices in your appropriation process based on deliverables. That's what that 10 per cent exercise is based on.

MR HARGREAVES: So it would be absolutely wrong to say that just because something is listed in that low-lying fruit exercise that it is for the chop.

Mr Weeks: Absolutely right. It is comparatively lower lying. The government of the day may choose that everything on that list needs to be maintained.

Mr Quinlan: Just review your priorities. It's commonsense. It should have been done years ago.

MRS DUNNE: Can I go back to reviewing priorities and the ERC process? In the ERC process, in the 2003-04 highlights urban services was one of the departments being reviewed, but it is now continuing to be reviewed into next financial year. How far have you got into that?

Mr Quinlan: Only its structure, isn't it? Only its organisational structure.

MRS DUNNE: How far have you got into the process?

Mr Weeks: The continuation of the DUS review is because the report that went through to cabinet was an interim report. I can't tell you how much needs to be completed—I haven't looked at it yet. We will get into the ERC process as soon as we can, following budgets, year-in processes, and then into it.

MRS DUNNE: Do you go through—and this is something I will also raise with urban services—just the structure, do you go through the programs, do you look at the things that urban services does as a matter of course like building roads to see whether there are measures in there? How is it done? Urban services, for instance, is a big sink for money. How is it done?

Mr Weeks: I can comment on the ones that I have been involved in. I was involved in the health ERC review last year in a different capacity. That was a detailed examination as far as I was concerned of the effectiveness of the expenditure base.

When we go forward I think it is important to recognise that the ERC process was established in this jurisdiction last financial year. That process will mature, and it will evolve, and I am sure it will be significantly changed as each year goes by until we get an optimal approach that works for the government of the day and the agencies concerned.

Mr Quinlan: Can I ask Khalid Ahmed to give you a rundown on what we did.

MRS DUNNE: Khalid knows about DUS, is that right?

Mr Ahmed: Well, a bit. Khalid Ahmed, Treasury.

MR SMYTH: Does anyone know about DUS?

Mr Ahmed: In answer to your question: there is no fixed formula one would look at in a department. A department's function would perhaps determine that. DUS builds roads. It also runs libraries, does the environmental work, and so on. So the program of work would depend on what a department does. It would also depend on the strategic issues that the department might face. For example, in the case of health we did take a close look at what kinds of pressures we will see emerging over the future years. In the case of DUS, similar service pressures, structural issues, and so on. That work, as Mr Weeks said, was interim. It needs a bit more work.

MRS DUNNE: But does it actually drill down, Khalid, into the things that drive the costs—you know, Roads ACT, the cost of bitumen, and how much it costs to pave. Do we actually sort of drill down to see that the costings are on the mark?

Mr Ahmed: In principle, yes, it should do that. In the case of urban services, that's the kind of work, the benchmarking, that is yet to be done. I guess there is an issue around the practicality and the reasonableness of how far down you go. There is a point beyond which the data simply—

MRS DUNNE: The law of diminishing returns, yes.

Mr Ahmed: Yes. The returns diminish. The effort is so much that you don't get much return out of it, or the data may not be available, or you may not have good benchmarking partners available. Ideally speaking, you start at a higher level and we would say, "How do we compare priorities with some reasonably comparable organisations or a jurisdiction?" And starting from there, that might give you some clues. I guess the point I am making is there is no set formula to this. It is an exercise where you gather information, analyse it, and see where you go with it.

THE ACTING CHAIR: All right. I have got one final question on the ERC process from Ms Dundas and then we are going to go to morning tea.

MS DUNDAS: I just have a very quick question. I have been thinking about how education was protected from the 1 per cent savings cost but youth and family services wasn't. Who made that decision that education could be protected from those savings but youth and family services couldn't, especially considering that the front page of today's *Canberra Times* is reporting that quite likely there is going to be a lot more money flowing into youth and family services in the near future?

Mr Quinlan: In the end cabinet makes that decision.

MS DUNDAS: Did it come from the Treasurer, did it come from the education minister?

Mr Quinlan: Cabinet makes that decision. "Government—I blame the government. They should do something."

MS DUNDAS: I am quite happy for you to say that as much as you want to.

Mr Quinlan: "I blame the government. They should do something."

MS DUNDAS: Well, I am not going to get any more information out of the Treasurer on this point so I will let it lie.

THE ACTING CHAIR: I'm sorry, I missed that answer.

Mr Quinlan: I think you need to understand the process. At the end of the day, recommendations and options are put forward and discussed at various levels. When the ERC process gets virtually to the final stages there is a meeting, which involves me, the relevant minister, the people who have worked on the review and the departmental people. You hammer through. I can happily tell you that the review of the organisational structure of DUS became a pointed issue at that level.

MS DUNDAS: It just seems odd that there is a $300,000 savings out of Education, Youth and Family Services over the next four years. When looking at the cost of a small business commissioner, it is around $300,000 each year. The recommendation on the front page of today's paper is that we have an independent commission for children and young people. That is a saving that is now going to have to go back into the department when it could have been—

Mr Quinlan: Well, you have to look at the recommendation. Government has to look at—

MS DUNDAS: Yes, I know. There are more considerations to be done but it just seems that we have cut into an area that obviously didn't need that cut and is going to be a huge focus.

Mr Quinlan: I understand that. I think I said in my opening statement that when you look at the budget, what values you cloak yourself with at a particular time depends on which prism you are looking through. The initiatives in the budget are so diverse in their nature that they don't actually lend themselves to direct comparison. It's always going to be a value judgment. There are things we need to do to address need in the community right now, and there are things we need to do, like a small business commissioner, which are about tomorrow. They fit within that general philosophy that in order to redistribute wealth you first need to create it. And so we are also in the wealth creation business so that this community can afford to provide the services that the community expects of it.

THE ACTING CHAIR: All right. Before we go to morning tea, I might mention that we have got the GBEs appearing with the Treasurer this afternoon after lunch. Totalcare will be going first because they need to leave by the end of the day. I need people to make a decision about what order they want to hear from ACTEW Corporation, ACTIA, Australian International Hotel School, EPIC, ICRC and ACTTAB.

MR HARGREAVES: I don't need to see any of them, Madam Acting Chair. They do a great job.

MRS DUNNE: I want to see all of them. I don't care about the order.

THE ACTING CHAIR: All right. We will go with Totalcare and then we'll play it by ear for the rest of them.

Meeting adjourned from 10.36 to 10.56 am.

Mr Quinlan: I think that I indicated before morning tea that I would give copies of the ERC reports. I have found that they are cabinet-in-confidence documents and they involve other ministers, of course, because those are their department, so I will have to withdraw that commitment and replace it with a commitment to provide a synopsis of the areas examined and a synopsis of the general findings as a reasonable indicator. I think the committee was looking for just how extensive or comprehensive was the examination and where we are looking for findings or results, so for each of the three that we have done we will give you that summary.

MR HARGREAVES: My question may very well lead to other members asking some questions. I want to get your view on the impact of the recent Commonwealth budget on the ACT, because we often have a master/slave relationship with those people.

MRS DUNNE: What is the relevance to the budget?

THE ACTING CHAIR: I think that the standing orders provide for open slather.

MR HARGREAVES: I am happy to answer the question, Madam Acting Chair. If you just hold your horses for a little while and hear the rest of the question, you will find the light switched on. I want specifically to have some reference to the removal of special revenue assistance and the loss of the national competition payments. Are there any issues about cross-border receipts, for example? What is the impact of those sorts of external influences on the budget? Is there compensation within the budget, or do we just have to cut the cloth? What is your take on all of that stuff?

Mr Quinlan: The federal budget showed that we would be getting an increase—I'll be corrected if I'm wrong here—in GST. The GST pool was a little larger, so that was a plus. National competition payments don't go out beyond next year and then they are zero.

MR HARGREAVES: Sorry, did you say that they do not go out past—

Mr Quinlan: No, in their forward estimates, they cease after next year. As to the special revenue assistance, which is a misnomer, I have to say. I contacted the grants commission and asked them to change that description in their report, but they refused. It sounds like something extra for Canberra and it's not. It's largely two elements. One is the cost of policing, and it's virtually the unit rate cost of policing which the Commonwealth charges to us in the first place. The cost of a federal copper working in the ACT is higher than one working in other states, so we have still got to go down that road of saying, "If you won't give us that money, then you won't expect us to pay you that money."

The other element of special revenue assistance is compensation for corporate affairs regulation and fees. That is a taxing power ceded by the states to the Commonwealth some time ago under an agreement that they would receive it in special purpose payment while it was collected by the Commonwealth. That process of ceding predated self-government and therefore the power to levy those taxes was not included in the self-government act, but we were always paid these moneys to put us on the same footing as we would be if we had those powers, the same footing as other states, as assessed by the grants commission. So it was below the line assistance from the grants commission.

The Treasurer is pushing it above the line, and I think he is pushing it above the line knowing that the grants commission, certainly the grants commission of a year and a half or more ago when I last met with them face to face, the whole commission, have indicated that there are certain payments that come to Canberra that should not be within their purview. What they're really saying is that they're direct payments between the Commonwealth and the ACT and yet the Commonwealth is pushing them into the pool and, effectively, making the states pay for them.

They're small beer, they're fractional, in terms of what the states have to pay. Nevertheless, they're coming out of that pool whereas they shouldn't. We've seen and I predict we will see over the next few years, if the coalition is returned to federal government, a continued assault on payments to the states. How many federal ministers have you heard say, "Oh, well, now that the states have got these rivers of gold, the GST, flowing through, they can pick up on aged care, et cetera?" That is, in fact, a process of reneging on the intergovernmental agreement which was required to allow the federal government to bring in the GST and which included a commitment by the Commonwealth that they would maintain special purpose payments at least at the pre-GST level, but there is, of course, a permanent process of trying to claw back and a process of placing conditions on those special purpose payments beyond those that applied in the past, such as equal funding or whatever, actually managing the states' budgets from the Commonwealth Treasury.

Some time ago—I think it was the election before last—the federal government made great play of holding petrol prices down by holding fuel excise at a low level. It cut it back, as I recall, and a couple of years later it virtually said that the states have to pay for that. So they made a big election play out of it, but then charged the states for it. There was a rumour that they were going to do the same with tobacco excise. We'll see; it will be one of the battles that the territory government will have to face.

National competition payments have disappeared. A year ago the word was, and I think it was stated publicly, that now that most of the requirements of national competition policy have been implemented by the states or refused, one or the other, but most of them have been implemented, that process should discontinue. I think the Treasurer said that they might place requirements on the states in relation to desalinisation to continue those payments and they might put some other conditions on the states, because at the last election they were making play of what they were going to do in terms of our waterways. But they're now not included in the forward estimates of the budget. They are, I think, being reviewed by the National Competition Council itself, whatever that might turn out to be.

So both the special revenue assistance and the national competition payments are no longer incorporated into forward estimates of the federal budget, being out there for review, which is a slow death but a distinct possibility that there is a move to reduce them.

MR HARGREAVES: That means, does it not, that as a result of that there will be a drop in revenue from the Commonwealth to the ACT in respect of the national competition payments?

Mr Quinlan: If you couple those—the increase in GST and the decrease in competition payments—and eliminate the special revenue assistance, the figure I heard, and people will nod or shake their heads in a minute, was over the four-year period of our budget probably a reduction of $33 million.

MR HARGREAVES: In respect of the national competition payments and, in fact, it's part of that reduction.

Mr Quinlan: We may get them, but we haven't got them now.

MR HARGREAVES: Is it a fair call to suggest then that the penalties applying to non-compliance will disappear also? Did we not get a penalty last year?

Mr Quinlan: We didn't pay a penalty. We had a reduction in what we received.

MR HARGREAVES: That, in my view, is a decent-sized penalty.

Mr Quinlan: Sorry, the $33 million is $31 million, I am told. Correct the record. How much did we lose last year in competition payment—$1.2 million?

Ms Smithies: Yes.

Mr Quinlan: About $1.2 million was the reduction in our competition payment in relation to taxis, hire cars and pharmacies. Pharmacies may disappear, but I think the Prime Minister has been quoted as saying, "Whoops, we got that wrong." Whether they will make up the dough for it, I don't know.

MR SMYTH: Treasurer, the other jurisdictions have actually written to the Prime Minister over pharmacy. Have you written to the Prime Minister asking for pharmacy to be excluded from these payments?

Mr Quinlan: I think the Minister for Health has had negotiations on pharmacy.

MR SMYTH: I'm told that in all the other jurisdictions the Premier or the Treasurer has written to the Prime Minister over national competition payments concerning pharmacy. It is your responsibility? Have you written to the Prime Minister?

Mr Quinlan: I will have to check on what correspondence I've had on competition payments over time.

MR SMYTH: You can't recall writing to the Prime Minister recently over competition payments on pharmacy?

Mr Quinlan: I can't recall writing—not in the last few weeks, no.

MR SMYTH: Is this a spreading of memory index loss or is it that you just can't recall?

Mr Quinlan: I don't appreciate that comment, mate.

THE ACTING CHAIR: Mr Smyth, that's not an appropriate question.

MR SMYTH: It's important. I've been contacted by a number of pharmacies. There's a clear case. There are about 63 pharmacies, there are two or three chains and there is a cooperative, yet your government seems hell-bent on giving friendly societies a free run in the ACT that may come at a cost to the territory.

THE ACTING CHAIR: What is your question, Mr Smyth?

MR SMYTH: It's all about national competition policy payments.

THE ACTING CHAIR: What is your question?

MR SMYTH: The question is: has the health minister informed you that, if friendly societies open in the ACT, they will perform fewer functions than existing pharmacies and that existing pharmacies may refuse to do things like methadone programs which save the territory money? Have you made allowance in this year's budget for pharmacies to provide fewer services to the community if the national competition policy goes ahead and if your legislation goes ahead?

Mr Quinlan: I can recall that whole range of matters being discussed at cabinet, but I'll have to take on notice exactly what has been decided. You might ask the minister involved, actually.

MR SMYTH: We might ask him as well. In terms of taxation, though, friendly societies don't pay tax in the way that an ordinary business would pay tax. Has any work been done by Treasury on allowing friendly societies into the ACT and what the effect of them trading here would have on your revenue base?

Ms Smithies: Payroll tax? Is that what you're talking about?

MR SMYTH: Any number of benefits they get. It might be payroll tax, the way they pay differential taxes.

Mr Quinlan: No, I'm not aware of it. As I understand it, the major slice would be federal taxes anyway, business taxes.

MR SMYTH: Does that mean a business impact study wasn't done before this bill went through cabinet?

Mr Quinlan: In terms of an assessment of cost? Every decision that goes through cabinet has an assessment of the cost impact. Exactly what it is, I can't recall off the top of my head.

MR SMYTH: Will you take it on notice and find out whether it was done?

Mr Quinlan: Yes.

MRS DUNNE: While we are on national competition payments, you said, Treasurer, that last year we failed to get $1.1 million because we haven't got our act together on taxis. This is something I will be raising with the minister when he comes, and I think other members have an interest in it. We had the Limousine Association in here yesterday, as one of the community groups, having a whinge, a justifiable whinge, about the fact that there is nothing in the budget to deal with deregulation of the taxi industry.

What are you, as the minister responsible for national competition policy in the broad sense, doing to ensure that urban services get their act together over the taxi and limousine industry deregulation? There is a report from the Standing Committee on Planning and Environment that is overdue for government response. There were specific recommendations in that and there was a clear expectation, at least from the Limousine Association and I suspect probably from some of the members of the planning and environment committee, that something might appear in the budget. Where is it?

Mr Quinlan: I can tell you that I've had some discussions with the minister. I'm aware of the report that, I think, recommended a total buyout, which I don't particularly agree with. Quite frankly, I think—it is my personal opinion now—it's an absolute nonsense to talk about deregulation of taxis in a jurisdiction the size of the ACT. It's a different question with hire cars and I've had some discussions with the minister, indeterminate discussions at this point, in relation to the hire car industry.

MRS DUNNE: This report has been out since 19 December, some date like that. The budget has just been brought down. We lost $1.1 million in national competition payments last year because we didn't do this. The general view is that buyout or deregulation of the hire car industry would be in the vicinity of $2.6 million. Why haven't the government done the work? Why haven't you and Bill Wood—

Mr Quinlan: I cannot answer for the minister.

MRS DUNNE: But you are the minister for national competition policy.

Mr Quinlan: No, I'm not the minister for regulation of taxis and hire cars.

MRS DUNNE: But you are the minister who moans and groans when we don't get the national competition policy money. What are you doing to ensure that your government actually gets its act together?

Mr Quinlan: I'm the Treasurer and therefore virtually everything the government does is measured within the budget, but I'm not responsible for everything that the government does.

MRS DUNNE: But you're the person—

Mr Quinlan: Sorry, Mrs Dunne, I'm not taking responsibility for it; I'm sorry.

MRS DUNNE: So the answer is you've done nothing.

Mr Quinlan: Keep asking the questions. I have told you I have spoken to the minister regarding particularly hire cars.

MRS DUNNE: Can I go back to Mr Hargreaves's first question for the morning?

MR SMYTH: Before we move on to that, was there a request for cash in the budget to pay out the taxis or the hire cars and was it knocked back?

Mr Quinlan: I can't recall one way or the other and I don't think it's appropriate to ask what was requested or what was put forward to cabinet and what was included or excluded.

MR SMYTH: Why isn't it appropriate?

Mr Quinlan: Because that is cabinet-in-confidence. That's why you have a cabinet-in-confidence process. What do you want me to do—sit here and say, because you can't think of anything yourself, "I'll give you a list of initiatives that you might then say the government ought to do"? Sorry. Do the work yourself, Mr Smyth.

MR SMYTH: The estimates committee is to determine whether the government has established appropriate priorities. If you've knocked back things like payments to the taxi and hire car industries that are subject to a P and E report, it's quite a reasonable question.

Mr Quinlan: Sorry, it doesn't work that way and you know it.

MR SMYTH: It is quite a reasonable question.

Mr Quinlan: It does not work that way and you know it.

MR SMYTH: It can work that way.

Mr Quinlan: That is quite stupid, Mr Smyth.

MR SMYTH: Why is it stupid, Treasurer—because you don't like the question?

THE ACTING CHAIR: Order, Mr Smyth!

Mr Quinlan: I think it needs to be resolved, Ms MacDonald. I'll state this: it is not appropriate for ministers to be sitting in here telling you of the fine detail of debate and negotiation in cabinet. You know that. If you don't know that, you don't belong in this place.

MR SMYTH: Perhaps we need to change.

THE ACTING CHAIR: Mr Smyth, let's move on.

MR SMYTH: I'm sure that I'm entitled to respond to what he said.

THE ACTING CHAIR: No, you're not.

MR SMYTH: I would have thought I was. So you're stifling debate, are you?

THE ACTING CHAIR: No. Mr Smyth, this is not a place for debate.

MR SMYTH: Just gagging debate. Surely it's a place for debate. It's a place for questions.

THE ACTING CHAIR: It's a place to look over the estimates. You know the purpose of estimates, Mr Smyth.

MR SMYTH: Yes, to scrutinise what the government has expended and not expended, and the Treasurer won't answer the question.

THE ACTING CHAIR: Yes, that is true, but it's not a place for debate. The place for the debate is on the floor of the Assembly. If you want to have this debate, go to the floor of the Assembly, Mr Smyth.

MR SMYTH: I will do it in the Assembly as well.

THE ACTING CHAIR: That's where you do it, not here, Mr Smyth.

MR SMYTH: I would have thought the purpose of the estimates committee was to determine whether the government got its priorities right, except that he won't answer on what priorities were ignored.

MR HARGREAVES: Mr Smyth is not a member of this committee.

MS DUNDAS: Obviously, if it's not in the budget, then it was ignored.

MR SMYTH: It's nice to know what was ignored.

MR HARGREAVES: Everything that you've said so far has been ignored, Mr Smyth. Madam Acting Chair, I ask you to continue with the meeting.

THE ACTING CHAIR: Yes. Mrs Dunne has a different line of questioning; is that correct?

MRS DUNNE: Yes. I'd like to go back to the first question, an excellent question, that Mr Hargreaves asked this morning about the long-term financial objective of minimising risk to the territory's finances and assets. I have two questions. I'll ask them both and then you can answer them in series. What are the specific measures in this budget that are there to minimise the risk in the long-term to the territory's finances and assets? Given that this budget was put together, essentially, in April, what is the impact on the budget now of the escalating price of oil, which clearly was not factored into the list of forecasts, for instance, which can be found on page 11 and various other places throughout here?

Mr Quinlan: Let me say just in summary, and I'll get Mr Broughton to talk a bit more about the specific measures, that the major specific measure in terms of risk avoidance is the budget itself, the whole thing.

MRS DUNNE: What are the specific measures that are you putting together to ensure the security—

Mr Quinlan: Can you give me an example of one that you might be thinking of, Mrs Dunne?

MRS DUNNE: Looking at the Canberra asset base, what budget measures, apart from things like stopping fires coming to town, are there to ensure that the asset base is maintained, that it isn't depreciating beyond what you would expect? What is there to ensure that we are building on our base and not running it down, as a for instance? There are a whole lot of alarm bells in here about our financial situation.

Mr Quinlan: Like the situation in the previous government with public housing maintenance.

MRS DUNNE: I'm talking about the general alarm bells in here, about the fact that the budget says that we're going to have to look further and further into taxes, fees and charges to underpin the budget. You are saying on page 6 that your long-term objective is to minimise risk to territory finances and assets. What are you doing, for instance, to counteract the fact that on page 96 of BP3 you are saying that expenditure is going north and revenue is going south? What are you doing to address that in this budget, and what foundations will you be laying down in this budget for subsequent years? It is a simple question, Treasurer. You are the Treasurer, aren't you?

Mr Quinlan: The answer is the bottom line.

MRS DUNNE: But the message about the bottom line here, first of all, is that we're going into deficit next year. How is that minimising the risk to our finances?

Mr Quinlan: That phenomenon has been explained in terms of land sale timing as the process of delivery of serviced land changes.

MR SMYTH: That was the excuse last time, too.

MRS DUNNE: That was the excuse for it going up last time.

MR HARGREAVES: It worked, too; there was a budget surplus. It wasn't an excuse; it was a reason.

Mr Quinlan: It's quite explicable, and the government is committed, as I think we did before we came to government, to keeping the budget in surplus over the economic cycle, which we intend to do.

MR SMYTH: Electoral cycle, surely, Treasurer.

Mr Quinlan: I have tried to explain to you, Mr Smyth, that if you keep it in surplus over any given rolling four-year period you will keep it in surplus over the economic cycle, which just happens to be a little bit more complex, but you'll get your head around it one day, if you try.

MR SMYTH: Explain it, Treasurer, because I'm not aware of any other economist who actually knows when the end of the economic cycle is. You seem to be in advance of everyone else in the world.

Mr Quinlan: When they say economists, economists have predicted 10 out of the last three busts or booms that we've had. I think you do understand. Do you understand what an economic cycle is?

MR SMYTH: I've got a fair idea what an economic cycle is.

Mr Quinlan: You've been giving public lectures on it, I know.

MR SMYTH: I know the difference between that and an electoral cycle, too. Steven Cates, at the chamber breakfast, didn't share the need or the desire to go into deficit. He says that the real effect comes from continual surpluses, not surpluses and deficits.

Mr Quinlan: Steven Cates works for the chamber of commerce.

MR HARGREAVES: A good bipartisan organisation!

Mr Quinlan: Yes. He said as he stood to deliver his homily, his description or his commentary on the federal budget, "For the ninth time in a row, I must say this is a good budget." What's the point of having you there, Steve, if you're just going to be an apologist for the government? I think I did read into *Hansard*, Mr Smyth, the quote from Alan Tregilgas from Access Economics, "They can probably afford to run their budget in the red for several years before having any problems."

MR SMYTH: And I read the quote from the *Canberra Times* that said that it's a budget of lost opportunities, missed opportunities.

MR HARGREAVES: The *Canberra Times*! It's got to be true!

Mr Quinlan: I'll back the *Financial Review* versus the editorial in the *Canberra Times* written by Jack Waterford, which was totally inconsistent with all the reports in the same edition of the *Canberra Times*. What do you think Mr Waterford was doing with his? And he used those particular words, Mr Smyth; he used, in fact, your words. What do you think he was doing?

MR SMYTH: So Jack Waterford is now a friend of the Liberal Party and an apologist for the Liberal Party.

Mr Quinlan: No, Jack is a bit of a stirrer, as we know, but I think he's also interested in the uphill battle of trying to create an even playing field for the rest of this year—very difficult.

MR SMYTH: It was just a political commentary!

Mr Quinlan: I think so.

MR SMYTH: Jack Waterford and the *Canberra Times* are on the side of the Liberal Party in the ACT! It's an interesting view of the world, Treasurer.

MRS DUNNE: Can I get back to the question, Madam Acting Chair?

Mr Quinlan: No, I don't extend it that far, but I do think that it was tactical.

THE ACTING CHAIR: Order! Can I just grab back some order for a moment so that we can have an answer to Mrs Dunne's question?

Mr Quinlan: Okay. Can we have some detail on the question?

THE ACTING CHAIR: I would ask Mr Smyth not to interject on the answers being given to Mrs Dunne's questions.

MR SMYTH: I am just responding to his answers.

THE ACTING CHAIR: This is not the place for you to respond, Mr Smyth.

MR SMYTH: Oh! I thought it was a place of inquiry, Madam Acting Chair.

THE ACTING CHAIR: It is the estimates process, Mr Smyth, but you're not a member of this committee.

MR SMYTH: I thought the estimates process was about asking questions.

THE ACTING CHAIR: You're not actually a member of the committee, but you are part of—

MS DUNDAS: Can we actually have this debate at lunchtime so that we can get some more questions to the Treasurer?

THE ACTING CHAIR: Point taken, Ms Dundas.

Mr Quinlan: I apologise, Madam Acting Chair.

THE ACTING CHAIR: I think Ms Smithies was about to give an answer.

Ms Smithies: I can give some examples. The capital works program itself contains a reasonable mix between new works and works which are actually an investment in terms of major capital works in maintaining existing capital infrastructure within government service delivery. In the budget for the capital works program itself, there's a provision moving forward of around $80 million per annum to ensure that there's always financial capacity to at least have a traditional level of capital works in the territory relating to our own built and managed assets.

There's an enterprise risk management strategy which has been introduced across the territory. Also, the government continues its superannuation funding strategy, which will take care of the territory's largest and longest term liability, our superannuation liability. That funding continues along with the strategy to have it 90 per cent funded by 2039-40.

MRS DUNNE: Is that on target?

Ms Smithies: That's on target. There has been an increase in the injection for superannuation of slightly more than $100 million over the next four years to maintain this strategy, simply because of the changed actuarial result that we had from that in the middle of the year. The ERC process itself will be a rolling process and will continue across the forward estimates, which is aimed at ensuring that the public expenditure is always examined across financial years to ensure that basically expenditure is value for money.

There has been a $10 million injection into ACTIA for ongoing insurance to recapitalise ACTIA after the bushfires so the work of ACTIA itself continues. There are smaller examples. For example, in the recurrent budget the government schooling budget has been increased by $2 million per annum, and that relates to ensuring that there's a higher degree of ongoing repairs and maintenance on our government school assets, because there's fair evidence that there was a need to increase our effort to maintain our built assets in relation to education.

On 18 March 2004, the public sector integrity policy was launched and that integrity policy covered integrity risk assessment to underpin departmental fraud and corruption plans. We've continued with forcing through the public service the importance of departmental audit committees to ensure the proper use of territory resources within each department. There is the development of the public sector integrity management standard. There is the continued work in relation to corporations and public sector enterprises in relation to governance to try to minimise our risk in relation to our GBEs, our statutory authorities and our TOCs. Included in that is the extension of internal audit facilities or frameworks in relation to those entities. So I think it's fair to say that there's actually a lot going on.

Mr Quinlan: Bus replacement.

Ms Smithies: And there is bus replacement.

MR SMYTH: It's good that other people remember, Ms Smithies.

MRS DUNNE: Stop sending Ms Smithies little notes.

MR SMYTH: She's having note overload.

Ms Smithies: I've got buses and I've got ownership agreements.

MRS DUNNE: Thank you for that. They're the answers that I would expect Ms Smithies to be able to give, but I expected the Treasurer to be able to give them as well. That leads to my other question about a possible oil shock, that is, that you have put in place a whole lot of contingencies for the current set of predictions, which are roughly summarised on page 11. What are the contingencies if those assumptions turn sour? Is there plan B?

Mr Quinlan: As in whether I have a cache of dough somewhere that we'll produce out of the ground?

MR SMYTH: No, because you're spending it.

MRS DUNNE: You've spent it all.

Mr Quinlan: Just have a look at the cash balances.

MRS DUNNE: Look, a couple of contingencies could go sour. We've talked about oil, and I'd like to come back to that. That could potentially have an impact on CPI and that would flow through the whole budget. If we have a less than soft landing in land prices, and the government's budget over many years, it is not necessarily critical of this budget alone, is pretty much dependent on land sales as a cash cow, what happens? What happens if the demand for property falls and prices come down? What is plan B if all these assumptions here start to turn sour?

Mr Quinlan: We spent some time earlier in this hearing examining the conservative measures that are in this budget to start with and that level of fiscal responsibility is incorporated into the budget. The further out you go in the budget from the current year, there is what is termed conservative bias in the budget which creates, in itself, a buffer against the conservative estimates that we have being even worse off. The financial review analysis, of course, is spot on. The ACT economy and the ACT balance sheet are in very, very rude health and our capacity to handle a downturn is very, very strong. It's strong in the balance sheet itself. Of course, you can say that things are going south because you're just coming off a peak—

MRS DUNNE: No, I'm not saying that.

Mr Quinlan: What we're saying is that we're budgeting our way off that peak, but making sure—

MRS DUNNE: I'm actually asking specific questions, Treasurer. You've made assumptions in the budget and some of those assumptions are based on the cash cow of land sales. God knows what happens when we run out of land to sell in the ACT.

Mr Quinlan: We've got a way to go.

MRS DUNNE: We've also made some assumptions about CPI which were, as far as I can tell, put together before the price of oil started to go north. What will happen if, given the sort of geopolitical situation we have at the moment and the uncertainty that has on oil prices, we continue to see $US40 a barrel and over a dollar a litre for petrol? What sort of impact is that going to have on the budget, and what is plan B if that comes about?

Mr Quinlan: Plan B is the budget itself; it is the conservatism in the budget, the capacity, the various dimensions of the protection and the risk management within the budget itself. I will let Mr Broughton address some of this risk.

Mr Broughton: Thank you. If I could say a couple of things about the inflation, we usually use the commonwealth's forecast of inflation because we are not in a better position to judge that. There is a possibility, if the oil prices stay up and that is maintained over a fairly lengthy period of time, that that could flow through to higher inflation figures than we are looking at here.

MRS DUNNE: What is the impact on the budget of that?

Mr Broughton: Part of that would be that in some parts of our budget there may be some pressures. We are not a direct consumer of a lot of fuel but a lot of things that we do consume are transported into the ACT so there would be some flow-on impacts there. It also needs to be considered that if inflation were to go up to the extent that the RBA decided it needed to be controlled there is a likelihood they would increase interest rates. Now, that has some flow-on impacts in the economy in terms of the way people spend their earnings et cetera, but the other good thing about that is that because we are in a net interest-earning position, if the interest rates go up the return on our investments exceeds the cost of our debt financing—I think by something like about $40 million or $50 million in 2004-05—so we would be looking at an increase on that side. So there is a bit of a counterbalancing effect coming through in our financial assets and liabilities.

There is a possibility that the property situation might go worse than we anticipated. We think the signals are out there that it will be a soft landing. We thought the ACT would be better positioned than some of the other capital cities for a soft landing. I now note that most commentators are predicting a soft landing throughout the country. Already there is a little bit of concern that the market has not softened as much as people expected and that the RBA might have to look at that the next time they meet to discuss interest rates. So I think the risk that there might be a lowering of the property market beyond the soft landing is probably not as great as perhaps we thought it might have been a month or two ago.

MRS DUNNE: The summary of that is that you, Mr Broughton, cannot see the impact of rising oil prices to be that drastic in the life of this budget because there are benefits for us through potentially increased interest rates—for the budget as opposed to the average mug punter?

Mr Broughton: Yes, that is right. Fiscally there are some offsetting benefits that come through if interest rates rise as a result of the CPI going up. There is a question mark about whether the oil price rise is permanent or not. It seems at the moment to be driven by geopolitics and one would hope that it would come back down. It is in the interests of the oil producers to have the price come back down and so I do not expect it is going to last for a long period of time.

THE ACTING CHAIR: Ms Dundas has some—

MR SMYTH: Can I just follow on from that on the super?

MR HARGREAVES: Point of order, Madam Chair. Ms Dundas has not had an opportunity to ask a question for an awfully long time. She is a member of this committee and I think she should be given priority.

MR SMYTH: I only asked if I could.

MS DUNDAS: Mrs Dunne has had the questions. I am happy if Brendan asks a question.

MR SMYTH: I notice that the investment earning at 30 June 2005 actually goes down. You are predicting $83 million this year, $75 million next year, then back up to $93 million in 2006.

Mr Broughton: Sorry, what page are you on?

MR SMYTH: Page 259 of budget paper 3. Can you explain why that would be if things are on the way up?

Mr Broughton: The reason for that is that when we draw up the budget, we use the long-term expected investment returns as our basis for calculating investment earnings. At the moment, the way that our portfolio is spread, we expect a 4 per cent real return on investments, and that is what we have plugged into the first three years of the budget. Beyond that, we are looking at 5 per cent real because by then we will have had our final asset allocation in place. In this financial year, 2003-04, we are doing much better than that. The figure of $83 million there on our super investments, reflects the fact that the market has been a lot stronger than our long-term investment objective.

MR SMYTH: So you are expecting it to dip next year?

Mr Broughton: Well, next year we expect it to go back. We really have a limited basis for predicting anything much than what we are seeking to achieve by the way we structure our investments. So next year we are looking at 4 per cent real. This year our return is, I think, closer to about 5 per cent or 5½ per cent.

MRS DUNNE: What was it predicted to be this time last year? It has $83 million and you are predicting it to go back to $75 million. So, what was it predicted to be this time last year?

Mr Broughton: This time last year, we were looking at a 3 per cent real return on investment.

MRS DUNNE: But see that $83 million there, that is an updated figure from last year?

Mr Broughton: Sorry, yes. We predicted $59 million as our investment return. It is now looking at $83 million.

MRS DUNNE: So it is not going south, it is just that we are doing better than we predicted this time last year?

Mr Broughton: That is right.

MS DUNDAS: I was going to ask about something that we raised with the Auditor-General yesterday afternoon. That is in relation to how figures are reported in the budget papers. Some questions have been raised about how percentage variance is counted in the budget papers.

MRS DUNNE: This is the big issue of the budget.

MR HARGREAVES: As a matter of fact, it is a big issue of the budget because so far the budget papers have lied.

MS DUNDAS: There are continuing, what we will call mistakes, through the budget papers. There was a targeted 3 per cent and the result was 2 per cent. The variance is listed as 1 per cent when clearly that is not true. So, why is Treasury maintaining that this would be the way that percentage variances are counted in the budget?

MR HARGREAVES: I suggest, Ms Smithies, that you take this issue seriously.

Ms Smithies: I do. I have discussed it with the Auditor-General staff themselves. There are two ways of doing a variance. I did not hear yesterday afternoon, but was there discussion mostly around performance measures—where an outcome that is measured in a percentage and then another outcome that is measured in percentage and we are taking the difference?

MS DUNDAS: Yes, output classes.

THE ACTING CHAIR: Yes, that was the discussion.

Ms Smithies: The way the Treasury guidelines are at the moment suggests that in instances where your performance target is already stated in the format of a percentage variation, simply taking a percentage variance on a percentage variation in essence basically magnitudes or amplifies the variation. It is a difficult issue to explain. When, in essence, the percentage variation in itself talked about a movement from one place to another, in the first instance. It is hard to explain.

MRS DUNNE: I want the Treasurer to explain it.

MR SMYTH: Well, the Treasurer can, because he is so good at economics and accounting. He likes to remind me of that. Perhaps the Treasurer could explain it?

THE ACTING CHAIR: Order!

Mr Quinlan: You are the one who is reminding us, Mr Smyth. Keep doing it.

MR SMYTH: You are the one who keeps asserting it, Treasurer. Perhaps you could explain it?

THE ACTING CHAIR: Order! That is enough of the banter. I call the committee to order.

Ms Smithies: I believe that taking a percentage variation on a percentage variation leads to a misleading outcome in any case. For example, if an original performance measure had been 77 over 100, or 77 instances out of a population of 100, that would be a 7.7 percentage increase. If the result were 80 out of a population of 100, that would be

8 per cent—80 out of a 100 is 8 per cent. The movement when viewed in raw terms between 77 over 100 to 80 over 100, is three over 100 which in percentage terms is 0.3 per cent. That gets you a variation of 3 per cent. But if you were to take the percentage variance on a movement of 77 per cent to 80 per cent, you would get something considerably different.

MS DUNDAS: I think that is the important point. This was raised by the community services committee in relation to the Department of Disability Housing and Community Services, where the specific target was tenants over eight weeks in arrears in ACT housing. The target was 3 per cent but the result was 2 per cent, which means a 33 per cent difference, which is quite a good outcome in terms of keeping tenants under arrears and it has a financial impact because housing needs the rent money coming through to maintain its outputs. Whereas if there is a 1 per cent difference, it does not look like there is much going on at all, but in money coming in through rents over arrears, a 33 per cent difference is quite significant.

Mr Ahmed: I guess that is the issue here. You could prove the question from two angles. One is purely a mathematical construct.

Mr Quinlan: Can I just make a point? In the example Ms Dundas is giving, a difference between 1 per cent and 2 per cent would be 100 per cent.

MS DUNDAS: I said 3 per cent and 2 per cent.

Mr Quinlan: No, just an example. A shift between 1 per cent variance and 2 per cent, in your case you would want to see it as 100 per cent, and if there happened to be another measure that just happened to be a different quality and you had a shift between 9 per cent and 10 per cent, there would be 10 per cent difference. There is still only the same degree of movement. To communicate what has happened—unfortunately it does not give big dramatic numbers—but to communicate what has happened—

MS DUNDAS: We are not looking for big dramatic numbers. We are looking for accurate reporting.

Ms Smithies: I think that part of the answer to this, which is something that we do need to discuss with the Audit Office, is taking a look at the explanation that goes with some of these variances. In not all cases should the column that is supposedly talking about variance be a percentage variance. Some cases may well be a population variance or a dollar variance; in some cases a percentage variance might make sense. But we need to ask ourselves what makes sense in relation to the information that we are providing and the management information that we want to give to government, Assembly, community. Perhaps we need to start taking a look at those columns and putting in what is important rather than being driven by a pro-forma title, which is what we are locking ourselves into here.

MS DUNDAS: The major problem is basically the heading, which is "Percentage Variance". Are you going to be changing that?

Mr Ahmed: I guess the issue—if I could continue—is what are you trying to communicate through that variance? What does it mean? Say, for example, you have a target of 60 per cent customer satisfaction in any one of the services and you achieve 54 per cent. Does that mean that you have not achieved your target by 10 per cent, or does that mean that 6 per cent of your customers that you wanted to satisfy are not satisfied? I guess the point I am making is the figures here are not as dramatic as the example that you gave with the difference between 1 per cent and 3 per cent.

MS DUNDAS: But that is a real example from the report.

Mr Ahmed: That is right.

Ms Smithies: In that example, I think what we would like to say is that instead of 60 out of every 100 customers being satisfied, what happened was 54 out of every 100 customers were satisfied. But we need to start changing some of those performance frameworks to zero in on what is meaningful.

Mr Ahmed: If you calculated purely as a mathematical formula you would say 10 per cent variance. But the other way to look at it is six out of every 100 customers that you wanted to be satisfied as a target were not.

Ms Smithies: I have to say from my conversation with the Audit Office, the way that they tended to be going was consistency rather than a result that would be useful for the people who are reading the reports and therefore a bit more by way of explanation as part of those statements. So in a way what we have is a performance-style template being driven for consistency across all of our reporting outcomes rather than necessarily something that suits users. That is the way we should go.

MS DUNDAS: Are you going to be working to change the headings over the next financial year as a simple answer?

Ms Smithies: In relation to the budget documentation we will be looking at changing much more than that in relation to our performance data.

MS DUNDAS: This kind of flows on, it is a little bit separate, but budget paper 5 talks about changing performance measures and triple bottom line reporting. It was put out as a consultation document, that was said quite clearly, but there is no time line in that document for that. Is there a time line? Is there a framework for consultation?

Mr Quinlan: Yes. Do you have that?

Mr Weeks: I think when we put that document together we were very keen to initiate a debate. I think rather than sit back and say we want a finished product by the end of December or whenever you choose we were much more interested in getting a good solution. I am quite happy to sit back and take the time that is necessary to achieve that. It is not just triple bottom line, there are emerging international accounting standards which are going to affect the budget. There is the issue of the government's strategic plan for the ACT, the Canberra plan. That needs to be factored into the budget. I think it would be premature at this stage to sit back and say we can do this in one month, three months or six months. I think it is much more important to get in place a process that allows the key issues to be thoroughly debated and we end up with a robust solution.

MS DUNDAS: How will that debate be facilitated, though?

Mr Quinlan: We will advertise. We will advertise for interest in consultation on the process of reporting.

MRS DUNNE: Can I go down a different hollow?

MR HARGREAVES: I have a question also.

MS DUNDAS: We all have different paths now.

THE ACTING CHAIR: Yes. In the interest of fairness I will go Mr Hargreaves, Mrs Dunne and then Ms Dundas.

MR HARGREAVES: Page 102 of budget paper 3 talks about the pension rebate on rates.

MRS DUNNE: Pensioner rebates on rates. This increases the rebate cap for assistance.

MR HARGREAVES: I beg your pardon?

MRS DUNNE: It is all right, I am just putting people in context. I am contextualising for members.

MR HARGREAVES: Thank you for that. Good on you. I have not been able to find it somewhere else, so I apologise if it is somewhere in here and I have not been able to find the information. I wanted to know how many people do we anticipate will benefit from this pensioner rebate scheme? Also, how does this scheme compare with New South Wales? Out there in the traps, people keep saying, “It’s not as good as New South Wales”.

Mr Quinlan: Take it on notice if you like.

Mr Dowell: Graeme Dowell from ACT Revenue. I will need to take that one on notice.

MR HARGREAVES: Are you going to be able to give me a sort of an opinion on how our rebate scheme compares with New South Wales? I know the numbers might be a bit of a take-on-notice job.

Mr Dowell: Yes. The rebate schemes are different across New South Wales because the rates are clearly a local government matter. So there are differences.

MR HARGREAVES: Can you give me some examples of it? What sort of variation on that?

Mr Dowell: No, we will need to take that on notice as well.

MRS DUNNE: I would like to go to page 247 of budget paper 3 and also to the erratum for page 247. I would like to raise this generally here because this is a budget issue, and I will also raise it this afternoon when ACTEW come. What we see from the erratum is that we have in the budget paper a reduction in our debt and in the erratum an increase in our debt over 2004-05. What has brought this about and why was it not included in the budget paper in the first place?

Ms Smithies: Sorry, this is the $25 million we were borrowing?

MRS DUNNE: Yes. We go from $25 million in commercial paper.

Mr Quinlan: As I understand it, it is the net needs of ACTEW. ACTEW are involved in some substantial capital works at Googong Dam. We will confirm this information this afternoon because I want to guarantee the detail of what I have.

MRS DUNNE: You will tell us what the money is for this afternoon, but what situation does that put us in? The budget papers as published say that our debt situation is improving but the erratum says that we are $6 million worse off over the financial year in relation to debt. So what has brought that about?

Ms Smithies: The simple variation between what was published in the budget papers and what ended up in the erratum is simply a mistake.

MRS DUNNE: It is simply a mistake?

Ms Smithies: It was simply a mistake.

MRS DUNNE: There was not something that happened in that time?

Ms Smithies: Absolutely not. It would probably be no surprise to you to know a lot of the tables that go into the budget papers are popped into the budget papers weeks and weeks in advance of final numbers being closed off and full reconciliations, et cetera. Then we write the text around it. Usually we go back and re-paste all of the tables. It was simply a mistake.

MRS DUNNE: All right. That is fine. So we can raise with ACTEW this afternoon what their $25 million extra is for.

MS DUNDAS: I have just two quick questions about the budget statements for Treasury and what the Department of Treasury is doing. I wanted to know what is happening with the oracle government financial system. It was rolled over last year in the 2003-04 budget to the tune of—

THE ACTING CHAIR: I am sorry, Ms Dundas, where are we looking?

MS DUNDAS: I am looking at page 80 of BP4.

MRS DUNNE: You have moved on to BP4? Do you have permission to do that?

THE ACTING CHAIR: I don't think she needs permission, Mrs Dunne.

MS DUNDAS: It was rolled over. There was delay in completion. There are a whole lot of things that happened in last year's budget in relation to oracle. It is also then picked up in here. Has anything happened with the oracle system over the past 12 months?

Ms Smithies: Yes, quite a bit. The upgrade to oracle financial systems was completed probably towards the beginning of the 2003-04 financial year, so six to nine months ago or six months ago. It has come in slightly under cost and those savings have been diverted into some proactive strategies in relation to archiving and also routine automated whole of government testing. Areas like archiving are a considerable issue in relation to oracle with the amount of space and disk space. The number of installations we have is enormous and if we keep databases live for seven years, we will soon start to consume all the enterprise server which was a $7 million investment. So we need to look at some clever off-line strategies to enable us to archive properly.

Again, whole of government testing and regression testing means that we do not have testers at the desks for two weeks. We can start to do some clever programs in relation to that. We also have as part of the oracle upgrade installed a product called multiorg into two of our agencies, notably into the housing disability area. If we can drive those changes across the whole of government, that will essentially manage to contain the number of instances we have from 13 hopefully down to one, again saving a hell of a lot of time and money in relation to IT infrastructure and possibly in administration costs.

Certainly next time we upgrade oracle the cost of a multiorg upgrade will be significantly less than upgrading the existing instances that we have right now. So some of the money that we are rolling over will be doing some work to find out how successful those particular multiorg pilots were so that we can have a strategy for the next time we upgrade to do it on a sensible upgrade path. So, essentially the upgrade project itself is finalised but there is some residual work around now that we need to do and that is what the money will be largely used on.

MS DUNDAS: Is that the sustainable infrastructure capital works?

Ms Smithies: No, no.

MS DUNDAS: So what is the sustainable infrastructure capital works then?

Ms Smithies: That is a $4 million fund which sits with procurement solutions. The idea behind that fund is to put aside some money which will allow agencies who are coming forward on their capital works proposals to specifically use that fund to fund some clever work in relation to sustainability—reduction in water usage, water re-usage, reduction in water and photovoltaics, which will go onto buildings. So it will relate to government-owned assets.

MS DUNDAS: If a department rocks up and says “Can I have $2 million of the $4 million sustainable fund to cover the whole of the Assembly with photovoltaic cells,” who is going to be making the judgments on those? Is it the Office of Sustainability?

Ms Smithies: The guidelines have not quite been decided yet, but the guidelines will be based on whole-of-life costings, which will ensure that there will be a return of a whole-of-life basis to particular projects. Obviously we will be targeting those that set an example and that have high returns on a whole-of-life basis. Those guidelines will be taken through the Office of Sustainability and worked out with them.

THE ACTING CHAIR: Mr Hargreaves?

MR SMYTH: I thought I was next on the list.

THE ACTING CHAIR: Well, Mr Smyth, you are not a member of this committee.

MRS DUNNE: But he was invited to attend. All members are invited to attend.

THE ACTING CHAIR: All members are invited to attend but Mr Hargreaves gets precedence for being a member of the committee. Mr Hargreaves.

MR HARGREAVES: Thanks very much, Madam Chair. I refer to page 169 of budget paper 3, in the initiatives. I know this is partly business development portfolio, but having said that there is something in there that caught my curiosity. The Office of the Small Business Commissioner has the tag "(Agency Funded)". Can you explain what you mean by the "(Agency Funded)" tag, please?

Mr Quinlan: What that means is that that office will be established but it will be established to this extent within the current level of funding of Business ACT.

MR HARGREAVES: So this is not additional money, this is a new mystery? That is the go, is it not?

Mr Quinlan: That is right, yes.

MR HARGREAVES: Thank for that. I just wanted to clear that up in case people do their additions and they include that. That would be a terrible thing to do.

Mr Quinlan: No, we have those all earmarked.

MR HARGREAVES: Yes. That says the primary function of the office will be to build better and stronger relationships between small business, and so on. What other functions do you foresee that office performing?

Mr Quinlan: We have a whole raft of programs that are funded in this budget for small business development. They are largely in place but were not funded beyond this current financial year. They have now been funded out into the outyear in terms of mentoring, in terms of employment-ready programs and the various support mechanisms you need for small business. Setting up small business, growing a small business or taking a small business to export is quite often a trip that the small business has to make really once in its life. Yet, the first time it is an inordinately difficult process. But for others who have done it over and over again it is much simpler.

We want to try to minimise the distraction to small business in expanding if we have the expertise to lend them to grow that business—whether it be to grow as an employer, to grow as an exporter or to give that business mentoring programs. Also to guide the business through some of the regulation that we as a government impose upon them, particularly in planning issues, those sorts of things.

THE ACTING CHAIR: Mr Hargreaves, it has been drawn to my attention that this does fall within Mr Quinlan's portfolio as Minister for Economic Development.

MR HARGREAVES: Yes, I said that at the beginning. I did say that at the beginning but I precluded it by wanting to know about what the agency funding perspective was. The bit that I wanted to explore though—

Mr Quinlan: I am happy to turn up tomorrow with backup.

MR HARGREAVES: Thanks. What I wanted to ask, it is going to be a subset of the Treasury agency?

Mr Quinlan: No. It is part of Business ACT. Business ACT is part of the Chief Minister's Department but answers to me.

MR HARGREAVES: Fine, that's what I wanted, thank you.

MR SMYTH: Mr Weeks, the March quarterly report was tabled on Friday night. How often are the figures updated? Is it done daily, weekly, monthly or just quarterly?

Mr Weeks: That is a formal report that is prepared for tabling. It is done quarterly.

MR SMYTH: Okay, but the bottom line in the quarterly report is $92.8 million for the general government sector. How often is that figure updated?

Ms Smithies: At the moment the protocol is that we will do a revised outcome shortly. We will update the end of year outcome shortly after we do the whole government financial statements for the previous year. That will just be for technical issues. So we will get a revised update in about August and then we will do a midyear review, which comes out in mid-January. Then we update the public releases for the budget paper, and because the budget and the quarterly report for the third quarter usually align within a week or two the same numbers will be carried in. Then we will have an interim outcome for June mid-way through August again. So, that is pretty much the cycle. In relation to keeping track of the bottom line, you notice the information that goes in is absolutely huge. We keep track of the various movements on that bottom line in relation to that in Treasury.

MR SMYTH: You just said that was for public knowledge. For internal working you do update the bottom line, though, more than once a quarter?

Mr Quinlan: Well, I obviously sit down with Treasury every week. If there are perturbations in what is occurring I am advised and I get a rough idea of the impact on the bottom line. That is not to say that there are not a raft of other shifts occurring at the same time that are not of the same significance. It would not be responsible to announce every one of those changes without doing an assessment because you can create expectation or concern when it is misplaced. The fact that Treasury reports on a quarterly basis and tries to do that up to date is a process that I introduced out of opposition to replace the monthly reports, which tended not to contain the same degree of information—a lot of data, low on real information.

It is still very difficult with the timing differences that occur in expenditures and revenues. You send out all your rates bills in one hit and all those sort of differences so it is still very difficult to produce meaningful interim reporting. Really the only column that is worth a look is the estimate of the end of year. That is the estimate at the end of the year as at 31 March.

MR SMYTH: So you have not had an update since 31 March as to what the estimate for the end of the year will be?

Mr Quinlan: I have had certain items of information given me in briefings but I have not got a statement or whatever to hand over.

MR SMYTH: Perhaps you could take that on notice and provide that updated information to the committee?

Mr Quinlan: I do not think so, unless we have done one. I have not got one.

MR SMYTH: So you still stick to the $92.8 million as the end of the year result?

Mr Quinlan: No. I do not stand by the figure the day after it comes out because the world is changing. As I have tried to explain, we do not run a set of thermometers or have an analogue process going. We have a measure from time to time. The measures from time to time are provided for in the Financial Management Act and we do provide them. With the effect of the federal budget I think this year we are at $108 million, but I am not sure that that estimate takes into account other shifts that have occurred as well. So, that is a piece of information given us that I would happily give over but remember that the process of measurement, of bringing it up to date, is the measurement of a whole myriad of variables. That is why I, out of opposition, reduced it to a quarterly exercise.

MR SMYTH: So, is passing the budget in June at $92.8 million acceptable? You are right, the March update comes out a couple of weeks before the budget so you have bunged that into the budget, but it was wrong in the year 2001-02. The March update said an $18 million surplus and at the end of year it was $28 million. So it is out by 55 per cent. In 2002-03 the March update said the end of year result would be $60 million, yet it came in at $115 million. So it is out 91 per cent. The figures for this year are now saying $92 million. From that it is tentatively up to $108 million. Are you saying you do not get an update before the end of the financial year as to where your budget is at?

Mr Quinlan: Regularly I am informed of influences that are pushing the bottom line one way or another and have a general perception of what the bottom line will be. But I do not expect these people, on a daily or a week-to-week basis, to give me a spot-on figure. They cannot do it. It is not possible.

MR SMYTH: So daily or weekly is silly. Monthly?

Mr Quinlan: We were talking earlier about marginal percentages. Remember that what we are talking about here is the turnover of $2½ billion, and we are talking fractional changes. Even the figures that you took are quite large numbers to us common people—and certainly we would love to be near them personally from time to time—but their measurement in comparison to the budget as a whole are very, very small shifts.

MR SMYTH: I am told from various sources that the final quarter of the year is the strongest quarter for revenue, yet the figures that you present ask us to believe that there will be no increase in revenue. That flies in the face of the revenue trend for many, many years.

Mr Quinlan: What I ask you to believe is that there is a figure there of $90-something million, which is the assessment as to the outcome of this full financial year as at 31 March, not today.

MR SMYTH: Sure. I am asking you have you got an assessment of 30 April?

Mr Quinlan: No.

Mr Weeks: Could I add a comment, Mr Smyth? One of the disadvantages the states and territories have is the federal budget comes down after those budgets do. Despite the efforts of treasurers across the country to get information from the federal system on an update in particular on the GST pool, that has been unsuccessful so we all run with the last best estimate we have had from the federal Treasury. The update of numbers that the Treasurer gave you just now reflects the change in GST from the number we were advised by the commonwealth in its mid-year review and the number that came out in the federal budget. If there is a big variation there, there is absolutely nothing we can do about that. We don’t get any data from the commonwealth that would allow us to estimate it.

Mr Quinlan: The request for that information is a standing item on the Treasurer’s Council agenda.

MR SMYTH: I am sure it is but that is not what I am talking about.

Mr Quinlan: And it is steadfastly refused.

MR SMYTH: I am talking about your own source revenue. I am told the revenue through the shopfront in the last quarter is markedly stronger than most other quarters, and that has been the case for several years. Last year’s shift from $60 million to $115 million did not occur because the commonwealth government gave us an extra $55 million.

Mr Quinlan: Mr Smyth, right or wrong, you have the Treasury’s estimate of the final outcome. It is not the money that has come and gone in March—you have that as well—but, as I said, it is really only the right-hand column, the estimate column, that contains information, and that is their best estimate. Now, it will not be spot-on. It is of its nature an estimate. So, they are trying to estimate the full year’s rates, the full year’s taxes, fees and fines, the full year’s interest revenues—all those lines—the full year’s land sales.

MR SMYTH: But if you accept that the last quarter is the strongest quarter, what your figures say and have done for a couple of years is that the last quarter is the same as every other quarter. Yet we know that there is an end of year surge by all businesses, government departments, to spend the money they have to clear their debts before they lose it in their budgets. So the last quarter is the strongest. Either an extreme amount of money is spent in the last quarter to leave it at the $92.8 million level or your figure is wrong. I am asking you will you update before we debate the budget what you expect the end of the year outcome to be or will you expect us to work on the $92.8 million figure?

Mr Quinlan: Well, I am happy to advise the Assembly before the budget debate of major influences. I am not going to commit Treasury to measure every damn thing in the world and to have to stand by those figures. They just have to wash through. You cannot measure them on 30 June, you have to wait till the bills come through. You talked about surges. Some of our agencies may get a wriggle on in their expenditures in the back part of the year. We are assuming until told otherwise that they are going to spend this year's budget. That is what we are assuming. Whether they have spent it by March or not, we are assuming in the estimates prepared at March that they will be spending it by June.

MR SMYTH: Have you looked at your latest capital works budget, the quarterly report you tabled on Friday night?

Mr Quinlan: Yes—not flash.

MR SMYTH: Clearly, that money is not going to be spent before the end of the year.

Mr Quinlan: No.

MR SMYTH: So again there will be more cash in the surplus at the end of the year?

Mr Quinlan: What might go to the surplus is a marginal decrease in the amount of depreciation charged in the year because those assets are not starting their depreciable life. That is the only change.

MS DUNDAS: Treasurer, I wanted to ask about the staffing profile in Treasury. Mike Harris has now been appointed permanently to the head of the Chief Minister's Department. I understand Mr Weeks is on temporary contract, is that correct?

Mr Quinlan: Yes.

MS DUNDAS: So what is the ongoing process for the appointment of a permanent Under Treasurer?

Mr Quinlan: Well, Mr Weeks probably knows the details more than I do but certainly there are requirements of fairness and accountability we have to go through which are quite lengthy.

Mr Weeks: Can I comment on that? I was asked to come into the ACT for a period of four months. I arrived on 4 March and the contract is to 30 June. In negotiating that contract with Mr Harris the intent was to provide a window of opportunity to deal with due process to address the vacancy in the Chief Minister's Department, and that was expected to take about two months. On the assumption that Mr Harris applied for and was successful in that role the second half was to allow a similar process to go through with the Treasury. The Chief Minister's appointment has taken longer than was originally envisaged. My contract has now been extended to 31 July. But it was fully expected at the time I came over here as a contractor that the term would be to allow due process to be followed as outlined by the Treasurer.

MS DUNDAS: In terms of due process then, can you explain how it came to be that you were asked to come and fill the casual vacancy?

Mr Quinlan: Yes, I asked for him. Mr Weeks was an applicant.

MS DUNDAS: That is what I am asking. There was an application process?

Mr Quinlan: No, no. Mr Weeks was an applicant for the position when Mr Harris was appointed. Based on the fact that Mr Harris was called upon to head up the Chief Minister's Department, the fact that Ms Tu Pham was appointed as Auditor-General, and the fact that Mr Weeks was doing some work on contract before that, I asked for him.

MS DUNDAS: Without any open process then as a casual vacancy?

Mr Quinlan: Yes.

Mr Weeks: I am not an employee. I have been employed as an independent contractor with the delegations, as far as they can be given, to undertake the role of Under Treasurer, not as chief executive of the Treasury. That remains with Mr Harris.

MS DUNDAS: Treasurer, if I recall correctly—and I was not a member of the last Assembly, so I am sorry if my memory is wrong on this point—I thought that you were quite vocal and the Labor opposition was quite vocal in raising concerns about the number of contractors who were holding quite significant positions in Treasury and the work that was being done. I recall a couple of press releases going out and a couple of questions on notice raising concerns that Treasury was holding on to a number of contracted positions. Do you still hold those criticisms or do you not recall what I am talking about?

Mr Quinlan: Well, I do not exactly. I recall there was some concern about a number of people that were on quite lengthy contracts and were being paid a living away from home allowance as well during the course of those contracts. I think that was the main issue that came forward.

MS DUNDAS: Sorry to have these personal work-related conversations across the room, but, Mr Weeks, Canberra is not your home. Are you receiving a living away from home allowance?

Mr Quinlan: I hope so.

Mr Weeks: I am indeed, yes. Can I comment around the issue you raised as well? At the time I was approached by Mr Harris to do a temporary contract here in the ACT, I was advised that the ACT had a very good and competent Treasury. My personal assessment is that it was a well-placed observation. However, when you take the chief executive and the deputy chief executive out of an organisation at one point in time, particularly when you are within two months of bringing down a budget, Mr Harris' view, which I have to say I thoroughly endorse, was that it was unreasonable to take one of the direct line managers out of a core portfolio and ask that person to act as the acting Under Treasurer at that point in time. Again, the number one and number two individuals being taken out of a small, managed team is a big blow in any agency.

MS DUNDAS: I fully appreciate that. I do not think anybody is questioning the important role you have been able to fill while Treasury has been able to get on with the budget. I am just trying to get to the core of whether or not issues that the Labor opposition had a couple of years ago about how these processes were managed in Treasury are now things that you are taking on—high paid contracts with living away from home allowances.

Mr Quinlan: No. As best I recall it, the fundamental issue was quite a number of people who—

MS DUNDAS: So one is okay but a number are not?

Mr Quinlan: No. A number of people on quite lengthy contracts were being paid as if they were on short-term contracts. Mr Weeks is on a short-term contract.

THE ACTING CHAIR: So, Treasurer, when you say "lengthy", how long are we talking about?

Mr Quinlan: Years.

MR HARGREAVES: It was three or four years, Treasurer, if I recall.

Mr Quinlan: I do not know. I will not commit myself to the time or whether those contracts were renewed and renewed, but certainly people who for all intents and purposes were permanent appointees, or extended-period employees, were being paid and given benefits as if they were short-term appointees.

THE ACTING CHAIR: So, Treasurer, you would say that the difference is that we are comparing somebody who is on a short-term, four to five month contract—initially four months but now gone to five months—as opposed to somebody who had been here for years?

Mr Quinlan: I understand that there has been, during the course of our government, one senior officer whose contract permitted him still to receive living away from home allowance.

MS DUNDAS: You fully intend to have the position of Under Treasurer filled by 1 July?

Mr Quinlan: I do not think that is possible.

MS DUNDAS: So it is quite possible that Mr Weeks may require another extension of contract?

Mr Weeks: I will be going back to New Zealand on 2 August, when I have commitments to go to the UK. So my contract ends on 2 August.

MS DUNDAS: I thought you said 1 July.

Mr Weeks: I beg your pardon, it is 2 August.

MS DUNDAS: So you hope to have the appointment of Under Treasurer filled by 2 August?

Mr Quinlan: I hope, but it has taken forever. It is the requirements we have that positions must be advertised, evaluated, and so on. If someone is appointed, they then have to be freed up from whatever commitments they have. Generally, if you are appointing someone at that level, they probably have some quite solid commitments that they need to discharge before they can come here.

MRS DUNNE: Have you advertised?

Mr Quinlan: We will be as soon as it is possible, but Mr Harris was appointed permanently only last week. I am not happy with that, I can tell you, but it is just the way it is.

MS DUNDAS: Is work being done to put contingencies in place if by August 2 the position of Under Treasurer is still vacant?

Mr Quinlan: Yes, there will be. I have not worked them through yet, but life must go on. It has been difficult, particularly for Treasury, to lose the two senior people. But the overall requirements of administration are unfortunately necessary.

MRS DUNNE: I have got some questions relating to pages 102 to 104 of budget paper 3. Some of these arise in the initiatives and some do not. Page 103 talks about the home buyer concession scheme. I really want to ask a question about the income thresholds. We have seen a doubling of the income thresholds. Just for clarity sake, that $100,000, give or take the $3,300 per child, is that when the money cuts out or is that when the money starts to cut out?

Mr Quinlan: Sorry?

MRS DUNNE: You have a $100,000 income limit.

Mr Quinlan: For a couple with three children it is $110,000.

MRS DUNNE: Well, let us just keep it simple, can we? You have $100,000 family income. Is that when it cuts out, so you do not receive any money after that?

Mr Quinlan: You do not. You do not qualify.

MRS DUNNE: You receive the full qualification and when you hit $100,000 it cuts out or does it taper off, and from what figure does it taper off, if that is the case?

Mr Ahmed: The income eligibility is almost black and white. After $100,000 it cuts out. So if you are not eligible, you are not eligible. That threshold is adjustable for the children in the family.

MRS DUNNE: Yes. I just wanted to find out whether the $100,000, give or take the kids, is sudden death at $100,000 or does it start to cut out before then.

Mr Quinlan: No.

MRS DUNNE: Okay, thank you, excellent. I have been trying to get somebody to answer that question for three weeks, so thank you very much. In future initiatives on page 104 of budget paper 3 is the old parking space levy. These couple of paragraphs mean that when you decided not to proceed last year you kept your fingers crossed and you were proposing that it would probably reappear after the election?

Mr Quinlan: Well, what we have said is that we have not given it away entirely. There are some other processes or initiatives that we might enter into which may be introduced and then you toss this away. They are not necessarily straight taxation. For example—and this is only a possibility, this is not a government decision by any means—say a beautification levy or something like the city heart type of recommendation. I have had discussions with property council and with traders around Civic. We might be able to build some process whereby we work together with the property owners within Civic to allow them to be involved as well in dressing up the joint.

MRS DUNNE: So we are dressing up the parking space levy? So when it says, on page 104 of budget paper 3 for this year, that it is expected to raise $2½ million annually from 2005-06—and seeing it is just something you are thinking about and you may not do—is that $2½ million factored into the outyears of revenue?

Mr Quinlan: I think so. It is still there.

MRS DUNNE: So you may not do it but you are factoring the money in? So this is, "I have my fingers crossed behind my back, I may not do it". So when the property council said after the budget that it was really pleased about this, that and the other, and also pleased about the fact that there is no parking levy, you did not draw its attention to page 104 of budget paper 3 and say there is a parking levy, we are just not going to introduce it.

Mr Quinlan: I think it is aware of what the government has said.

MRS DUNNE: It may be aware of it now, but it was not aware of it on budget day.

Mr Quinlan: I do not know what it was aware of on budget day.

MRS DUNNE: What you have done is announce that you are going to do this after the election, in the next budget cycle? Is that right?

Mr Quinlan: What you see is what you get. What it says there is what you get.

MRS DUNNE: But the thing is, you are trying to have two bob each way. You are saying we may do it, but we have factored—

Mr Quinlan: Is that a problem?

MRS DUNNE: Yes, it is, because it is about open and transparent government. Remember all those platitudes that we had before the last election?

Mr Quinlan: There it is.

MR HARGREAVES: It is pretty transparent to me, I have to say.

MRS DUNNE: But you are saying, we may do this, we are thinking about it, we are having a chat about it to the city heart people and it could be a levy here or a beautification thing there, but when it all comes to the crunch, you said you factored the money in to the forward estimates. Is that right?

Mr Quinlan: We have said what we have said.

Mr Weeks: It says it is postponed.

MRS DUNNE: Yes, it is a postponement. So it was not done away with last year? You were just taking too much heat so you thought you would put it off for another day?

Mr Quinlan: Look, if you want to answer the question, go ahead. Off you go.

MRS DUNNE: Is that what was happening?

Mr Quinlan: No.

MRS DUNNE: So what was happening last year when you decided not to proceed with the parking space levy?

Mr Quinlan: Exactly that. We decided not to proceed with the parking levy.

MRS DUNNE: Why?

Mr Quinlan: We went through some consultation and said, no, we will put that off.

MRS DUNNE: Did you tell them you were putting it off?

Mr Quinlan: I think so, yes. I cannot remember exactly, but I think so.

MRS DUNNE: Can you take on notice the question, what did you tell people last year when you decided not to go ahead, unless Mr Dowell's got the answer now.

Mr Quinlan: I am advised this much, that my chief of staff rang everybody who put in a submission in relation to this levy, that it would be postponed.

MRS DUNNE: Postponed was the word?

Mr Quinlan: I will double-check it though. I will double-check it.

MRS DUNNE: Thank you.

Mr Quinlan: I do not want three days of debate over it.

THE ACTING CHAIR: Okay, we might break for lunch now. I thank the people from Treasury for your attendance. This afternoon we will see you back again, Treasurer, with people from government business enterprises.

MRS DUNNE: But we have not finished Treasury.

THE ACTING CHAIR: Well, we do not have it scheduled for this afternoon.

MRS DUNNE: Well, no-one has even opened budget paper 4 yet. I suggest that plenty more inquiry needs to be done.

THE ACTING CHAIR: Well, that is something that we can talk about privately in committee.

MRS DUNNE: Well, no. I am sorry. You have to tell the Treasurer and his officials which officials to be here this afternoon.

MR HARGREAVES: There is a schedule and everybody has been advised. Everybody is prepared to do the economic development piece this afternoon. So that is that.

THE ACTING CHAIR: As I indicated before, we will be starting with Totalcare immediately after lunch. Then we will be moving on to the other GBEs. Next we can always recall the Treasury officials at the recall day.

MR HARGREAVES: You have had half a day to do it.

Mr Quinlan: I think we have got a recall day scheduled, have we not?

THE ACTING CHAIR: We do. Monday week.

Mr Quinlan: I have got a fair number of commitments but I know that has been, I think, blocked out in my diary.

MRS DUNNE: But that is not recall. What you are proposing is to use the recall day for catch-up. Recall is for coming back to issues that have been raised that need to be revisited.

MR HARGREAVES: Well, Chair, we have people coming to advise the committee and I ask that you now adjourn the meeting so that we can go and grab a bite to eat and let these people go.

MRS DUNNE: No, I am sorry. The Treasury has to come back.

MR HARGREAVES: Well, I formally move it, Madam Chair.

MRS DUNNE: Well, I formally move, Madam Chair, that we have to continue the inquiry into Treasury. We have not made the progress that we needed to, and we need to have Treasury back here this afternoon.

MR HARGREAVES: I am not prepared for that.

THE ACTING CHAIR: Well, Mrs Dunne, before I put your motion, the secretary has advised me that we can use the recall time to bring the Treasury people back. I understand what you are saying, but the Treasury officials have been advised that they will not be required this afternoon. Presumably they have made appointments for other things this afternoon.

MRS DUNNE: Just on that: Mr Weeks, have Treasury officials been advised that they will not be required this afternoon?

Mr Weeks: We have the same schedule that you have. I certainly am expecting to be here for part of the afternoon, if not all of it. But that would not necessarily apply to a lot of my colleagues.

THE ACTING CHAIR: That is right. Mrs Dunne, the schedule is that we are doing government business enterprises this afternoon. There is no reason we cannot recall them when we have a recall day.

MRS DUNNE: That is not recall, Madam Chair. I just put it on the record that that is not recall, that is catch-up. There is a difference.

THE ACTING CHAIR: Okay, Mrs Dunne, your point is noted. We are moving to GBE this afternoon and those officials who have been told that they would be required this afternoon will be coming this afternoon.

Meeting adjourned from 12.33 to 2.12 pm.

THE ACTING CHAIR: Welcome. 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.

Could each witness, on coming to the table, state their name and the capacity in which they are appearing. Please clearly identify when you are taking a question on notice. It is then your responsibility to check the transcript and respond to the question. Responses to questions taken on notice are required within three full working days. The transcript will be emailed to the minister and the departmental contact officer for distribution to witnesses as soon as it is available.

Due to the late sitting of the Assembly last week, there may be a delay in the provision of the transcript. Can members please confirm when they are taking questions on notice and I suggest that officers make note of the question in case there is a delay in the transcript. Can members please clearly identify if they want a question to be taken on notice, plus give any page references. The proceedings are being broadcast to specified government offices and the media may be recording proceedings and taking visual footage.

I'd like to thank Mike Harris, who is the chair of the board of Totalcare, and the Treasurer for appearing this afternoon. Unfortunately the chair, Bill Stefaniak, was called away today, so you'll have to put up with me. Treasurer, would you like to make an opening statement with regard to Totalcare?

Mr Quinlan: No, I don't think so. I think everybody understands where it's at.

THE ACTING CHAIR: As we agreed earlier in the day, we will be doing Totalcare first and then proceeding as swiftly as possible through the GBEs. We may come back to Treasury later this afternoon if we have time.

MRS DUNNE: Treasurer, there's been a decision essentially to wind up Totalcare and subsume most of its services back into the departmental structure proper. What are the costs of that?

Mr Quinlan: There is certainly an amount of administrative cost attached to dismantling it. I don't know. I will have to pass that question to Mr Harris. I'm not sure that we could give you an absolute figure, but we can probably give you an idea of the resources involved in doing that.

MRS DUNNE: To refresh my memory, when was the decision made to subsume all these functions—to either do away with them or subsume them back into the departmental structures?

Mr Harris: Mike Harris, chairman of Totalcare Industries. If my memory serves me correctly the final policy decision was taken by government in May or June of last year. I started on the board on or about 27 June last year. With regard to the costs of transfer, Totalcare has within its budgeting and financial arrangements a separate cost code that identifies costs specific to the task of transferring business units back to government. That covers a broad range of costs, but it mainly covers the costs which Totalcare itself incurs; it does not include costs incurred by other entities. We budgeted this financial year for an amount of $650,000 and I'm advised that, to date, we have spent of the order of $350,000.

MRS DUNNE: What has that been spent on? Do you anticipate spending the rest of it?

Mr Harris: In reverse order: I wouldn't expect to spend $650,000, given that the majority of the transfer activity has now ceased. However, we still have some residual issues to do with superannuation and insurance and a couple of legal claims. There will be some minimal transfer costs attached to some of those, but the bulk of the costs was associated with transferring those units that have moved back to government.

MRS DUNNE: Basically, you overestimated what you would need to spend but that's not a problem.

Mr Harris: We were very conservative. We could provide on notice a breakdown of those costs, if the Treasurer is comfortable with that.

MRS DUNNE: That would be very useful, thank you. How many staff are transferring back into the public service structure?

Mr Harris: Around 350. Mike Zissler is the chief executive.

Mr Zissler: I am Mike Zissler, CEO of Totalcare Industries. So far we've transferred about 322 staff back into various agencies—the main one being Urban Services, and approximately 50 to ACT health. We have remaining 35 people employed by Totalcare today, of which 25 are associated with the fleet and 10 are associated with the wind-up.

MS DUNDAS: What is the future of the fleet service?

MRS DUNNE: The fleet service will operate within existing business parameters for 2004-05.

MS DUNDAS: Which means that—so the question is—

Mr Harris: The fleet business will continue to do what the fleet business does now, which is a combination of things, but largely managing the territory's 1,200-odd vehicles. It's normal lease business.

MS DUNDAS: I might have phrased the question badly. In essence, will Totalcare continue as an entity that manages the fleet services?

Mr Harris: The question of whether Totalcare itself continues to manage the fleet business is a matter which the government is yet to consider and will get advice from the board about. The options are to either leave the fleet business in the current Totalcare environment or move it to another environment.

MS DUNDAS: I guess the decision on the final wind-up of Totalcare is still pending.

Mr Quinlan: It's down to fleet, isn't it?

Mr Harris: Yes, it's down to fleet.

MS DUNDAS: Yes, that's what I'm saying. Everything else, except for fleet, has been either disbanded or moved back into another public service department. You're now faced with the question of continuing fleet services as a GBE—

Mr Harris: Hence my comment. The proposition at the present time is to continue to run fleet services as a GBE. For legal reasons alone it cannot come back inside government, because of the nature of its novated lease arrangements and tax arrangements. The proposition I mentioned before would be to keep it in Totalcare until we complete the wind-up of Totalcare or move it into a separate TOC environment and then deal with the residual Totalcare.

MS DUNDAS: What is the timeframe on that decision-making process?

Mr Harris: That's a matter for the government.

MS DUNDAS: Government: what is the timeframe on that decision-making process?

Mr Quinlan: It's pretty well a done deal now.

MS DUNDAS: Mr Harris put forward two options for the future of fleet services and said that there were considerations being made on each of those options. What's the timeframe of that consideration? When do you expect to know either way?

Mr Zissler: We've had an extensive review of the Totalcare fleet business. A number of recommendations, as highlighted by Mr Harris, have been considered. I'm currently preparing advice for the board, which meets next week. Following the board meeting those recommendations will come to the shareholders. So we're within weeks of a recommendation to government.

MS DUNDAS: Okay, but it would take a year for that to occur because the budget—

Mr Zissler: No, not at all.

Mr Harris: No, not necessarily. It's a stand-alone business that could be moved administratively in a short space of time if that was considered appropriate. If it stays within the current Totalcare environment then its life will be complicated by court cases, superannuation issues and other issues that arguably would divert its board from the business of fleet and asset management. So there are arguments for moving it to simplify its operations. There are arguments for leaving it where it is. The balance of opinion, as far as the board is concerned, is that it's probably best to move it so you simplify its capacity to undertake its commercial operations.

THE ACTING CHAIR: This is a very short and very general question, and this may not be the right place to ask it. Mr Harris, you've just referred to the Totalcare fleet possibly being moved into another TOC. Somebody raised with me earlier that there was only one territory-owned corporation left. This is a question for the Treasurer more than for you. I know this displays my extreme ignorance but what is the difference between a GBE and a territory-owned corporation? Do we still have territory-owned corporations? Just a short answer to the question, please.

Mr Quinlan: There's a difference between TOCs, or territory-owned corporations, and statutory bodies or statutory authorities, whether they be commercial or not. "GBE" I think is a more generic term. We've got experts about to volunteer.

Mr Bulless: I am Neil Bulless, Director of GBE Management, Treasury. There are three territory-owned corporations at the moment—ACTEW, ACTTAB and Totalcare. There are a number of other GBEs. The difference between a territory-owned corporation and a statutory authority or other types of GBEs is really the governance model that's been set up for them. There is a continuum of government business activities going from business units at one end to TOCs at the other. TOCs are the most commercial in that sense. The most commercial are those three I cited before—that's the essential difference.

Mr Quinlan: The general rule of thumb is that a TOC is completely independent and self-funding. Generally other GBEs can be business enterprises but still call on government for partial funding.

THE ACTING CHAIR: I think that has answered my question.

MRS DUNNE: Can I go back to a previous question? I've had only half of it answered. Mr Harris, you made the very nice distinction that the $350,000 is what Totalcare has spent to reintegrate Totalcare. Treasurer, what has the government spent—from the other side?

Mr Quinlan: I couldn't give you a figure on that. We'd have to start with my time because Totalcare was an organisation in great difficulty a couple of years ago. It has taken the time of many people, including both us and Treasury in their role.

MRS DUNNE: What I really want to know, is: are there specific government outlays that are necessary to subsume Totalcare back into the ACT government structure?

Mr Quinlan: I'm advised that there's something in the order of $1.5 million in DUS. I'll give you that number but I'll have to qualify how much of it is really picking up shortfalls, as opposed to the work. Perhaps someone else can qualify it.

Ms Smithies: My name is Megan Smithies—from Treasury. The $1.5 million for urban services has to do with transition costs related to new IT systems to integrate the Totalcare business within urban services. It is largely costs like that.

MS DUNNE: Can we have a breakdown of those on notice—the $1.5 million? Mr Zissler said that 50-odd people went to health, so there must be other costs.

Ms Smithies: Yes. The 50 people who moved to health and the people who are funded from urban services aren't necessarily a net cost to government.

MS DUNNE: No.

Ms Smithies: You're talking about the net transition costs?

MS DUNNE: Yes. I don't mean the net cost to government but there are outlays, on Mr Harris's side, from Totalcare to bring them in. Presumably host departments have some outlays as well.

MS DUNDAS: I've managed to find the statement of corporate intent for 1 July 2003 to 30 June 2006. That has a different review of the future for Totalcare as of 14 July 2003—which bits will be going where—as opposed to what is listed in the budget papers. It makes the statement that the Totalcare fleet business will return to DUS—and some other things. You were seeking further considerations in relation to linen sterilisation and waste management. That's almost the reverse of what has happened. There have been easier decisions made, possibly, about linen and sterilisation versus fleet. What has the board been doing? Has the implementation team found all these errors? Have they been working through them?

Mr Harris: It's not a case of errors. The original decision and the basis on which the board was working when that statement of corporate intent was put together was in fact to return fleet to DUS, subject to consideration of a number of issues to do with fleet.

When we examined the nature and type of operation fleet was involved in, a number of issues came to light, not the least of which was that a significant majority of its business is in novated leases. Novated leases require three parties to be legal. If we had brought fleet back into DUS there would have been only two parties to those leases, and they would therefore have been illegal.

The legal advice was, "Don't do that—in fact you can't do that." There was some other commercial advice given to us about the capacity of fleet to operate as a profitable business, the conclusion being that it could. In light of that additional information, cabinet reconsidered the matter and decided to leave fleet as a separate stand-alone entity and not bring it back into government.

MS DUNNE: Is this the announcement of that, or has there been an announcement of that previously?

Mr Quinlan: I don't think there's been any public announcement. Should there be?

MS DUNDAS: Will there be a revised statement of corporate intent?

Mr Harris: The intention is to close the business and not do a statement of corporate intent at all. The complete answer to your question is that fleet, as an ongoing territory-owned corporation in whatever guise, will continue to have a statement of corporate intent.

MS DUNDAS: So we can expect a new statement of corporate intent for fleet for next year's budget?

Mr Harris: Yes. That is the short answer to the question.

MS DUNDAS: One of the aims of Totalcare, as put down in the statement of corporate intent, was about capital management—to repay the debt to ACT government that Totalcare had worked up. How is the settlement of that debt working out? Was it just written off? Is the sale of assets trying to recoup that debt?

Mr Harris: The method of operation was to transfer business assets, business enterprises, back into government essentially at their book value. There will be left in Totalcare a balance of asset and liability. To the extent that there is a net asset position at the end of the day, some of the debt owing to the government—or equity owing to the government—will be repaid to the extent that we end up with a negative. It will be the other way around. We haven't quite got to the end of the process yet, so we don't know what the mathematics look like at this point in time, although I wouldn't expect a huge windfall gain as far as repayment to the territory is concerned.

MS DUNDAS: I again ask the question: when will that process be? Is the length of time that process is going to take and when we know what the net asset liability calculation is for Totalcare dependent upon next week's board meeting?

Mr Harris: Now that we've transferred all the businesses and we know what the position with fleet is, to the extent that it will remain a TOC, we can do those calculations. So we're talking a matter of weeks, not months or years.

MS DUNDAS: Will there be a tabling statement in the Assembly? Will that information be made public so that we have those considerations?

Mr Quinlan: It will be part of annual reports. Totalcare still has to put in an annual report.

MRS DUNNE: That will be September, of course—just as we go into the election.

Mr Harris: There are a number of outstanding liability issues for which we do not have answers at this point in time, superannuation being the largest of those.

MR HARGREAVES: I just want to ask this out of curiosity because I've never really asked this question in all of the discussions about the transfer of stuff out of Totalcare into health. I can recall the days when the health services supply centre, which became Totalcare, did the whole lot of that. The linen service will presumably still operate out of the same premises but will be part of the DUS structure. Will the same thing apply with the sterilisation services, or will they be moved physically to the hospitals?

Mr Harris: Potentially they could physically be moved to the hospitals.

MR HARGREAVES: You say "potentially".

Mr Zissler: The current facilities are to remain the same. The facility is to be transferred from Totalcare back to government on the transfer date. It's a factory out at Mitchell. I know that ACT health are planning for the future when they'll take that facility and return it to the hospital. They'll be subject to planning and consideration and, I assume, some sort of capital initiative.

MR HARGREAVES: "Return it to the hospital" is an interesting phrase. In fact, it started at Canberra Hospital and then somebody—

Mr Quinlan: I'd have to say—

MR HARGREAVES: So it's not an actual return.

Mr Quinlan: I'd have to say that it was a matter of consideration to relocate a lot of the sterilisation back to the hospitals, even under the old structure of Totalcare.

MR HARGREAVES: Indeed.

Mr Zissler: That was due to the change of technology.

MR HARGREAVES: Thanks very much for that. The health system wasn't the only contract the linen service had. They had a fair few contracts with hotel services and things like that. Are the hospitals—and, say, the health system in the ACT—the only customers we have within the sterilisation service?

Mr Harris: No.

MR HARGREAVES: Do we have interstate contracts for that?

Mr Harris: It's about 50-50 government and private.

Mr Zissler: Yes, we do have interstate—New South Wales—contracts.

MS DUNDAS: This question relates to the interstate contracts and the contracts that the linen services are taking on. One of the concerns raised against Totalcare was that, due to government subsidies, it was able to undercut small businesses in the accessing of those contracts. There was a series of concerns raised about how Totalcare was taking those operations forward. Is it the intention of CityScape Services to continue with those interstate contracts?

Mr Quinlan: CityScape? Health.

MS DUNDAS: Health or, for linen, CityScape Services. With the external contracts, is it the intention to continue with those interstate contracts?

Mr Quinlan: You might have to ask the health minister about the long-term plan for the business. There are some solid arguments to maintain the economies of scale represented by the additional work it has, and therefore the returns. At the end of the day, the decision as to how that operation will be is going to be that of the minister and the department of health.

Mr Harris: There are no cross-subsidies in the linen business.

MS DUNDAS: Or in the sterilisation business?

Mr Quinlan: Correction. Linen is in urban services, I'm informed.

MS DUNDAS: Yes. I understand there's a new thing called CityScape Services.

Mr Quinlan: Sterilisation is in health.

Mr Harris: There are no cross-subsidies in the linen business.

MS DUNDAS: Or in the sterilisation business?

Mr Harris: No. The sterilisation business is essentially a one-on-one between sterilisation and the two hospitals, so there are none.

MS DUNDAS: I thought sterilisation was taking up some services out of New South Wales.

Mr Harris: No. Linen does.

MRS DUNNE: Why have we got linen in DUS and sterilisation in urban services?

MR SMYTH: Even the Treasurer is interested in this question!

MRS DUNNE: There seems to be a category mistake here.

Mr Harris: Health, by its own admission, isn't very good at running our laundry service.

MR SMYTH: And urban services will be?

Mr Quinlan: So they tell us.

MS DUNDAS: Is part of it the fact that linen does have interstate contracts and is trying to work it out, whereas health is just trying to keep everything in-house?

Mr Harris: It is a commercial business with a range of clients, one of which is health.

Mr Quinlan: The sterilisation business was not just cleaning instruments; it was supplying them. It was owned by Totalcare and provided to them, I think.

MRS DUNNE: Are these two elements of the former, or soon to be former, Totalcare still located at Mitchell? They live in the one building—

Mr Harris: Two separate buildings.

Mr Quinlan: The laundry will stay, the other stuff will go back, physically.

MRS DUNNE: There are two buildings on one site, and one laundry.

Mr Zissler: Two buildings on one site. You need to imagine it. These are very large factories—they are buildings of something like 30,000 square metres.

MRS DUNNE: Yes, one laundry and one sterilisation facility. Is there no overlap between hospital linen and hospital sterilisation? Don't the hospital linen people wash the things, like the gowns, that have to be sterilised and go in sterilisation bags?

Mr Zissler: About five per cent of the total linen product that is not white sheets goes through to sterilising for theatres, but it's only a small part of the market.

MRS DUNNE: That means that the linen service is a client—or vice versa?

Mr Zissler: Indeed. There's a five per cent synergy. It's very small.

MR HARGREAVES: Which part of Totalcare takes care of the destruction of clinical waste?

Mr Zissler: No part of Totalcare. There's a company called Stericorp, which got the contract two or three years ago. I don't know exactly when.

MRS DUNNE: We don't even have an incinerator anymore.

Mr Harris: It operates on the Mitchell site on lease, but it's not part of the Totalcare office.

Mr Zissler: It is nothing to do with Totalcare.

MR SMYTH: Following on from that, Stericorp was in contract with Totalcare?

Mr Zissler: It's a tenant.

Mr Harris: It leased land to run its operation.

MR SMYTH: It wasn't a joint operation when it was finally set up?

Mr Zissler: Not at all.

MR SMYTH: It has taken over the incinerator, or the incinerator doesn't work at all?

Mr Zissler: It's probably best a question for Stericorp but it does not use, in fact, just incinerator technology. It has a small incinerator, it has microwave technology and it runs its business totally separately. It's purely a tenant; it has a piece of the paddock.

MR SMYTH: At a previous estimates hearing we heard that the government didn't have a final figure on what the incorporation of Totalcare back into the ACT public service will cost the taxpayer. Do we have a figure? If we don't, how close are we to having a figure?

MRS DUNNE: That's the $350,000 plus the $1.5 million.

Mr Quinlan: Plus whatever else we find.

Mr Harris: The question I answered earlier in respect of Totalcare was that Totalcare had incurred to date around $350,000 in transferring those businesses back into the territory.

MR SMYTH: The cost of superannuation?

Mr Harris: That is not part of that $350,000.

MR SMYTH: Do we have a figure on superannuation? Are we close, or is it some time away?

Mr Harris: It is some time away.

MR SMYTH: Why is it some time away?

Mr Harris: Because the actuaries and the Commonwealth instrumentalities who run the Commonwealth superannuation funds are still working through a mechanism to calculate the number. The first part of the process was to find out how many people were involved. That's of the order of 2,000. The Commonwealth people and the actuaries are now working through that. The last I knew, there were Commonwealth superannuation people at the Totalcare site going through individual files to determine what that number might be.

MR SMYTH: Have they been able to give you an indication of when that number might be known?

Mr Harris: No.

MR SMYTH: How will that liability be funded? Will it just be attached to the existing superannuation?

Mr Quinlan: It will be a call on the superannuation reserve but it will eventually have to be made up over time. It won't be made up instantly. It will still be a very substantial cost.

MR SMYTH: When you say "very substantial cost" is there a ballpark figure? How would you know it's a very substantial cost?

Mr Quinlan: I've had some frightening numbers put in front of me.

Mr Harris: I am not aware of a number and I'm not in a position to quote a number. It would be inappropriate for Totalcare to even contemplate a number at this point in time.

MR SMYTH: If the government had known this liability was there, would they have gone ahead with incorporating Totalcare back into the public service?

Mr Quinlan: It wouldn't make any difference.

Mr Harris: Liability doesn't arise from incorporation, it arises from other actions.

Mr Quinlan: Action predates all of that.

MR SMYTH: If the incorporation hadn't gone ahead, would the liability have arisen?

Mr Quinlan: Yes.

MR SMYTH: How would it have arisen?

Mr Zissler: The liability is at law. It's quite simple. People were always members of the PSS and over time, through custom and practice, people were removed or not put into PSS. In that law they are members.

MRS CROSS: Minister, just looking at BP4, page 434, the proceeds from the sale of property, plant and equipment are $1.7 million. Could you tell me if that includes the sale of the equipment from the Williamsdale quarry?

Mr Zissler: No, not at all.

MRS CROSS: Could you tell me, then, where it is in the budget?

Mr Zissler: The $1.7 million relates to the fleet business selling off vehicles at the end of their useful life as a leased item.

MRS CROSS: Where is the sale of equipment from the Williamsdale quarry recorded?

Mr Zissler: The Williamsdale quarry is a totally separate legal entity. It's not reported in here at all.

MRS CROSS: Isn't it supposed to be?

Mr Zissler: No, not at all.

MRS DUNNE: Who owns it?

Mr Zissler: It's going through a liquidation process with a liquidator.

MRS DUNNE: The liquidator owns it, effectively?

Mr Zissler: Indeed. In effect, correct—at law again. A company in liquidation at law is owned by the liquidator. They will file a report when they file their report.

MS DUNDAS: Also on page 434, $8 million was spent in the 2003-04 year on the purchase of property, plant and equipment. For an organisation that's being wound down, that can't all be on new cars.

Mr Zissler: That's to purchase the vehicles.

MS DUNDAS: It is all new cars?

Mr Zissler: Yes. As you know, we run a fleet—I think it's heading towards 3,000 vehicles at the moment. On the books, in effect, you purchase them; you hold that asset for a period of time and then you dispose of them. In that period—I haven't got the book in front of me—if $8 million is right, $8 million is right.

MS DUNDAS: Why, over the outyears, are you projecting that you will spend half that money on new cars? It's on page 434 of BP4.

Mr Zissler: The fleet numbers going forward are just projections at this stage, depending on the structure of the business, bearing in mind that we have been in the position of growing the business. It has been quite substantial over the last year, in effect. That will plateau out over time, that's what we're expecting, because those vehicles will start being returned as well.

MS DUNDAS: The other questions I have relate to how CityScape Services will operate. Should I save those questions for the Minister for Urban Services?

Mr Harris That would be my advice.

Mr Quinlan: And mine.

MS DUNDAS: I will ask those questions of him. Did you have any negotiations with urban services about the transfer of contracts, the transfer of business practices, those kinds of issues?

Mr Zissler: All contracts were novated from Totalcare to the various government agencies. Of course, you had to have the third party, the contractor, consenting to that. All contracts have been novated across and that was done by negotiation. There were some hundreds of contracts, and that has all occurred and been done.

MS DUNDAS: Are those contracts being administered under the conditions on which they were signed?

Mr Zissler: Yes, correct. There have been some minor amendments about wording, but they were opportunistic changes. No material changes at all.

MR SMYTH: Treasurer, I asked some questions on notice on 4 March, Nos 1330 through to 1336, which you have declined to answer. You claim that it is because of the primacy of the Assembly, given that there is also a motion on the notice paper about Totalcare. Is it not reasonable to ask questions on notice and expect answers for further debate that might occur in the Assembly?

Mr Quinlan: Is this on the quarry?

MR SMYTH: It is on the quarry.

Mr Quinlan: I can't actually remember the tenor of the questions.

MR SMYTH: They simply asked things about the joint venture, the arrangements of the joint venture, the performance of the joint venture, the extent of the involvement of different parties in the joint venture.

Mr Quinlan: Mr Zissler will give you an idea of what is involved in answering those questions.

Mr Zissler: As you know, it was a large number of questions. As I advised earlier, Williamsdale Operations is in liquidation and the records and management of that are, in fact, under the control and ownership of the liquidator.

MRS CROSS: Just speak up a bit. I'm sorry, I'm having difficulty hearing you.

Mr Zissler: Sorry. We don't have control of the records or the management of Williamsdale Operations; those records are held by the liquidator. At the time of the questions on notice, they were being held by the Supreme Court. As you know, there is court action occurring around the liquidation. We are still not in possession of those records. The second issue, of course, is that we have no former employees of Williamsdale Operations now employed within Totalcare who could actually verify the contents. So, for us to go through those records and draw conclusions would be just that, drawing conclusions at best. If the information is not there, there is no-one to attest to the veracity of it.

MRS CROSS: When did the liquidator become involved? I'm probably wrong, but it seems like people have tried to keep the whole Williamsdale Quarry issue a secret. That's just a perception; it may not be the reality.

Mr Zissler: I'm not sure of the exact date the liquidator was appointed, but it was some time ago, certainly before this board. I suspect that it was two years ago.

Mr Harris: It was about two years ago.

Mr Zissler: The process of liquidation is very long; it is very constrained legally. The liquidator has to behave under very strict regulations and we have absolutely no control over it.

MRS CROSS: I haven't seen those questions, but while that's happening you can't answer them because that information is with the liquidator?

Mr Zissler: Indeed. They have the records. The last I knew, they were with the Supreme Court, so I cannot inspect them.

MRS CROSS: Okay.

Mr Quinlan: Rest assured that, when we can, we will be very happy to tell the full story of the quarry. The quarry was set up with a marketing plan that was not realised in any way. It was set up with plant that was entirely inappropriate. Apparently, the aggregate that is drawn from that quarry is of a very, very high quality and there was a presumption that, because it was of high quality, it would automatically assume a lion's share of the market. That just wasn't the case because most of the contractors that would have bought it had their own source of material and, even though it mightn't be as good as the Williamsdale material, it still satisfied Australian standards and they still, of course, preferred to buy their own. The quarry did have some contracts, which meant that it was virtually unsaleable because of the commitments that it had hanging around its neck, except effectively to one buyer, and it was just leaching money. It's a number of things. It was one of those things that we just had to face up to and tidy up.

MR SMYTH: The fact that the records are with the Supreme Court is not mentioned in your letter. Your letter actually says, "I'm not prepared to respond to the questions on notice while the current Legislative Assembly motion about the quarry remains unresolved."

Mr Quinlan: Yes.

MR SMYTH: So, even if I were to withdraw my motion, what you are now saying through Mr Zissler is that you can't answer the questions anyway.

Mr Quinlan: No, I don't think I can. But, as I've said to Mrs Cross, in the fullness of time I will be very happy to tell the full story, Mr Smyth; very happy to.

THE ACTING CHAIR: We will finish with Totalcare. Thank you very much to those officers who attended on behalf of Totalcare. I ask those officers responsible for InTACT to join us at the table. Mr Vanderheide, did you hear my blurb before?

Mr Vanderheide: Yes, I did.

THE ACTING CHAIR: I won't repeat it, then. You understood it. For the record, state your name and position to start with?

Mr Vanderheide: My name is Michael Vanderheide. I'm the general manager of InTACT.

THE ACTING CHAIR: Mr Quinlan, is there an opening statement you would like to make in relation to InTACT?

Mr Quinlan: No.

Mr Vanderheide: No, I am happy to take questions.

MS DUNDAS: Budget paper No 4 shows that almost every department has had a whole-of-government communications saving, and we learnt yesterday that that relates to savings specifically from InTACT and costs being worked out there, but we weren't able to get full details on how each department had managed to reach such fantastic whole-of-government communications savings. Can you provide more detail?

Mr Vanderheide: Yes, I can. It's a good outcome, actually. It was the result of the request for proposal process that we had been going through for the last 18 months. I guess the detail is that we're implementing a private network between ACT government offices around Canberra which will, once we pay back the $10 million in capital required to do that, save the ACT government approximately $3 million a year in total telecommunications costs.

MS DUNDAS: There are some interesting figures in your own statement of financial positions around budget papers but, because there have been savings across every department, that doesn't necessarily mean that InTACT is missing out; it's just that you have found a way of delivering a service that's more efficient. Is that what's happening?

Mr Vanderheide: Yes, exactly right. It was a transitionary year. In the coming 12 months we will still be paying Telstra for our data communication lines. But, following the implementation of the network, the cost goes down to a very, very small amount compared to what we're paying now.

MS DUNDAS: I am looking at the statement of financial intent and, to be fair, I should be looking at the budget papers. There are quite significant changes across the government payment for outputs in that $6 million was budgeted for and there was an estimated outcome of $1.8 million for the 2003-04 year, going up to nearly $4 million for 2004-05. What has actually been happening to the government payment for outputs? I have read the note, but I'd like more of an explanation than is there.

MRS DUNNE: Like the rest of us. It doesn't tell you very much.

Mr Vanderheide: I might get my financial manager to explain that.

Mr Burton: My name is Ross Burton. I am the finance manager at InTACT. To answer your question, the government funding that we get provided for is for a number of initiatives. In 2003-04, because of our performance, there is funding provided for what is called general reserve, $2.6 million, which is required in case we need the funding. It is only to be drawn down if we need the funding. There is also $1.1 million for EBA funding for 2002-03, which was agreed would only be drawn down if necessary this financial year. Because of the savings that we've made and a better than budgeted performance, there hasn't been any requirement to draw on that money this years. What we budgeted for, over $6 million, we no longer require, so that's why we're only drawing down $1.8 million, which is solely for certain initiatives that we've undertaken in 2003-04.

MRS DUNNE: What you are saying, Mr Burton, is that you had funding for $1.8 million roughly of services but you had another $4 million sloshing around in case you needed it.

Mr Vanderheide: Not sloshing around exactly.

MRS DUNNE: Sorry, sloshing around is probably emotive. But you had money that you had recourse to.

Mr Vanderheide: There are two elements to that. One element is the EBA funding, which was the general increase that came through last year.

MRS DUNNE: So your staff didn't get an EBA funding increase.

Mr Vanderheide: No, they did. We just expected more revenue than we budgeted, so we didn't need the money. Mike Harris, who was chief executive when I took on InTACT last year and the EBA funding came through, said, "Look, I'd like you to try to absorb this if you can. If you can't, we'll hold the money in reserve and give it to you." We were able not so much to absorb it—we certainly paid our staff the EBA increase—but we had higher revenue than we expected, so we didn't need the money. The other element of that funding, I would treat that or see that as a hangover from the days when InTACT really wasn't managing its finances as well as it needed to. That is no longer the case; we no longer need that money. We gave it back last year, we're giving it back this year, and it's coming out of our budget from here on in.

MRS DUNNE: So what you're saying, Mr Vanderheide, is that you're now reaping larger revenues and, at the same time, returning efficiencies or the opportunities for savings to departments.

Mr Vanderheide: Yes, I think I'm saying that. We're reaping larger revenues than we budgeted this financial year and, because of that, we didn't need the funding for the EBA increase. Our cost structure, because of those higher revenues, has been adjusted.

MRS DUNNE: For the current financial year, are you anticipating those same higher revenues or are you actually returning some sort of dividend?

Mr Vanderheide: We try to operate cost neutral. We're not in the business of making money; we're in the business of trying to cut costs of IT across government. Where we have costs, we have to pass those on to agencies; but we're not out to make a profit, we're not out to seek more revenue than we actually have budgeted. We just don't always get our revenue exactly right because we can't completely predict our customer behaviour. If there's more consumption out there than we budget, then our revenue goes up.

MS DUNDAS: Just to follow up on the whole-of-government payment for outputs, in budget paper No 4 on page 122 there is the whole-of-government communication costs as repeated in InTACT budget papers which actually shows that there'll be an increase or a change in appropriation over the outyears for the whole-of-government communication costs. If the costs of administering the whole-of-government communication network have gone down, why have they gone up in the government payment for output?

Mr Burton: For 2004-05 it was agreed that ACT Treasury would fund the old Telstra costs in relation to the old network until the new network came on board.

MS DUNDAS: So that is that $2.2 million.

Mr Burton: Yes, and then the residual of $450,000 in the outyears basically represents that. It does not matter that there will be a new private network; we will still have to retain about 10 per cent of the old lines because it won't go to every particular area that will be necessary; so we'll still have a tie to Telstra of about 10 per cent of the line. That's why the $450,000 goes out in the outyears.

MS DUNDAS: Which areas aren't capable of being put onto the new network?

Mr Vanderheide: I'll have to ask my operations person to speak to that.

Mr Hart: Richard Hart, director, solutions delivery, InTACT. Generally speaking, the sites that we're going to continue to have to operate leased lines to are small sites outside of the urban area, places like far-flung ranger stations and that sort of thing where it's not cost-effective to run an optical fibre.

MS DUNDAS: And that is in no way being seen as a backup if there's a problem with the new network; it's actually just specifically to those regional areas.

Mr Hart: That's correct.

MRS DUNNE: In output class 1.1, under costs, the average cost of a help desk service was estimated to be $22 in the current financial year and again in the next financial year, but the estimated outcome was $24. I am just trying to work out, Mr Vanderheide, where the cost savings are, because the help desk services have come in above budget in terms of cost, but you predict that they will come back down. I'd like an explanation of that. Also, where are these costs being returned to departments? I don't really understand that. For instance, the help desk is costing more. What is costing less? Are all departments receiving a reduction in costs in the next financial year?

Mr Vanderheide: There are a few questions there. We might start with the question around the help desk.

Mr Burton: The $22 and the $24 basically relate to where we have slightly changed throughout the year our structure within the help desk. We have divided it by service teams and also a central function for the help desk. Because of the numbers that have changed throughout that period, there has been a slight difference in the $22 to $24, and then again that's why it is relating back to this year because the targeted costs for 2003-04 were based on prior to the EBA funding coming through as increasing costs. So, for when the actual costs were incurred, in 2003-04, there has been a slight increase, obviously, in what we paid to those people within the help desk area. For the financial year 2004-05, as I said, there has been a slight change in the actual starting numbers within what we calculate, still keeping within our total FTEs but within the help desk area the functions are not necessarily being split one whole person to the help desk, one person to customer service. There has been a change of percentage which has resulted in the figure now being $22.

MRS DUNNE: The other question is about where the savings are that are being delivered to agencies. Do all agencies receive a saving?

Mr Vanderheide: The way our cost model works—we've done an awful lot of work on that in the last 12 months; in fact, we've revised our costing model and our pricing model from the ground up completely—is that all of the costs that InTACT incurs get passed on to agencies. So, if we have a cost, we put it into the price for one of our services and pass it on to agencies. All agencies pay the same thing for the same services and the help desk cost, for example, is bundled into the cost of desktop support or the desktop environment support for a PC.

MRS DUNNE: For a PC. That makes sense.

MR SMYTH: I have heard with interest that the costs of all of the government departments for IT have gone down. If you refer to page 23 of BP4, the government payment for outputs for the Auditor-General has increased and they apportion it to wage increases and IT-related support costs. The Acting Chair and I heard in another committee—I'm told I can say this without tabling documents—that the actual charges for the Auditor-General went from $28,000 in 2002-03 to $108,000 in the new service level agreement. How is that a decrease in the costs?

THE ACTING CHAIR: It is not a decrease in my language, either, I have to tell you.

Mr Vanderheide: It's definitely not a decrease. It's an application of the costing model, which allocates costs equally across agencies, depending on the services that they utilise. The Audit Office was taken on by InTACT as a customer two or three years ago, I think, on a special deal basis, I understand. They weren't paying the actual cost of the other services that they were receiving from us. Those costs were being cross-subsidised by other agencies. The cost model that we have in place now basically gets rid of that cross-subsidisation and the Audit Office is now paying for what it uses.

MR SMYTH: So it has gone up fourfold; they negotiated a deal at 25 per cent of what everybody else was paying.

Mr Vanderheide: Apparently.

MR HARGREAVES: It wouldn't be the first time an audit office has done so.

Mr Vanderheide: I have to say that I was very disappointed to see their costs going up particularly. If I had to pick an agency whose costs would go up, it wouldn't have been the Auditor-General's, but that is the way it was. They were on a special deal.

MR SMYTH: So it's not quite true that everybody's costs have come down.

Mr Vanderheide: Whole-of-government, the costs have come down quite considerably, but for the Auditor-General's Office—

MR SMYTH: I heard people say that all of the agencies had experienced a reduction. Have other agencies not experienced a reduction?

Mr Vanderheide: There were three agencies that had small increases. My understanding is that Treasury actually took some of the money that was saved from the agencies that had significant decreases and funded those increases.

Mr Quinlan: The Audit Office has been funded for that.

MR SMYTH: I know that the Audit Office has been funded, but it was not true to say earlier that everybody had. What are the three agencies that have not?

Mr Quinlan: Picky, picky, picky!

MR SMYTH: From $28,000 to $108,000 is not picky.

Mr Vanderheide: It wasn't picky from the Audit Office's perspective, no, that's exactly right.

MRS DUNNE: As there are only 27 people in the Audit Office, it's a lot of money.

MR SMYTH: What were the other two agencies that had increases?

Mr Vanderheide: Urban services and the Legislative Assembly, one of the other ones that I wouldn't have chosen to go up.

MRS CROSS: Minister, on page 115 of BP4, I note that user charges for the ACT government will drop in 2004-05 from this year and then go up again. Could you explain the drop and why they go up again? How did you work that out? It goes from $65,382 million down to $59,435 million and then up again to $62,187 million in the outyears and continues to increase. In fact, it levels off in 2006-07 and 2007-08.

Mr Burton: I'll answer this one. Basically, the reason it has dropped in price is that, because we're changing the pricing model or charging model, as we said, we're only recovering less costs against the agencies. One of the big savings is that we no longer charge the same amount for WAN services. That dropped from approximately $5 million to just over $2 million because of a new private data network.

MRS CROSS: For *Hansard*, could you explain what WAN services are?

Mr Burton: WAN is the data network, the wide area network. This is the reason there has been a substantial drop in 2004-05, almost $6 million. Most of that is through the reduction in WAN services. The reason for the increase in the outyears is that with the actual increase in the CPI our expenditure increases, as do our user charges. I would say that to another factor. There's also a factor involved there: we don't recover all our costs. Depreciation on equity-funded assets isn't recovered through our user charges system, so InTACT will always budget for a loss in any financial year. That's another reason why some of the equipment that we have previously been funded for, infrastructure through modernisation, is going to be fully depreciated in the next two years, which will have an effect on our cost structure, too.

MRS DUNNE: There was a bill by Ms Dundas about open-source software. What work has InTACT done in relation to exploring the possibilities of open-source software and how far are we down the path, if at all?

Mr Vanderheide: There are two parts to that answer. Part of it is John Robertson's answer and that's associated with the work being done whole-of-government across-the-board for procurement.

MS DUNDAS: Which I was going to ask about when we got to procurement, but we're happy to deal with it now.

Mr Vanderheide: One way or the other. The other answer is really the answer to your question now, I guess, which is: what are we doing at the moment? Richard can take you through that.

Mr Hart: In conjunction with ACTIM, ACT Information Management, and the Department of Urban Services, we've been looking at a trial of open-source software on desktop. I'd need to check with my colleagues in ACTIM exactly where that's at.

MRS DUNNE: Sorry, colleagues where?

Mr Hart: ACTIM, ACT Information Management. It is the part of the Chief Minister's Department which is responsibility for information management policy.

MRS DUNNE: So that you're actually having a trial somewhere in the bureaucracy to see if it works.

Mr Hart: That's correct. In addition to that, we're continuing to incrementally expand the use of open-source software in the infrastructure, in the back end of the operation, the parts that individual people don't necessarily see or touch but which we use. That's one of the areas where open-source software is gaining a high level of use globally.

MRS DUNNE: How long has that been going on?

Mr Hart: I couldn't give you an exact date for the first time we installed a piece of open-source software, but it was some time ago.

MRS DUNNE: Not in the last year.

Mr Hart: Yes, before then. We are incrementally growing that, notwithstanding that we're doing work with the other agencies I mentioned for a desktop trial.

MRS DUNNE: Does that mean that there will be a reduction across the years in license fees to Microsoft and other people?

Mr Vanderheide: Too early to tell.

MS DUNDAS: I guess we'll get back to Mr Robertson when we get to output class 1.4.

MR SMYTH: Unless you've got something to add now. Feel free to lash out.

Mr Robertson: What would you like to know?

MS DUNDAS: I want to explore certain recruitment services, not specifically in relation to InTACT.

THE ACTING CHAIR: We will do it later.

MS DUNDAS: I want to go back again to the whole-of-government communications issue. The more I think about it, the more interesting I find it. In terms of how the budget papers read, did you actually get the new network on line earlier than anticipated and that's why there are savings?

Mr Vanderheide: Fair enough, it's a little bit confusing. Agencies have been paying us around $3 million or $3.5 million a year for telecommunications, basically for the data network, over the past three or four, probably five years now. We are investing $10 million in laying our own network. Treasury has taken the $3.5 million out of agency budgets and basically it is holding it centrally, and that represents the savings. They are then going to be using that funding for the first year, giving some of it back to us to continue to pay Telstra for the lines that we're using as we transition to the new network. Beyond that, it's saving once we've paid back the initial $10 million investment.

MS DUNDAS: So it's an initiative that's actually happening as part of the 2004-05 budget.

Mr Vanderheide: It will start this year. In fact, it has started this year with a peripheral network. The core network we expect to start in about six weeks time.

MS DUNDAS: I just had a quick look back through the old budget papers and I couldn't necessarily see it as an initiative.

Mr Vanderheide: It is. There is $3 million in this year's budget.

MS DUNDAS: In this year's budget?

Mr Vanderheide: Yes, in the 2003-04 budget.

MS DUNDAS: Sorry, I couldn't see it, but it's continuing and it will be coming on line soon, and that's why all the savings are coming through.

Mr Vanderheide: Yes.

MS DUNDAS: So it's a project that only started in the last year.

Mr Vanderheide: In fact, the contracts are being signed. Some of them were signed about five weeks ago. One of them is due for signing on Friday of this week.

MRS CROSS: Could you tell us where it is that that $3 million that you said you've invested this year can be found, because I couldn't find it, either?

MS DUNDAS: In last year's budget. That would be the enterprise server initiative.

Mr Vanderheide: It's called the data communication initiative, but I'm just seeing if we can find it. I don't have last year's budget.

MS DUNDAS: It was actually a rollover in last year's budget, so I assume that it's in this budget.

Mr Vanderheide: You cannot see it, but it is on page 122 as part of—

MS DUNDAS: Of this year's budget?

Mr Vanderheide: Yes, as part of the 2003-04 budget, capital injection.

MRS CROSS: Where is it?

Mr Vanderheide: It is part of the $5,920 million.

MRS CROSS: Is it in that?

Mr Vanderheide: It's in that, yes. It was more clearly stated in last year's budget.

MR HARGREAVES: On page 122 of BP4, under departmental changes to the appropriation, there is $2 million for the removal of non-continuing budget initiatives. Could you tell me which ones are not continuing, please?

Mr Burton: This basically relates back to when we prepared the budget for 2006-07 and 2007-08. There was money set aside initially for funding for budget initiatives which we didn't actually have specified at that point in time. We didn't say that there was going to be $2 million for data communication. We had $5 million allocated for capital works or initiatives and that has been reduced. Capital funding was provided of $3 million in those outyears. There is no actual capital initiative against a budget initiative that is now being eliminated.

MRS DUNNE: Treasurer, does this mean that you're fessing up to a hollow log?

Mr Quinlan: Sorry, I wasn't—

MR SMYTH: If we've understood Mr Burton properly, InTACT has fessed up to almost $3 million of money that they got and never had a project for and now, because they don’t need it, they’re giving it back.

Mr Burton: No, I’ll clarify this. When we do the budget process, we look at, say, for 2005-06 you stay as a base, replicating that as your base for the following year, then you do your adjustments to that base to get to your final figure. In this capital initiative which was rolled over from 2005-06 to 2006-07 that adjustment wasn’t made and the same with 2007. We are now saying that there is no $5 million that was allocated. That was a rollover and it should have been corrected last financial year for 2006-07, so in the 2004-05 budget we’re now making that correction. There’s no hollow log as such.

MR SMYTH: You’ve actually been getting adjustments on a fund that never existed.

MRS CROSS: Say that again, Mr Burton. Can you repeat that? Just say that again—there’s no hollow log.

Mr Burton: That’s right.

Mr Quinlan: Are you clear now?

MR HARGREAVES: Does that same piece of hobbitspeak actually apply to the termination of non-continuing budgets in the payments for outputs bit as well? I only just understood what he was saying.

THE ACTING CHAIR: I’m sorry, Mr Hargreaves, but I have to interject here and say that I don’t believe that hobbits would concern themselves with matters within InTACT, but keep going.

MR HARGREAVES: Okay, I withdraw that unreservedly. Mr Burton, in the government payments for outputs as well there is an amount of $317,339. It’s all the same process, though.

Mr Burton: With what, excuse me?

MR HARGREAVES: In terms of its being a continuing projection of your need, but the need is no longer there; so you’re removing it from the program.

Mr Burton: That’s right, yes.

MS DUNDAS: But the specific question is that that is both in terms of capital and other outputs.

Mr Burton: Yes. We get capital funding for certain items—specifically for budget issues, but we also get capital funding for items that may come up in the future and can’t be identified at this point in time. We’re saying now that we don’t need that $5 million into the future, 2006-07; we’ll only require $3 million.

MS DUNDAS: We’re asking specifically now about the $317,000 and the $339,000 listed as the termination of non-government budget initiatives. It’s not capital.

Mr Burton: No, that’s current GPO. That actually relates to a specific initiative which you'll see in the earlier budget papers was called LABMS, lease asset and building management system. A portion of the funding last year, 2003-04, was rolled into 2004-05 to complete that project, so funding that was allocated in 2006-07 and 2007-08 is no longer required.

MS DUNDAS: So the project is actually complete.

Mr Burton: Will be completed in 2004-05.

THE ACTING CHAIR: We have finished our questioning of InTACT.

Meeting adjourned from 3.23 to 3.50 pm.

THE ACTING CHAIR: If we can come to order: we have the officials from Actew at the table already. Mr Costello and Mr Luddy, were you present when I read the card and other information before?

Mr Costello: No.

THE ACTING CHAIR: I didn't think so. I'll read this quickly. 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 actions 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 also need to say: can each witness, on coming to the table, state their name and their capacity in which they are appearing. Please clearly identify when you are taking a question on notice; it is then your responsibility to check the transcript and respond to the question. Responses to questions taken on notice are required within three full working days. The transcript will be emailed to the minister and the departmental contact officer for distribution to witnesses as soon as it is available. Due to the late sitting of the Assembly last week, there may be a delay in the provision of the transcript. Can members please confirm when they are taking questions on notice. I suggest that officers make note of the question in case there is a delay in the transcript. I've already done the bit about members identifying when they want a question to be taken on notice.

You should also understanding proceedings are being broadcast to specified government offices, and the media may be reporting proceedings and taking visual footage. Thank you. If you could start by stating your name and position for Hansard.

Mr Costello: My name is Michael Costello. I'm the Managing Director of Actew.

Mr Luddy: Mike Luddy, CFO, Actew.

THE ACTING CHAIR: Is there an opening statement you wish to make, Mr Costello or Mr Luddy, or minister, in relation to this area?

Mr Costello: No, I think we're happy to move on to questions.

MS DUNDAS: Obviously I want to ask about the dividends that Actew is holding onto and that the government will see in 2005-06. This was mentioned I think during the budget presentation, Treasurer. The discussion was that Actew would be holding onto that dividend and that would help next year's bottom line. I'm looking at page 33 of BP3. What does Actew intend to do with that dividend, holding onto that dividend for an extra year?

Mr Costello: Well, we won't actually necessarily be holding onto it for an extra year. It will be paid after 30 June instead of before 30 June. As you can see, the profit for this year was about $11 million still available to be paid. The operating result was $11.3 million. We also had had in our books for some years retained profits of $19 million.

We're concerned this year that we're going to pay for the two new water filtration plants—one at Stromlo and one at Googong—but rather than borrowing the money we decided to pay it out of our cash; and it's convenient for our management of our cash for us to be able to do that. They should be completed by the end of November, both of them. Certainly the Stromlo—

Mr Quinlan: The end of the year.

Mr Costello: Certainly by the end of the year. We decided to pay for it out of cash; so it's better for our cash management really to do it this way.

MRS DUNNE: Why spend your cash?

Mr Costello: Why not? If we borrow we have to pay interest on it.

MR SMYTH: Does Actew actually have a policy on when it's appropriate to borrow and when it's not?

Mr Costello: Well, we prefer not to pay interest if we can avoid it. Cash sitting in there is earning interest, and you then have to pay your tax to the government on it but also it's less than what you'd be paying for it if you borrowed it. So if we can finance it through cash flow we would rather do that. If we were, for example, to have to move onto something much larger than this, that is, finance a new water supply—if that were to happen—there's no way we could manage that out of cash flow, I don't believe. That would have to be done some other way.

MR SMYTH: So it's done on an individual basis. There's not a policy that the board has set or directions that the board's given you which say, "Under $50 million just use the cash, over $50 million go and buy it."

Mr Quinlan: As a shareholder, I would have an expectation of course that there would be no borrowing to cover ongoing operations, that the borrowing would be undertaken only when necessary and when it's an investment in an expansion or development of the system.

MRS DUNNE: The water treatment works plants are not an expansion or development of the system?

Mr Quinlan: Well, they are. This is a case where everybody wins. Actew has the cash capacity to do, if not all, most of the works that they're required to do that were unexpected till a year or so ago. So this suits them and it certainly suits our bottom lines. This is what you'd call a good, a win-win situation.

MR SMYTH: Smoothing.

Mr Quinlan: Yes. I'm quite open about that. This is what I think is a sensible way of managing the finances of the territory.

MS DUNDAS: Mr Costello, you said that you'd actually been holding onto reserves for quite a while now.

Mr Costello: How long has that $19 million been sitting there, Mike? A couple of years?

Mr Luddy: It would have been there for some time, yes, in unappropriated earnings, yes.

MS DUNDAS: Why?

MR SMYTH: One year, two years, three years?

MS DUNDAS: Yes, how long and why were you holding onto it?

Mr Costello: You'll have to ask Mike.

Mr Luddy: Are we talking about—

Mr Costello: The $19 million.

Mr Luddy: Yes. That's not necessarily equivalent to cash; that's what we call profits, which is sort of sitting on the balance sheet, which sometimes are represented by cash or sometimes they may not be. But that has been there I think for at least three years, four years.

MS DUNDAS: Why? Why have you held onto that? Why hasn't it gone into the dividend?

Mr Luddy: Thinking back, I think it occurred when the joint venture was formed. And when the joint venture was formed, there were certain non-cash profits. So you made a profit but it wasn't represented by cash. And at the time it was agreed, because it wasn't represented by cash, that we would leave those profits within Actew.

MS DUNDAS: Because they weren't represented by cash?

Mr Luddy: Correct.

MS DUNDAS: Sorry, I didn't hear you. I just wanted to make that clear. The 2004-05 budget dividend, which includes this $19 million of retained profit—has there been some of that magical accounting stuff where you've managed to turn non-cash assets into cash assets or—

Mr Costello: Well, our biggest problem coming up in non-cash assets is contributed assets. These are assets that are given to us by developers when they develop a new product. It sounds a wonderful deal. They're counted immediately as profits in that year under the system that we operate under. Therefore, they come into your profit line and are technically available as dividends. That would be fine if the regulator would allow us to earn a rate of return on them, because over the period you would then earn a return and you would be able to depreciate them in the normal way and so on.

MRS DUNNE: So why are they treated as profits?

Mr Costello: Because that's the accounting standards. That's been the way they've been and that's been required of us. We're trying to find a way through this, but that can sometimes make you look as though you have profits that aren't represented by cash.

Mr Luddy: We agree with what you're saying and you'll find that our accounts—

Mr Costello: I'm trying to find a way around it.

MRS DUNNE: I'm not sure that I'm agreeing with what I'm saying; I'm just sort of working this out.

MS DUNDAS: Well, I guess you haven't answered my question. You're going to, in the 2004-05 financial year, transfer to the ACT budget $95 million—

Mr Costello: No. Yes, well, after tax.

MS DUNDAS: Well, there will be a dividend declared of $95 million.

Mr Costello: No. Some of it's tax.

MS DUNDAS: Well, I'm looking at budget paper 4, page 390.

Mr Luddy: It will be declared. 80 per cent will be paid as the interim.

Mr Costello: As an interim, yes.

MRS DUNNE: Sorry, what page are you on, Ros?

MS DUNDAS: 390.

MRS DUNNE: On page 117 of BP3 it says that the dividend amount of $95.371 million in 2004-05 comprises Actew's operating result of $64 million, $11 million representing the deferred 2003-04 dividend and the $19 million. So $95 million isn't the 2004-05—

Mr Costello: Yes, it is. But the policy has been we pay 80 per cent of the dividend in that financial year and 20 per cent in the year after, the next financial year. That's the tradition.

Mr Luddy: So $76 million is 80 per cent of the $95 million. That's the interim dividend.

MRS DUNNE: I see. But you're not paying the 2003-04 dividend until 2004-05, to keep you cashed up to pay for the treatment plant. When in 2004-05 are you going to pay?

Mr Quinlan: For the treatment plant? As late as possible, I would imagine.

MRS DUNNE: No, the dividend.

Mr Costello: 29 June.

MRS DUNNE: Well, it remains on the short-term money market.

MS DUNDAS: The budget papers show that you then declared a zero but you were budgeting on a $50 million dividend.

Mr Costello: We've declared a zero dividend because we've taken $11 million earned last year and we're paying it in the next financial year.

MS DUNDAS: But where you're on target—

Mr Costello: And we've lost $10 million, thereabouts, we guess, on stage 3 revenue for the sale of water.

MS DUNDAS: So if you were declaring a dividend this financial year, it would have actually been below target anyway. That is the question that I'm asking.

Mr Costello: Yes.

MS DUNDAS: What would have been the estimated outcome on the dividend, if you weren't holding onto it?

Mr Costello: Well, we'd have paid $11 million, as we have now. If we hadn't had the water problem for stage 3, we'd have had, after tax, probably about another $8 million, $9 million. Of course, we've made a provision for TransACT of $40 million. That's a non-cash asset—it's one of these non-cash things—but that means your profit goes down $40 million.

MS DUNDAS: So you would have actually declared a dividend of $59 million.

Mr Costello: If we hadn't lost the money through the water, yes, the revenue.

Mr Quinlan: And the TransACT write-down.

Mr Costello: So we would have exceeded our target.

MS DUNDAS: You would have exceeded your target, but there was TransACT and then there were water restrictions.

Mr Costello: Correct.

MS DUNDAS: You were actually looking to pay a dividend of only $11 million; that's how you've worked out all of this.

Mr Costello: Yes.

MS DUNDAS: Turn to the 2004-05 financial year. Basically you were budgeting for a dividend of $84 million, and you've added the $11 million on to get $95 million. Am I correct in that assumption?

Mr Quinlan: No, the figures that Mrs Dunne read out, I think, were the ones on page 117. $95.4 million is made up of dividend of $64 million, $11 million from the carry-over and $19 million from the reserve.

MS DUNDAS: I am getting to a point here. In 2005-06 and 2006-07, the dividend is—

Mr Quinlan: $60 million-odd.

MS DUNDAS: Yes, $60 million-odd, and then it goes back up to $64 million-odd for the out-year 2007-08. From what the base would have been, why does it decrease?

Mr Costello: Well, we've got some extra factors in for next year. We've got an extra $19 million from retained profits.

MS DUNDAS: Well, we've taken the $19 million out and we've taken the $11 million out, and we are left with the $64.3 million dividend which is what you would have had standard for 2004-05. But for 2005-06 it drops back down to $60 million-odd, as the Treasurer pointed out.

Mr Quinlan: $62 million rather than $64 million, is that right? $61.8 million.

MS DUNDAS: Yes, $61.8 million and then $64 million in the outyear.

Mr Costello: There'd be a number of factors there. You sort of reduce interest on the liquids that we have invested.

Mr Luddy: And spent $50 million.

MS DUNDAS: I know you mean liquid assets, but it's funny when you talk about it.

Mr Luddy: There'll be increased depreciation because you have to depreciate the Stromlo plant, the Googong plant. It's probably a multiplicity of about six factors that brings that back.

MR SMYTH: When was the decision actually taken to build the two new filtration plants last year?

Mr Costello: The board took the decision, I think, formally at the end of October.

MR SMYTH: October last year.

Mr Costello: Yes, formally took the decision and signed off on the formal plants before us. But the board in principle decided it needed to do that in the middle—I'd have to go back and check it; June or July last year. I must say: I'm not blowing my trumpet, but the work done by the people on that is extraordinary. Normally something like this would take 3½, four years. They'll have done it in 18 months. It's really an amazing achievement.

MRS DUNNE: When you say "formally in October", you said, "We will build this one."

Mr Costello: Correct.

MR SMYTH: When did the board notify the government that they would be building the two filtration plants?

Mr Costello: We discussed it beforehand. There was, I think, a press conference in June, where I was with yourself and you canvassed that possibility as a likely thing to happen.

MRS DUNNE: At one stage there was a discussion that you might need to do a variation to the Territory Plan and things like that, but you didn't. How did you get around that?

Mr Costello: I made the planning applications and they were approved.

MRS DUNNE: I'm sure there are many people in town who just want to know how you do it.

Mr Quinlan: We're connected.

MRS DUNNE: We want to know how you do it.

MR SMYTH: So the board talked about this in June/July and discussed it with the government and made the formal announcement in October. When did the board decide how they would finance it?

Mr Costello: They decided that in I think—I couldn't give you an answer of a specific day, but quite early on we decided we'd finance it through cash flow, that we had a healthy cash flow.

MR SMYTH: But in June or in October?

Mr Costello: I don't think we discussed it in June because we hadn't even been formally to the board then; we'd only discussed it informally. We formally first, I think, with the board discussed it in June; so it certainly wouldn't have been before that. I don't recall it before that, do you, Michael?

Mr Luddy: No.

MR SMYTH: Given that the government had in last year's budget they were receiving a large sum of money from Actew, which of course goes into the bottom line and helps balance the books, when did the board discuss with the government that they would not be paying the dividend?

Mr Costello: This year. We discussed with the shareholders the whole question of dividend policy because there's a broader question of dividend policy which applies to our shareholders and that is that, as has already been pointed out, a lot of our profits are in fact not represented by cash; and when you want to pay you've got to borrow the money. It's a bit like when there was a really major repatriation of capital in the late 1990s of $400 million. That effectively was a bringing forward of $20 million a year in dividends in perpetuity, and the shareholders expressed a view on that. Naturally enough, the company—as long as the board is convinced this has no adverse impact on the operations of the business—listened very carefully to that. And we did that this year because we also wanted to do it, for the reasons I've mentioned. We wanted to have the cash to pay for these—

Mr Luddy: Gifted assets.

Mr Costello: Yes. The borrowings we're talking about down the track, the $25 million you see that we foreshadow down the track, that is largely related to gifted assets—this problem of gifted assets which have been foreshadowed to us. It used to be they were only $2 million or $3 million a year. They're suddenly talking about $12 million, $14 million, $15 million. You can see the numbers there. That's a substantial problem for us. If we have to pay profits and regard them as profits and pay dividend on that basis, we may have to borrow money; we don't know yet.

Mr Luddy: Just sort of adding to what Michael said: for example, in the year 2005 we're looking at gifted assets of about $19 million whereas previously, as Michael said, it was running at about $3 million or so, $4 million. So it is a significant amount of money we have to find.

MR SMYTH: Sure. This might be for the Treasurer. When was the decision made by Actew not to pay the 2003-04 dividend to government? If we could have the exact date if possible. You may have to take it on notice.

Mr Quinlan: I can't tell you the exact date. We had a meeting.

MR SMYTH: Will you take it on notice?

Mr Quinlan: Yes.

Mr Costello: I can go back and I can find out exact dates on that, yes. I'll have to refer to my diary, that's all.

MR SMYTH: Treasurer, if you thought you were getting a dividend out of Actew and Actew thought they were spending the money on the filtration plants, how does that go to the whole process of financial accountability when government is spending it in one area and Actew is spending it in the other? There must have been some point in time when it was discussed.

Mr Costello: The government knew we were spending the $50 million. We were financing the filtration plants through cash.

MR SMYTH: But until this budget that was not known. The budget as presented to the Assembly last year was predicated on picking up $50 million or thereabouts from Actew.

Mr Costello: That's true, but we didn't know we were building filtration plants until this year.

MR SMYTH: Well, except you're saying you had the discussion in June/July.

Mr Costello: No, we had a discussion in June in principle. The board made a decision in principle in July that it looked as though we would need to do this and made a final decision in October that we definitely should go ahead with it.

Mr Quinlan: The last budget was put together in April, as you know.

MR SMYTH: Yes, I know. I'm just trying to get the chronology. Did I pick up earlier that you said the filtration plants won't come on line until the end of November?

Mr Costello: No. The Googong one is due in September, I think—is that right?—about the middle of September, roughly. There are two parts to the Stromlo one. The basic bit—160 megalitres a day—that's due to be ready by early summer. The second part, which would be the full capacity—250, an extra 100 megalitres a day—is scheduled to be finished by February. At the moment they are very much ahead of schedule—not on the October and the November date, but they think they can do both at about the same time, that is, early summer. That's what their hope is.

MRS DUNNE: So both phases of the Stromlo one, you say?

Mr Costello: Yes, both phases of the Stromlo one by early summer.

MRS DUNNE: And is any of that contingent upon fixing up the Cotter pumping station?

Mr Costello: No. That's a separate matter altogether.

MRS DUNNE: That's a separate issue altogether.

Mr Costello: Yes.

MRS DUNNE: If you want to take the water out of the Cotter you've got to fix up the pumping station.

Mr Costello: You do have to do that as well. Even if you fixed up the pumping station for Cotter you couldn't use that water without the filtration plant. Yes, that's true. But if you had the filtration plant you'd still have to fix up the pumping station, yes.

MRS DUNNE: Yes, I understand that.

MS DUNDAS: How much is the project going to cost?

Mr Costello: I think the Googong one, $15 million; the other one—

Mr Luddy: $39.3 million.

Mr Costello: $39.3 million, yes.

MRS DUNNE: Sorry, let's run it again. What's the capacity of the Stromlo one?

Mr Costello: The Stromlo one, when it's finished, will be 250 megalitres a day. The other one will be 270, the Googong one.

MRS DUNNE: It's 15?

Mr Costello: Yes, but remember it's already half built. It's only another module.

MR SMYTH: It's an upgrade of the existing one.

Mr Costello: It's an upgrade of the existing one.

MRS DUNNE: So how much are you upgrading?

Mr Costello: We already can use 180 out of there. So it's another 50 per cent, yes.

MS DUNDAS: It's going to be worth $46 million as property, plant, and equipment, the project? Sorry, I'm looking at budget paper 4, page 394.

MRS DUNNE: Well, 39 and 15 is 46 in my book.

MR SMYTH: Is it?

MS DUNDAS: 39 and 15 is 54.

MR SMYTH: I hope not

MS DUNDAS: It's 54.

Mr Costello: Yes.

MRS DUNNE: I won't do any more mental arithmetic today. That's twice I've done that.

MS DUNDAS: But budget paper 4 indicates that it's being held as an increase of $45 million or $46 million.

Mr Luddy: That's on what page?

MS DUNDAS: That's page 394. It's a note to property, plant, and equipment. It could be that other property, plant, and equipment has lost value to the tune of about—

Mr Luddy: Yes, there may be some offset of depreciation in that. That is probably a net figure.

MS DUNDAS: So it's a depreciation of $6 million in the first year for the plants? Do you want to take it on notice?

Mr Luddy: Yes.

MS DUNDAS: Property, plant and equipment value for the Googong treatment plant. But that flows on to the next dot point, which is current and non-current interest bearing liabilities, where it indicates that Actew has assumed a $25 million loan to fund a larger than normal capital works program. By my calculations, you only need an extra $4 million from the dividend to be able to do Stromlo and Googong. What are you doing with the other $21 million and why aren't you using the process again of—

MRS DUNNE: That's the gifted assets, isn't it?

Mr Luddy: I think that's gifted assets.

Mr Costello: Gifted assets is the reason.

MS DUNDAS: So you've had to take out a $25 million loan to look after the gifted assets of $19 million in value.

Mr Costello: We hopefully won't have to but we're making provision in case we do. What happens when we receive these assets is: they are considered to be a profit. The tax commissioner takes 30 per cent straight away, and the rest is profit. It all goes to government either as tax or as dividends. It goes as tax. We don't have an option.

MR HARGREAVES: Not under this government, no, it doesn't.

Mr Costello: Yes, it does.

MR HARGREAVES: No.

Mr Luddy: Yes, it does.

MS DUNDAS: You're putting in for a—

Mr Quinlan: Tax equivalents.

MR HARGREAVES: All right, then. I'm happy with that.

MS DUNDAS: You're putting in a provision to take out a $25 million loan.

Mr Costello: Yes, for cash.

MS DUNDAS: To manage those assets?

Mr Costello: No. If we had to pay $25 million as dividend pursuant to profit, two-thirds of that would be dividend pursuant to profit and the other third would be tax. We'll certainly have to pay the tax. And we don't have the cash to do it.

MR SMYTH: You mentioned earlier, Mr Costello, that you won't necessarily pay the year-before's dividend at the end of next year; it might be early in the year. Has the government asked you to pay it on a certain date?

Mr Costello: No.

MR SMYTH: When is it to be paid?

Mr Costello: We normally pay it at the end of June, don't we, the 80 per cent?

Mr Luddy: 80 per cent is paid in June, and 20 per cent is paid in October.

MR SMYTH: Except this year you won't be paying anything in June?

Mr Costello: No, we won't, no.

MR SMYTH: So when will you be paying it?

Mr Costello: We haven't had any discussions about that yet.

MR SMYTH: Treasurer, when are they likely to pay it?

Mr Quinlan: Well, when it suits both of us so. If they need it they get to keep it as long as possible; if we need it we'll draw upon it.

MR SMYTH: Will that be soon? I'm afraid to ask this question: is that soon?

Mr Quinlan: It's a fluid arrangement.

MR SMYTH: Given that, Treasurer, how do you balance your comments when we've got Actew saying that they want to keep the 2003-04 dividend, it will be deferred to 2004-05 to assist with the financing of new water treatment plants, but you said in the *Canberra Times* on 6 May that you're smoothing it to balance the result over the four-year cycle. Which is correct?

Mr Quinlan: Well, they'll both be correct. They're not mutually exclusive, are they?

MR SMYTH: Well, are they mutually exclusive?

Mr Quinlan: I don't think so.

MR SMYTH: Why not?

Mr Quinlan: I think I started off saying—if I understand your question; I might have misunderstood your question—this is a win-win situation; this is a situation where Actew gets to keep its liquidity when it needs it and then we get to receive it when we need it. That seems to me to be a pretty good deal really.

MR SMYTH: But you could also make a case that instead of having a deficit of $25 million, if you add the extra money, that deficit may actually appear to be a $75 million deficit by pushing out that payment.

Mr Quinlan: We're pushing the payment out to next year. The deficit is the year after, isn't it?

MR SMYTH: I'm sorry, I got it a bit wrong. If you push it out to next year it's actually the balancing item to bring the 2004-05 year into surplus. If you received the money this year your surplus would be higher this year and your deficit would be deeper next year.

Mr Quinlan: We wouldn't be in deficit next year.

MR SMYTH: No, you would be, because you wouldn't have the dividend in next year's money. If you received the dividend this year, your surplus would be higher this year.

Mr Quinlan: Yes.

MR SMYTH: If you didn't have the dividend next year your deficit would be deeper next year.

Mr Quinlan: Well, next year is not planned for a deficit; it's the year after.

MR SMYTH: Well, it would become a deficit next year then?

Mr Quinlan: Yes.

MR SMYTH: So it's simply an attempt in a budget year to make your budget look better than it is.

Mr Quinlan: No, it's called financial management.

MR SMYTH: No, it's called smoothing or, in old terms, fudging.

Mr Quinlan: I think smoothing is a good thing.

MR SMYTH: Well, we call it fudging.

Mr Quinlan: You can call it what you like. Call it what you like.

MRS DUNNE: Sorry, I've got a question here on page 391 of BP4.

Mr Quinlan: It's been taken out of Actew before.

THE ACTING CHAIR: Can I suggest that this might be the last one on Actew so that we can move on.

MRS DUNNE: I've got a couple more, but this is an accounting one. Capital works in progress: $10,305,000 all the way through the outyears.

Mr Luddy: That fluctuates up and down; it's very—

MRS DUNNE: Not according to this it doesn't.

Mr Luddy: It is very hard to sort of predict what the fluctuations will be.

MRS DUNNE: And so you've decided not to.

Mr Luddy: Sometimes it is better to be more accurate by just sort of having it flat, instead of trying to predict what the fluctuations would be.

MRS DUNNE: Where are the treatment plants in these non-current assets?

Mr Luddy: They'd be in the property, plant and equipment line.

MRS DUNNE: They're in the property, plant and equipment, not in capital works in progress? Why aren't they in capital works in progress?

Mr Luddy: No, that's basically all our other sorts of works that are going on, the normal sort of capital expenditure.

MRS DUNNE: And the treatment plants are not capital expenditure?

Mr Luddy: No, when the capital works in progress are complete they move up the line to property, plant and equipment.

MRS DUNNE: But the treatment plants aren't complete?

Mr Costello: They will be next year.

Mr Luddy: They will be by December.

MRS DUNNE: But they're not in here; they're not in the—

MR SMYTH: You're already treating them as though they're there.

Mr Luddy: This financial year.

MRS DUNNE: They're already treated as if they're in the—

Mr Luddy: In this financial year.

MRS DUNNE: In this financial year. Why is that?

Mr Luddy: This current one. Sorry, the one just past.

MRS DUNNE: The one we're in now.

Mr Luddy: The one we're in now, yes.

MRS DUNNE: Mr Luddy, why are the treatment plants already in property, plant and equipment rather than in capital works programs?

Mr Luddy: Yes, we have taken those directly in.

MRS DUNNE: You've put them straight in.

Mr Luddy: Into property, plant and equipment.

MRS DUNNE: Why?

Mr Luddy: Well, both those two lines—property, plant and equipment and the capital works in progress—to me, are exactly the same. They represent an asset that is either complete or in progress. The quantum, of course, is very important—how much is in there. But, yes, they have gone straight in to property, plant and equipment.

MRS DUNNE: I'm not happy with that. Works in progress is different to completed. Once they're completed they start depreciating, and that's fine. But I submit, Treasurer, Mr Costello, Mr Luddy, that the treatment plants at the moment should be in the works in progress, not in the completed and ready-to-depreciate category. We'll put this on notice. Could you actually, for the edification of the committee, do us a quick revision of that to show us what it would look like if it were categorised thus?

Mr Luddy: Sure.

MRS DUNNE: Thank you.

THE ACTING CHAIR: Any other questions with Actew?

MS DUNDAS: I was just going to quickly ask about the special taskforce relating to the drought. Has their timeframe been extended? What work are they doing?

Mr Costello: Well, we have stage 2 restrictions in place now. And they're enforcing that.

MS DUNDAS: So the drought taskforce is actually an enforcement body, not a policy body?

Mr Costello: No, fundamentally, it's the one oversighting the water restrictions.

MR HARGREAVES: They're policemen.

MS DUNDAS: So how many people are employed then to enforce the water restrictions?

Mr Costello: I think it's—

Mr Luddy: About five or six.

Mr Costello: Five or six at the moment for stage two. The revised policy was established last year by the government with new regulations. Under the old regulations, of course, we wouldn't even be in stage 2 at the moment.

MR SMYTH: And it's raining.

MS DUNDAS: Yes, it's raining.

MR HARGREAVES: No, it's not.

Mr Quinlan: Not exactly.

Mr Costello: Not quite.

MRS DUNNE: I think it's a passing phase. Yes.

Mr Costello: That's it. As everyone knows, we face a pretty difficult situation. We're at 47 per cent, but we have come through a very hard summer and a very hard autumn. At the end of this month a decision has to be made about the next three months—looking at the next three months restrictions—and no decision's been made on that yet.

MS DUNDAS: So in terms of the special taskforce and future planning in terms of the impact of drought on the ACT, how is that future planning going? Are you judging it every three months, or do you have a contingency plan for how long you'll keep these staff on and enforcing the level 2?

Mr Costello: Well, they're temporary staff. They're casual staff. They're not permanent staff. They're on, I think it is, a three-month contract.

MS DUNDAS: Every three months you're reviewing how the water restrictions are going and how they're being enforced.

Mr Costello: Yes, that's right.

MRS DUNNE: Perhaps to conclude: Mr Costello, I recall we had a conversation a while ago about, as a result of the burning out of the catchments and the big storm events which we sadly aren't having any more of at the moment, a potential problem with the undermining of the pipeline.

Mr Costello: Correct.

MRS DUNNE: Which pipeline was that, the Bendora one?

Mr Costello: That's the main Bendora-Stromlo pipeline.

MRS DUNNE: And has that issue been addressed?

Mr Costello: Yes, it has.

MRS DUNNE: And at what cost?

Mr Costello: Any erosion that was done there has been repaired and we're undertaking a major engineering study to see where it may need some pinning up because of the problem.

MRS DUNNE: So that you've sort of had an immediate addressing of erosion but then there's an ongoing assessment.

Mr Costello: Yes, there is.

MRS DUNNE: At what sort of cost in the immediate work that was done?

Mr Costello: I don't think it cost very much. About $200,000. That's a lot of money, but $200,000, yes. Everything in this area costs a lot of money.

MRS DUNNE: And do you have any idea about what other costs there might be?

Mr Baria: Aspi Baria, technical specialist of water. The pipeline you are referring to is the Bendora gravity main. However, routine examination straight after the bushfires and storms indicated that one particular area had been weakened because the erosion went through. We quickly initiated a capital project to shore up that pipeline, that stretch. Generally, we are monitoring on a regular basis the condition of the pipeline and the physical parameters under which the pipeline fits to see how well it is bearing up.

MRS DUNNE: So after that first work, which was presumably brought about in February, March last year, have you had to do extra work?

Mr Baria: No. There was one piece of work that we carried out since then that we only had to do.

MR SMYTH: Mr Costello, advice to the government on potential future sources of water—are we any closer to making a resolution of dam versus pipeline versus increased well holes?

Mr Costello: Well, we are well into the process of looking at the three options that we have publicly announced. They all have their strengths and weaknesses. What we are not going to do is get to a stage where we are saying we do need one and we choose this one and then we say, now we will start work. We are starting to do a lot of work on all three simultaneously, so whenever a decision is made there will not have been any particular delay, we will be well on track. This does have its costs, and I understand that, but I think they are costs worth paying.

We are also very heavily engaged in preparing contingency plans in case it does not rain between now and September. We will certainly get through next summer, but if it stays like that for another year, then we do not want to delay things until then. We want to start these contingency plans being put in operation around about November. Of course most of them do involve the use of the new filtration plants. So it is drawing on Cotter water supplies and water from the Murrumbidgee and elsewhere.

MRS DUNNE: There was some news report even today, I think, about one of the contingencies being pumping out of the Murrumbidgee. Where would that happen?

Mr Costello: Well, it will depend what New South Wales decides, and this is going to be a major problem. There is obviously going to be a major source of contention if we want to take water out of the Murrumbidgee. There will be arguments that we should not, that it is affecting people downstream. Of course, we have a complete legal right to take water out of any of the streams that come through here up to 460 gigalitres a year, of which we use, in net, about 35. Aspi, you may join me on this. One of the major things is going to be what will be the reaction in New South Wales? I guess this applies a little bit to the Tantangara option too, more generally. I am not all that optimistic it is going to be that terrific because by definition we will need this water when things are exigent and they have their own problems.

MR SMYTH: That will apply equally to Tantangara or the Murrumbidgee?

Mr Costello: Certainly to Tantangara or, if we wanted to use the 1960's option, where they sent 25 gigalitres of water rushing down the Murrumbidgee, and we got one because the farmers borrowed the rest of it. You might want to expand on this, Aspi. We were just discussing it this morning.

Mr Baria: Our contingency plan is based on the drought continuing over the next three or four months. Traditionally we can expect most of our rainfall between late autumn and early winter. If that does not apply then our contingency plan should kick in. We are trying to access water that is not normally available to us besides the water feeding into the Corin Dam, into the Bendora Dam and the Queanbeyan River feeding into the Googong Reservoir. So the stretch of water you have seen there would be either the Murrumbidgee which is fed through Naas and Gudgenby, or any water which has come through the Cotter after the dam, for example, Paddy's River. So we are trying to gauge what water is available there, what the flows are and how we can extract further water from there back into the Cotter Dam and from the dam go back to the Stromlo treatment plant.

MRS DUNNE: Have you ever considered Canberra's urban lakes? The water quality is a bit ordinary.

Mr Costello: Well, the lake here is effectively filled by Googong. We allow two megalitres of water a day to come out of Googong, to come down there and some of it ends up in the lake. Otherwise there would not be any water in the lake. So if we are going to access the lake, we would access it direct from Googong, I would have thought.

Mr Baria: And that would not provide us with a continuous source of water either.

THE ACTING CHAIR: We might finish it there. Thank you very much to the officers from Actew for your attendance today. We now call on the ACT Insurance Authority officers to come to the table, please. Will you please identify yourself for Hansard?

Mr Matthews: Peter Matthews, General Manager, ACT Insurance Authority.

THE ACTING CHAIR: Before we start, I want to check you were here when I read the card and you heard everything I said?

Mr Matthews: Yes, thank you.

THE ACTING CHAIR: Is there anything that either you or Mr Quinlan would like to say by way of opening? No? That would be a no from both of you?

MRS DUNNE: Last year, Treasurer, in the budget highlights was a commitment to restoring, for want of a better word, stability in the insurance sector—"implementing the Government's strategy to provide accessible and affordable insurance for community and sporting organisations and small business." That is not in this year's highlights. Have you done it?

Mr Quinlan: I think so.

MRS DUNNE: Everyone is happy?

Mr Matthews: I think the main thing with those community efforts—that is external to the Insurance Authority—we only act as captive to government. Tom McDonald is working in that area and I think Tom can tell you that the situation has vastly improved since last year.

Mr McDonald: Tom McDonald, ACT Treasury.

MRS DUNNE: Can you tell me it has vastly improved since last year?

Mr McDonald: I most assuredly can, Mrs Dunne. When we initiated the policy, there were significant pockets of unavailability of public liability insurance, which is the main focus of our policy initiatives, and insurance that was available was rather expensive. What we did for the community organisations was structure an approach that brought about a new recognition of risk management principles, like any organisation's, and an understanding of fiscal responsibility. Those two conditions were key contract provisions in a group insurance initiative that was put out by IAG, QBE and Allianz Insurance, which is known as the Community Care Underwriting Agency.

We designed a program for the community that fed them into that understanding. We supported that by proposing changes to legislation, which the Legislative Assembly enacted in the Civil Law (Wrongs) Act 2002, which provided additional mechanisms for community organisations to protect themselves in relation to public liability issues. We rolled all of those policies into an integrated strategy and the outcome was this.

At the start of our policy initiative, there were events that could not be insured. There was one event that involved community dancing or ethnic dancing that would have cost $18,500 for public liability. Three months into the policy, an insurance quote for a similar activity was $2,500. At the start of the policy, Neighbourhood Watch could not be insured. Five months into the policy, we saw a public liability insurance quote for the Aranda branch of Neighbourhood Watch was under $1,000.

MRS DUNNE: Congratulations. That is a good way of leading into the question about the $10 million capital injection into the authority, which is really where I was going. But that is a really important public policy outcome and I congratulate the minister and all those officials who were involved in that, because it is very important. What is the $10 million capital injection into the authority for—that is on page 2402 of budget paper 4—and where would you be without it?

Mr Matthews: Where we are without it at this point in time, is we are technically insolvent. If we were a commercial insurance company, we would have lost our licence by now. We need to go back in history a little bit. Unlike any other entity that I have ever come across, when the government decided to set up a separate insurance arrangement, there was no initial capital. So we started with nil capital base, no share held capital and no stakeholder capital. When ACTIA came into place it inherited the assets and liabilities of the previous body, which at the time gave us a capital of about $800,000.

MRS DUNNE: What was the previous body called, sorry?

Mr Matthews: It was an insurance management fund. It was a similar but not formalised body. At that time there was about $800,000 in surplus, which was the excess in premiums over the claims that had been paid at that time. Since that time, that has walked as high as $2.5 million down to $1 million, but it was a very low figure. During the bushfires we suffered very significant losses. Our previous policy was not to really aim for significant profits, because that meant pulling in from agencies extra money which would have been used on community services rather than paying premiums. So our operating result and our capital figure were much the same.

At the moment it looks like we have suffered, through the bushfires, about $17 million net loss after we recover from reinsurers. On the property policy we paid the first $4 million, on the standing timber for forests another $4 million and we are carrying a $5 million reserve on the liability policy for any liability actions arising out of the bushfires. Plus, there is about another $2 million or $3 million in there for losses that we feel obligated to pay to agencies but which are not recoverable from our reinsurers. So it is a net loss to us that we cannot recover.

All of that has put us in this negative position. Now, the cash injection puts us back in a positive position and that cash to the insurance company simply means it is secure. So that cash sits there as capital and allows us to do our business while our trading result will go up and down from year to year, depending on the claims.

MS DUNDAS: What is the positive figure you will be in with the $10 million injection?

Mr Matthews: Where will we be?

MS DUNDAS: Yes.

Mr Matthews: We are about $6 million or $7 million negative now, so it will bring us back $3 million or $4 million positive.

MS DUNDAS: How did you recoup the $17 million?

Mr Matthews: We had some surplus from our previous claims reviews plus just agency premiums. As I said, we try to generate a small profit year on year. In fact, without that capital injection we would have probably traded out of this over a period of about four years. But we would have been technically insolvent over that four-year period.

MRS DUNNE: So you could have traded out, but if you had been a normal operating entity you would be all over red rover, gone?

Mr Matthews: Yes. If we had a normal insurance licence it would be all over, yes.

MS DUNDAS: You only got to be in that technically insolvent position because of the bushfires?

Mr Matthews: It was certainly the bushfires that tipped us over. We would never envisage a situation where we would lose our net retention on three classes in one year. So we have had to pay out the first two, which is the property and the forestry, and we are carrying a reserve on the liability. Now, our reserve on the liability, we pay a $500,000 excess. Then there is $5 million self-insured retention on top of that. Most of that will be paid in financing the government's representation at the coronial inquiry. So, a lot of the money will be used up in expenses before we get to see whether we have any claims or not. We will not know if we have any liability claims until well after the coronial inquiry is complete.

MRS DUNNE: When did you become aware that you were technically insolvent?

Mr Matthews: Basically when that liability provision came in. We were line ball before we had to take that—

MRS DUNNE: Sorry, when was that?

Mr Matthews: About February this year, something like that. It was much later than the fire.

MRS DUNNE: Much later than the fire?

Mr Matthews: Yes.

MRS DUNNE: But you knew that you had the contingency over the forests and all those sorts of things?

Mr Matthews: Yes.

MRS DUNNE: So you knew about their existence. You knew about the existence of most of them pretty much immediately after the fire?

Mr Matthews: Yes.

MRS DUNNE: You knew you were gone for $5 million for the forests?

Mr Matthews: We knew about $4 million for property, $4 million for forests. We did not realise there were such great losses that were not reinsured. So an extra $2 million or $3 million came in there that we did not expect, then the $5.5 million for the liability, which came in much later.

MRS DUNNE: I do not particularly want to make too much of a thing about this, but if you knew that this was the case in February—this is a question for the Treasurer I think—and we have had a supplementary appropriation bill since then with a whole lot of money that was bushfire related in it, why was that not in the supplementary appropriation bill? Or why was it not taken out of Treasurer's Advance? Either way, why has the Insurance Authority been allowed to trade—probably not trading in the strict commercial sense—but to continue in this financial situation, Treasurer?

Mr Matthews: Rather than a capital injection, the initial approach to the issue was to increase premiums, and we would have accelerated our recovery process. So, in one or two years we would have been back in a positive situation. It was then thought that that was not really the correct way to do it, that capital injection would be a more logical way of recovering our position—particularly seeing we had never had a cash injection before and no capital base. It was thought that a one-off capital injection would be a much better answer to the question than increasing agency fees.

MRS DUNNE: Yes, I understand that. But why are we doing it now when you knew that this was a problem at least in February? Why was it not done in one of the other appropriation bills?

Mr Matthews: Our accounts run June to June. So, in June we collect our premiums from agencies and in June we pay our reinsurance premium. So from our point of view, in the given year we would not go back in and increase agency premiums in that given year. We would wait till 30 June. The initial approach was to wait till 30 June this year, increase agency premiums by 10 per cent, and then flow that out over the entire budget period, which would have turned the situation around.

MRS DUNNE: At the moment, how deficient are you in funds? How insolvent are you?

Mr Quinlan: Can we keep it in perspective?

MRS DUNNE: Yes I am trying to keep it in perspective. That is why I want to ask the question.

Mr Quinlan: The authority wants to parallel itself with the insurance industry, as it should, in capital backing for its particular risk profile. As Peter has said, had it been an insurance company out there it would have probably had its licence to operate revoked but the insurance companies out there do not have government backing like this one does.

MRS DUNNE: Yes, I understand that, and I am trying not to make a big fuss of it.

Mr Quinlan: Now that you have mentioned it, could we have chucked the $10 million in this year rather than next year? Well, we probably could have. If that proposition had flowed through at the time while we were putting Appropriation Bill (No 3) together—I forget exactly when I brought it down—we might well have done but it is not a hugely significant matter.

MRS DUNNE: My question remains unanswered. How much in deficit are you at the moment, Mr Matthews?

Mr Matthews: About $6 million or $7 million. I give a vague figure because this changes.

MRS DUNNE: Yes, okay, I understand that.

Mr Matthews: The other thing to realise though is it does not pose us with a cash flow problem because we carry $50 million or $60 million in claims reserves. All our claims are fully funded and many of those claims will not become payable for 15, 20, 25 years. So, what we do in the short term is dip into those claims funds, use that to finance us through the bushfire incident and then rebuild those funds again over time. So that is the process that we use to manage through. So it was not really a problem in that sense. As the Treasurer said, if we were a commercial company we would not have a licence but because we have the security of government behind us we can trade through something like this.

Mr McDonald: In addition to that, Mrs Dunne, one of the benefits of being a government captive insurer is that you are effectively able to sequester your reserves as ACTIA has done, unlike some of the commercial insurers who provision for claims. In the case of HIH, of course, they under-provisioned. In the case of UMP they under-provisioned. ACTIA provisions 100 per cent, or as far as possible 100 per cent. Therefore when you are in a capital position like this and you are not subject to the APRA regime—the capital adequacy ratios—you are able to take yourself through a situation like this and effectively trade your way out without having a significantly negative impact on the budget bottom line.

MRS DUNNE: Okay. Is provision made at any stage to return that capital injection to the territory?

Mr Matthews: Not really, because, as I said, we use it as security, and underlying that it determines how much reinsurance we buy. If you take that security away at some future time that lessens the amount of—

Mr Quinlan: Decreases the cover that we have.

Mr Matthews: Sorry, it increases the amount of reinsurance you have to buy. Now, one of the things we are looking at is how much money we pay outside government to re-insurers. For this current year it would be about $15 million. Now, that is money outside government that has gone forever, whether we get the benefit of that cover or not. So we are looking at that balance.

MRS DUNNE: Paying insurance premiums is almost always money gone forever unless you need insurance.

Mr Quinlan: Yes. It is distinctly possible that a proposition could come forward to increase the capital backing and therefore to increase the amount of risk they have taken by upping the first level. They are decisions that must be reviewed from time to time.

MS DUNDAS: The only question I have is, you are going to invest that $2 million now, are you not, and try to recoup interest on it to continue to grow your security?

Mr Matthews: Yes.

THE ACTING CHAIR: Okay, we might finish with ACT Insurance Authority there. Thank you for your attendance today, gentlemen. We can now call the Australian International Hotel School.

We still have Exhibition Park in Canberra, Independent Competition and Regulatory Commission and ACTTAB to get through after we get through the hotel school. So hopefully all the people required for those areas are here. Gentlemen, were you present when I read the card before?

Mr Walsh: John Walsh. I am the dean of the school. Yes.

THE ACTING CHAIR: Excellent. Do you have an opening statement you want to make or should we just go straight to questions?

Mr Walsh: No.

MS DUNDAS: I am looking at the statement of intent for 2004-05. Page 3 includes the sentence that advantage will be taken of opportunities to offer short-term training courses to gain revenue and to optimise the use of staff, and all students will have completed the program by December 2006. Does that mean that you will be offering, outside of the Bachelor of Business Hotel Management program, separate courses through the hotel school?

Mr Walsh: This refers specifically to short workshops, such as two-day seminars and cooking classes.

MS DUNDAS: How are you advertising for students for those courses?

Mr Walsh: We prepare a small brochure. We have a mailing list and we distribute that mailing list. We also put workshops on our website.

MS DUNDAS: Is this a new initiative? The Treasurer is nodding.

Mr Walsh: In that case, I think yes.

MS DUNDAS: That leads me to page 5 of the statement of intent, which I think Mr Walsh knew I was turning to. It says that the main assumption in developing the 2004-05 budget is that there will be no new initiatives. So I ask the question again, are the short-term projects—

Mr Quinlan: It is a new initiative this year. He is already running them.

MS DUNDAS: They are already running?

Mr Quinlan: Yes.

MS DUNDAS: That is not made clear in the statement of intent for the 2004-05 year. So, they have been running in the 2003-04 financial year?

Mr Walsh: Yes. We have run, I believe, two of these workshops so far. The confusion might arise because of the use of the terminology of courses. These are very short, mini-conference type events where we have an opportunity to gain a small amount of revenue.

MS DUNDAS: Maybe you have to take this on notice, but can you provide me with a breakdown of how much money or resources you are getting through in offering those courses?

Mr Walsh: Yes, I can. If you require more detailed information I will supply that but it is of the order of magnitude for maybe 10 to 15 people in each workshop with a total revenue of approximately $200 or $300 per person. So it is very small. It is a marginal activity.

MR HARGREAVES: About $3,000 a head?

Mr Walsh: Yes, it is a very small activity—not major programs or new degree programs or diplomas or certificates.

MS DUNDAS: Has the money that is coming in from the profits of those courses been used to meet the ongoing debt with Cornell University? Depending on how many courses you run over the next six years, you could make thousands, millions of dollars by two courses every two days for 365 days of the year. So, where is the money going?

Mr Walsh: It is going into consolidated revenue.

MS DUNDAS: The Treasury?

Mr Quinlan: No, no, his own consolidated revenue.

MS DUNDAS: The hotel school's consolidated revenue?

Mr Quinlan: It is not earmarked for a particular purpose but just to make the business more viable.

MRS DUNNE: We decided that we are going to close the school in 2006 and we are not taking any more—

Mr Quinlan: We have decided we will cease government funding of it in 2006.

MRS DUNNE: Okay, thank you for that distinction.

Mr Walsh: That is a big difference.

MRS DUNNE: But have you ceased new long-term enrolments? It says here on page 417 of budget paper 4 "The financial statements have been prepared on the basis the Australian International Hotel School will cease to operate on 31 December 2006." So how is that different from what I said, Treasurer?

Mr Quinlan: Well, it is now in the lap of the gods, I suppose, as to whether it continues or no, but these financial statements are based on that assumption, so that you get the picture if that happens to be the outcome.

MRS DUNNE: And you will cease new student enrolments from term 1, 2004, which is this year, apart from a few exceptions. So on the basis of that, and given that it is in the lap of the gods, what are you doing to ensure the orderly run down of the school? Look, we are all singing from one hymn sheet. We are running down the school, we are going to close it.

Mr Quinlan: I do not know that it is going to close now. Mr Walsh will be able to give you more general information without getting into the commercial-in-confidence type stuff, but there are prospects for continuation of this activity in the territory.

MRS DUNNE: Could you give a fuller exposition please, Mr Walsh?

Mr Walsh: Yes, I am very willing to do so. I took up the position of dean in January of this year and shortly thereafter received a number of inquiries best termed perhaps exploratory discussions about proposals to take over the management and operation of the school. Under the guidance of Treasury officials that provided a framework within which we could conduct those discussions, the board has recently considered three specific proposals that we have passed to the Treasury for evaluation as it sees fit.

MRS DUNNE: So there are three live proposals at the moment?

Mr Walsh: Correct.

MRS DUNNE: I will not ask you from whom because I know the answer. That is fair enough. So there is some prospect that the school may operate in a non-ACT government form beyond 2006?

Mr Quinlan: And they are not pie in the sky proposals either.

MS DUNDAS: So money is set aside somewhere in the budget for the purchase of the Hotel Kurrajong?

Mr Quinlan: It is a done deal.

MS DUNDAS: It is a done deal, the $350,000?

Mr Quinlan: Yes.

MS DUNDAS: So, is the future of the hotel school tied to the Hotel Kurrajong?

Mr Quinlan: No, I have made it quite clear that in evaluating the proposals we have to consider the proposals on their merits and that not necessarily would they involve the continued use of the Kurrajong under very favourable terms. As I said, we still have proposals that may well turn out to be very acceptable proposals. We may end up, in quite a number of years, in a situation where we have a viable hotel school operating in the ACT and we have a separate and distinct asset called the Hotel Kurrajong being used for whatever purpose we determine at a future time.

MS DUNDAS: But at this stage we still anticipate the hotel school to operate out of the Hotel Kurrajong until 2006?

Mr Quinlan: Yes.

MS DUNDAS: So the government will not be looking to—

Mr Quinlan: Exploit the Kurrajong?

MS DUNDAS: Have its merry way with the Kurrajong, was the phrase I was thinking—to look at what it will do with the Kurrajong until 2006? Well, you will be looking at it between now and then.

Mr Quinlan: I think the acquisition of the Hotel Kurrajong was a very fortuitous event. That has happened and we now look at our assets in a pragmatic way. That is a tremendous asset that could be used in a number of ways to the benefit of the territory.

MRS DUNNE: So who owns the Hotel Kurrajong now?

Mr Quinlan: The ACT government.

MRS DUNNE: And what is it worth? More than $320,000?

Mr Quinlan: $370,000.

MRS DUNNE: Sorry, $370,000, yes. I keep thinking gee, if I could only buy a hotel for that price.

Mr Quinlan: I do not think I have a value on it. Someone might yell out from the back of the room, but I do not think we have an actual value on it.

THE ACTING CHAIR: Well, I hope that they do not, because that would be disorderly and I would have to throw them out.

Mr Quinlan: Someone might whisper loudly from the back of the room.

MRS DUNNE: So where does it appear in the books?

Mr Bulless: As part of the consideration by the government last year of what to do with the Hotel Kurrajong, and before we actually purchased it, we had it valued by an independent firm. They put a value on it, when it had a lease from the commonwealth over it, of between $5 million and $7 million, I recall.

MRS DUNNE: I know we have done this before. I am sure I have had you explain, Treasurer, how did you get this building which is worth $X million for $370,000?

Mr Quinlan: Well, simply because it was leased for, I think, 50 years to the territory, 10 of which have elapsed, at peppercorn. So, if we sat on it the commonwealth would draw no revenue from it for another 40 years. The requirement of that lease was for us to maintain it in good order and condition. The present net cost to us to maintain it over that period of time is $12 million or some number like that. So it virtually suited both parties for it to change hands—to change a 40-year lease at peppercorn to a sale at peppercorn.

MS DUNDAS: Mrs Dunne asked this but did not get an answer. Now that it is in ACT government hands, is it being managed through the Department of Urban Services and so it sits there as a community asset?

Mr Bulless: Yes, that is correct. It is managed by the property group of DUS.

MRS DUNNE: That is right, that was the question—where is it on the books? So it is in DUS?

Mr Bulless: Yes.

MRS DUNNE: And the hotel school is still only paying peppercorn rent?

Mr Quinlan: Yes. Sorry, no.

Mr Walsh: My understanding is that the current rental paid is $240,000 per year.

MR HARGREAVES: Ten grand more than it is worth.

Mr Quinlan: It is not a bad deal, really, all round.

MS DUNDAS: To change the topic, but still on the hotel school, page 5 of the statement of intent indicates that no provision has been made for redundancy, legal costs, or other wind down costs that might apply. That is quite a disturbing statement to read considering the ACT government's role in relation to the hotel school. Can you explain to me why?

Mr DeMamiel: Chris DeMamiel, finance manager of the Australian International Hotel School. The financial modelling that has been provided in the last year: the balance sheet has been wound down so that at that particular point in time there were no liabilities. However, as part of those liabilities, all the employer provisions have been accounted for apart from any redundancy payments that might come into play, and it could well be that that decision needs to be made in the future as to what happens in that case. We can only base our calculations on information that is available to us at a point in time, and at this point in time we have done our best to make those calculations. We clarify that by making those statements in the statement of intent.

MS DUNDAS: So there is the desire to not have any staff made redundant. If all the deals fall through and the hotel school doesn't operate in its current fashion, what is then the plan for those staff? Are you just hoping that they will all retire?

Mr Walsh: No, but thank you for the question. I understand now the thrust of the question, I think. The fact that we have not made any provision yet doesn't mean to say that as the events unfold and we find that we do have to make provisions for 06-07, we would not do so. I think obviously we would at that time have more information about the numbers of our staff and what provisions we have to make.

MS DUNDAS: So you do have the financial reserves or the financial ability to make those redundancy provisions if necessary. But at the moment you are just going to hold on to those funds or roll them into—

Mr DeMamiel: We understand that there are guarantees in place to meet our obligations when they fall due.

MS DUNDAS: That is guarantees from government?

Mr Quinlan: Yes. I think there is a bit of a contradiction you have identified between a statement of corporate intent and the statement in here that says "based on the assumption that it will close". So that still is open-ended. I would want to advise estimates that the hotel school suffers from a similar problem in relation to superannuation as did Totalcare in terms of people that were excluded from PSS particularly without appropriate arrangements having been made for the hotel school to not necessarily participate in PSS. There will be a charge at least on our superannuation reserves, or our superannuation liability fund, in relation to employees and former employees of the hotel school as well. Just another little mess we are cleaning up.

MS DUNDAS: One very quick last question: Treasury changes to appropriation do include the removal of the hotel school funding in the outyears for 07-08. Why wasn't that done in the last budget?

Mr Quinlan: Why wasn't it?

MS DUNDAS: Yes.

Mr Quinlan: I don't know. It probably should have been because we had virtually made that decision back then anyway.

THE ACTING CHAIR: Thank you gentlemen for coming along today.

Mr Walsh: May I offer a very minor qualification. One of the members was kind enough to ask about the revenue from the very short courses and indicated that the cost for a participant was approximately a couple of hundred dollars per person. The cheapest one was $75 and the most expensive one was $850.

THE ACTING CHAIR: Thank you. Thank you for that clarification. Thank you for your attendance today.

MS DUNDAS: Can we get, on notice, the amount of revenue, the profit that you expect to make out of those courses?

Mr DeMamiel: I can certainly provide you with that information.

Mr Walsh: Yes, we will provide you with that.

MS DUNDAS: Thank you.

THE ACTING CHAIR: I am sorry that we have kept the people from EPIC here today, but it appears there is no question for them today. So you are free to go. That brings us to the ICRC. We are just sorting out whether we have a question for you, Mr Primrose.

Mr Primrose: I will prepare myself for the eventuality.

THE ACTING CHAIR: Mr Primrose, were you here when I read from the card before?

Mr Primrose: I don't believe so.

THE ACTING CHAIR: We can take up some time while Ms Dundas looks for her question. I will read the card to you, as I am required to do. You should understand that these hearings are legal proceedings of the Legislative Assembly protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means you are protected from certain legal action, such as being sued for defamation for what you say at this public hearing. It also means you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

Also, could each witness on coming to the table state their name and the capacity in which they appear. Please clearly identify when you are taking a question on notice. It is then your responsibility to check the transcript and respond to the question. Responses to questions taken on notice are required within three full working days. The transcript will be emailed to the minister and the departmental contact officer for distribution to witnesses as soon as it is available.

Due to the late sitting of the Assembly last week, there may be a delay in provision of the transcripts. Can members please confirm when they are taking questions on notice, and I suggest that officers make a note of the question in case there is a delay in the transcript.

Proceedings are being broadcast to specified government offices and the media may be recording proceedings and taking visual footage, which they have not done today. Mr Primrose, if you could state your name and the capacity in which you appear?

Mr Primrose: Ian Primrose, chief executive officer of the ICRC.

THE ACTING CHAIR: Thank you. Is there an opening statement that you or the Treasurer wish to make?

Mr Primrose: Other than to present the senior commissioner's apologies. He is out of the country at the moment. But otherwise not.

THE ACTING CHAIR: And obviously he did not come back for estimates. Mrs Dunne, Ms Dundas and Mr Hargreaves, do you have any questions?

MS DUNDAS: We have, after all that, found some things to talk with the ICRC about. In terms, though, of budget paper 4, page 426 there are some interesting numbers.

Income or revenue from "User Charges—Non ACT Government" has dropped by 65 per cent. Can you explain why?

Mr Primrose: The outyears are based on estimates that were provided some time ago and they have not been altered because the number of issues that the commission is asked to inquire into each year is uncertain—in fact, in many cases just plain unknown. So, in a sense, the figures there in 03-04 represent the actual expected outcome, whereas the 2004-05 and outyears number represents a reporting number, I guess. The expectation is that we would have more than the $400,000 in each year in terms of revenue, but without activity there is neither revenue nor expense.

MR HARGREAVES: Does the same thing apply to taxes, fees and fines as well?

Mr Primrose: No. Taxes, fees and fines arise from utility licence fees. They are calculated by the commission each year under the Utilities Act. In this year there was $1.4 million. Next year we estimate that it may be less than that, but it depends upon the estimated costs for the Essential Services Consumer Council, the technical regulator and the ICRC.

MR HARGREAVES: Were those costs included in the 03-04 actual?

Mr Primrose: I'm sorry, I missed the first part?

MR HARGREAVES: Your budget was $1 million in 03-04.

Mr Primrose: Yes.

MR HARGREAVES: Your budget for the 04-05 is $1 million, give or take a bit. I am interested in what happened with the actual outcome. I notice that the same thing applies for user charges as well. It seems as though the estimates that you have got for this year are pretty much the same as the estimates you had for 03-04.

Mr Primrose: Yes.

MR HARGREAVES: But there seems to be quite a significant movement in both of those two line items.

Mr Primrose: That's true.

MR HARGREAVES: I guess I would like to know what it is and why it is that they don't continue.

Mr Primrose: Well, with the licence fees, the utility licence fees, at the beginning of last year there was a beginning increase in the overall cost of utility services, predominantly in the ESCC. The number of matters that they were dealing with increased quite substantially. There was also some increase in the level of activity in terms of the ICRC's role under the Utilities Act. Not so for the technical regulator.

We have not determined licence fees for this year, so we have simply extended the estimate for licence fees forward indexed and our view is that, depending on what happens with the estimates provided for the ESCC, the technical regulator and ourselves, it may go to, say, $1.2 million.

MR HARGREAVES: But am I right in assuming that essentially speaking the variation for 03-04 in fact was for one-off activities which you had not factored in to the general flow of your workload?

Mr Primrose: Yes, that is largely true.

MR HARGREAVES: And then we could expect some increase in costs if those other things come on line when you expect them to come on line, and not to be tricked into thinking they are the same things?

Mr Primrose: Well, yes, that's right.

MR HARGREAVES: That's good. Thanks very much Ian.

MRS DUNNE: Mr Primrose, your payments are sort of put together in a slightly different way from some of the other agencies and things. The $800,000 related to employees is salaries and provision for superannuation, leave and things like that. Is that right?

Mr Primrose: Yes.

MRS DUNNE: And what would be taken up in the $1.93 million—this is on page 428 of BP4?

Mr Primrose: Supplies and services.

MRS DUNNE: Supplies and services.

Mr Primrose: It's all the expenditure not related to employees, so office accommodation expenses, utilities, the cost of consulting fees, the cost of contract staff who aren't included as employees—

MRS DUNNE: So how many employees do you have and how many contract staff do you have?

Mr Primrose: Until a month or so ago we had 10. We have now got eight.

MRS DUNNE: How many employees do you have?

Mr Primrose: Ten, or at least we had 10 up to a month ago.

MRS DUNNE: Ten and now you have eight. And how many contract staff would you have?

Mr Primrose: It fluctuates, depending upon what activities we have being undertaken at the time. At the moment my guess is that we probably have three.

MRS DUNNE: Okay. How much of that money would be for consultancies? As a proportion of your fixed staff, it seems a very high number. So how much are you contracting out to sort of specialists or—

Mr Primrose: Well, let me answer the question this way, and I am happy to take it on notice and supply you with actual numbers.

MRS DUNNE: I love actual numbers.

Mr Primrose: If I understand the question correctly, it isn't about the apparently disproportionate expenditure on non-employee costs as opposed to employee expenditure.

MRS DUNNE: That's right.

Mr Primrose: From the beginning the commission determined that it would use consultants, acquire expertise that its own employees didn't have, to undertake particular inquiries, and it would keep the core permanent staff to a reasonably small number. That had a number of sorts of benefits. One of the 'disbenefits', I suppose, is that we are not building up a group of highly skilled people with specialist expertise in any one area. But, on the other hand, we are acquiring or are maintaining a permanent staff of skilled officers with a broad range of experience. The quality of the commission's outputs is a result of blending those two things and managing the consulting input.

There is another risk from our point of view in building up a larger group of permanent employees, and that is that if the flow of work ceases or slows down dramatically then we would be left with a substantial amount of fixed costs that were not earning revenue. So we would have a deficit. To underline that point, there is the observation that essentially the commission in terms of its work under the Utilities Act and the ICRC Act is responsible for recovering its own costs. We have a very small proportion of our revenue provided from appropriation.

MRS DUNNE: So you need to be flexible is what you are saying?

Mr Primrose: Indeed.

MS DUNDAS: May I just clarify something. You said supplies and services is used for accommodation and other office-related expenses. The statement of intent notes that your lease at Eclipse House is about to expire and you are going to need to find a new place to live in 04-05, yet the budget papers don't necessarily reflect an increased payment in that case, even though the statement of intent reflects that it will probably cost more to find somewhere to live. How are you going to fit that into the budget, or will it be part of a new budget bid next year?

Mr Primrose: The accommodation issue is one that has been alive since we set up the permanent secretariat in Eclipse House in 2000. Because we knew at that time that the government's lease was up for renewal in 2006, our understanding is that in 2006 the government may not renew its lease on Eclipse House and that consequently some time between now and then we would need to find new premises.

I doubt whether it is actually the case that we will move in 2004-05, but certainly planning around our accommodation needs will need to be initiated in 2004-05. That process won't involve substantial expenditure at all, and I understand that the government has initiated a process to accommodate that. So my expectation is that that will be a minor administrative expense that we don't need additional appropriation for and that we won't need to specifically provide for in our charge-out rates.

MS DUNDAS: Thank you.

MRS DUNNE: On a specific issue rather than on the budget: with the discussion paper on the water abstraction charge, the commission sought advice about whether the water abstraction charge was in fact an excise. What prompted you to go down the path of whether or not it might be an excise?

Mr Primrose: Without being flippant, it was driven by caution and a detailed process, really. When we were asked to provide advice on the water abstraction charge in 1999 there was an issue about whether the charge at that time—it was a new charge at that stage—was one that the ACT could legitimately make under the constitution.

MRS DUNNE: So that question was raised in 1999?

Mr Primrose: It was. There was legal advice at that stage, and we were satisfied, as was the government more importantly, that it was not an excise. When we were asked to provide advice again this year we were conscious that the water abstraction charge had increased substantially from the 10 cents a kilolitre set in 1999. So it seemed to us that, in looking at all of the risks and managing those risks, or providing advice about managing those risks, it was incumbent upon us to revisit that question. And we sought not only the advice that was received in 1999, but we sought separate legal advice from senior counsel as part of that preparation.

MRS DUNNE: That inquiry, yes. I have seen the current advice. Would it be possible to obtain the original advice? Is that something that lodges with the ICRC or does it lodge with the government?

Mr Primrose: No. It was not advice that was sought by the ICRC. Subject to the agreement of the provider, I don't see any reason why we couldn't provide it.

MRS DUNNE: Thank you. That will be on notice as well.

THE ACTING CHAIR: Thank you for your attendance today, Mr Primrose. Finally today we have ACTTAB. Ms Baker-Finch and Mr Wheeler, were you present before when I read from the yellow card and gave other information?

Ms Baker-Finch: Yes.

Mr Wheeler: Yes.

THE ACTING CHAIR: Okay. Excellent. Did you or the Treasurer want make an opening statement?

Ms Baker-Finch: No, I think we will go straight to questions.

THE ACTING CHAIR: In which case I am going to start by asking questions this time. I just saw Mr Hargreaves' hand go up. I think Ms Dundas and Mrs Dunne want to ask questions as well.

On page 408 of Budget Paper 4 your estimated outcome for 03-04 for "User Charges—Non ACT Government" is $26,016,000 and then for the budget for 04-05 it is $25,353,000. You have lost 3 per cent of income from non-ACT government user charges. You then estimated that it will go back by 3 per cent in 05-06. Can you explain why there was that loss of income in the last year?

Mr Quinlan: That's this year.

THE ACTING CHAIR: This year.

Ms Baker-Finch: Sue Baker-Finch, Chief Executive, ACTTAB. 2003-04 revenues: we had an exceptionally good year. There are two reasons for that. The main sources of our revenue are derived from what we call our high value customers who are corporates or professionals and then our mainstream market. The mainstream market is very, very predictable. We don't ever anticipate more than about 3 per cent growth per annum for mainstream wagering activity.

Nationally, over a long-term period—say, 10 years—growth in wagering has typically been around the 2 per cent mark. So we know there is a little bit of fluctuation about that but we predict the outyears at 3 per cent growth, which is why you have got the growth there. This year we have actually been experiencing about—Simon, would it be 4.5 per cent?

Mr Wheeler: Yes.

Ms Baker-Finch: growth of the mainstream market compared with our estimates for 2003-04. So that is a significant increase on our predictions and has contributed to that good result.

The other factor is that the premium punters, our high value customers, are very, very active but the difficulty with the high value customers is that over a period of years it is a very, very volatile revenue stream. The corporates and the professionals have a number of choices as to how they will bet and who they will bet with—any number of wagering organisations in Australia. They bet by telephone or by Internet, so they are not necessarily constrained by geographic boundaries. So it was a good year from the corporates. We would never predict the same level of revenue from the corporates in the outyears because that wouldn't be prudent planning.

THE ACTING CHAIR: Okay. Continuing on from that, your estimated outcome for 03-04 was actually 23,426. Just on my quick calculations, you are taking 04-05 up to 25,353. So, I suppose, rather than taking it up 3 per cent from the 23,426 mark, what you have actually done is you have taken it up just a bit over 8 per cent in your anticipated earnings, which I suppose is reasonable—you wouldn't want to drop it right back down.

Ms Baker-Finch: No, but I can explain that also. In 2002-03 we had a very, very quiet year in terms of the corporate customers, so we budgeted very modestly in 2003-04 and we have had a surprisingly good year. I think that demonstrates just how hard it is to budget for that particular market segment.

THE ACTING CHAIR: The other thing that I wanted to ask about in the other revenue line: I am wondering if this is actually a typographical error because you go from estimated outcome for this year for other revenue is $540,000; then you are anticipating $507,000 for 04-05—you might want to explain that in a second; then you have got $522,000, which is an increase of nearly 3 per cent on the preceding year; but then you go to $1,528,000, which is an increase of 192.7 per cent.

Ms Baker-Finch: Yes, it is a big increase. What we are anticipating is, we are planning in the figures for an entry into another business activity. We have considerable cash available to invest in another business activity and we are very keen to position ourselves to invest in the gaming sector, if we possibly can. We are awaiting the government's decisions on the Gaming Machine Act review—and I recognise that we are anticipating something without the government policy being finalised in terms of gaming machine monitoring, for instance, and exactly how gaming machines will be managed in the ACT. But on the other hand, we felt it prudent to put on the table that we are interested in moving into another business activity and we see some form of activity around the gaming sector appropriate for ACTTAB.

We have a technology capability that we think could be transferred. There are a couple of options around that. One of the options is monitoring, if that were ever to be introduced in the ACT. Other options are to perhaps look at being a provider of gaming machines to the club market on the basis of leasing them out—in other words, being able to provide some ability to lease machines rather than pay the capital costs upfront.

There are also other options that we would look at in terms of assisting licensed clubs in terms of linking machines and offering jackpot activities and things like that as are offered in other states. But, again, it is not certain but we did decide that it was appropriate to flag our interest in diversifying the business activity.

MS DUNDAS: Can I ask a quick follow-up question?

THE ACTING CHAIR: Yes. I have a quick follow-up to that as well, so I will go to you next if that's all right. I just want to say: so that is not a typographical error; that is based on your anticipation of this being approved by the government. So at what stage are those conversations at with the government in terms of going to gaming machines, because it is my recollection that this conversation was actually taking place at least five years ago and it still has not come about.

Ms Baker-Finch: That's right. That conversation was had five years ago. Probably over the past 18 months—would it be, Minister—we have flagged our interest in this. We understand that, of course, this is largely in the government's hands with its decision about where it will take the findings of the review. Five years ago ACTTAB was saying that it did have the capability to do this if monitoring were ever introduced into the ACT.

THE ACTING CHAIR: Not just monitoring but also the licensing of gaming places.

Ms Baker-Finch: Leasing.

MS DUNDAS: I know that conversations are still going on and things have not been finalised yet, but was one of the plans that you had to do with exploring having poker machines in ACTTAB venues?

Ms Baker-Finch: No; we're not licensed to do that.

MS DUNDAS: I just wanted to clarify that. Bearing in mind the things you were looking at and the conversations you were having with government, it is not your intention to have poker machines in ACTTAB venues; it's more that you will own the licence and put them into other venues?

Ms Baker-Finch: We have never proposed to operate machines in ACTTAB venues; no.

Mr Quinlan: Perhaps I could pick up on the additional enterprise. I've just checked with Simon and there is an additional cost in the supplies and services side that makes up half of that. If the revenue's out, then so is part of the cost—so it's plus or minus.

MR HARGREAVES: I've noticed the same trend in the supplies and services as exist in the user charges revenue and I can see the same bow. I've never asked this question before but I was just wondering about the other expenses of roughly $10 million. What are they?

Ms Baker-Finch: They're wagering-related expenses. We pay 4½ per cent of all turnover into the racing development fund. The exclusive wagering licence is in the vicinity of $3.7 million—Simon?

Mr Wheeler: Yes.

Ms Baker-Finch: Percentages, other licence fees for Keno and Sportsbet. Have I missed any?

MR HARGREAVES: Do you think I could have a list of those please, at your leisure—in the next couple of days? In fact, the best way to do it is to let me know how much you paid in 2003-04—as at 30 June last year would be fine.

MRS DUNNE: Enumerate other expenses?

MR HARGREAVES: There would be other expenses on it, yes, but the $10 million. I'm happy with 30 June last year because it just tells us the titles and the relativity. That's all I want.

Ms Baker-Finch: That figure for other expenses is a large amount of money. In our annual report it is broken down a little further because it's a significant expense.

THE ACTING CHAIR: Excuse me. The conversation going on in the gallery is a bit distracting. Perhaps you wouldn't mind doing it outside if you really want to have a conversation. Thank you.

MRS DUNNE: Just in passing, I congratulate ACTTAB on getting its employee expenses into some reality so that they fluctuate over the years. I recall that this time last year they were all the one figure for the outyears. But the cutting and pasting is still there because page 363 of BP4 last year reads exactly the same as page 407 of BP4 this year except for the last dot point, which is, "reviewing major technology, incorporating the roll-out of next generation selling terminals throughout the network." Why is that? Shouldn't the highlights change a bit? Why are we still commencing the relocation to the ACTTAB headquarters in Gungahlin? Why have we not moved on?

Ms Baker-Finch: We're running a very stable, mature, consistent business. Ninety-seven per cent of our turnover comes from selling race wagering products. The day-to-day activity is pretty consistent over the years. Of the two highlights there, the technology is a major activity for us in that it is time for us to have a look at our selling terminals and rejuvenate our point of sale technology in particular. The ACTTAB head office project, dare I say, has been six years in the making.

THE ACTING CHAIR: It has been longer than that!

Ms Baker-Finch: We are making progress and we have said that we'll be commencing the relocation of the head office.

MRS DUNNE: You said that last year as well and the year before—that you were going to commence the location somewhere else.

Ms Baker-Finch: Exactly. Our head office project is a fairly substantial one. We'd always anticipated that, once we got contractual arrangements signed up, it would still be an 18-month building project. It has been dragging on.

MRS DUNNE: But where are we?

Ms Baker-Finch: We are now very close to finalising a leasing arrangement for the head office, instead of building our own building. With the major retail developments now progressing quickly in Gungahlin, the board explored the options of effectively getting purpose-built premises, but leasing rather than owning. An arrangement to go ahead with that should be finalised, one would hope, within the next 30 days. We had hoped to schedule our move for July 2005.

The retail developments have been postponed a little bit. Neither the Woolworths nor Coles development is anticipated to be finished until September 2005. That means that we will not move until December 2005, because we simply won't move in September, October or November leading up to the Melbourne Cup. There was a three-month opportunity for us but, unfortunately with the progress of those developments, we've been delayed a little.

MRS DUNNE: What you're saying is that ACTTAB is going to move into one of the buildings built by either Coles or Big W?

Ms Baker-Finch: Yes.

MRS DUNNE: Did you have an allocation of land elsewhere, hitherto?

Ms Baker-Finch: We did, but there were issues around trading off, being right in the town centre and the requirement for the buildings to carry retail on the ground floor. Building retail space is not really core business for us, so we looked at other options.

MRS DUNNE: That makes sense.

THE ACTING CHAIR: While you're talking about the relocation of the head office to Gungahlin, you're talking about it going into a building built by one of the retailers. Prior to that it was my understanding that it would have been a purpose-built building. Obviously as a totalisator agency board you have certain requirements, especially in relation to your telephone betting staff and all the equipment you need to have set up. How will you be going about that?

Ms Baker-Finch: The great thing about being able to negotiate something with one of those developers now, as they're drawing plans, is that we get drawn into the plans with purpose-built office space. So we get the best of both worlds. I draw your attention to the fact that in 2005-06 another one of the factors influencing the supply and services expenses is that we'd be moving to a considerable annual leasing charge.

THE ACTING CHAIR: You're on page 408, are you?

Ms Baker-Finch: Yes. I'm just drawing your attention to another of the reasons why the expenses have increased in the outyears.

MRS DUNNE: But you still plan to sell the building in Dickson?

Ms Baker-Finch: Yes.

MS DUNDAS: I have some questions about the dividend declared. It is on page 408 but at page 117 of budget paper 3 it talks about ACTTAB paying its 2002-03 dividend in 2003-04, and provision for the 2003-04 dividend to be paid in 2004-05. Why is that?

Mr Wheeler: Simon Wheeler, CFO, ACTTAB. We declare our dividend after our year-end accounts have been finalised. They're declared at our AGM in November and we pay the dividend in December/January.

MS DUNDAS: That means you're always going to be a year behind?

Mr Wheeler: Yes.

MS DUNDAS: Can you explain this to me? In its budget papers Treasury has revised payment from ACTTAB of money coming in for 2003-04 at $785,000; for 2004-05 it's $354,000; and it continues on until the outyears. What is that revised payment? Is it separate from your dividend?

Mr Wheeler: I will take it on notice. I do not have those papers in front of me.

MS DUNDAS: Okay. The figures are on budget paper 4, page 88.

Mr Wheeler: I'd have to confirm with Treasury and take that on notice. It could be part of the dividend and our licence fee also.

MS DUNDAS: Could we have a breakdown on that?

Mr Wheeler: Sure, yes.

MS DUNDAS: I'm happy for it to be taken on notice but I'll ask a different question about the dividend. Treasurer, would you like to take that on notice?

Mr Quinlan: Yes, okay.

MS DUNDAS: That way I can ask some other questions about the dividend. Looking back over it, there have been some interesting changes between what has been budgeted for and the actual outcome. The estimate over the outyears does fluctuate. Why is that fluctuation there? Why do you expect to do so well in 2004-05?

Mr Wheeler: That dividend's 50 per cent of our profit after tax. Basically we're going to have an excellent year this year.

MS DUNDAS: In 2004-05?

Mr Wheeler: In 2003-04. Therefore the dividend we pay—

MS DUNDAS: Okay. That answers the question, thank you.

MRS DUNNE: You said before that you didn't change your highlights or anything like that because ACTTAB is a very stable, mature business. But at the same time one of the highlights is, "Providing synergistic"—which is hardly a mature word—"and profitable new business opportunities and relationships." How does that fit with ACTTAB being a mature and established business?

THE ACTING CHAIR: What are you saying—that old people cannot have synergy?

Ms Baker-Finch: We're very small in the scheme of wagering businesses in Australia. We have to operate a business that doesn't have economies of scale. We have to enter partnerships with key players in order to be able to deliver some aspects of our business. We have a partnership with the South Australian Lotteries Commission to deliver Keno and we have a partnership with TAB Corps for pooling.

MRS DUNNE: Sorry?

Ms Baker-Finch: For pooling—with Victoria and Tasmania—into the SuperTAB pool. We could probably change the wording, but we call those synergistic types of relationships because both parties gain.

MRS DUNNE: Yes, but none of those are new arrangements.

Ms Baker-Finch: No. With TAB Corps we're looking at bringing a new product called

"Trackside" into our agencies at the moment. That is a simulated type of lottery product that we want to bring into the agencies in the near future. We're going to be trialling that.

MRS DUNNE: This is like running a dead race, or a phantom race?

Ms Baker-Finch: Yes, but it's essentially a lottery product. We are licensed to deliver lotteries as well.

THE ACTING CHAIR: I'm confused. Can you explain it in words of single syllables?

Ms Baker-Finch: It's a simulated racing game where you can basically place a bet on a simulation of a race, as opposed to a real race. It's not very different from buying a Keno ticket. You're just choosing a selection of numbers out of a group of numbers.

THE ACTING CHAIR: Where did you say it would be done? In clubs, in ACTTAB agencies, or in ACTTAB shops?

Ms Baker-Finch: We'll trial it in some of the major agencies and some of the major clubs.

MRS DUNNE: I'm having ethical problems here!

THE ACTING CHAIR: I'm not having ethical problems, so I'll just go into my questions.

MR HARGREAVES: Give me the questions; I love gambling!

THE ACTING CHAIR: Turning to the issue of employee expenses on page 408, looking at 2004-05, I notice you've got a jump to $4,274,000, which is an increase of nearly 22 per cent. Please don't get me wrong; I fully endorse the increase in the amounts being expended on staff. Would I be able to get a breakdown of the amount as to what levels within ACTTAB that money would be going to?

Mr Wheeler: Several factors are based on that increase. We've basically shifted some costs from supplies and services. We used to have a number of agencies that have now converted to branches. Instead of paying agents' commissions we're paying wages now. There is a shift from supplies and services, which you will see has decreased by three per cent.

THE ACTING CHAIR: How many previous agencies are now branches?

Mr Wheeler: In the next 12 months about four are changing over.

THE ACTING CHAIR: That's a reversal of policy.

Mr Wheeler: There are also two and a half additional FTEs coming into the business—plus a modest increase across the board.

THE ACTING CHAIR: Does any of this relate to enterprise bargaining at all?

Mr Wheeler: There's an increase for all employees across the board as part of the enterprise bargaining.

THE ACTING CHAIR: Some of it does relate to enterprise bargaining, but the increase to 22 per cent is made mainly as a result of changing from agencies to branches?

Mr Wheeler: Yes, changing some agencies to branches, plus two and a half additional FTEs.

THE ACTING CHAIR: Are you able to give me a breakdown of where the actual dollars go? The Treasurer is shaking his head!

Mr Quinlan: You're not seriously asking us to tell you exactly what we're budgeting for enterprise bargaining?

MRS DUNNE: That's what he usually says to Mr Smyth!

THE ACTING CHAIR: No. I'm not asking what you're budgeting for enterprise bargaining but I would be curious to know formally how much of the $4,274,000 is going to the different levels in the area.

MRS DUNNE: So we can join the dots and work it out!

Mr Quinlan: Yes.

THE ACTING CHAIR: No, you're misunderstanding me.

Mr Quinlan: Management versus staff.

THE ACTING CHAIR: Thank you; yes.

Ms Baker-Finch: It could well be pre-empting the negotiations.

MS DUNDAS: I wanted to ask one last question about the dividend. On page 412 of budget paper 4 it talks about other provisions and an increase of half a million dollars due to a change of dividend policy to align dividends declared and dividends paid. Can you explain that?

Mr Wheeler: In previous budget papers we've had the dividend declared in the same year.

MS DUNDAS: It's only very recently that you've changed to the payment of the dividend in the financial year after—

Mr Wheeler: No. It's only recently that we've reflected that in the budget papers. The policy hasn't changed.

MS DUNDAS: So this half million dollars hasn't done anything?

Mr Wheeler: The half million dollars is an increase due to our better operating position.

Mr Quinlan: But we also cut the dividend.

Mr Wheeler: Yes, the dividend was also cut from 100 per cent to 50 per cent.

Mr Quinlan: Because they're in a high-tech business and they need to retain funds and stay modern, we've halved the dividend requirement on ACTTAB.

Ms Baker-Finch: There is an anomaly there that you might be picking up at the end of the last financial year. There was a change in accounting standards, where we didn't report the dividend until it was declared for a financial year. We don't declare it until the November. We had previously been preparing our statements as if we were paying it out then but that's not the case. We have now—at the end of the last financial year—responded to the new standard. There's just a little anomaly there over one end of financial year point that might be confusing.

MS DUNDAS: That's why the half million dollars is there—to kind of bring it into alignment. Treasurer, when was the decision made to halve the dividend requested of ACTTAB?

Mr Quinlan: A year ago, was it?

Ms Baker-Finch: For the 2003-04 financial year. Wasn't that correct, Simon?

Mr Wheeler: Possibly, yes.

THE ACTING CHAIR: Going back to the issue of salaries, I don't want to get involved in the enterprise negotiations because—

MRS DUNNE: But we want you to!

THE ACTING CHAIR: Just because you want me to, Mrs Dunne, doesn't mean that I'm going to do it. I do understand and I have argued this in my dissenting appropriation 3 report. I wouldn't want to pre-empt enterprise bargaining negotiations because I know that that would place the parties in difficult positions. Having said that, I'd like to know, just on a percentage basis for the 2003-04 budget, how that budgeted $3,629,000 was broken down into the different areas—management versus other areas. Would I be able to get that information?

Ms Baker-Finch: Why don't we give you the breakdown for the 2002-03 financial year, which is a finalised financial year?

THE ACTING CHAIR: Is that significantly different from 2003-04?

Ms Baker-Finch: We're not yet to the end of the financial year. I know you're aware that we operate with a large number of casual staff. The demand on casual staff ebbs and flows with the revenues. I did mention earlier that we're having an exceptionally good year. We have therefore called on more support from casual staff to service the increased turnover, especially from the premium customers who are betting by telephone. Having said that, there has also been a move to automated bet placement through the internet. So there's always a little bit of ebbing and flowing in the number of casual staff we employ at any one time to service the business. We've also had significant increases in casual staff employment as a result of moving some of the agencies into branches.

THE ACTING CHAIR: I was asking for the budget as opposed to the estimated outcome, but I'd be happy to take 2002-03 final year figures to work out the percentages.

Ms Baker-Finch: Basically you want management versus the rest. Is that what you're after?

THE ACTING CHAIR: Yes, I'm trying to get that. Rather than just doing management versus the rest, perhaps we could have it broken up into the different areas of telephone betting and control—whatever the terminology is of the different areas these days. I should imagine it's changed since I was visiting the place a few years ago but, then again, I've heard that some things never change! It is a fairly stable business, as you mentioned before. Because ACTTAB is one of the few territory-owned corporations, that places it quite separately—and it has done for as long as I've been involved—outside of what general public service conditions are. Can you tell me how things like superannuation and other conditions apply? The Treasurer has crossed his arms. I don't think he's happy with me!

Ms Baker-Finch: It's all very well documented in our enterprise bargaining agreement. We have some employees who have carried over various entitlements from 1996—from the date of corporatisation. They were government employees and they have carried through their superannuation entitlements. Some of them belong to the PSS. The post-1996 employees have standard superannuation entitlements.

THE ACTING CHAIR: When you say "standard" what do you mean?

Ms Baker-Finch: Nine per cent—the superannuation guarantee levy. There are some other anomalies in our agreement relating to pre-1996 employees—things like long-service leave and maternity leave. What else have we got that's an anomaly? That's about it, isn't it? Superannuation, long-service leave and maternity leave.

THE ACTING CHAIR: I'm aware of the long service leave because I was there when the decision came down about that but I'm not sure what the maternity leave provisions are.

Ms Baker-Finch: Standard ACT public service provisions.

THE ACTING CHAIR: Are there any thoughts on which way ACTTAB will progress issues of employee entitlements? Will you be looking to try and make them more similar to public service entitlements at all?

Ms Baker-Finch: Again I think that would be pre-empting the negotiation of our agreement, which is coming up in the near future. When we do get to the stage of renegotiating the EBA, we will be looking at government policy of the day. We are a TOC. The shareholders and the government occasionally take a view about government policies and which ones will apply to TOCs. We have a number of government policies applied to us, so we'll take all of that into account.

THE ACTING CHAIR: Ms Baker-Finch, Mr Wheeler, Treasurer and minister for lots of other stuff, and all departmental officials: thank you very much for your attendance.

Mr Quinlan: There is one matter. I got a list of questions from Mr Smyth. I don't know whether they were delivered directly from him or through the secretariat.

THE ACTING CHAIR: They're supposed to come through the committee if they're part of estimates proceedings.

Mr Quinlan: They are in relation to the ACT's power supply. They are nothing to do with the budget.

THE ACTING CHAIR: We did get that. Did you get it directly from Mr Smyth, or was there a covering letter for me?

Mr Quinlan: I got it from Mr Costello, I think.

THE ACTING CHAIR: I am told it is an official question. We are about to go into a private meeting to talk about some of the questions on notice.

Mr Quinlan: I thought these were just dumped on my desk. I've written Mr Smyth a brief note with the sentiments I would ask you to consider. It says, "Questions taken on notice but not under the three-day estimates rule, as they have nothing to do with the budget." They have nothing to do with the budget and they were not discussed at the estimates hearing. I think they are to do with raking over the bushfire, the coronial inquest and whatever.

THE ACTING CHAIR: Is that about power lines arcing and smoke et cetera?

Mr Quinlan: Yes.

THE ACTING CHAIR: I did see that question, and there was that question in my mind. There is another set of questions from Mr Smyth that we are going to be discussing privately, so we will be talking about that. I would be happy to take up the issue that you're raising, Treasurer.

Mr Quinlan: Please do. I'm not sure of the rules where we are asked to take questions on notice. But if I am asked to take questions on notice, and if I have within the process the power to do so, I will not be answering them under the three-day rule because they have nothing to do with the budget, and they have nothing to do with discussions that have taken place today.

THE ACTING CHAIR: We'll have a discussion about that.

Mr Quinlan: They are just using the estimates to slide some questions through. Where that would go beyond today, if that were set as a precedent, God knows. It is a pity.

THE ACTING CHAIR: Thank you Treasurer, we will discuss that in our private meeting.

The committee adjourned at 6.04 pm.